



**2008**  
**ANNUAL REPORT**

Dear Shareholder:

The Tax-Free Puerto Rico Fund II, Inc. (the "Fund") is pleased to present its Annual Report to Shareholders for the fiscal year ended November 30, 2008.

#### **INVESTMENT OBJECTIVE**

The Fund's investment objective is to provide current income as is consistent with the preservation of capital. To achieve its investment objectives 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 and other non-Puerto Rico issuers.

On May 22, 2008, the Board of Directors of the Fund approved an extension through May 22, 2009 to the share repurchase program of up to 10% of the shares of common stock (the "Repurchase Program") outstanding at March 31, 2006. The Repurchase Program is intended to enhance shareholder value by providing the Fund's common stockholders with additional liquidity. During the fiscal year ended November 30, 2008, the Fund did not repurchase shares of common stock.

#### **THE BENEFITS AND RISKS OF LEVERAGE**

The Fund is permitted to use leverage in an amount not to exceed 50% of the Fund's total assets. The Fund obtains leverage by borrowing, using its investment portfolio as collateral.

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

#### **FUND PERFORMANCE\***

The fiscal year ended November 30, 2008 produced a total return of 6.35% based on the market value of the Fund's shares and (3.50%) based on NAV. This compares to a market return of 3.23% and NAV return of 4.24% for fiscal year 2007. At November 30, 2008, the market value of the Fund's shares was \$9.55, representing 121% of the net asset value per share of \$7.87. The comparable figure for 2007 was a market value of \$9.70 representing 110% of the net asset value per share of \$8.81.

The average dividend yield during the fiscal year ended November 30, 2008, computed over the original investment of \$10 per share, was 5.40%. This compares to a dividend yield of 5.94% for fiscal year 2007. The basis for the dividend distributions is the net investment income for tax purposes. Footnote 11 to the Fund's financial statements sets forth the reconciliation between the book net investment income and the tax investment income used for dividend payments.

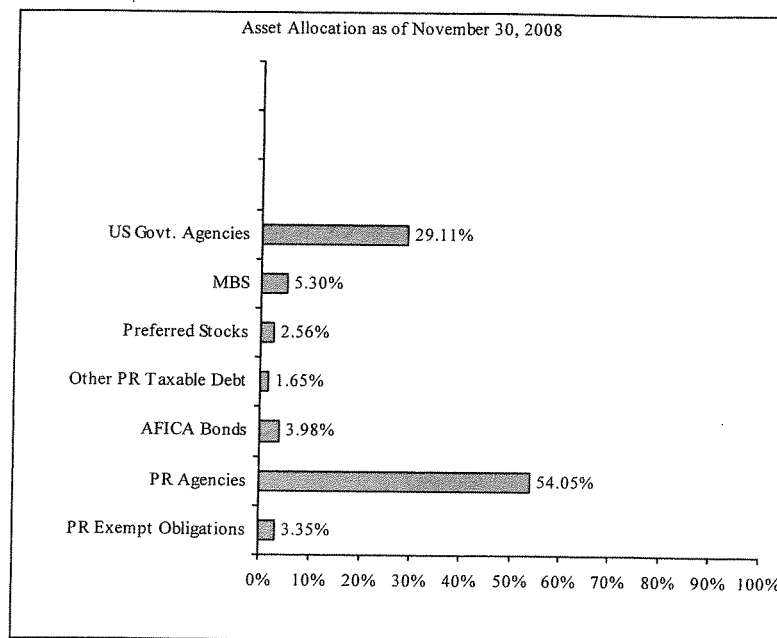
At November 30, 2008, the weighted-average effective duration of the Fund's investment portfolio was 8.90 years with an average credit quality of A+. The Fund's investment portfolio is

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

comprised of three major investment classes with different duration profiles. The three classes are Puerto Rico bonds, Puerto Rico Mortgage Backed Securities and U.S. Government Agency securities. The weighted average duration of the whole portfolio results from the shorter effective duration of the U.S. Government Agency class (due to their shorter callable dates), the Puerto Rico bonds (with call dates typically between five and ten years) and the Puerto Rico Mortgage Backed Securities (whose duration depends on the prepayments on the underlying mortgages). The Fund's Investment Advisers consider numerous characteristics of each asset class, including duration, in an effort to meet the investment objectives of the Fund. The call dates and final maturities of the portfolio are included in the Schedule of Investments in the accompanying financial statements.

Figure 1 below reflects the breakdown of the investment portfolio as of November 30, 2008. For details of the below security categories, please refer to the enclosed Schedule of Investments.



#### INVESTMENT STRATEGY

The Fund's Investment Advisers select assets that seek to maximize risk/return relationships while adhering to the Fund's credit quality and asset class constraints. Efficient funding strategies aimed at obtaining lower cost of funds for the Fund's leverage program have been implemented. These include the issuance of Tax-Exempt Secured Obligations, Medium Term Notes and Equity Linked Notes. At November 30, 2008, the Fund had issued \$78.4 million of these securities.

The Fund owns Preferred and Trust Preferred Shares of R&G Financial issued through the Puerto Rico Conservation Trust. During May 2008, the Board of Directors of R&G Financial decided to suspend dividend payments on the Preferred Shares and payments on the Trust Preferred Shares.

For details of all Preferred or Trust Preferred Shares owned, please refer to the attached Schedule of Investments.

## **ECONOMIC OVERVIEW**

The economic scenario during the Fund's most recent fiscal year was characterized by a continuation of the volatile reactions to the unfolding economic events. An economic slowdown that commenced in the sub-prime mortgage market spilled over into other economic sectors. Global financial institutions reported increased losses in this sector and that eventually affected other markets such as commercial paper, the London Inter-bank Rates (LIBOR), municipal bonds and corporate lending in general. The Federal Reserve (Fed) continued to cut interest rates aggressively, with cuts of 25 basis points in December 2007, 125 basis points in January 2008, 75 basis points in March 2008 and 25 basis points in April 2008. The Fed Funds rate stood at 2.00% on November 30, 2008.

The Fed also acted decisively to provide additional liquidity to the markets. In addition to creating new forms of borrowing at the Fed, it provided guarantees to facilitate the purchase of Bear Stearns by JP Morgan, thus avoiding the bankruptcy of the former. The Treasury Department has also provided explicit support to the two mortgage giants, Freddie Mac and Fannie Mae, to return confidence and liquidity to the residential mortgage market. In spite of these efforts, the credit crunch reached unprecedented levels. Lehman Brothers, the fourth largest independent broker dealer in the United States, declared bankruptcy on September 15, 2008. AIG, the largest insurance company in the world, received a liquidity infusion from the Fed. Eventually, an aid package was passed by Congress and significant capital was injected into the banking system.

The yield curve, which had been either flat or inverted during the majority of the last tightening cycle, has returned to a more normal positive slope shape. At November 30, 2008, the spread of the two-year note yield of 0.98% to the ten-year note yield of 2.92% was 194 basis points.

The Puerto Rico economy is closely linked to that of the United States. Many of the important variables that affect economic growth in Puerto Rico, such as imports, exports, direct investment, interest rates, transfer payments, inflation, and tourism expenditures, are directly related to developments in the United States.

The latest available estimate prepared by the Puerto Rico Planning Board for Puerto Rico's GDP (expressed in constant prices) for fiscal year 2009, projects a decrease in GDP of 3.4%. This compares to a decrease of 2.1% in 2008 and 1.8% in 2007, and growth of 0.7% in 2006 and 2.0% in 2005. The uncertainty created by the instability of the Puerto Rico government's finances and the increase in the price of oil has affected the economy.

Standard and Poor's downgraded the credit ratings of the central government and the Government Development Bank for Puerto Rico (GDB) to BBB- (with a negative outlook) on May 22, 2007. The outlook was subsequently increased to stable. On December 13, 2007, Standard and Poor's upgraded the GDB back to BBB with a stable outlook.

During July 2007, the Puerto Rico Government created the Sales Tax Finance Authority (COFINA) to issue revenue bonds backed by the sales and use tax (commonly known as "IVU") to refinance the so-called extra-constitutional debt. The COFINA bonds were rated A+ by the three major rating agencies. The goal of this new entity is to eventually refinance 100% of the extra-constitutional debt, thus reducing the future debt service of Puerto Rico's general fund.

During January 2008, the Puerto Rico Government issued Pension Obligation Bonds (POB) through its Employee Retirement System. The bonds were rated BBB- by the three rating agencies and are intended to reduce the Employee Retirement System's unfunded pension liability.

The Fund owns \$190 million of the COFINA and POB bonds. For details of all securities owned, please refer to the attached Schedule of Investments.

### **OUTLOOK**

At the December meeting, the Fed cut the Fed Funds rate to 0.25%. It also announced other programs designed to bring longer term interest rates down. The market reacted to the rate cut and announcement and ten-year treasury notes rate traded as low as 2.10%, an all time low. Prices of mortgage backed securities also rebounded strongly. Most market participants expect a long period of low interest rates.

The Investment Advisers remain committed to providing professional asset management services to the Fund under any economic condition or financial environment that may materialize in the future, in order to seek profitable opportunities for the benefit of the Fund's shareholders.



Miguel A. Ferrer  
Chairman of the Board of Directors and President

## GLOSSARY OF FUND TERMS

**Bifurcation** - A term used in finance that refers to a splitting of something into two separate pieces

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

**Closed-end fund** – a fund that issues a fixed amount of capital and shares.

**Coupon**- the interest rate that a bond promises to pay over its life, expressed as a percent over its face value. In the case of a portfolio, the weighted average coupon of all the bonds in the portfolio is provided.

**Credit quality**- a measure of the quality and safety of a bond. This measure is provided by a rating from one or more rating agencies and measures the likelihood that a debt issuer will be able to meet scheduled repayments on the debt. The rating agencies assign values to their ratings, AAA being the highest and D the lowest. The Funds typically use the ratings of one or more of the following agencies: Moody's Investors Service, Inc., Standard & Poor's or Fitch, Inc.

**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.

**DJIA-AIG Commodity Index Preferred Stocks** = Preferred stocks issue by the fund whose dividend payment is linked to the DJIA AIG Commodity Index performance. Commodities are most often used as inputs in the production of other goods or services, some examples are grains, gold, beef, oil and natural gas.

**DJIA Preferred Linked Preferred Stocks** - Preferred stocks issue by the fund whose dividend payment is linked to the Dow Jones Industrial Average Index (DJIA) performance. The DJIA is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Duration**- a mathematical measure of the price sensitivity of a bond's portfolio to changes in interest rates. It measures the change in value of the portfolio that should result from a 1% change in interest rates. Duration is stated in years. In general, the shorter the duration the less sensitive a Fund's portfolio is to changes in interest rates. For a portfolio of bonds, the weighted average of all the Fund's individual securities is provided.

**Effective duration**- a calculation of duration (see duration above) that takes into account the embedded options in the securities of the portfolio and their expected changes in the cash flow of the portfolio caused by those options.

**Embedded derivative** - An embedded derivative is part of a contract (a clause or section) which causes the cash flows from that contract to be modified, based on a specified variable such as interest rate, foreign exchange rate, equity index, etc.

**Expense ratio**- the percentage of a Fund's average net assets attributable to common shareholders used to pay Fund operating expenses. The expense ratio takes into account, investment

management fees, administration fees and other operating expenses such as legal, audit, insurance and shareholder communications.

**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.

**Index Basket Principal Protected Notes** - Notes linked to a basket of stocks that provides for 100% principal protection if held to maturity and the potential for additional returns based on the performance of a basket of stocks.

**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** – closed-end funds may issue preferred stock or other debt, reverse repurchase agreements or borrow money to increase the amounts available for investment ("leverage"). This gives the Investment Advisers of closed-end funds in the fixed income area in particular the opportunity to enhance yield. The use of leverage, of course, increases the likelihood of share price volatility and market risk. There is also the risk that the cost to a fund of its leveraged capital, such as preferred stock or debt, will exceed the earnings on the related assets which will have the likely effect of reducing the Fund's yield and the value of your investment in the Fund.

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

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

**Notional amount** - refers to the specified dollar amount of the swap on which the exchange of interest payments is based.

**Premium/discount**- the difference between the market price of the shares of a Fund and their NAV. In a case of a premium, the market value is above the NAV. In the case of a discount, the market value is below the NAV. These amounts can be expressed as numerical values or percents. The higher the percent, the larger the difference (positive or negative) between the market and the NAV of a Fund.

**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.

**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.

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

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

**Undistributed income-** the net income of a Fund that has not been distributed to common shareholders as of a particular date. It includes the income earned during the month to be distributed on the 15<sup>th</sup> of the following month as well as any other amounts retained for future distributions. In the case of the Target Maturity Funds it also includes the amounts to be distributed after the target date to return the initial \$10 investment.

**Yield** – the annualized rate of income of a Fund. It can be measured as a percent of the initial offering price, the IPO yield or as a percentage of the current price, the market yield..



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**Tax-Free Puerto Rico Fund II, Inc.**

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

**FINANCIAL HIGHLIGHTS**

		For the fiscal year ended November 30, 2008	For the fiscal year ended November 30, 2007	For the fiscal year ended November 30, 2006	For the fiscal year ended November 30, 2005	For the fiscal year ended November 30, 2004
<b>Increase (Decrease) in Net Asset Value:</b>						
<b>Per Share</b>	Net asset value applicable to common stock, beginning of period	\$ 8.81	\$ 9.04	\$ 9.23	\$ 9.58	\$ 9.35
<b>Operating</b>	Net investment income (a)	0.62	0.54	0.57	0.69	0.70
<b>Performance:</b>	Net realized (loss) gain and unrealized (depreciation) appreciation on investments, swaps and other derivatives (a)	(0.86)	(0.17)	(0.14)	(0.34)	0.26
	Total from investment operations	(0.24)	0.37	0.43	0.35	0.96
	Less: dividends from net investment income to common shareholders	(0.70)	(0.80)	(0.62)	(0.70)	(0.73)
	Net asset value applicable to common stock, end of period	\$ 7.87	\$ 8.81	\$ 9.04	\$ 9.23	\$ 9.58
	Market value, end of period	\$ 9.55	\$ 9.70	\$ 10.05	\$ 10.50	\$ 10.98
<b>Total Investment</b>						
<b>Return: (f)</b>	(b) Based on market price per share	6.35%	3.23%	2.60%	3.05%	10.02%
	(g) Based on net asset value per share	(3.50%)	4.24%	5.04%	3.83%	10.87%
<b>Ratios: (c)</b>	(d) (e) Expenses to average net assets applicable to common shareholders - net of waived fees	4.96%	6.04%	5.79%	4.65%	3.57%
	(e) Operating expenses to average net assets applicable to common shareholders-net of waived fees	1.37%	1.35%	1.38%	1.38%	1.39%
	Interest and leverage related expenses to average net assets applicable to common shareholders	3.59%	4.70%	4.41%	3.27%	2.18%
	(e) Net investment income to average net assets applicable to common shareholders-net of waived fees	7.33%	6.05%	6.45%	7.36%	7.59%
<b>Supplemental</b>	Net assets applicable to common shareholders, end of period (in thousands)	\$ 193,399	\$ 209,807	\$ 209,802	\$ 207,715	\$ 207,726
<b>Data:</b>	Portfolio turnover	71.93%	5.48%	5.07%	37.54%	29.84%
	Portfolio turnover excluding the proceeds from calls and maturities of portfolio securities and from mortgage backed securities paydowns	45.78%	5.40%	5.07%	16.99%	3.72%

- (a) Based on average outstanding common shares of 24,181,694; 23,529,764; 22,882,782; 22,093,119 and 21,283,799 for the fiscal years ended and November 30, 2008, November 30, 2007; November 30, 2006, November 30, 2005, and November 30, 2004, respectively.
- (b) Calculations are based on beginning and end of period market values provided by UBS Financial Services Incorporated of Puerto Rico, a dealer of the Fund's shares and an affiliated party. The market prices shown reflect limited trading in the shares of the Fund.
- (c) Based on average net assets applicable to common shareholders of \$204,818,161; \$208,691,314; \$204,660,072, \$200,477,042, and \$191,942,793 for the fiscal years ended November 30, 2008; November 30, 2007, November 30, 2006, November 30, 2005 and November 30, 2004, respectively.
- (d) "Expenses" include both operating and interest and leverage related expenses.
- (e) The effect of the expenses waived for the fiscal years ended November 30, 2008; November 30, 2007; November 30, 2006, November 30, 2005 and November 30, 2004 was to decrease the expense ratios, thus increasing the net investment income ratio to average net assets by 0.50%, 0.49%, 0.49%, 0.49% and 0.49%, respectively.
- (f) Dividends are assumed to be reinvested at the per share net asset value on the date dividends are paid.
- (g) Calculations are based on beginning and end of period net asset values.

The accompanying notes are integral part of these financial statements.

**Tax Free Puerto Rico Fund II, Inc.**

**SCHEDULE OF INVESTMENTS**

November 30, 2008

Face Amount	Coupon	Next Callable Date <sup>D</sup>	Maturity Date	Market Value		
<b>Puerto Rico Exempt Obligations - 6.68% of net assets applicable to common shareholders</b>						
\$ 10,000,000	N I O	Puerto Rico Conservation Trust Note	6.55%	Non-Callable	03/05/17	\$ 200,000
1,000,000	G I	Puerto Rico Conservation Trust Note	6.50%	04/01/11	04/01/16	698,125
10,000,000	G I	Puerto Rico Conservation Trust Note	6.25%	Non-Callable	05/01/22	6,681,250
2,000,000	F I O	Puerto Rico Conservation Trust Note	6.00%	12/15/09	12/15/34	216,583
3,500,000	I E C	Puerto Rico Conservation Trust Note	5.70%	12/01/09	06/01/32	2,879,375
800,000	K I	Puerto Rico Conservation Trust Note	6.80%	12/31/12	09/30/28	332,800
1,170,000	L I	Puerto Rico Conservation Trust Note	7.48%	06/15/13	09/15/28	650,520
780,000	M I	Puerto Rico Conservation Trust Note	5.90%	05/23/17	11/23/28	411,216
800,000	H I	Punto Verde Grantor Trust Note	4.98%	Non-Callable	05/01/18	744,288
<b>\$ 30,050,000</b>						<b>\$ 12,914,157</b>
<b>Puerto Rico Agencies - 107.12% of net assets applicable to common shareholders</b>						
\$ 4,000,000	J I	Economic Development Bank Note	6.20%	Non-Callable	12/21/12	\$ 3,970,000
10,500,000	C	Employees Retirement System	6.20%	07/01/18	07/01/33	10,232,250
4,000,000	C	Employees Retirement System	6.20%	07/01/18	07/01/40	3,886,320
18,000,000	C	Employees Retirement System	6.20%	07/01/18	07/01/41	17,474,040
4,000,000	C	Employees Retirement System	6.20%	07/01/18	07/01/42	3,877,800
2,000,000	C	Employees Retirement System	6.45%	07/01/18	07/01/55	1,975,850
2,000,000	C	Employees Retirement System	6.30%	07/01/18	07/01/36	1,953,780
2,000,000	C	Employees Retirement System	6.30%	07/01/18	07/01/37	1,953,200
2,000,000	C	Employees Retirement System	6.30%	07/01/18	07/01/38	1,944,920
2,000,000	C	Employees Retirement System	6.30%	07/01/18	07/01/39	1,944,340
2,835,000	C	Employees Retirement System	6.55%	07/01/18	07/01/55	2,758,568
2,835,000	C	Employees Retirement System	6.55%	07/01/18	07/01/56	2,758,342
2,835,000	C	Employees Retirement System	6.55%	07/01/18	07/01/57	2,758,115
2,835,000	C	Employees Retirement System	6.55%	07/01/18	07/01/58	2,757,916
235,000	C	Puerto Rico Public Finance Corp.	6.15%	08/01/09	08/01/24	244,755
14,060,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/24	5,468,106
25,000,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/25	9,098,000
28,080,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/26	9,665,733
10,595,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/27	3,378,746
23,980,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/28	5,971,739
24,580,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/32	5,759,470
26,460,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/33	5,828,609
26,300,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/34	5,448,571
36,415,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/35	7,095,099
36,985,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/36	6,770,844
1,300,000	C	Puerto Rico Sales Tax Series A	0.00%	08/01/18	08/01/27	1,307,605
3,030,000	C	Puerto Rico Sales Tax Series A	6.13%	08/01/18	08/01/28	3,047,726
3,715,000	C	Puerto Rico Sales Tax Series A	6.13%	08/01/18	08/01/29	3,736,733
3,325,000	C	Puerto Rico Sales Tax Series A	6.13%	08/01/18	08/01/30	3,332,282
22,805,000	C	Puerto Rico Sales Tax Series A	6.13%	08/01/18	08/01/37	22,854,943
23,505,000	C	Puerto Rico Sales Tax Series A	6.13%	08/01/18	08/01/38	23,556,476
730,000	C	Puerto Rico Sales Tax Series B	0.00%	08/01/17	08/01/30	193,931
2,475,000	C	Puerto Rico Sales Tax Series B	6.35%	08/01/17	08/01/57	2,475,000
460,000	C	Puerto Rico Sales Tax Series B	0.00%	08/01/17	08/01/29	129,959
1,470,000	C	Puerto Rico Sales Tax Series B	0.00%	08/01/17	08/01/31	365,662
3,700,000	C	Puerto Rico Sales Tax Series B	0.00%	08/01/17	08/01/32	865,430
2,475,000	C	Puerto Rico Sales Tax Series B	6.35%	08/01/17	05/01/57	2,475,000
2,475,000	C	Puerto Rico Sales Tax Series B	6.35%	08/01/17	06/01/57	2,475,000
2,475,000	C	Puerto Rico Sales Tax Series B	6.35%	08/01/17	07/01/57	2,475,000
7,750,000	C	Puerto Rico Industrial Development Company	6.65%	01/30/09	07/01/15	7,786,037
3,910,000	C	Puerto Rico Industrial Development Company	5.25%	07/01/11	07/01/28	3,428,523
800,000	C	Puerto Rico General Obligations Series A	5.00%	07/01/18	07/01/23	670,616
800,000	C	Puerto Rico General Obligations Series A	5.13%	07/01/18	07/01/28	633,424
630,000	C	Puerto Rico General Obligations Series A	5.38%	07/01/18	07/01/33	491,129
<b>\$ 402,370,000</b>						<b>\$ 207,177,299</b>
<b>AFICA<sup>®</sup> Bonds - 7.90% of net assets applicable to common shareholders</b>						
\$ 2,565,000		Ashford Presbyterian Community Hospital Parking Project	6.70%	05/01/09	11/01/20	\$ 2,334,971
1,600,000	C	Doral Financial Center Project	6.90%	12/01/09	06/01/26	1,587,088
775,000	C	El Nuevo Dia Project	6.15%	01/01/09	12/01/26	775,000
230,000	C	Humacao Judicial Center Project	6.25%	01/30/09	10/01/30	216,878
60,000	C	Palmas del Mar Country Club Project	7.00%	01/30/09	12/20/18	60,221
985,000	C	Palmas del Mar Country Club Project	7.25%	01/30/09	12/20/30	988,773
2,200,000	C	San Patricio Project	6.25%	09/01/10	06/01/32	2,157,518
1,000,000	C	Torre Chardon Project	6.15%	03/01/10	03/01/24	980,490
6,250,000	C	Torre Chardon Project	6.25%	03/01/10	03/01/32	6,129,250
40,000	C	Coco Beach Golf & Country Club Project	7.13%	12/20/08	12/20/28	38,860
<b>\$ 15,705,000</b>						<b>\$ 15,270,057</b>
<b>Other Puerto Rico Taxable Debt - 3.28% of net assets applicable to common shareholders</b>						
\$ 1,930,000		Banco Popular of Puerto Rico Note	6.66%	Non-Callable	09/26/11	\$ 1,861,000
4,500,000		Banco Popular of Puerto Rico Note	7.00%	Non-Callable	09/26/11	4,455,000
<b>\$ 6,400,000</b>						<b>\$ 6,336,000</b>
<b>Puerto Rico Preferred Stock and Trust Preferred Securities - 5.08% of net assets applicable to common shareholders</b>						
\$ 1,800,000		Popular Inc Trust Preferred Series B	8.25%	05/30/13	Perpetual	\$ 1,656,000
2,000,000		Doral Financial Corporation Series C	7.25%	02/04/09	Perpetual	560,000
8,035,000		Popular Inc Trust Preferred	6.70%	01/30/09	11/01/33	7,135,080
3,000,000	P	W Holding Company Series H	6.70%	12/21/09	Perpetual	480,000
<b>\$ 14,835,000</b>						<b>\$ 9,831,080</b>

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

**Tax Free Puerto Rico Fund II, Inc.**

**SCHEDULE OF INVESTMENTS**

November 30, 2008

Principal Outstanding Amount				Market Value			
<b>Mortgage Backed Securities<sup>0</sup> - 10.52% of net assets applicable to common shareholders</b>							
\$	18,829,856	I	Doral Financial Participation Certificate Series A	7.15%	06/16/09	\$	18,818,087
	1,527,955	I	Doral Financial Participation Certificate Series C	6.69%	12/01/31		1,518,405
\$	<u>20,357,811</u>					\$	<u>20,336,492</u>

Face Amount							
<b>US Government Agency and Instrumentality - 57.70% of net assets applicable to common shareholders</b>							
\$	2,000,000	Federal Home Loan Bank	6.00%	06/29/10	06/29/22	\$	2,088,826
	10,340,000	C Federal Home Loan Bank	5.75%	02/22/09	02/22/28		10,289,748
	3,000,000	C Federal Home Loan Bank	6.00%	10/27/10	10/27/28		3,074,331
	30,090,000	C Federal Home Loan Bank	5.80%	02/16/09	02/16/28		29,801,960
	6,720,000	C Federal Home Loan Bank	5.85%	02/22/09	02/22/28		6,708,499
	1,061,428	C Federal Home Loan Bank	6.00%	01/01/09	04/01/24		1,064,542
	28,200,000	C Federal Home Loan Bank	5.75%	12/30/08	06/30/25		28,182,361
	6,500,000	C Federal Home Loan Bank	5.75%	01/07/09	07/07/25		6,497,790
	14,000,000	C Federal Home Loan Bank	5.70%	01/03/09	04/03/28		13,905,101
	10,000,000	C Federal Home Loan Bank	5.60%	01/21/09	04/21/28		9,888,138
\$	<u>111,821,428</u>					\$	<u>111,601,426</u>

Total Investments (198.28% of net assets applicable to common shareholders)	\$	383,466,511
Interest rate and equity index swaps, (-3.94% of net assets)		(7,618,768)
Liabilities and net assets applicable to common shareholders minus other assets (-94.34% of net assets applicable to common shareholders)		(182,448,354)
Net assets applicable to common shareholders - 100%	\$	<u>193,399,389</u>

- A AFICA - Puerto Rico Industrial Tourism, Medical, Educational and Environmental Pollution Control Financing Authority.
- B Certificate is collateralized by mortgage-backed obligations. They are subject to prepayments or refinancing of the underlying mortgage instruments. As a result, the average life may be substantially less than the original maturity.
- C A portion or all of the security has been pledged as collateral for securities sold under agreements to repurchase, collateralized notes payable or swaps.
- D The issuer has the ability, but not the obligation, to call these securities on these dates.
- E Notes are collateralized by Santander Bancorp Corporation Senior Notes and the only source for repayment is the collateral.
- F Notes are collateralized by R&G Trust Preferred Securities and the only source for repayment is the collateral.
- G Notes are collateralized by Doral Financial Corporation Senior Notes and the only source for repayment is the collateral.
- H Notes are collateralized by General Electric Capital Corporation Medium-Term Notes and the only source for repayment is the collateral.
- I Private Placement.
- J Notes are collateralized by Popular Inc Senior Notes and the only source for repayment is the collateral.
- K Notes are collateralized by RBS Preferred Securities and the only source for repayment is the collateral.
- L Notes are collateralized by Barclays Preferred Securities and the only source for repayment is the collateral.
- M Notes are collateralized by Deutsche Preferred Securities and the only source for repayment is the collateral.
- N Notes are collateralized by R&G Preferred Stock and the only source for repayment is the collateral.
- O Non-income producing.
- P On February 17, 2009, W Holding Company, Inc. announced that the Company's Board of Directors temporarily suspended all monthly dividends on the Company's common stock and on all outstanding series of its preferred stocks, effective with the payment that would have been made on March 16, 2009, to stockholder of record as of February 28, 2009.

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

**TAX-FREE PUERTO RICO FUND II, INC.**

**STATEMENT OF ASSETS AND LIABILITIES**

November 30, 2008

<b>Assets:</b>	Investments in securities:		
	Securities pledged as collateral on repurchase agreements and swaps, at market value (identified cost - \$119,037,994)	\$	118,845,895
	Other securities, at market value (identified cost - \$288,053,064)		264,620,616
	Cash		615,123
	Interest rate swap, at value		162,218
	Interest and dividends receivable		3,575,619
	Deferred debt issue cost		93,999
	Prepaid expenses and other assets		63,521
	<b>Total assets</b>		<u>387,976,991</u>

<b>Liabilities:</b>	Securities sold under repurchase agreements, including \$27,650,000 with affiliates		106,320,146
	Short-term notes		47,118,881
	Medium-term notes		23,310,000
	Interest rate and equity index swaps, at value		7,780,986
	Dividends payable to common shareholders		1,351,525
	Payables:		
	Interest and leverage expenses	405,535	
	Investment advisory fees	156,062	
	Administration fees	<u>46,833</u>	608,430
	Accrued expenses and other liabilities		82,778
	Principal Protected Notes Linked to a Global Index Basket, 2007 Series B, with a principal value of \$8,412,000; mature on 05/28/10		<u>8,004,856</u>
	<b>Total liabilities</b>		<u>194,577,602</u>

**Net Assets Applicable to Common Shareholders:** \$ 193,399,389

**Net Assets Applicable**

**to Common Shareholders**

<b>consist of:</b>	Capital stock, \$0.01 par value, 88,000,000 shares authorized, 24,573,183 issued and outstanding	\$	245,732
	Paid-in capital		231,807,761
	Undistributed net investment income (Note 1 and Note 12)		1,557,409
	Accumulated net realized loss from investments, swaps and medium-term notes		(9,855,382)
	Unrealized net depreciation on investments, swaps and other derivatives		<u>(30,356,131)</u>
	<b>Net assets applicable to common shareholders</b>	<b>\$</b>	<b><u>193,399,389</u></b>
	Net asset value applicable to common shares - per share; 24,573,183 shares outstanding	<b>\$</b>	<b><u>7.87</u></b>

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

**TAX-FREE PUERTO RICO FUND II, INC.****STATEMENT OF OPERATIONS****For the fiscal year  
ended November  
30, 2008**

<b>Investment income:</b>	Interest	\$ 24,215,941
	Dividends	<u>960,657</u>
	Total income	<u>25,176,598</u>

<b>Expenses:</b>	Interest and leverage related expenses	7,342,849
	Investment advisory fees	3,035,838
	Administration fees	607,128
	Professional fees	90,547
	Directors' fees and expenses	30,359
	Insurance expense	20,174
	Other	<u>45,814</u>
	Total expenses	11,172,709
	Waived investment advisory and administration fees	<u>(1,018,778)</u>
	Net expenses after fees waived by investment advisor and administration	<u>10,153,931</u>

<b>Net investment income:</b>	<u>15,022,667</u>
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<b>Realized Gain and Unrealized Depreciation on Investments, Swaps, Medium-Term Notes and other Derivatives:</b>	Net realized gain on investments, swaps and medium-term notes	1,354,116
	Change in unrealized net depreciation on investments, swaps and other derivatives	<u>(22,187,898)</u>
	Total net loss	<u>(20,833,782)</u>

<b>Net decrease in net assets resulting from operations</b>	<u>\$ (5,811,115)</u>
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The accompanying notes are an integral part of these financial statements.

**TAX-FREE PUERTO RICO FUND II, INC.**

**STATEMENT OF CHANGES IN NET ASSETS**

		For the fiscal year ended November 30, 2008	For the fiscal year ended November 30, 2007
<b>Increase (Decrease) in Net Assets:</b>			
	Net investment income	\$ 15,022,667	\$ 12,626,486
	Net realized gain (loss) on investments, swaps and medium-term notes	1,354,116	(83,382)
	Change in unrealized net depreciation on investments, swaps and other derivatives	(22,187,898)	(3,906,761)
	Net (decrease) increase in net assets resulting from operations	<u>(5,811,115)</u>	<u>8,636,343</u>
<b>Dividends to Common Shareholders From:</b>			
	Net investment income	<u>(16,899,578)</u>	<u>(14,023,475)</u>
<b>Capital Share Transactions:</b>			
	Increase in net assets derived from reinvestment of dividends	6,303,389	5,543,630
	Repurchase of common shares	-	(151,987)
		<u>6,303,389</u>	<u>5,391,643</u>
<b>Net Assets:</b>	Net (decrease) increase in net assets applicable to common shareholders	(16,407,304)	4,511
	Net assets at the beginning of the year	<u>209,806,693</u>	<u>209,802,182</u>
	Net assets at end of the year	<u>\$ 193,399,389</u>	<u>\$ 209,806,693</u>

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

**TAX-FREE PUERTO RICO FUND II, INC.****STATEMENT OF CASH FLOWS****For the fiscal  
year ended  
November, 30  
2008****Increase (Decrease) in Cash**

<b>Cash Provided by</b>	Net decrease in net assets from operations	\$ (5,811,115)
<b>Operations:</b>	Adjusted by:	
	Purchases of portfolio securities	(291,092,723)
	Proceeds from sale of portfolio securities	185,253,399
	Calls, maturities and paydowns of portfolio securities	120,048,073
	Net realized gain on investments and other derivatives	(827,296)
	Unrealized depreciation on investments and derivatives	22,187,898
	Amortization of deferred debt issue costs	192,742
	Accretion of discounts on investments	(1,686,754)
	Amortization of premiums on investments	146,855
	Accretion of discounts on index notes	479,154
	Decrease in interest and dividends receivable	241,227
	Decrease in prepaid expenses and other assets	118,941
	Decrease in interest payable	(134,531)
	Decrease in administration fees payable	(4,599)
	Decrease in investment advisory fees payable	(15,379)
	Increase in accrued expenses and other liabilities	7,806
	Total cash provided by operations	<u>29,103,698</u>

<b>Cash Used in</b>	Repurchase agreements and short-term notes, net of repayments	
<b>Financing Activities:</b>	of \$2,574,315,224	18,425,001
	Issuance medium-term notes	23,310,000
	Repayments of medium-term notes	(59,290,000)
	Repayments of index linked medium-term notes	(2,838,000)
	Dividends to common shareholders paid in cash	(9,244,664)
	Debt issue costs	304,768
	Total cash used in financing activities	<u>(29,332,895)</u>

<b>Cash:</b>	Net decrease in cash for the year	(229,197)
	Cash at the beginning of the year	844,320
	Cash at the end of the year	<u>\$ 615,123</u>

<b>Cash Flow</b>	Cash paid for interest and leverage related expenses	\$ 7,017,010
<b>Information:</b>	Non-cash activities-dividends reinvested by common shareholders	<u>\$ 6,303,389</u>

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



**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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**1. Reporting Entity and Significant Accounting Policies:**

Tax-Free Puerto Rico Fund II, Inc. (the "Fund") is a non-diversified, closed-end management investment company. The Fund is a corporation organized under the laws of the Commonwealth of Puerto Rico and is registered as an investment company under the Puerto Rico Investment Companies Act, as amended (the "Puerto Rico Investment Companies Act"). The Fund was incorporated on December 20, 2001 and started operations on January 29, 2002. UBS Asset Managers of Puerto Rico, a division of UBS Trust Company of Puerto Rico ("UBSTC"), is the Investment Advisor of the Fund. UBSTC is the Fund Administrator.

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

**Use of Estimates in Financial Statements Preparation**

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

**Valuation of Investments**

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

In September 2006, the Statement of Financial Accounting Standards No. 157 - Fair Value Measurements - ("SFAS 157"), was issued and is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 requires disclosure surrounding the various inputs that are used in determining the fair value of the Fund's investments. These inputs are summarized in three broad levels listed below.

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

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

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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The following is a summary of the inputs used as of November 30, 2008 in valuing the Fund's assets carried at fair value:

<b>Valuation Inputs</b>	<b>Investments in Securities</b>
<b>Level 2</b>	
Puerto Rico exempt obligations	\$ 12,497,574
Puerto Rico agencies	207,177,299
AFICA bonds	15,270,057
Other Puerto Rico taxable debt	6,336,000
Mortgage backed securities	20,336,492
Puerto Rico preferred stock & trust preferred securities	9,831,080
US Government, agency and instrumentality	111,601,426
Total	<u>\$ 383,049,928</u>
<b>Level 3</b>	
Puerto Rico Conservation Trust Fund	
Balance as of 11/30/07	\$ 9,260,000
Realized gain (loss)	-
Changes in unrealized depreciation	(8,843,417)
Net amortization/accretion	-
Net purchases (sales)	-
Net transfer in (out) of level 3	-
Balance as of 11/30/08	<u>\$ 416,583</u>

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

**Taxation**

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

The Fund can invest in taxable and tax-exempt securities. In general, distributions of taxable dividends to Puerto Rico individuals are subject to a 10% withholding tax, if certain requirements are met. The 10% tax is withheld by the Fund at the time of payment. Otherwise, taxable distributions will be subject to the regular income tax. Puerto Rico entities receiving distributions of taxable income are entitled to claim an 85% dividend received deduction. Fund shareholders are advised to consult their own tax advisers.

For Puerto Rico income tax purposes, the Fund had capital losses at November 30, 2008 which are available to offset the Fund's future taxable capital gains, if any, and expire as indicated in the table that follows:

Capital losses available for carryover expire as follows:

<b>Fiscal year</b>	<b>Amount</b>
2009	\$ 36,589
2010	168,999
2011	902,436
2012	952,120
Total carryforward available	<u>\$ 2,060,144</u>

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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Nevertheless, for purposes of distributions to shareholders, realized losses may be reduced by future gains for an indefinite period.

The balance of undistributed net investment income and 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 amount shown in the Statement of Assets and Liabilities reflects the amounts for tax purposes, except for remaining temporary differences, if any.

**Statement of Cash Flows**

The Fund issues its shares, invests in securities and distributes dividends from net investment income and net realized gains which are paid in cash or are reinvested at the discretion of the common shareholder. 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. Cash, as presented on the Statement of Assets and Liabilities, does not include short-term investments.

**Dividends and Distributions to Shareholders**

Dividends from net investment income are declared and paid monthly. The Fund may at times pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income earned in other periods in order to permit the Fund a more stable level of distributions. The Fund records dividends on the ex-dividend date.

**Interest Rate and Equity Index Swaps**

In managing its cost of funds and interest rate risk, as well as for hedging purposes, the Fund enters into interest rate and equity index swap agreements. Interest rate swap transactions involve an agreement between two parties to exchange interest rate payments that are calculated on the basis of 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. Equity Index Swap transactions involve an agreement between two parties to exchange the appreciation of equity indices for interest rate payments that are calculated on the basis of the notional principal amount for a specific period of time.

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. The related market risk exceeds related amounts on Statement of Assets and Liabilities. The credit exposure is represented by the fair value of the instruments with a positive market value. This credit exposure may change as the fair value of the instrument changes. The Fund's management entered into these transactions in an attempt to improve funding costs rather than speculate on interest rate changes. The Fund may enter into additional transactions as market conditions change.

SFAS 157 requires disclosure surrounding the various inputs that are used in determining the fair value of the Fund's interest rate and equity index 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, volatility and for equity swaps prices and dividends. For callable and range swaps, the Hull-White parameters are calculated from market observed volatility and yield curve. Hull-White has become the market

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

benchmark. For equity swaps, volatility is estimated from daily closing prices and for index swaps an additional correlation of index return is also calculated.

The Fund manages the credit component of the swaps through various mechanisms. Counterparties must have a minimum credit rating, currently A, but all of the Fund's current counterparties are A+ or better. The swaps are executed pursuant to signed Master ISDA Agreement that include a Credit Support Annex (CSA). Each swap is documented in written conformation. Equity linked swaps have additional covenants included in the confirmation. In the event the counterparty is downgraded below A, the swap must either be transferred to another A or better counterparty or the credit exposure must be collateralized with eligible collateral as defined in the CSA.

The following is a summary of the inputs used as of November 30, 2008 in valuing the Fund's interest rate and equity index swaps at fair value:

Level 2	Fair Value	
	Assets	Liabilities
Interest rate swaps	\$ 162,218	\$ -
Interest rate swaps	-	7,596,697
Equity index swaps	-	184,289
Total	<u>\$ 162,218</u>	<u>\$ 7,780,986</u>

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

The Fund records collections or periodic payments on interest rate swaps as a component of net realized gain or loss on investments and swaps in the Statement of Operations. For the fiscal year ended November 30, 2008, the Fund received net collections of \$631,450 from swap counterparties. For purposes of dividend distributions and for the determination of compliance with the 90% threshold for purposes of the Fund's tax exemption, swap periodic collections are included as a component of net investment income. (See Note 12).

**Securities Sold Under Repurchase Agreements**

Under these agreements, the Fund sells securities, receives cash in exchange and agrees to repurchase the securities at a mutually agreed date and price. Ordinarily, those counterparties with which the Fund enters into these agreements require delivery of collateral and are able to repledge the collateral, however, the Fund retains effective control over such collateral through the agreement to repurchase the collateral before their maturity. 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.

**Short-Term and Medium-Term Notes**

The Fund has a short-term and medium-term notes payable program as a funding vehicle to increase the amounts available for investments. The short-term and medium-term notes may be issued from time to time in denominations of \$25,000 or as may otherwise be specified in a supplement to the Offering Circular. The notes may be collateralized by the pledge of certain securities of the Fund. The pledged securities are held by UBSTC, or its agents, as collateral agents for the benefit of the holders of the notes. Fees related to the issuance of medium-term notes are amortized throughout the term of the note until its first callable date.

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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**Paydowns**

Realized gains or losses on mortgage-backed security paydowns are recorded as an adjustment to interest income. The Fund declares and pays monthly dividends from net investment income. For purposes of compliance with the 90% threshold for the Fund's tax exemption, gains and losses related to mortgage-backed security paydowns are not included in net investment income. (See Note 12). During the fiscal year ended November 30, 2008, the Fund reduced interest income in the amount of \$5,971 related to realized losses on mortgage-backed securities paydowns.

**Preferred Shares**

Pursuant to the Fund's certificate of incorporation, as amended and supplemented, the Fund's Board of Directors is authorized to issue up to 12,000,000 preferred shares, with a par value of \$25, in one or more series. As of November 30, 2008, the Fund has not issued any preferred shares.

**Principal Protected Notes**

The Fund issued Principal Protected Notes linked to a Global Index Basket, 2007 Series B. The Fund determined that these Principal Protected Notes described in Note 8 contain embedded derivatives. The index feature included in the Principal Protected Notes is considered an embedded option that is bifurcated and accounted for separately as a derivative instrument measured at fair value.

**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 on the identified cost method. Premiums and discounts on securities purchased are amortized using the interest method over the life or the expected life of the respective securities. Interest and dividend income is accrued daily except when collection is not expected.

**Recent Accounting Pronouncements**

In March 2008, FASB issued Statement of Financial Accounting Standards No.161, Disclosures about Derivative Instruments and Hedging Activities ("FAS 161"). This Statement amends and expands the disclosures required by FAS 133 so that they provide an enhanced understanding of (1) how and why an entity uses derivatives instruments, (2) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and (3) how derivative instruments affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective for annual reporting periods beginning after November 15, 2008. The Fund is evaluating the possible impact of this pronouncement.

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

Pursuant to an investment advisory contract (the "Advisory Agreement") with UBS Asset Managers of Puerto Rico, the Fund receives investment advisory services in exchange for a fee. For the fiscal year ended November 30, 2008, investment advisory fees amounted to \$3,035,838 equivalent to 0.75% of the Fund's average weekly gross assets. The Investment Advisers waived investment advisory fees in the amount of \$1,017,243, for a net fee of \$2,018,595, representing an effective annual rate of 0.50%.

UBSTC also provides administrative, custody and transfer agency services pursuant to Administration, Custodian, and Transfer Agency, Registrar, and Shareholder Servicing Agreements. UBSTC provide facilities and personnel to the Fund for the performance of administration duties. For the fiscal year ended November 30, 2008, the gross fee for such services amounted to \$607,128. The administrator waived administration fees in the amount of \$1,535, for a net fee of \$605,593, equivalent to 0.15% of the Fund's average weekly gross assets.

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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

It is anticipated that Affiliated Transactions will continue to take place in the future and that any Affiliated Transactions will be subject to the Procedures.

UBS is the Fund's dealer on the offering of short-term and medium-term notes. Selling fees amounting to \$2,705 and \$304,768 were paid to UBS during the fiscal year ended November 30, 2008 related to the offering of short-term notes and medium-term notes, respectively.

Certain officers and directors of the Fund are also officers and directors of UBSTC. The six independent directors of the Fund's Board of Directors are paid based upon an agreed a fee of \$1,000 per board meeting plus expenses and \$500 for each meeting plus expenses of the Fund's Audit Committee. For the fiscal year ended November 30, 2008, the six independent directors of the Fund were paid an aggregate compensation of approximately \$32,000.

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.

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

	<b>Purchases</b>	<b>%</b>	<b>Sales</b>	<b>%</b>	<b>Securities Sold Under Repurchase Agreements</b>	<b>%</b>
UBS	\$ 197,625	68%	\$ -	0%	\$ 1,002,610	51%
Between funds	35,167	12%	12,857	7%	-	-
Unaffiliated	58,301	20%	172,396	93%	977,734	49%
<b>Total</b>	<b>\$ 291,093</b>	<b>100%</b>	<b>\$ 185,253</b>	<b>100%</b>	<b>\$ 1,980,344</b>	<b>100%</b>

**3. Capital Share Transactions**

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

Capital share transactions for the fiscal years ended November 30, 2008 and 2007 were as follows:

<b>Common Shares</b>	<b>Dollar Amount 2008</b>	<b>Dollar Amount 2007</b>
Proceeds from the reinvestment of dividends	\$ 6,303,389	\$ 5,543,630
Repurchase of shares	-	(151,987)
<b>Total</b>	<b>\$ 6,303,389</b>	<b>\$ 5,391,643</b>

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

Transactions in common shares during the fiscal years ended November 30, 2008 and 2007 were as follows:

Common shares:	2008	2007
Common shares - beginning of fiscal year	23,825,701	23,216,238
Shares repurchased	-	(17,124)
Shares issued due to the reinvestment of dividends	747,482	626,587
Common shares - end of fiscal year	<u>24,573,183</u>	<u>23,825,701</u>

The Fund's Board of Directors has authorized the repurchase of the Fund's shares on the open market when the shares are trading at or below NAV of the shares. During the fiscal year ended November 30, 2008, the Fund did not repurchase any shares.

**4. Investment Transactions**

The cost of securities purchased and proceeds from sales, maturities and calls of portfolio securities (in thousands) for the fiscal year ended November 30, 2008 were as follows:

	Purchases	Sales	Calls
Puerto Rico Obligations	\$ 204,976	\$ 185,253	\$ 13,375
US Obligations	86,117	-	105,000
	<u>\$ 291,093</u>	<u>\$ 185,253</u>	<u>\$ 118,375</u>

The Fund has the following swap agreements in place at November 30, 2008:

Counterparty	Notional Amount (#)	Fair Value (#)	To be Received		To be Paid		Expiration Date
			Rate at 11/30/2008	Type	Rate at 11/30/2008	Type	
Santander	\$ 36,500	\$ (4,057)	1.90%	V#	4.25%	F	05/15/16 A
HSBC	8,412	(184)		C	1.20%	V# <sup>1</sup>	05/28/10 D
JP Morgan	38,000	(4,640)	1.90%	V#	4.20%	F	07/17/17 B
JP Morgan	8,200	366	7.25%	E	1.08%	V# <sup>1</sup>	02/28/18 A
JP Morgan	12,000	471	6.60%	E	1.15%	V# <sup>1</sup>	02/28/18 A
RBS	10,500	35	5.80%	F	1.90%	V#	04/30/23 B
JP Morgan	3,110	136	7.32%	E	1.12%	V# <sup>1</sup>	05/07/18 A
JP Morgan	18,625	127	4.21%	G	1.90%	V#	01/31/11 B
RBS	18,625	127	4.21%	G	1.90%	V#	01/31/11 B
		<u>\$ (7,619)</u>					

# Amount in thousands of dollars.

V# 1 Month Libor.

V#<sup>1</sup> 1 Month Libor minus a predetermined spread specified in the swap agreements.

A Counterparty has the option to terminate these swaps on a quarterly basis on the date specified in the swap agreements.

B Counterparty has the option to terminate these swaps on a monthly basis on the date specified in the swap agreements.

C On the termination date the counterparty will pay the Fund an amount equal to the interest

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
**November 30, 2008**

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	payment as defined in Note 8 for the Principal Protected Notes Linked to a Global Index Basket.
D	This equity index swap is related to the Principal Protected Notes Linked to a Global Basket Index, 2007 Series B.
E	The coupon is received as long as 3-month LIBOR-BBA is within a specific range, identical to the related MTN, otherwise coupon is reduced to 0% for that particular day. In that case the coupon on the related MTN is also reduced to 0%.
F	Fixed.
G	The coupon is received as long as 3-month LIBOR-BBA is within 0% to 7.00%, otherwise coupon is reduced to 0% for that particular day.

At November 30, 2008, investment securities amounting to \$5,808,246 were pledged as collateral for swap agreements. The counterparties have the right to sell or repledge the assets during the term of the swap agreement. Amounts payable on interest rate swaps amounted to \$188,756 at November 30, 2008.

**5. Securities Sold Under Repurchase Agreements**

Securities sold under repurchase agreements amounted to \$106,320,146, from which \$27,650,000 are with UBS at November 30, 2008; related information is as follows:

Weighted average interest rate at end of the year	1.75%
Maximum aggregate balance outstanding at any time of the year	<u>\$ 167,569,798</u>
Average balance outstanding during the year	<u>\$ 128,579,852</u>
Average interest rate during the year	<u>2.99%</u>

At November 30, 2008, interest rates on securities sold under repurchase agreements ranged from 0.71% to 2.50%, with maturities dates up to January 13, 2009.

At November 30, 2008, investment securities amounting to \$113,037,649 were pledged as collateral for securities sold under repurchase agreements. The counterparties have the right to sell or repledge the assets during the term of the repurchase agreement with the Fund. Interest payable on securities sold under repurchase agreements amounted to \$114,305 at November 30, 2008.

**6. Short-Term Notes**

Short-term notes amounted to \$47,118,881 at November 30, 2008; related information follows:

Weighted average interest rate at end of the year	2.22%
Maximum aggregate balance outstanding at any time of the year	<u>\$ 70,359,423</u>
Average balance outstanding during the year	<u>\$ 28,854,493</u>
Average interest rate during the year	<u>2.92%</u>

At November 30, 2008, interest rates on short-term notes ranged from 1.60% to 3.25%, with maturities dates up to February 24, 2009.

At November 30, 2008, investment securities amounting to \$117,276,100 are pledged as collateral for these notes. The counterparties do not have the right to sell or repledge the assets. Interest payable on short-term notes amounted to \$76,999 at November 30, 2008.



**Tax-Free Puerto Rico Fund II, Inc.**  
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**7. Medium-Term Notes**

Medium-term notes amounted to \$23,310,000 at November 30, 2008; related information follows:

Weighted average interest rate at end of year	6.87%
Maximum aggregate balance outstanding at any time during the year	<u>\$ 59,290,000</u>
Average balance outstanding during the year	<u>\$ 32,179,753</u>
Average interest rate during the year	<u>6.67%</u>

At November 30, 2008, the Fund had issued and outstanding the following medium-term notes:

Amount #	Interest Rate	Maturity
\$ 8,200	A	02/28/18
12,000	B	02/28/18
3,110	C	05/07/18
<u>\$ 23,310</u>		

# Amount in thousands of dollars.

- A The coupon of 7.25% is paid if the related swap agreement coupon is received, as long as 3-month LIBOR-BBA is within 0% - 6%; otherwise the coupon is reduced to 0% for that particular day.
- B The coupon of 6.60% is paid if the related swap agreement coupon is received, as long as 3-month LIBOR-BBA is within 0% - 6.50%; otherwise the coupon is reduced to 0% for that particular day.
- C The coupon of 7.32% is paid if the related swap agreement coupon is received, as long as 3-month LIBOR-BBA is within 0% - 6%; otherwise the coupon is reduced to 0% for that particular day.

At November 30, 2008, investment securities amounting to \$63,066,779 were pledged as collateral for these notes. The counterparties do not have the right to sell or repledge these securities. Interest payable on medium-term notes amounted to \$25,475 at November 30, 2008.

**8. Principal Protected Notes**

At November 30, 2008 the Fund had outstanding Principal Protected Notes Linked to a Global Index Basket, 2007 Series B.

**(a) Principal Protected Notes Linked to a Global Index Basket, 2007 Series B**

On May 25, 2007 the Fund offered \$11,000,000 worth of 100% Principal Protected Notes Linked to a Global Index Basket, 2007 Series B (the "Series B Notes"). On May 28, 2010 (the "Maturity Date"), the Series B Notes will mature and the Fund will make a cash payment per Series B Note equal to 100% of the principal amount per Series B Note of \$1,000. The Series B Notes are not subject to redemption prior to the Maturity Date.

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
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The Series B Notes are medium-term notes, offering full principal protection and participation in the appreciation of certain indices each subject to the Maximum Annual Index Return. The Series B Notes are linked in equal parts to the performance of a basket consisting in two (2) equity indices, namely, the S&P BRIC 40® Index and the Dow Jones EURO STOXX 50® Index (each an "Index" and, collectively, the "Indices").

Note payments will consist of (i) Annual Interest Payments on the Series B Notes to be paid on May 29, 2009 and May 28, 2010, respectively (each, an "Annual Interest Payment Date"); and (ii) the return of 100% of the principal amount of the Series B Notes on the Maturity Date.

On each Annual Interest Payment Date, the Fund will make a cash payment per Series B Notes equal to the Annual Interest Payment. The Annual Interest Payment on the Series B Notes will be linked in equal parts to the performance of the Indices. The performance of the Indices will be measured by the percentage change in the closing value of each Index from May 25, 2007, (with respect to each Index, the "Initial Index Value"), to the fifth Exchange Business Day prior to the respective Annual Interest Payment Date each such percentage change being capped at a maximum percentage of 8.10%, which is the Maximum Annual Index Return. The Initial Index Value for the S&P BRIC 40® Index is 2,215.65. The Initial Index Value for the Dow Jones EURO STOXX 50® Index is 4,463.52.

The effective yield to maturity on the debt component on the Series B Notes as of November 30, 2008 is 3.41%. As of November 30, 2008, an embedded derivative amounting to \$12,056 is linked to the Series B Notes. The Series B Notes have a fair value of \$8,033,460 and a carrying value of \$8,004,856 including the embedded derivatives.

**9. Short-Term and Long-Term Financial Instruments**

The fair value of short-term financial instruments, which include \$106,320,146 of securities sold under repurchase agreements and \$47,118,881 of short-term notes, are substantially the same as the carrying amount reflected in the Statement of Assets and Liabilities, as these are reasonable estimates of fair values, given the relatively short period of time between origination of the instrument and their expected realization. Medium-term notes have a fair value of \$23,310,000 and a carrying value of \$23,310,000.

**10. Concentration of Credit Risk**

Concentration of credit risk that arises 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 concentration of credit risk arises from the Fund's investment securities in relation to the location of issuers. For calculating concentration, all securities guaranteed by the U.S. Government or any of its subdivisions are excluded. At November 30, 2008, the Fund has investments with an aggregate market value of approximately \$271,865,085 which were issued by entities located in the Commonwealth of Puerto Rico and are not guaranteed by the U.S. Government or any of its subdivisions.

As stated in the Prospectus, the Fund will ordinarily invest at least 67% of its total assets in taxable and tax-exempt securities issued by Puerto Rico issuers ("the 67% Investment Requirement"). These include securities issued by the Commonwealth of Puerto Rico and its political subdivisions, organizations, agencies, and instrumentalities, Puerto Rico mortgage-backed and asset-backed securities, corporate obligations and preferred stock of Puerto Rico entities, and other securities, consistent with the Fund's investment objective and policies as defined in the Prospectus (the "Puerto

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
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Rico Securities"). Therefore, the Fund is more susceptible to factors affecting issuers of Puerto Rico Securities than an investment company that is not concentrated in Puerto Rico Securities to such degree.

**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 by statute or by regulation while others are imposed by procedures established by the Board of Directors. The most significant requirements and limitations are discussed below.

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

The Fund's leverage, as measured in relation to total assets, may not exceed 50%. Should this ratio be exceeded, the Fund is precluded from further leverage transactions until the maximum 50% ratio is restored.

**12. Reconciliation Between Taxable and Book Net Investment Income**

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

Net investment income	\$ 15,022,667
Reclassification of swap periodic collections	631,450
Reclassification of realized loss on securities paydowns	5,971
Accretion of index notes	<u>479,154</u>
Net investment income for tax purposes	<u>\$ 16,139,242</u>

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

For the fiscal year ended November 30, 2008, the Fund had distributed \$16,899,578 of the total net investment income of \$16,139,242 for tax purposes. The undistributed net investment income (for tax purposes) at November 30, 2008 was as follows:

Undistributed net investment income for tax purposes at the beginning of the year	\$ 2,317,745
Net investment income for tax purposes	16,139,242
Dividends paid to common shareholders	<u>(16,899,578)</u>
Undistributed net investment income for tax purposes at end of year	<u>\$ 1,557,409</u>

Undistributed net investment income for tax purposes at November 30, 2008 includes \$701,644 exempt from income taxes.

**Tax-Free Puerto Rico Fund II, Inc.**  
**Notes to Financial Statements**  
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**13. Subsequent Events**

On December 31, 2008, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.05583 per common share, totaling \$1,376,289 and payable on January 12, 2009, to common shareholders of record as of December 31, 2008.

On January 31, 2009, the Board of Directors, acting through the Dividend Committee, declared an ordinary net investment income dividend of \$0.05542 per common share, totaling \$1,370,428 and payable on February 10, 2009, to common shareholders of record as of January 31, 2009.

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**Report of Independent Auditors**

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

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations, of changes in net assets and of cash flows and the financial highlights present fairly, in all material respects, the financial position of Tax-Free Puerto Rico Fund II, Inc. ("the Fund") at November 30, 2008, and the results of its operations, the changes in its net assets, its cash flows, and the financial highlights for each of the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 19, 2009

CERTIFIED PUBLIC ACCOUNTANTS  
(OF PUERTO RICO)  
License No. 216 Expires Dec. 1, 2010  
Stamp 2387100 of the P.R. Society of  
Certified Public Accountants has been  
affixed to the file copy of this report

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Director, Vice Chairman of the Board and Executive Vice President

**Stephen C. Roussin**  
Director

**Mario S. Belaval**  
Director

**Agustín Cabrer-Roig**  
Director

**Gabriel Dolagaray Balado**  
Director

**Carlos Nido**  
Director

**Luis M. Pellot-González**  
Director

**Vicente J. León**  
Director

**Cloilde Pérez**  
Director

**Leslie Highley, Jr.**  
Director and Senior Vice President

**Ricardo Ramos**  
First Vice President, Treasurer and Assistant Secretary

**William Rivera**  
First Vice President

**Javier Rodríguez**  
Assistant Vice President and Assistant Treasurer

**Seth Ruderman**  
Secretary

Remember that:

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





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FUND II