



Puerto Rico's Fiscal and Economic Crisis

March 1, 2016

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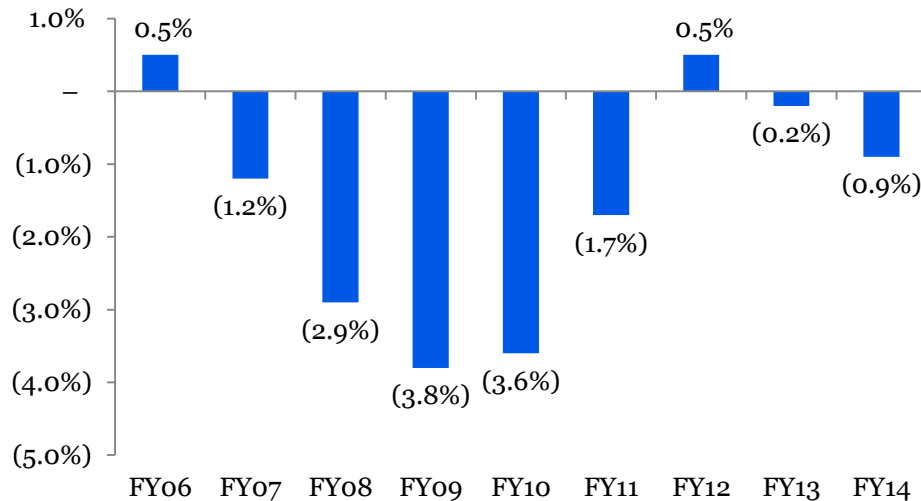
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Economic Decline of Puerto Rico

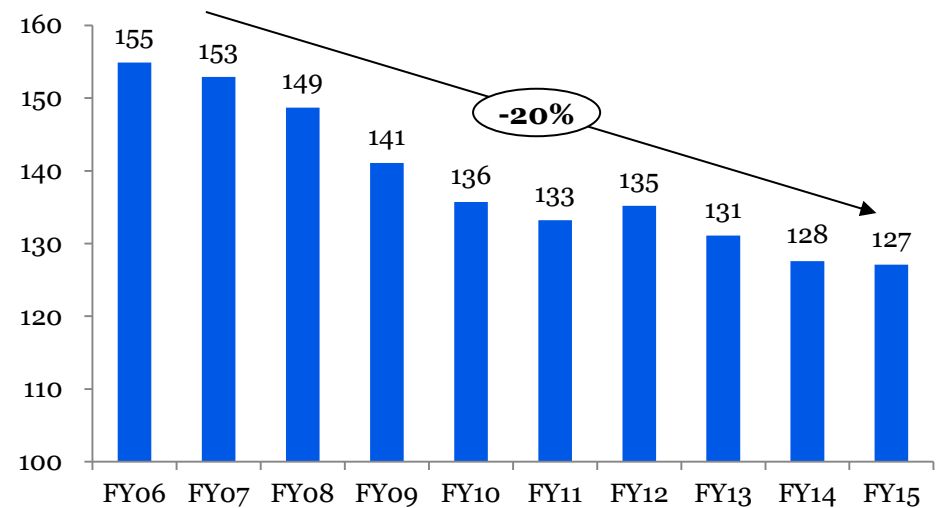
Since the expiration of Section 936 of the US Internal Revenue Code in 2006⁽¹⁾ and the onset of the global financial crisis in 2007, the Commonwealth has faced virtually continuous economic decline notwithstanding substantial stimulus spending

- GNP growth has been negative nearly every year since FY 2007; little growth was recorded in the prior decade
- The lower rate of GNP decline since FY 2009 is due in large part to the significant stimulus and deficit spending injected into Puerto Rico's economy during the same period
 - For example, the Commonwealth was allocated approximately \$7.1 billion of funds through the American Recovery and Reinvestment Act ("ARRA") and, using the Puerto Rico Sales Tax Financing Corporation ("COFINA") bond proceeds from offerings in 2009 and 2010, the Commonwealth created a \$500 million "Local Stimulus Fund"
 - Furthermore, tax reform enacted in 2011 sought to jumpstart the economy by reducing individual and corporate taxes by approximately \$706 million, some of the provisions of which were later modified to deal with resulting revenue shortfalls

Real GNP Growth⁽²⁾



GDB EAI Index⁽²⁾⁽³⁾



(1) Insofar as is relevant to Puerto Rico, Section 936 of the US Internal Revenue Code exempted from US taxation certain income derived by US companies from the active conduct of a trade or business in Puerto Rico and certain Puerto Rico sourced investment income.

(2) Source: Economic Activity Index ("GDB – EAI") report for June 2015.

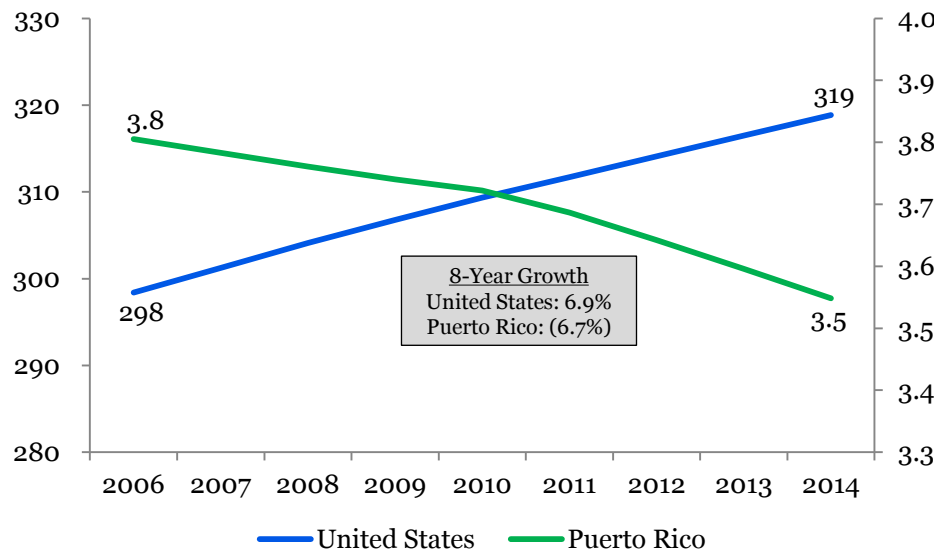
(3) Values are as of June 30 of each year. The apex in FY 2006 occurred at 158.0 in July. EAI is comprised of four indicators: total payroll employment; total electric power generation; cement sales and gas consumption. The index is highly correlated to Puerto Rico's real GNP. For additional details on the EAI, see the GDB website under "Economy."

Deteriorating Economic Prospects & Demographic Trends

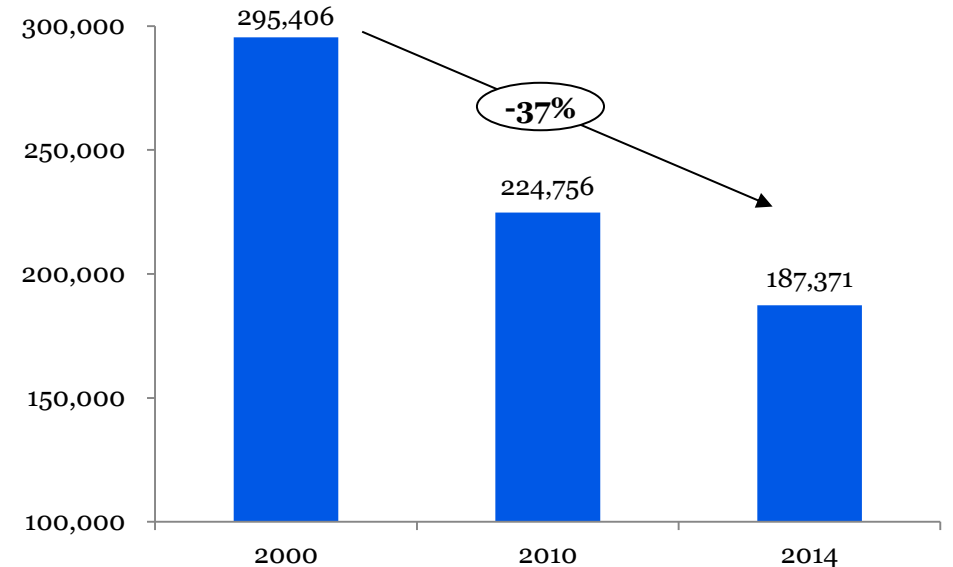
Reduced economic activity has had a marked effect on the residents of the Commonwealth, leading to stagnating incomes and increasing outmigration to the mainland

- As multinational corporations left the Commonwealth following the expiration of Section 936 and without substantial job creation, cumulative per capita income growth of 5.5%⁽¹⁾ from 2006 to 2013 has failed to keep pace with cumulative inflation of ~15%⁽²⁾ over the same time period
- Deteriorating economic conditions have therefore led many Puerto Ricans to emigrate to the mainland
- The Commonwealth average net outmigration was approximately 48,000 residents per year from 2010 to 2013⁽³⁾, with 42% of emigrants citing their primary reason for moving as job-related; in 2013, approximately 74,000 residents emigrated to the mainland⁽⁴⁾
- The remaining population is becoming increasingly elderly and, as a result, a higher percentage of the population is outside the labor force
 - Persons 60 years and older represent more than 20% of the population (the highest in the United States) and their labor participation rates range from 10.7% to 13.3%⁽⁵⁾; children aged five years or less have decreased from 295,406 in 2000 to approximately 187,371 in 2014, a reduction of 37%⁽⁶⁾

Population Data (millions)⁽⁶⁾



Population Under Age Five⁽⁶⁾



(1) Per capita income from World Bank. 2013 is the most recent year for which data is available for both Puerto Rico and the US.
 (2) Inflation calculated using CPI as presented by GDB and sourced to Dept. of Labor and Human Resources.
 (3) Puerto Rican Population Declines on Island, Grows on US Mainland, Pew Research Center, August 11, 2014.

(4) Puerto Rico Statistics Institute, "Perfil del Migrante 2013", February 8, 2015.
 (5) Puerto Rico Planning Board, "Resumen Economico de Puerto Rico", December 2013.
 (6) US Census Bureau.

The Commonwealth Implemented Significant Austerity Measures to Strengthen its Finances

The following chart represents a select subset of the various measures that the Commonwealth has taken since the onset of the economic crisis

Revenues	Expenditures	Other Fiscal Responsibility Measures
2007: 7% Sales and Use Tax (“SUT”) implemented ~\$1.1bn per year	2010: Voluntary resignation and work-day reduction programs ~\$91mm	2011: Gradually increase employer contribution to ERS from 9.275% to 20.525%
2011: Act 154-2011 institutes annually declining 4% excise tax on multinationals operating in Puerto Rico ~\$1.9bn per year	2010: Temporary suspension of certain laws, collective bargaining agreements and other contractual agreements ~\$187mm	2011: Gradually increase employer contribution to TRS from 8.5% to 19.75% per employee
2011: UPR ⁽¹⁾ stabilization fee ~\$40mm/yr (later repealed)	2011: Involuntary layoffs ~\$367mm	2011: Complete public-private partnership (“P3”) of PR-22
2013: Act 154 excise tax reset at 4% rate	2013: Eliminate subsidies to PRASA ⁽²⁾ (due to PRASA rate increase) ~\$340mm	2013: Complete P3 of LMM International Airport
2013: Petroleum products tax increase from \$3.00 to \$9.25 per barrel ~\$190mm per year	2014: Reduce non-salary benefits ~\$51mm (prohibited December bonus above \$600 and liquidations of unused vacation or sick leave); government merit bonuses eliminated	2013: Increase employee contribution to ERS and TRS; eliminate special law benefits to retirees; increase retirement age
2014: Gross profits tax on corporations ~\$300mm per year	2014: Judicial and legislative budget reductions ~\$45mm	2013: Eliminate “scoop and toss” ⁽³⁾ of PBA ⁽⁴⁾ debt service (\$175mm in FY 2013)
2014: SUT charged at point of entry ~\$70mm per year	2014: UPR, Judicial and Municipality appropriation levels frozen from 2015-2017; CBA salary increases frozen	2014: Eliminate “scoop and toss” ⁽³⁾ of GO ⁽⁵⁾ debt service (\$575mm in FY 2014)
2015: Petroleum products tax raised from \$9.25 to \$15.50 per barrel, providing an incremental ~\$170mm per year	2015: School transportation cost reductions and school consolidations ~\$110mm	2014: Prohibit deficit financings by GDB
2016: SUT increased from 7% to 11.5%	2013-2015: 3% annual payroll reduction	2015: Passed Act 208 (local control board)
2016: VAT ⁽⁶⁾ instituted; projected ~\$1 - \$1.2 billion per year	2016: Additional reduction in General Fund expenditures (ex. debt) by ~14% (\$134 mm)	2016: Commence restructuring of PREPA debt (2014) and pass PREPA Restructuring Act (2016)



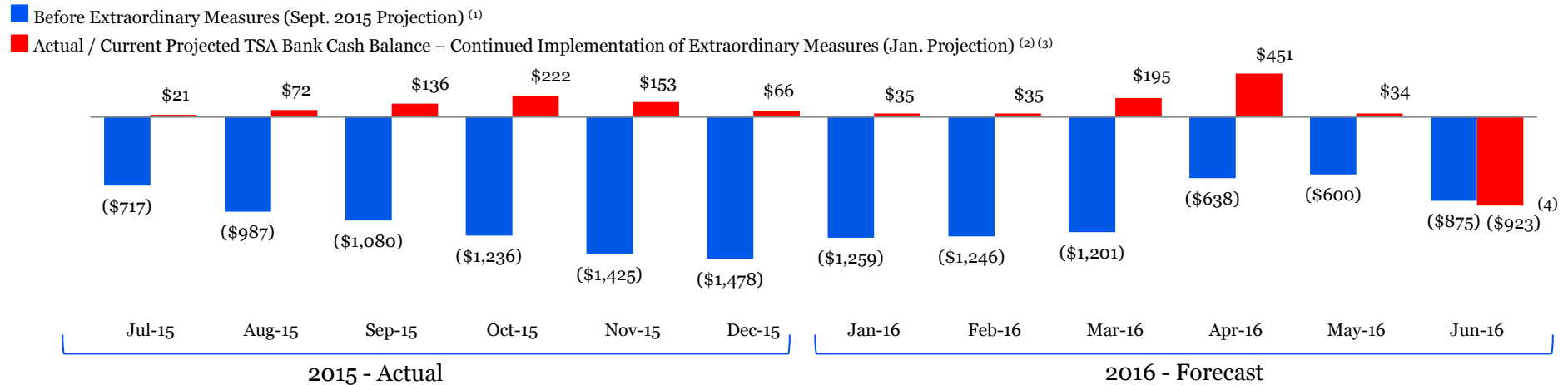
(1) University of Puerto Rico (“UPR”).
 (2) Puerto Rico Aqueduct and Sewer Authority (“PRASA”).
 (3) “Scoop and Toss” generally refers to the elimination of annual debt principal and interest through a refinancing with delayed payment dates.

(4) Public Buildings Authority (“PBA”).
 (5) General Obligation (“GO”).
 (6) Value Added Tax (“VAT”).

Commonwealth Expects To Have Insufficient Liquidity to Make Upcoming Debt Service Payments

Absent extraordinary and unsustainable liquidity measures taken by the Commonwealth, the TSA would have already exhausted its cash; TSA expected to have insufficient cash to make its GO debt service payments in June

Projected TSA Liquidity as of January 2016 – Ending Bank Cash Balance (\$ millions)



Payables

- Paydown A/P balance to June 30, 2015 levels (\$1.7 billion) during 2H FY2016

Tax Refunds

- Remaining 2014 tax year refunds (\$330mm as of 12/31/15) are paid by June 30, 2016
- Unpaid 2015 tax year refunds, due on or before July 30, 2016, are estimated to be \$500 million by June 30, 2016, which will require payment during the first months of FY 2017

Intragov't Deferrals

- Deferrals to government entities (primarily UPR, HTA/GDB, PBA, PRIDCO, budgetary stipends), totaling ~\$309 million as of 12/31/15, decrease to \$105 million by 6/30/16

Pensions

- Pension payments to retirees of ~\$580 million that are due during the second half of FY 2016 are paid from outside the TSA from restricted funds advanced by ERS and TRS

GDB

- GDB cannot be a source of liquidity for the Commonwealth or the public corporations as its cash is expected to be exhausted by its own debt service payments; faces \$400 million in principal payments in May

(1) Extraordinary measures include the Intragovernmental TRANs (\$400 million), GDB line of credit (\$300 million), suspension of GO sinking fund payments (\$93 million per month), pension fund advances, deferral of income tax return refunds during fiscal 2016. As of December 31, 2015 the book cash balance was \$329 million lower than the bank cash balance, which is expected to continue through FY 2016.

(2) January's projections have been adjusted to reflect disbursement for General Obligation debt service in December.

(3) Projection prepared by the Puerto Rico Treasury Department as of January 15th, 2016. Cash balance includes TSA operating account and investment account; excludes amounts in clawback account and pension fund advances.

(4) General Fund inflow assumptions do not account for the potential risk of a material negative impact (~\$115 million in FY 2016) from the ongoing Walmart litigation.

(5) June outflows include General Obligation debt service and assume that \$184 million accrued in the clawback account is used as payment for the GO debt service.

(6) Deferrals are calculated based on CM's Liquidity Update dated August 25, 2015 as compared to the latest cash flow projection.

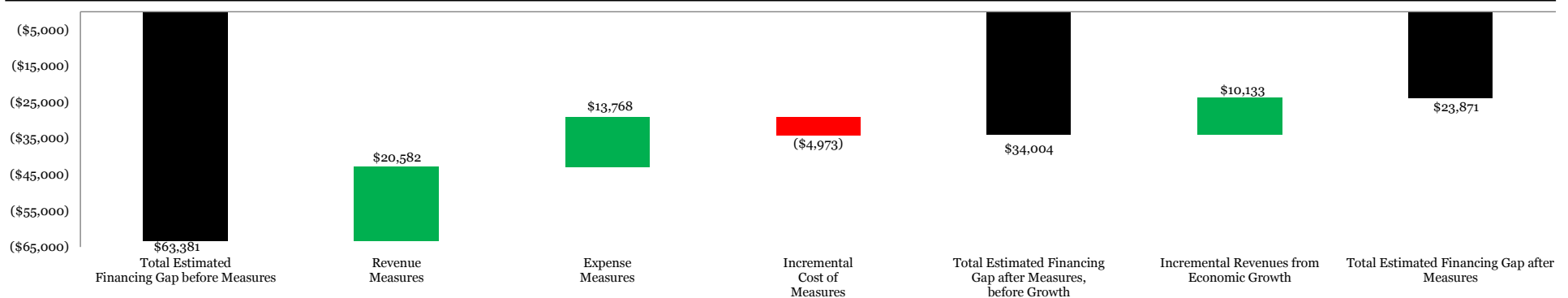
(6) Includes \$400 million of principal and \$135 million of interest payments.

Puerto Rico's Debt Load is Unsustainable

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 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 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.

Puerto Rico's Debt Load Is Significantly Higher than Any U.S. State and Cannot Be Sustained

Under the proposed exchange, the Commonwealth's debt service-to-revenue ratio would be significantly reduced, but would remain at levels above the most indebted U.S. states.⁽¹⁾ However, debt service under the Base Bond is structured to allow the Commonwealth to grow into a stronger credit over time

- The ratios as calculated by Moody's include all tax-supported debt of the states, and are calculated on a basis that is generally comparable with the tax supported debt included in Puerto Rico's FEGP
- On each metric, the Commonwealth before any restructuring is significantly worse than the worst state. The proposed restructuring would improve Puerto Rico's metrics and put the Commonwealth on a path to sustainability; however even after a restructuring, Puerto Rico's metrics will still be worse than each of the 50 U.S. states

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 ⁽³⁾	36%		14,035		76%		47%
Puerto Rico - Pro Forma ⁽³⁾	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.

The Commonwealth's Proposed Restructuring Plan Makes its Debt Load Sustainable

In order to confront the significant shortfalls in the FEGP, even after the implementation of all revenue and expense measures contemplated in the FEGP, the Working Group and its advisors have developed a voluntary debt exchange that would provide Puerto Rico with necessary debt relief

- 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 residents, 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 if the Commonwealth’s revenues grow
- The voluntary exchange offer is based on an initial debt service-to-Adjusted Revenues⁽³⁾ ratio of approximately 15%, which is significantly below the current ratio of 36% and would result in a sustainable capital structure over time
 - The highest U.S. state has debt service to Adjusted Revenues of 13%
 - Exchange offer would also require the Commonwealth to comply with a debt service-to-Adjusted Revenues ratio of 15% before issuing additional tax-supported debt

 (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”).

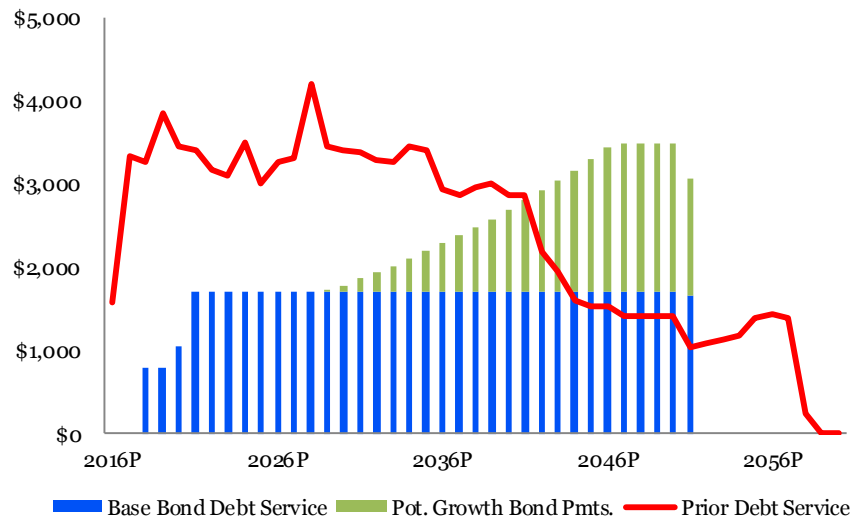
The Commonwealth's Proposed Restructuring Plan Makes its Debt Load Sustainable (cont'd)

- To the extent the Commonwealth economy grows, the ratio of debt service to Adjusted Revenues would decline over time
- The Commonwealth economy is experiencing negative real GNP growth, and therefore, the proposed exchange contemplates the Commonwealth would take on the risk that implementation of the FEGP may take longer to have a positive impact on economic growth and, by extension, Commonwealth revenues
- If the Commonwealth achieves 2.5% real economic growth, a rate consistent with the midpoint projected growth for the mainland U.S., the face amount of the Growth Bond will be paid in full over its 35-year term
- For the Growth Bond to be payable, total payments on the Base and Growth Bonds in any year may not exceed 10.5% of Adjusted Revenues⁽¹⁾

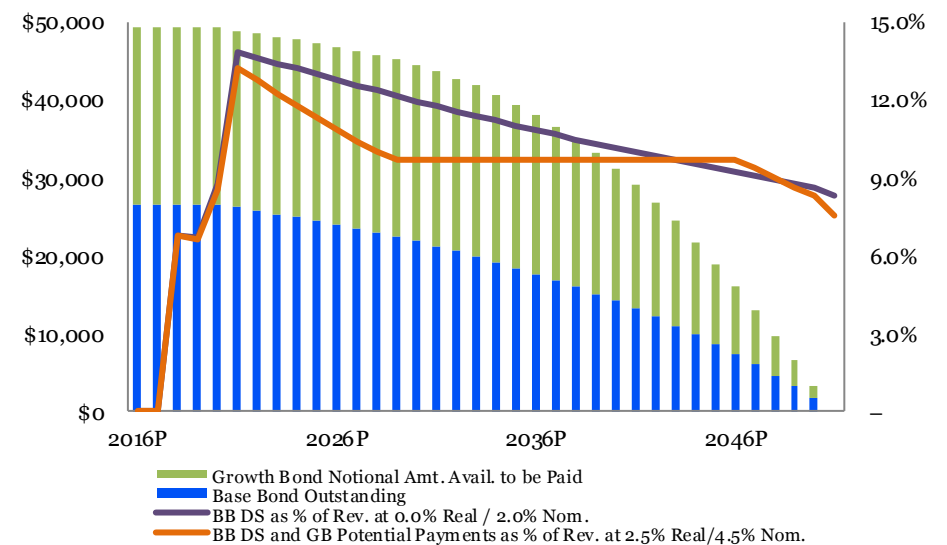
Restructuring Would Reduce Debt Service and Enable Creditors to Recover Full Principal if Economy Grows

The below illustrates the pro-forma debt service schedule and the allocation of new securities under the proposed restructuring

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).

Restructuring Would Provide Additional Protections for Creditors and the Opportunity to Recover Full Principal

The proposed exchange would provide enhanced structural protections for creditors, and contemplates the establishment of an oversight board to ensure compliance with the FEGP

- 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
 - Tradable instruments with substantially enhanced liquidity
 - NY law and courts
 - Statutory protections against further debt issuances
- Further, the 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
- 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
 - To the extent a broad federal restructuring regime is made available, then oversight may be enhanced through federal participation
- 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. 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.

Key Leaders Support Critical Elements of Puerto Rico's Plan

Leaders in the financial, academic and political fields have publicly supported Puerto Rico's restructuring approach

"...lawmakers should consider shifting from Chapter 9 bankruptcy for the island's municipalities and public corporations to adopting a broader restructuring framework for all of the island's debts...Without this broader restructuring framework, it is likely that Chapter 9 will not be sufficient to put Puerto Rico on a sustainable fiscal path."

-Mark Zandi, Chief Economist, Moody's Analytics

"We believe the final legislation must include a path for Puerto Rico to restructure these liabilities. We don't advocate for restructuring authority lightly. As investors, we prefer political solutions that avert restructurings whenever possible. Yet we believe when an issuer reaches the point where debt reduction becomes inevitable, any delay only serves to engage in value destruction through additional unsustainable borrowings, economic contraction and/or population loss due to reduced government services."

-Molly Shellhorn and Shawn P. O'Leary, Nuveen Asset Management

"Washington owes Puerto Ricans a future based on democratic legitimacy and a financially and socially viable development strategy—a development strategy that is more than a set of tax breaks for profitable U.S. corporations."

-Joseph Stiglitz, University Professor and Founder of the Initiative for Policy Dialogue, Columbia University

Puerto Rico Needs A Comprehensive Restructuring Solution

▪ Unprecedented complexity

- **11 different issuers**– including the Commonwealth itself, financing entities, and operating entities that provide essential public services, or the failure of which could trigger systemic risks⁽¹⁾
- Each issuer has up to 20-25 different series of bonds, with a total of **almost 900 CUSIPS** of bonds
- **Each issuer has varying instruments** - targeted bonds have greatly varying credit profiles and terms
 - ☞ Universe of bonds include “priority” public debt instruments, revenue bonds, moral obligation bonds, appropriation debt, insured bonds, debt backed by claw-backable revenue
- **Diverse creditor universe** - Bonds held by **countless holders** – including retail holders (both on- and off-island) hedge funds, mutual funds, local credit unions and mainland institutional investors – each with different interests and motivations in a restructuring; financial guarantee insurance companies have insured over \$10 billion of the targeted bonds
- **All credits are inter-related and interdependent**
 - ☞ **Embedded inter-creditor conflicts**

Legal and practical issues of first impression


- Constitutional priority of payment obligations and exercise of police power under the Puerto Rico constitution, along with various other federal and Puerto Rico constitutional issues
- Validity of various collateral structures
- Clawback of revenues

▪ Short timeline

- The Commonwealth does not have sufficient cash for its May 1 and July 1 debt service
- If Congress does not act, the Commonwealth will have to act to protect the health, welfare and safety of its residents

▪ Need for comprehensive solution that will bind all holders

- Piecemeal restructuring of some but not substantially all credits is not feasible given intercreditor and other issues
- Creditor recoveries are inextricably linked to the economic future of the island and its residents – a restructuring of Puerto Rico must leave it with financial breathing room to grow and finality with respect to legal challenges

 (1) \$49 billion of debt would be eligible for the exchange. This includes debt issued by the Commonwealth, PBA, COFINA, PRHTA, GDB, PRIFA, PRIDCO, ERS, UPR, CCDA, and PFC. Debt issued by PREPA, PRASA, MFA, HFA and Children's Trust is excluded from the exchange offer.

Access to Chapter 9 for Municipalities Is Insufficient

- **Chapter 9 would not address \$60 billion in Commonwealth obligations**
 - **\$12.5 billion** in general obligation bonds issued by the Commonwealth
 - **Over \$5 billion** in debt guaranteed by the Commonwealth
 - **\$43 billion** of unfunded pension obligations of the Commonwealth
 - Potentially **billions in contingent litigation and other claims**
 - No way to pursue multiple Chapter 9 proceedings simultaneously while there is an ongoing disorderly default, with attendant litigation pending at the Commonwealth level. In any event, would need some mechanism to bind holdout creditors at the Commonwealth level.
- **Chapter 9 alone cannot address debt that ultimately depends on revenues from the central government**
 - Revenues for payment on approximately **\$6.5 billion** in debt issued by PRHTA, PRIFA, and PRCCDA is currently subject to clawback by the Commonwealth government given lack of resources to satisfy the public debt
 - Holders of approximately **\$ 15.2 billion** of COFINA debt will argue COFINA is not eligible for Chapter 9. In any event, since COFINA has no operations or assets to satisfy creditor claims other than tax revenues that GO creditors have claimed is illegal and subject to clawback, a Chapter 9 filing would not address those disputes and/or could lead to billions in claims against the Commonwealth
 - PREPA, with approximately **\$8.8 billion** in debt, and PRASA, with approximately **\$4.0 billion** in debt, rely on payments from the Commonwealth government, as primary customer, to remain going concerns; they likely will be unable to successfully restructure and issue debt going forward without simultaneous relief for the Commonwealth
- **Chapter 9 eligibility standards will invite damaging, dilatory litigation**
 - Proving “municipality” status requires a multi-pronged and fact-specific analysis under the case law
 - The entity must be found to be insolvent
 - The entity must show that it negotiated unsuccessfully with creditors or that negotiation was impracticable
 - Creditors may still yet move to dismiss a Chapter 9 petition as having been filed in bad faith
 - All of this will require months of litigation and millions of dollars of fees that will delay focus on the substance of a restructuring

Puerto Rico Needs an Effective Restructuring Regime

The following are the elements of a restructuring regime that would enable Puerto Rico to overcome many of the numerous, complex challenges that the Commonwealth faces

Tool	Benefit
Comprehensive scope and joint proceeding with clear right of access and known rules	<ul style="list-style-type: none">• Allows restructuring of all targeted debt in one coordinated proceeding• Possibility for separate proceedings for entities not in the FEGP (e.g., PREPA)• Provides clear rights of access, and incorporates known rules and process from Bankruptcy Code, to permit focus on the merits and avoid expensive and distracting disputes over eligibility threshold• If agreement with substantial creditors is reached quickly, implementation of restructuring could be accelerated
Stay of litigation against the Commonwealth and other issuers	<ul style="list-style-type: none">• Allows Puerto Rico to continue negotiations with its creditors without a race to the courthouse and need to act unilaterally
Judicial arbiter to resolve intercreditor and other issues	<ul style="list-style-type: none">• Puts in place a central, reliable judicial arbiter of disputes
Mechanism to bind hold-outs	<ul style="list-style-type: none">• Eliminates holdout cost and risk inherent in an out-of-court deal, which neither Puerto Rico nor its creditors can afford
Discharge of debt	<ul style="list-style-type: none">• Puerto Rico emerges with a clean slate and sustainable obligations
Interim “debtor in possession” funding	<ul style="list-style-type: none">• Provides lenders with sufficient assurances to facilitate funding for Puerto Rico during the pendency of a restructuring so that essential services can be maintained
Fiscal oversight	<ul style="list-style-type: none">• Pairs the necessary debt adjustment with the fiscal and economic growth plan for the Commonwealth through an oversight mechanism

Outline of Potential Restructuring Regime

Fiscal Oversight Council

Commonwealth entity authorized by federal statute with powers and limitations enumerated therein

Out of Court Process

- Commonwealth and instrumentalities obtain broad **stay of limited duration with federal court (“Overseeing Court”)** supervision
- Mechanisms to facilitate **DIP financing**
- Overseeing Court can appoint **mediator**
- With approval of a majority of creditors by amount, a **binding plan of adjustment** can be submitted for confirmation by Overseeing Court, subject only to verification of (a) majority support, and (b) consistency with FEGP

In Court Process

- If no agreement after Out of Court Process, Commonwealth or instrumentalities may initiate **in-court proceeding similar to Chapter 9**
- Variations include
 - **Broadest definition of instrumentality** and streamlined standards for eligibility

Creditor Negotiations

The Commonwealth has engaged in negotiations with numerous groups of its creditors, in an effort to reach a voluntary exchange structure that is acceptable for all parties

- Many groups of the Commonwealth's creditors are organized, including holders of GO, COFINA, GDB, ERS, and holders with exposure to multiple credits
- Groups include traditional municipal investors, alternative asset managers, monoline insurers, and represent constituents both on- and off-island
- The Commonwealth published its proposal on February 1 and held meetings with advisors to all of the creditor groups to discuss the proposal and to facilitate due diligence on the FEGP
- The Commonwealth has received counteroffers from certain creditor groups and is working to develop a counterproposal that is responsive to all of the creditor feedback but falls within the parameters of the Commonwealth's ability to pay