COMMONWEALTH OF PUERTO RICO

SUPPLEMENT DATED JUNE 30, 2015 TO

QUARTERLY REPORT DATED MAY 7, 2015

COMMONWEALTH OF PUERTO RICO
SUPPLEMENT TO QUARTERLY REPORT
June 30, 2015

INTRODUCTION

This Supplement to the Quarterly Report (the "Supplement") of the Commonwealth of Puerto Rico (the "Commonwealth") is dated as of June 30, 2015, and is intended to update certain information included in the Commonwealth's Quarterly Report dated May 7, 2015 (the "May Quarterly Report").

This Supplement should be read in conjunction with the information contained in the May Quarterly Report. Unless otherwise stated, the information included herein is current as of June 30, 2015. The Commonwealth is not updating the May Quarterly Report in its entirety. It is only updating certain information in the May Quarterly Report due to the recent events specifically mentioned in the Supplement. Therefore, there could be changes to the information set forth in the May Quarterly Report that are not reflected in this Supplement. You should not assume that the information in this Supplement, the May Quarterly Report and the other documents that form part of the Commonwealth's Financial Information and Operating Data Report dated October 30, 2014 is accurate as of any date other than the respective dates as of which such information is presented in such reports.

The Commonwealth's fiscal year begins on July 1 and ends on June 30 of the following year. References in this Supplement to a particular fiscal year are to the period ending on June 30 of such year.

Forward-Looking Statements

The information included in this Supplement contains certain "forward-looking" statements. These forward-looking statements may relate to the fiscal and economic condition, economic performance, plans, or objectives of the Commonwealth and its instrumentalities. All statements contained herein that are not clearly historical in nature are forward-looking, and the words "anticipates," "believes," "continues," "expects," "estimates," "intends," "aims," "projects," and similar expressions, and future or conditional verbs such as "will," "would," "should," "could," "might," "can," "may," or similar expressions, are generally intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, and assumptions by the Commonwealth and certain of its instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its 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 its agencies and instrumentalities, but also by entities such as the government of the United States of America or other nations. 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 instrumentalities' projections.

Any projections contained in this Supplement were not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of the Commonwealth and its instrumentalities responsible for the preparation of such information, were prepared on a reasonable basis, reflect the best currently available estimates and judgments, and present, to the best of such officers' knowledge and belief, the expected course of action and the expected future financial performance of the Commonwealth and certain of its instrumentalities. However, this information is not fact and should not be relied upon as being necessarily indicative of future results, and readers of this Supplement are cautioned not to place undue reliance on the prospective financial information. Neither the Commonwealth's independent auditors, nor any other independent auditors, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with the prospective financial information. Neither the Commonwealth's independent auditors, nor any other independent auditors, have been consulted in connection with the preparation of the prospective financial information set forth in this Supplement, which is solely the product of the Commonwealth and certain of its instrumentalities, and the independent auditors assume no responsibility for its content.

RECENT EVENTS

Preliminary General Fund Budgetary Revenues for May and for the First Eleven Months of Fiscal Year 2015

Preliminary General Fund revenues for May 2015 were $646.9 million, a decrease of $106.2 million when compared to the same month of the prior fiscal year and $64 million less than the original estimate for the month. As a result, for the first eleven months of fiscal year 2015, preliminary General Fund revenues were $7.982 billion, a decrease of $44.7 million when compared to the same period in the prior fiscal year, but $314.7 million less than the originally estimated revenues for the period.

Projected General Fund Budget Deficit for Fiscal Year 2015

The Government's most recent projection is that it will close fiscal year 2015 with a budget deficit in the range of $531 million to $566 million, an amount that, when adjusted for actual tax refunds paid in this fiscal year in excess of the reserve included in the budget for fiscal year 2015, increases the deficit to a range of $705 million to $740 million. The prior estimate of the fiscal year 2015 General Fund budget deficit included in the May Quarterly Report (which did not account for refunds paid in the current year in excess of the budgeted reserve) was $191 million. The increase in the General Fund budget deficit estimate is attributed to the following factors:

- lower than anticipated actual revenues for the month of May and the first three weeks of June indicate that revenues for the entire fiscal year may be approximately $190 to $225 million less than what was estimated in April;
- interest and expenses related to the fiscal year 2015 tax revenue anticipation notes ("TRANs") and a line of credit with GDB are projected to exceed by approximately $24 million the amount originally budgeted for such purpose;
- payments made by the Treasury Department for the reimbursement of energy tax credits taken by exempt companies under Act 73-2008 in the amount of approximately $26 million, which were not contemplated in the 2015 fiscal year budget; and
- the $100 million cash contribution from the State Insurance Fund to the General Fund was effected through a loan and not a dividend as had been originally contemplated and as such is not reflected as revenue for purposes of calculating the General Fund budget deficit.

The above factors increase the budget deficit projection for fiscal year 2015 to an amount in the range of $531 to $566 million. However, when such amount takes into account that actual tax refund payments made in the current fiscal year exceed by approximately $174 million the $468 million reserve included in the fiscal year 2015 budget, the estimate of the General Fund budget deficit increases by approximately $174 million, to a range of $705 million to $740 million. Although adjustments due to payments of tax refunds in excess of the budgeted reserve are normally made in the course of the preparation of the Commonwealth's financial statements, the Government is disclosing this payment in excess of budget at this time in order to provide the best possible current estimate of the General Fund budget deficit for fiscal year 2015. This computation does not include approximately $291 million in tax refunds that remain pending payment as of June 30, 2015.

The above General Fund budget deficit estimates were made in accordance with a statutory (budgetary) basis of accounting, which is not in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The presentation of the General Fund revenues and expenditures in accordance with U.S. GAAP would result in revenues, expenditures and a deficiency in revenues over expenditures significantly higher than the amounts presented in the current General Fund budget deficit estimate for fiscal year 2015. The General Fund budget deficit estimate does not include, among others: (1) items that were not considered in the approved budget, (2) deficits in funds other than the General Fund that are administered by the Commonwealth, and (3) deficits in public corporations which are subsidized by the Commonwealth. See "FISCAL CONDITION- Historical General Fund Budget Deficits" in the May Quarterly Report.

Preliminary Budget Deficit for Fiscal Year 2014

In the May Quarterly Report, the Commonwealth estimated that the budget deficit for fiscal year 2014 would be $869 million. However, since the audit for fiscal year 2014 has not been completed that estimate did not take into consideration adjustments due to the payment of tax refunds in excess of budgeted amounts. For fiscal year 2014, the Commonwealth budget included a reserve of $588 million for tax refunds. Since actual tax refund payments for fiscal year 2014 were approximately $243 million in excess of the budgeted reserve, the Commonwealth currently estimates that after expected audit adjustments, the General Fund deficit for fiscal year 2014 (calculated in accordance with statutory (budget) basis of accounting) will be approximately $1.1 billion (including $575 million in general obligation debt service refinancing.) The fiscal year 2014 approved General Fund budget contemplated an $820 million deficit (including $245 million from deficit financing and $575 million in general obligation debt service refinancing.)

Report on the Commonwealth's Economic and Financial Stability and Growth Prospects Prepared by Former IMF Economists —Release of the Krueger Report

As discussed in the May Quarterly Report, on February 5, 2015, Dr. Anne O. Krueger, Dr. Ranjit S. Teja and Dr. Andrew Wolfe (the "Former IMF economists"), each of whom has previously occupied senior executive positions at the International Monetary Fund ("IMF"), were engaged to analyze the Commonwealth's economic and financial stability and growth prospects. Their final report was delivered to the Governor of Puerto Rico on June 28, 2015 and was made public on that date.

The report from the Former IMF economists (the "Krueger Report") states that Puerto Rico faces an acute crisis in the face of faltering economic activity, fiscal solvency and debt sustainability, and institutional credibility. Some of the report's principal conclusions are as follows:

● The economic problems of Puerto Rico are structural, not cyclical, and are not going away without structural reforms. The report reviews the various shocks to Puerto Rico's economy in the last decade (including the decline in manufacturing activity and the housing market, the banking crisis and the 2007-2009 U.S. economic recession), and concludes that, even more significantly than those factors, other forces on the supply side have affected economic growth. These supply-side forces include low labor participation (40% versus 63% in the United States) and high labor costs, outmigration and population loss (according to the Puerto Rico Planning Board, population may continue to fall through 2020), high energy costs, high transportation costs and barriers to competition and business activity. The report states that the economy is in a cycle where unsustainable public finances are feeding into uncertainty and low growth, which in turn is raising the fiscal deficit and the debt ratio. The Former IMF economists' believe that the economy will continue to contract at a rate of at least 1% per annum, likely more in fiscal year 2015.

● Fiscal deficits are much larger than assumed and are set to deteriorate. The report points to a number of factors that contribute to the persistent deficits: overly optimistic revenue projections and budget formulation; lack of expenditure control and buildup of payables; negotiated discounts on anticipated tax obligations; extensive tax expenditures in the form of credits and exemptions; and lack of timely and reliable monitoring of fiscal trends. The report concludes that the standard measure of the fiscal balance in Puerto Rico, using the General Fund account, greatly understates the true deficit and the challenge ahead. The report discusses the conceptual problems with viewing the deficit from the standpoint of the General Fund account in isolation, including that the General Fund (i) being on a cash basis, does not reflect previously incurred expenses until the fiscal year in which they are recorded for payment, (ii) excludes numerous agencies and public corporations that operate like arms of the government and also run deficits, and (iii) excludes capital expenditures. As a result, the report states that an analysis of fiscal and debt sustainability cannot be conducted on the basis of the General Fund measure alone.

Using standard IMF metrics to view the deficit from a broader standpoint than the General Fund, the report indicates that the overall deficit is larger than recognized. The Former IMF economists construct a measure of the overall deficit that incorporates cash and non-cash spending and uses a wider definition of the central government that includes, for example, governmental units receiving formula-based budgetary transfers. Under this methodology, the report identifies a deficit of approximately $2.0 billion for fiscal year 2015 that has been funded through a decline in cash balances and a further buildup of payables at the central government and at various others entities that receive funding from the General Fund. A similar narrative of large deficits is seen at the three largest public enterprises (PREPA, PRASA and HTA) and the principal retirement systems. These deficits have worsened the prospect for debt sustainability.

The report concludes that the actions taken by the Government to date to address the fiscal deficits are insufficient, and, thus, the fiscal deficits too are not going away and have to be closed through wide-ranging policy action.

● The central government deficits (as measured in the report) over the coming years imply an unsustainable trajectory of large financing gaps. The report constructs a projection model using the above-described metrics and certain assumptions, including negative 1% real growth (the report states that this assumption is probably too optimistic in light of the looming crisis) and 2% inflation. The projection assumes the following: (i) budgetary support for the Employee Retirement Fund starting in fiscal year 2017, for the judiciary retirement system starting in fiscal year 2019 and for teachers retirement system starting in fiscal year 2020; (ii) principal payments of debt; (iii) the gradual pay down of arrears to suppliers and taxpayers ($450 million per year); and (iv) additional downside risks from a potential loss of federal funding for the Affordable Care Act and from a decline in Act 154-2010 excise tax receipts (due to modified source income accounting rules for firms operating in multiple tax jurisdictions). Based on current policies, the model reflects overall deficits of between $3 billion and $5 billion per year over the next five years, and continuing to grow thereafter. After factoring the additional downside risks described in clause (iv) above, the report identifies that annual deficits could range from $3.7 billion in fiscal year 2016 to $8.2 billion in fiscal year 2025.

● Puerto Rico's public debt cannot be made sustainable without growth, nor can growth occur in the face of structural obstacles and doubts about debt sustainability. To restore growth and confidence, Puerto Rico needs to implement ambitious measures as an integrated package in three principal areas: (1) structural reforms directed at restoring competitiveness, (2) fiscal reform and restructuring of public debt, and (3) institutional credibility.

First, with respect to structural reforms, the report discusses needed supply-side measures, some of which can be implemented by the Commonwealth by amending local laws (such as labor laws that result in a disincentive for employment) but others that would require federal legislative action. The impact on growth of supply-side reforms, however, takes time. Implementing structural reforms alone would leave large fiscal deficits.

Second, with respect to fiscal adjustment and public debt, the report states that fiscal reforms should focus more on broadening the tax base than on raising tax rates, and on targeted expenditure reductions. The report concludes that there is scope to increase savings to over $2 billion per year by fiscal year 2020 and $2.5 billion per year by fiscal year 2025, although total expenditures would still rise in dollar terms and relative to GNP as it is assumed that the government makes up for any cash shortfalls of the retirement systems. The report states that, while a reduction of fiscal imbalances should improve long-term economic prospects, the adjustment should be designed to be as growth oriented as possible. Too much fiscal tightening could depress demand and would do nothing to address the supply-side problems at the root of the Commonwealth's growth problems. The report also states that there is scope to raise receipts around $3 billion annually by fiscal year 2020 and $4 billion annually by fiscal year 2025. The report acknowledges that their quantitative estimates are subject to great uncertainty and do not reflect the full menu of policy options.

The report concludes that, even after factoring in a substantial fiscal effort, a large residual financing gap persists into the next decade, implying a need for debt relief. Based on the assumptions used in the projection model and incorporating the effects of proposed fiscal reforms, the residual financing gap disappears by fiscal year 2025, but to close the gap in prior years significant debt service relief is required. To close the financing gap, the government would need to seek relief from a significant but progressively declining proportion of principal and interest falling due during fiscal years 2016-2024. The report acknowledges that any debt restructuring would be challenging as there is no precedent of this scale and scope, but concludes that, from an economic perspective, the fact remains that the central government faces large financing gaps even with substantial adjustment efforts (as there are limits to how much expenditures can be cut or taxes raised). The report notes: “difficult or not, the projections are clear that the issue can no longer be avoided”.

Finally, with respect to institutional credibility, the report states that the legacy of budgetary laxity, non-transparency and unreliable and dated statistics must be overcome for the reform program to work and command credibility. The recommendations in this area include, among others, legislative approval of a long-term fiscal plan, rules to limit changes to the plan, the establishment of an independent fiscal oversight board to advise on the budget and control its implementation, and the strengthening of statistics on the wider economy.

The report acknowledges that the recommendations contained therein consist of a daunting agenda from a political, legal and organizational standpoint, but the Former IMF economists believe that addressing these issues is urgent and that delays can intensify the crisis.

In preparing their analysis, the Former IMF economists have relied on information provided by the Commonwealth and its instrumentalities and, therefore, these economists do not assume any responsibility for the accuracy or completeness of such information. Furthermore, the analysis prepared by the Former IMF economists includes estimates and projections based on assumptions about economic growth and other variables that are inherently subject to significant political, economic and other uncertainties. Actual results may vary materially from such estimates and projections.

The Former IMF economists have not participated in the preparation of this Supplement and have no responsibility for its contents. The Former IMF economists are not soliciting or recommending the purchase or sale of securities, or any indications for the purchase or sale of securities, or any other investment decisions.

Executive Order to Create the Fiscal and Economic Recovery Working Group

On June 29, 2015, the Governor of Puerto Rico issued an Executive Order to create the Puerto Rico Fiscal and Economic Recovery Working Group (the “Working Group”). The Working Group was created to consider the measures necessary, including the measures recommended in the Krueger Report, to address the fiscal crisis of the Commonwealth.

The Working Group’s members are the Chief of Staff, the President of GDB, the Secretary of Justice, the President of the Senate and the President of the House of Representatives. The Working Group will be responsible for developing and recommending to the Governor of Puerto Rico the Puerto Rico Fiscal and Economic Adjustment Plan. The Fiscal and Economic Adjustment Plan will contain the plans and the administrative and legislative measures necessary to address the short, medium and long-term fiscal and economic challenges facing Puerto Rico, including measures to: (i) address the financing gaps and the debt load on the public sector, (ii) achieve the execution of its budgets, (iii) achieve greater transparency with respect to statistics and the government's financial information, and (iv) carry out the structural reforms necessary to promote the economic growth and competitiveness of the Commonwealth.

In preparing the Puerto Rico Fiscal and Economic Adjustment Plan, the Working Group has been directed to :

- require that the budgets for each governmental entity be prepared with the goal of achieving balanced budgets, in accordance with generally accepted accounting principles;
- require that each governmental entity annually reduce its budget deficit in a manner that by the end of the fiscal adjustment period the consolidated budget deficits of the Commonwealth have been completely eliminated, in accordance with the proposed Puerto Rico Fiscal and Economic Adjustment Plan;
- ensure a material reduction in expenditures through the offering of efficient services by the Commonwealth and its instrumentalities;
- identify such automatic budget stabilizers that ensure compliance with the proposed Puerto Rico Fiscal and Economic Adjustment Plan;
- include specific proposals with the goal of improving and diversifying the Commonwealth's economy, reduce the cost of living and the cost of doing business, and achieve economic stability and development of the Commonwealth in the long term;
- promote structural economic reforms designed to promote the economic development of the Commonwealth, which could include changes to labor and welfare laws;
- require the adjustment of the aggregate debt load of the Commonwealth and its instrumentalities so that such debt can be repaid in sustainable terms;
- ensure that pension obligations may be met in the long term;
- require that financial controls and accounting systems be reformed to ensure compliance with the Puerto Rico Fiscal and Economic Adjustment Plan and the transparency of government data;
- ensure the long term financial stability of the Commonwealth, as evidenced by access to short and long term capital markets.

The Working Group has been directed to present a draft of the Puerto Rico Fiscal and Economic Adjustment Plan no later than August 30, 2015 and the legislative measures necessary to implement the Plan will be filed in the Legislative Assembly no later than October 1, 2015.

Increase in the Sales and Use Tax Rate and Transition to a Value Added Tax

On May 29, 2015, the Commonwealth enacted Act No. 72 ("Act 72-2015"), which, *inter alia,* increased the sales and use tax ("SUT") rate and provided for a transition to a value added tax ("VAT") to substitute the central government's portion of the SUT, subject to certain conditions.

Commencing on July 1, 2015, transactions currently subject to the 7% SUT will be subject to a 11.5% SUT (10.5% collected by the Treasury Department, of which 0 .5% goes to a special fund for the municipalities, and 1% collected by the municipalities). The SUT will be in effect until March 31, 2016, unless the Secretary of Treasury extends the effectiveness of the SUT for an additional sixty (60) day period.

Commencing on October 1, 2015 and until March 31, 2016:

- Business to business transactions that are currently taxable will be subject to a 11.5% SUT.
- Business to business services and designated professional services (e.g. accountants, lawyers, engineers) that were previously exempt from SUT will be subject to a Commonwealth SUT of 4% but no municipal SUT will apply to these services.
- The following services will be exempt from SUT: (i) services offered by the Commonwealth government and instrumentalities; (ii) education, (ii) interest and other financing charges, (iii) insurance, (iv) health and hospital services, and (v) services offered by persons with a volume of business not exceeding $50,000.

After March 31, 2016 (or the extended sunset date provided for the SUT at the discretion of the Secretary of Treasury), all transactions subject to the SUT will be subject to a new VAT of 10.5% plus a 1% municipal SUT. The new VAT will also apply on the introduction into Puerto Rico of taxable articles and on taxable transactions, which are: (i) the sale in Puerto Rico of goods and services by a merchant, the rendering of a service by a non-resident to a person in Puerto Rico, and combined transactions. Certain articles and transactions will not be subject to the VAT.

Act 72-2015 created a Commission to Consider Alternatives to Transform Consumption Taxes. This commission is authorized to review and recommend alternatives to the approved VAT. One of the alternatives to be considered will be a new system of excise taxes. However, any recommendation to implement a consumption tax different from the already approved VAT would require additional legislation.

Update on Commonwealth Liquidity

As of April 30, 2015, the Treasury Department's Cash Concentration Account bank balance was $146 million (excluding amounts set aside for general obligation debt service), and the preliminary book overdraft on its cash balance was approximately $73 million. During the month of May 2015, Treasury used the remaining $25 million from its outstanding $100 million short-term credit facility with the GDB pursuant to Act No. 164-2001 (the "Act 164 Facility"). As of May 31, 2015, the Treasury Department's Cash Concentration Account bank balance was

$20 million (excluding amounts set-aside for general obligation debt service), and the preliminary book overdraft on its cash balance was approximately $271 million. The book overdraft as of June 30, 2015 has not been determined yet but it is expected to be higher than the amount reported as of May 31, 2015.

On June 5, 2015 and on June 18, 2015, the Puerto Rico State Insurance Fund Corporation and the Automobile Accidents Compensation Administration provided long-term credit facilities of $100 million and $2 million, respectively, to the Treasury Department pursuant to Act 80-2015. The Treasury Department has already used the full amount of these facilities. Any additional short-term financings from GDB or any other Government instrumentality would require legislative approval.

The Commonwealth's cash needs for the month of June 2015 included the maturity of $250 million in TRANs, of which $100 million was paid on June 15 plus accrued interest, $72 million related to the monthly set aside payments to the Redemption Fund for the Commonwealth's general obligations bonds, $100 million payment to GDB in principal plus accrued interest on the Act 164 Facility, and approximately $161 million in payments to GDB related to budgeted appropriations for repayment of the outstanding GDB lines of credit. The Commonwealth expects to make the above payments by June 30, 2015.

In addition, in the beginning of fiscal year 2016, the Commonwealth faces: (i) set aside payments to the Redemption Fund for the Commonwealth's general obligation bonds of approximately $276 million during the first three months of the fiscal year (approximately of $92 million per month), (ii) $93.7 million in appropriations which are due on July 15, 2015 to the Puerto Rico Public Finance Corporation ("PFC") for the payment of PFC debt service, and (iii) $300 million in TRANs notes issued by the GDB plus accrued interest that mature on July 10, 2015, (which the Commonwealth expects to offset during July 2015 with a new $300 million TRANs to be issued by GDB).

The Commonwealth is evaluating the implementation of various measures to deal with the liquidity challenges it expects to face during the first quarter of fiscal year 2016. Some of these measures include: (i) advances to the Treasury Department from the two largest government retirement systems for the payment by the Treasury Department of retirement benefits to participants (instead of the usual reimbursements made by the retirement systems to the Treasury Department for pension benefits payments made by the Treasury Department on behalf of the systems); (ii) requiring certain Commonwealth instrumentalities to purchase at least $400 million aggregate principal amount of TRANs for fiscal year 2016; (iii) suspending during fiscal year 2016 Commonwealth set-asides required by Act No. 39 of May 13, 1976, as amended, for the payment of its general obligation debt; (iv) delay in the payment of third-party payables or amounts due to public corporations; and (v) delay in the payment of income tax refunds. The Commonwealth is also exploring the possibility of a TRANs financing with private institutions for an amount lower than the $900 million transaction effected in fiscal year 2015 but it is too early to ascertain whether such transaction will take place and the principal amount of any such financing. Finally, the approval of the proposed amendments to Act 72-2015 to deposit directly into the General Fund the additional 4.5% sales and use tax recently enacted should generate additional estimated revenues of $90 million per month. Failure to enact this legislation would further strain the liquidity of the General Fund. See "RECENT EVENTS- Proposed Amendments to the Sales and Tax Financing Corporation Legislation".

The Government is also evaluating additional options that may require legislative action. If no significant measures are implemented to increase the Government's cash flow, absent new financing from GDB or third parties, during the first quarter of fiscal year 2016 the Government may not be able to continue funding all governmental programs and services while continuing to meet all of its debt service obligations in a timely manner. See also "RECENT EVENTS- Proposed Legislation to Increase Commonwealth Short Term Liquidity".

Proposed Fiscal Year 2016 Budget

The table below presents a summary of the budget that was proposed for fiscal year 2016 and was evaluated by the Legislative Assembly. The proposed budget was $235 million higher than the approved budget for fiscal year 2015 due primarily to a significant increase in debt service payments and special pension contributions. The budget for fiscal year 2016 was approved by both chambers of the Legislative Assembly on June 30, 2015. The approved budget will now be sent to the Governor. The Office of Management and Budget is currently evaluating the final changes made in the budget approved by the Legislative Assembly.

The Government has a constitutional obligation to propose a balanced budget. Appropriations made for any fiscal year shall not exceed the total revenues estimated for said fiscal year unless sufficient taxes are provided by law to cover all appropriations. In case the available revenues for any fiscal year are insufficient to meet the appropriations made for that year, interest on the public debt and amortization thereof shall first be paid, and other disbursements shall thereafter be made in accordance with the order of priorities established by law. In the case of the Employees Retirement System, the additional contribution for fiscal year 2016 consisting of the portion of the additional uniform contribution, as determined by the actuaries, corresponding to the Commonwealth's central government and the increase in the Commonwealth's contributions due to the 1% increase in the statutory employer contribution rates would amount to $257 million. In light of the Commonwealth's fiscal condition, the proposed budget included an additional contribution of $92 million. The table below was prepared on the basis of the proposed budget and does not reflect the final approved budget. Note that in the table below expenditures for "Public Buildings Authority" (i.e. rental payments) and "Utilities" (i.e. water and electricity) for fiscal year 2016 were presented as separate line items. In previous fiscal years, these appropriations had been included as part of the individual budget of each governmental agency. The column for the fiscal year 2016 proposed budget also includes certain reclassifications on its budgeted expenses but the column for the fiscal year 2015 budget has not been amended to reflect such reclassifications.

Commonwealth of Puerto Rico
Summary of Central Government Proposed Annual Budget
General Fund Budget and Reconstruction Fund
(in thousands)

	Fiscal Year 2015	Fiscal Year 2016p
Revenues from internal sources:		
Personal income taxes	$2,356,000	$2,135,000
Retained non-resident income tax	807,000	822,000
Corporate income taxes	2,085,000	1,791,000
Partnership income taxes	2,000	0
Tollgate taxes	5,000	0
17% withholding tax on interest	7,000	4,000
10% withholding tax on dividends	116,000	37,000
Inheritance and gift taxes	3,000	5,000
Sales and use taxes	735,000	1,740,000
Excise taxes:		
Alcoholic beverages	281,000	270,000
Foreign (Act 154)	1,889,000	1,905,000
Motor vehicles and accessories	380,000	305,000
Cigarettes	170,000	133,000
Other (excise taxes)	121,000	104,000
Licenses	25,000	19,000
Miscellaneous non-tax revenues:		
Contributions from lottery fund	42,000	48,000
Electronic lottery	93,000	90,000
Registration and document certification fees	104,000	104,000
Other	118,000	102,000
Total revenues from internal sources	9,340,000	9,614,000
Revenues from non-Commonwealth sources:		
Federal excise taxes on off-shore shipments	225,000	186,000
Total revenues from non-Commonwealth sources	225,000	186,000
Total revenues and resources	9,565,000	9,800,000
Appropriations:		
Current expenses:		
General government	1,104,143	809,954
Education	3,087,149	2,612,775
Health	1,367,192	1,333,326
Welfare	413,605	387,333
Economic development	138,738	149,422
Public safety and protection	1,431,705	1,304,186
Transportation and communication	70,028	64,574
Housing	21,396	18,177
Contributions to municipalities	370,627	370,519
Special pension contributions	334,050	652,188
Debt service	742,718	1,011,210
Other debt service (appropriations)	483,649	526,786
PBA		364,264
Utilities(PREPA, PRASA, Insurance Premiums)		195,286
Total appropriations – current expenses	9,565,000	9,800,000
Capital improvements	0	0
Total appropriations	9,565,000	9,800,000
Year-end balance	0	0
Total appropriations and year-end balance	$9,565,000	9,800,000

Totals may not add due to rounding.
Sources: Treasury Department and Office of Management and Budget
Figures for fiscal year 2016 are proposed and remain subject to change. Final approved figures may be significantly different.

Update on GDB Funding and Liquidity

The following table sets forth a breakdown of GDB's (excluding its subsidiaries) total funding by source as of September 30, 2014, December 31, 2014, March 31, 2015 and May 31, 2015 (figures in thousands). These numbers are preliminary and unaudited.

Funding Sources	9/30/2014	%	12/31/2014	%	3/31/2015	%	5/31/2015	%
Public Deposits	$4,379,545	45.8%	$4,139,215	39.0%	$4,576,260	43.6%	$4,315,382	46.2%
Private Deposits	42,855	0.5%	37,865	0.4%	32,865	0.3%	32,035	0.3%
Bonds and Notes	4,633,338	48.4%	5,464,707	51.5%	5,137,257	49.0%	4,487,471	48.1%
Repurchase Agreements	512,353	5.4%	961,348	9.1%	747,951	7.1%	501,553	5.4%
Total	$9,568,091	100.0%	$10,603,135	100.0%	$10,494,333	100.0%	$9,336,441	100.0%

As of May 31, 2015, GDB's average cost of funding was 3.03% and the average life of its liabilities was 2.2 years. The increase in notes outstanding from September 2014 to December 2014 is due to the issuance of $900 million in notes used to fund the Commonwealth's TRANs financing for fiscal year 2015. During the fourth quarter of fiscal year 2015, $750 million principal amount of these short-terms notes have been paid and the remaining $150 million is scheduled to be paid on June 30, 2015. In addition, an aggregate $400 million in GDB notes matured and were paid during December 2014, January and February 2015. Also, approximately $876 million in outstanding bonds and notes mature in fiscal year 2016 (with staggered maturities in August and December of 2015 and May of 2016).

As of May 31, 2015, GDB's liquidity resources included: (i) approximately $47.3 million of deposits made by PREPA for its Reserve Account, which are invested in GDB time deposits, (ii) $186.5 million of deposits made by PREPA for its Construction Fund, which are invested in GDB time deposits, (iii) $270.5 million of deposits made by the Puerto Rico Public Housing Administration ("PRPHA"), which are invested in GDB time deposits, and (iv) $59.7 million of funds classified as "restricted assets," mostly consisting of proceeds from the issuance of tax-exempt GDB notes that are required to be used for certain qualifying purposes and that GDB expects to use during fiscal year 2016 to fund qualified disbursements under lines of credit extended by GDB to the Commonwealth and certain public corporations. During the remainder of fiscal year 2015, GDB also expects PREPA to use approximately $50 million on deposit from the Construction Fund and approximately $47.3 million of the funds on deposit in the Debt Service Reserve Fund currently held at GDB. Since April 30, 2014, GDB has been depositing the monthly sinking fund payments for the Commonwealth General Obligation bonds with a third party financial institution, and is no longer holding those funds on deposit. GDB is also projecting a gradual withdrawal of the $270.5 in deposits from the PRPHA to occur between June 2015 and May 2016.

GDB is legally required to maintain reserves equal to 20% of its demand deposits. This requirement is met by investing in securities with maturities of up to 90 days.

Liquidity Resources. As of May 31, 2015, GDB's cash, bank deposits and investment portfolio at fair market value was $1.3 billion, or 11%, of GDB's assets (excluding its subsidiaries). The following table shows GDB's liquidity resources by source, including the investment securities portfolio, which constitutes an important source of liquidity for GDB because it may be realized through either sales of securities or repurchase agreements:

Liquidity Resources (in millions)	**6/30/14**	**9/30/14**	**12/31/14**	**3/31/15**	**5/31/15**
Cash and Bank Deposits	$719	$232	$333	$348	$72
Federal Funds Sold and Money Market Instruments (excluding $33.9 million reverse repurchase agreement with GDB subsidiary)	1,052	340	191	210	395
Investment Securities					
U.S. Treasury and Agencies	1,191	1,356	1,363	1,296	795
Government-Sponsored MBS and CMOs	210	2	0	0	0
Other Securities	39	1	226	60	60
Sub-Total	1,440	1,359	1,589	1,356	855
Total	$3,211	$1,931	$2,113	$1,914	$1,322
Securities pledged	-72	-533	-1,023	-796	-544
Net Liquidity	$3,139 (1)	$1,398 (2)	$1,090	$1,118	$778

(1) Includes approximately $700 million and $40 million in Commonwealth and PREPA deposits, respectively, which were in each case disbursed on July 1, 2014 to make all or a portion of such entity's respective debt service payments when due.
(2) Reflects the disbursement of $400 million in Commonwealth Tax and Revenue Anticipation Notes, Series A that were refinanced by the GDB Notes on October 10, 2014.

GDB's investment portfolio consists mostly of investment securities classified among the three highest rating categories. As of May 31, 2015, the expected average life of the investment securities portfolio was 1.4 years and approximately $608 million, or 46%, matures in less than one year.

The primary factors driving the net reduction in cash and unencumbered investment securities held by GDB as of May 31, 2015 compared to September 30, 2014 were (i) loan disbursements to agencies, corporations and municipalities, (ii) debt service payments to GDB note holders, and (iii) ordinary course fluctuations in GDB's deposit base, including the Secretary of the Treasury's account at GDB.

As of May 31, 2015, of the approximately $1.3 billion investment securities portfolio, approximately $524 million was pledged to secure or repay borrowings of GDB, consisting of securities sold under agreements to repurchase and $20 million was pledged for other uses. Therefore, as of May 31, 2015, GDB liquidity resources, net of pledged securities, amounted to approximately $778 million, approximately $312 million lower than as of December 31, 2014 and approximately $620 million lower than September 30, 2014.

Although PRPHA has deposited federal funds received from HUD at GDB since at least 2004, by letters dated March 30, 2015, the U.S Department of Housing and Urban Development ("HUD") informed the PRPHA that its deposits with the GDB require the execution of General Depository Agreements by such agency with the GDB and that failure to execute such General Depository Agreements is a violation of the Consolidated Annual Contributions Contract of such agencies with HUD. HUD's form of General Depository Agreement requires that the counterparty depository institution be insured by the Federal Depository Insurance Corporation ("FDIC"), which GDB is not. As a result, PRPHA agreed with HUD to deposit all future federal grants and other monies with FDIC-insured institutions. GDB is therefore projecting a gradual withdrawal of $270 million of PRPHA funds deposited at GDB between June 2015 and May 2016. GDB is expecting to fund this withdrawal out of its current liquidity resources.

In its "Special Liquidity Update", dated October 17, 2014, GDB provided a liquidity projection for the remainder of fiscal year 2015 and the first quarter of fiscal year 2016 that projected that, in the absence of a capital markets transaction, it would not have sufficient liquidity to meet its legal reserve requirement by the first quarter of fiscal 2016. Since the publication of such Special Liquidity Update, various critical assumptions underlying GDB's liquidity projections have been revised, including future deposit net flows, loan origination volumes and loan portfolio repayments. However, internal GDB liquidity projections as of the date of this Supplement, suggest that, assuming no capital market transaction is completed and that the Commonwealth repays its appropriation lines of credit as budgeted, GDB would still be unable to comply with its legal reserve requirement by late in the first quarter of fiscal year 2016. This liquidity projection does not take into consideration the implementation of other potential liquidity enhancing or conservation measures, requiring the transfer to GDB of public deposits at private financial institutions, implementing liability management transactions with respect to GDB's outstanding notes and bonds and/or imposing other restrictions on liquidity outflows.

Trends of Public Sector Debt

The following table shows the growth rate of short-term and long-term public sector debt and the growth rate of gross national product (in current dollars) for the five fiscal years ended June 30, 2014 and as of March 31, 2015. The table has been revised to reflect the revisions to gross national product made in April of 2015 by the Puerto Rico Planning Board. As of March 31, 2015, outstanding short-term debt represented 8.0% of total public sector debt.

Commonwealth of Puerto Rico
Public Sector Debt and Gross National Product
(dollars in millions)

	Public Sector Debt					Gross National Product[1]		
June 30,	Long Term[2]	Short Term[3]	Total	Short Term as % of Total	Rate of Increase	Amount	Rate of Increase	Total Debt's share of GNP %
2010	53,351	3,472	56,823	6.1%	7.3%	64,295	1.1%	88.4%
2011	54,562	4,380	58,942	7.4%	3.7%	65,721	2.2%	89.7%
2012	60,780	3,981	64,760	6.1%	9.9%	68,086	3.6%	95.1%
2013	60,115	4,843	64,957	7.5%	0.3%	68,768	1.0%	94.5%
2014	62,432	4,841	67,273	7.2%	3.6%	69,202	0.6%	97.2%
03/31/2015	61,833	5,411	67,244	8.0%	-0.04%	70,075 [4]	1.3%	96.0%

Totals may not add due to rounding.

(1) In current dollars.

(2) Does not include debt identified in footnotes 6 and 7 of the table entitled "Commonwealth of Puerto Rico—Public Sector Debt" on page 56 of the May Quarterly Report, which would have been issued and outstanding at the time, all of which would be considered long-term debt.

(3) Obligations (other than bonds) issued with an original maturity of three years or less and lines of credit with a remaining maturity of three years or less are considered short-term debt.

(4) Forecast for fiscal year 2015 as of April 2015 from PR Planning Board.

Source: Government Development Bank

Forbearance Agreements between Puerto Rico Electric Power Authority and Certain Bondholders and Lenders

On August 14, 2014, the Puerto Rico Electric Power Authority ("PREPA"), which has been experiencing significant financial difficulties, entered into forbearance agreements with certain of its bondholders and bank creditors. Among other things, the banks agreed to extend the maturity of their loans until March 31, 2015, and all bondholders and lenders party to the agreements agreed to forbear from exercising their rights against PREPA resulting from certain specified defaults until March 31, 2015. The forbearance agreements have now been extended on five occasions, currently until June 30, 2015. Pursuant to the extension agreed to on April 30, 2015, PREPA delivered a recovery plan proposal to the forbearing creditors' advisors on June 1, 2015. Discussions between PREPA and its creditors are ongoing. To date, no agreement has been reached with the forbearing creditors concerning the terms of a recovery plan, and there can be no assurance that PREPA and the forbearing creditors will reach agreement on a recovery plan.

Puerto Rico Aqueduct and Sewer Authority

On May 29, 2015, the Puerto Rico Aqueduct and Sewer Authority ("PRASA") entered into a Credit Agreement with Banco Popular de Puerto Rico pursuant to which PRASA borrowed $90,000,000 on a short-term basis. These funds were used, together with other funds from PRASA's operations, to repay in full the existing loans due to Oriental Bank and Banco Popular, which were due on that date. To secure the new loan, PRASA used $90,000,000 from the Rate Stabilization Account under its Master Trust Agreement and pledged such funds to Banco Popular under an Escrow Deposit Agreement. The new loan was issued as "Senior Indebtedness" under the Master Trust Agreement, on parity with the senior bonds issued thereunder. The loan is due on August 31, 2015, but must be prepaid prior to such date from the proceeds of any bonds issued by PRASA under the Master Trust Agreement. If no such bonds are issued by PRASA prior to August 31, 2015, the principal of the loan shall be paid from the moneys withdrawn from the Rate Stabilization Account and held under the Escrow Deposit Agreement.

Proposed Amendments to the Sales Tax Financing Corporation Legislation

Recently, legislation was proposed in order to clarify the amount of sales and use tax collections and, upon its effectiveness, value added tax collections, required to be deposited in the Dedicated Sales Tax Fund for the benefit of the holders of bonds issued by the Sales Tax Financing Corporation ("COFINA" by its Spanish acronym). House Bill 2505 provides that the first collections of the 6% sales and use tax will be deposited in the Dedicated Sales Tax Fund until such time as the Pledged Sales Tax Base Amount for the corresponding fiscal year is reached (which amount remains unchanged from that currently set forth in Act No. 91-2006, as amended). The collections attributable to the additional 4.5% sales and use tax surcharge recently imposed by Act 72-2015 will be deposited directly in the General Fund for the benefit of the Commonwealth. Similarly, upon the effectiveness of the value added tax pursuant to the provisions of Act 72-2015, the first collections of the 6% value added tax will be deposited in the Dedicated Sales Tax Fund until such time as the Pledged Sales Tax Base Amount for the corresponding fiscal year is reached. The collections attributable to the additional 4.5% value added tax surcharge recently imposed by Act 72-2015 will be deposited directly in the General Fund for the benefit of the Commonwealth' General Fund.

Proposed Amendments to GDB Organic Act

On April 8, 2015, Senate Bill 1350 was filed to amend GDB's Organic Act. The bill is supported by both the Governor and GDB. The bill includes, among other matters, safeguards, restrictions and best practices in the lending functions of GDB. The bill prohibits GDB from lending to government entities (1) that are in default on any payment to GDB or (2) in the case of entities other than the Commonwealth, if the principal outstanding on all loans of that governmental entity with GDB exceed 5% of GDB's total loan portfolio. Furthermore, the bill provides that the use of proceeds of new GDB loans are limited to funding capital expenditures or working capital needs (in such case, with a maturity of one year or less), unless expressly authorized by law. In addition, the bill requires GDB to meet certain capital to assets, loan to deposit and other ratios in order to continue granting loans and clarifies the standard for personal liability of directors, officers and employees. Senate Bill 1350 was approved by Senate on April 30 and by the House on June 8, 2015, with amendments. One of the main amendments is the creation of the Public Debt Auditing Commission, which is charged with providing transparency and citizen participation in the review of the Commonwealth and public corporations' aggregate debt. On June 23, 2015, Senate Bill 1350 was approved via a conference committee composed of both House and Senate members, where they concurred in several additional amendments, including the creation of the Public Debt Auditing Commission, which is charged with providing transparency and citizen participation in the review of the Commonwealth and public corporations' aggregate debt. Senate Bill 1350 is currently pending signature by the Governor to be enacted into law.

Proposed Legislation to Increase Commonwealth Short-Term Liquidity

On June 17, 2015, House Bill 2542 was filed with the Legislative Assembly of the Commonwealth. House Bill 2542 includes certain short-term measures designed to address the Commonwealth's projected liquidity needs for fiscal year 2016. These short-term liquidity measures include, among others, (i) authorizing the issuance, during fiscal years 2016 and 2017, of tax and revenue anticipation notes ("TRANs") of the Commonwealth, which TRANs may be subject to New York law and jurisdiction, (ii) suspending during fiscal year 2016 Commonwealth set-asides required by Act No. 39 of May 13, 1976, as amended, for the payment of its general obligation debt if at least \$1.2 billion of TRANs have not been issued pursuant to Act No. 1 of June 26, 1987, as amended, or GDB receives in fiscal year 2016 at least \$2 billion of proceeds from the sale of Puerto Rico Infrastructure Financing Authority bonds secured by the crude oil tax, and (iii) requiring certain Commonwealth instrumentalities to purchase at least \$400 million aggregate principal amount of TRANs for fiscal year 2016. House Bill 2542 was approved by the House on June 24 and by the Senate on June 25, 2015, with amendments. The House did not concur with the Senate amendments, therefore the bill was sent to a conference committee composed of both House and Senate members and additional amendments are expected to be considered therein.

The amendments approved by the Senate proposed bill also provide for the creation of the Emergency Liquidity Fund, which would be funded with the product of any Commonwealth issuance of tax and revenue anticipation notes and the monthly revenue collections, reimbursements and other funds deposited in the Treasury Department's concentration bank account in excess of expenses, payments and other transfers allocated to such month in the Treasury Department's cash flow and expense projection for the fiscal year. The Emergency Liquidity Fund would be held by GDB, as escrow agent, and the funds deposited therein shall not (i) be deemed part of GDB's assets and (ii) to the fullest extent permitted by law, constitute "available resources" for purposes of Section 2 of Article VI of the Puerto Rico Constitution until such funds are released to the Treasury Department. Subject to the provision of Section 8 of Article VI of the Puerto Rico Constitution, the funds on deposit in the Emergency Liquidity Fund are also pledged to the payment of tax and revenue anticipation notes issued by the Commonwealth. GDB, as escrow agent, would disburse funds on deposit in the Emergency Liquidity Fund to the Treasury Department based on a cash flow and expense projection, which shall include an annual expense reserve of \$150 million and a minimum monthly cash balance of at least \$12.5 million to be transferred at the end of each month to fund a reserve account in the Emergency Liquidity Fund, and upon the satisfaction of certain additional requirements, such as the payment of specific obligations as initially projected. In the event the Treasury Department requires additional disbursements from the Emergency Liquidity Fund, it would have to provide GDB with an additional certification regarding the amounts required and, together with the Director of the Office of Management and Budget, a mitigation plan acceptable to GDB. To the extent sufficient funds are not available to cover the additional disbursements, GDB has been required to accept a mitigation plan more than twice and/or GDB determines that the current cash flow and expense projection does not meet the required minimum cash balance, then the Secretary of the Treasury would be required to notify the Governor and the Legislative Assembly in writing of such an event and include the reasons for such deviation in the initial cash flow and expense projection and, together with the Director of the Office of Management and Budget, present an expense reduction mitigation plan.

There is no assurance that these measures will be enacted as currently presented or, if enacted, that they will produce sufficient liquidity for the Commonwealth to continue operating at current levels.

Proposed Economic Development and Obligations Payment Fund

On June 29, the President of the Senate and the President of the House of Representatives proposed the creation of the Economic Development and Obligations Payment Fund (the "Fund") totaling $275 million. The leaders of the Legislative Assembly explained that any amounts in the Fund would be held in a separate account of the Secretary of Treasury and that the utilization and distribution of the Fund would require a Joint Resolution from the Legislative Assembly. The Fund could only be used for economic development initiatives and for the payment of the Commonwealths' obligations. Under the proposal, the proposed budget would not include appropriations from the General Fund to the Public Finance Corporation and would reduce appropriations with respect to debt owed by the Commonwealth and its instrumentalities to GDB to $25 million.

Health Insurance Administration Fiscal Situation

The Puerto Rico Health Insurance Administration ("PRHIA") owes approximately $186 million in recorded and unpaid claims under the previous Third Party Administrator model. Furthermore, as of the date of this Supplement, the actuarially determined incurred but not reported liability for claims not yet received is approximately $128 million. On May 28, 2015, House Bill 2501 was filed, which seeks to amend PRHIA's enabling act in order to authorize PRHIA to incur into additional indebtedness, including the issuance of bonds, for an amount up to $400,000,000. The objective of House Bill 2501 is to use the proceeds from this potential new indebtedness to substantially repay the amounts mentioned above. The bill was recently approved by the Legislative Assembly and is in the process of being sent to the Governor for his signature. However, there are no assurances that even with the enactment of this legislation that PRHIA will be able to obtain such financing.

On June 8, 2015, the Centers for Medicaid and Medicare services confirmed that, as had been reported in the May Quarterly Report, the Medicare Advantage funding for Puerto Rico in 2016 will be reduced by approximately 11%. Such reductions to the Medicare Advantage rates would impact the ability of the Medicare Advantage plans to assume the costs of covering the higher-need dual eligible population (approximately 250,000 beneficiaries) covered through PRHIA's "Platino" program. Medicare Advantage subsidizes the costs of the "Platino" program from the rates paid through Medicare. If the Medicare Advantage plans cannot subsidize the costs of covering the "Platino" program, PRHIA's costs for calendar year 2016 for this population would increase from the current $20 to $30 million per year to $120 to $150 million per year unless benefit reductions are made.

Downgrade of Bond Ratings

Since February of 2014, the credit ratings of the Commonwealth's general obligation bonds and Commonwealth guaranteed bonds, as well as the ratings of most of the Commonwealth's public corporations, have been lowered (more than once in most cases) to non-investment grade by Moody's, S&P, and Fitch. According to the ratings agencies, further downgrades are possible. These ratings and outlooks reflect only the opinions of such rating agencies and an explanation of the significance of such ratings may be obtained only from the relevant rating agency. Since the May Quarterly Report some additional downgrades have taken place.

The following table sets forth the ratings of the Commonwealth and certain of its public corporations after giving effect to the most recent downgrades:

Public Corporation	S&P	Moody's	Fitch
Commonwealth of Puerto Rico (General Obligations)	CCC-	Caa2	CC
Government Development Bank	CCC-	Ca	
COFINA			
Senior Lien	CCC-	Caa2	CC
First Subordinate Lien	CCC-	Caa3	CC
PR Electric Power Authority	CCC-	Caa3	CC
PR Highways and Transportation Authority			
Highway Revenue Bonds	CCC-	Ca	
Senior Transportation Revenue Bonds	CCC-	Ca	
Subordinate Transportation Revenue Bonds	CCC-	Ca	
PR Aqueduct and Sewer Authority			
Revenue Bonds	CCC+	Caa2	CC
Guaranteed Bonds	CCC+	Caa2	CC
PR Public Buildings Authority	CCC-	Caa2	CC
PR Employees Retirement System	CCC-	Ca	CC
PR Public Finance Corporation (Commonwealth Appropriation Bonds)	CCC-	Ca	
PR Municipal Finance Agency	CCC-	Caa3	
PR Convention Center District Authority	CCC-	Ca	
PR Industrial Development Company	CCC-	Caa2	
PR Infrastructure Financing Authority			
Special Tax Revenue Bonds	CCC-	Ca	
PR Ports Authority Project	B-	Ca	
University of Puerto Rico			
Revenue Bonds	CCC-	Caa3	
AFICA – Plaza Universitaria Project	CCC-	Ca	