



Commonwealth of Puerto Rico

Investor Outreach

March 22, 2013

Note

This presentation includes analysis of certain future events, estimated numbers and assumptions that are subject to significant changes and contingencies, many of which are beyond the control of the Government Development Bank for Puerto Rico, the Commonwealth of Puerto Rico and its agencies. All information is preliminary and subject to independent auditors' review.

Participants

Department of Treasury

Melba Acosta	Secretary
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Government Development Bank

David H. Chafey, Jr.	Chairman - Board of Directors
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Javier D. Ferrer	President
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Ian J. Figueroa	EVP - Financing & Capital Markets
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Agenda

1 Introduction and Recent Achievements

2 Public Corporations

3 Pension Reform

4 General Fund

5 Concluding Remarks

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1 Introduction and Recent Achievements

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5 Concluding Remarks

Puerto Rico has made progress to address its budgetary deficit but still has work to do to achieve balance

Main fiscal challenges faced by Puerto Rico:

Retirement System's
Unfunded Liability

Budgetary Deficit

Strained
Public Corporations

- In recent past, cost reduction measures were implemented to reduce budget deficit and restore investor confidence.
- However, key goals to achieve fiscal balance, address the retirement system and restructure public corporations have not been reached.
- Current administration is keenly aware of the key challenges facing Puerto Rico.
- We have taken decisive action to correct the systemic problems that have weakened our credit rating and restrained Puerto Rico from sustainable economic growth.

We have a plan to tackle our key challenges immediately and we have achieved significant steps towards meeting it

Our strategic plan contemplates bold and decisive actions to restore our fiscal balance:

Retirement Systems	<ul style="list-style-type: none">• Transforming our public pension systems in order to protect our retirees and avoid future unmanageable cash drain on general fund
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Public Corporations	<ul style="list-style-type: none">• Restructure our public corporations into financially independent entities that provide cost efficient services and promote economic growth• Strengthen our tourism industry• Restructure the Highways and Transportation Authority and seek additional resources• Re-engineer our utilities-related public corporations (water & energy)
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The image shows four logos for public corporations. Top left: dtop logo with 'CARRETERAS' below it. Top right: Puerto Rico Electric Power Authority logo with 'CORPORATE SEAL' below it. Bottom left: Puerto Rico Aqueduct and Sewer Authority logo. Bottom right: Ports Authority logo.

General Fund	<ul style="list-style-type: none">• Enhancing our revenue base while <u>maintaining</u> strict controls over expenditures• Gradually reduce our recent reliance on debt restructuring
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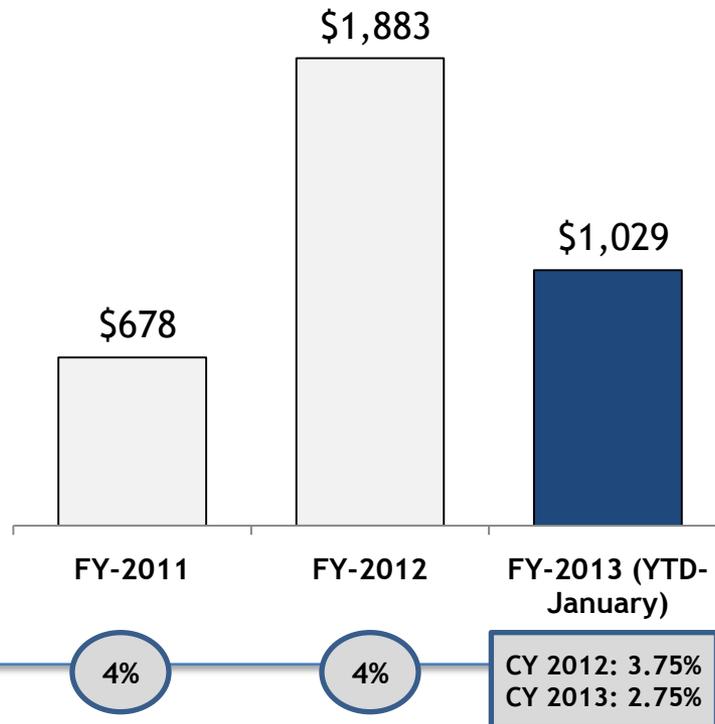
Recent Achievements

We have moved swiftly with decisive actions to address our most immediate fiscal matters

Act 154 excise tax has been increased and fixed at 4%; also extended for five years

Act 154 Actual Revenues

(in millions \$)



Commentary

1. After multiple meetings with multinational companies, the excise tax was increased and fixed to its original level of 4% for five years commencing on July 1, 2013. Tax currently at 2.75%.
2. Decision was reached after open dialogues; we acknowledge the importance of the manufacturing sector to our economy and continue working with sector to address their concerns and promote new investments.
3. Given past experience, the tax at 4% is expected to raise approximately \$600 million in additional annual revenues.
4. After year 5, these taxpayers will be subject to the source income rule in Act 154.

On February 27, 2013, Puerto Rico finalized the P3 transaction involving the Luis Muñoz Marín International Airport -- first ever under FAA pilot program

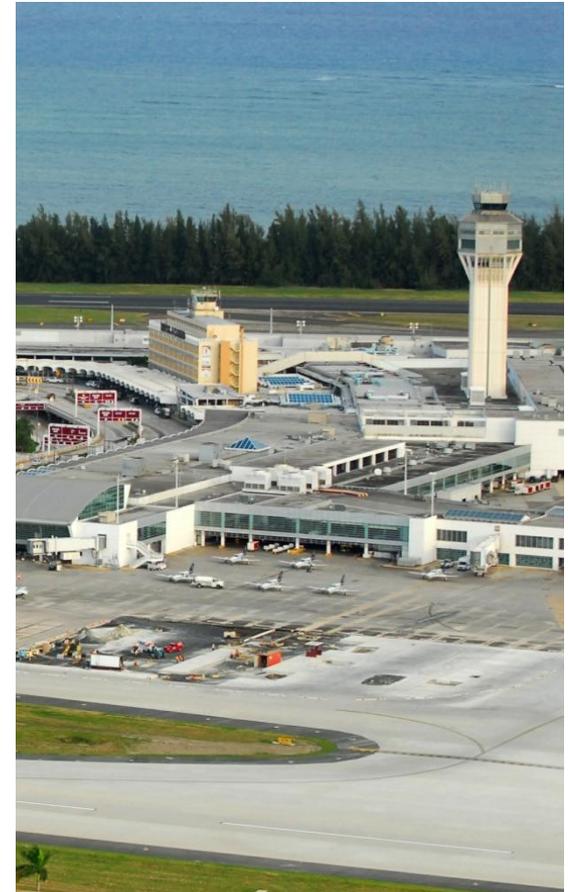
Promoting Economic Activity Through Better Tourism Infrastructure

Transaction Highlights

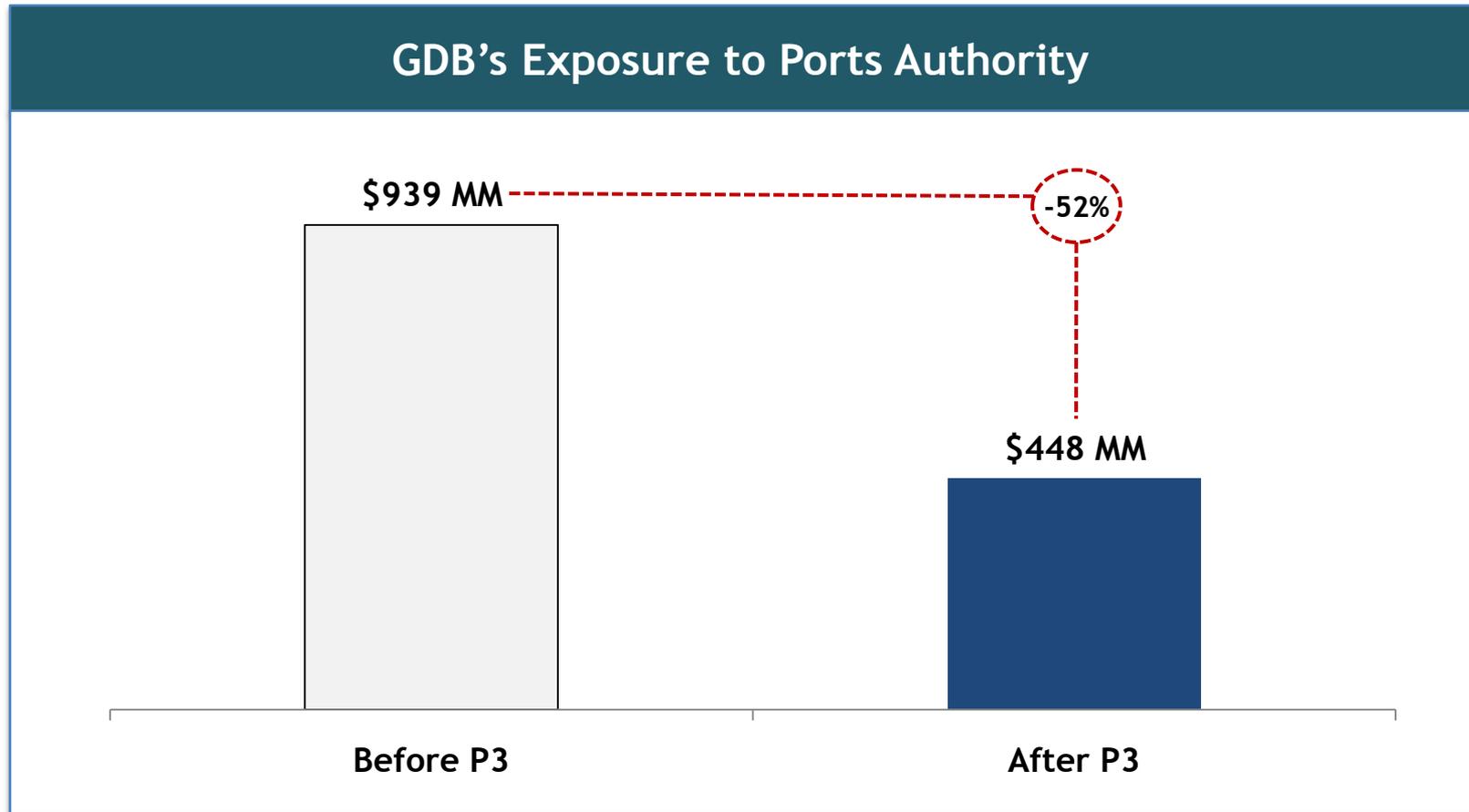
- Lease agreement with Aerostar Holdings, a joint-venture between Aeropuerto de Cancún and Grupo Aeroportuario del and Highstar Capital organized under the laws of the Commonwealth of Puerto Rico
- Up-front payment of \$615 million
- \$240 million in capital improvement commitments over the next 5 years
- Additional routes are being contemplated in order to increase passenger flow over the next 5 years; Aerostar has identified 32 new flights (both domestic and international) for 2013
- Reduced debt burden on Ports Authority and GDB

Benefits

- Significant improvement in infrastructure
- Enhanced traveler experience
- Fiscal and credit strengthening for Ports Authority and GDB



This transaction strengthens Ports Authority's fiscal position and enhances GDB's liquidity and risk position



GDB's remaining exposure to Ports Authority includes LOC support for \$403.8 million in outstanding bonds (PRIFA) and \$44 million in loans (special infrastructure project).

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Puerto Rico Aqueduct and Sewer Authority (“PRASA”)

On February 1, 2013, PRASA announced a 67% rate increase effective July 1st that will provide additional revenues to cover operational expenses

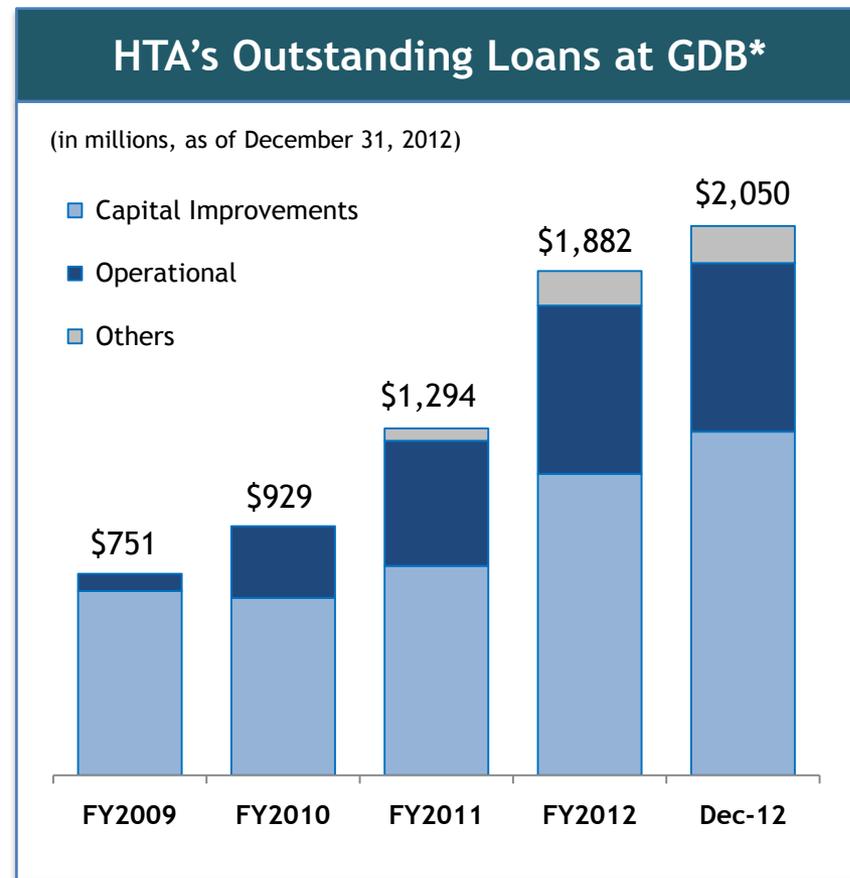
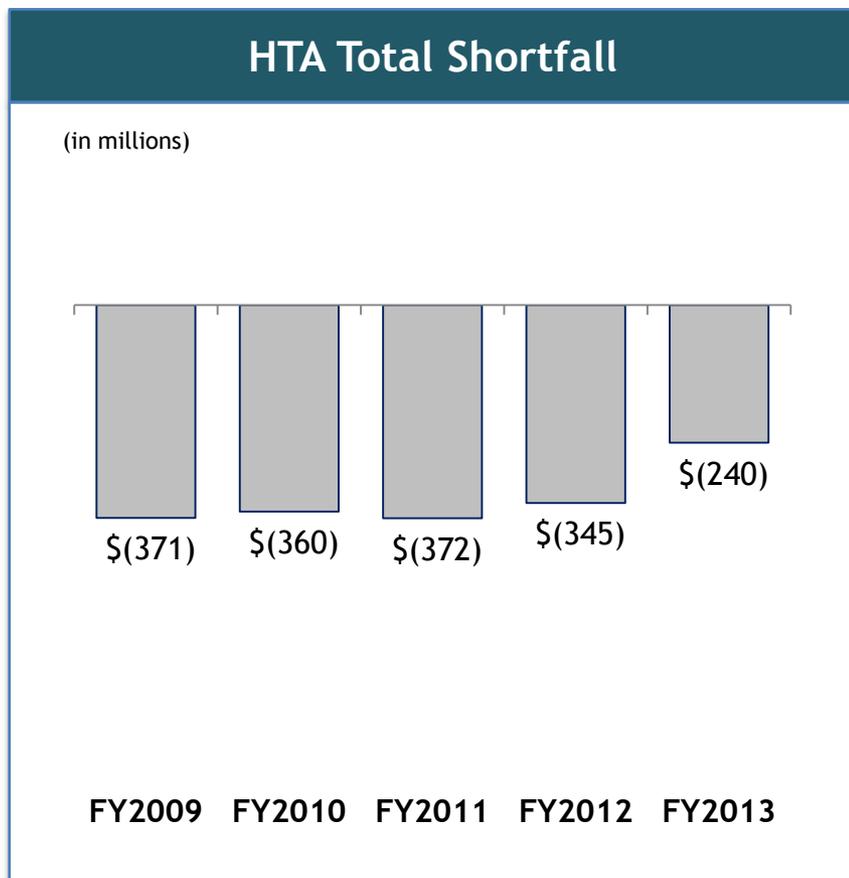
(in thousands)	No increase	67% Rate Increase	
	FY-2014 Projected Income Statement	FY-2014 Projected Income Statement	FY-2015 Projected Income Statement
Operating Revenues	\$727,445	\$1,140,479	\$1,144,508
Net Operating Expenses	\$718,438	\$718,438	\$745,559
Funds Available to Pay Debt Service	\$9,007	\$422,041	\$472,185*
Total Debt Service	\$348,804	\$348,804	\$375,355
Operating Funds Available	(\$339,798)	\$73,236	\$96,831
Transfer to Rate Stabilization Fund	\$0	\$73,236	\$96,831

Monthly bill will increase by approximately \$20 for 57% of clients.

* Includes the \$73.24 million in Rate Stabilization Fund. The Rate Stabilization Fund will allow PRASA to maintain a balanced budget in future years.

Highways and Transportation Authority (“HTA”)

HTA has recently relied on GDB to maintain its operations and capital improvements' program



GDB's loan exposure to HTA represents approximately 25% of the Bank's loans

* Administration evaluating revenue initiatives to support refinancing of HTA's debt. HTA's organizational restructuring also being address.

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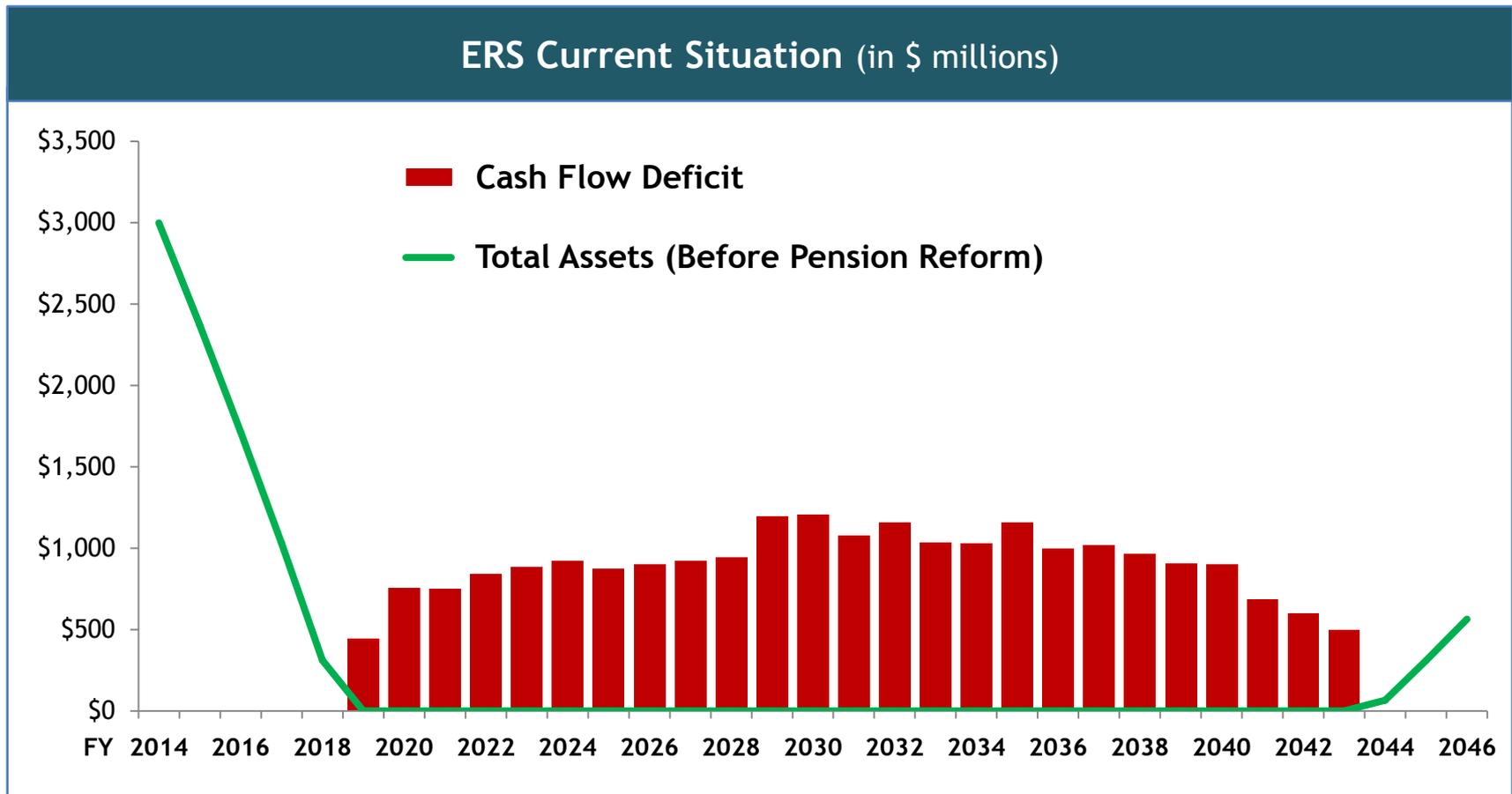
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The Employees Retirement System (“ERS”) faces a cash flow deficit stretching for over two decades

- The annual cash flow shortfall under the current System (known as “pay-as-you-go”), averages \$905 million annually during the period from FY2018-2019 until FY2042-2043, totaling \$8 billion on a present value basis. This means that the government would have to make an annual contribution of \$905 million, on average, on top of the employer contribution increase already legislated under Act 116 of 2011.



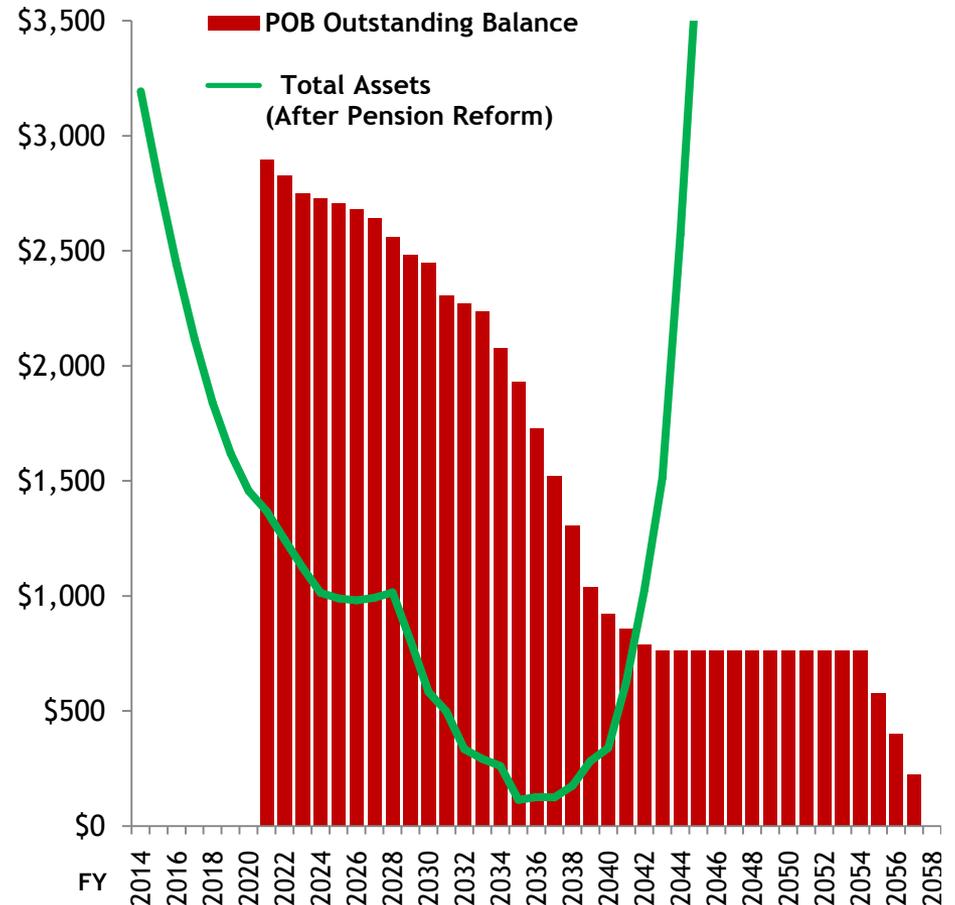
Note: The amounts presented are estimates, the end result could vary. This chart takes into account an investment rate of return of 5.95% and only accounts for the ERS.

Given the matured state and critical unfunded level of the ERS, the proposed Reform addresses the cash flow deficit

Reform Considerations Regarding Assets

- The proposed measures are designed to provide sufficient funds to cover annual obligations throughout the life of the System and are expected to increase the System's assets in the long term
- On a net asset basis, we expect many years of zero percent or negative funded status. Whenever gross assets are below the POB balance, net assets are negative
- The actuarial liability for GASB reporting purposes will stay high for a long time
- Assets will start accumulating during the early 2040's

POB's Principal Amortization Compared to Total Assets (in \$ millions)



Benefits Structure for the ERS

Public Employees		
Defined Benefit Plan		Defined Contribution Plan
Act 447 of 1951	Act 1 of 1990	Act 305 of 1999
<ul style="list-style-type: none"> • Maximum merit pension of 75% (30 years in service and 55 years of age) or 65% (30 years in service and less than 55 years of age) • Benefit: 1.5% of average salary during the first 20 years in service and 2.0% of average salary during subsequent years • Average salary computation based on highest salaries during any 36 month period • Minimum benefit: \$400/month • Retirement age^(a): 58 years • Active members: 22,866 • Retired employees^(b): 109,097 	<ul style="list-style-type: none"> • Reduce the benefit structure • Benefit: 1.5% of average salary during years in service • Average salary computation based on the last 5 years in service • Minimum benefit: \$400/month • Retirement age: 65 years • Active members: 46,452 • Retired employees^(b): 7,540 	<ul style="list-style-type: none"> • Closed the Defined Benefit Plan for new employees • Benefit: There is no defined benefit. Pension depends on the employee's contribution plus return on investment • Upon retirement, the total value accrued is disbursed to the member's account • Minimum benefit: N/A • Retirement age: 60 years • Active members: 62,043 • Retired employees^(b): 21

(a) Except for merit pensions and early retirement with reduced pension.

(b) According to data provided by Administrator of ERS as of December 31, 2012. Includes beneficiaries and disabled workers.

The proposed reform is meaningful and comprehensive

Measures	Employees Retirement System
 Reduce Benefits to Future Retirees	All Act 447 and Act 1 participants will be moved to a defined contribution plan; amounts allocated to current accounts will be respected
 Eliminate Merit Pension	Merit pension only available to employees that are eligible to retire on or prior to June 30, 2013
 Increase Retirement Age	<ul style="list-style-type: none"> • Act 447: increase from age 58 to age 65 • Act 1: increase from age 65 to age 67 • System 2000: increase from age 60 to age 67 • Police & Firefighters: increase from age 50 or any age with 30 years of service to age 58
 Increase Employee Contribution	Increase employee contribution from 8.275% to a minimum of 10.0%
 Eliminate / Reduce Special Law Benefits	<ul style="list-style-type: none"> • Reduction in Christmas bonus, summer bonus and medicine bonus (“Special Law Benefits”) for current retirees. • Elimination of Special Law Benefits to future retirees.
 Annuitization of System 2000 Benefits	System 2000 participants will receive a lifetime annuity based on their accumulated member contributions at retirement, instead of a lump sum payment.

Proposed Pension Reform will allow ERS to have sufficient revenues to cover its future obligations

Proposed Pension Reform measures will:



Protect pensions of retirees and of active public employees who continue contributing to the System



Address General Fund's "pay-as-you-go" contribution, reducing it to manageable annual levels

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A

Fiscal Year 2013 Budget Forecast

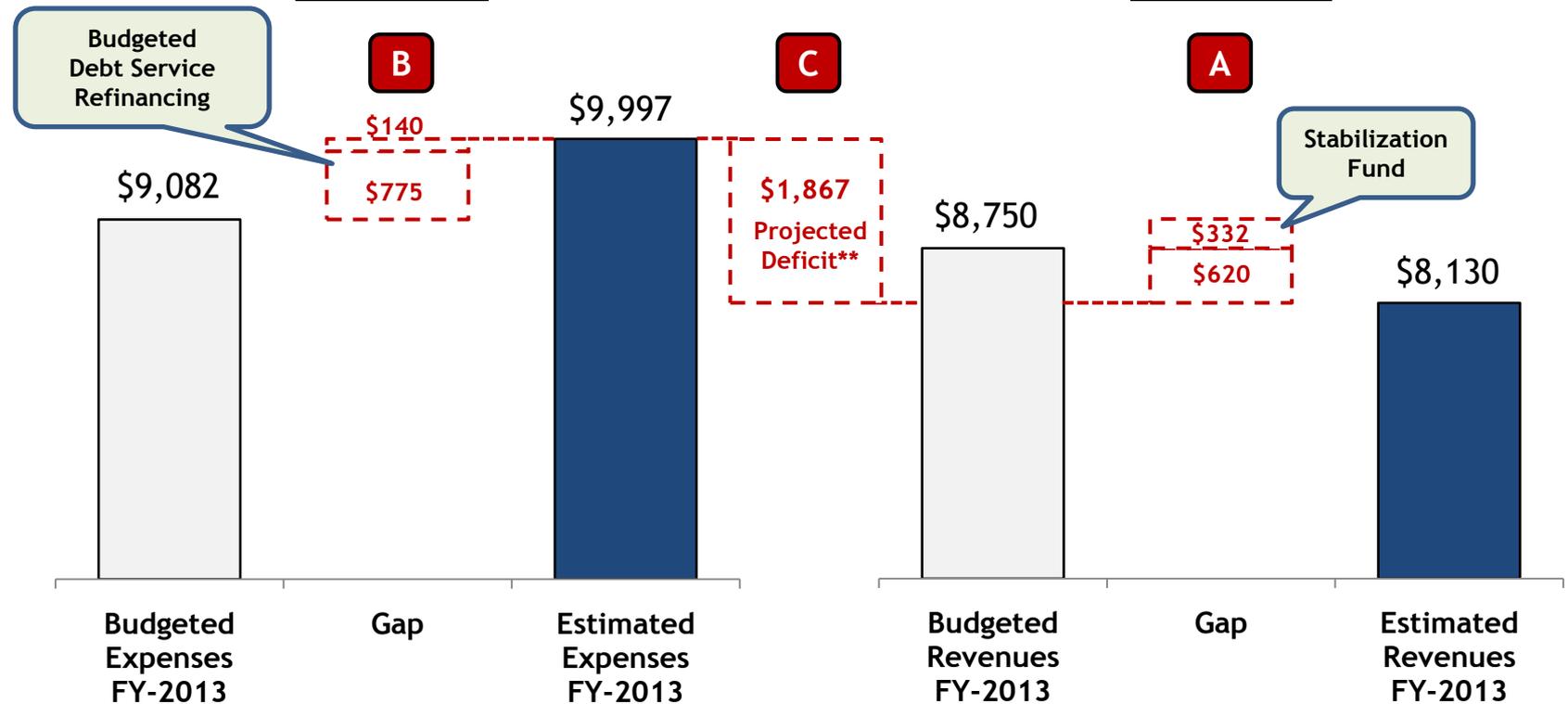
FY 2013 General Fund Budget - Deficit Forecast

FY 2013 Projected Budget*

(in millions)

Expenses

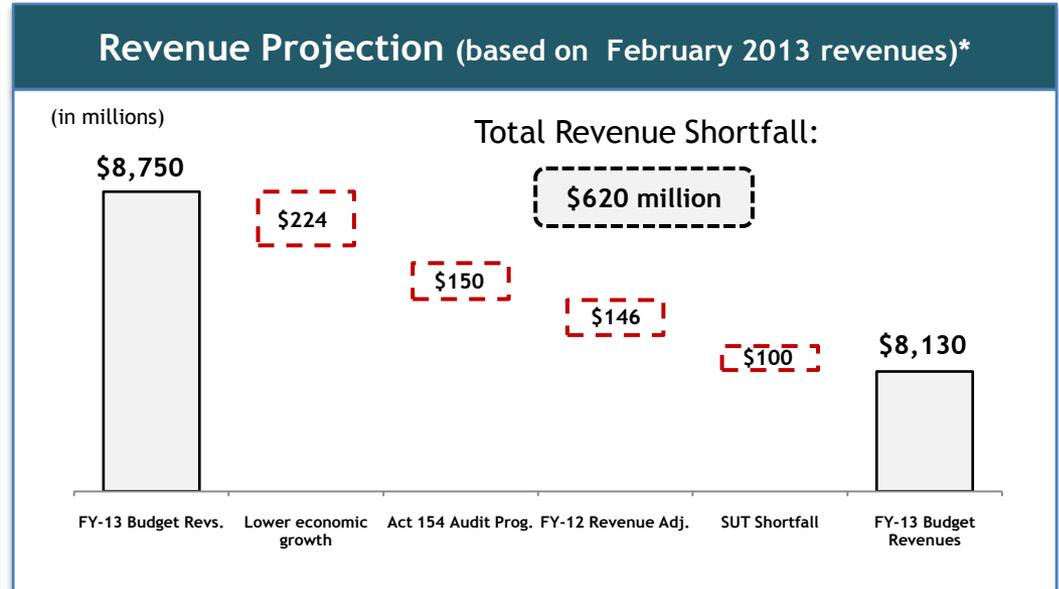
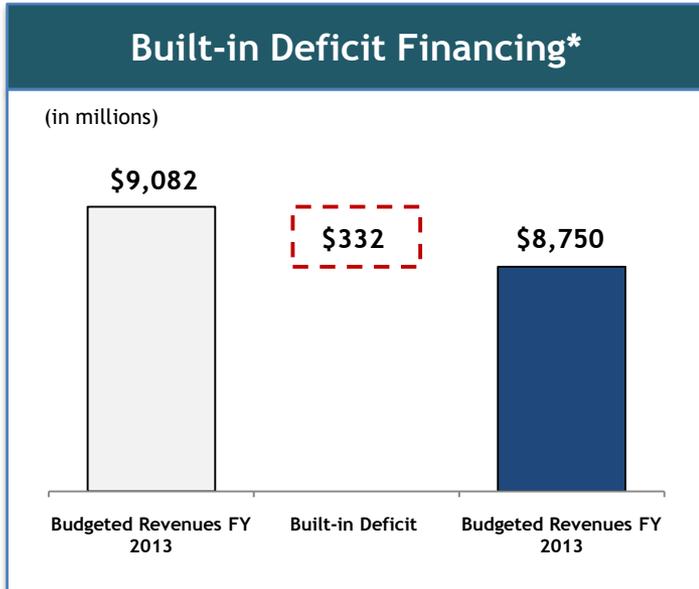
Revenues



* All numbers are preliminary and unaudited based on revenues and expense projections as of February 28, 2013.

** Does not include corrective measures to be implemented after February 28, 2013.

Fiscal Year 2013 Budgeted Revenues

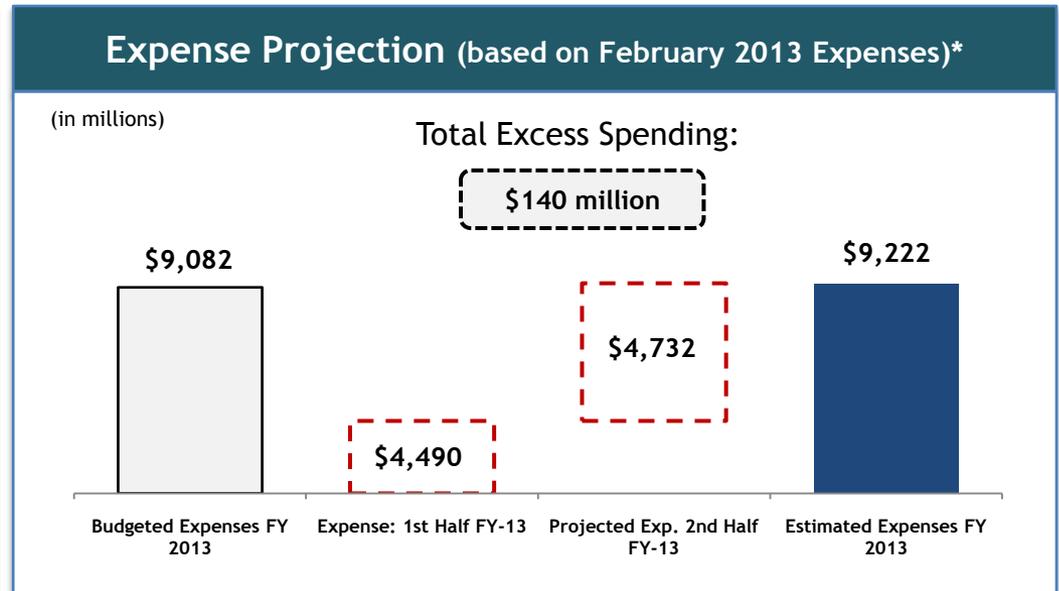
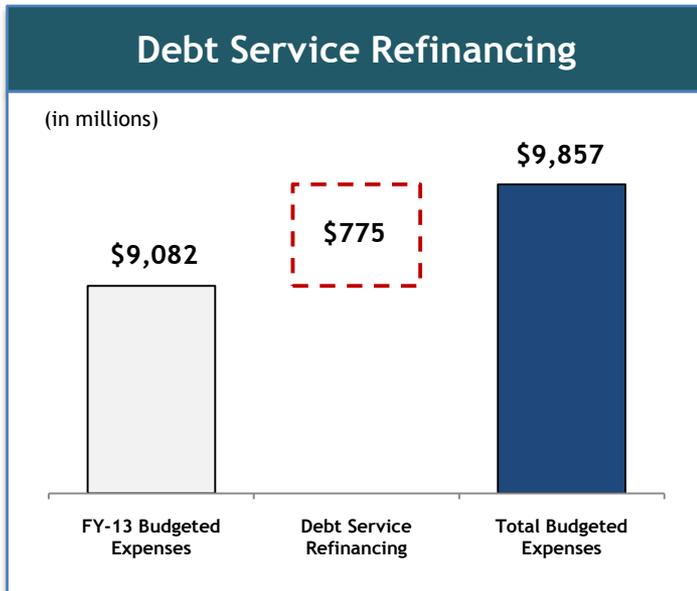


1. Budget was designed with a built-in deficit financing from COFINA.
2. This amount represents the FY 2013 adopted budget for the Judicial Branch.

1. Lower economic growth: FY 2013 budget was prepared under the assumption of 1% growth; it has now been lowered to 0.6%.
2. Act 154 Audit Program: new audit program for Act 154 companies started and \$150 million target was included in the budget, a measure that has proved to be aggressive.
3. FY-12 Revenue Adjustment: some categories of revenues for FY-12 fell short by \$146 million in the aggregate but the base for FY-13 was not adjusted.
4. SUT ("IVU") shortfall: due to the implementation of the SUT Lotto program, SUT estimates were raised. Even though SUT Lotto has helped, estimates were still aggressive.

* All numbers are preliminary and unaudited based on revenues and expense projections as of February 28, 2013 .

B Fiscal Year 2013 Budgeted Expenses

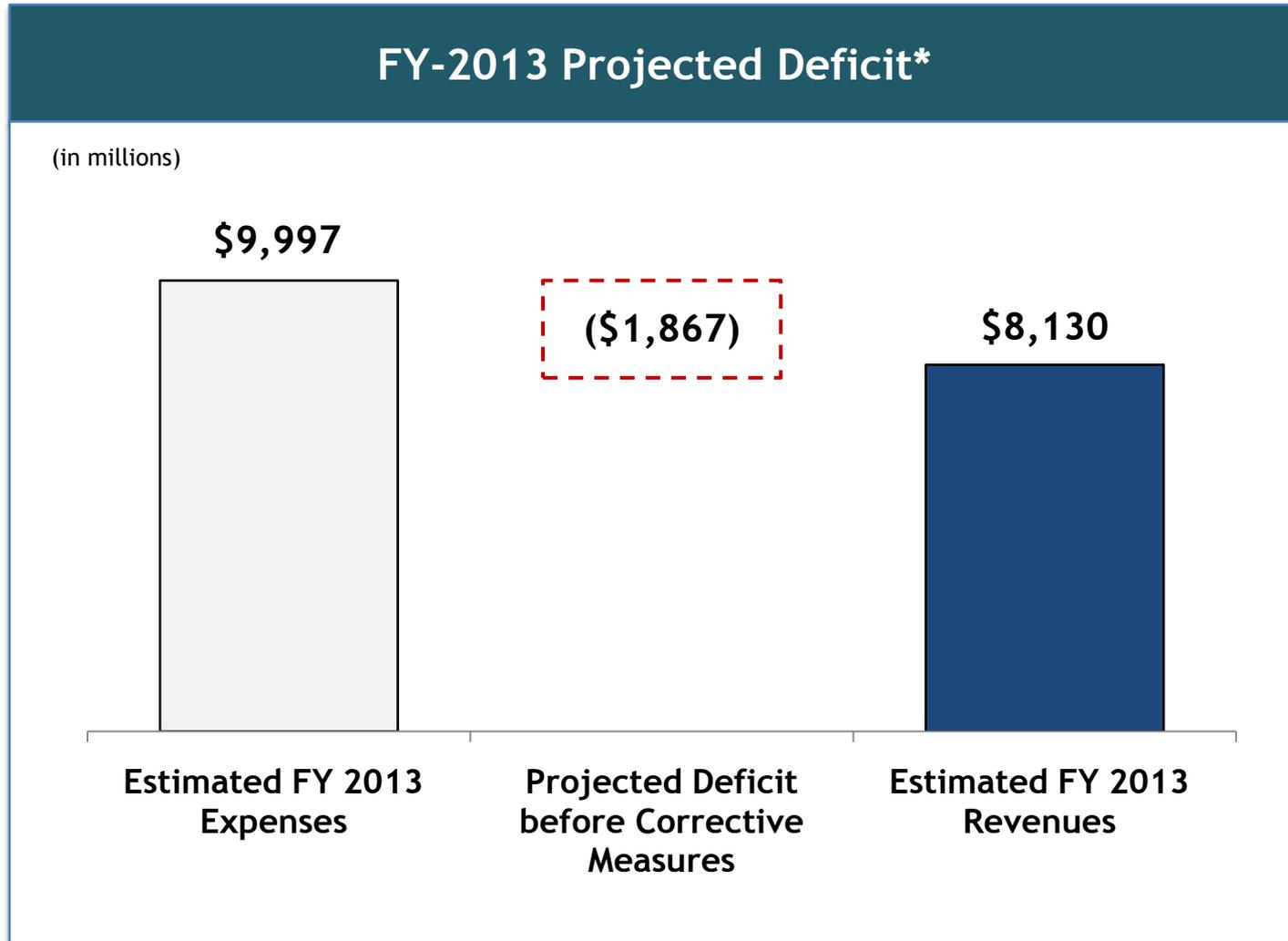


- Budget was designed with an assumed refinancing of \$775 million in General Obligation bonds (\$600 million in GO and \$175 million in Public Building Authority bonds).
- These debt service requirements are being paid with GDB lines of credit.

Estimated total excess spending as of February 2013 :	\$100 million
+ Unbudgeted sick leave payments:	\$90 million
+ Department of Education Dining Overrun and Contingency:	\$60 million
-Department of Education prior year carryover surplus:	+ (\$110 million)
<hr/> Estimated excess spending FY 2013:	\$140 million

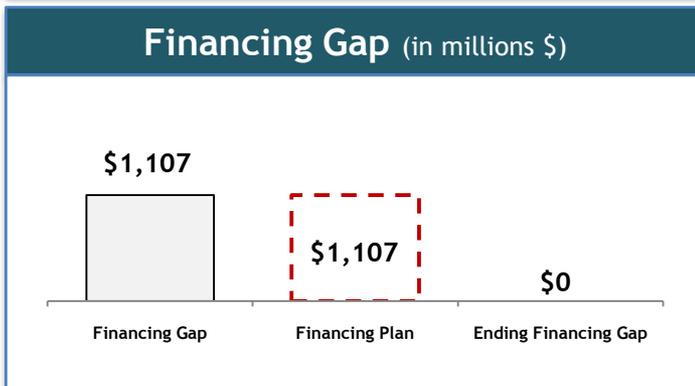
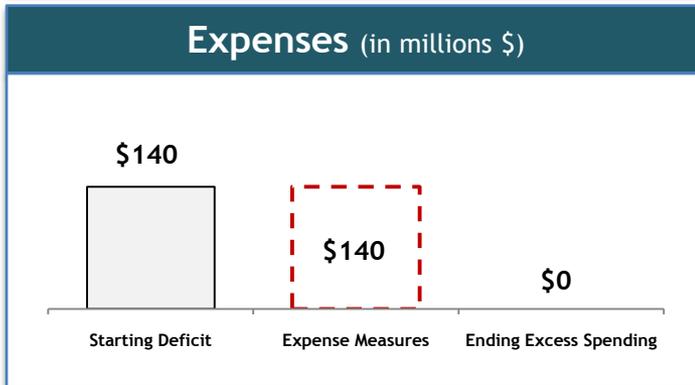
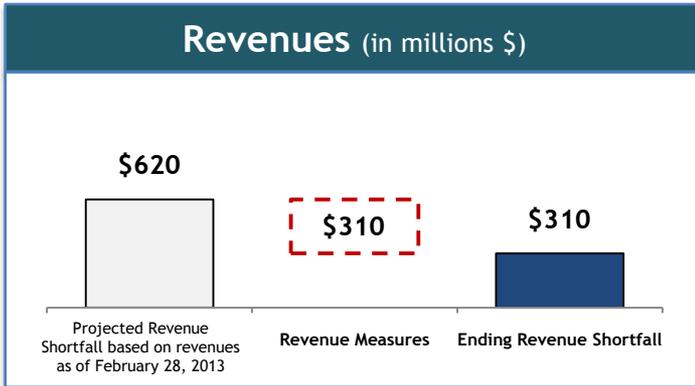
* All numbers are preliminary and unaudited based on revenues and expense projections as of February 28, 2013 .

C Fiscal Year 2013 Projected Deficit - as of February 28, 2013



* All numbers are preliminary and unaudited based on revenues and expense projections as of February 28, 2013 .

Corrective action plan currently underway



Projected Deficit Corrective Measures (in millions \$)

- Royalty payments \$170 million
- Liens and aggressive collection actions on delinquent SUT taxpayers \$20 million
- Generate new payment plans through amnesty and sell along payment plans  \$120 million

\$310 million

- Identify and use agencies' own funds and savings, federal funds and special funds to partially cover the liquidations of unbudgeted sick leave \$70 million
- Issue Executive Order to freeze and transfer to reserve 30% of unobligated service and purchasing accounts. Review individual contracts and personnel transactions  \$70 million

\$140 million

- Execute GO and PBA refinancing as initially contemplated (GDB lines already in place) \$775 million
- Place COFINA issuance  \$332 million

\$1.107 billion

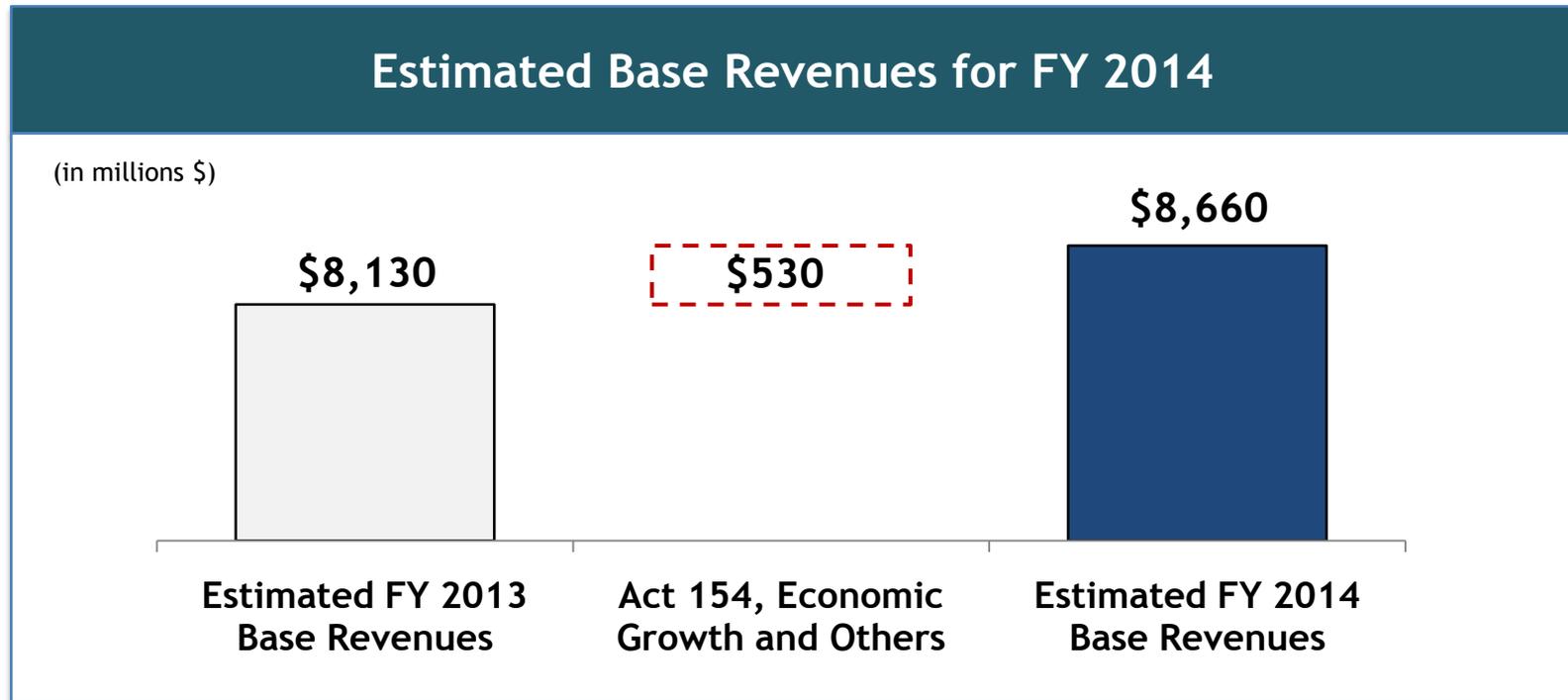
Additional measures are being considered in order to completely reduce the gap

- 1 Change to Sales and Use Tax collections at point of sale
- 2 Additional actions on tax evasion
- 3 Additional sales of existing tax payment plans (from a total of \$160 million)
- 4 Additional expense reduction initiatives
- 5 Income tax W-2 matching exercise
- 6 **Rainy day fund** (Viability to be determined with auditors' consent - approximately \$230 million)

B

Revenue Enhancement Measures Under Consideration

Fiscal Year 2014 Estimated Base Revenues



Principal Assumptions:

1. Revised FY 2013 projected revenues
2. Tax Reform - Second phase will not be implemented
3. Assumes economic growth of 1.2% for FY 2014 based on latest projections by Planning Board; projections will be revised as part of the upcoming budget process
4. Amended Act 154 to increase rate - 4%
5. Reduction of royalty pre-payments received in 2012-13 as part of deferral of amendments to Act 154

Expand Sales and Use Tax Base

Treasury Department is exploring potential modifications of sales and use tax ("SUT") exemptions, which could expand the current base revenues.

Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.

Modification of Resellers' Exemption Certificate: Transforming Sales and Use Tax*

Current Situation

- Sales tax system with resellers' exemption
- Lack of respect - high rate of non-compliance
- Abuse by resellers
- Not capturing the underground economy

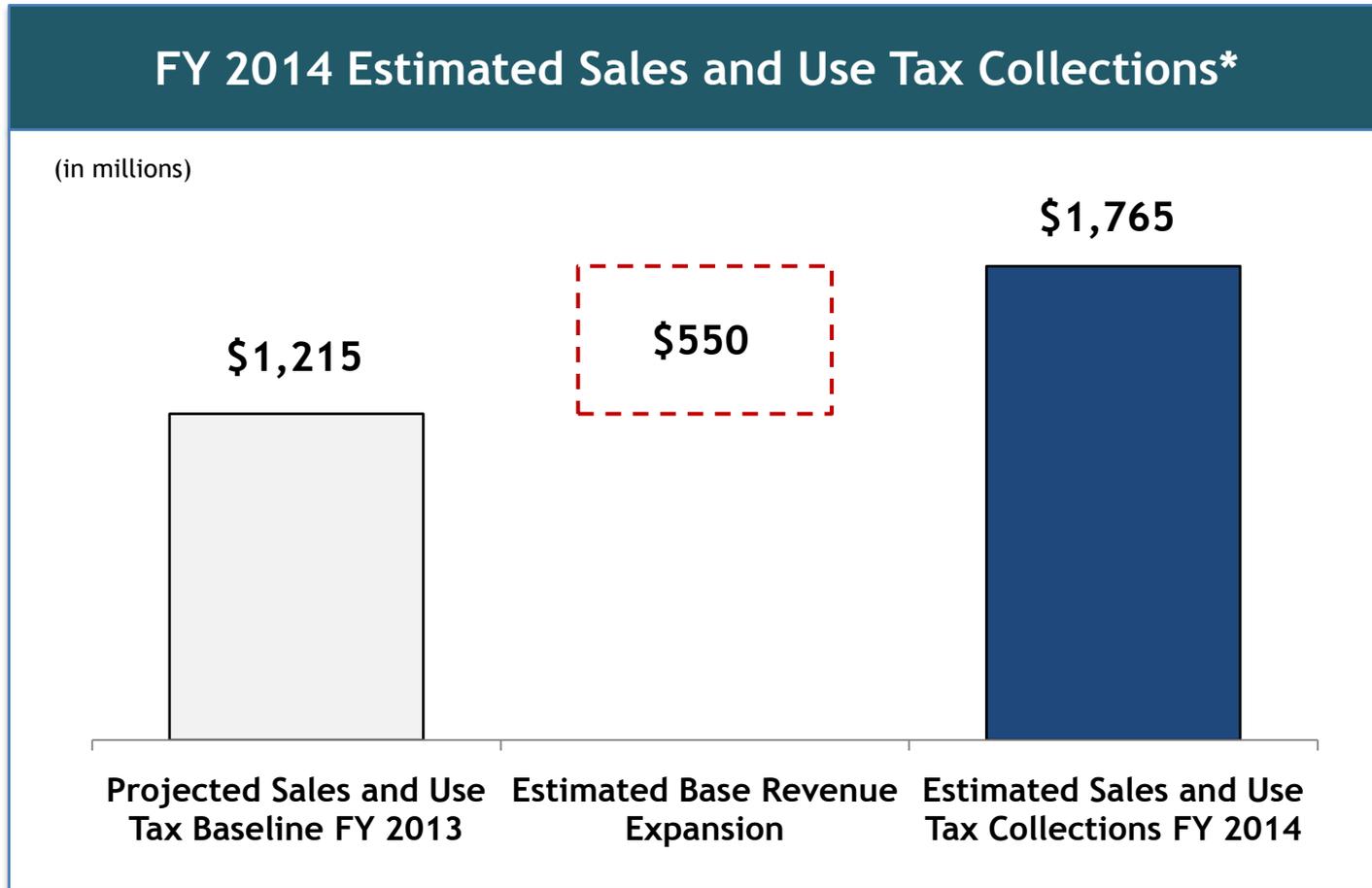


Proposed Changes - Commentary

- Refund system with tax credit for over-payment
- Everyone pays Sales and Use Tax
- Not a new tax, just a new collection method
- Cash flow benefit
- Reduces underground economy
- Allows for better audits

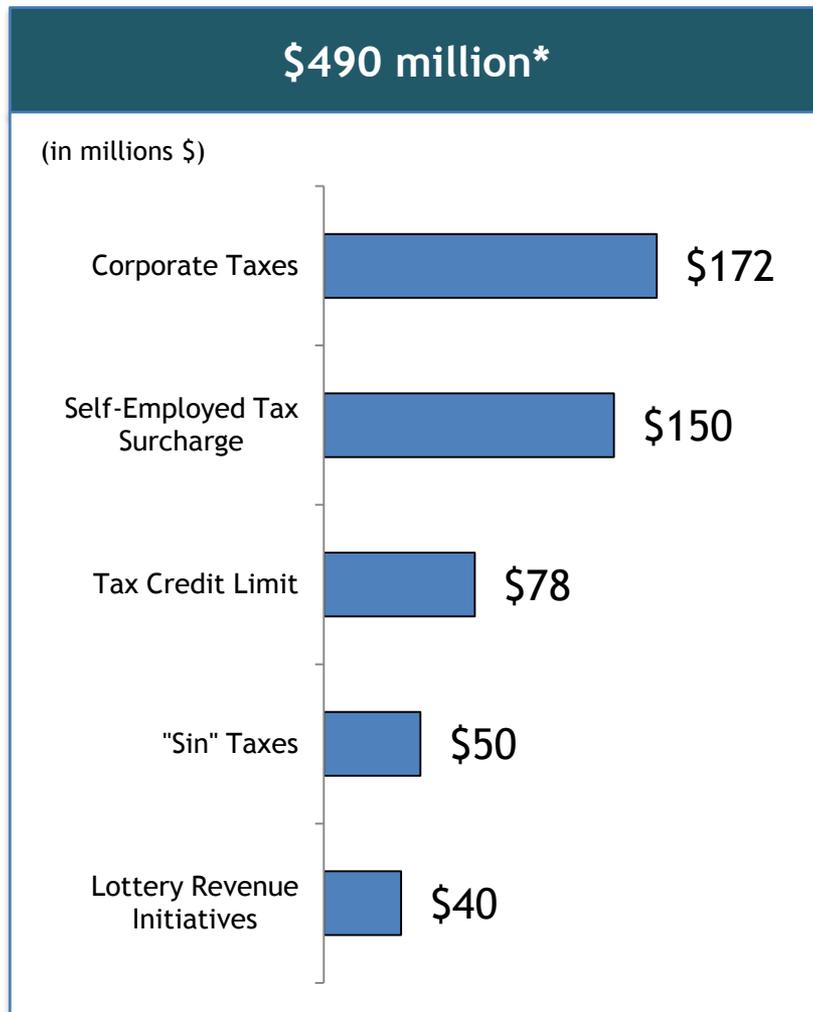
*** Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.**

Estimated Sales and Use Tax collections FY 2014



* Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.

Other revenue enhancement measures under consideration

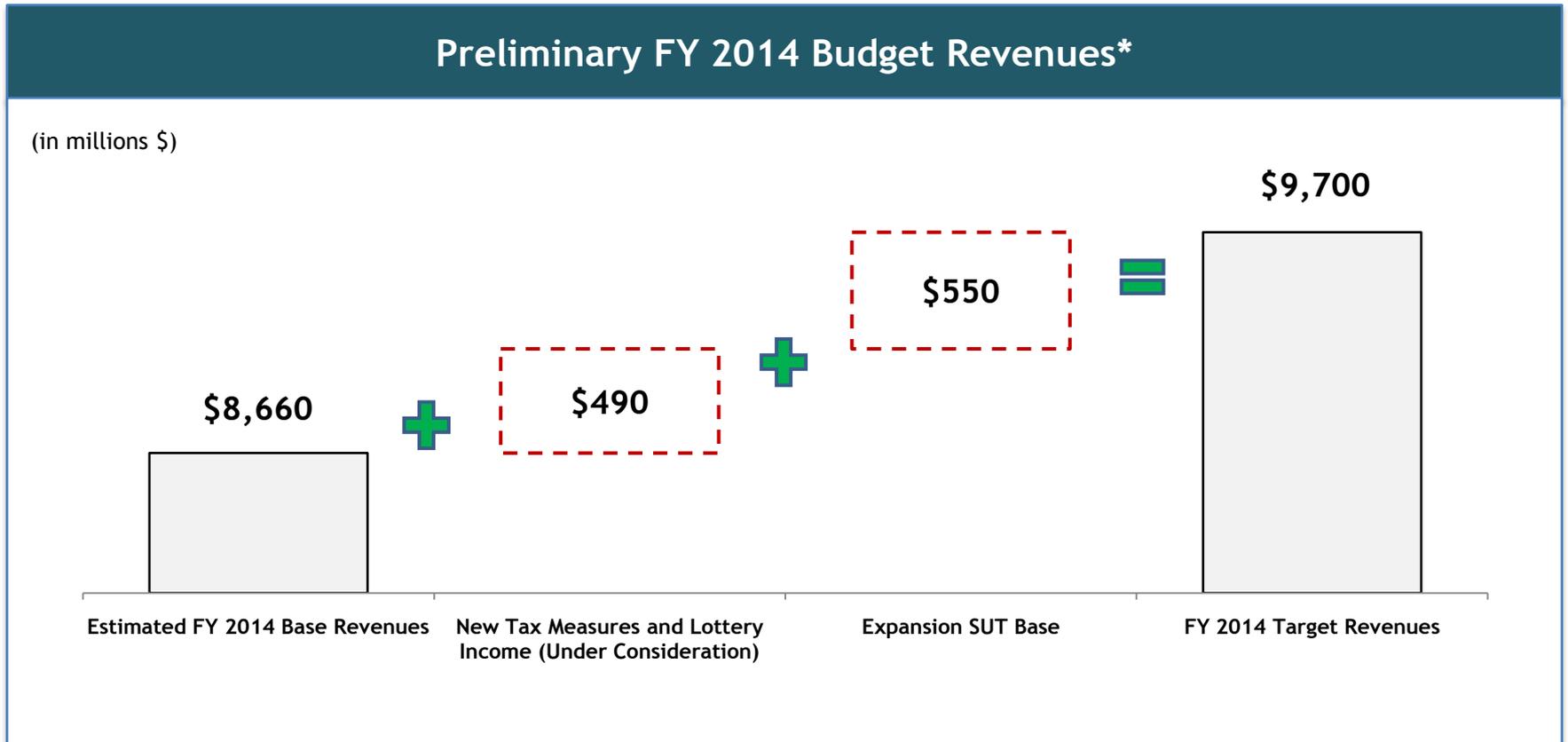


Commentary

- Various corporate measures including modified corporate AMT to limit the use of Net Operational Loss (\$65 million), top line tax on sales of merchants selling over \$50 million (Legislature initiative), and tax on intercompany expenses in agreements with holding companies (\$27 million)
- Special contribution to be imposed over government contractors (\$30 million - Legislature initiative)
- 4% top-line tax on high income earners (over \$150k) -- sole proprietorships and self employed professionals.
- Segment underpays due to substantial loopholes and deductions.
- Temporary freeze on certain credits with questionable impact on economic growth legislated over time (freeze of 50% credit) (Act 212 and others)
- Increase excise tax on cigarettes
- Effect calculated net of demand elasticity
- Lottery revenue from initiatives such as Powerball integration
- Effect of already repealed UPR scholarship extraction

*** Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.**

Fiscal Year 2014 Estimated Budget Revenues



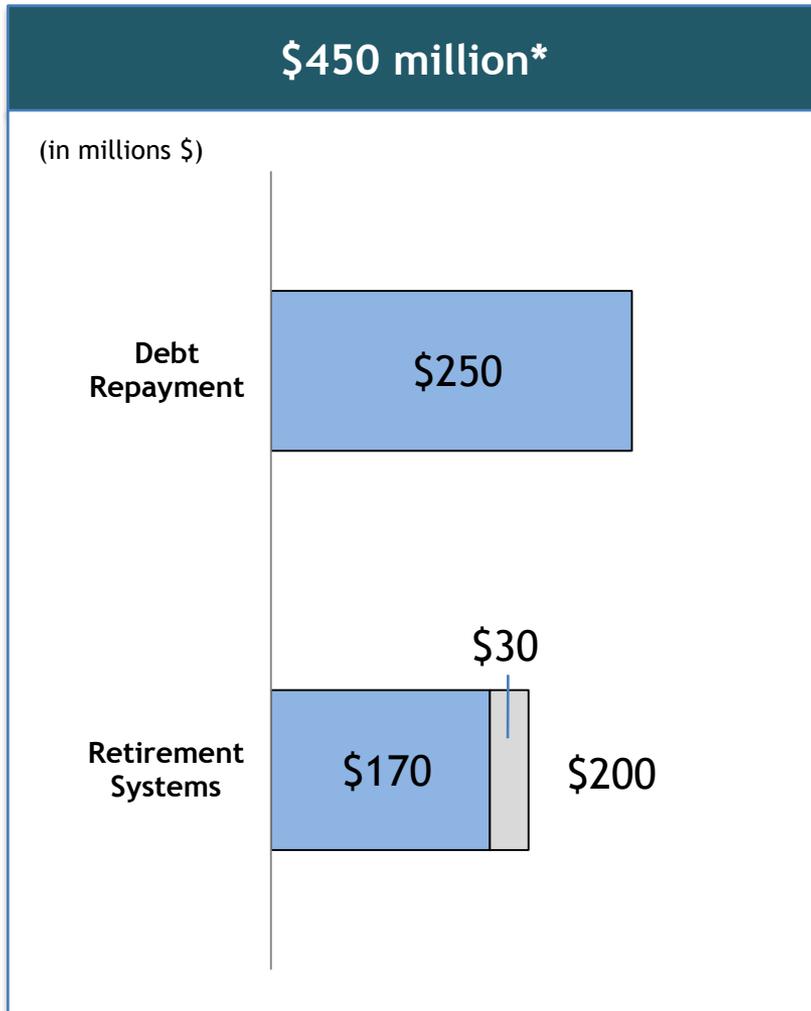
1. New tax measures selected for impact as neutral as possible on economic growth and overtaxed demographics.
2. Expansion of SUT tax base eliminates loopholes and exemptions built-in from the beginning or legislated over time.

*** Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.**

C

FY 2014 - Projected Fiscal Responsibility Measures

Fiscal Responsibility Measures



Commentary

1. As we configure the budget, our goal is to begin phase-out scoop and toss refinancing of GO debt in the \$200M-\$250M range (reduced from \$775M during FY 2013).
2. Bond payments and GDB line payments increase

-
1. Part of our plan to eliminate the actuarial deficit includes an annual contribution from the General Fund in the range of \$200 million.
 2. Special revenue sources are being identified for this contribution.
 3. Even though the preliminary budget for FY 2014 incorporates appropriations for the Retirement Systems, we are working towards identifying a specific source of revenue to be pledged.

*** Revenue enhancement and expense reduction measures discussed in this presentation are being evaluated as part of the FY 2014 budget configuration process and are subject to change.**

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It is our main focus to continue addressing our current fiscal challenges while working to restore sustainable economic growth



We have submitted comprehensive legislation to permanently address our retirement system's situation



Implemented certain measures in order to tackle fiscal imbalances (i.e. PRASA rate hike, and debt relief to Ports Authority)



Act 154 excise tax has been increased and fixed at 4%; also extended for five years - providing recurring revenues to General Fund



Prepared a fiscally responsible corrective action plan in order to correct General Fund imbalance for this fiscal year



Continue to improve our tourism sector offers through significant private capital improvements to our international airport