Working Group for the Fiscal and Economic Recovery of Puerto Rico

For Immediate Release
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THE WORKING GROUP FOR THE FISCAL AND ECONOMIC RECOVERY OF PUERTO RICO RELEASES RESTRUCTURING COUNTERPROPOSAL

Revised Comprehensive Voluntary Exchange Proposal Addresses Feedback Provided by the Commonwealth's Creditors in Response to Original Proposal Presented in January

San Juan, P.R. – Today, the Working Group for the Fiscal and Economic Recovery of Puerto released the details of a revised voluntary exchange proposal presented to advisors to the Commonwealth's creditors in March. The Working Group's revised proposal was made in response to counterproposals and feedback received from many of the Commonwealth's different creditor groups. Since the January presentation of the Working Group's first proposal, the Working Group and its advisors have held a series of meetings and discussions with creditors and their advisors, and continued to provide access to Commonwealth's financial and economic data, in an effort to reach a consensual agreement regarding a debt structure that will be sustainable over the long-term, and enable the Commonwealth to achieve strong, broad-based economic growth.

The new proposal, if accepted by the creditors, would give Puerto Rico the time it needs to implement the Fiscal and Economic Growth Plan (FEGP). Together with implementation of the FEGP, a comprehensive debt restructuring will ensure the Commonwealth has sufficient resources to provide essential services to all Puerto Rican residents, pay back its local vendors, suppliers and taxpayers, rebuild depleted cash resources, fund necessary capital expenditures, create investment opportunities in the local economy, and fund its retirement systems.

"The Commonwealth is in crisis, and the fact is that we will only be able to address these issues by working together. Our commitment to this is underscored by our willingness to listen to our different creditors and work to meet their needs," said Victor A. Suarez, Secretary of State. "But a sustainable solution cannot place the burden on one stakeholder group alone, and we have the moral and legal obligation to protect the health, safety and well-being of our citizens. These are the priorities we must balance while working to reach an agreement that will put Puerto Rico back on the path to prosperity."

Specifically, the new proposal includes the following material enhancements to the original proposal:

- Annual aggregate debt service has been increased from $1.7 billion to $1.85 billion (equal to 15% of 2021 revenues), allowing the Commonwealth to increase the aggregate amount of Base Bonds by approximately 11 to 30 percent depending on how many Puerto Rican residents elect the Local Option (as described below);
- The "Growth Bond" has been replaced with a "Capital Appreciation Bond". The Growth Bond was a contingent payment instrument, payable only if the Commonwealth economy achieved a specific level of economic growth. By contrast, the Capital Appreciation Bond is mandatorily payable – like the Base Bond – and will enable all creditors to recover the principal amount of their existing investments irrespective of future growth;
- Interest will now be paid currently on the Base Bonds; previously interest payments only began in 2018;
- Puerto Rican residents will be offered the option to receive a par Base Bond with a long-dated maturity and a 2.0% interest rate (the "Local Option");
- As a result of the forgoing adjustments, under the revised proposal, the Commonwealth's $49.3 billion of

tax-supported debt would be reduced, depending on how many Puerto Rican residents elect the Local Option, to between $32.6 and $37.4 billion. Under the original proposal, tax-supported debt would have been reduced to $26.5 billion.

Under the revised proposal, assuming all Puerto Rican residents elect the Local Option, the $49.3 billion of tax-supported debt would be exchanged into up to $27.8 billion of newly issued mandatorily payable Base Bonds and $1.7 billion of newly issued Capital Appreciation Bonds. In addition, holders of certain bonds who reside in Puerto Rico would have an option to receive up to $8.0 billion of new Local Holder Base Bonds. Interest payments on the Base Bonds would begin in January 2017, scaling up to 5% per annum by FY 2021, when principal payments would begin. Interest payments on the Local Holder Base Bonds would begin in January 2017 at a rate of 2% and would be paid current at that rate through the life of the bonds. The Capital Appreciation Bonds would accrete at a 5% per annum rate beginning in 2017, and when they are repaid, the final payment amount would equal the difference between the Base Bond and the original par amount of the exchanged security, thereby enabling creditors to recover the full principal amount of their current holdings.

Based on the new proposal, including both the Base Bond and Capital Appreciation Bond and assuming all Puerto Rican residents elect the Local Option, the following are the average recovery rates across all bonds of selected issuers (assuming a 5% yield):

- GO and Commonwealth-Guaranteed – 74%
- COFINA – 57%
- GDB – 36%
- HTA – 56%
- Other – 51%

The proposal also seeks to lower the Commonwealth's ratio of debt service-to-revenue on tax-supported debt from the current level of 36% to approximately 15% based on 2021 revenues, a level consistent with the debt limit contemplated by the Constitution of Puerto Rico. Although a debt service to revenue ratio of 15% still exceeds the ratio of the most heavily indebted of the U.S. states, the new debt service schedule has been structured to give the Commonwealth the opportunity to further reduce that ratio as a result of economic growth and to develop into a stronger credit over time. A successful comprehensive restructuring, along with the implementation of the measures recommended in the FEGP, is expected to improve the Commonwealth's creditworthiness and to enhance its prospects for economic growth.

The economics of the exchange offer is predicated upon a number of key assumptions, including the participation of all creditors as well as the U.S. Federal Government maintaining at least its current percentage levels of programmatic support for the Commonwealth. If the Commonwealth does not obtain a legal mechanism by which to bind holdouts 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 and creditor recoveries adjusted downward accordingly.

Additional details on the counterproposal are available at http://www.bgfpr.com/.

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The information included in this statement contains certain forward-looking statements. These forward looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward looking.

This statement is not a guarantee of future performance and involves certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies or instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies or instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies or instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth's or its agencies or instrumentalities' projections