



Puerto Rico Restructuring Proposal

February 1, 2016

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Executive Summary

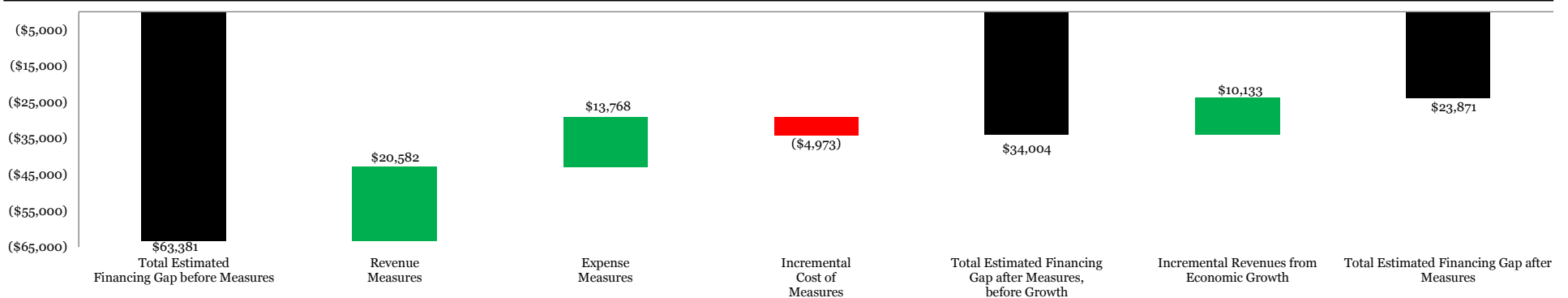
Executive Summary

Over the past ten years, the Puerto Rican economy has stagnated. Despite various tax increases and expense reductions enacted over the period, the Commonwealth has been unable to generate sufficient surplus to support its debt service obligations

The Fiscal and Economic Growth Plan (“FEGP”) developed by the Working Group for the Fiscal and Economic Recovery of Puerto Rico shows that significant contributions in the form of expense and revenue measures, structural reforms and a substantial debt restructuring are necessary to put the Commonwealth on a path to long-term sustainability and enable it to continue providing essential services to its citizens

- As shown in the updated FEGP published January 18, 2016, based on the Commonwealth’s current fiscal policies, growth trends and existing debt service schedule, the Commonwealth projects a cumulative fiscal deficit of \$63.4 billion over the next ten years
- To address this deficit, the Working Group developed a number of extensive revenue and expense measures, projected to result in approximately \$20.6 billion and \$13.8 billion of benefits, respectively, which would reduce the fiscal deficit to approximately \$34.0 billion, before considering any incremental economic growth benefits
- With approximately \$33.0 billion of scheduled principal and interest payments coming due over the next ten years,⁽¹⁾ a substantial restructuring of the Commonwealth’s existing debt is required to allow the Commonwealth to bring its fiscal accounts into balance, to give it time and the financial flexibility to implement the FEGP’s structural reforms and growth initiatives so as to stimulate the Puerto Rican economy and thereby to make the restructured debt sustainable in the long term

Updated FEGP Cumulative 10-Year Financing Gap⁽²⁾ (\$ millions)



(1) After accounting for payments made through January 1, 2016.
 (2) For additional details, refer to the updated FEGP published on January 18, 2016.

Executive Summary (cont'd)

In order to confront the significant shortfalls shown in the FEGP, even after the implementation of all the revenue and expense measures contemplated in the FEGP, the Working Group and its advisors have developed a voluntary exchange that would provide the Commonwealth with necessary debt relief while also providing creditors with a valuable new credit and the chance for full repayment of the amounts loaned to Puerto Rico if the Commonwealth economy returns to growth


- In order to facilitate an orderly restructuring of its debt, the Commonwealth has designed an exchange offer to holders of its \$49.2 billion of tax-supported debt⁽¹⁾
- The restructuring contemplates that creditors will agree to exchange their existing securities for two new securities: a “Base Bond,” with a fixed rate of interest and amortization schedule, and a “Growth Bond,” which is payable if the Commonwealth’s revenues exceed certain levels; under this proposal, the \$49.2 billion of tax-supported debt would be exchanged into \$26.5 billion of new mandatorily payable Base Bonds and \$22.7 billion of Growth Bonds
- The proposed structure contemplates no interest payments until FY 2018 and no principal payments until FY 2021, which would provide the Commonwealth with the necessary debt service relief to be able to continue to provide essential services to its citizens, repay stretched suppliers and taxpayers, rebuild depleted cash resources and properly fund the retirement system; additionally, it will allow the Commonwealth to implement the measures outlined in the FEGP
 - Additionally, the new securities are projected to provide the Commonwealth with a sustainable level of debt service over the long term, as total debt service will only increase to the extent the Commonwealth’s revenues grow
- To ensure Puerto Rico’s compliance with an agreed upon and approved exchange plan, as well as the FEGP, Puerto Rico has passed legislation establishing a control board that would ensure the Commonwealth’s implementation of its commitments embedded in the restructuring plan and the FEGP
 - To the extent a broad federal restructuring regime is made available, then oversight may be enhanced through federal participation



(1) Including accreted capital appreciation bond (“CAB”) interest as well as estimated accrued and unpaid interest and incorporating estimated July 1 principal payments that will be made out of existing reserves. Balance excludes PRIFA BANs and GSA debt for illustrative purposes. Note that the \$49.2 billion of debt represents debt included in the FEGP and excludes debt related to PREPA, PRASA, Children’s Trust, HFA and MFA, among other excluded debt and also includes GDB bonds while excluding GDB loans to other issuers included in the FEGP. As such, this figure will not tie to the total debt figures presented in the Commonwealth Comprehensive Annual Financial Reports (“CAFR”).

Executive Summary (cont'd)

- The new securities provide creditors with improved credit protections
 - Statutory liens and pledges on certain revenues
 - Commonwealth guarantee
 - A resolution of potential inter-creditor conflicts
 - Enhanced liquidity
- Further, this structure provides creditors with the opportunity to recover the full face amount of their bonds⁽¹⁾ if the Commonwealth's revenues grow as a result of real growth in the Puerto Rico economy
 - Creditor recoveries on the Growth Bond will be dependent on the growth rate of Puerto Rico's revenue collections – if the Commonwealth economy achieves long-term economic growth rates in line with the Krueger Team's⁽²⁾ estimates for the U.S. as a whole, then it is projected that the Growth Bond should be repaid in full
- The voluntary exchange offer includes several measures, such as restrictions on additional issuances of tax-supported debt and an initial debt service-to-Adjusted Revenues⁽³⁾ ratio of approximately 15%, which is significantly below the current ratio of 36% and would be expected to result in a sustainable capital structure over time
- The exchange offer is predicated upon a number of key assumptions, including very high participation levels and the U.S. Federal Government maintaining at least its current percentage levels of programmatic support for the Commonwealth; if very high participation levels cannot be achieved or the U.S. Federal Government allows the level of programmatic support for Puerto Rico to materially decline, then the terms of the exchange offer will have to be revisited

 (1) Including estimated capital appreciate bond ("CAB") accretion and estimated accrued and unpaid interest to the estimated date of the exchange.
(2) The Krueger Team refers to the authors of the report "Puerto Rico – A Way Forward" (Updated as of July 13, 2015). The long-term estimate for the U.S. growth rate is based on a review of IMF estimates of potential growth for the U.S. in the previous decade (3%) and current projections of growth for the U.S. economy in the absence of needed structural reforms (2%). The projections for long-term growth represent the midpoint of these two ranges.
(3) Adjusted Revenues represent revenues shown in the updated FEGP projections, excluding federal transfers and GDB loan inflows, and including the estimated cost of the Earned Income Tax Credit ("EITC"). The ~15% ratio is based on FY 2016 estimated Adjusted Revenues as compared to the maximum annual debt service of the Base Bond as discussed further herein. The 36% ratio is based on FY 2016 contractual debt service for entities included in the FEGP.

Executive Summary (cont'd)

The proposed exchange provides numerous benefits to both creditors and the Commonwealth

Key Benefits to the Commonwealth	Key Benefits to Creditors
<ul style="list-style-type: none"> ▪ Preservation of the ability of the Commonwealth to provide essential goods and services to the citizens of Puerto Rico through the mitigation of supply and service stoppages ▪ Five fiscal years of significantly reduced debt service payments ▪ Time and capital necessary to implement the FEGP's structural reforms and "growth" initiatives ▪ Financial flexibility to rebuild depleted cash resources and pay down suppliers whose payables are past due and taxpayers to whom refunds are owed, as well as making adequate pension contributions, all benefitting the local economy ▪ Ability for Puerto Rico to implement key measures to address the recent exodus of businesses from the island and provide improved infrastructure to attract and support new investment ▪ Regaining of market access over time ▪ Achievement of a sustainable debt structure for the long term, in particular because the Growth Bond is payable only to the extent that the Commonwealth's revenues increase as a result of real economic growth ▪ Implementation of new restrictions on additional issuances of tax-supported debt so that Puerto Rico can avoid over-levering its tax revenues in the future 	<ul style="list-style-type: none"> ▪ Commonwealth guarantee backed by a statutory lien on, and pledge of, income tax receipts ▪ Enhanced credit support with a statutory lien on and pledge of the 4.5% sales and use tax ("SUT") and up to approximately \$325 million annually of petroleum products tax revenues ▪ Reduction of the number of bonds with different terms and credit support outstanding, likely making the new securities more liquid ▪ Improvement of the market value of the new securities over time as the Puerto Rican economy grows and the Commonwealth's fiscal position improves ▪ Ability to recover the face amount of claims over time if the Puerto Rican economy once again grows in line with that of the U.S. ▪ A path to improved bond ratings over time ▪ Structural protections against future dilution ▪ Implementation of new restrictions on additional issuances of tax-supported debt so that Puerto Rico can avoid over-levering its tax revenues in the future ▪ A sustainable debt structure that resolves complex inter-creditor disputes and should avoid the need for future restructurings

Executive Summary (cont'd)

In designing the proposed voluntary exchange structure, the Commonwealth was guided by the following restructuring principles:

- **If possible, avoid a default on the Commonwealth's debt**
 - If accepted in a timely manner by the requisite majority of creditors, the voluntary exchange offer will provide the Commonwealth with needed debt relief and avoid a potentially disorderly default on its public debt
- **Ensure the Commonwealth can continue to make payments on its restructured debt while providing essential services to all Puerto Rican residents, paying back suppliers and tax payers, rebuilding depleted cash resources and properly funding the retirement system**
 - A consensual adjustment of the Commonwealth's debt maximizes creditors' recovery while preserving the government's ability to serve its citizens
- **Reflect, and seek to respect, Constitutional priorities for payment of the Commonwealth's public debt**
 - The transaction has been structured to take into account the priorities of the debt that creditors hold
- **Create a long-term financing solution to the patchwork complex of issuers and indebtedness**
 - The transaction not only attempts to solve the Commonwealth's short-term problems and resolve potential inter-creditor disputes, but also creates a financing vehicle that should attract new investors to Puerto Rico in the future
- **Design a structure that is attractive to existing creditors**
 - The proposed financing structure offers significant benefits to existing creditors, including improved liquidity and better collateral security for the restructured debt
- **Restore market access on sustainable terms over time**
 - A successful exchange offer, along with the implementation of the measures recommended in the FEGP, should improve the Commonwealth's credit-worthiness and thereby allow for Puerto Rico to regain market access on sustainable terms over time



Exchange Proposal

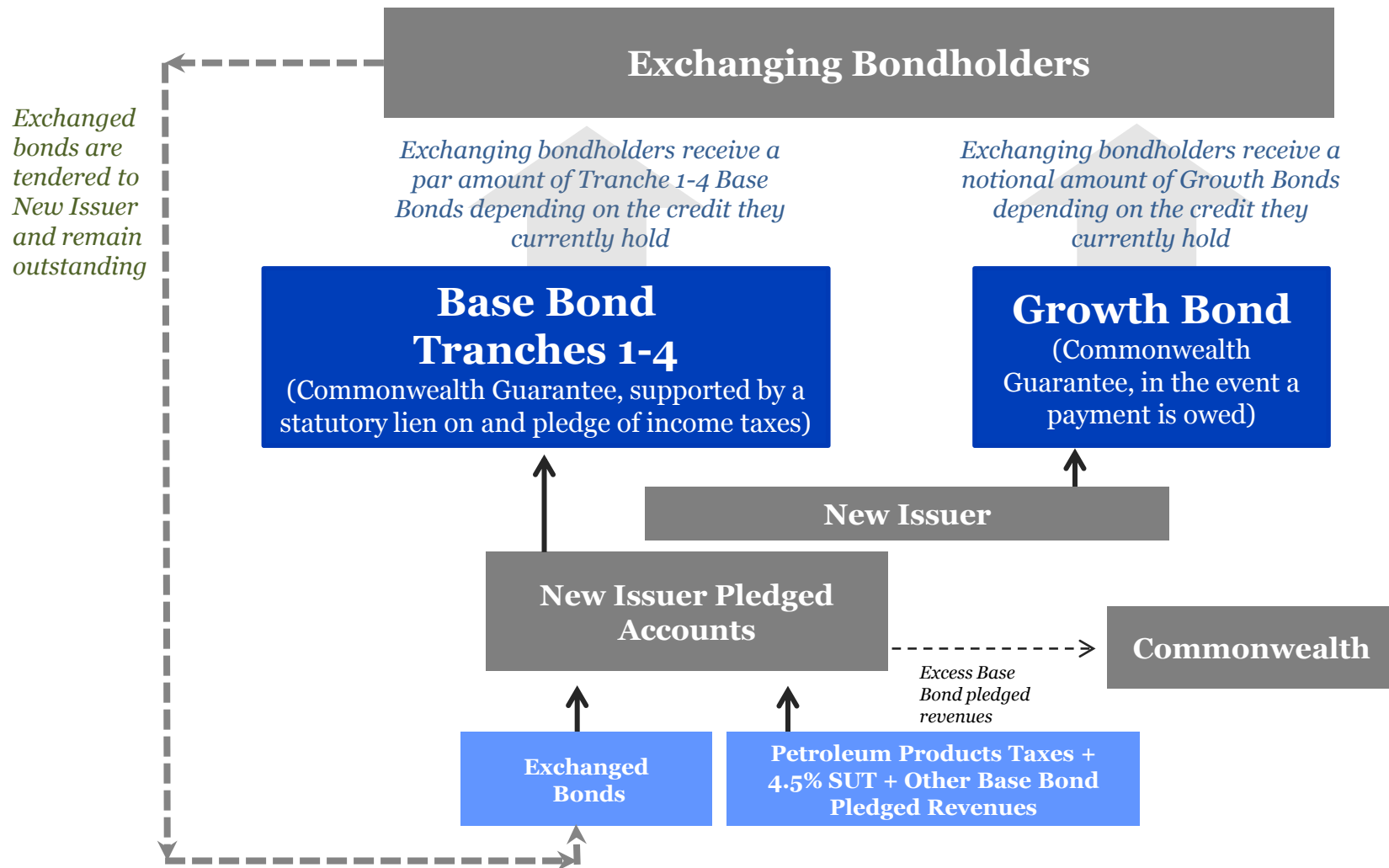
Proposed Exchange Structure

The Working Group and its advisors and bankers have developed an exchange offer that would create a sustainable debt structure for the Commonwealth based on the updated FEGP

- Targeted issuers included in the exchange are: the Commonwealth, PBA, COFINA, PRHTA, GDB, PRIFA, PRIDCO, ERS, UPR, CCDA, and PFC
- New securities would be issued by a new Puerto Rican special-purpose government instrumentality (“New Issuer”) to holders who tender their existing securities in the exchange offer
 - New Issuer would support its debt using the debt service on tendered securities, as well as up to approximately \$325 million annually of petroleum products tax revenues and the 4.5% SUT revenues
- Targeted debt would exchange into two new securities:
 - A Base Bond with fixed payment terms (principal and interest) and an amortization schedule the Commonwealth is obligated to meet
 - A Growth Bond (also referred to as a Contingent Value Right, or “CVR”), the principal of which would be paid *only if* the Commonwealth’s revenues exceed certain levels
- The proposed structure significantly reduces the principal amount of the Commonwealth’s fixed payment obligations (approximately \$22.7 billion reduction in mandatorily payable debt outstanding⁽¹⁾) and protects the Commonwealth against having to make payments on the Growth Bond in the event economic growth does not exceed the projected rate of inflation
 - Creditors would receive a fixed recovery on the Base Bond and an opportunity for additional recovery if the Commonwealth’s revenues grow over time, with a full repayment of the Growth Bond expected if the Commonwealth once again grows in line with the projected growth rate for the U.S. as a whole⁽²⁾
- The Base Bond/Growth Bond structure has been used in prior municipal and sovereign restructurings (e.g., Stockton and Ukraine)
- The surplus available for Base Bond debt service has been sized on the assumption of very high levels of participation in the exchange (as holdouts would dilute the surplus available for Base Bond debt service) and that the U.S. government does not reduce federal support of the Commonwealth (i.e., that Affordable Care Act (“ACA”) funding or similar healthcare funding is continued at current percentage levels)

Voluntary Exchange Framework

The following provides an overview of the framework of the voluntary exchange offer



Key Proposal Terms

The following presents a summary of the key economic terms of the proposed voluntary exchange offer

	Base Bond	Growth Bond
Exchange Ratio and Tranches	<ul style="list-style-type: none"> All targeted issuers will be allocated a portion of the Base Bond such that, in the Base Bond alone, the total value allocated to each issuer equals the current market value of the debt of that issuer at a 5.0% required yield⁽¹⁾ Exchanging creditors will receive Base Bonds in one of 4 “Tranches” depending on their current holdings 	<ul style="list-style-type: none"> Growth Bond distributions will be based on the difference between current par plus accreted and accrued interest and the Base Bond par amount Growth Bond will be issued in a single Tranche
Maximum Debt Service	<ul style="list-style-type: none"> Total debt service is held fixed at approximately \$1.7 billion starting in FY 2021 This amount represents approximately 15% of FY 2016 projected Adjusted Revenues “Base Adjusted Revenues,” which represent the minimum level of growth achieved before any incremental payments on account of the Growth Bond may be made, have been sized based on 0% assumed real GNP growth and 2.0% inflation (such amounts translate in the FEGP model to long-term Adjusted Revenue growth of approximately 1.7%, as certain revenues are not projected to grow with GNP) 	<ul style="list-style-type: none"> Total payment due in any year based on the least of: <ul style="list-style-type: none"> 10.5% of Adjusted Revenues two years prior less Base Bond debt service two years prior; 25.0% split of the amount above the Base Adjusted Revenues two years prior; <ul style="list-style-type: none"> Commonwealth is entitled to the first 1.0% of Base Adjusted Revenues before the split is applied \$1.8 billion Payment of amounts due (if any) will be suspended in certain events such as certain extraordinary or unforeseen budgetary expenses or reductions or discontinuations of certain federal assistance to the Commonwealth Any amounts deferred due to suspension events or hitting the annual cap will be rolled over until paid in full (subject to the final maturity of the Growth Bond)
Principal	<ul style="list-style-type: none"> Scheduled amortization begins in FY 2021 	<ul style="list-style-type: none"> Payments not to begin until FY 2026 and will be subject to the caps set forth under Maximum Debt Service above
Interest	<ul style="list-style-type: none"> Interest payments begin in FY 2018 Interest of 3.0% in FY 2018 and FY 2019, 4.0% in FY 2020, and 5.0% in FY 2021 and thereafter 	<ul style="list-style-type: none"> No interest payable
Maturity	<ul style="list-style-type: none"> FY 2051 (35 years) 	<ul style="list-style-type: none"> Coterminous with the Base Bond



⁽¹⁾ Market value shall be adjusted to account for accreted and accrued interest, with Base Bonds distributed on account of the interest determined assuming the market prices as a % of par (the remainder distributed in the Growth Bond). Bonds insured by MBIA and Assured Guaranty (“AG”) will receive the market pricing for the bonds not insured by MBIA and AG. In the case of MBIA- and AG-insured COFINA capital appreciation bonds (“CABs”), the market value shall be determined based on the pricing of CABs not insured by MBIA and AG.

Key Proposal Terms (cont'd)

In addition to the economic terms outlined on the previous page, the **Base Bonds and Growth Bonds** will have the following terms

	Base Bond	Growth Bond
Commonwealth Guarantee	<ul style="list-style-type: none"> Payments will be guaranteed by the Commonwealth Commonwealth guarantee on Base Bonds backed by a statutory lien on and pledge of income tax receipts Exchanging GO and GO-guaranteed holders will receive payments on account of the guarantee before exchanging COFINA senior bondholders, followed by payments to exchanging COFINA subordinated bondholders, followed by payments to the remaining eligible credits 	<ul style="list-style-type: none"> The payment of the Growth Bond, in the event a payment is owed, will be guaranteed by the Commonwealth In the event the Commonwealth experiences no revenue growth above the Base Adjusted Revenues, the Growth Bond will be retired without ever receiving a payment and there shall be nothing owed on the guarantee
Collateral	<ul style="list-style-type: none"> Base Bond will be secured by statutory liens on and pledges of, among other collateral: <ul style="list-style-type: none"> 4.5% SUT and up to approximately \$325 million annually of petroleum products tax revenues Debt service payments on exchanged existing bonds, which are held and controlled by New Issuer Collection and administration of certain pledged revenues will be independent from the Commonwealth and New Issuer 	<ul style="list-style-type: none"> Payments on the Growth Bond will be unsecured
Other Structural and Legal Features	<ul style="list-style-type: none"> New Issuer holds and controls the exchanged bonds New York law and New York forum for the Base Bonds and the Growth Bonds Non-impairment pledges Restrictions on additional issuances of tax-supported debt by the Commonwealth, New Issuer and other instrumentalities Structural protections against future dilution 	

Key Assumptions Overview – Credit Metrics

Assuming consummation of the proposed exchange, the Commonwealth’s debt-service-to-revenue ratio would be significantly reduced, but would still remain at levels that exceed the most indebted U.S. states (as measured by Moody’s⁽¹⁾). However, the debt service burden under the Base Bond has been structured to give the Commonwealth the opportunity to grow into a stronger credit over time

- Base Bond debt service has been sized such that, once principal repayments begin in FY 2021, debt service would not exceed 15% of total estimated FY 2016 Adjusted Revenues⁽²⁾
 - Base Bond debt service has been set at a maximum, once principal payments begin, of approximately \$1.7 billion annually
 - This revenue to annual debt service ratio is consistent with the spirit of the Commonwealth’s constitutional 15% debt limit
- The 15% ratio is a sharp decline from the current estimated ratio of FY 2016 contractual debt service to Adjusted Revenues of 36%, but is still above the ratios for the 50 states (as estimated by Moody’s)
 - To the extent the Commonwealth economy grows, the ratio of debt service to Adjusted Revenues would decline over time
 - Recently, however, the Commonwealth economy has experienced negative real GNP growth and therefore, in structuring the Base Bond debt service, the Commonwealth is taking on the risk that implementation of the FEGP may take longer to have a positive impact on the growth of the Puerto Rican economy and, by extension, Commonwealth revenues
- The Growth Bond will be paid to the extent revenue growth exceeds the estimated annual rate of inflation; if the high revenue growth case in the FEGP (based on 4.5% nominal GNP growth) is achieved, the face amount of the Growth Bond will be paid in full over its 35-year term
 - To protect the Commonwealth’s ongoing fiscal balance, total payments on the Base Bond and Growth Bond in any year may not exceed 10.5% of Adjusted Revenues⁽³⁾
- As illustrated in the charts below, the fact that the Base Bond debt service ratio and outstanding principal is initially above each of the 50 U.S. states indicates that the Commonwealth is not placing the entirety of the burden of a return to growth upon its creditors, but is assuming the risk that implementation of the measures in the FEGP will not result in increased growth and/or reduced debt service levels over time

Moody’s 2014 State Debt Ratios as Compared to Puerto Rico⁽¹⁾ (\$ millions)

Highest 5 States	Debt Service to Revenues	Highest 5 States	NTSD Per Capita	Highest 5 States	NTSD as a % of Personal Income	Highest 5 States	NTSD as a % of GDP
Hawaii	13%	Connecticut	\$5,491	Hawaii	11%	Hawaii	9%
Connecticut	12%	Massachusetts	4,887	Connecticut	9%	Connecticut	8%
New York	11%	Hawaii	4,867	Massachusetts	9%	Massachusetts	7%
Utah	11%	New Jersey	4,138	New Jersey	7%	New Jersey	7%
West Virginia	11%	New York	3,092	Washington	6%	Washington	5%
Mean of 50 States	6%		1,419		3%		3%
Median of 50 States	5%		1,012		2%		2%
Puerto Rico - Current⁽⁴⁾	36%		14,035		76%		47%
Puerto Rico - Pro Forma⁽⁴⁾	15%		7,631		42%		26%

Memo: NTSD as a % of GNP

Puerto Rico - Current

70%

Puerto Rico - Pro-Forma

38%

(1) State numbers based on the statistics reported in Moody’s “State Debt Medians 2015,” dated June 24, 2015. Note that Moody’s excludes federal transfers for the state ratios. Moody’s has historically analyzed Puerto Rico’s net tax-supported debt (“NTSD”) including PRASA (which is excluded from the FEGP), excluding PRIDCO (which is included in the FEGP) and accounting for GDB loans to the Commonwealth while excluding the GDB bonds owed to third-parties (the FEGP excludes “intra-government” loans and includes the GDB bonds). Adjustments have not been made to the FEGP numbers to reflect these differences.

(2) Adjusted Revenues represent revenues shown in the updated FEGP projections, excluding federal transfers and GDB loan inflows, and includes the estimated cost of the Earned Income Tax Credit (“EITC”).

(3) In addition to the 10.5% of Adjusted Revenues limitation, the Growth Bond would never receive more than 25% of growth above a defined base amount and would have annual payments capped at \$1.8 billion.

(4) Population data from the U.S. Census Bureau representing 2015 estimated figures, 2013 GDP taken from the World Bank, and 2014 personal income and GNP as estimated by the Puerto Rico Planning Board. Pro-Forma ratios are shown based on an outstanding indebtedness of Puerto Rico of \$49.2 billion (as described previously), using only the Base Bond and, for the purposes of the debt service-to-revenue ratio, utilizing the level debt service beginning in FY 2021 when principal payments begin as compared to FY 2016 Adjusted Revenues. Current and pro-forma debt balances exclude PRIFA BANs and GSA for illustrative purposes.

Key Assumptions Overview – Yield

Additionally, Base Bond debt service has been structured to produce a 5.0% yield over its 35 years life, a yield consistent with historical yields on Puerto Rico bond offerings and in line with recent lower investment-grade municipal credits

- The value of the new Base Bond allocated to each issuer (assuming a 5.0% discount rate) will be at least equal to the current market value⁽¹⁾ of the aggregate debt issued by such issuer
- As illustrated in the table below, the Puerto Rico 2012 GO offering, which was made when Puerto Rico had low investment-grade credit ratings, was priced to yield from approximately 4.4% to 5.3% for ten- to thirty-year maturities, respectively
 - At the time of the 2012 GO offering, Moody’s estimated Puerto Rico’s net tax-supported debt-to-revenues ratio at above 20%⁽²⁾
- Similarly, in January 2016, Illinois issued general obligation bonds maturing from 2017 to 2041 with an interest rate of 5.0%⁽³⁾
 - Illinois’ credit rating from Moody’s at the time of the 2016 offering was Baa1 with a negative outlook, identical to Puerto Rico’s rating in 2012 of Baa1 with a negative outlook, and the 2012 offering did not include the credit enhancements included in the voluntary exchange offer (such as a lower debt service to revenue ratio than what Moody’s had estimated for Puerto Rico in 2012 (15% versus 22%), NY law/forum, statutory liens, and a separate collection agent)
 - In addition, it should be noted that the proposed voluntary exchange offer would also include restrictions on the issuance of additional tax-supported debt such that the ratio of debt service to revenues could not increase over time if the Commonwealth experienced growth

Select Historical General Obligation Issuances

	Illinois GO ⁽⁴⁾	2012 PR GO Offering Sample		
		10 Yr.	20 Yr.	30 Yr.
Maturity	2041	2022	2032	2041
Coupon	5.00%	5.00%	5.00%	5.00%
Yield at Issuance	4.27%	4.39%	5.00%	5.32%

- If the Commonwealth returns to historical yields, the creditors would receive their current market value through Base Bond payments, and to the extent required yields fall below 5.0%, the Base Bond could be valued even above the current market values of Puerto Rico’s existing bonds
- Additionally, if the Commonwealth experiences growth, the creditors will share in that upside and could be repaid in full for the face amount of the credit they have extended to Puerto Rico
 - The Growth Bond has been structured such that it draws from best practices from other recently issued contingent instruments

(1) Based on market prices calculated as of January 28, 2016. Market prices for debt insured by MBIA and AG will be offered the market price of debt without MBIA and AG insurance.

(2) Based on statistics for 2012 reported in Moody’s “State Debt Medians 2015,” dated June 24, 2015. Note that Moody’s has historically analyzed Puerto Rico’s net tax-supported debt (“NTSD”) including PRASA (which is excluded from the FEGP), excluding PRIDCO (which is included in the FEGP) and accounting for GDB loans to the Commonwealth while excluding the GDB bonds owed to third-parties (the FEGP excludes “intra-government” loans and includes the GDB bonds). Adjustments have not been made to the FEGP numbers to reflect these differences.

(3) Excludes bonds that were insured by AG, which had a lower interest rate.

(4) Yield at Issuance is priced to a January 1, 2026 call date.

Key Assumptions Overview – Implementation

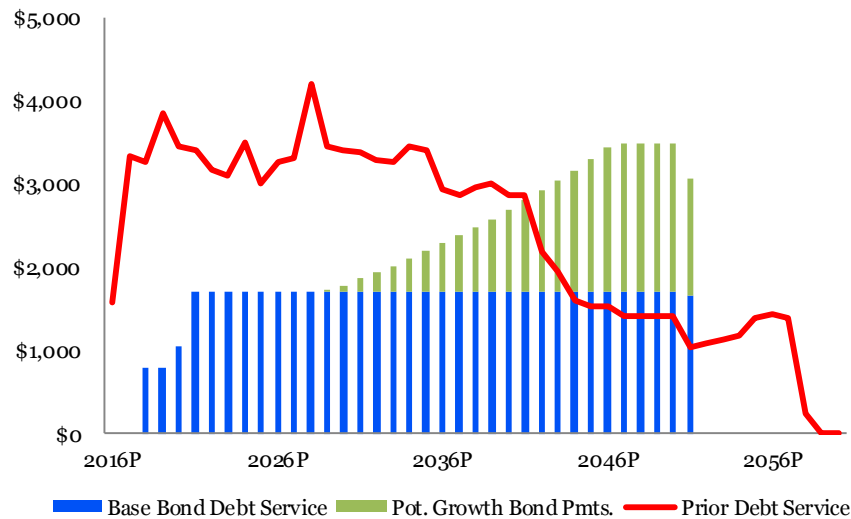
The proposed transaction assumes that no U.S. federal or local restructuring regime is available. If such a restructuring regime were available, several elements of the structure (as currently contemplated) could materially change

Current Structure – No Restructuring Regime	Alternative Structure – With Restructuring Regime
<ul style="list-style-type: none"> ▪ Sufficient creditor participation is not guaranteed (although the current structure requires substantially all holders to participate) <ul style="list-style-type: none"> ▪ Creditor recoveries will be reduced to take into account continued payments to holdouts 	<ul style="list-style-type: none"> ▪ Since the requisite majority of creditors can bind holdouts under a restructuring regime, sufficient participation would be more certain <ul style="list-style-type: none"> ▪ 100% holder participation would avoid diluted recoveries for participating holders
<ul style="list-style-type: none"> ▪ Existing obligations are not discharged <ul style="list-style-type: none"> ▪ Old securities remain outstanding ▪ Exchanged old securities are held by New Issuer, with payment of debt service on the old securities pledged to the holders of the Base Bonds 	<ul style="list-style-type: none"> ▪ Depending on the restructuring regime, existing obligations could be discharged, with no further payments owed <ul style="list-style-type: none"> ▪ Old securities would be cancelled ▪ Tax revenues securing old securities would be pledged directly to the holders of the Base Bonds
<ul style="list-style-type: none"> ▪ Consent solicitation to amend existing bond documentation is required in order to effect the transaction 	<ul style="list-style-type: none"> ▪ If the old securities could be cancelled, the need for amendments to the terms of bond documentation would be eliminated
<ul style="list-style-type: none"> ▪ Validation process before the Puerto Rico Supreme Court is needed to resolve any disputes regarding the validity of the proposed transaction under applicable law 	<ul style="list-style-type: none"> ▪ To the extent that a federal court process is available that would resolve any disputes regarding its validity under applicable law, a separate validation process may not be necessary
<ul style="list-style-type: none"> ▪ Puerto Rico-level oversight board is the sole independent mechanism for oversight of budgetary and fiscal matters 	<ul style="list-style-type: none"> ▪ Enhanced oversight through federal participation as a potential feature of an adjustment plan in the event a federal restructuring regime is made available

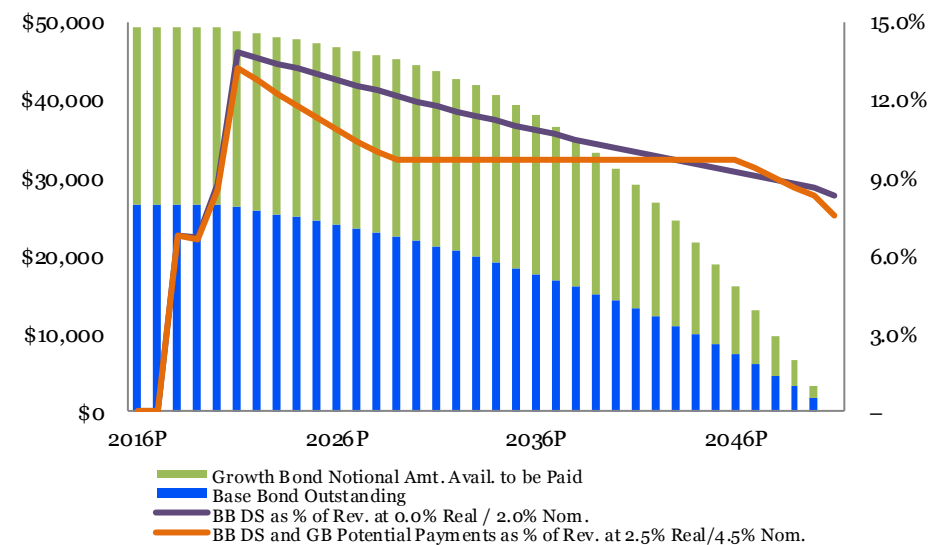
Summary Economics of Voluntary Exchange

The below illustrates the pro-forma debt service schedule, as well as the implied recoveries, under the proposed voluntary exchange offer

Current & Pro-Forma Debt Service⁽¹⁾ (\$millions)



Pro-Forma Debt Outstanding⁽¹⁾ (\$millions)



Base Bond and Growth Bond Allocations (\$ millions)

	Par Plus		Base Bond		Growth Bond		Base + Growth Bond	
	Accreted & Accrued Int. ⁽²⁾	% of Total Debt	Total Base Bond Par	Allocation %	Growth Bond Notional Amount	Allocation %	Total Base & Growth Bond	Allocation %
GO & GO-Guaranteed ⁽³⁾	\$17,009	34.6%	\$12,244	46.2%	\$4,764	21.0%	\$17,009	34.6%
COFINA	17,198	34.9%	8,355	31.5%	8,843	38.9%	17,198	34.9%
Other	15,008	30.5%	5,910	22.3%	9,098	40.1%	15,008	30.5%
Total / Weighted Average	\$49,214	100.0%	\$26,509	100.0%	\$22,705	100.0%	\$49,214	100.0%

Memo :

Reduction in Mandatorily Payable Debt \$22,705
 Growth Bond Final Repayment Year 2051 (35 years)



(1) Potential Growth Bond payments shown are based on an assumed 2.5% real GNP growth and 2% inflation.
 (2) Estimated par plus accreted CAB value as of the estimated time of the exchange, including estimated accrued and unpaid interest. Excludes PRIFA BANS and GSA debt for illustrative purposes.
 (3) Includes PBA (~\$4 billion) and GDB notes guaranteed by the Commonwealth (\$110m). Does not include PRASA CW-guaranteed bonds (note that PRASA bonds are not eligible for the exchange).

Implementation of Proposed Voluntary Exchange

The proposed voluntary exchange will require the following in order to be fully implemented

- Finalization of voluntary exchange structure and terms
- Drafting of necessary legislation
 - Finalization of new Enabling Act and other legislation for creation of the New Issuer and authorization of the New Notes
 - Legislation to limit further issuances of tax-supported debt, effect necessary amendments to the existing Enabling Acts and pledged revenues statutes and provide other structural enhancements
- Drafting of initial bond documentation
 - Disclosure and description of the exchange
 - Amendments to existing bond documentation
 - Consent solicitation to effect amendments and provide for tender of existing bonds
- Implementation of validation process as part of New Issuer legislation
- Time is of the essence, and creditor groups must respond constructively as soon as possible. To the extent a deal cannot be reached by the May 1 GDB payment date and creditors do not consensually agree to a means of resolving the May 1 GDB payment, the Commonwealth may be forced to declare a moratorium



Economic Detail

Pro-Forma Financing Surplus/(Gap)

The fixed payments contemplated for the Base Bond will leave the Commonwealth with a small surplus before any growth. If the Commonwealth achieves growth, it could realize a significantly larger surplus, even after taking into account payments on the Growth Bonds

- Base Bond debt service and resulting financing surplus amounts before growth were sized assuming a continuation of the current percentage of healthcare funding from the U.S. Federal Government (i.e., a replacement or continuation of ACA funding), and 0% real GNP growth and 2% inflation
 - This differs from the base line assumptions (before measures) in the FEGP, which assumed -1% real GNP growth and 2% inflation
 - The benefit from economic growth reflects the high growth case as in the FEGP (2.5% long-term real GNP growth, 2% inflation)
 - Since the projection before growth shown below is *higher* than in the FEGP, the benefit of growth above this amount up to the high growth case is commensurately *lower* than that shown in the FEGP

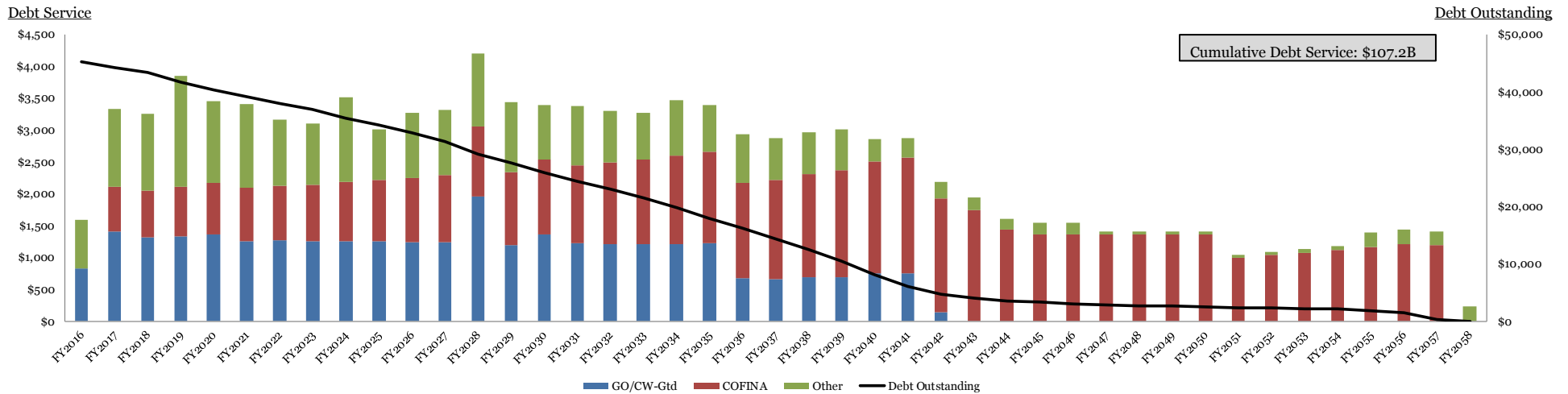
Pro-Forma Ten-Year Financing Surplus/(Gap) (\$ millions)

	2016P	2017P	2018P	2019P	2020P	2021P	2022P	2023P	2024P	2025P	Total	
											5 Yr	10 Yr
Fin. Surplus (0% Real/2.0% Nom. GNP Growth Beg. in 2018) ⁽¹⁾	-	\$95	\$950	\$1,082	\$1,310	\$1,954	\$2,424	\$2,426	\$2,374	\$2,383	\$3,438	\$14,999
Less: Base Bond Interest	-	-	(795)	(795)	(1,060)	(1,325)	(1,307)	(1,287)	(1,266)	(1,245)	(2,651)	(9,081)
Less: Base Bond Principal	-	-	-	-	-	(375)	(394)	(413)	(434)	(456)	-	(2,072)
Fin. Surplus/(Gap) after Base Bond Debt Service	-	95	155	287	250	254	724	725	673	683	787	3,845
Plus: Econ. Growth (2.5% Real/4.5% Nom. GNP Growth Beg. In 2022)	-	-	-	121	296	545	865	1,207	1,572	1,960	417	6,567
Less: Potential Growth Bond Payments (No potential payments first 10 years)	-	-	-	-	-	-	-	-	-	-	-	-
Fin. Surplus/(Gap) after Base Bond and Growth Bond Payments	-	\$95	\$155	\$408	\$546	\$799	\$1,589	\$1,933	\$2,245	\$2,643	\$1,205	\$10,413
<u>Memo: Debt Service as a % of Adjusted Revenues</u>												
Base Debt Service as a % of Adj. Revenues (Excluding Growth)	-	-	6.8%	6.6%	8.7%	13.8%	13.6%	13.4%	13.2%	13.0%	4.5%	9.1%
Base Debt Service as a % of Adj. Revenues (Including Growth)	-	-	6.8%	6.6%	8.5%	13.2%	12.7%	12.2%	11.7%	11.3%	4.5%	8.6%
<u>Memo: Surplus Ex. Replacement for ACA Funding</u>												
Fin. Surplus/(Gap) after Base Bond Debt Service	-	\$95	(\$389)	(\$1,318)	(\$1,487)	(\$1,568)	(\$1,159)	(\$1,227)	(\$1,341)	(\$1,400)	(\$3,099)	(\$9,794)
Fin. Surplus/(Gap) after Base Bond and Growth Bond Payments	-	95	(389)	(1,196)	(1,191)	(1,022)	(294)	(20)	231	561	(2,682)	(3,227)

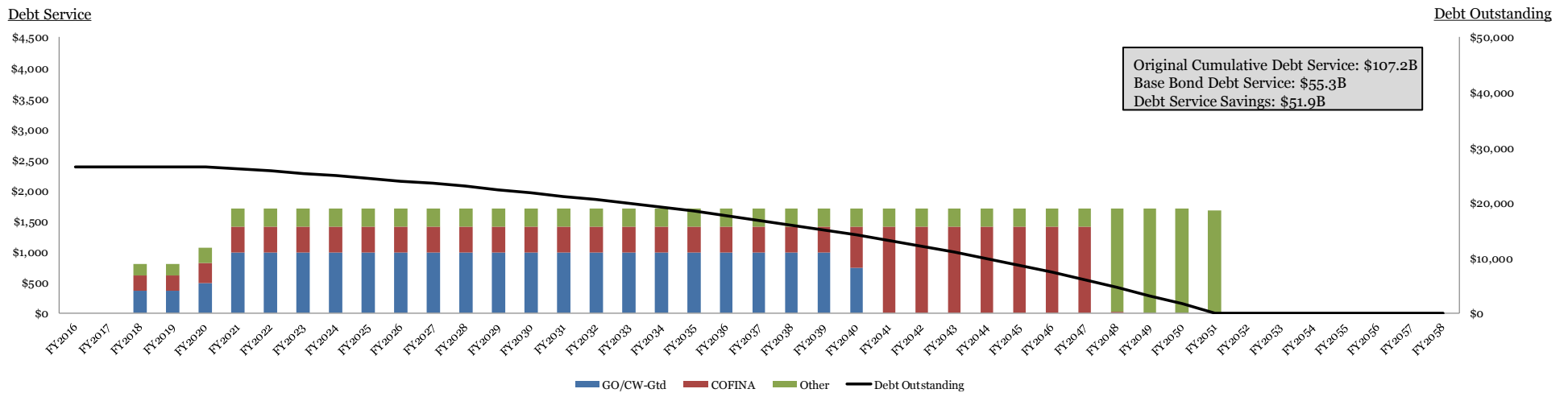
Base Bond Debt Service

The graphs below illustrate the amount of debt service by bucket and debt balance for the status quo scenario and the Base Bond under the proposed voluntary exchange offer

Current Debt Service (Principal + Interest) (\$millions)



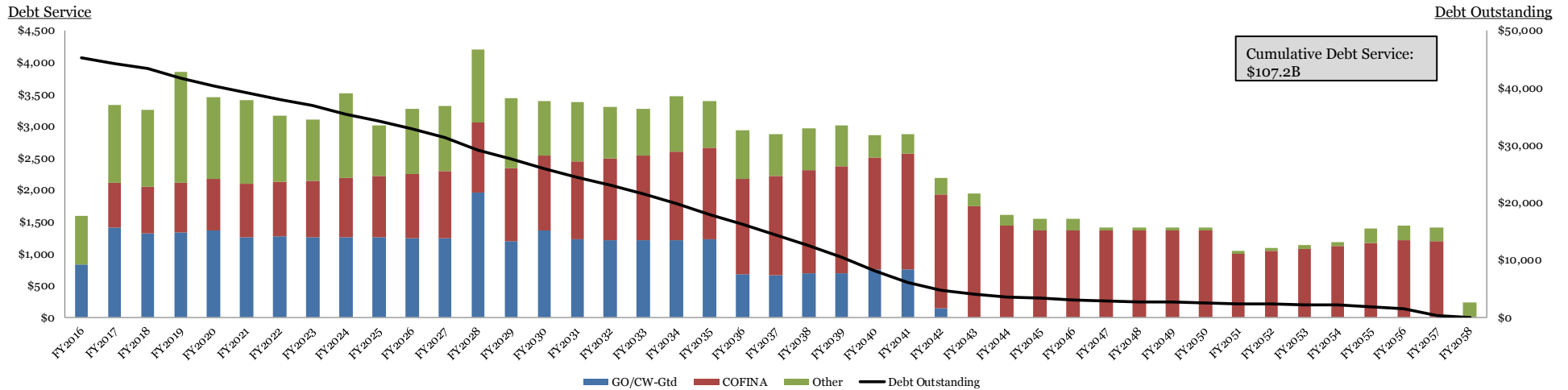
Base Bond Debt Service under Voluntary Exchange (Principal + Interest) (\$millions)



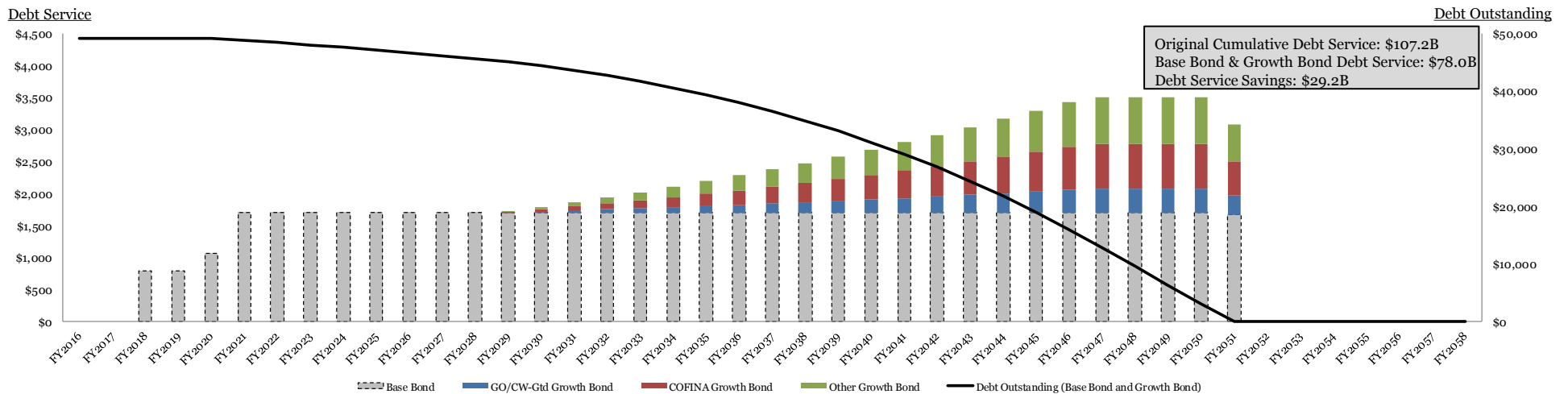
Base Bond and Growth Bond Debt Service

The graphs below illustrate the amount of debt service by bucket and debt balance for both the status quo scenario and the Base Bond and Growth Bond under the proposed voluntary exchange offer

Current Debt Service (Principal + Interest) (\$millions)



Base Bond Debt Service & Potential Growth Bond Payments⁽¹⁾ under Voluntary Exchange (Principal + Interest) (\$ millions)



(1) Potential Growth Bond payments based on 2.5% real GNP growth and 2% inflation.



Illustrative Growth Bond Payment Schedule

The table below projects estimated potential Growth Bond payments based on the formulas outlined previously

Illustrative Growth Bond Payment Calculation												
	Base Adjusted Revenues	Percent Change	High Growth, Est. Adjusted Revenues	Percent Change	Difference Between Base and Est.	Less 1% of Base Adj. Rev.	Excess Adj. Rev., Net of Base Bond DS	Minimum of		Annual Growth Bond Payment Cap	Est. GB Payment	Remaining Growth Bond Outstanding
								25% Split of Avail. Growth 2 Yrs. Prior	Capacity under 10.5% Max DS 2 Yrs. Prior			
2026P	\$13,342	1.7%	\$15,712	4.2%	\$2,371	\$133	\$2,237	\$361	-	\$1,800	-	\$22,705
2027P	13,562	1.7%	16,366	4.2%	2,804	136	2,668	457	-	1,800	-	22,705
2028P	13,786	1.7%	17,046	4.2%	3,260	138	3,122	559	-	1,800	-	22,705
2029P	14,014	1.7%	17,755	4.2%	3,741	140	3,601	667	18	1,800	18	22,687
2030P	14,246	1.7%	18,493	4.2%	4,247	142	4,105	780	89	1,800	89	22,598
2031P	14,481	1.7%	19,262	4.2%	4,781	145	4,636	900	164	1,800	164	22,434
2032P	14,720	1.7%	20,063	4.2%	5,342	147	5,195	1,026	241	1,800	241	22,193
2033P	14,963	1.7%	20,897	4.2%	5,933	150	5,783	1,159	322	1,800	322	21,871
2034P	15,211	1.7%	21,765	4.2%	6,555	152	6,403	1,299	406	1,800	406	21,465
2035P	15,462	1.7%	22,670	4.2%	7,208	155	7,054	1,446	494	1,800	494	20,971
2036P	15,718	1.7%	23,613	4.2%	7,895	157	7,738	1,601	585	1,800	585	20,386
2037P	15,977	1.7%	24,595	4.2%	8,617	160	8,457	1,763	680	1,800	680	19,706
2038P	16,241	1.7%	25,617	4.2%	9,376	162	9,213	1,935	779	1,800	779	18,928
2039P	16,510	1.7%	26,682	4.2%	10,172	165	10,007	2,114	882	1,800	882	18,046
2040P	16,783	1.7%	27,791	4.2%	11,009	168	10,841	2,303	989	1,800	989	17,056
2041P	17,060	1.7%	28,947	4.2%	11,887	171	11,716	2,502	1,101	1,800	1,101	15,955
2042P	17,342	1.7%	30,150	4.2%	12,809	173	12,635	2,710	1,218	1,800	1,218	14,738
2043P	17,628	1.7%	31,404	4.2%	13,776	176	13,599	2,929	1,339	1,800	1,339	13,399
2044P	17,920	1.7%	32,710	4.2%	14,790	179	14,611	3,159	1,465	1,800	1,465	11,933
2045P	18,216	1.7%	34,069	4.2%	15,854	182	15,671	3,400	1,597	1,800	1,597	10,337
2046P	18,517	1.7%	35,486	4.2%	16,969	185	16,784	3,653	1,734	1,800	1,734	8,603
2047P	18,823	1.7%	36,961	4.2%	18,138	188	17,950	3,918	1,877	1,800	1,800	6,803
2048P	19,134	1.7%	38,498	4.2%	19,364	191	19,173	4,196	2,026	1,800	1,800	5,003
2049P	19,450	1.7%	40,098	4.2%	20,648	194	20,454	4,488	2,180	1,800	1,800	3,203
2050P	19,771	1.7%	41,766	4.2%	21,994	198	21,796	4,793	2,342	1,800	1,800	1,403
2051P	20,098	1.7%	43,502	4.2%	23,404	201	23,203	5,113	2,510	1,800	1,403	-