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GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO
COMMONWEALTH OF PUERTO RICO

**FOR IMMEDIATE RELEASE**

## PUERTO RICO SELLS $1.4 BILLION IN LOCAL MARKET IN RETIREMENT SYSTEM'S FIRST BOND ISSUE, DOUBLE ORIGINAL EXPECTATIONS

SAN JUAN, PR, January 24, 2008 -- The Puerto Rico Retirement System Administration today placed in the local market $1.456 billion of its first Pension Obligation bonds issue, double initial sale expectations, it was announced by the president of the Government Development Bank for Puerto Rico (GDB), Jorge Irizarry, and the administrator of the Retirement Systems Administration, Juan Cancel-Alegría.

"Exceptionally strong demand enabled this offering to substantially exceed our initial expectations of selling $700 million, underscoring the confidence of local investors in the transaction," said Mr. Irizarry, who is also chairman of the Retirement Systems Board of Directors. "With the sale of these bonds, we begin addressing one of the last remaining issues previously identified by the rating agencies as directly affecting our credit: the actuarial deficit of the Retirement System and its budget deficiency. We will continue moving steadfastly towards our goal of improving our credit rating."

"This transaction, which is part of the $7 billion in bonds that the GDB plans to sell on behalf of the Retirement System during the next few months, constitutes the first step to strengthen the financial capacity and fiscal condition of the System, and handle the actuarial deficit," Mr. Cancel-Alegría said.

This bonding program mitigates what has been a significant concern for the Commonwealth, as disbursements from the system in recent years have exceeded contributions and investment income and there was a real risk of the system running out of funds within the next ten years. The current and planned pension funding bond offerings are designed to bring the funding ratio of the system from about 19% to about 70%.

The yield for the bond issue was 6.15 % for its longest term – 30 years. The total interest cost was 6.38%. Institutional investors acquired $645 million of the issue. The issue was rated institutional grade by three rating agencies (BBB- by S&P, Baa3 by Moody's and BBB- by Fitch), and is exempt from taxes in the local market.

The bonds are limited, non-recourse obligations, secured by a pledge of future statutorily required employer contributions to the system (currently 9.275% of payroll). Proceeds of the bonds will be used to increase the funds currently available to pay pension benefits and to reduce the unfunded accrued actuarial pension liability.

Mr. Irizarry pointed out that this transaction raises funds for the Retirement System without increasing the employer contribution, and does not constitute additional debt of the Commonwealth of Puerto Rico.

"The market showed a big appetite for this bond issue, and this display of confidence by local investors opens the door for us to float a second pension obligation bond issue in the local markets in the future," said Mr. Cancel-Alegría, who noted that many local investors cancelled positions in the U.S. tax-exempt market to take advantage of this transaction.

The offering was managed by UBS Financial Services. Popular Securities, Santander Securities, BBVA, Citi, Lehman Brothers acted as senior co-managers, with Merrill Lynch, Oriental Financial Services, Samuel A. Ramirez & Co, Scotia Capital, TCM Capital, and Wachovia Capital Markets as co-managers.

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