



Puerto Rico Investors Tax-Free Fund, Inc. II

2015 Annual Report

Dear Shareholder:

The Puerto Rico Investors Tax-Free Fund, Inc. II, (the “Fund”), is pleased to present its Annual Report to Shareholders for the fiscal year ended on August 31, 2015.

PUERTO RICO INVESTORS TAX-FREE FUND, INC. II

The investment objective of the Puerto Rico Investors Tax-Free Fund, Inc. II is to achieve a high level of current income that, for Puerto Rico investors, is exempt from Federal and Puerto Rico income taxes, consistent with the preservation of capital for its shareholders.

FUND PERFORMANCE

For the twelve-month period ending in August 31, 2015, the Fund generated a total rate of return on investment of -17.87% and -23.78% based on the net asset value per share (“NAV”) and market value per share, respectively. This was mainly due to the substantial decrease in the value of the Fund’s NAV and its market price.

The Fund’s NAV as of August 31, 2015 was \$2.72, compared to \$3.87 at the end of the prior fiscal year. Meanwhile, the average dividend yield for the period, computed over the original investment of \$10 per share, was 4.44%. At the end of the fiscal year, the market price of the shares was \$2.27, representing a 16.5% discount to NAV. In contrast, the market price of the shares was \$3.48 as of August 31, 2014, representing a 10.1% discount to NAV. The Fund’s investment portfolio had weighted-average duration of 10.54 as of August 31, 2015.

The accompanying Figure 1 shows the breakdown of the investment portfolio as of August 31, 2015.

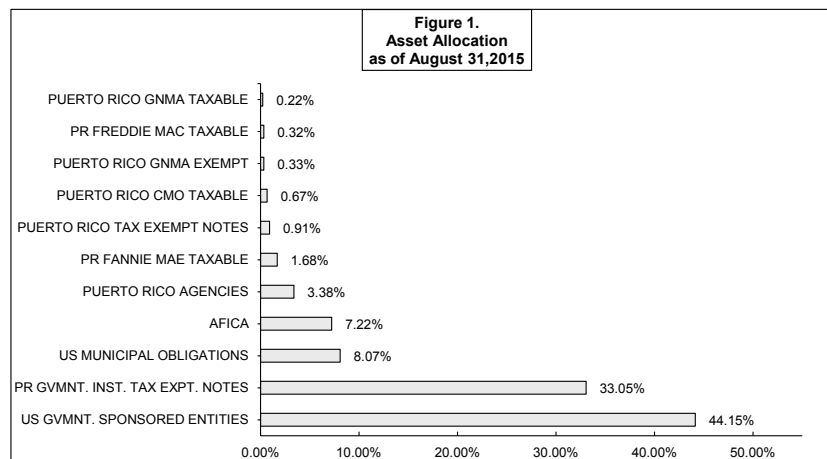


Figure 1. Asset Allocation as of August 31, 2015

SHARE REPURCHASE PROGRAM

On January 31, 2014, the Board of Directors approved the implementation of a share repurchase program for the acquisition of up to 25% of each Fund's total assets. The Repurchase Program is intended to provide additional liquidity to Fund shareholders.

Since the program's inception, the Fund has repurchased 5,336,315 shares of common stock in the open market with an NAV of \$20,169,454, at a cost of \$17,911,956, and which represent 18.72% of the total assets of the Fund as of January 31, 2014 (net of shares acquired for dividend reinvestment purposes and which remain outstanding).

For the fiscal year ended August 31, 2015, the Fund repurchased 2,427,420 shares of its common stock in the open market. The total shares repurchased for the year ended August 31, 2015 amount to \$8,318,681 (at Net Asset Value) and \$7,095,238 (at Cost).

INVESTMENT STRATEGY

The Fund's investment advisers strive to select investment assets that maximize risk/return relationships, while adhering to the Fund's investment objectives.

ECONOMIC OVERVIEW

Puerto Rico Economy

Historically, Puerto Rico's economy has tended to track the U.S. mainland economy. Many of the important variables that affect economic growth, such as imports, exports, direct investments, transfer payments, the rate of inflation and tourism expenditures are directly related to the U.S. and to developments in its economy.

Since Puerto Rico is a U.S. dollar-based economy and its financial system is regulated by U.S. federal agencies, Puerto Rico's interest rate levels, market tendencies and activities are direct functions of the prevailing conditions in the U.S. market place. The current downturn in Puerto Rico, however, started earlier and has lasted longer than the 2008-2009 U.S. downturn.

The Government Development Bank for Puerto Rico's new Economic Activity Index (EAI) is an indicator of the general economic activity in Puerto Rico that is highly correlated with real GNP. For the government's recently ended fiscal year (July 2014 through June 2015), the new EAI reflects a -1.6% contraction compared to the prior fiscal year. Meanwhile, General Fund Net Revenues trailed figures from the prior year by 0.8%.

Throughout the Fund's fiscal year, Puerto Rico bonds experienced high price volatility while continuing to trade at distressed levels. As measured by the Standard and Poor's Puerto Rico Municipal Bond Index, Puerto Rico bonds as a group fell 5.61% for the 12-month reporting period.

In January 2015, Puerto Rico enacted legislation to raise the tax on petroleum and its derivatives from \$9.25 to \$15.50 per barrel. The new revenues were expected to support a new bond deal of up to \$2.95 billion to help improve the liquidity of the Government Development Bank. As of this writing, no bond deal has occurred.

On February 6, 2015, in a 75-page ruling, U.S. Federal District Court Judge Francisco Besosa determined that the Puerto Rico Recovery Act is pre-empted by Section 903(1) of the Federal Bankruptcy Code and is therefore void. The Recovery Act had been approved by Governor García Padilla in June 2014 as a mechanism for public corporations (i.e. PREPA, PRASA and PRHTA) to restructure their debt in the event of financial distress. Although the Recovery Act is off the table for the near future, it remains to be seen whether or not the invalidation of the Recovery Act proves permanent. The Puerto Rico government is appealing the decision. Furthermore, legislation has already been filed in the U.S. Congress to amend the Federal Bankruptcy Code to allow Puerto Rico public corporations to file for bankruptcy under Chapter 9.

In late June 2015, Governor García Padilla surprised investors with his comments to The New York Times regarding the mathematical impossibility of Puerto Rico paying for all its \$72 billion in debt obligations. At the same time, the Government Development Bank released the Krueger report, prepared by three former IMF officials, which discusses the necessity for a comprehensive restructuring of all Puerto Rico debt, including General Obligations.

The above events have sparked a new sell-off in Puerto Rico bonds, amid increased speculation that the island will not be able to repay what it owes. Details on a potential restructuring are limited at this point, but the Governor has indicated he favors a negotiated debt moratorium across all Puerto Rico credits for a number of years as part of an effort to improve the island's finances and revive its economy.

A working group appointed by the Governor is currently working on a debt restructuring and fiscal reform plan. The plan is due by September 1st.

Despite attempts by the current administration to contain the crisis, including higher taxes, pension reform, and moderate spending cuts, the situation in Puerto Rico remains complicated. The credit outlook has deteriorated, as the prolonged economic recession combined with the lack of external financing have increased the risks of a financial shortfall.

The United States Economy

The U.S. economy showed great resilience throughout most of the Fund's fiscal year, shrugging off worries about slower global economic growth, plunging commodity prices and the Ebola scare. From January through December 2014, the U.S. economy grew 2.4%. For 2015, U.S. economic growth is expected to remain fairly modest near the 2.5% range.

The beginning of the 2015 year, however, showed more relative weakness than strength. Given the solid fundamentals in the U.S. economy, most analysts view the soft start to 2015 as transitory. The initial figure of -0.7% 1Q 2015 GDP (since revised to +0.6%) was mainly attributed to the greater than anticipated effect on trade of the stronger U.S. dollar.

Underlying U.S. economic statistics continued to improve during the Fund's fiscal year. Corporate profits remained healthy while home prices and sales volumes generally strengthened. For the period, New Home Sales went up 15.8% and Housing Starts rose 10.0%.

On the employment front, job growth has remained strong, with employers adding at least 200,000 jobs during 15 of the past 18 months (March 2014 through August 2015). Officially, the national unemployment rate fell to 5.1% in August 2015, compared to 6.1% the prior year. The 5.1% unemployment rate is at its lowest level since April 2008.

Influenced by a decline in commodity prices throughout the reporting period, inflation remained in check and continued below the 2% level, which is the Fed's longer-run goal. As measured by the core Consumer Price Index (excludes food and energy), consumer prices rose 1.8% in the 12 months ended in August 2015.

During the entirety of the Fund's fiscal year, the U.S. Federal Reserve maintained a highly accommodative monetary policy, keeping the target range for the Fed Funds rate between 0% and 0.25%.

As expected, in October 2014 the Federal Reserve concluded its asset purchase program of U.S. Treasuries and agency mortgage-backed securities. Many analysts had expected the gradual unwind of the stimulus to result in higher bond yields but it did not happen. In the first five months of the Fund's fiscal year (September 2014 to January 2015) intermediate and long-term yields drifted down, reaching multi-year lows at the end of January 2015. This happened as political turmoil in the Middle East and Eastern Europe kept flaring up, and prospects for global economic growth became more uncertain. At the same time, oil prices experienced a dramatic drop, creating a significant drag on inflation and making any upswing in inflation more improbable.

Aggressive monetary stimulus by foreign central banks (Europe, Japan, China) accompanied by shrinking yields abroad contributed to the relative attractiveness of yields in the United States. Volatility in equity markets also contributed to investors shifting money to U.S. bonds in "flight to quality" trades.

However, in the last seven months of the reporting period (February 2015 to August 2015), bond yields trended higher, reflecting the market's wide anticipation that the Fed will begin to raise the Fed Funds rate before the end of 2015. It would be the first increase since June 2006. The transition into tightening mode is largely being driven by stronger than expected employment data combined with increased expectations for steady U.S. economic growth. The timing and scope of the rate increases, however, remains "data dependent". At this time, it is worth noting that a rapid rise in rates seems less likely compared to a gradual increase in rates.

Compared to the beginning of the Fund's fiscal year, bond yields in general were slightly lower at the end of the fiscal year. The 30-year Treasury bond, for example, ended the period at 2.96%, a 12 basis point decrease in yield compared to the beginning of the reporting period. At the same time, the 10-year Treasury note went down 12 basis points, from 2.34% to 2.22%. On the short end of the curve, 2-year Treasuries yielded 0.74% at the end of the fiscal year, up from the 0.49% they were yielding at the beginning of the fiscal year.

In August 2015, near the end of the Fund's fiscal year, U.S. equity markets experienced their first correction since 2011. For the 12-month period, the Dow Jones Industrial, the S&P 500, and the NASDAQ posted returns of -1.00%, 0.47%, and 5.64% respectively.

PUERTO RICO CREDIT UPDATE

In July 2015, the U.S. Court of Appeals for the First Circuit affirmed the decision that voids the Puerto Rico Recovery Act. In its ruling, however, the Court of Appeals also makes the case that Puerto Rico should be given access to Chapter 9 of the U.S. bankruptcy code, which deals with municipal bankruptcies. This ruling puts pressure on Congress to act on a bill, currently before a House committee, that seeks to change Chapter 9 to treat Puerto Rico like any other state for the purposes of bankruptcy.

On July 24, the Puerto Rico government announced that General Fund revenues for the 2014-15 fiscal year were more than \$600 million below estimates.

On August 3rd, Puerto Rico missed most of a \$58 million payment that was due on Public Finance Corporation bonds. This marks the first default ever for the island.

Over the next 12 months, the financial challenges and pressure will continue to mount on Puerto Rico, with \$5 billion of principal and interest due (according to Bloomberg). It appears a long and complicated process involving a multitude of parties across many different Puerto Rico issuers is in store.

OUTLOOK

The US economic outlook indicates continued modest growth as labor markets remain sub-optimal. For Puerto Rico, the fiscal situation and the Island's credit ratings remain as big concerns. The combined scenario foreshadows a challenging investment environment for the management of the Fund. Notwithstanding, Banco Popular and UBS Puerto Rico remain committed to providing professional asset management services to the Fund in order to seek profitable opportunities for the benefit of its shareholders.

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke, representing Enrique Vila del Corral.

Enrique Vila del Corral, CPA
Chairman of the Board and President

THE BENEFITS AND RISKS OF LEVERAGING

The Puerto Rico Investors Tax-Free Fund, Inc. II 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 funds. In such an event, the Fund's net income will be greater than it would be without leverage.

If, on the other hand, 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.

Leverage often increases the risk for shareholders of Common Stock. In addition, leverage may have a negative impact on net asset value. Leverage could also increase market price volatility, interest rate and market risk. On the other hand, adding leverage to the Fund could result in higher net income.

GLOSSARY OF MUTUAL FUND TERMS

Bond - Security issued by a government or corporation to those from whom it has borrowed money. A bond usually promises to pay interest income to the bondholder at regular intervals and to repay the entire amount borrowed at maturity date.

Realized Gain (Loss) - The profit (loss) from the sale of securities. Realized gains are paid to fund shareholders on a per share basis. When a gain distribution is made, the 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.

Dividend - A per share distribution of the income earned from the fund's portfolio holdings. When a dividend distribution is made, the 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.

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

Investment Adviser - An investment professional who is responsible for managing a portfolio's assets prudently and making appropriate investment decisions, such as which securities to buy, hold and sell, based on the investment objectives of the portfolio.

Leverage - Vehicle used by the Fund to increase the amounts available for investment through the issuance of commercial paper or repurchase agreements transactions.

Long-Term - An investment with a maturity greater than one year.

Mutual Fund - A company which combines the investment money of many people whose financial goals are similar, and invests that money in a variety of securities. A mutual fund allows the smaller investor the benefits of diversification, professional management and constant supervision usually available only to large investors.

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

Offering Price - The offering price of a share of a mutual fund is the price at which the share is sold to the public.

Repurchase Agreements - Transactions in which the Fund sells securities to a bank or dealer, and agrees to repurchase them at a mutually agreed date and price.

Short-Term - An investment with a maturity of one year or less.

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. A 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.

Yield - The annualized rate of income as measured against the current net asset value of fund shares.

FINANCIAL HIGHLIGHTS

The following table includes selected data for a share outstanding throughout each period and other performance information.

	For the year ended August 31, 2015	For the year ended August 31, 2014	For the year ended August 31, 2013	For the year ended August 31, 2012	For the year ended August 31, 2011
Increase (Decrease) in Net Asset Value:					
Per Share					
Operating Performance:					
Net asset value, beginning of the year	\$3.87	\$5.31	\$7.64	\$7.11	\$7.28
(a) Net investment income	0.43	0.49	0.66	0.66	0.66
(a) Net realized (loss) gain and change in unrealized (depreciation) appreciation on investments and derivatives	(1.26)	(1.53)	(2.46)	0.51	(0.15)
Total from investment operations	(0.83)	(1.04)	(1.70)	1.17	0.51
Less: dividends from net investment income applicable to common shareholders	(0.44)	(0.47)	(0.63)	(0.64)	(0.64)
Discount on repurchase of common stock	0.12	0.07	-	-	-
Net asset value, end of year	\$2.72	\$3.87	\$5.31	\$7.64	\$7.11
(i) Market value, end of year	\$2.27	\$3.48	\$5.46	\$9.35	\$8.36
Total Investment Return: (b)	(23.28%)	(38.85%)	(24.32%)	21.79%	13.04%
(g) Based on net asset value per share	(17.87%)	(17.27%)	(23.92%)	16.87%	7.69%
Ratios: (c)					
(d) (i) Expenses to average net assets applicable to common shareholders - net of waived fees	2.01%	1.91%	1.92%	1.90%	2.01%
(e) (i) Operating expenses to average net assets applicable to common shareholders, net of waived fees	1.39%	1.25%	1.37%	1.37%	1.43%
(f) (i) Operating expenses to average net assets applicable to common shareholders, net of waived fees	0.62%	0.67%	0.47%	0.53%	0.58%
(i) Net investment income to average net assets applicable to common shareholders - net of waived fees	12.33%	12.56%	9.23%	8.72%	9.59%
Supplemental					
Data:					
Net assets applicable to common shares, end of year (in thousands)	\$25,139	\$45,153	\$76,964	\$106,829	\$96,421
Portfolio turnover	0.00%	1.45%	14.04%	30.58%	15.98%
Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and the proceeds from mortgage-backed securities paydowns	0.00%	1.45%	4.04%	1.31%	0.99%

(a) Based on weekly average outstanding common shares of 10,501,506; 13,416,426; 14,246,219; 13,782,030; and 13,391,418 for the years ended August 31, 2015, 2014, 2013, 2012, and 2011, respectively. The return is calculated based on beginning and end of period market values provided by UBS Financial Services of Puerto Rico, a dealer of the Fund's shares and an affiliated party.

(b) Based on average net assets attributable to common shares of \$16,786,120; \$22,580,297; \$101,678,582; \$103,960,077; and \$92,088,313 for the years ended August 31, 2015, 2014, 2013, 2012, and 2011, respectively. "Expenses" include both operating and interest and leverage related expenses.

(c) "Operating expenses" represent total expenses excluding interest and leverage related expenses.

(d) The effect of the expenses waived for the years ended August 31, 2015, 2014, 2013, 2012, and 2011 was to decrease the expense ratio, thus increasing the net investment income ratios to average net assets applicable to common shareholders by 0.98%, 0.90%, 0.62%, 0.60%, and 0.62%, respectively.

(e) Calculations are based on beginning and end of period net asset values.

(f) Dividends are assumed to be reinvested at the per share net asset value as defined in the dividend reinvestment plan.

(g) End of period market value are provided by UBS Financial Services incorporated in 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 in an over-the-counter market.

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

SCHEDULE OF INVESTMENTS

Face Amount		Issuer	Coupon	Maturity Date	Fair Value
AFICA Bonds - 13.41% of net assets applicable to common shares, total cost of \$5,635,000					
<u>\$5,635,000</u>	(1) (7) (8)	PALMAS DEL MAR COUNTRY CLUB PROJECT	7.25%	12/20/30	<u>\$3,370,913</u>
Puerto Rico Agencies - 6.27% of net assets applicable to common shares, total cost of \$2,356,797					
271,444	(3) (7) (8)	ECONOMIC DEVELOPMENT CORPORATION - INVESTORS IN MORTGAGE CERTIFICATES TRUST SERIES 7 CLASS D	5.48%	04/01/24	271,444
<u>2,090,000</u>	(7) (8)	PUERTO RICO COMMONWEALTH AQUEDUCT AND SEWER AUTHORITY SERIES A	6.10%	07/01/34	<u>1,305,477</u>
<u>2,361,444</u>					<u>1,576,921</u>
Principal Outstanding Amount					
Puerto Rico GNMA Exempt - 0.62% of net assets applicable to common shares, total cost of \$146,339					
16,677	(2) (7)	GNMA P&I (POOL 406041)	7.50%	01/15/25	16,740
27,313	(2) (7)	GNMA P&I (POOL 406046)	7.50%	01/15/25	27,416
<u>100,000</u>	(2) (7)	GNMA SERIAL (POOL 556254) Units 85-88	6.50%	01/15/30	<u>110,781</u>
<u>143,990</u>					<u>154,937</u>
Puerto Rico GNMA Taxable - 0.41% of net assets applicable to common shares, total cost of \$96,262					
42,770	(2) (7)	GNMA P&I (POOL 509202)	8.00%	09/15/29	45,031
6,867	(2) (7)	GNMA P&I (POOL 529808)	8.00%	02/15/31	7,056
<u>46,675</u>	(2) (7)	GNMA P&I (POOL 548495)	7.00%	05/15/31	<u>50,743</u>
<u>96,262</u>					<u>107,830</u>
Face Amount					
Puerto Rico Government Instrumentalities Tax-Exempt Notes - 61.35% of net assets applicable to common shares, total cost of \$34,373,896					
\$3,715,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	0.00%	07/01/30	368,268
3,030,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	0.00%	07/01/31	279,820
3,230,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	0.00%	07/01/32	279,686
3,440,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	0.00%	07/01/33	279,500
2,590,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	0.00%	07/01/34	197,151
1,195,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.30%	07/01/36	349,657
250,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.30%	07/01/37	73,145
945,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.30%	07/01/38	276,488
3,270,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.55%	07/01/55	956,508
2,070,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.55%	07/01/56	605,496
770,000	(8) (9)	EMPLOYEES RETIREMENT SYSTEM - SENIOR PENSION FUNDING BONDS (SERIES B) *	6.55%	07/01/57	225,240
4,940,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2007 B *	0.00%	08/01/29	967,301
5,765,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2007 B *	6.05%	08/01/38	3,459,807
660,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2008 A *	0.00%	08/01/26	155,714
700,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2008 A *	0.00%	08/01/27	154,623
1,075,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2008 A *	0.00%	08/01/34	153,757
1,140,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CAPITAL APPRECIATION BONDS, SERIES 2008 A *	0.00%	08/01/35	151,540
1,270,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CURRENT INTEREST BONDS, SERIES 2007 B *	6.05%	08/01/39	762,140
4,480,000	(8)	PUERTO RICO SALES TAX FINANCING CORP CURRENT INTEREST BONDS, SERIES 2008 A *	6.13%	08/01/37	2,688,627
3,935,000	(7) (8)	PUERTO RICO SALES TAX FINANCING CORP CURRENT INTEREST BONDS, SERIES 2008 A *	6.13%	08/01/38	2,361,511
890,000	(8)	PUERTO RICO SALES TAX FINANCING CORP SALES TAX REVENUE BONDS, SERIES A *	0.00%	08/01/31	154,157
<u>3,020,000</u>	(8)	PUERTO RICO SALES TAX FINANCING CORP SALES TAX REVENUE BONDS, SERIES B *	0.00%	08/01/31	<u>523,094</u>
<u>\$2,380,000</u>					<u>15,423,230</u>
Principal Outstanding Amount					
Puerto Rico Tax Exempt Notes - 1.68% of net assets applicable to common shares, total cost of \$378,700					
252,107	(7)	(10) COMMUNITY ENDOWMENT, INC. (COLLATERALIZED BY GNMA POOL 470928)	7.00%	06/15/28	282,885
32,638	(7)	(10) COMMUNITY ENDOWMENT, INC. (COLLATERALIZED BY GNMA POOL 453526)	7.50%	09/15/27	32,632
25,534	(7)	(10) COMMUNITY ENDOWMENT, INC. (COLLATERALIZED BY GNMA POOL 515390)	7.50%	04/15/30	29,181
20,672	(7)	(10) COMMUNITY ENDOWMENT, INC. (COLLATERALIZED BY GNMA POOL 515468)	8.00%	08/15/30	21,410
<u>47,749</u>	(7)	(10) COMMUNITY ENDOWMENT, INC. (COLLATERALIZED BY FNMA POOL 536020)	8.50%	05/01/30	<u>56,371</u>
<u>378,700</u>					<u>422,479</u>

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

SCHEDULE OF INVESTMENTS**(concluded)**

Principal Outstanding Amount		Issuer	Coupon	Maturity Date	Fair Value	
Puerto Rico Freddie Mac Taxable - 0.60% of net assets applicable to common shares, total cost of \$136,068						
125,729	(4)	(7)	FGLMC (POOL 74808)	7.50%	09/01/26	\$140,554
10,101	(4)	(7)	FGLMC (POOL 75620)	7.50%	02/01/23	10,510
135,830						151,064
Puerto Rico Fannie Mae Taxable - 3.12% of net assets applicable to common shares, total cost of \$694,040						
28,528	(5)	(7)	FNMA (POOL 251146)	7.00%	03/01/27	28,613
20,742	(5)	(7)	FNMA (POOL 302510)	8.00%	03/01/23	21,023
2,155	(5)	(7)	FNMA (POOL 372181)	7.00%	08/01/27	2,184
106,965	(5)	(7)	FNMA (POOL 378609)	7.50%	06/01/27	115,896
32,089	(5)	(7)	FNMA (POOL 523139)	8.00%	04/01/30	37,294
8,661	(5)	(7)	FNMA (POOL 536049)	7.50%	10/01/30	8,916
272,795	(5)	(7)	FNMA (POOL 589033)	6.50%	08/01/31	313,101
116,311	(5)	(7)	FNMA (POOL 627603)	6.50%	11/01/31	137,082
104,824	(5)	(7)	FNMA (POOL 626649)	6.50%	03/01/32	120,312
693,070						784,421
Puerto Rico Collateralized Mortgage Obligations Taxable - 1.24% of net assets applicable to common shares, total cost of \$608,893						
309,548	(6)	(8)	CREDIT SUISSE MORTGAGE CERTIFICATE SERIES 2006-9 DBI	5.82%	11/25/36	7,541
305,665	(6)	(7)	FIRST FEDERAL CMO CLASS A-6	7.20%	10/25/22	305,665
615,213						313,206
US Government Sponsored Entities - 81.97% of net assets applicable to common shares, total cost of \$20,401,258						
5200,000	(7)	(8)	FEDERAL FARM CREDIT BANK	3.29%	04/22/32	189,986
557,742	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.24%	06/14/27	555,861
827,273	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.25%	06/21/27	827,547
2,100,000	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.30%	05/07/32	2,035,702
1,862,500	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.40%	10/04/32	1,814,172
655,000	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.20%	12/28/32	620,674
6,635,000	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.30%	01/18/33	6,294,757
1,815,000	(7)	(8)	FEDERAL HOME LOAN BANK BOND	3.30%	08/08/35	1,698,911
5,010,000	(7)		FEDERAL HOME LOAN BANK BOND	5.50%	07/15/36	6,567,955
19,662,515						20,605,565
US Municipal Obligations - 14.99% of net assets applicable to common shares, total cost of \$3,924,698						
1,100,000	(7)	(8)	STATE OF ILLINOIS - VARIOUS PURPOSE GENERAL OBLIGATION BONDS - 2012 SERIES B	5.25%	01/01/25	1,083,192
1,615,000	(7)	(8)	STATE OF ILLINOIS - VARIOUS PURPOSE GENERAL OBLIGATION BONDS - 2012 SERIES B	5.43%	01/01/42	1,274,526
1,170,000	(7)	(8)	STATE OF CALIFORNIA - VARIOUS PURPOSE GENERAL OBLIGATION BONDS	7.95%	03/01/36	1,410,131
3,885,000						3,767,849
Total investments (185.66% of net assets applicable to common shares)					46,673,415	
Liabilities minus other assets (-85.66% of net assets to common shares)					(21,534,458)	
Net assets attributable to common shares - 100%					\$25,138,957	

- (1) AFICA - Puerto Rico Industrial, Tourism, Medical, Educational, and Environmental Pollution Control Facilities Financing Authority. Revenue bonds payable solely from cash flows generated by the underlying project.
 - (2) GNMA - Represents mortgage-backed obligations guaranteed by the Government National Mortgage Association. They are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
 - (3) These securities were purchased under an agreement that they can be resold, pledged, hypothecated or transferred only to institutional investors.
 - (4) Puerto Rico Freddie Mac Taxable - Represents mortgage-backed obligations guaranteed by the Federal Home Loan Mortgage Corporation. They are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
 - (5) Puerto Rico Fannie Mae Taxable - Represents mortgage-backed obligations guaranteed by the Federal National Mortgage Association. They are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
 - (6) Investments in collateralized mortgage obligations- These obligations are comprised of subordinate tranches of securitizations. They are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
 - (7) A portion or all of the security has been pledged as collateral for securities sold under agreements to repurchase or collateralized notes payable.
 - (8) Security may be called before its maturity date.
 - (9) 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.
 - (10) Community Endowment - These obligations are collateralized by Mortgage-Backed Securities and the only source of repayment is the collateral. They are subject to principal paydowns as a result of prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- * Revenue Bonds- issued by agencies and payable from revenues and other sources of income of the agency as specified in the applicable prospectus. These obligations are not an obligation of the Commonwealth of Puerto Rico.

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

STATEMENT OF ASSETS AND LIABILITIES

Assets:	Investments in securities:		
	Securities pledged as collateral under repurchase agreements and short-term notes, at fair value (cost - \$34,538,392)	\$29,914,797	
	Other securities, at fair value (cost - \$34,213,559)	<u>16,758,618</u>	\$46,673,415
	Cash		109,175
	Receivable for paydowns		38,815
	Interest receivable		361,851
	Other assets		<u>44,250</u>
	Total assets		<u>47,227,506</u>
Liabilities:	Securities sold under agreements to repurchase		20,131,063
	Short-term notes		1,559,000
	Payables:		
	Interest	7,655	
	Investment advisory fees	13,185	
	Administration fees	5,993	
	Dividend payable	<u>303,959</u>	330,792
	Accrued expenses and other liabilities		<u>67,694</u>
	Total liabilities		<u>22,088,549</u>
Net Assets Applicable to Common Shares:			<u>\$25,138,957</u>
Net Assets Consist of:	<u>Common Stock:</u>		
	Capital Stock, \$0.01 par value, 98,000,000 shares authorized, 9,234,316 issued and outstanding		\$92,343
	Paid-in capital		111,733,729
	Undistributed net investment income		2,196,336
	Accumulated net realized loss from investments and derivatives		(66,804,915)
	Unrealized net depreciation on investments		<u>(22,078,536)</u>
	Net assets applicable to common shares		<u>\$25,138,957</u>
	Net asset value applicable to common shares - per share; 9,234,316 shares outstanding		<u>\$2.72</u>

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

STATEMENT OF OPERATIONS

For the year ended
August 31, 2015

Investment income:	Interest	\$5,274,658
Expenses:	Interest and leverage related expenses	228,713
	Investment advisory fees	515,782
	Administration fees	103,126
	Custodian and transfer agent fees	68,771
	Professional fees	86,615
	Insurance expense	44,822
	Directors' fees and expenses	29,444
	Printing and shareholder reports	15,079
	Other	5,815
	Total expenses	1,098,167
	Waived investment advisory, custodian, and transfer agent fees	(357,609)
	Net expenses after waived fees	740,558
Net investment income:		\$4,534,100
Realized Gain (Loss) & Unrealized Appreciation (Depreciation) on Investments:	Net realized loss on investments	(17,755,441)
	Unrealized appreciation on investments	4,915,465
	Total net loss on investments	(12,839,976)
	Net decrease in net assets resulting from operations	(\$8,305,876)

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

STATEMENTS OF CHANGES IN NET ASSETS

		For the year ended August 31, 2015	For the year ended August 31, 2014
Increase (Decrease) in Net Assets:			
Operations:			
	Net investment income	\$4,534,100	\$6,604,690
	Net realized loss on investments	(17,755,441)	(20,039,869)
	Net realized loss on derivatives	-	(3,962,549)
	Unrealized appreciation (depreciation) on investments	4,915,465	(2,276,027)
	Change in net value on derivatives	-	4,692,618
	Net decrease in net assets resulting from operations	<u>(8,305,876)</u>	<u>(14,981,137)</u>
Dividends to Common Shareholders from:			
	Net investment income	<u>(4,626,118)</u>	<u>(6,276,443)</u>
Capital Share Transactions:			
	Reinvestment of dividends on common shares	13,228	262,782
	Repurchase of common shares	<u>(7,095,238)</u>	<u>(10,816,718)</u>
	Decrease in net assets derived from common share transactions	<u>(7,082,010)</u>	<u>(10,553,936)</u>
Net Assets:			
	Net decrease in net assets attributable to common shares	(20,014,004)	(31,811,516)
	Balance at beginning of the year	<u>45,152,961</u>	<u>76,964,477</u>
	Balance at end of the year	<u>\$25,138,957</u>	<u>\$45,152,961</u>

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

Puerto Rico Investors Tax-Free Fund Inc. II

STATEMENT OF CASH FLOWS

For the year ended
August 31, 2015

Increase (Decrease) in Cash

Cash Provided by Operating Activities:	Net decrease in net assets resulting from operations	(S8,305,876)
	Adjusted by:	
	Sales of portfolio securities	19,659,037
	Proceeds from mortgage-backed securities paydowns	302,097
	Net realized gain on paydowns	(455)
	Net realized loss on investments	17,755,441
	Unrealized appreciation on investments	(4,915,465)
	Accretion of discounts on investments	(952,880)
	Amortization of premiums on investments	47,040
	Decrease in interest and dividends receivables	173,366
	Increase in other assets	(3,657)
	Decrease in interest payable	(7,232)
	Decrease in investment advisory fees payable	(8,352)
	Decrease in administration fees payable	(3,827)
	Increase in accrued expenses and other liabilities	9,009
	Total cash provided by operating activities	23,748,246

Cash Used in Financing Activities:	Short-term notes repayments; net of issuances of \$74,575,235	(8,507,547)
	Repo related repayments; net of issuances of \$611,666,309	(3,329,937)
	Dividends to common shareholders paid in cash	(4,755,832)
	Repurchase of common shares	(7,095,238)
	Total cash used in financing activities	(23,688,554)

Cash:	Net increase in cash	59,692
	Cash at beginning of the year	49,483
	Cash at end of the year	\$109,175

Cash Flow Information:	Cash paid for interest and leverage related expenses	\$235,945
	<u>Non-cash activities:</u>	
	Dividends reinvested by common shareholders	\$13,228

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

NOTES TO FINANCIAL STATEMENTS

Note 1 - Reporting Entity and Significant Accounting Policies:

Puerto Rico Investors Tax-Free Fund Inc. II (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. The Fund was incorporated on March 21, 1995 and started operations on May 31, 1995.

The Fund’s investment objective is to achieve a high level of current income that, for the Puerto Rico investors, is exempt from Federal and Puerto Rico income taxes, consistent with the preservation of capital. There is no assurance that the Fund will achieve its investment objective.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The following is a summary of the Fund’s significant accounting policies:

(a) *Cash and Cash Equivalents* – Cash and cash equivalents consist of demand deposits and funds invested in short-term investments with original maturities of 90 days or less. Cash and cash equivalents are valued at amortized cost, which approximates fair value. At August 31, 2015, there were no cash equivalents held by the Fund.

(b) *Valuation of Investments* - Investments included in the Fund’s financial statements have been stated at fair values as determined by Banco Popular de Puerto Rico, as the Fund’s administrator, with the assistance of the Co-Advisers (Refer to Note 3), on the basis of valuations provided by dealers or by pricing services, which are approved by the Fund’s management and the Board of Directors, in accordance with the valuation methods set forth in the Governing Documents and related policies and procedures. See Note 2 for further discussions regarding fair value disclosures.

(c) *Taxation* – The Fund has elected to be treated as a registered investment company under the Puerto Rico Internal Revenue Code of 2011, as amended, and the regulations and administrative pronouncements promulgated thereunder. As a registered investment company, the Fund will be treated as a conduit or pass-through entity that will be disregarded for Puerto Rico income tax purposes. Accordingly, the income earned by the Fund is not subject to Puerto Rico income tax at the Fund level, if it distributes to its shareholders at least 90% of its taxable net investment income for the taxable year, among other requirements. The Fund has never been subject to taxation.

In addition, the fixed income and equity investments of the Fund are exempt from Puerto Rico personal property taxes. The Fund is exempt from United States income taxes, except for dividends received from United States sources, which are subject to a 10% United States withholding tax, if certain requirements are met. Dividend income is recorded net of taxes. In the opinion of the Fund’s legal counsel, the Fund is not required to file a U.S. federal income tax return.

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 tax years) and has concluded that no liability should be recorded related to uncertain tax positions taken on returns filed for open tax years. On an ongoing basis, management will monitor the Fund’s tax position to determine if adjustments to this conclusion are necessary.

The balances of undistributed net investment income and of accumulated net realized loss on investments and derivatives reflect the reclassification of permanent differences and of temporary differences between book and tax balances that become permanent. As a result of these reclassifications, the amounts shown in the Statement of Assets and Liabilities reflect the amounts for tax purposes, except for remaining temporary differences, if any (See Note

NOTES TO FINANCIAL STATEMENTS

12).

(d) Statement of Cash Flows - The Fund invests in securities and distributes dividends from net investment income, which are paid in cash or are reinvested at the discretion of common shareholders. These activities are reported in the Statement 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 value and amortizing premiums or discounts on debt obligations.

(e) 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 a more stable level of distribution. The Fund does not expect to make distributions of net realized capital gains, although the Fund's Board of Directors reserves the right to do so in its sole discretion. The Fund records dividends to its shareholders on the ex-dividend date.

(f) Derivatives Instruments - In order to attempt to hedge various portfolio positions, to manage its cost of funds or to enhance its return, the Fund may invest in certain instruments which are considered derivatives. Derivative instruments, because of their increased volatility and potential leveraging effect, 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 hedging strategy, and even where such derivatives instruments 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 may enter into interest rate swap agreements that involve an agreement between two parties to exchange fixed- and variable-rate interest rate payments that are calculated based on a specified amount of principal (the "notional principal amount") for a specified period of time. The Fund usually enters into interest rate swaps on a net basis, (*i.e.*, the two payment streams are netted out), with the Fund receiving or paying, as the case may be, only the net amount of the two payments.

The Fund 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 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 rate coupon for the Fund.

To 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 based on LIBOR. If LIBOR increases, the floating rate increases thus offsetting the corresponding increase in the Fund's leverage cost. If, on the other hand, LIBOR decreases, the floating rate payment will decrease reducing the benefit of lower interest rates on the leverage program. The Fund will also grant the counterparty an option to cancel the swap before its contractual termination if such option results in a more advantageous fixed rate cost for the Fund. 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 LIBOR 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. On the other hand, if LIBOR 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 will also grant the counterparty an option to cancel the swap before its contractual obligation if such option results in a higher fixed rate payment to the Fund.

NOTES TO FINANCIAL STATEMENTS

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 the Fund's Investment Adviser 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. Risks may exceed related amounts recognized in the Statement of Assets and Liabilities. The credit exposure may change as the fair value of the instrument changes. The Fund's management enters into these transactions in an attempt to improve its funding costs rather than speculate on interest rate 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. For callable and range swaps, the parameters are developed from market observed volatility and yield curve.

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 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 Advisers. In each case, upon occurrence, the counterparty may elect to terminate early and cause 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.

The Fund's derivative instruments generally contain provisions that require the Fund to maintain minimum net asset value levels. If the Fund's net assets value 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. To the extent such termination results 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. There were no derivatives outstanding during the year ended August 31, 2015.

The credit components of the swaps are managed 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 Master ISDA Agreements that may include a Credit Support Annex (CSA). The economic terms of each swap transaction are documented in a written 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.

Changes in the value of swap agreements are reported separately in the Statement of Assets and Liabilities and as a change in net value on derivatives in the Statement of Operations.

The Fund records periodic payments on unwind transactions to or collections from derivatives as a component of net realized gain or loss on derivatives in the Statement of Operations. For purposes of dividend distributions, the Fund's periodic swap payments are included as a component of net investment income. For the fiscal year ended

NOTES TO FINANCIAL STATEMENTS

August 31, 2015, no payments or collections to/from swap counterparties were made as there were no positions outstanding during the year.

(g) Securities Sold Under Agreements to Repurchase - 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, nevertheless, the Fund retains ownership of the collateral through the agreement that requires the repurchase and return of such collateral. 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 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 (See Note 6).

(h) Short-term notes - The Fund has a short-term notes payable program as a funding vehicle to increase the amount available for investments. The short-term notes are issued from time to time in denominations of \$25,000 maturing in periods of up to 270 days and over 270 days, respectively. The notes are collateralized by the pledge of certain securities of the Fund. The pledged securities are held by Banco Popular de Puerto Rico (the Custodian), as collateral agent, for the benefit of the holders of the notes (See Note 7).

(i) Paydowns - Realized gains and losses on mortgage-backed securities paydowns are recorded as an adjustment to interest income as required by GAAP. For the year ended August 31, 2015, the Fund increased interest income in the amount of \$455 related to realized gain on mortgage-backed securities paydowns. The Fund declares and pays monthly dividends from net investment income. For purpose of dividend distributions, net investment income excludes the effect of mortgage-backed securities paydowns gains and losses (See Note 12).

(j) Use of Estimates in the Preparation of Financial Statements - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

(k) Other - Security transactions are accounted for on the trade date (the date the order to buy or sell is executed). Realized gains and losses on security transactions are determined based on the identified cost method. Premiums and discounts on securities purchased are amortized over the life or the expected life of the respective securities using the effective interest method. Interest income is accrued daily except when collection is not expected. Dividend income on common equity securities is recorded on the ex-dividend date.

(l) Recent Accounting Pronouncements - During fiscal year 2015, the following pronouncements were issued by the Financial Accounting Standards Board (FASB):

Accounting Standards Update No. 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent): This standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. It also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. The standard is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Fund does not believe this would have a material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS

Note 2 – Fair Value Measurements:

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

GAAP establishes a fair value hierarchy that prioritizes the inputs and valuation techniques used to measure fair value into three levels in order to increase consistency and comparability in fair value measurements and disclosures. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for the fair value measurement are observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect the Fund's estimates about assumptions that market participants would use in pricing the asset or liability based on the best information available. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets at the measurement date. Valuation on these instruments does not need a significant degree of judgment since valuations are based on quoted prices that are readily available in an active market.

Level 2 – Quoted prices other than those included in Level 1 that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or that can be corroborated by observable market data for substantially the full term of the financial instrument.

Level 3 – Unobservable inputs are significant to the fair value measurement. Unobservable inputs reflect the Fund's own assumptions about assumptions that market participants would use in pricing the asset or liability.

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. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing on those securities. Fair value is based upon quoted market prices when available. If listed price or quotes are not available, the Fund employs internally developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. 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, 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. In addition, the fair value estimates are based on outstanding balances without attempting to estimate the value of anticipated future business. Therefore, the estimated fair value may materially differ from the value that could actually be realized on a sale.

NOTES TO FINANCIAL STATEMENTS

On November 8, 2013, the Board of Directors of the Fund delegated to the Valuation Committee, comprised by voting members of Popular Asset Management, a division of Banco Popular, and UBS Asset Managers of PR, a division of UBS Trust Company of PR, certain procedures and functions related to the valuation of portfolio securities for the purpose of determining the Net Asset Value of the Fund. The Valuation Committee is generally responsible for determining the fair value of the following types of portfolio securities:

- Portfolio instruments for which no price or value is available at the time the Fund's NAV is calculated on a particular day;
- Portfolio instruments for which the prices or values available do not; in the judgment of the Investment Advisers, represent the fair value of the portfolio instruments;
- A price of a portfolio instrument that has not changed for four consecutive weekly pricing periods, except for Puerto Rico taxable securities and U.S. portfolio instruments;
- Any PR taxable securities and the U.S. portfolio instruments whose value has not changed from the previous weekly pricing period.

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

Mortgage and other asset-backed securities: Certain agency mortgage and other assets-backed securities ("MBS") are priced based on a bond's theoretical value derived from the prices of similar bonds; "similar" being defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. GNMA Puerto Rico Serials are priced using a pricing matrix with quoted prices from local broker dealers, based on trade activity in local markets and is compared with data from exchange platforms where similar instruments regularly trade. The agency MBS and GNMA Puerto Rico Serials are classified as Level 2.

Collateralized Mortgage Obligations: Agency and private collateralized mortgage obligations ("CMOs") are priced based on a bond's theoretical value derived from the prices of similar bonds; "similar" being defined by credit quality and market sector. Their fair value incorporates an option adjusted spread. The option adjusted spread includes prepayment and volatility assumptions, ratings (whole loans collateral) and spread adjustments. CMOs include a significant adjustment based on assumptions important to market participants, such as credit risk, source of payment, etc. They are classified as Level 3.

Obligations of Puerto Rico, States, and political subdivisions: Obligations of Puerto Rico, States, and political subdivisions are segregated and the like characteristics divided into specific sectors. 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. Securities that trade less frequently or that include a significant adjustment based on assumptions important to market participants, such as credit risk, source of payment, etc., are classified as Level 3.

AFICA bonds: The fair value of AFICA bonds is based on quotes obtained from local brokers. AFICA bonds are segregated and the like characteristics divided into specific sectors. 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. Bonds that trade less frequently or that include a significant adjustment based on assumptions important to market participants, such as credit risk, source of payment, etc., are classified as Level 3.

Obligations of U.S. Government sponsored entities: The fair value of obligations of U.S. Government sponsored entities is based on an active market on quoted market prices for similar securities. 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

NOTES TO FINANCIAL STATEMENTS

as Level 2.

Puerto Rico Tax Exempt Notes: Prices for these securities are obtained from broker quotes. These securities trade in over-the-counter markets. Quoted prices are based on recent trading activity for similar instruments and do not trade in highly liquid markets. Community Endowments and PR Conservation Trust Notes are generally classified as Level 2 and the pricing is based on their collateral. Notes that trade less frequently or that include a significant adjustment based on assumptions important to market participants, such as credit risk, source of payment, etc., are classified as Level 3.

Equity Securities: Equity securities with quoted market prices obtained from an active exchange market are classified as Level 1. Equity securities with quoted market prices in a non active market are classified as Level 2.

Derivatives: The fair value of derivative instruments is based on observable market parameters and takes into consideration the credit risk component, when appropriate. The “Hull-White Interest Rate Tree” approach is used to value the option components of derivative instruments, and discounting of the cash flows is performed using US dollar LIBOR-based discount rates or yield curves that account for the industry sector and the credit rating of the counterparty and/or the Fund. Derivatives are mainly composed of interest rate swaps. As part of the determination of fair value of interest rate swaps a credit component is considered as required by GAAP. Interest rate swaps are classified as Level 2.

The following is a summary of the levels within the fair value hierarchy in which the Fund invests based on inputs used to determine the fair value of such securities:

	Hierarchy			
	Level 1	Level 2	Level 3	Balance at 8/31/2015
Assets:				
Mortgage-Backed Securities:				
PR Collateralized Mortgage Obligations	\$ -	\$ -	\$ 313,206	\$ 313,206
PR Freddie Mac Taxable	-	151,064	-	151,064
PR GNMA Exempt	-	154,937	-	154,937
PR GNMA Taxable	-	102,830	-	102,830
PR Fannie Mae Taxable	-	784,421	-	784,421
AFICA Bonds	-	3,370,913	-	3,370,913
PR Agencies	-	1,305,477	271,444	1,576,921
PR Government Instrumentalities Tax Exempt Notes	-	15,423,230	-	15,423,230
PR Tax Exempt Notes	-	422,479	-	422,479
US Government Sponsored Entities	-	20,605,565	-	20,605,565
US Municipal Obligations	-	3,767,849	-	3,767,849
Total	\$ -	\$ 46,088,765	\$ 584,650	\$ 46,673,415

Temporary cash investments, if any, are valued at amortized cost, which approximates fair value.

NOTES TO FINANCIAL STATEMENTS

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

	Balance as of 8/31/2014	Realized gain (loss)	Change in Unrealized (depreciation) /appreciation	Net amortization/ accretion	Sales	Paydowns	Transfers in (out) to Level 3	Balance as of 8/31/2015
Puerto Rico Conservation Trust Fund Collateralized by Doral Financial Corporation Senior Notes – 6.50% due 4/1/16	\$825,000	\$(2,308,549)	\$2,174,203	\$ 246	\$ (690,900)	\$ -	\$ -	\$ -
Puerto Rico Conservation Trust Fund Collateralized by Doral Financial Corporation Senior Unsecured Notes – 6.20% due 5/1/17	480,000	(1,575,921)	1,515,075	846	(420,000)	-	-	-
Credit Suisse Mortgage Certificate Series 2006-9 DB1 – 5.82% due 11/25/36	39,559	*(106,632)	74,614	-	-	-	-	7,541
First Federal CMO Class A-6 – 7.20% due 10/25/22	354,152	981	(1,914)	933	-	(48,487)	-	305,665
AFICA Bond Doral Financial Center Project Series A – 6.25% due 12/1/29	964,386	(1,116,961)	818,055	520	(666,000)	-	-	-
Economic Development Corporation – 5.48% due 4/1/24	338,330	-	(3)	4	-	(66,887)	-	271,444
Total	\$3,001,427	\$(5,107,082)	\$4,580,030	\$ 2,549	\$(1,776,900)	\$(115,374)	\$ -	\$584,650

* The \$106,632 realized loss during the period on Credit Suisse Mortgage 2006-9 DB1 resulted from a permanent write off for principal losses. The net change in unrealized gains and losses for Level 3 securities still held at August 31, 2015 included in the Statement of Operations amounted to a net unrealized appreciation of \$72,697.

Quantitative Information about Level 3 Fair Value Measurements:

	Fair Value at August 31, 2015	Valuation Technique	Unobservable Inputs	Price
Credit Suisse Mortgage Certificate Series 2006-9 DB1 – 5.82% due 11/25/36	\$7,541	Third Party Vendor	Evaluated Quotes	\$ 2.44
First Federal CMO Class A-6 – 7.20% due 10/25/22	305,665	Broker Quotes	Evaluated Quotes	100.00
Economic Development Corporation – 5.48% due 4/1/24	271,444	Broker Quotes	Evaluated Quotes	100.00

At August 31, 2015, Level 3 securities were valued based on broker-dealer indicative quotes or third party vendor pricing determined using pricing models, discounted cash flows methodologies, or similar techniques, for which the determination of fair value is based on significant unobservable inputs that require significant judgment or estimation.

NOTES TO FINANCIAL STATEMENTS

Note 3 - Investment Advisory, Administrative, Custodian, Transfer Agency Agreement and Other Transactions with Affiliates:

Pursuant to separate Investment Advisory Agreements with UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico, and Banco Popular de Puerto Rico ("Banco Popular") (collectively, the Investment Advisers"), the Fund receives advisory services in exchange for a fee. The investment advisory fee is calculated at an annual rate of .75% of the Fund's average weekly net assets, as defined in the agreement. For these calculations, average net assets include the liquidation value of all outstanding debt securities of the Fund. For the year ended August 31, 2015 the gross investment advisory fees amounted to \$515,782. Total waived fees amounted to \$288,838 for a net fee of \$226,944.

Banco Popular also provides administrative, custody, and transfer agency services pursuant to Administration, Custodian and Transfer Agency Agreements. Under the terms of the Administration Agreement, Banco Popular provides facilities and personnel to the Fund for the performance of the administrator duties. The fees related to these services are calculated at an annual rate of .15% of the Fund's average weekly net assets as defined in the agreement. For the year ended August 31, 2015, the fee for such services amounted to \$103,126. The fees related to Custody and Transfer Agency are calculated at an annual rate of .05%, each, of the Fund's average weekly net assets and amounted to \$68,771 for the year ended August 31, 2015. Custody and Transfer Agency fees were waived in their entirety.

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, Banco Popular, and UBS Financial Services Incorporated of Puerto Rico ("UBS Puerto Rico") or their affiliates ("Affiliated Transactions"). In that regard, the Board of Directors of the Fund adopted a set of procedures ("Procedures") for Affiliated Transactions 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 Transaction will be subject to the Procedures adopted by the Board of Directors.

UBS Puerto Rico and Popular Securities, LLC, an affiliate, are two of the Fund's dealers on the offering of the short-term notes. Selling fees amounting to \$9,743 were paid to Popular Securities, LLC during the year ended August 31, 2015. No selling fees were paid to UBS Puerto Rico for the year ended August 31, 2015.

Certain officers and directors of the Fund are also officers and directors of the Investment Advisers and/or their affiliates. The six independent directors of the Fund's Board are paid based upon an agreed fee of \$1,000 per meeting. Three of the independent directors of the Fund also serve on the Fund's audit committee and are paid based upon an agreed fee of \$1,000 per committee meeting. During the year ended August 31, 2015, the directors met four times at an agreed fee of \$111 per director per meeting. For the year ended August 31, 2015, the compensation expense for the six independent directors of the Fund was \$29,444.

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

NOTES TO FINANCIAL STATEMENTS

The total amount (in thousands) of other affiliated and unaffiliated transactions, listed by counterparty, during the year were as follows:

	Sales of Portfolio Securities	%	Securities Sold under Agreements to Repurchase	%
Popular Securities, LLC	\$ -	-%	\$ 61,489	10%
UBS Puerto Rico	3,059	16%	117,597	19%
Unaffiliated	16,600	84%	432,580	71%
Total	\$19,659	100%	\$ 611,666	100%

Note 4 - Capital Share Transactions:

Currently, the Fund's shares are experiencing a period of limited liquidity and/or trading at a discount to its 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 offer a repurchase of shares in the open market, in an attempt to increase the liquidity of the shares as well as reduce any market discount from its 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. The Fund's policies require that repurchase of shares from an affiliated party be effected in accordance with procedures to address any conflicts of interest which may arise.

On January 31, 2014, the Board of Directors authorized the repurchase by the Fund of outstanding shares of Common Stock (the "Shares") in open-market transactions up to an aggregate dollar amount of shares to be repurchased of up to 25% of the Fund's total assets, at share prices equal to or at a discount of the corresponding net asset value ("NAV") per share. As of August 31, 2015, 6.28% of total assets are still available to be repurchased.

For the year ended at August 31, 2015, the total value of repurchase of common stock by the Fund was as follows:

Counterparty	Shares	Net Asset Value	Cost
Affiliates	2,260,983	\$ 7,797,949	\$ 6,656,879
Unaffiliated	166,437	520,732	438,359
Total	2,427,420	\$ 8,318,681	\$ 7,095,238

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

The repurchase of shares resulted in a NAV increase of \$0.12.

Capital share transactions for the years ended August 31, 2015 and 2014, were as follows:

	Dollar Amount	
Common shares:	2015	2014
Dividends reinvested by common shareholders	\$ 13,228	\$ 262,782
Repurchase of common shares	(7,095,238)	(10,816,718)
Decrease in net assets derived from common shares transactions	\$(7,082,010)	\$(10,553,936)

The Fund is authorized to issue up to 98,000,000 shares of common stock, par value \$0.01 per share.

NOTES TO FINANCIAL STATEMENTS

Common share transactions for the years ended August 31, 2015 and 2014, were as follows:

Common shares:

Beginning balance
Shares issued due to reinvestment of dividends at net asset value
Repurchase of common shares
Ending balance

Shares Amount	
2015	2014
11,658,291	14,504,292
3,445	62,894
(2,427,420)	(2,908,895)
9,234,316	11,658,291

Note 5 - Investment Transactions:

The proceeds from sales and paydowns of portfolio securities (in thousands), excluding short-term transactions, for the year ended August 31, 2015 were as follows:

	Sales	Paydowns
AFICA Bonds	\$ 1,652	\$ -
PR Agencies	831	67
PR Freddie Mac Taxable	-	17
PR FNMA Taxable	-	87
PR GNMA Exempt	-	3
PR GNMA Taxable	-	21
PR Collateralized Mortgage Obligations	-	48
PR Government General Obligations	669	-
PR Government Instrumentalities Tax Exempt Notes	13,966	-
PR Tax Exempt Notes	1,111	95
US Government Sponsored Entities	1,043	-
US Municipal Obligations	387	-
Total	\$ 19,659	\$ 338

Note 6 - Securities Sold under Agreements to Repurchase:

Weighted average interest rate at end of year 0.49%
Maximum aggregate balance outstanding at any time during the year \$33,761,884
Average balance outstanding during the year \$24,751,892
Average interest rate during the year 0.64%

At August 31, 2015, interest rates on securities sold under agreements to repurchase ranged from 0.19% to 0.90% with maturities up to September 28, 2015. Some of the outstanding agreements to repurchase as of year end may be called by the counterparty before their maturity date.

At August 31, 2015, investment securities amounting to \$21,511,000 are pledged as collateral for securities sold under agreements to repurchase. 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 agreements to repurchase amounted to \$3,365 at August 31, 2015.

NOTES TO FINANCIAL STATEMENTS

August 31, 2015, the total value (in thousands) of securities sold to affiliates and non-affiliates under agreements to repurchase was as follows:

Counterparty	Amount	%
Popular Securities, LLC	\$ 995	5%
UBS Puerto Rico	2,396	12%
Unaffiliated	16,740	83%
Total	\$ 20,131	100%

U.S. GAAP requires an entity to disclose information about offsetting and related arrangements to enable users of that entity's financial statements to understand the effect of those arrangements on its financial position. 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 repurchase agreements (in thousands) by counterparty and the related collateral pledged by the Fund at August 31, 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)
UBS Puerto Rico	\$ 2,396	\$ -	\$ 2,396	\$ -
Popular Securities, LLC	995	-	995	-
JP Morgan, NY	6,507	-	6,507	-
South Street Securities, NY	7,598	-	7,598	-
Goldman Sachs, NY	2,635	-	2,635	-
Total	\$ 20,131	\$ -	\$ 20,131	\$ -

(a) Collateral received or posted is limited to the net securities sold under repurchase agreements liability amounts.

Note 7 - Short-Term Notes:

Weighted average interest rate at end of year	<u>0.74%</u>
Maximum aggregate balance outstanding at any time during the year	<u>\$12,454,812</u>
Average balance outstanding during the year	<u>\$6,378,587</u>
Average interest rate during the year	<u>0.66%</u>

At August 31, 2015, interest rates on short-term notes ranged from 0.45% to 0.90% with maturities up to September 29, 2015.

At August 31, 2015, investment securities amounting to \$8,403,797 are pledged as collateral for these notes and are held by Banco Popular de Puerto Rico (one of the Investment Advisers). The counterparties do not have the right to sell or repledge the assets. Interest payable on short-term notes amounted to \$4,290 at August 31, 2015.

NOTES TO FINANCIAL STATEMENTS

At August 31, 2015, the total amounts (in thousands) of short-term notes held by affiliates were as follows:

Holder	Amount	%
Popular Securities, LLC	\$ 1,559	100%

Note 8 - Short-Term and Long-Term Financial Instruments:

The fair market value of short-term financial instruments, which include \$20,131,063 of securities sold under agreements to repurchase and \$1,559,000 of short-term notes are substantially the same as the carrying amounts reflected in the Statement of Assets and Liabilities as these are reasonable estimates of fair value, given the relatively short period of time between origination of the instrument and their expected realization. There are no long-term financial instruments outstanding at August 31, 2015.

Note 9 - Credit Facilities:

The Fund (the “Borrower”) has available with Banco Popular (an affiliate of the Investment Advisers) an uncommitted line of credit that is part of a credit facility extended to the Puerto Rico Investors Family of Funds and the Popular Family of Funds. The proceeds of the credit advances will be exclusively used by the Borrower for short term funding needs arising from failed repurchase agreement transactions or cash shortfalls due to the non-receipt by the Borrower of payments in the settlement process of transactions to which the Borrower is a party. During the year ended August 31, 2015, the Fund borrowed from the line of credit as follows:

Weighted average interest rate at end of year	<u>N/A</u>
Maximum aggregate balance outstanding at any time during the year	<u>\$376,950</u>
Average balance during the period outstanding	<u>\$376,950</u>
Average interest rate during the period outstanding	<u>2.34%</u>

The Fund can obtain credit advances not to exceed the lesser of \$20,000,000 or ten percent (10%) of Banco Popular’s capital stock and surplus, provided that the aggregate sum of all outstanding balances under all credit facilities never exceed \$200,000,000. Interest on the unpaid balance of each credit advance accrues at a rate of 2.25% over the one week LIBOR Rate and will be payable on the dates set forth in each credit facility note. As of August 31, 2015, the Fund had no outstanding balance and had the complete credit facility available for drawing, subject to the limitations described above.

Note 10 - Concentration of Credit Risk:

Concentration of credit risk (whether on or off-balance sheet) that arise from financial instruments exist 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 concentrations of credit risk arise from the Fund's investment securities in relation to the location of issuers. For calculation of concentration, all securities guaranteed by the U.S. Government are excluded. At August 31, 2015, the Fund had investments with aggregate market value of \$22,042,234 which were issued by entities located in the Commonwealth of Puerto Rico and not guaranteed by the U.S. Government. In addition, at August 31, 2015 the Fund had investments with market values of \$3,370,913, \$1,305,477, \$3,890,959 and \$11,532,271, respectively, which were each issued by one issuer located in the Commonwealth of Puerto Rico and are not guaranteed by the Puerto Rico Government. Also, at August 31, 2015, the Fund had investments with aggregate market values amounting to \$20,415,579, \$2,357,118 and \$1,410,131 which were each issued by one issuer located in the United States of America and not guaranteed by the U.S. Government.

NOTES TO FINANCIAL STATEMENTS

As stated in the Prospectus, the Fund will ordinarily invest at least 67% of its total assets in Puerto Rico obligations ("the 67% Investment Requirement"). Therefore, to the extent the securities are not guaranteed by the U.S. Government or by any of its subdivisions, the Fund is more susceptible to factors adversely affecting issuers of Puerto Rico obligations than an investment company that is not concentrated in Puerto Rico obligations to such degree.

Note 11 - 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 statutorily or by regulation while others are 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 securities issued by the Commonwealth of Puerto Rico, its political subdivisions, agencies and instrumentalities and in Puerto Rico mortgage-backed securities, equity, debt securities, and repurchase agreements issued by corporations or partnerships organized under the laws of the Commonwealth of Puerto Rico, or issued by U.S. or foreign corporations and partnerships doing business in Puerto Rico provided they comply with certain requirements. Up to 33% of its total assets may be invested in securities issued by the United States government, its political subdivisions, 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. According to the Commissioner's ruling, non-compliance may be allowed for a limited period of time due to market scarcity of allowable securities and certain other limited circumstances.

The Fund sought and obtained temporary waivers from the Puerto Rico Office of the Commissioner of Financial Institutions with respect to its Puerto Rico asset investments and leverage limitations until January 31, 2016. These waivers provide temporary relief to the Fund from having to limit or otherwise change the strategy of its investment or leverage transactions. Management intends to continue to seek these waivers in the future. 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.

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.

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.

Note 12 - Reconciliation between Net Investment Income and Distributable Net Investment Income for Income Tax Purposes and Net Realized Loss on Investments and Net Realized Loss on Investments for Income Tax Purposes:

As a result of certain reclassifications made for financial statement presentation, the Fund's net investment income and net realized loss on investments reflected in the financial statements differ from distributable net investment income and net realized loss on investments for tax purposes, respectively, as follows:

NOTES TO FINANCIAL STATEMENTS

Net investment income	\$4,534,100
Reclassification of realized gain on securities' paydowns	(455)
Distributable net investment income for tax purposes	<u>\$4,533,645</u>

Net realized loss on investments	\$(17,755,441)
Reclassification of realized gain on securities' paydowns	455
Net realized loss on investments, for tax purposes	<u>\$(17,754,986)</u>

The undistributed net investment income and accumulated net realized loss on investments and derivatives, (for tax purposes) at August 31, 2015 were as follows:

Undistributed net investment income, beginning of the year	\$ 2,288,809
Distributable net investment income for the year	4,533,645
Dividends	<u>(4,626,118)</u>
Undistributed net investment income, end of the year	<u>\$ 2,196,336</u>

Accumulated net realized loss on investments and derivatives, beginning of the year	\$(49,049,929)
Net realized loss on investments for the year	<u>(17,754,986)</u>
Accumulated net realized loss on investments and derivatives, end of year	<u>\$(66,804,915)</u>

Note 13 – Indemnification:

In the normal course of business, the Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these agreements is unknown. However, the Fund has not paid prior claims or losses pursuant to these contracts and expects the risk of losses to be remote.

Note 14 – 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 existing fixed rate securities will fall. The current low long-term rates present the risk that interest rates may rise and that as a result the Fund's investments

NOTES TO FINANCIAL STATEMENTS

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 prepayment risk, which the Fund is also subject to.

Credit risk is the risk that debt securities 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.

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 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.

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 prepayments 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 prepayments that are received earlier than anticipated, the Fund may be required to reinvest such prepayments at rates that are lower than the anticipated yield of the prepaid obligation. The rate of prepayments 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 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.

In order to attempt to hedge various portfolio positions 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

NOTES TO FINANCIAL STATEMENTS

may adversely affect the Fund. For example, investments in indexed securities, including, among other things, securities 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.

Note 15 - Subsequent Events:

On September 10, 2015, Standard & Poor's downgraded COFINA's senior bonds sustaining a negative outlook on all Puerto Rico government and public corporation debt.

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.

Based on the representations and opinion of the Investment Advisers and consistent with the Fund's investment objective, the OCFI has granted to the Fund, in a letter dated September 18, 2015, 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 March 18, 2016 or such other later date which may be approved by the OCFI.

On September 29, 2015, the Board of Directors declared an ordinary net investment income dividend of \$0.0321 per common share, totaling \$295,685 which was paid on October 13, 2015 to common shareholders of record as of September 30, 2015.

On October 29, 2015, the Board of Directors declared an ordinary net investment income dividend of \$0.0321 per common share, totaling \$295,685 which was paid on November 10, 2015 to common shareholders of record as of October 30, 2015.

The Fund has performed an evaluation of events occurring subsequent to August 31, 2015 through November 18, 2015, which is the date the financial statements were available to be issued. Management has determined that there were no events occurring in this period that required disclosure in or adjustment to the accompanying financial statements other than those disclosed above.



Independent Auditor's Report

To the Board of Directors and Stockholders of
Puerto Rico Investors Tax-Free Fund, Inc. II

We have audited the accompanying financial statements of the Puerto Rico Investors Tax-Free Fund, Inc. II (the "Fund"), which comprise the statement of assets and liabilities, including the schedule of investments, as of August 31, 2015 and the related statements of operations and of cash flows for the year then ended and 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 Investors Tax-Free Fund, Inc. II at August 31, 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.


San Juan, Puerto Rico
November 18, 2015

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- *Mutual Funds Shares are subject to investment risks, including possible loss of the principal amount invested.*