



PUERTO RICO MORTGAGE-BACKED

 & U.S. G O V E R N M E N T

 SECURITIES FUND, INC.

2015
ANNUAL REPORT

Dear Shareholder:

The Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc. (the "Fund") is pleased to present its Annual Report to Shareholders for the fiscal year ended September 30, 2015.

INVESTMENT OBJECTIVE

The Fund's investment objective is to provide investors in its Common Stock with current income, consistent with the preservation of capital. To achieve its investment objective, the Fund invests at least 67% of its total assets in a non-diversified portfolio of taxable and tax-exempt securities issued by Puerto Rico issuers and up to 33% in securities issued or guaranteed by the U.S. Government and its agencies and instrumentalities as well as other non-Puerto Rico issuers.

Currently, the Puerto Rico bond market is experiencing a period of high volatility, with Puerto Rico bonds trading at lower prices and higher yields compared to benchmarks of the past two (2) years. In view of these volatile market conditions, the Puerto Rico Office of Commissioner of Financial Institutions (the "OCFI") has granted to the Fund a temporary regulatory waiver through January 31, 2016, from the Fund's Puerto Rico investment requirement in Puerto Rico securities as well as the Fund's leverage limitation of 50% of its total assets and 200% asset coverage requirement described below. The effectiveness of such waiver may be extended at the OCFI's discretion. It is the Fund's intention to maintain compliance therewith as market conditions permit, though there is no assurance the Fund will be able to do so.

Based on the representations and opinion of the Investment Adviser and consistent with the Fund's investment objective, the OCFI has also granted to the Fund no-objection relief with respect to the Fund's investment-grade credit rating requirement for Puerto Rico municipal securities. This permits the Fund to continue to invest in Puerto Rico municipal securities that do not have an investment-grade credit rating notwithstanding that the current credit rating of such securities is below investment-grade, under certain conditions and at the discretion of the Investment Adviser. Such no-objection relief is effective through May 25, 2016 or such other later date which may be approved by the OCFI.

THE BENEFITS AND RISKS OF LEVERAGE

The Fund is permitted to use leverage in an amount not to exceed 50% of the Fund's total assets. In addition, the Fund may also borrow for temporary or emergency purposes in an amount of up to an additional 5% of its total assets. The Fund obtains leverage by borrowing, using its investment portfolio as well as securities otherwise obtained as collateral.

Leverage can produce additional income when the income derived from investments financed with borrowed funds exceeds the cost of such borrowed funds. In such an event, the Fund's net income will be greater than it would be without leverage. On the other hand, if the income derived from securities purchased with borrowed funds is not sufficient to cover the cost of such funds, the Fund's net income will be less than it would be without leverage.

FUND PERFORMANCE*

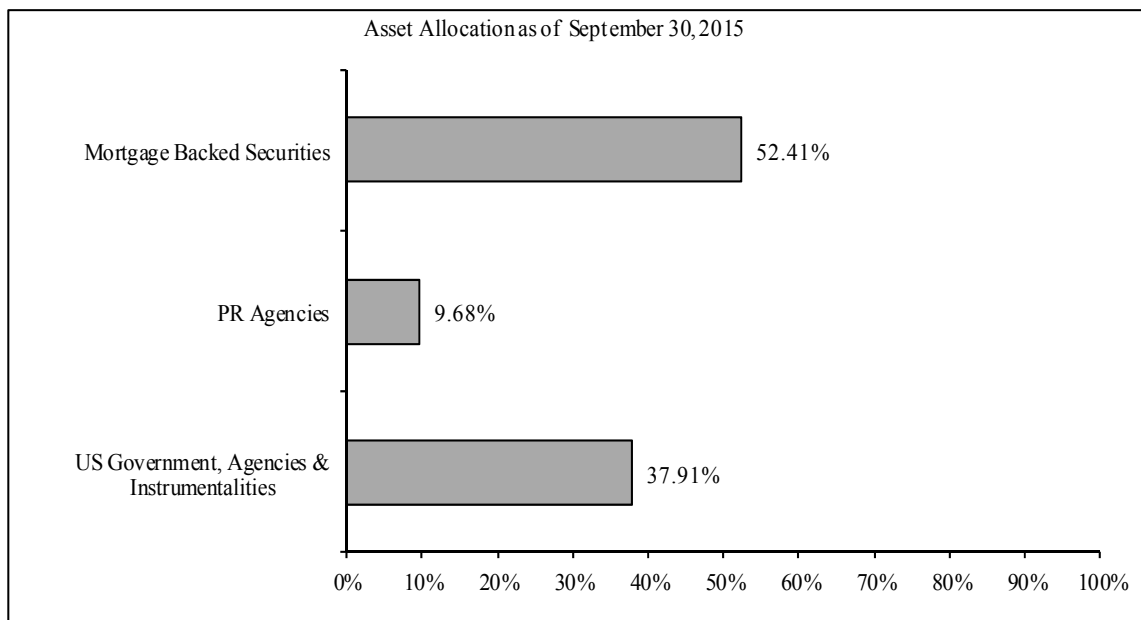
During the fiscal year ended September 30, 2015, the Fund experienced a total return of -25.09% based on the market value of the shares of the Fund's common stock and -10.22% based on the net asset value ("NAV") per-share at such date. This figure compares to a market return of -5.92% and a NAV return of 0.05%, both for fiscal year ended September 30, 2014. At September 30, 2015, the market value of the shares of the Fund's common stock was \$3.45, representing 78.8% of the NAV per-share of \$4.38. The comparable figure for 2014 was a market value of \$5.15, representing 94.32% of the NAV per-share of \$5.46.

The average dividend yield during the fiscal year ended September 30, 2015, computed over the original investment of \$10 per share, was 5.68%. This figure compares to a dividend yield of 5.82% for fiscal year 2014. The basis for the dividend distributions is the net investment income for tax purposes. Note 9 to the Fund's financial statements sets forth the reconciliation between the book net investment income and the tax investment income used for dividend payments.

The Fund's investment portfolio is comprised of three major investment classes with different duration profiles. The three classes consist of Puerto Rico bonds, Puerto Rico mortgage-backed securities and U.S. Government agency securities. The weighted average duration of the entire portfolio results from the shorter effective duration of the U.S. Government agency securities, due to their shorter call dates, the medium-term duration of the Puerto Rico bond class (depending on the different call dates), and the expected duration of the Puerto Rico mortgage-backed securities (whose durations depend on the prepayment of the underlying mortgages). The Investment Adviser considers numerous characteristics of each asset class, including duration, in an effort to meet the Fund's investment objective. The call dates and final maturities of the portfolio are included in the Schedule of Investments in the accompanying financial statements.

Figure 1 below reflects the breakdown of the investment portfolio as of September 30, 2015. For details of the security categories below, please refer to the enclosed Schedule of Investments.

* The following discussion contains financial terms that are defined in the attached Glossary of Fund Terms.



ECONOMIC OVERVIEW

The U.S. economy grew 2.0% for the quarter ended September 30, 2015 compared to an increase of 2.7% in the previous quarter. Labor conditions continue to improve with the unemployment rate at 5.1% as of the third quarter-end. Inflation has been running below the 2% per year target of the U.S. Federal Reserve (the "Fed") and longer-term inflation expectations have remained stable.

During October 2014 the Fed ended its Quantitative Easing 3 purchase program. Market expectations are that the Fed may commence raising the short-term rates in late 2015 or early 2016. The Fed will assess progress toward its objectives of maximum employment and 2% inflation. This assessment will take into consideration a wide range of information, including measures of labor market conditions, indications of inflation pressures and inflation expectations, and readings on financial and international developments.

The yield on the ten-year U.S. Treasury Note closed at 2.04% on September 30, 2015 down from 2.49% in September 2014. The stock markets have reacted positively to a scenario of moderate growth, low interest rates and low inflation. Major indices have traded near or at all-time highs. However, geopolitical risks in Greece, Ukraine and the Middle East have market participants on edge.

The Puerto Rico economy is closely linked to that of the United States. Many of the important variables that affect economic growth in Puerto Rico, such as imports,

exports, direct investment, interest rates, transfer payments, inflation, and tourism expenditures, are directly related to developments in the United States. The uncertainty created by the instability of the Puerto Rico government's finances, including a recurring budget deficit, has caused a prolonged contraction of economic activity.

Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's"), and Standard & Poor's Ratings Services ("S&P") have recently downgraded the outstanding general obligation bonds ("GOs") of the Commonwealth of Puerto Rico as well as the obligations of many of the Commonwealth agencies and public corporations, including senior and subordinate-lien bonds issued by the Puerto Rico Sales Tax Financing Corporation's ("COFINA"), on numerous occasions. Most recently, Fitch and S&P downgraded the GOs and related debt ratings from "B" to "CC" and from "CCC+" to "CCC-," respectively. Moody's followed suit on July 1, 2015, downgrading the GOs and COFINA's senior bonds to "Caa3," and S&P further downgraded all of the Commonwealth of Puerto Rico's tax-backed debt to "CC" on September 10, 2015. All such ratings carry a negative outlook.

The Government of Puerto Rico reported revenues of \$626.6 million on October 2015, resulting in a \$112.6 million or 4.6% increase compared to same period in fiscal year 2015. Regarding sales tax, actual collections were \$180.9 million, a \$66.9 increase year-over-year. The Puerto Rico economic environment continues to remain uncertain. On June 29, 2015, the Governor of Puerto Rico, Alejandro Garcia Padilla, announced that the Puerto Rico debt was "not payable". After the Governor's comments, prices on the Puerto Rico bonds sank to all-time lows. Also, on June 29, 2015, the Government of Puerto Rico presented a report entitled "Puerto Rico--A Way Forward" by consultants Ms. Anne Krueger and Messrs. Ranjit Teja and Andrew Wolfe, which identified a deteriorating cash flow position and very large out-year central government budget gaps that approach the size of current full year general fund revenues. The report projects a fiscal 2016 budget gap of \$3.7 billion, absent corrective action, which would rise to \$6.0 billion by 2018 and higher in subsequent years. The Government of Puerto Rico also announced that it would seek to negotiate with bondholders to defer and/or restructure its \$72 billion debt load, as part of a plan to bolster its finances and revive the Puerto Rico economy and also designated the Working Group for the Fiscal and Economic Recovery of Puerto Rico, to provide a debt restructuring plan by August 30, 2015. In addition, the successful completion of the Puerto Rico Electric Power Authority re-structuring plan will determine the utility's long term ability to provide cost-effective power generation to drive future economic development.

On August 3, 2015, the Puerto Rico Public Finance Corporation ("PRPFC") failed to make the required \$58 million payment on its debt. This represents the first default on Puerto Rico's debt. Other agencies, including GDB, made the required debt service payments. The Fund does not own any bonds issued by PRPFC.

In accordance with its mandate, the Working Group for the Fiscal and Economic Recovery of Puerto Rico released the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP") on September 9, 2015 which, among other things, recommends the restructuring of all tax-backed debt, including GOs and COFINA sales-tax debt. Absent meaningful additional fiscal and structural reforms, the Working Group projects that the Government of Puerto Rico (on a consolidated basis) will incur significant financing gaps for at least the next five years, despite the significant historical measures previously undertaken to reduce expenses, increase revenues, and address structural budgetary challenges. In this context, one could expect to see interruptions in cash flow on debt payments as well as possible changes to the terms of existing payments, in addition to more price volatility across Puerto Rico securities.

SHARE REPURCHASE PROGRAM

On August 25, 2015, the Fund's Board of Directors approved an increase in the maximum amount of shares that can be repurchased under the Fund's Share Repurchase Program, for the repurchase by the Fund of outstanding shares of Common Stock (the "Shares") in open-market transactions, up to 60% of the Fund's outstanding shares, at share prices equal to or at a discount of the corresponding NAV per Share.

During the fiscal year, the Shares continued to experience a period of limited liquidity and/or trading at a discount to their net asset value. Although the holders of the Shares do not have the right to redeem their Shares inasmuch as the Fund is closed-ended, the Fund may, at its sole discretion, effect repurchases of Shares in the open market, in an attempt to increase the liquidity of the Shares as well as reduce any market discount from their corresponding net asset value. There is no assurance that, if such action is undertaken, it will result in the improvement of the Shares' liquidity or reducing any such market discount. Moreover, while such undertaking may have a favorable effect on the market price of the Shares, the repurchase of the Shares by the Fund will decrease the Fund's total assets and therefore, have the effect of increasing the Fund's expense ratio.

Repurchases by the Fund must be conducted in accordance with the terms and conditions contained in Article 10 of Regulation No. 8469 issued by the OCFl and procedures adopted by the Fund's Board of Directors to address potential conflicts of interest with affiliated broker-dealer UBS Financial Services Incorporated of Puerto Rico. Among other things, such regulation and procedures require that to the extent that various sellers indicate interest in selling shares of the Fund, it will purchase such shares starting with the lowest offered price and in the following order of priority for each price: (1) individual and corporate investors, irrespective of the broker-dealer that serves as record owner of the shares to be repurchased; (2) the trading desks of Puerto Rico broker-dealers which are unaffiliated with the Fund; and (3) the trading desk of UBS Financial Services Incorporated of Puerto Rico. If sellers offer more shares for repurchase than the Fund is able to accept at any particular price for a particular level of

priority, repurchase offers will be accepted on a pro-rata basis within that particular level of priority. Additionally, to the extent that UBS Financial Services Incorporated of Puerto Rico elects to offer the Fund's shares of Common Stock for repurchase from its respective securities inventory, it must do so at its corresponding offer price per share reported to the public.

The Fund's Share Repurchase Program is implemented on a discretionary basis, under the direction of the Investment Adviser. The Fund's repurchase activity for each fiscal year is disclosed in the Annual Report to Shareholders attached hereto (see Note 3), as well as the quarterly reports to shareholders. The undertaking of a repurchase program does not obligate the Fund to purchase specific amounts of Shares.

During the fiscal year ended September 30, 2015, the Fund repurchased 3,755,989 shares of its common stock in the open market, of which 47,094 were used to cover shares for the dividend reinvestment plan. The total shares repurchased as of September 30, 2015 amount to 9,996,447 and represent 48.25% of the issued shares of the Fund's common stock since inception. Subsequent to year-end, the Fund repurchased a total of 138,311 common shares with a cost of \$466,590 bringing the percentage of issued shares since inception up to 48.92%. For additional details on the shares repurchased, please refer to Note 3 of the Fund's financial statements.

OUTLOOK

At its December 2015 meeting the FED raised the federal fund rate from a range of 0 to ¼% to a range of ¼% to ½%. In addition, they will monitor additional rate hikes depending on future economic conditions.

Under the current volatile market conditions, the Investment Adviser reconfirms its commitment to providing professional asset management services to the Fund.

UBS Asset Managers of Puerto Rico,
a division of UBS Trust Company of
Puerto Rico, as Investment Adviser

GLOSSARY OF FUND TERMS

Bond - security issued by a government or corporation that obligates the issuer to pay interest income to the bondholder at regular intervals and to repay the entire amount borrowed at maturity date.

Closed-end fund - a fund that issues a fixed amount of common stock.

Coupon- the interest rate that a bond promises to pay over its life, expressed as a percent over its face value.

Dividend - a per-share distribution of the income earned from a fund's portfolio holdings. When a dividend distribution is made, a fund's net asset value drops by the amount of the distribution because the distribution is no longer considered part of the fund's assets.

Expense ratio- the percentage of a fund's average net assets attributable to common shareholders used to pay fund operating expenses. The expense ratio takes into account, investment management fees, administration fees as well as other operating expenses such as legal, audit, insurance and shareholder communications.

Interest Rate Swap – an agreement to exchange one interest rate stream for another. No principal changes hands.

Maturity- the date on which the face value of a bond must be repaid. For a portfolio it is represented in years and measures the average length to maturity of all the bonds in the portfolio. This measure does not take into account embedded options in the bonds comprising the portfolio.

Net Asset Value (NAV) Per Share – the NAV per share is determined by subtracting the fund's total liabilities from its total assets, and dividing that amount by the number of fund shares of Common Stock outstanding.

Notional amount - refers to the specified dollar amount of the swap in which the exchange of interest payment is based.

Premium/Discount- the difference between the bid price of the shares of a fund and their NAV. In a case of a premium, the bid price is above the NAV. In the case of a discount, the bid price is below the NAV. These amounts can be expressed as numerical values or percentages. The higher the percentage, the larger the difference (positive or negative) between the market price and the NAV of a fund.

Total Investment Return - the change in value of a fund investment over a specified period of time, taking into account the change in a fund's market price and the reinvestment of all fund distributions.

Turnover Ratio – the turnover ratio represents the fund's level of trading activity. The Fund divides the lesser of purchases or sales (expressed in dollars and excluding all securities with maturities of less than one year) by the Fund's average monthly assets.

Undistributed income- the net income of a fund that has not been distributed to common shareholders as of the latest available audited financial statements. In the case of the target maturity type-funds, it also includes the amounts to be distributed after the target date to return the initial (i.e. \$10) investment.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.

The following table includes selected data for a share outstanding throughout each period and other performance information derived from the financial statements. It should be read in conjunction with the financial statements and notes thereto.

FINANCIAL HIGHLIGHTS

		For the fiscal year ended September 30, 2015	For the fiscal year ended September 30, 2014	For the fiscal year ended September 30, 2013	For the fiscal year ended September 30, 2012	For the fiscal year ended September 30, 2011
Increase (Decrease) in Net Asset Value:						
Per Share Operating Performance:	Net asset value applicable to common stock, beginning of period	\$ 5.46	\$ 6.04	\$ 7.86	\$ 7.75	\$ 7.42
	Net investment income (a)	0.57	0.59	0.73	0.77	0.84
	Net realized (loss) gain and unrealized (depreciation) appreciation from investments, swaps and real estate owned (a)	(1.27)	(0.66)	(1.81)	0.10	0.27
	Total from investment operations	(0.70)	(0.07)	(1.08)	0.87	1.11
	Less: Dividends from net investment income to common shareholders	(0.57)	(0.58)	(0.74)	(0.76)	(0.78)
	Discount on repurchase of common stock	0.19	0.07	-	-	-
	Net asset value applicable to common stock, end of period	\$ 4.38	\$ 5.46	\$ 6.04	\$ 7.86	\$ 7.75
	Market value, end of period (b)	\$ 3.45	\$ 5.15	\$ 6.06	\$ 10.16	\$ 9.75
Total Investment Return:	(b) (f) Based on market value per share	(25.09)%	(5.92)%	(34.00)%	14.95%	19.61%
	(f) Based on net asset value per share	(10.22)%	0.05%	(14.95)%	11.88%	15.96%
Ratios:	(c) (d) (e) Expenses to average net assets applicable to common shareholders - net of waived fees	2.19%	1.77%	1.88%	1.81%	1.71%
	(c) (e) Operating expenses to average net assets applicable to common shareholders - net of waived fees	1.83%	1.39%	1.52%	1.50%	1.47%
	(c) Interest and leverage related expenses to average net assets applicable to common shareholders	0.36%	0.38%	0.36%	0.31%	0.24%
	(c) (e) Net investment income to average net assets applicable to common shareholders - net of waived fees	11.23%	10.17%	9.86%	10.00%	11.38%
Supplemental Data:	Net assets applicable to common shareholders, end of period (in thousands)	\$ 47,142	\$ 78,877	\$ 115,765	\$ 144,607	\$ 136,802
	Portfolio turnover	40.50%	26.28%	6.11%	70.83%	35.04%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	20.24%	25.46%	3.47%	11.32%	13.70%

- (a) Based on average outstanding common shares of 12,793,644; 16,608,382; 18,811,237; 18,016,586; and 17,372,888 for the fiscal years ended September 30, 2015; September 30, 2014; September 30, 2013; September 30, 2012; and September 30, 2011, respectively.
- (b) Period end market values provided by UBS Financial Services Incorporated of Puerto Rico, a dealer of the Fund's shares and an affiliated party. The market values shown may reflect limited trading in the shares of the Fund.
- (c) Based on average net assets applicable to common shareholders of \$66,314,065; \$96,184,475; \$139,268,810; \$139,246,418; and \$128,384,245 for the fiscal years ended September 30, 2015; September 30, 2014; September 30, 2013; September 30, 2012; and September 30, 2011, respectively.
- (d) Expenses include both operating and interest and leverage related expenses.
- (e) The effect of the expenses waived for the fiscal years ended September 30, 2015; September 30, 2014; September 30, 2013; September 30, 2012; and September 30, 2011 was to decrease the expense ratios, thus increasing the net investment ratio to average net assets by 0.76%; 0.73%; 0.49%; 0.45%; and 0.46%, respectively.
- (f) Dividends are assumed to be reinvested at the per share net asset value on the ex-dividend date.

The accompanying notes are an integral part of these financial statements.

PUERTO RICO MORTGAGE-BACKED & U.S. GOVERNMENT SECURITIES FUND, INC.
SCHEDULE OF INVESTMENTS
September 30, 2015

Face Amount		Issuer	Coupon	Next Callable Date ^F	Maturity Date	Value
Puerto Rico Agencies Bonds and Notes - 14.68% of net assets applicable to common shareholders, total cost of \$20,492,244						
\$ 1,000,000	K	Employees Retirement System	6.15%	07/01/18	07/01/38	\$ 300,060
2,025,000	K	Employees Retirement System	6.20%	07/01/18	07/01/39	632,914
2,025,000	K	Employees Retirement System	6.20%	07/01/18	07/01/42	632,873
3,900,000	K	Employees Retirement System	6.45%	07/01/18	07/01/55	1,218,828
3,200,000	K	Employees Retirement System	6.45%	07/01/18	07/01/56	1,000,032
3,900,000	K	Employees Retirement System	6.45%	07/01/18	07/01/58	1,218,828
1,000,000	K	Employees Retirement System	6.55%	07/01/18	07/01/58	312,500
3,800,000	J L	Puerto Rico Sales Tax	6.00%	08/01/19	08/01/42	1,605,576
<u>\$ 20,850,000</u>						<u>\$ 6,921,611</u>
Puerto Rico Agencies Zero Coupons Bonds - 3.62% of net assets applicable to common shareholders, total cost of \$4,531,019						
\$ 11,400,000	J L	Puerto Rico Sales Tax	0.00%	Non-callable	08/01/35	\$ 953,154
7,000,000	J L	Puerto Rico Sales Tax	0.00%	M	08/01/34	753,060
<u>\$ 18,400,000</u>						<u>\$ 1,706,214</u>
Principal Outstanding Amount						
Puerto Rico Collateralized Mortgage Obligations Taxable - 31.47% of net assets applicable to common shareholders, total cost of \$47,678,723						
\$ 23,643,945	A	CSMC Series 2007-5 Class AM	5.86%		08/25/37	\$ 9,982,474
17,775,150	A	CSMC Series 2007-5 Class B1	6.20%		08/25/37	414,161
6,341,019	I H	Doral Financial Participation Certificate 2004 Series A	6.69%		12/01/31	4,438,713
<u>\$ 47,760,114</u>	B					<u>\$ 14,835,348</u>
Puerto Rico Collateralized Mortgage-Backed Securities Taxable- 5.34% of net assets applicable to common shareholders, total cost of \$3,159,529						
\$ 1,277,164	H	R&G Non Conforming Mortgage Loan Trust Series 2004-A	4.86%		05/01/34	\$ 1,129,492
1,055,893	H	R&G Non Conforming Mortgage Loan Trust Series 2004-B	5.40%		05/01/34	876,391
440,822	H	R&G Non Conforming Mortgage Loan Trust Series 2005-A	5.25%		07/01/34	242,452
18,309	H	R&G Non Conforming Mortgage Loan Trust Series 2005-B	5.50%		09/01/34	18,481
269,842	H	R&G Non Conforming Mortgage Loan Trust Series 2005-C	6.00%		09/01/34	169,832
81,255	H	R&G Non Conforming Mortgage Loan Trust Series 2005-D	6.25%		10/01/34	81,026
<u>\$ 3,143,285</u>	B					<u>\$ 2,517,674</u>
Puerto Rico GNMA Taxable - 26.35% of net assets applicable to common shareholders, total cost of \$12,087,004						
\$ 440,513		GNMA Pool 592858	6.00%		12/15/35	\$ 505,935
58,486		GNMA Pool 618198	6.50%		11/15/24	67,064
241,555		GNMA Pool 618199	6.50%		11/15/34	276,984
10,438,541	G	GNMA Pool 693267	5.60%		04/15/37	11,573,732
<u>\$ 11,179,095</u>	C					<u>\$ 12,423,715</u>
Puerto Rico FNMA Taxable - 34.46% of net assets applicable to common shareholders, total cost of \$14,199,452						
\$ 696,086		FNMA Pool 758514	6.00%		01/01/34	\$ 799,657
135,137		FNMA Pool 758520	5.50%		02/01/34	153,379
201,168		FNMA Pool 758521	6.50%		02/01/34	229,863
475,300	G	FNMA Pool 758544	5.50%		05/01/34	530,632
4,814,244	G	FNMA Pool 835565	6.00%		10/01/35	5,546,211
1,683,897		FNMA Pool 905018	6.00%		05/01/37	1,938,688
4,411,695	G	FNMA Pool 905048	6.00%		07/01/37	5,023,041
90,398	G	FNMA Pool 682079	6.00%		11/01/32	104,161
1,052,792		FNMA Pool 747044	5.50%		03/01/34	1,175,167
115,584	G	FNMA Pool 758560	6.00%		08/01/34	133,102
539,825	G	FNMA Pool 887184	6.00%		06/01/36	609,345
<u>\$ 14,216,126</u>	D					<u>\$ 16,243,246</u>
Puerto Rico Freddie Mac Taxable - 1.51% of net assets applicable to common shareholders, total cost of \$628,762						
\$ 126,695		FHLMC Pool A50587	6.50%		06/01/36	\$ 144,882
350,258		FHLMC Pool A51301	6.00%		07/01/36	395,921
151,810	G	FHLMC Pool A51302	6.00%		06/01/36	170,836
<u>\$ 628,763</u>	E					<u>\$ 711,639</u>
Face Amount						
US Government, Agency and Instrumentalities - 68.22% of net assets applicable to common shareholders, total cost of \$30,831,186						
\$ 30,575,000	G	Federal Home Loan Bank	3.30%	10/30/15	05/07/32	\$ 29,941,241
1,360,000		Federal Home Loan Bank	3.37%	10/30/15	09/21/34	1,307,794
950,000		Federal Home Loan Bank	3.30%	01/18/16	01/18/33	910,632
<u>\$ 32,885,000</u>						<u>\$ 32,159,667</u>
US Municipals - 3.47% of net assets applicable to common shareholders, total cost of \$1,500,000						
\$ 1,500,000		State of Illinois General Obligations	7.35%	M	07/01/35	\$ 1,636,350

The accompanying notes are an integral part of these financial statements.

Total investments (189.12% of net assets applicable to common shareholders)	\$ 89,155,464
Interest rate swaps (-0.55% of net assets applicable to common shareholders)	(259,465)
Other Assets and Liabilities net (-88.57% of net assets applicable to common shareholders)	(41,753,666)
Net assets applicable to common shareholders - 100%	<u>\$ 47,142,333</u>

- A The Credit Suisse CMOs are comprised of subordinate tranches of securitizations.
- B Certificates are collateralized by residential mortgage loans. They are subject to pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- C GNMA - represents mortgage-backed obligations guaranteed by the Government National Mortgage Association. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- D FNMA - represents mortgage-backed obligations guaranteed by the Federal National Mortgage Association. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- E FHLMC - represents mortgage-backed obligations guaranteed by the Federal Home Loans Mortgage Corporation. They are subject to principal paydowns as a result of pre-payments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- F The issuer has the ability, but not the obligation, to call these securities on these dates.
- G A portion or all of the security has been pledged as collateral for securities sold under agreements to repurchase or swaps.
- H Private Placement.
- I This security is valued by the Valuation Committee.
- J Revenue Bonds - issued by government agencies and payable from revenues and other sources of income of the agency as specified in the applicable prospectus. These bonds are not obligations of the Commonwealth of Puerto Rico.
- K The bonds are limited, non-recourse obligations of the Employees Retirement System payable solely from, and secured solely by, employer contributions made after the date of issuance of the bonds.
- L Puerto Rico Sales Tax Financing Corporation issues its Sales Tax Revenue Bonds to provide funds to the Commonwealth of Puerto Rico to be applied for various purposes. The bonds will be payable solely from and secured by a security interest granted under the Sales Tax Revenue Bond Resolution.
- M These securities are subject to redemption prior to the maturity at the option of the issuer on any Business Day, at a redemption price, which is either not less than the securities face amount or make-whole as defined in the prospectus.

The accompanying notes are an integral part of these financial statements.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.**STATEMENT OF ASSETS AND LIABILITIES****September 30, 2015**

Assets:	Investments in securities:		
	Securities pledged as collateral on repurchase agreements and swaps, at value, which has the right to be repledged (identified cost - \$44,920,289)	\$	47,543,461
	Other securities, at value (identified cost - \$90,187,630)		41,612,003
	Cash		1,052,067
	Interest receivable		873,128
	Real estate owned		541,817
	Prepaid expenses and other assets		459,745
	Total assets		<u>92,082,221</u>

Liabilities:	Securities sold under repurchase agreements		43,800,000
	Dividends payable to common shareholders		474,984
	Interest rate swaps, at value (Note 1)		259,465
	Payables:		
	Interest and leverage expenses	13,751	
	Investment advisory fees	39,351	
	Administration, custody, and transfer agent fees	<u>14,392</u>	67,494
	Accrued expenses and other liabilities		<u>337,945</u>
	Total liabilities		<u>44,939,888</u>

Net Assets Applicable to Common Shareholders:	<u>\$</u>	<u>47,142,333</u>
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**Net Assets Applicable to
Common Shareholders
consist of:**

Capital stock, \$0.01 par value, 88,000,000 shares authorized, 10,753,540 issued and outstanding	\$	107,535
Additional paid-in capital		134,516,400
Undistributed net investment income (Note 1 and Note 9)		2,248,815
Accumulated net realized loss from investments, swaps and real estate owned		(42,952,782)
Unrealized net depreciation on investments, swaps and real estate owned		<u>(46,777,635)</u>
Net assets applicable to common shareholders	\$	<u>47,142,333</u>
Net asset value applicable to common shares - per share; 10,753,540 shares outstanding	\$	<u>4.38</u>

The accompanying notes are an integral part of these financial statements.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.**STATEMENT OF OPERATIONS**

For the fiscal
year ended
September 30, 2015

Investment Income:	Interest	\$ 8,900,623
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Expenses:	Interest and leverage related expenses	237,443
	Investment advisory fees	952,651
	Administration, custody, and transfer agent fees	226,273
	Professional fees	107,243
	Directors' fees and expenses	43,616
	Real estate owned maintenance and selling fees	144,851
	Insurance expense	74,105
	Other	167,302
	Total expenses	1,953,484
	Waived investment advisory, administrative, and transfer agent fees	(356,342)
	Net expenses after waived fees by investment adviser, administrator, and transfer agent	1,597,142

Net Investment Income:	7,303,481
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Realized Loss and	Net realized loss on investments and real estate owned	(15,360,142)
Unrealized Appreciation	Net realized loss on interest rate swaps	(210,292)
(Depreciation) on	Change in unrealized net value on swaps	(13,752)
Investments, Swaps and	Change in unrealized net depreciation on investments	472,105
Real Estate Owned:	Change in unrealized net depreciation on real estate owned	(83,268)
	Total net realized and unrealized loss on investments and swaps	(15,195,349)

Net decrease in net assets resulting from operations	\$ (7,891,868)
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The accompanying notes are an integral part of these financial statements.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.

STATEMENTS OF CHANGES IN NET ASSETS

		For the fiscal year ended September 30, 2015	For the fiscal year ended September 30, 2014
Decrease in Net Assets:			
	Net investment income	\$ 7,303,481	\$ 9,786,158
	Net realized loss on investments, swaps and real estate owned	(15,570,434)	(9,877,556)
	Change in unrealized net depreciation on investments and swaps	458,353	(689,762)
	Change in unrealized net depreciation on real estate owned	(83,268)	(267,698)
	Net decrease in net assets resulting from operations	<u>(7,891,868)</u>	<u>(1,048,858)</u>
Dividends to Common Shareholders From:	Net investment income	<u>(7,178,295)</u>	<u>(9,511,547)</u>
Capital Share Transactions:	Reinvestment of dividends on common shares	234,676	655,132
	Repurchase of common shares	<u>(16,899,203)</u>	<u>(26,983,095)</u>
		<u>(16,664,527)</u>	<u>(26,327,963)</u>
Net Assets:	Net decrease in net assets applicable to common shareholders	(31,734,690)	(36,888,368)
	Net assets at the beginning of the year	<u>78,877,023</u>	<u>115,765,391</u>
	Net assets at the end of the year	<u>\$ 47,142,333</u>	<u>\$ 78,877,023</u>

The accompanying notes are an integral part of these financial statements.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.

STATEMENT OF CASH FLOWS

For the fiscal
year ended
September 30,
2015

Increase (Decrease) in Cash

Cash Provided by Operations:	Net decrease in net assets from operations	\$ (7,891,868)
	Adjusted by:	
	Purchases of portfolio securities	(11,299,989)
	Proceeds from sale of portfolio securities	24,997,418
	Proceeds from sale of real estate owned	733,400
	Calls, maturities, and paydowns of portfolio securities	36,330,869
	Net realized loss on investments and real estate owned	15,360,142
	Change in unrealized depreciation on investments and swaps	(458,353)
	Change in unrealized depreciation on real estate owned	83,268
	Accretion of discounts on investments	(574,823)
	Decrease in interest receivable	599,078
	Increase in prepaid expenses and other assets	(147,270)
	Decrease in interest payable	(16,422)
	Decrease in investment advisory fees payable	(12,365)
	Decrease in administration, custody, and transfer agent fees payable	(3,626)
	Increase in accrued expenses and other liabilities	1,637
	Total cash provided by operations	<u>57,701,096</u>

Cash Used in

Financing Activities:	Securities sold under repurchase agreements, net of issuances of \$422,159,347	(33,031,364)
	Dividends to common shareholders paid in cash	(7,161,465)
	Repurchase of common shares	<u>(16,899,203)</u>
	Total cash used in financing activities	<u>(57,092,032)</u>

Cash:	Net increase in cash for the year	609,064
	Cash at the beginning of the year	<u>443,003</u>
	Cash at the end of the year	<u>1,052,067</u>

Cash Flow

Information:	Cash paid for interest and leverage related expenses	\$ 253,865
	Non cash activities - dividends reinvested by common shareholders	<u>\$ 234,676</u>
	Real estate acquired in settlements of mortgage loans	<u>\$ 391,100</u>

The accompanying notes are an integral part of these financial statements.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

1. Reporting Entity and Significant Accounting Policies

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc. (the "Fund") is a non-diversified, closed-end management investment company. The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico and is registered as an investment company under the Puerto Rico Investment Companies Act of 1954, as amended (the "Puerto Rico Investment Companies Act"). The Fund was incorporated on October 13, 2004 and commenced operations on November 3, 2004. UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico ("UBSTC"), is the Fund's Investment Adviser (the "Investment Adviser"). UBSTC is also the Fund's Administrator ("Administrator").

The Fund's investment objective is to provide current income, consistent with the preservation of capital.

The following is a summary of the Fund's significant accounting policies:

Use of Estimates in Financial Statements Preparation

The accompanying financial statements of the Fund have been prepared on the basis of accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Net Asset Value Per Share

The net asset value per share of the Fund is determined by the Administrator on Wednesday of each week after the close of trading on the New York Stock Exchange ("NYSE") or, if such day is not a business day in New York City and Puerto Rico, on the next succeeding business day, and at month-end if such date is not a Wednesday. The net asset value per share is computed by dividing the assets of the Fund less its liabilities, by the number of outstanding shares of the Fund.

Valuation of Investments

All securities are valued by UBSTC, on the basis of valuations provided by pricing services or by dealers which were approved by the Fund's management and the Board of Directors. In arriving at their valuation, pricing sources may use both a grid matrix of securities values as well as the evaluations of their staff. The valuation, in either case, is based on information concerning actual market transactions and quotations from dealers or a grid matrix performed by an outside vendor that reviews certain market and security factors to arrive at a bid price for a specific security. Certain Puerto Rico obligations have a limited number of market participants and thus, might not have a readily ascertainable market value and may have periods of illiquidity. Certain securities of the Fund for which quotations are not readily available from any source, are valued at fair value by or under the direction of the Investment Adviser utilizing quotations and other information concerning similar securities obtained from recognized dealers. The Investment Adviser can override any price that it believes is not consistent with market conditions.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

The Investment Adviser has established a Valuation Committee (the "Committee") which is responsible for overseeing the pricing and valuation of all securities held in the Fund. The Committee operates under pricing and valuation policies and procedures established by the Investment Adviser and approved by the Board of Directors. The policies and procedures set forth the mechanisms and processes to be employed on a weekly basis related to the valuation of portfolio securities for the purpose of determining the net asset value of the Fund. The Committee reports to the Board of Directors on a regular basis. At September 30, 2015, 4.98% of total investment securities market values were determined by the Valuation Committee.

GAAP provides a framework for measuring fair value and expands disclosures about fair value measurements and requires disclosures surrounding the various inputs that are used in determining the fair value of the Fund's investments. These inputs are summarized in three (3) broad levels listed below:

- Level 1 - Quoted prices in active markets for identical assets and liabilities at the measurement date. An active market is one in which transactions for the assets occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Significant inputs other than quoted prices that are observable (including quoted prices for similar securities, interest rates, pre-payment speeds, credit risk, etc.), either directly or indirectly.
- Level 3 - Significant unobservable inputs, for example, inputs derived through extrapolation that cannot be corroborated by observable market data. These will be developed based on the best information available in the circumstances, which might include UBSTC's own data. Level 3 inputs will consider the assumptions that market participants would use in pricing the asset, including assumptions about risk (e.g., credit risk, model risk, etc.).

The Fund maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Fair value is based upon quoted market prices when available. Valuation adjustments are limited to those necessary to ensure that the financial instrument's fair value is adequately representative of the price that would be received or paid in the marketplace. These adjustments include amounts that reflect counterparty credit quality, the Fund's credit standing, constraints on liquidity, and unobservable parameters that are applied consistently.

The estimated fair value may be subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in calculating fair value could significantly affect the results. Therefore, the estimated fair value may materially differ from the value that could actually be realized on sale.

Following is a description of the Fund's valuation methodologies used for assets and liabilities measured at fair value:

Puerto Rico Agencies Bonds and Notes: Obligations of Puerto Rico and political subdivisions are segregated and those with similar characteristics are then divided into specific sectors. The values for these securities are obtained from third-party pricing service providers that use a pricing methodology based on observable market inputs. Market inputs used in the evaluation process include all or some of the following: trades, bid price or spread, quotes, benchmark curves (including, but not limited to, Treasury benchmarks, LIBOR, and swap curves), and discount and capital rates. These bonds are classified as Level 2.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

Mortgage and Other Asset-Backed Securities: Fair value for these securities is obtained from third-party pricing service providers that use a pricing methodology based on observable market inputs. Certain agency mortgage and other asset backed securities ("MBS") are priced based on a bond's theoretical value from similar bonds; "similar" being defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The agency MBS are classified as Level 2.

Doral Financial Participation Certificate: The Doral Participation Certificate is valued by the Investment Adviser based on the types of underlying mortgages and using a discounted cash flow technique. There is a lack of transparency of prices due to lack of trading activity and this security is classified as Level 3.

Puerto Rico Collateralized Mortgage Obligations ("CMOs"): Prices for these securities are obtained from third-party service providers that use a pricing methodology based on observable market inputs. Market inputs used in the evaluation process include: benchmark yields, reported trades, issuer spreads, prepayments speeds, benchmark securities and market indicators. CMOs are classified as Level 3.

R&G Non-Conforming Mortgage Loans: Units of various grantor trusts, each comprised of mortgage loans acquired from R&G Financial Corporation, were valued by an independent firm using models that calculate the present value of expected future cash flows. Those models incorporate estimates that market participants would use in determining fair value, including estimates of prepayment speeds, credit losses, and discount rates. These loan trusts are classified as Level 3.

Obligations of U.S. Government Sponsored Entities, State, and Municipal Obligations: The fair value of obligations of U.S. Government sponsored entities, state and municipal obligations is obtained from third-party pricing service providers that use a pricing methodology based on an active exchange market and based on quoted market prices for similar securities. These securities are classified as Level 2. U.S. agency structured notes are priced based on a bond's theoretical value from similar bonds defined by credit quality and market sector, and for which the fair value incorporates an option adjusted spread in deriving their fair value. These securities are classified as Level 2.

Derivatives: The fair value of derivative instruments is based on observable market parameters. Derivatives are mainly composed of interest rate swaps. The derivatives are indexed to an observable interest rate benchmark, such as London Interbank Offered Rate ("LIBOR"). The cash flows are discounted using forward curves for the underlying benchmark. For cancellable derivatives, the "Hull-White" model is used to value the option component of the derivative instruments. A credit component is not considered in the valuation since the Fund fully collateralizes in excess of agreed upon thresholds, if any, with investment securities, any mark to market loss with the counterparty, and if there are market gains, the counterparty must deliver collateral in excess of agreed upon thresholds to the Fund. In addition, counterparties must have a minimum credit rating. The fair value of the equity derivatives also takes into account equity prices, dividends, equity volatility, and the correlations of equity returns. Derivatives are classified as Level 2.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following is a summary of the portfolio by inputs used as of September 30, 2015 in valuing the Fund's investments carried at fair value:

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.

Notes to Financial Statements

September 30, 2015

	Assets			Balance 9/30/2015
	Level 1	Level 2	Level 3	
Investment Securities:				
Puerto Rico Agencies Bonds and Notes	\$ -	\$ 8,627,825	\$ -	\$ 8,627,825
Puerto Rico Collateralized Mortgage Obligations Taxable	-	-	14,835,348	14,835,348
Puerto Rico Collateralized Mortgage-Backed Securities Taxable	-	-	2,517,674	2,517,674
Puerto Rico GNMA Taxable	-	12,423,715	-	12,423,715
Puerto Rico FNMA Taxable	-	16,243,246	-	16,243,246
Puerto Rico Freddie Mac Taxable	-	711,639	-	711,639
US Government, Agency and Instrumentalities	-	32,159,667	-	32,159,667
US Municipals	-	1,636,350	-	1,636,350
Total of investment securities	-	71,802,442	17,353,022	89,155,464
Real estate owned	-	-	541,817	541,817
Total	\$ -	\$ 71,802,442	\$ 17,894,839	\$ 89,697,281

The following is a reconciliation of assets for which Level 3 inputs were used in determining fair value:

	Level 3 Investment Securities								Balance as of 9/30/2015
	Balance as of 9/30/2014	Realized Gain (Loss)	Change in Unrealized (Depreciation)/ Appreciation	Net Amortization/ Accretion	Purchases /Additions	Sales/Calls	Paydowns	Transfers in (out) to Level 3	
CSMC Series 2007-5 Class AM	\$ 15,209,487	\$ 10,057	\$ (3,864,744)	\$ -	\$ -	\$ -	\$ (1,372,326)	\$ -	\$ 9,982,474
CSMC Series 2007-5 Class B1	2,402,785	(3,808,078)	1,823,099	-	-	-	(3,645)	-	414,161
CSMC Series 2007-5 Class B2	691	(4,259,663)	4,258,972	-	-	-	-	-	-
CSMC Series 2007-5 Class B3	83	(358,040)	357,957	-	-	-	-	-	-
R&G Non Conforming Mortgage Loan Trust Series 2004-A	1,066,057	-	86,836	-	-	-	(23,401)	-	1,129,492
R&G Non Conforming Mortgage Loan Trust Series 2004-B	962,103	-	(57,339)	-	-	-	(28,373)	-	876,391
R&G Non Conforming Mortgage Loan Trust Series 2005-A	640,570	-	(398,118)	-	-	-	-	-	242,452
R&G Non Conforming Mortgage Loan Trust Series 2005-B	20,290	-	2,050	-	-	-	(3,859)	-	18,481
R&G Non Conforming Mortgage Loan Trust Series 2005-C	218,081	-	(41,492)	-	-	-	(6,757)	-	169,832
R&G Non Conforming Mortgage Loan Trust Series 2005-D	71,094	(391)	12,708	-	-	-	(2,385)	-	81,026
Doral Financial Participation Certificate 2004 Series A	5,766,378	1,334	(751,060)	-	-	-	(577,939)	-	4,438,713
Real estate owned	999,156	(33,772)	(83,268)	-	393,100	(733,399)	-	-	541,817
Total	\$ 27,356,775	\$ (8,448,553)	\$ 1,345,601	\$ -	\$ 393,100	\$ (733,399)	\$ (2,018,685)	\$ -	\$ 17,894,839

Quantitative Information about Level 3 Fair Value Measurements:

	Fair Value at September 30, 2015	Valuation Technique	Unobservable Inputs		Price
Investment Securities:					
CSMC Series 2007-5 Class AM	\$ 9,982,474	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	3.77% 29.35% 60.00% 16.00%	\$42.22
CSMC Series 2007-5 Class B1	414,161	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	3.77% 29.35% 60.00% 22.00%	\$2.33
R&G Non Conforming Mortgage Loan Trust Series 2004-A	1,129,492	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	21.65% 1.13% 19.00% 8.33%	\$88.44
R&G Non Conforming Mortgage Loan Trust Series 2004-B	876,391	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	39.59% 1.00% 19.00% 8.90%	\$83.00
R&G Non Conforming Mortgage Loan Trust Series 2005-A	242,452	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	100.00% 1.00% 20.00% 14.18%	\$55.00
R&G Non Conforming Mortgage Loan Trust Series 2005-B	18,481	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	18.71% 0.90% 14.00% 4.87%	\$100.94
R&G Non Conforming Mortgage Loan Trust Series 2005-C	169,832	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	83.41% 1.00% 15.00% 18.07%	\$62.94
R&G Non Conforming Mortgage Loan Trust Series 2005-D	81,026	Discounted Cash Flow	Constant prepayment rate Probability of default Loss severity Discount rate	9.30% 1.00% 15.00% 6.38%	\$99.72
Doral Financial Participation Certificate 2004 Series A	4,438,713	Discounted Cash Flow	Discounted Yield	17.65%	\$70.00
Real estate owned	541,817	External Appraisal, adjusted when necessary			
Total	\$ 17,894,839				

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

Changes in unrealized gains and losses included in the Statement of Operations relating to investments classified as Level 3 that are still held at September 30, 2015, amounted to a net unrealized depreciation of (\$3,271,328). The change in unrealized depreciation for the CSMC Series 2007-5 Class B2 and B3, which were written-off during the year, amounted to \$4,616,929.

Transfers to Level 3 reflect securities where there is a lack of transparency of prices due to lack of trading activity or comparable securities. The Fund's policy is to recognize transfers in and out as of the end of the reporting period of the event or change in circumstances that caused the transfer. There were no transfers during the year ended September 30, 2015.

Temporary cash investments are valued at amortized cost, which approximates market value.

Real Estate Owned

Real estate owned, which consists of real estate acquired in settlement of mortgage-loans in a grantor trusts, is recorded at fair value. Subsequent to foreclosure, gains or losses resulting from the sale of these properties are credited or charged to realized gains or losses, and gains or losses recognized on the periodic re-evaluations of these properties are credited or charged to unrealized gains or losses. The cost of maintaining and operating these properties is expensed as incurred. Real estate owned is classified as Level 3 securities.

Taxation

As a registered investment company under the Puerto Rico Investment Companies Act, the Fund will not be subject to Puerto Rico income tax for any taxable year if it distributes at least 90% of its taxable net investment income for such year, as determined for these purposes. Accordingly, as the Fund intends to meet this distribution requirement, the income earned by the Fund is not subject to Puerto Rico income tax at the Fund level.

The Fund can invest in taxable and tax-exempt securities. In general, distributions of taxable income dividends, if any, to Puerto Rico individuals, estates, and trusts are subject to a withholding tax of (i) 10% in the case of dividends distributed before July 1, 2014, and (ii) 15% in the case of dividends distributed after June 30, 2014, if certain requirements are met. Moreover, distribution of capital gains dividends, if any, to (a) Puerto Rico individuals, estates, and trusts are subject to a tax of (i) 10% in the case of dividends distributed before July 1, 2014, and (ii) 15% in the case of dividends distributed after June 30, 2014, and (b) Puerto Rico corporations are subject to a tax of (i) 15% in the case of dividends distributed before July 1, 2014, and (ii) 20% in the case of dividends distributed after June 30, 2014. Tax withholdings are effected at the time of payment of the corresponding dividend. Otherwise, taxable distributions will be subject to regular income tax. Individual shareholders may be subject to alternate basic tax on certain fund distributions. Certain Puerto Rico entities receiving taxable income dividends are entitled to claim an 85% dividends received deduction. Fund shareholders are advised to consult their own tax advisers.

GAAP requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund's tax return to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the "more-likely-than-not" threshold are recorded as a tax benefit or expense in the current year. Management has analyzed the Fund's tax positions taken on its Puerto Rico income tax returns for all open tax years (the current and prior three (3) tax years) and has concluded that there are no uncertain tax positions. On an ongoing basis, management will monitor the Fund's tax position to determine if adjustments to this conclusion are necessary.

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

Statement of Cash Flows

The Fund issues its shares, invests in securities, and distributes dividends from net investment income and net realized gains which are paid in cash. These activities are reported in the Statements of Changes in Net Assets. Additional information on cash receipts and payments is presented in the Statement of Cash Flows.

Accounting practices that do not affect the reporting of activities on a cash basis include carrying investments at fair value and amortizing premiums or discounts on debt obligations. Cash, as presented on the Statement of Assets and Liabilities, does not include short-term investments.

Dividends and Distributions to Shareholders

Dividends from net investment income are declared and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income earned in other periods, in order to permit the Fund to have a more stable level of distribution. The capital gains realized by the Fund, if any, may be retained by the Fund, as permitted by the Puerto Rico Internal Revenue Code of 2011, as amended, unless the Fund's Board of Directors, acting through the Dividend Committee, determines that the net capital gains will also be distributed. The Fund records dividends on the ex-dividend date.

Derivative Instruments

In order to attempt to hedge various portfolio positions, to manage its costs of funds or to enhance its return, the Fund invests in certain instruments which are considered derivatives. Because of their increased volatility and potential leveraging effect, derivative instruments may adversely affect the Fund. The use of these instruments for income enhancement purposes subjects the Fund to risks of losses which would not be offset by gains on other portfolio assets or acquisitions. There is no assurance that the Investment Adviser will employ any derivative strategy, and even where such derivatives investments are used for hedging purposes, there can be no assurance that the hedging transactions will be successful or will not result in losses.

Specifically, the Fund enters into interest rate swap agreements that involve an agreement between two (2) parties to exchange payments that are based, respectively, on indices or specific securities or other assets, such as variable and fixed rates that are calculated on the basis of a specified amount of principal (the "notional principal amount") for a specific period of time. The Fund usually enters into interest rate swaps on a net basis (*i.e.* the two (2) payment streams are netted out), with the Fund receiving or paying, as the case may be, only the net amount of the two (2) payments.

The Fund currently utilizes interest rate swaps as the predominant derivative hedging and income strategy. For income, the Fund generally enters into floating rate swaps where it receives a fixed rate payment and pays a floating rate generally based on LIBOR. The positive income received from the swap is subject to risk, should LIBOR increase during the term of the swap. These swaps may also include an option for the counterparty to cancel the swap that results in a higher effective interest rate for the Fund. During the fiscal year, the Fund did not have any income swaps outstanding.

In an attempt to protect the interest rate cost of its leverage program, the Fund generally enters into fixed to floating rate swaps. The Fund pays a fixed cost for a predetermined number of years and receives, in exchange, a floating rate payment generally based on an observable index such as LIBOR. If the index increases, the floating rate increases, thus offsetting the corresponding increase in the Fund's leverage cost if not cancelled by the counterparty on the next callable date. The Fund may grant the counterparty an option to cancel the swap before its contractual obligation, if such option results in a lower fixed rate payment by the Fund. If, on the other hand, the index decreases,

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
Notes to Financial Statements
September 30, 2015

the floating rate payment will decrease, reducing the benefit of lower interest rates on the leverage program.

Subject to market conditions, the Fund will also enter into floating to fixed rate swaps. These swaps may have the effect of neutralizing the negative cost of the original fixed to floating rate swaps. If the index decreases, the floating rate payment made by the Fund decreases, offsetting the decrease in the floating rate payment received by the Fund in the original fixed rate swap, if not cancelled by the counterparty. On the other hand, if the index increases, the floating rate payment on the neutralizing swap will increase, offsetting the benefit of the increase in the floating rate received from the fixed rate swap. The Fund may grant the counterparty an option to cancel the swap before its contractual termination if such option results in a more advantageous fixed rate for the Fund. During the fiscal year, the Fund did not have any neutralizing swaps outstanding.

The Fund is subject to master netting agreements or similar arrangements that allow for amounts owed between the Fund and a counterparty to be netted upon an early termination. The party that has the larger payable pays the excess of the larger amount over the smaller amount to the other party. The master netting agreements or similar arrangements do not apply to amounts owed to/from different counterparties.

The following table presents the Fund's swaps by counterparty and the related collateral pledged by the Fund at September 30, 2015:

Counterparty	Gross Amount of Swap Presented in the Statement of Assets and Liabilities	Swap Available for Offset	Collateral Posted (a)	Net Amount Due To Counterparty (not less than zero)
JP Morgan, New York	\$ 259,465	\$ -	\$ 259,465	\$ -

(a) Collateral received or posted is limited to the net swap liability amounts. See below for actual collateral received and posted.

These types of transactions subject the Fund to the risk that a counterparty will default on its obligation to the Fund. The Fund attempts to control such risk by entering into these transactions only with banks and recognized securities dealers believed by Fund management to present minimal risk in accordance with the guidelines of the Board of Directors. These types of transactions are also subject to market risk as interest rates and market prices fluctuate. The related market risk exceeds related amounts on the Statement of Assets and Liabilities. The credit exposure is represented by the fair value of the instruments with a positive market value and may change as the fair value of the instrument changes. The Fund may enter into additional transactions as market conditions change.

GAAP requires disclosure surrounding the various inputs that are used in determining the fair value of the Fund's interest rate swaps. These swaps are classified as Level 2, as fair value is measured using a combination of observable market data inputs and calculated inputs from market data. The market data includes LIBOR rates, yield curves and volatility.

The Fund is a party to ISDA (International Swap and Derivatives Association, Inc.) Master Agreements ("Master Agreements") with certain counterparties that govern over-the-counter derivative contracts entered into from time to time. The Master Agreements may contain provisions regarding, among other things, the parties' general obligations, representations, agreements, collateral requirements, events of default, and early termination. Generally, collateral can be in the form of cash or debt securities issued by the U.S. Government or related agencies or other securities

Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc., Inc.
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as agreed to by the Fund and the applicable counterparty. Collateral requirements are determined based on the Fund's net position with each such counterparty. Termination events applicable to the Fund may occur in certain instances specified in the Master Agreements, which may include, among other things, a specified decline in the Fund's net asset value or the termination of the Fund's Investment Adviser. In each case, upon occurrence, the counterparty may elect to terminate the swap early and cause the settlement of all or some of the derivative contracts outstanding, including the payment of any losses and costs resulting from such early termination, as reasonably determined by the terminating party. Any decision by one or more of the Fund's counterparties to elect early termination could impact the Fund's future derivative activity.

At September 30, 2015, the Fund had a net liability position of \$259,465 on derivative contracts subject to the Master Agreements. The Fund maintained collateral with the swap counterparty in the amount of \$403,456 related to market valuations on the open derivative contracts at September 30, 2015.

Certain of the Fund's derivative instruments contain provisions that require the Fund to maintain minimum net asset value levels. If the Fund's net asset values were to decline below certain specified net asset value levels, the counterparties may declare an early termination event on any or all transactions with the Fund. The aggregate fair value of all derivative instruments with minimum net asset value level contingent features that are in a liability position on September 30, 2015 is \$259,465 for which the Fund has posted collateral of \$403,456 in the normal course of business. To the extent such termination resulted in a net liability to the Fund, the collateral held by any such counterparty may be liquidated and netted against the amounts owed by the Fund to such counterparty. During the fiscal year ended, the Fund complied with the applicable NAV thresholds.

The Fund manages the credit component of the swaps through various mechanisms. Counterparties must have a minimum credit rating (the higher of S&P, Moody's, and/or Fitch), currently "A", or credit support from another entity. The swaps are executed pursuant to signed ISDA Master Agreements that may include a Credit Support Annex (CSA). The economic terms of each swap transaction is documented in a written confirmation. Equity linked swaps have additional covenants included in the confirmation. In the event the counterparty is downgraded below "A", the swap must either be transferred to another "A" or better counterparty or the credit exposure must be collateralized with eligible collateral as defined in the CSA. Based on management's evaluation, at September 30, 2015, no adjustment for non-performance risk is necessary.

The following is the fair value of the open swap positions as of September 30, 2015:

Level 2	Fair Value	
	Assets	Liabilities
Interest rate swaps	\$ -	\$ 259,465

Changes in the value of the open swap agreements are reported separately in the Statement of Assets and Liabilities and as a change in unrealized net appreciation (depreciation) on swaps in the Statement of Operations.

The following table presents the value of swap agreements held as of September 30, 2015 by their primary risk exposure and respective location on the Statement of Assets and Liabilities (amounts in thousands):

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Counterparty	Notional Amount (#)	Fair Value (#)	To be Received		To be Paid		Effective Date	Expiration Date	Next Callable Date
			Rate at 9/30/2015	Type	Rate at 9/30/2015	Type			
Interest Rate Contracts:									
JP Morgan, New York	\$ 6,950	\$ (132)	0.19%	V#	1.71%	F	05/25/10	05/25/17	Non-callable
JP Morgan, New York	6,800	<u>(127)</u>	0.19%	V#	1.70%	F	05/24/10	05/24/17	Non-callable
	Total asset amount	-							
	Total liability amount	<u>(259)</u>							
	Total net amount	\$ (259)							

Amount in thousands of dollars.

V# Variable, 1 Month Libor.

F Fixed.

The Fund's average notional balance of swaps during the year was approximately \$13,750,000. The only swaps outstanding at year-end are pay fixed rate swaps with an ending notional balance of \$13,750,000.

The following table presents the effect (in thousands) of swap agreements on the Statement of Operations for the fiscal year ended September 30, 2015, by primary underlying risk exposure:

Amount of realized loss and change in unrealized net value on swap agreements recognized in income*:

Derivative type	Realized Loss	Change in Unrealized Net Value
Interest rate contracts	<u>\$ (210)</u>	<u>\$ (14)</u>

* Refer to footnote 9 for a reconciliation of the accounting treatment of the realized loss for tax purposes related to the reclassification of swap periodic payments.

At September 30, 2015, investment securities amounting to \$403,456 were pledged as collateral for swap agreements. The counterparties have the right to sell or repledge the assets during the term of the swap agreement. Amounts payable on interest rate swaps amounted to \$4,232 at September 30, 2015.

The Fund records collections or periodic payments on interest rate swaps as a component of net realized gain or loss on investments and swaps in the Statement of Operations. For the fiscal year ended September 30, 2015, the Fund made net payments of \$210,292 to swap counterparties. For purpose of dividend distributions and for the determination of compliance with the 90% threshold for purpose of the Fund's tax exemption, net swap periodic payments are included as a component of net investment income. See Note 9 for a reconciliation between taxable and book net investment income.

Securities Sold Under Repurchase Agreements

Under these agreements, the Fund sells securities, receives cash in exchange, and agrees to repurchase the securities at a mutually agreed date and price. Ordinarily, those counterparties with which the Fund enters into these agreements require delivery of collateral and are able to sell or repledge the collateral; however, the Fund retains effective control over such collateral through the agreement to repurchase the collateral on or by the maturity of the repurchase agreement. These transactions are treated as financings and recorded as liabilities. Therefore, no gain or loss is recognized on the transaction, and the securities pledged as collateral remain recorded as assets of the Fund. These agreements involve the risk that the market value of the securities purchased with

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the proceeds from the sale of securities received by the Fund, may decline below the price of the securities that the Fund is obligated to repurchase, and that the value of the collateral posted by the Fund increases in value and the counterparty does not return it. Because the Fund borrows under repurchase agreements based on the estimated fair value of the pledged assets, the Fund's ongoing ability to borrow under its repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of the pledged assets may require the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Fund to do so.

Paydowns

Realized gains or losses on mortgage-backed security paydowns are recorded as an adjustment to interest income. During the fiscal year ended September 30, 2015, the Fund decreased net investment income in the amount of \$5,871, related to net realized losses on mortgage-backed securities paydowns. The Fund declares and pays monthly dividends from net investment income. For purposes of compliance with the 90% distribution threshold for the Fund's tax exemption, gains and losses related to mortgage-backed security paydowns are not included in net investment income. See Note 9 for a reconciliation between taxable and book net investment income.

Preferred Shares

Pursuant to the Fund's Certificate of Incorporation, as amended and supplemented, the Fund's Board of Directors is authorized to issue up to 12,000,000 preferred shares with a par value of \$25, in one or more series. During the fiscal year ended September 30, 2015, no preferred shares were issued or outstanding.

Other

Security transactions are accounted for on the trade date (the date on which the order to buy or sell is executed). Realized gains and losses on security transactions are determined on the identified cost method. Premiums and discounts on securities purchased are amortized using the interest method over the life or the expected life of the respective securities. Income from interest and dividends from cumulative preferred shares is accrued, except when collection is not expected.

2. Investment Advisory, Administrative, Custodian, Transfer Agency Agreements, and Other Transactions With Affiliates

Pursuant to an investment advisory contract (the "Advisory Agreement") with UBS Asset Managers of Puerto Rico, a division of UBSTC, the Fund receives investment advisory services in exchange for a fee. The investment advisory fee will not exceed 0.75% of the Fund's average weekly gross assets. For the fiscal year ended September 30, 2015, investment advisory fees amounted to \$952,651, equivalent to 0.75% of the Fund's average weekly gross assets. The Investment Advisor voluntarily waived investment advisory fees in the amount of \$343,322, for a net fee of \$609,329, which represents an effective annual rate of 0.48%.

UBSTC also provides administrative, custody, and transfer agency services pursuant to Administration, Custodian, and Transfer Agency, Registrar, and Shareholder Servicing Agreements. UBSTC provides facilities and personnel to the Fund for the performance of its administration duties. For the fiscal year ended September 30, 2015, the gross fee for such services amounted to \$226,273. The administrator and transfer agent waived fees in the amount of \$13,020, for a net fee of \$213,253, which is equivalent to 0.16% of the Fund's average weekly gross assets.

On October 1, 2013, UBS Asset Managers of Puerto Rico implemented a partial waiver of its investment advisory and administration fees, reducing its investment advisory fees to 0.40% from 0.50% and administration fee to 0.10% from 0.15%, both based on average weekly gross assets.

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Effective December 1, 2014, UBS Asset Managers of Puerto Rico will scale back this partial waiver. Accordingly, investment advisory and administration fees will now be reinstated to 0.50% and to 0.15%, respectively, both based on the Fund's average weekly gross assets.

The Fund is not registered under the U.S. Investment Company Act of 1940, as amended, and therefore, is not subject to the restrictions contained therein regarding, among other things, transactions between the Fund and UBS Financial Services Incorporated of Puerto Rico ("UBSFSPR"), or its affiliates ("Affiliated Transactions"). In that regard, the Board of Directors of the Fund adopted a set of Procedures for Affiliated Transactions ("Procedures") in an effort to address potential conflicts of interest that may arise. It is anticipated that Affiliated Transactions will continue to take place in the future and that any Affiliated Transactions will be subject to the Procedures.

UBSFSPR is the Fund's dealer on the offering of short-term notes. No selling fees were paid to UBSFSPR during the fiscal year ended September 30, 2015.

Certain Fund officers and directors are also officers and directors of UBSTC. The eight (8) independent directors of the Fund's Board of Directors are paid based upon an agreed fee of \$1,000 per board meeting, plus expenses, and \$500 per Audit Committee meeting, plus expenses. For the fiscal year ended September 30, 2015, the eight (8) independent directors of the Fund were paid an aggregate compensation of approximately \$44,000.

Fund affiliates may have lending, banking, brokerage, underwriting, or other business relationships with the issuers of the securities in which the Fund invests.

The total amount (in thousands) of other affiliated and unaffiliated purchases and sales of investment securities and originations of securities sold under repurchase agreements, listed by counterparty, during the year were as follows:

	Purchases	%	Sales	%	Securities Sold Under Repurchase Agreements	%
UBS Puerto Rico	\$ 11,300	100%	\$ -	-	\$ 1,075	-
Unaffiliated	-	-	24,997	100%	421,084	100%
	<u>\$ 11,300</u>	<u>100%</u>	<u>\$ 24,997</u>	<u>100%</u>	<u>\$ 422,159</u>	<u>100%</u>

Interest expense from securities sold under repurchase agreements with UBSFSPR and between affiliated funds during the year amounted to \$1,518.

As part of its investment policies, the Fund was authorized to invest up to 45% of its total assets in mortgage instruments consisting of whole residential non-conforming mortgage loans (the "Mortgage Loans"), securities issued by grantor trusts in connection with pooled mortgage loans (the "Units"), and participation certificates in pools of mortgage loans (the "Participation Certificates"), all such mortgage loans being originated or acquired by R-G Premier Bank of Puerto Rico ("R-G Premier") or any of its affiliates. These mortgage loans were serviced by R&G Mortgage Corporation ("R&G Mortgage"), and the payments of principal and interest thereon was (i) advanced to the Fund by R&G Mortgage pursuant to the terms and conditions of certain servicing agreements and (ii) guaranteed by R&G Financial Corporation ("R&G Financial"). The Fund ultimately bore the risk of credit loss upon the foreclosure and sale of any such mortgage loan.

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On April 30, 2010 the Office of the Commissioner of Financial Institutions (“OCFI”) and the Federal Deposit Insurance Corporation (“FDIC”) took over R&G Premier Bank and sold its assets to Scotiabank de Puerto Rico pursuant to a certain purchase and assumption agreement. R&G Mortgage continued as servicer of the before-mentioned mortgage loans under the supervision of the FDIC. Subsequently, the FDIC requested the transfer of the servicing functions to another party, and effective November 1, 2010, the servicing of such mortgage loans was transferred to Banco Popular de Puerto Rico. The new servicer services the mortgage loans on an actual/actual remittance basis, net of any advances and compensation due to the servicer and is not required to advance principal and interest thereon.

On May 14, 2010 and March 1, 2012, R&G Financial and R&G Mortgage, respectively, each filed voluntarily petitions under Chapter 11 of the U.S. Bankruptcy Code. On September 10, 2012, R&G Mortgage and the Fund entered into a Stipulation and Agreed Order in which the Fund released and discharged its claims against R&G Mortgage by reason of the latter’s unilateral termination to its servicing agreements with the Fund, in exchange for the Fund retaining \$495,730 in principal and interest advances on the mortgage loans and a payment of \$121,974. The Fund does not anticipate receiving any compensation by reason of R&G Financial’s termination of its guarantee of principal and interest payments on the mortgage loans.

At September 30, 2015, the Fund has \$3,143,285 of Units or principal amount outstanding issued under certain grantor trusts secured by fixed rate non-conforming mortgage loans acquired from R&G in fiscal year 2005. The Fund owns 100% of the beneficial interest in those grantor trusts and thus, owns 100% of the underlying whole mortgages of each of the trusts. Such units have a fair value of \$2,517,674, which represent 5.34% of the net assets applicable to common shareholders at September 30, 2015. The Mortgage Loans underlying these trust securities did not conform at the time of purchase to the guidelines established by the Federal National Mortgage Association (“FNMA”) or Federal Home Loan Mortgage Corporation (“FHLMC”).

R&G Non-Conforming Mortgage Loans Trust securities principal outstanding amount, fair value, and interest income as of September 30, 2015 and 2014 were as follows:

	2015			2014		
	Principal Outstanding Amount	Fair Value	Interest Income	Principal Outstanding Amount	Fair Value	Interest Income
R&G Non Conforming Mortgage Loans	\$ 3,143,285	\$ 2,517,674	\$ 120,736	\$ 3,838,821	\$ 2,978,195	\$ 151,049

The principal balance of assets of the grantor trust will decrease over time, in large part due to prepayment and foreclosure on the Mortgage Loans. At this time, the remaining mortgages cannot be sold to FNMA or FHLMC and are expected to be held by the Fund until maturity, foreclosure or sale. The trusts include a mechanism whereby Mortgage Loans owned by the trusts that become conforming loans are distributed to the Fund, in order for the Fund to sell or otherwise transfer them to FNMA or FHLMC and maximize their value for the Fund.

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3. Capital Share Transactions

The Fund is authorized to issue up to 88,000,000 common shares, par value \$0.01 per share.

Capital share transactions for the fiscal years ended September 30, 2015 and 2014 were as follows:

Common Shares	2015	2014
Proceeds from the reinvestment of dividends	\$ 234,676	\$ 655,132
Repurchase of shares	(16,899,203)	(26,983,095)
	<u>\$ (16,664,527)</u>	<u>\$ (26,327,963)</u>

Transactions in common shares during the fiscal years ended September 30, 2015 and 2014 were as follows:

Common shares	2015	2014
Common shares - beginning of fiscal year	14,458,054	19,156,985
Shares repurchased	(3,755,989)	(4,816,708)
Shares issued due to the reinvestment of dividends	<u>51,475</u>	<u>117,777</u>
Common shares - end of fiscal year	<u>10,753,540</u>	<u>14,458,054</u>

On June 2, 2015, the Fund's Board of Directors authorized the repurchase of the Fund's shares of common stock in the open market, when such shares are trading at or below NAV of the shares up to 49% of the aggregate number of shares of common stock issued by the Fund. On August 13, 2015 the Fund's Board of Directors approved an increase in the maximum amount of shares that can be repurchased by the Fund under the Shares Repurchase Program from 49% to 50%. Finally, on August 25, 2015, the Fund's Board of Directors approved an increase in the maximum amount of shares that can be repurchased by the Fund under the Shares Repurchase Program from 50% to 60%. The Fund repurchased a total of 3,755,989 and 4,816,708 common shares during the fiscal years ended September 30, 2015 and 2014, as follows:

2015:

	Shares Repurchased	Net Asset Value	Cost
Affiliates	3,358,145	\$ 17,310,301	\$ 15,128,895
Non-Affiliates	397,844	2,046,230	1,770,308
Total	<u>3,755,989</u>	<u>\$ 19,356,531</u>	<u>\$ 16,899,203</u>

2014:

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	Shares Repurchased	Net Asset Value	Cost
Affiliates	4,665,203	\$ 27,316,943	\$ 26,177,067
Non-Affiliates	151,505	859,077	806,028
Total	4,816,708	\$ 28,176,020	\$ 26,983,095

The shares repurchased from affiliates include shares held by clients in such affiliate.

The repurchase of shares during the fiscal year ended September 30, 2015 resulted in a NAV increase of \$0.19.

4. Investment Transactions

The cost of securities purchased and proceeds from sales and calls of portfolio securities (in thousands), excluding short-term investments, for the fiscal year ended September 30, 2015 were as follows:

	Purchases	Sales	Calls, Maturities and Paydowns
Puerto Rico Obligations	\$ -	\$ 12,513	\$ 6,503
US Obligations	11,300	12,484	29,828
	<u>\$ 11,300</u>	<u>\$ 24,997</u>	<u>\$ 36,331</u>

The following table presents the effect of the investments transactions (in thousands) on the Statement of Operations for the fiscal year ended September 30, 2015:

Amount of realized loss and change in unrealized depreciation on investments transactions:

	Realized Loss	Change in Unrealized Depreciation
Investments	<u>\$ (15,360)</u>	<u>\$ 472</u>

On February 12, 2015, S&P downgraded the credit rating of the GOs of the Commonwealth of Puerto Rico, from "BB" to "B," as well as the credit ratings of other Commonwealth agencies and public corporations. S&P also downgraded its credit ratings of senior and subordinate-lien bonds issued by COFINA from "BBB" and "BBB-," respectively, to "B." On February 19, 2015, Moody's downgraded its credit ratings on various Puerto Rico government entities and issuances, including GOs, from "B2" to "Caa1," and COFINA's senior and subordinate-lien bonds, from "Ba3" and "B1," to "B3" and "Caa1," respectively. On March 26, 2015, Fitch Ratings also downgraded the credit rating of Puerto Rico GOs from "BB-" to "B," as well as the credit ratings of PRASA senior lien revenue bonds from "B+" to "B" and COFINA's senior and subordinate-lien bonds from "BB-" to "B." On April 24, 2015, S&P further downgraded the credit rating of the GOs and COFINA's senior and subordinate-lien bonds to "CCC+," with Moody's following suit on May 21, 2015 and downgrading the GOs to "Caa2" and COFINA's senior and subordinate-lien bonds to "Caa2" and "Caa3," respectively. On June 29, 2015, Fitch Ratings and S&P further downgraded the GOs and related debt ratings from "B" to "CC" and from "CCC+" to "CCC-," respectively. On July 1, 2015, Moody's further downgraded the credit rating of the GOs and COFINA's senior bonds to "Caa3" from "Caa2". Lastly, on September 10, 2015, S&P further downgraded all of the Commonwealth of Puerto Rico's tax-backed debt to "CC" from "CCC-". All such ratings carry a negative outlook. Currently, there are no bonds

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issued by the Puerto Rico government and its instrumentalities that carry an investment-grade credit rating.

On June 29, 2015, the Government of Puerto Rico presented a report entitled "Puerto Rico--A Way Forward" by consultants Ms. Anne Krueger and Messrs. Ranjit Teja and Andrew Wolfe, which identified a deteriorating cash flow position and very large out-year central government budget gaps that approach the size of current full year general fund revenues. The report projects a fiscal 2016 budget gap of \$3.7 billion, absent corrective action, which would rise to \$6.0 billion by 2018 and higher in subsequent years. The Government of Puerto Rico also announced that it would seek to negotiate with bondholders to defer and/or restructure its \$72 billion debt load, as part of a plan to bolster its finances and revive the Puerto Rico economy and also designated the Working Group for the Fiscal and Economic Recovery of Puerto Rico (the "Working Group"), to provide a debt restructuring plan by August 30, 2015. In accordance with its mandate, the Working Group released the Puerto Rico Fiscal and Economic Growth Plan (the "FEGP") on September 9, 2015 which, among other things, recommends the restructuring of all tax-backed debt, including general obligation bonds ("GOs") and COFINA sales-tax debt. Absent meaningful additional fiscal and structural reforms, the Working Group projects that the Government of Puerto Rico (on a consolidated basis) will incur significant financing gaps for at least the next five years, despite the significant historical measures previously undertaken to reduce expenses, increase revenues, and address structural budgetary challenges. Furthermore, while the Working Group recognizes that a restructuring of the Commonwealth's debt may result in hardship to individual bondholders, it is also the Working Group's assertion that the public debt is not sustainable, unless the persistent stagnation of Puerto Rico's economy that has helped fuel the increase in Government debt over the past decade can be reversed. The Working Group is of the opinion that a voluntary adjustment of the terms of the Commonwealth's debt, that allows the measures contained in the FEGP to be implemented, is the best way to maximize all creditor recoveries. The adoption of certain of the fiscal and budgetary measures included in the plan proposes a debt restructuring plan, which could entail interruptions in cash flow on debt payments or changes in terms of existing payments. In addition to the recent credit downgrades by Fitch, Moody's and S&P on bonds issued by the Government of Puerto Rico and its instrumentalities, the implementation of these measures could result in an increase in price volatility across Puerto Rico securities.

5. Securities Sold Under Repurchase Agreements

Securities sold under repurchase agreements amounted to \$43,800,000 at September 30, 2015, and related information is as follows:

Weighted average interest rate at the end of the year	0.56 %
Maximum aggregate balance outstanding at any time of the year	\$ 76,963,189
Average balance outstanding during the year	\$ 60,274,142
Average interest rate during the year	0.39 %

At September 30, 2015, interest rates on securities sold under repurchase agreements ranged from 0.52% to 0.65%, with maturity dates up to October 27, 2015.

At September 30, 2015, investment securities amounting to \$47,140,005 were pledged as collateral for securities sold under repurchase agreements. The counterparties have the right to sell or repledge the assets during the term of the repurchase agreement with the Fund. Interest payable on securities sold under repurchase agreements amounted to \$9,519 at September 30, 2015.

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The Fund may receive securities from certain issuers of investments (notes) held by the Fund, as collateral securing the payment of principal and interest thereon (as well as all other obligations arising from the issuance of such note). Although the Fund is permitted by contract to repledge and/or grant security interests on these securities, the corresponding issuer of each note maintains effective control thereon. Prior to the maturity date of any such note and on certain specific dates, its issuer may require the Fund to purchase the securities posted as collateral thereof. As of September 30, 2015, there were no collateral securities received as part of the investments by the Fund in such notes.

The following table presents the Fund's repurchase agreements by counterparty and the related collateral pledged by the Fund at September 30, 2015:

Counterparty	Gross Amount of Securities Sold Under Repurchase Agreements Presented in the Statement of Assets and Liabilities	Securities Sold Under Repurchase Agreements Available for Offset	Collateral Posted (a)	Net Amount Due To Counterparty (not less than zero)
Goldman Sachs, New York	\$ 16,550,000	\$ -	\$ 16,550,000	\$ -
Jefferies & Company, New York	150,000	-	150,000	-
South Street, New York	27,100,000	-	27,100,000	-
TOTAL	\$ 43,800,000	\$ -	\$ 43,800,000	\$ -

(a) Collateral received or posted is limited to the net securities sold under repurchase agreements liability amounts. See above for actual collateral received and posted.

6. Short-Term Financial Instruments

The fair value of short-term financial instruments, which includes \$43,800,000 of securities sold under repurchase agreements, are substantially the same as the carrying amount reflected in the Statement of Assets and Liabilities, as these are reasonable estimates of fair values, given the relatively short period of time between origination of the instrument and their expected realization.

7. Concentration of Credit Risk

Concentration of credit risk that arises from financial instruments exists for groups of customers or counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The major concentration of credit risk arises from the Fund's investment securities in relation to the location of the issuers of such investment securities. For calculating concentration, all securities guaranteed by the U.S. Government or any of its subdivisions are excluded. At September 30, 2015, the Fund had investments with an aggregate market value of approximately \$25,980,847, which were issued by entities located in the Commonwealth of Puerto Rico and are not guaranteed by the U.S. Government or any of its subdivisions, of which \$8,627,825 are issued or guaranteed by the Commonwealth of Puerto Rico or its subdivisions, including Revenue Bonds. In addition, at September 30, 2015, the Fund had investments in Puerto Rico mortgage loans with an aggregate market value amounting to \$2,517,674 which were issued by one private issuer located in the Commonwealth of Puerto Rico and not guaranteed by the Commonwealth of Puerto Rico, and investments in Puerto Rico mortgage loans with an aggregate market value amounting to \$10,396,635, which were issued by Credit Suisse and not guaranteed by the U.S. Government. Also, at September 30, 2015, the Fund had investments with an aggregate market value amounting

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to \$1,636,350, which were issued by various agencies and municipalities located in the United States and not guaranteed by the U.S. Government.

The value of fixed income securities, such as those in which the Fund may invest, generally can be expected to fall when interest rates rise and to rise when interest rates fall. Interest rate risk is the risk that interest rates will rise, and that as a result, the value of the Fund's investments will fall. The Fund is subject to interest rate risk. Prices of longer term fixed income securities generally change more in response to interest rate changes, than prices of shorter term fixed income securities. Because the Fund will invest primarily in long term fixed income securities, the net asset value and market price per share of its common stock will fluctuate more in response to changes in market interest rates than if the Fund invested primarily in shorter term fixed income securities.

As stated in its Prospectus for common stock, the Fund will ordinarily invest at least 67% of its total assets in securities issued by Puerto Rico issuers (the "67% Investment Requirement"). These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities, and other securities, consistent with the Fund's investment objective and policies as defined in such Prospectus (the "Puerto Rico Securities"). Therefore, the Fund is more susceptible to factors affecting issuers of Puerto Rico Securities than an investment company that is not concentrated in Puerto Rico Securities to such degree.

8. Investment and Other Requirements and Limitations

The Fund is subject to certain requirements and limitations related to investments and leverage. Some of these requirements and limitations are imposed by statute or by regulation, while others are imposed by procedures established by the Board of Directors. The most significant requirements and limitations are discussed below.

The Fund must invest at least 67% of its total assets in Puerto Rico Securities. Up to 33% of its total assets may be invested in securities issued by the U.S. Government, its political subdivisions, its agencies and instrumentalities, and municipal securities issued in the United States. From time to time, the Fund may not comply with the 67% Investment Requirement due to a lack of availability of acceptable Puerto Rico Securities.

The Fund's leverage, as measured in relation to total assets, may not exceed 50%. Should this ratio be exceeded, the Fund is precluded from further leverage transactions until the maximum 50% ratio is restored. In addition, the Fund may also borrow for temporary or emergency purposes in an amount of up to an additional 5% of its total assets.

The Fund may issue preferred stock, debt securities and other forms of leverage to the extent that immediately after their issuance, the value of the Fund's total assets less all the Fund's liabilities and indebtedness which are not represented by preferred stock, debt securities, or other forms of leverage being issued or already outstanding, is equal to or greater than 200% of the aggregate par value of all outstanding preferred stock (not including any accumulated dividends or other distributions attributable to such preferred stock) and the total amount outstanding of debt securities and other forms of leverage.

The Fund has obtained temporary waivers through January 31, 2016 from the Puerto Rico Office of the Commissioner of Financial Institutions with respect to its Puerto Rico asset investments and leverage limitations. Although these waivers provide temporary relief to the Fund from having to limit or otherwise change the strategy of its investment or leverage transactions, there is no guarantee

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that the Fund will receive further relief beyond January 31, 2016. If further relief is not granted, the Fund would have to use proceeds derived from the sale, exchange, prepayment, maturity, or any voluntary or involuntary disposition of an asset to re-achieve compliance with the 67% investment requirement in Puerto Rico assets, and would not be able to renew leverage beyond its leverage limitations. In addition, based on the representations and opinion of the Fund's investment adviser and consistent with the Fund's investment objective, the Puerto Rico Office of the Commissioner of Financial Institutions has also granted no-objection relief with respect to the Fund's investment-grade credit rating requirement for Puerto Rico securities, which permit the Fund to continue to invest in Puerto Rico municipal securities that do not have an investment grade credit rating, under certain conditions, at the discretion of the Fund's investment adviser. These temporary waivers and no-objection relief may be renewed by the Puerto Rico Office of the Commissioner of Financial Institutions for additional periods of time, should market conditions warrant, and upon written request by the Fund. It is the Fund's intention to re-comply with these requirements as soon as market conditions permit, but there is no assurance as to whether and when the Fund will be able to do so.

The Fund must invest at least 80% of its total assets in (i) mortgage instruments which are comprised of whole residential non-conforming mortgage loans, securities issued by grantor trusts in connection with pooled mortgage loans, and participation certificates in pools of mortgage loans; (ii) securities issued or guaranteed by the Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Corporation ("FHLMC"), and/or other mortgage-backed securities and collateralized mortgage obligations collateralized with securities issued or guaranteed by GNMA, FNMA, or FHLMC; and (iii) securities issued or guaranteed by the U.S. Government, its agents and/or instrumentalities.

9. Reconciliation Between Taxable and Book Net Investment Income

As a result of certain reclassifications made for financial statements presentation, the Fund's net investment income according to the financial statements is not the same net investment income for income tax purposes, as follows:

Net investment income	\$ 7,303,481
Reclassification of swap periodic payments	(210,292)
Reclassification of realized loss on securities paydowns	5,871
Net investment income for tax purposes	<u>\$ 7,099,060</u>

The basis for the dividend distributions is the net investment income for tax purposes, as determined above. The Fund's policy, as stated in the Prospectus, is to distribute substantially all net investment income. In order to maintain a stable level of dividends, however, the Fund may at times pay more or less than the net investment income earned in a particular year.

For the fiscal year ended September 30, 2015, the Fund had distributed \$7,178,295 for tax purposes. The undistributed net investment income (for tax purposes) at September 30, 2015 was as follows:

Undistributed net investment income for tax purposes at the beginning of the year	\$ 2,328,050
Net investment income for tax purposes	7,099,060
Dividends paid to common shareholders	<u>(7,178,295)</u>
Undistributed net investment income for tax purposes at the end of the year	<u>\$ 2,248,815</u>

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Undistributed net investment income for tax purposes at September 30, 2015 includes \$1,291,777 exempt from income taxes.

10. Risks and Uncertainties

The Fund is exposed to various types of risks, such as geographic concentration, industry concentration, non-diversification, interest rate, and credit risks, among others. This list is qualified in its entirety by reference to the more detailed information provided in the offering documentation for the securities issued by the Fund.

The Fund is exposed to certain risks resulting from the reduced geographic diversification of its portfolio. The Fund's assets are invested primarily in securities of Puerto Rico issuers. Consequently, the Fund in general is more susceptible to economic, political, regulatory, or other factors adversely affecting issuers in Puerto Rico than an investment company that is not so concentrated in Puerto Rico issuers.

A relatively high percentage of the Fund's assets may be invested in obligations of a limited number of Puerto Rico issuers. Consequently, the Fund's net asset value and its yield may increase or decrease more than that of a more diversified investment company as a result of changes in the market's assessment of the financial condition and prospects of such Puerto Rico issuers. The Fund may also be more susceptible to any single economic, political, or regulatory occurrence in Puerto Rico than a more widely diversified investment company.

Interest rate risk is the risk that interest rates will rise so that the value of the Fund's investments will fall. Current low long-term rates present the risk that interest rates may rise, and that as a result, the Fund's investments will decline in value. Also, the Fund's yield will tend to lag behind changes in prevailing short-term interest rates. In addition, during periods of rising interest rates, the average life of certain types of securities may be extended because of the right of the issuer to defer payments or make slower than expected principal payments. This may lock-in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full), and reduce the value of the security. This is known as extension risk, which the Fund is also subject to. Conversely, during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled in order to refinance at lower interest rates, forcing the Fund to reinvest in lower yielding securities. This is known as pre-payment risk, which the Fund is also subject to.

Credit risk is the risk that debt securities or preferred stock in the Fund's portfolio will decline in price or fail to make dividend or interest payments when due, because the issuer of the security experiences a decline in its financial condition. The risk is greater in the case of securities rated below investment grade, or rated in the lowest investment grade category. Fund investments in preferred stock present certain special risks. One of them is that the issuers of preferred stock are not legally required to pay dividends when scheduled, even if they have sufficient funds to do so, and therefore these securities have greater payment risk than other securities in which the Fund may invest. In the case of cumulative preferred stock, missed dividends only have to be paid upon the liquidation of the company, and only after payment of the company's creditors. In the case of non-cumulative preferred stock, missed dividends never have to be paid. Preferred stock is also subordinated in right of payment to all other creditors of the issuer, and therefore is subject to greater credit risk than debt instruments.

The Fund may engage in repurchase agreements, which are transactions in which the Fund sells a security to a counterparty and agrees to buy it back, at a specified time and price, in a specified currency. Repurchase agreements involve the risk that the buyer of the securities sold by the Fund

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might be unable to deliver the securities when the Fund seeks to repurchase them and may be unable to replace the securities, or only at a higher cost.

Because the Fund borrows under repurchase agreements based on the estimated fair value of the pledged assets, the Fund's ongoing ability to borrow under its repurchase facilities may be limited and its lenders may initiate margin calls in the event of adverse changes in the market. A decrease in market value of the pledged assets may require the Fund to post additional collateral or otherwise sell assets at a time when it may not be in the best interest of the Fund to do so.

Mortgage-backed securities in which the Fund may invest have many of the risks of traditional debt securities but, in general, differ from investments in traditional debt securities in that, among other things, principal may be prepaid at any time due to pre-payments by the obligors on the underlying obligations. As a result, the Fund may receive principal repayments on these securities earlier or later than anticipated by the Fund. In the event of pre-payments that are received earlier than anticipated, the Fund may be required to reinvest such pre-payments at rates that are lower than the anticipated yield of the prepaid obligation. The rate of pre-payments is influenced by a variety of economic, geographic, demographic, and other factors, including, among others, prevailing mortgage interest rates, local and regional economic conditions, and home owner mobility. Since a substantial portion of the assets of the Fund may be invested in mortgage-backed securities at any time, the Fund may be subject to these risks and other risks related to such securities to a significant degree, which might cause the market value of the Fund's investments to fluctuate more than otherwise would be the case. Collateralized mortgage obligations or "CMOs" exhibit similar risks to those of mortgage-backed securities but also present certain special risks. CMO classes may be specially structured in a manner that provides a variety of investment characteristics, such as yield, effective maturity, and interest rate sensitivity. As market conditions change, however, particularly during periods of rapid or unanticipated changes in interest rates, the ability of a CMO class to provide the anticipated investment characteristics and performance may be significantly reduced. These changes may result in volatility in the market value, and in some instances, reduced liquidity of the CMO class.

The Fund may also invest in illiquid securities which are securities that cannot be sold within a reasonable period of time, not to exceed seven (7) days, in the ordinary course of business at approximately the amount at which the Fund has valued the securities. There presently are a limited number of participants in the market for certain Puerto Rico securities or other securities or assets that the Fund may own. That and other factors may cause certain securities to have periods of illiquidity. Illiquid securities may trade at a discount from comparable, more liquid investments.

There may be few or no dealers making a market in certain securities owned by the Fund, particularly with respect to securities of Puerto Rico issuers including, but not limited to, investment companies. Dealers making a market in those securities may not be willing to provide quotations on a regular basis to the Investment Adviser. It may therefore be particularly difficult to value those securities. When market quotations for securities held by the Fund are not readily available from any such independent dealers, UBSTC as the Fund's Administrator, is responsible for obtaining quotations for such securities from various sources, including UBSFSPR. As a result, the interests of UBSFSPR may conflict with those of the Fund as to the price and other terms of transactions among them.

In order to attempt to hedge various portfolio positions to manage its cost of funds or to enhance its return, the Fund may invest a portion of its total assets in certain instruments which are or may be considered derivatives. Because of their increased volatility and potential leveraging effect (without being subject to the Fund's leverage limitations), derivative instruments may adversely affect the Fund. For example, investments in indexed securities, including, among other things, securities

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linked to an equities or commodities index and inverse floating rate securities, may subject the Fund to the risks associated with changes in the particular indices, which may include reduced or eliminated interest payments and losses of invested principal. Such investments, in effect, may also be leveraged, thereby magnifying the risk of loss.

11. Commitments and Contingencies

The Fund, its Board of Directors, UBSFSPR, and UBSTC are subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, management does not expect that the ultimate outcome of these matters will have a material adverse effect on the Fund's financial position, results of operations or cash flows. Management of UBSFSPR and UBSTC have informed the Fund of its belief that the resolution of such matters is not likely to have a material adverse effect on the ability of UBS Asset Managers of Puerto Rico and UBSTC to perform under their respective contracts with the Fund.

Following UBSFSPR's settlement of administrative proceeding, two (2) class actions were filed in the U.S. District Court for the District of Puerto Rico and subsequently consolidated into a single action. Plaintiffs plead claims, related to disclosures and secondary market trading involving shares of the Fund, on behalf of a putative class of purchasers of securities issued by the Fund during the period from May 2008 to October 2009. Plaintiffs seek damages in an undetermined amount not less than \$10 million against all defendants. The Fund is not named as a defendant. On September 30, 2014, the court denied the defendants' motion to dismiss the consolidated class action complaint. On May 4, 2015, the court denied plaintiffs' motion for class certification without prejudice to renewal by June 30, 2015 after certain discovery has been completed. On June 30, 2015 plaintiffs renewed their motion for certification of a class of investors who purchased or acquired fifteen CEFs (but not the Fund) from UBSFSPR between January 2008 and September 2013. Although management of the Fund cannot determine the outcome of this matter, it reasonably believes that there are no loss contingencies that should be accrued in the Fund's financial statements.

On February 5, 2014, a shareholder derivative action was filed in Puerto Rico local court against the Fund, UBS Financial Services Inc., UBSFSPR, UBSTC, and all current and certain former Fund directors, alleging that the Fund suffered hundreds of millions of dollars in losses due to alleged mismanagement, concealment of conflicts of interest, and improper recommendations by certain defendants to retail customers to use credit lines to purchase Fund shares. On May 5, 2015 the court denied defendants' motion to dismiss. In June 2015, defendants filed petitions for certiorari with the Puerto Rico Court of Appeals, requesting interlocutory review of the lower court's denial of the motion to dismiss. In July 2015 the Puerto Rico Court of Appeals denied defendants' petitions for certiorari. Defendants have filed a motion for reconsideration. Also, on August 24, 2015 defendants answered the complaint. While the outcome of these allegations is currently not determinable, management does not expect that the ultimate outcome of these matters will have a material adverse effect on the Fund's financial position, results of operations, or cash flows. Moreover, management of UBSFSPR and UBSTC has informed the Fund of its belief that the resolution of such matter is not likely to have a material adverse effect on the ability of UBS Asset Managers of Puerto Rico and UBSTC to perform under their respective contracts with the Fund.

12. Indemnifications

In the normal course of business, the Fund enters into contracts that contain a variety of indemnification clauses. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses for indemnification and expects the risk of loss to be remote.

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13. Subsequent Events

Events and transactions from October 1, 2015 through December 21, 2015 (the date the financial statements were available to be issued) have been evaluated by management for subsequent events. Management has determined that there were no material events that would require adjustment to or disclosure in the Fund's financial statements through this date, except as disclosed below.

Dividends:

On October 31, 2015, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.04417 per common share, totaling \$468,875 and payable on November 10, 2015, to common shareholders of record as of October 31, 2015.

On November 30, 2015, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.04417 per common share, totaling \$468,875 and payable on December 10, 2015, to common shareholders of record as of November 30, 2015.

Repurchases:

On October 26, 2015, the Fund repurchased a total of 138,311 common shares, with a net asset value of \$614,654 and a cost of \$466,590. Of such shares, 112,596 were held by UBSFSPR (including shares held by clients), with a net asset value of \$500,376 and a cost of \$378,902.

The total shares repurchased as of December 21, 2015 represent 48.92% of the issued shares of the Fund's common stock since inception.



Independent Auditor's Report

To the Board of Directors and Stockholders of
Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc.

We have audited the accompanying financial statements of the Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc. (the "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as of September 30, 2015, and the related statements of operations and of cash flows for the year then ended, of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are hereafter collectively referred to as "financial statements".

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Puerto Rico Mortgage-Backed & U.S. Government Securities Fund, Inc. as of September 30, 2015, and the results of its operations and its cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico
December 21, 2015

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. LLP-216 Expires Dec. 1, 2016
Stamp E188923 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

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Director

Agustín Cabrer-Roig
Director

Gabriel Dolagaray Balado
Director

Carlos Nido
Director

Luis M. Pellot-González
Director

Vicente J. León
Director

Clotilde Pérez
Director

José J. Villamil
Director

Leslie Highley, Jr.
Senior Vice President

Ricardo Ramos²
First Vice President, Treasurer and Assistant Secretary

William Rivera
First Vice President and Treasurer

Javier Rodríguez
Assistant Vice President and Assistant Treasurer

Liana Loyola, Esq.
Secretary

Remember that:

- Mutual Fund's units are not bank deposits or FDIC insured.
- Mutual Fund's units are not obligations of or guaranteed by UBS Financial Services Incorporated of Puerto Rico or any of its affiliates.
- Mutual Fund's units are subject to investment risks, including possible loss of the principal amount invested.

¹ Mr. Ferrer resigned from his position as Director effective on May 28, 2015.

² Mr. Ramos resigned from his position as First Vice President, Treasurer and Assistant Secretary effective on May 31, 2015.



PUERTO RICO MORTGAGE-BACKED

 & U.S. G O V E R N M E N T

 SECURITIES FUND, INC.