

## Indicative Terms of Proposed GDB Restructuring

*This is a summary of indicative terms of a proposed two-step restructuring (the “GDB Restructuring”) of all outstanding bonds (“Old Notes”) of the Government Development Bank for Puerto Rico (“GDB”), subject to the parties’ good faith intention to negotiate definitive documentation. The agreement of the parties shall become binding and enforceable only upon execution and delivery of definitive documentation. If executed, the terms of such definitive documentation shall control. Nothing in this summary shall constitute an admission or representation of any fact or circumstance or an admission of any liability or waiver of any right or claim.*

- Two-Step Exchange of GDB notes involving 100% of GDB noteholders (whether by agreement or pursuant to a statutory binding mechanism):
  - Step 1: Exchange of Old Notes for new GDB notes (the “Interim Notes”). The Interim Notes would include Face Discount Notes and Par Notes, as described below.
    - The Exchange Ratio for holders taking a face amount discount would be 56.25% of the face amount of Old Notes (the “Exchange Ratio” for the “Face Discount Notes”).
      - The NPV discount for the NPV discount bonds and any other par exchange bonds (the “Par Notes”) to be agreed.
      - Further terms and conditions of the Par Notes not noted herein are to be agreed.
    - The Face Discount Notes would have an interest rate of 5.0% paid in cash and PIK as follows: FY16/17: 1.0% cash, 4.0% PIK; FY18/19: 3.0% cash, 2.0% PIK; FY20: 4.0% cash, 1.0% PIK; and FY21 and thereafter: 5.0% cash.
    - The Face Discount Notes would have an amortization schedule beginning June 30, 2021, with the Face Discount Notes being amortized in full before amortization of any Par Notes, subject to further terms to be agreed.
    - The Face Discount Notes would have a final maturity in 2040.
    - Collateral:
      - The Face Discount Notes and any Par Notes taking a substantially equivalent NPV discount to be agreed (the “Par Discount Notes”)<sup>1</sup> would be secured by a first lien on GDB’s existing CAE and IVU municipal loan portfolio with an approximate face amount of \$1.9 billion (the “First Lien Collateral”), with no future collateral contribution requirements other than to meet the Maximum LTV Ratio (as defined below) if not restored by payment of additional amortizations (in the order of scheduled amortizations) or otherwise.
      - Up to \$1.5 billion of Interim Notes would be issued on a first-lien basis.
        - First lien tranche would be open only to holders taking Face Discount Notes and Par Discount Notes, with a transaction condition precedent to the Step 1 exchange being that the Ad Hoc Group’s current holdings will fully participate in the Interim Notes’ first lien tranche.
        - Holders taking Face Discount Notes would be amortized prior to all Par Notes, including Par Discount Notes.
      - First lien tranche Maximum Loan to Value ratio of 80% (the “Maximum LTV Ratio”), it being understood that the amount of CAE and IVU municipal loan

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<sup>1</sup> In the case of the Par Discount Notes, the security interest will be limited to a principal amount equal to the Exchange Ratio.

collateral granted will not be reduced if less than \$1.5 billion of the principal amount of Face Discount Notes and Par Discount Notes are secured.

- However, GDB would have the option to reduce the first lien tranche cap below \$1.5 billion in order to meet the Maximum LTV Ratio at closing as long as all Face Discount Notes are secured by the First Lien Collateral after giving effect to any such reduction.
- GDB would also have the option to increase amortization in order to meet the Maximum LTV Ratio (in the order of scheduled amortizations).
- Cash flows would be available to GDB for agreed uses, subject to a lock-box mechanism to be agreed, and collateral would only be available to bondholders upon limited acceleration events as follows: non-payment, failure to comply with the Maximum LTV Ratio and GDB receivership or insolvency proceedings, in each case with agreed cure periods if applicable.
- Protective Bonds: Holders receiving the Face Discount Notes would receive protective bonds in the amount of the difference between the principal amount of their Old Notes and the principal amount of their Interim Notes. The protective bonds would be automatically redeemed with no additional consideration upon (i) the Face Discount Notes' participation in full in a global exchange in respect of the Commonwealth's general obligation bonds and other securities issued by its governmental entities (as described below); (ii) GDB's redemption of the Face Discount Notes for a cash payment equal to 47% of the face amount of Old Notes, plus accrued and unpaid interest on the Face Discount Notes for the period from the date of the interim exchange to the date of the redemption, to be exercisable within a limited period of time to be agreed; or (iii) payment in full of the Face Discount Bonds. Protective bonds would have PIK interest (at a rate to be agreed) and would have a bullet maturity following the final maturity of the Par Bonds.
- The additional agreed terms to be negotiated would include conditions precedent to closing.
- All Interim Notes would include a collective action clause allowing for a supermajority of bondholders to agree to amendments of the terms of the bonds (including payment terms), to be specified in the agreement in principle and the bond documentation.
- Step 2: The Interim Notes would be exchanged into a global exchange currency.
  - Exchange Ratio: Holders of Face Discount Notes to receive exchange consideration having an agreed value equal to 47% of the face amount of Old Notes.<sup>2</sup>
  - Terms and form of global exchange currency to be offered to holders of Interim Notes to be negotiated by the parties in good faith.
  - Terms and conditions for a qualifying global exchange to be agreed.
- Obligations to GDB depositors would be collateralized by all other GDB assets, including appropriation loans, other than those assets pledged to the Interim Notes as part of the first lien tranche, provided that at all times the liens securing any outstanding secured Interim Notes remain valid, binding and enforceable in accordance with their terms.

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<sup>2</sup> The treatment of PIK interest on the Face Discount Notes in connection with Step 2 to be discussed in connection with definitive documentation.

- Ad Hoc Group would promptly enter into a 30-day forbearance agreement, on mutually agreed terms and conditions, related to the non-payment of May 1 principal and various other remedies related thereto,<sup>3</sup> and, thereafter, the parties would enter into an agreement in principle documenting the agreed terms of the transaction and extending the forbearance as agreed therein.<sup>4</sup>
- Commonwealth and GDB would announce no later than May 2, 2016 at 12:00 p.m. the reaching of a deal on key financial terms and make any necessary disclosure of the material terms so that the holders will be cleansed and become unrestricted.

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<sup>3</sup> Terms and terminations events of the forbearance agreement will also address pending litigation (including with respect to the Moratorium Statue (Act 21-2016) and related matters) on terms to be agreed.

<sup>4</sup> Ongoing debt service on the Old Notes through closing of the GDB Restructuring to be discussed in connection with definitive documentation.