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INVESTMENT & TREASURY DEPARTMENT

INVESTMENT POLICIES MANUAL

1987

AD ASTRA PER ASPERA

BANCO GUBERNAMENTAL DE FOMENTO para Puerto Rico

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Núm. 8555
7 de febrero de 1989 5:30 p.m.
Aprobado: Sila M. Calderón
Secretario de Estado
Por: [signature]
Secretario Auxiliar de Estado

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

INVESTMENT POLICIES

I. **Investment Committee**

A) **Functions:**

1) Establish policies and procedures designed to guide the Investment and Treasury Department's day to day portfolio decisions.

2) Supervise the Investment and Treasury functions in order to ensure compliance with the above mentioned policies and procedures.

3) Serve as technical advisory group to the Board of Directors.

B) **Composition:** The Investment Committee shall consist of the following officers of the Bank:

1) The President or acting president

2) Director of Area

3) Senior Investment Officer

4) Executive Vice President - Public Finance

5) Executive Vice President - Operations/Finance

In the event of absence of any of the above designated members, the President may appoint an alternate member.

C) **Quorum:** Any three members of the Committee shall constitute quorum to hold a meeting and to act over the matters to be decided upon.

D). **Meetings:**

1) The Committee shall meet at least once a month or on call.

2) The Committee may designate a Secretary who shall prepare the minutes of all the meetings held and who will be in charge of the safekeeping of the records of the Committee.

3) In the event that immediate action may be required from the Committee and a meeting could not be held, quorum may be constituted by telephone conference.

4) The Minutes of the meetings of the Committee shall be submitted to the Board of Directors for information purposes.

E) **Responsibilities:**

1) The Committee is responsible for the establishment of the overall investment policy and strategy.

2) The Committee shall receive, review, take into consideration and act upon:

a) data provided by its advisors on the current economic conditions and outlook for interest rates;

b) cash, loan and deposit forecast;

c) adequacy of bank liquidity;

d) marketability of the portfolio;

e) value of the portfolio;

f) quality of the portfolio;

g) adequacy of income

II. Investment and Treasury Department

The Investment and Treasury Department shall be operationally responsible for the implementation of the overall investment strategy and the policies established in this manual.

The Department shall comply with the following objectives and policies:

a) Management of the Investment Portfolio consisting of that part of the Bank's assets invested in various types of securities as approved in this manual.

b) The primary objective in managing the Investment Portfolio shall be to guaranty the liquidity of the Bank and to maximize the return and security of the Investment Portfolio over the long term; always following sound banking practices, insuring relative safety of principal and compliance with the legal requirements of the Bank.

c) The Department shall monitor on a daily basis the cash position of the Bank to forecast what its money position requirement will be in order to maintain a strong liquid position at all times. This shall entail a continuous audit and control of the accounts to insure that sufficient funds will be available to meet cash flow needs and targeted compensating balances.

d) The Department shall process transactions including purchases, sales and maturity of securities as well as transfers of funds and settlement of overnight transactions, supervised under strict controls by our internal auditors.

e) The Department shall perform all the record keeping functions necessary for the securities transactions.

f) The Department shall establish, on a day to day basis, the rates for its issuance of Certificate of Indebtedness and Certificates of Deposit. It shall also monitor rates and maturities of whatever other short term liability the Bank may be willing to assume.

Other:

The Investment Committee and the Board of Directors of the Bank will determine, from time to time, other transactions that the Investment Department may realize.

III. **Policies:**

A) **Authorized Personnel to execute transactions**

1) Area Director

2) Manager of the Department

3) Assistant Manager of the Department

B) **Authorized Transactions and Institutions**

a) Portfolio holdings will be limited to the authorized investments as per detail in Exhibit I.

b) Transactions may only be executed with Primary Dealers or approved Banks. Approved Banks shall be defined as those banks which enjoy a rating from Keefe, Bruyette & Woods, Inc., of "C" or better in the Domestic Bank category or a II rating or better in both the Peer Group and Dollar Access ratings from the International Bank category, as well as a single "A" or better rating in long-term debt from Moody's rating Services.

c) Bank lines shall be established based on the following percentages of Capital:

Keefe Rating	% of Capital	
A	5%	
B	4%	
C	3%	
PR Banks	5%	(minimum $100,000)

These limits shall not exceed 25% of GDB's total Capital, except for overnight transactions when required by circumstances and approved by Area Director.

See exhibit IV.

C. The following trading limits apply to the specific transactions indicated:

	Size per Transaction	Required Authorized Signatures	Maximum Aggregate Daily Transactions
Overnight Investments	100MM or less	One	1,000MM
Money markets under 1 year	100MM or less	One	500MM
Money markets over 1 year	50MM or less	One	250MM
Mortgage backed securities	100MM or less	Two	100MM
U.S. Treasury Obligations	50MM or less	One	250MM
U.S. Treasury Obligations	over 50MM but less than 100MM	Two	250MM
U.S. Federal Agency Obligations	50MM or less	One	100MM
U.S. Federal Agency Obligations	over 50MM but less than 100MM	Two	100MM
All other Securities authorized under these investment policies	25MM or less	One	100MM

The following priorities should be followed with respect to authorized signatures whenever the respective officer is available:

1. Assistant Manager (Chief trader)
2. Manager
3. Area Director
4. President or acting President
5. EVP Operations and Finance
6. EVP Public and Private Finance

3. Procedures

A. General

All Buy and Sell transactions will be conducted on a delivery versus payment basis.

B. Repurchase Agreements

a) Collateral accepted by the Bank under repurchase agreements is limited to those applicable instruments listed in the "Acceptable Investments List" (Exhibit I)

b) The principal amount of the transactions must cover the current market price of the collateral.

c) Accrued interest must be included in the pricing of the collateral accepted in a repurchase transaction.

d) Contractual agreement defining the terms and conditions of repurchase agreements between the GDB and the counterparties must be signed and an original shall be kept in the files.

e) Repurchase agreements will be executed only with authorized institutions that appear listed in Exhibit III.

C. Reverse Repurchase Agreements

a) The terms and conditions for reverse repurchase transactions will be the same as those that apply to repurchase transactions.

V. Range of Maturities and Lot Sizes

The weighted average shall be used, so as not to prohibit the purchase of any given maturity range, in order to enable the Senior Investment Officer to take advantage of the best relative value at the time of purchase.

A. Range of Maturities

1) The weighted average maturity of the United States Government and Federal Agencies Obligations shall not exceed four years.

2) The weighted average maturity of the Municipal Bond and Mortgage Backed Securities portfolio shall not exceed ten years.

B. Lot Sizes

Whenever possible municipal lot sizes of $100,000 minimum will be purchased, all other Investment Instruments will be purchased in lots of one million dollars minimum.

EXHIBIT I

The following are acceptable investment instruments for the Government Development Bank Investment Portfolio:

1. U.S. Government Obligations
2. Federal Agency Obligations
3. Domestic, Euro & Yankee Issued Certificates of Deposits
4. Domestic, Euro & Yankee Issued Time Deposits
5. Domestic, Euro & Yankee Issued Banker's Acceptances
6. Obligations of the Commonwealth, its agencies, municipalities and instrumentalities and public corporations.
7. Federal Funds
8. Repurchase, Reverse Repurchase Agreements
9. World Bank Securities
10. Mortgage Backed Securities
11. Options, Futures and Interest Rate swaps for hedging and risk control purposes as well as for the creation of synthetic products which qualify under any of the foregoing investment categories.

EXHIBIT II

LIST OF BANKS WHICH AS OF 12/86 COMPLY WITH

CRITERIA SET FORTH IN THE INVESTMENT POLICIES

(SEE PAGE 5)

GROUP I

U.S. Banks

1. Citibank
2. Chase Manhattan Bank
3. Manufacturers Hanover Trust
4. Morgan Guaranty Trust Co.
5. Chemical Bank
6. Security Pacific National Bank
7. First National Bank of Chicago
8. Bankers Trust Co.
9. First Interstate Bank of California
10. Wells Fargo Bank
11. Marine Midland Bank
12. Mellon Bank
13. First National Bank of Boston
14. Irving Trust
15. Bank of New York

GROUP II - International Banks

England
1. Barclays PLC
2. National Westminster Bank PLC
3. Lloyds Bank PLC

Germany
1. Deutsche Bank
2. Dresdner Bank

France
1. Banque Nationale de Paris
2. Credit Lyonnais
3. Societe Generale
4. Banque Paribas

Japan
1. Dai-Ichi Kangyo Bank, LTD.
2. Fuji Bank, LTD.
3. Sumitomo Bank, LTD.
4. Bank of Tokyo, LTD.
5. Industrial Bank of Japan
6. Mitsubishi Bank, LTD.
7. Sanwa Bank, LTD.

Switzerland
1. Union Bank of Switzerland
2. Swiss Bank Corporation
3. Credit Suisse

GROUP III - Puerto Rico Commercial Banks and Thrift Institutions

Commercial Banks
—Banco Central
—Banco Comércial Mayaguez
—Banco de Caguas
—Banco de Ponce
—Banco Financiero
—Banco Nacional
—Banco Popular
—Banco Santander
—Roig Commercial
—Royal Bank P.R.
—Scotiabank P.R.

Savings and Loans
—Bayamón Federal
—Caguas Central Federal
—Caribbean Federal
—Cataño Federal
—Fajardo Federal
—First Federal
—Guaynabo Federal
—Oriental Federal
—Ponce Federal
—Western Federal

EXHIBIT III

Repurchase and Reverse Repurchase agreements will be made only with the following institutions:

DEALER	BANKS
1. Merrill Lynch	Citibank, N.A.
2. Salomon Brothers	First National Bnk.of Chicago
3. Shearson Lehman American	Morgan Guaranty Trust
4. E. F. Hutton	The Chase Manhattan Bank
5. Goldman Sachs	Manufacturers Hanover Trust
6. Prudential Bache	Chemical Bank
7. First Boston Corp.	First National Bank of Boston
8. Paine Webber	Bankers Trust Co.
9. Drexel,Burnham, Lambert	Puerto Rican FDIC or FSLIC
10. Dean Witter	Depository Institutions
11. Morgan Stanley	
12. Kidder Peabody	
13. Discount Corporation	

EXHIBIT III (CONT.)

REPO LINES - LOCAL AND NEW YORK DEALERS

1ST.TIER	LOCAL (MAX)	N.Y.	TOTAL
SHEARSON,LEHMAN AX	NA	100MM	100MM
FIRST BOSTON CORP.	50MM	50MM	100MM
GOLDMAN SACHS	N/A	100MM	100MM
SALOMON BROTHERS	N/A	100MM	100MM
MERRILL LYNCH GOVT. SEC.	50MM	50MM	100MM
MORGAN STANLEY	N/A	100MM	100MM
	100MM	500MM	600MM

2ND.TIER	LOCAL		
DISCOUNT CORPORATION		50MM	50MM
PRUDENTIAL BACHE	50MM	N/A	50MM
DREXEL BURNHAM	50MM	N/A	50MM
DEAN WITTER	50MM	N/A	50MM
E.F. HUTTON	50MM	N/A	50MM
KIDDER PEABODY	50MM	N/A	50MM
PAINE WEBBER	50MM	N/A	50MM
	300MM	50MM	350MM

DELIVERY REQUIREMENTS:

Local

Delivery and pledge agreement required; non-substitution of collateral except if more than 14 days in which case one substitution would be allowed; overnight transactions could be executed without delivery but pledge agreement is required.

N. Y.

Collateral may be safekept by the dealer on maturities of less than 30 days.

OTHER REQUIREMENTS:

—Acceptable collateral (as defined in these Investment Policies).

—Market value of collateral - Idem.

—Annual and quarterly financial statements in file.

—Parent guarantee required.

EXHIBIT IV (SEE PAGE 5)
LIST OF APPROVED BANKS

BANKS RANKED BY MOODY'S & KEEFE RATES

	DOMESTIC BANKS	MOODY'S	KEEFE	TOTAL ASSETS ($MM)	EQUITY ($MM)	DEPOSITS ($MM)	* MAX LIMIT LINE OF CREDIT ($MM)
1	MORGAN GUARANTY TRUST CO.	Aaa	A	69,373	4,393	39,845	90.0
2	BANKER'S TRUST	Aaa	A/B	50,581	2,495	28,723	90.0
3	CITIBANK	Aa1	A/B	173,597	7,765	104,959	90.0
4	SECURITY PACIFIC	Aaa	B	59,000	2,800	36,000	90.0
5	CHEMICAL BANK	Aaa	B	56,990	2,819	34,505	90.0
6	WELLS FARGO	Aa1	B	48,000	2,175	35,000	87.0
7	F. N. B. BOSTON	Aa1	B	29,296	1,474	19,214	59.0
8	FIRST INTERSTATE BANK	Aa2	B	48,991	2,514	35,554	90.0
9	BANK OF NEW YORK	Aa2	B	18,486	921	12,369	36.8
10	MANUFACTURERS HANOVER TRUST	A1	B	76,525	3,547	46,261	90.0
11	CHASE	Aaa	B/C	87,685	4,458	61,353	90.0
12	MELLON BANK	Aaa	B/C	33,406	1,730	18,582	80.6
13	IRVING TRUST	Aa1	B/C	21,650	955	14,026	33.4
14	MARINE MIDLAND BANK	A1	B/C	23,385	1,193	16,593	41.8
15	FIRST CHICAGO	A1	C	38,892	2,090	27,147	52.7

NOTE
ALL DATA WAS TAKEN FROM MOODY'S BANK CREDIT AND KEEFE, BRUYETTE & WOODS AVAILABLE AS OF DECEMBER 1985.

THE LINE OF CREDIT IS THE LOWER OF 25% OF GDB's CAPITAL OR A PERCENTAGE OF THE EQUITY OF KEEFE's RATE (A 5%, B 4%, C 3%).

* AS OF DECEMBER 31, 1986

EXHIBIT IV (CONTINUE)
LIST OF APPROVED BANKS

BANKS RANKED BY DOLLARS RISK & PEER GROUP

	INTERNATIONAL BANKS	COUNTRY	PEER GROUP	DOLLAR RISK	ASSETS ($MM)	DEPOSITS ($MM)	* MAX LIMIT LINE OF CREDIT ($MM)
1	DEUTSCHE BANK	I	I	I	96,383	84,851	90.0
2	SWISS BANK CORP.	I	I	I	61,610	54,393	90.0
3	CREDIT SUISSE	I	I	I	42,698	38,112	90.0
4	UNION BANK OF SWITZERLAND	I	I	I	67,158	58,080	90.0
5	DAI-ICHI KANGYO BANK	I	I/II	I/II	158,255	124,646	90.0
6	NATIONAL WESTMINSTER BANK	I	I/II	I/II	104,354	98,288	90.0
7	LLOYDS BANK	I	I/II	I/II	63,306	56,498	90.0
8	MITSUBISHI BANK	I	I/II	I/II	133,450	102,814	90.0
9	INDUSTRIAL BANK OF JAPAN	I	I/II	I/II	103,185	98,741	90.0
10	BARCLAYS BANK	I	II	I/II	94,210	70,352	90.0
11	SOCIETE GENERALE	I	II	II	98,175	82,736	90.0
12	DRESDNER BANK	I	II	II	70,988	72,669	90.0
13	SANWA BANK	I	II	II	123,481	98,081	90.0
14	BANQUE NATIONAL DE PARIS	I	II	II	123,772	102,540	90.0
15	BANK OF TOKYO	I	II	II	78,495	62,439	90.0
16	BANQUE PARIBAS	I	II	II	50,821	24,231	90.0
17	CREDIT LYONNAIS	I	I/II	II	112,084	95,744	90.0
18	SUMITOMO BANK	I	I/II	II	135,908	108,531	90.0
19	FUJI BANK	I	I/II	II	142,874	108,735	90.0

NOTE
ALL DATA WAS TAKEN FROM KEEFE, BRUYETTE & WOODS AVAILABLE AS OF DECEMBER 1985. EQUITY DATA IS NOT AVAILABLE.

THE LINE OF CREDIT IS THE LOWER OF 25% OF GDB's CAPITAL OR 5% OF THE EQUITY.

* AS OF DECEMBER 31, 1986

VII. Definitions

A. **Bankers Acceptances:** a draft that the drawee bank has promised to honor at maturity. It constitutes an irrevocable obligation of the Bank. Acceptances should be created only to finance real transactions in specific commodities or to facilitate dollar-exchange transactions with foreign banks. The drawer of the draft and those who endorse the draft without qualification as well as the accepting bank remain liable to the investor for payment at maturity.

B. **Bid and Asked or Bid and Offer:** The price at which an owner offers to sell (asked or offer) and the price at which prospective buyers offer to buy (bid). It is often referred to as a quotation or a quote.

C. **Broker:** A middleman who brings buyers and sellers together and handles their orders, generally charging a commission for his services. In contrast to a principal or a dealer, the broker does not own or take a position in the security.

D. **Collateral:** Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledges by a bank to secure deposits of public monies.

E. **Dealer:** An individual or firm which ordinarily acts as a principal in security transactions. Typically, a dealer buys for his own account and sells to a customer from his inventory. His profit or loss is determined by the difference between the price he pays and the price he receives for the same security.

F. **Debenture:** An obligation secured by the general credit of the issuer rather than being backed by a specific lien on property.

G. **Delivery:** There are two methods of delivery of securities: **delivery vs. payment and delivery vs. receipt (also called free).** Delivery vs. payment is delivery of securities with an exchange of money for the securities. Delivery vs. receipt is delivery of securities with an exchange of a signed receipt for for the securities.

H. **Federal Funds:** Market in which a bank needing additional reserves can borrow deposits at the Federal Reserve from a bank with excess reserves.

I. **Interest Rate:** The interest payable each year; expressed as a percentage of the principal.

J. **Liquidity:** The ability to convert a security into cash promptly with minimum risk of principal.

K. **Maturity:** The date upon which the principal or stated value of a bond becomes due and payable.

L. **Principal:** The face or par value of an instrument, exclusive of accrued interest.

M. **Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection.

N. **Yield:** The rate of annual income return on an investment, expressed as a percentage: (1) **Income yield** is obtained by dividing the current dollar income by the current market price for the security; (2) **Net yield** or **yield to maturity** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

O. **U.S. Government Obligations:** Marketable securities issued by the U.S. Treasury to finance the gap between the Government expenditures and receipts.

P. **U.S. Federal Agencies Obligations:** Marketable securities issued by federal sponsored or guaranteed agencies that operate as intermediaries for the benefit of farmers and homeowners.

Q. **Money Market Securities:**

1. Bankers Acceptances
2. Domestic Certificate of Deposits
3. Yankee Certificate of Deposits
4. Eurodollar Certificate of Deposits
5. Federal Funds
6. Overnight Repurchase Agreement
7. Treasury Bills

R. **Overnight Investments:**

1. Federal Funds
2. Overnight Repurchase Agreement

S. **Domestic Certificate of Deposits:** Negotiable instrument evidencing a time deposit in a U.S. domestic bank at a fixed interest rate for a fixed period of time.

T. **Yankee Certificate of Deposits:** Negotiable Certificate of Deposits denominated in dollars issued by a foreign bank operating within the U.S.

U. **Eurodollar Certificate of Deposits:** Negotiable Certificate of Deposit denominated in dollars and issued by a bank located outside of the United States.

V. **Mortgage Backed Securities:** An ordinary bond backed by an undivided interest in a pool of mortgages or trust deeds.