



The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

FY 2014 Q1 Investor Webcast - October 15, 2013

Forward-Looking Statements

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Agenda

1 Principal Credit Accomplishments






2 Revenue and Expense Update

3 Economic Development

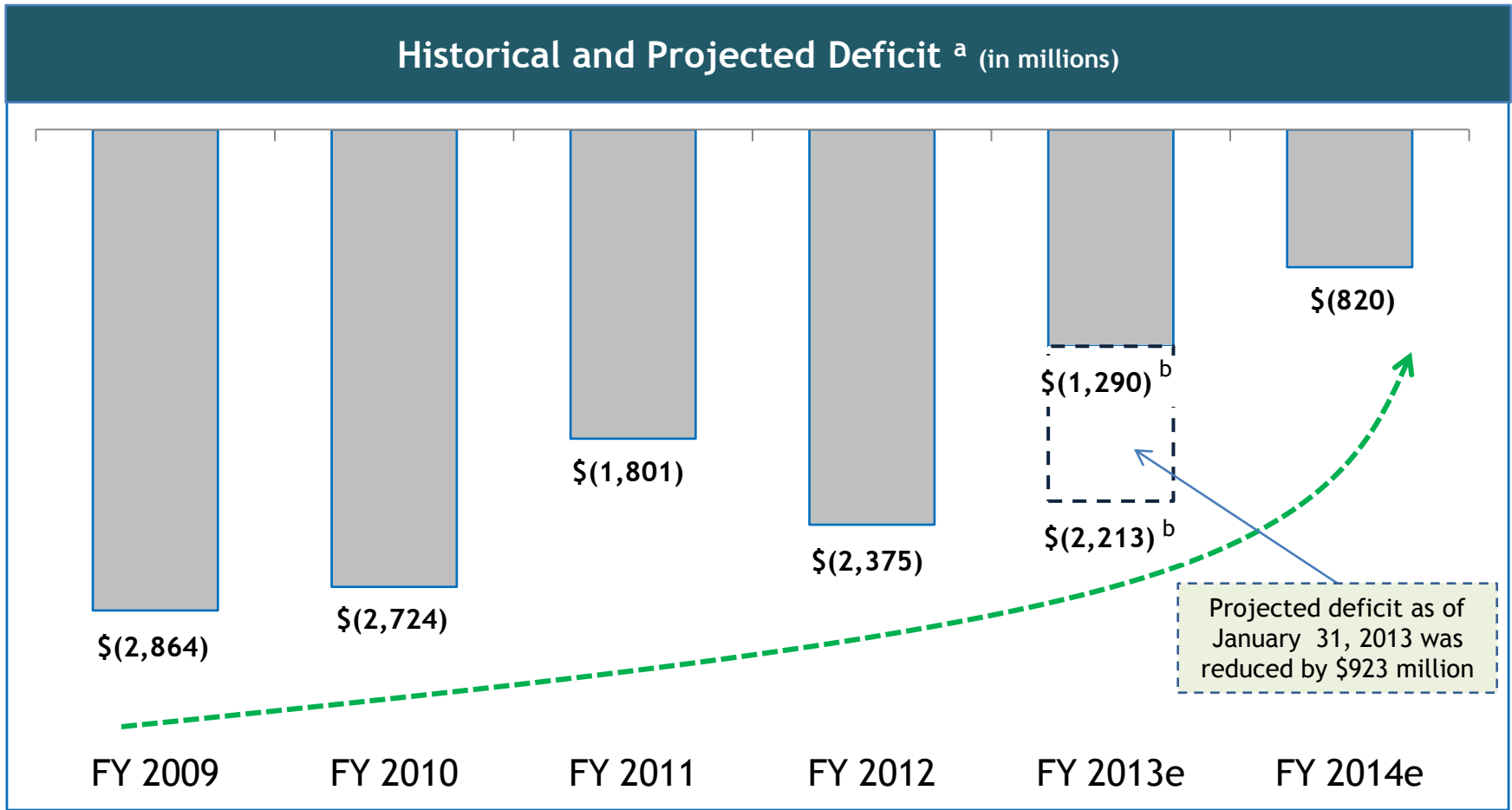
4 Financial Highlights

5 Concluding Remarks

We have tackled the key challenges faced by Puerto Rico for decades in order to strengthen our credit and protect bondholders

Challenges faced...	...Puerto Rico has taken action:	
1 Size of the General Fund's Deficit	<ul style="list-style-type: none"> Approved budget for fiscal year 2014 was designed to reduce the budget deficit from \$2.375 billion in FY2012, and a projected \$1.290 billion in FY2013, to \$820 million in FY2014, by enhancing and diversifying our revenue base, including through an increase in the Act 154 excise tax to 4%, and by reducing our reliance on debt service restructuring. Q1 preliminary revenues are above estimates and Q1 preliminary expenditures are in line with budgeted appropriations. 	
2 Funding of the Commonwealth's Pension System	<ul style="list-style-type: none"> Act 3 delivered on the long-standing promise of enacting meaningful and comprehensive pension reform to the ERS that reduces the projected need for approximately \$900 million in annual pay-as-you-go contributions in the future and ensures cash flow sufficient to pay pension obligations when due. 	
3 Public Corporations Dependent on General Fund and GDB support	<ul style="list-style-type: none"> Significant steps have been taken to turn the Commonwealth's main public corporations, including PRASA, PRHTA, PRPA and PREPA, into entities capable of operating without budgetary subsidies or deficit financing from the General Fund or GDB. 	
4 Need for Meaningful Spending Controls	<ul style="list-style-type: none"> During the second half of FY2013, the Commonwealth reduced General Fund expenses, turning a \$140 million over expenditure projection as of January into approximately \$50 million of under spending. For FY2014, General Fund payroll for July and August reflects an 11% decrease over the same period in the prior year. As of August 30, 2013, cumulative General Fund headcount was approximately 5,000 less than January 1, 2013. 	
5 Need to Jumpstart Economic Growth	<ul style="list-style-type: none"> We are currently executing a short-term, aggressive outreach plan with clear and achievable goals and benchmarks that we are confident will result in thousands of new jobs and reposition Puerto Rico as a competitive business and investment destination. Our focus on job creation has already led to commitments expected to generate approximately 25,000 direct and indirect jobs. This presentation includes a description of the five-year economic plan developed by the Commonwealth with the input of Boston Consulting Group. We are confident this plan will jumpstart our economic engine and lead us to sustainable, long-term economic growth. 	

Puerto Rico has taken actions to reduce the General Fund deficit

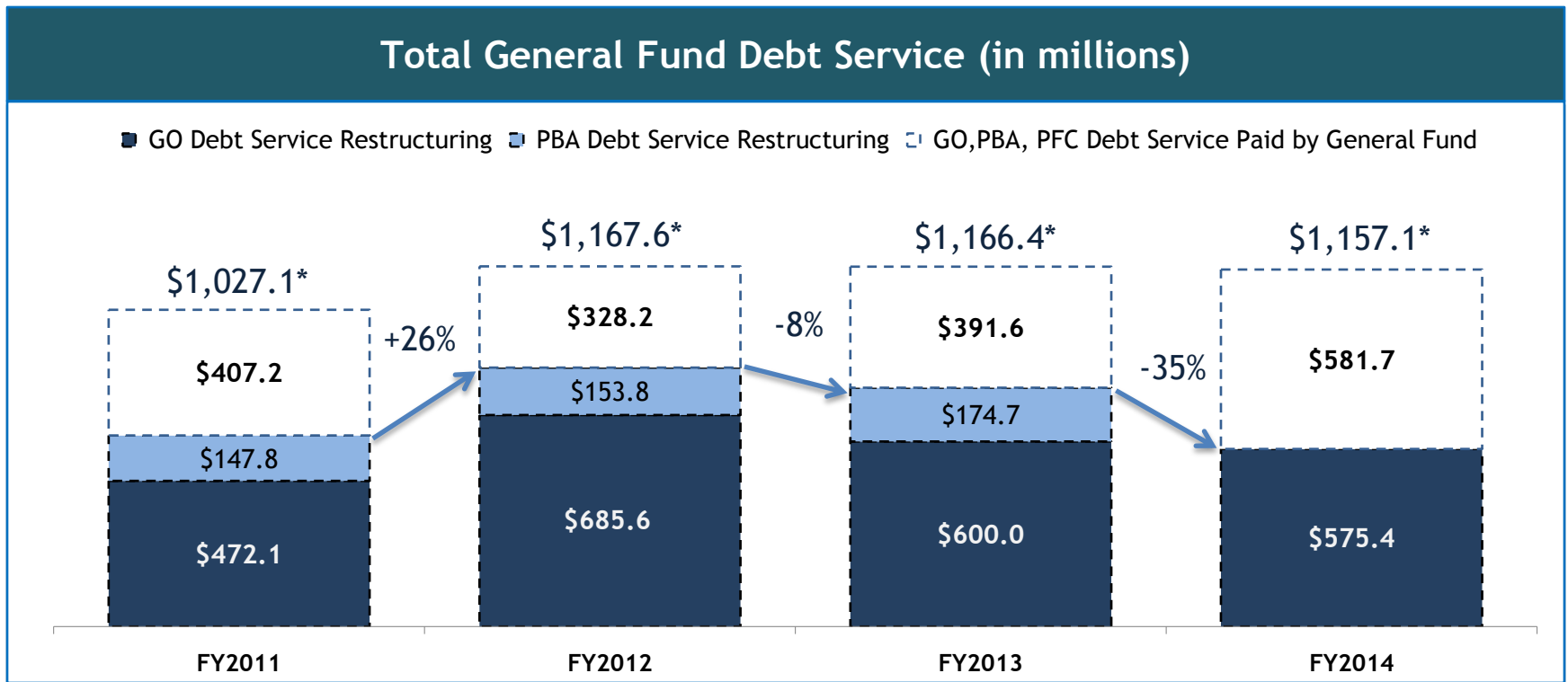


(a) Source: “Commonwealth of Puerto Rico - Financial Information and Operating Data Report”, dated October 15, 2013. Deficit for fiscal year 2013 and 2014 is preliminary and subject to change. Results presented for FY 2009 and FY 2010 exclude approximately \$442 million and \$50 million, respectively, of non-recurring expenses accrued during prior fiscal years that have been previously accounted as part of total expenditures for such fiscal years.

(b) After implementation of corrective measures by current Administration, deficit for FY 2013 was initially revised from \$2.213 billion as of January 31, 2013 to \$1.602 billion as of April 30, 2013, and again revised to \$1.290 billion as of June 30, 2013. The approximately \$2.213 billion deficit found in January 31, 2013 was composed of (i) a revenue shortfall of \$965 million, (ii) \$333 million COFINA deficit financing, (iii) \$775 million in debt refinancing and (iv) \$140 million of overspending (eliminated by OMB by June 30, 2013).

1

We are phasing out the practice of restructuring GO and PBA debt service payments for budgetary relief



- General Fund budgets for FY 2013 and FY 2014 were designed with a debt service restructuring of \$775 million (\$600 million in GO and \$175 million in PBA bonds) and \$575 million (in GOs), respectively.
- For the first time since FY 2009, there will be no PBA debt service restructuring in FY 2014.
- Our plan is to significantly reduce debt service restructuring for FY 2015 and eliminate the practice by FY 2016.

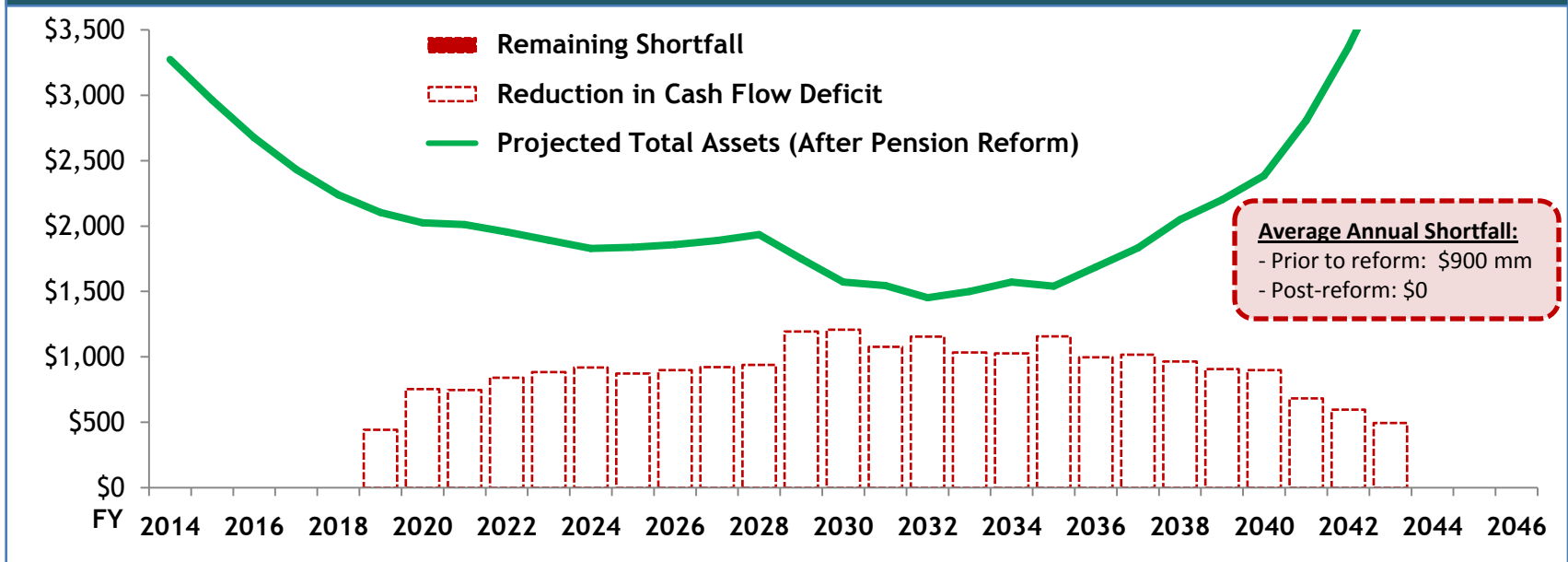
Source: "Commonwealth of Puerto Rico - Financial Information and Operating Data Report, dated October 15, 2013." Debt restructuring for fiscal year 2014 is preliminary and subject to change without prior notice, including as a result of market and general economic conditions

*Total debt service due for each fiscal year before any restructuring

2 We enacted meaningful, comprehensive pension reform

- The Employees Retirement System's pension reform, which has been labeled a "credit positive" by the rating agencies, provides a **cash-flow solution** to ensure that all the System's obligations are paid when due.
- Changes enacted by Act 3-2013 include moving participants to a **defined contribution plan**, **annuitizing the defined contribution benefits**, **increasing retirement age**, **increasing employee contribution**, modifying (and eliminating for future retirees) "Special Law" benefits, eliminating disability benefits and changing survivor benefits.
- With an additional annual contribution through 2033 (\$120 million for FY 2014), it is **projected that the system's \$900 million average cash flow deficit is eliminated**.
- The Puerto Rico Supreme Court has already **upheld the constitutionality** of the reform.
- **In contrast to other U.S. jurisdictions**, Puerto Rico has shown **political courage** and taken decisive action to tackle the long-term risk presented by its largest retirement system.

Cash Flow Deficit Projection After Act 3 and Act 32 of 2013 (in millions)



Note: The amounts presented are estimates, the end result could vary. This chart takes into account an investment rate of return of 6.00% and does not take into account the retirement of ERS covered employees that may have retired as a result of the reform.

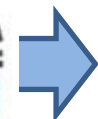
Significant steps have been taken to turn public corporations into self-sufficient entities capable of operating without budgetary subsidies or GDB deficit financing



- In July 2013, PRASA implemented a 60% rate increase (on average) that will provide additional revenues to cover operational expenses and improve debt service coverage.
- As a result of this increase, in contrast with prior years, the Commonwealth does not anticipate having to appropriate funds to PRASA for its operational expenses.



- Acts 30 and 31 of 2013, signed into law on June 25, 2013, increase HTA's recurring annual revenues by approximately \$270 million.
- These new revenue measures allow HTA to (i) begin amortizing its lines of credit outstanding with GDB and other financial institutions, (ii) access the capital markets over time to repay GDB lines and (iii) fund operational expenses.



- On February 27, 2013, Puerto Rico finalized the P3 transaction involving the Luis Muñoz Marín International Airport and received an upfront payment of \$615 million.
- This transaction strengthened the Ports Authority's fiscal position and reduced both the Port Authority's and GDB's risk position by repaying over \$490 million most of which had been either owed to or guaranteed by the GDB.



- Conversion to natural gas as a fuel source has been completed at PREPA's 2nd largest generating plant, reducing oil dependency by another 11%; negotiations to permit the conversion of PREPA's largest generating plant (18% of total capacity) are underway.
- In August 2013, with over \$1.6 billion of orders from investors, PREPA successfully completed a \$673 million bond issuance to fund its capital improvement program, including the conversion to natural gas of existing oil-fired generation units, which is expected to enable PREPA to improve its operating efficiency.

These public corporations are key drivers of Puerto Rico's economic growth with a combined CIP of approximately \$1,206 million in FY 2014. At this point, GDB does not expect any of these public corporations to need budgetary subsidies or operational loans from GDB for FY 2014.

Next Steps of Fiscal Plan



Reform the Teachers Retirement System

- Before the end of the calendar year, we will present legislation to reform our teacher's pension system to ensure that the system does not run out of assets and pension benefits can be paid when due.
- Similar to the reform of the ERS, the reform of the TRS will be a cash flow solution that will alleviate future pay-as-you go pressure on the General Fund.



Finish the Job of Eliminating the Budget Deficit

- For FY2015, the Commonwealth will reduce its budget deficit by at least an additional 50% versus FY2014's budgeted deficit (\$820 million).
- We expect to have a balanced budget by no later than FY2016.
- We are committed to cutting expenses this fiscal year if revenue targets are not substantially met.

The Commonwealth is committed to continue demonstrating its willingness and ability to further strengthen its fiscal health.

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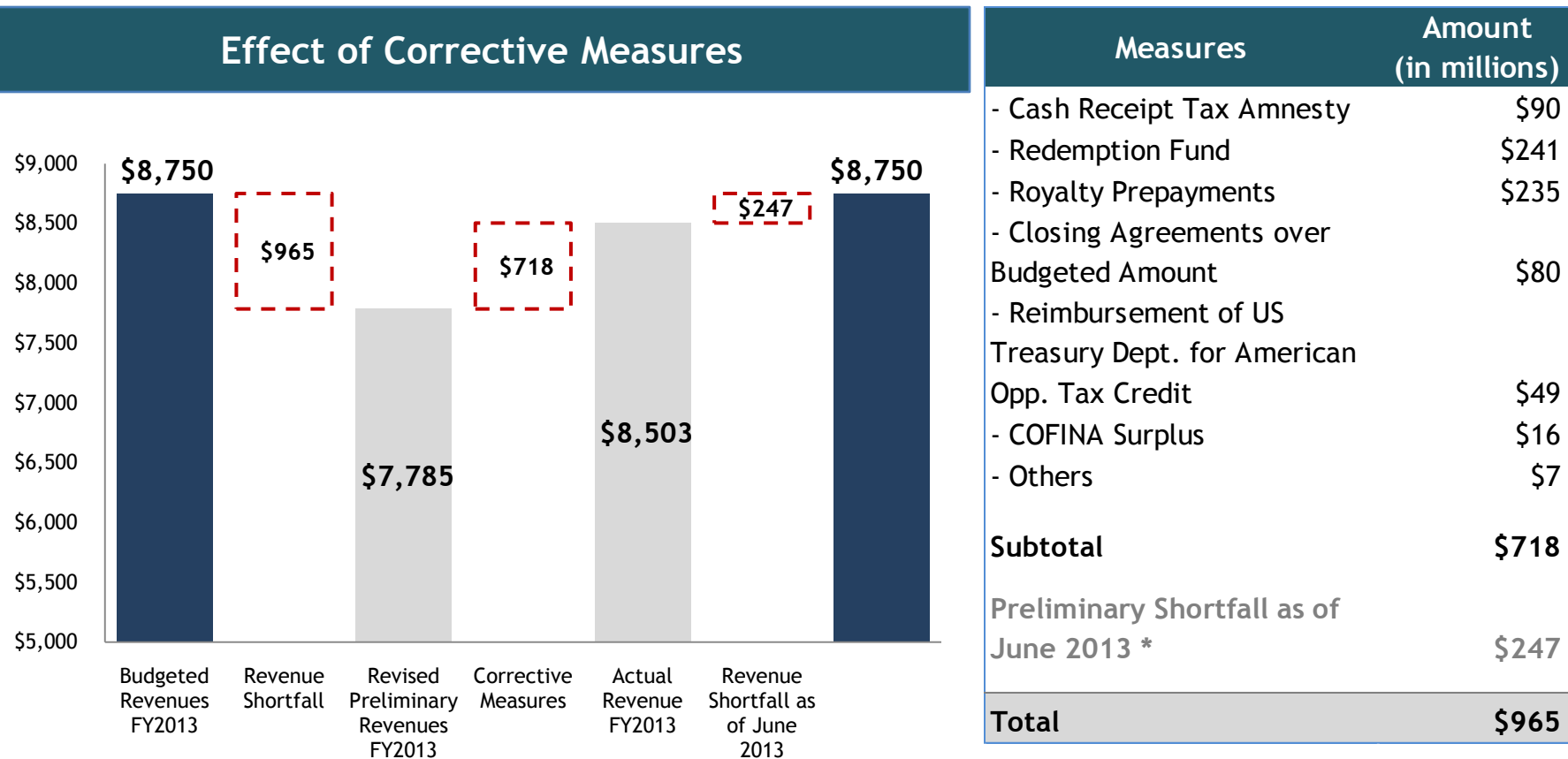
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FY2013 and FY2014 Revenue Update

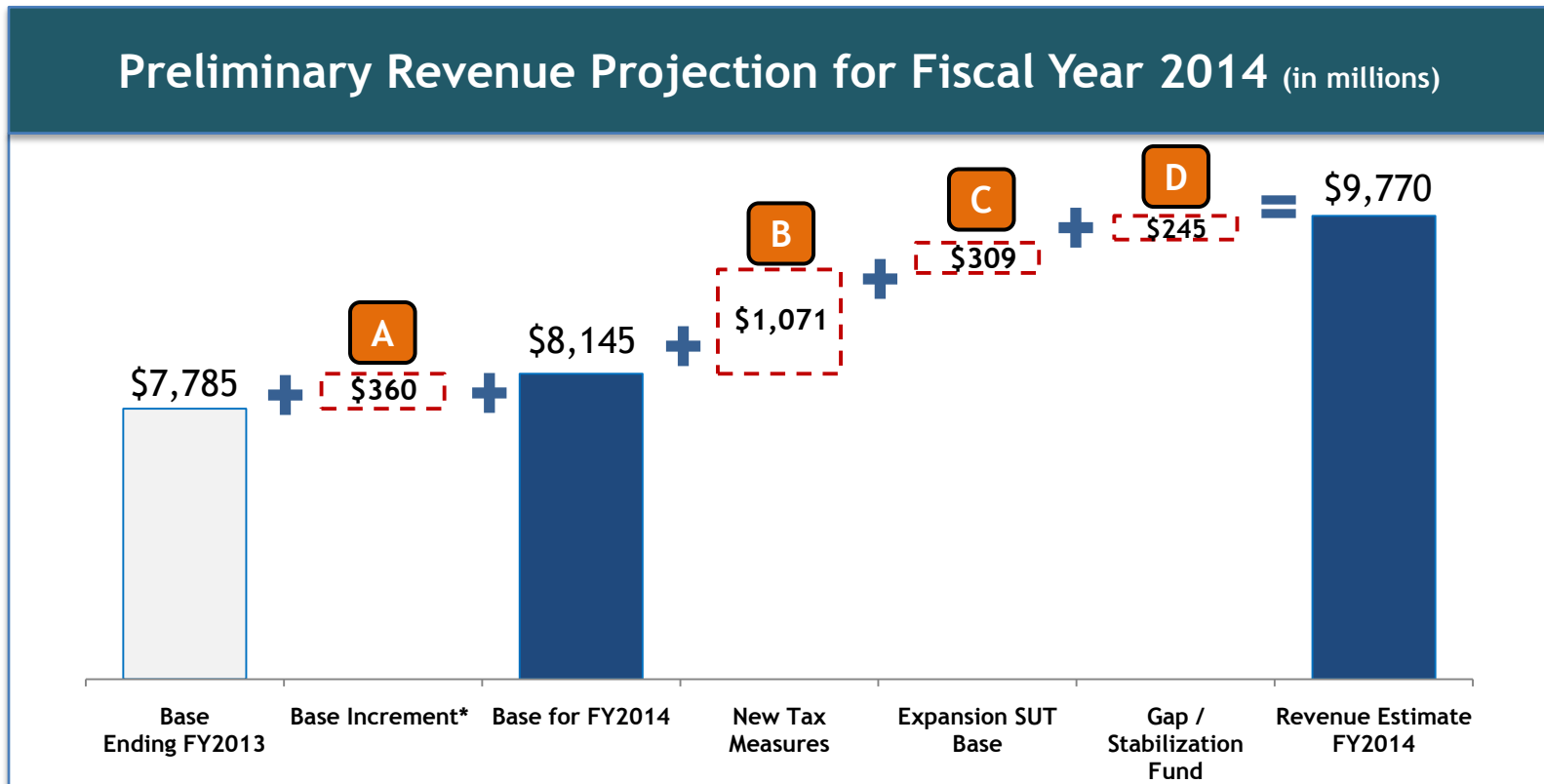
After significant corrective measures, the \$965 million FY2013 revenue shortfall was reduced to \$247 million. Funds to reduce the remaining shortfall have been identified.

The following measures were undertaken to reduce the \$965 million revenue shortfall:



* Shortfall is expected to be reduced or eliminated through (i) sale of old (\$128 million) and new payment plans (\$199 million) from Tax Amnesty and (ii) the closing of pending transactions with two pharmaceutical companies (\$98 million), expected later this month.

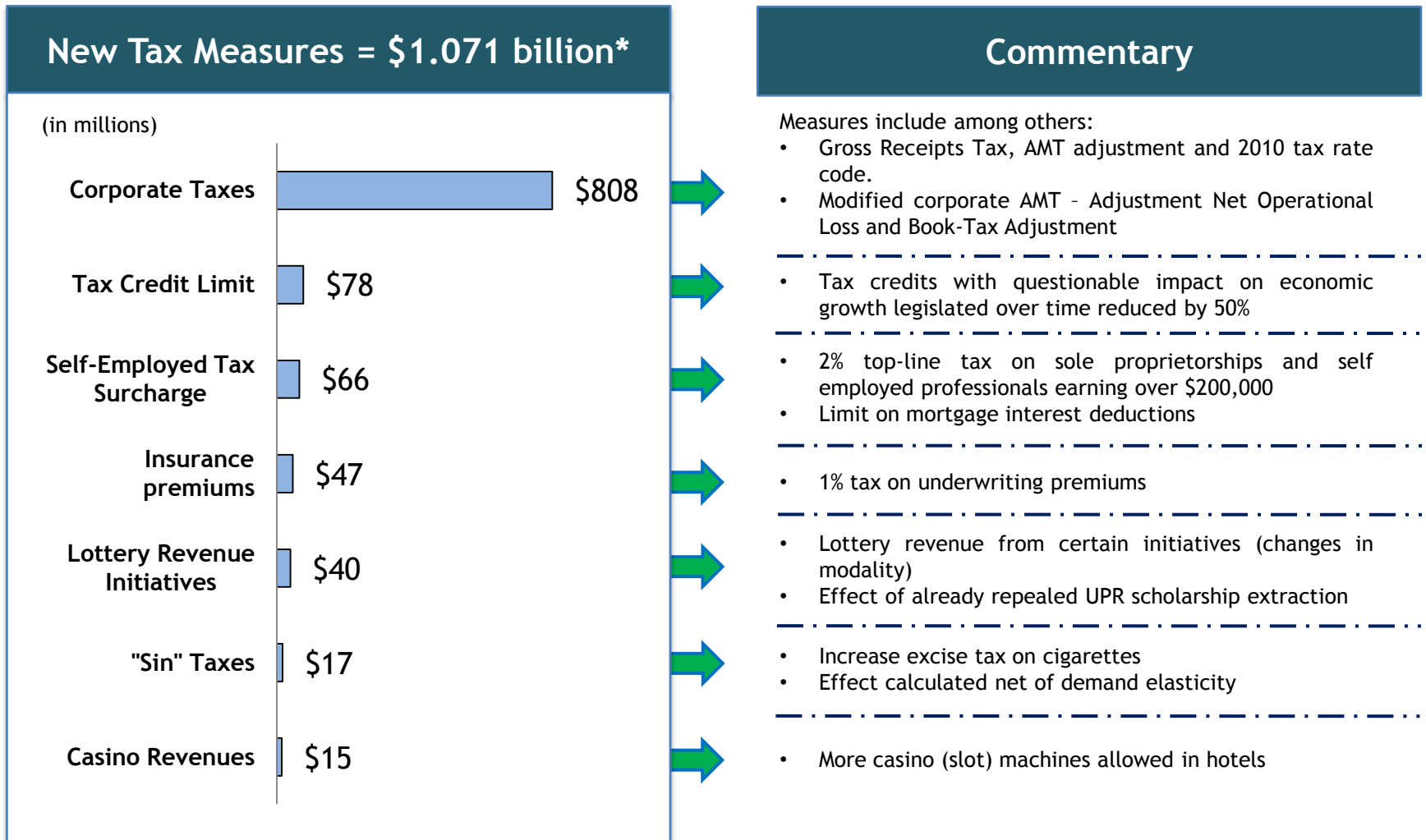
FY 2014 Budget - General Fund Revenue Projection



- A** Results primarily from the increase of the Act 154 excise tax, minus a reduction due to royalty pre-payments received in FY 2012-13 as part of deferral of amendments to Act 154, minus \$62 million of vehicle license fees transferred to PR Highways.
- B** Approved FY 2014 Budget includes new tax measures expected to raise \$1.071 billion of additional revenues, excluding the expansion to the “SUT” base.
- C** Expansion of Sales and Use Tax (“SUT”) base of approximately \$309 million principally relies on the extension of the SUT to certain business-to-business services and the elimination of exemptions for certain institutions and resellers.
- D** Budget contemplates a Stabilization Fund of \$245 million.

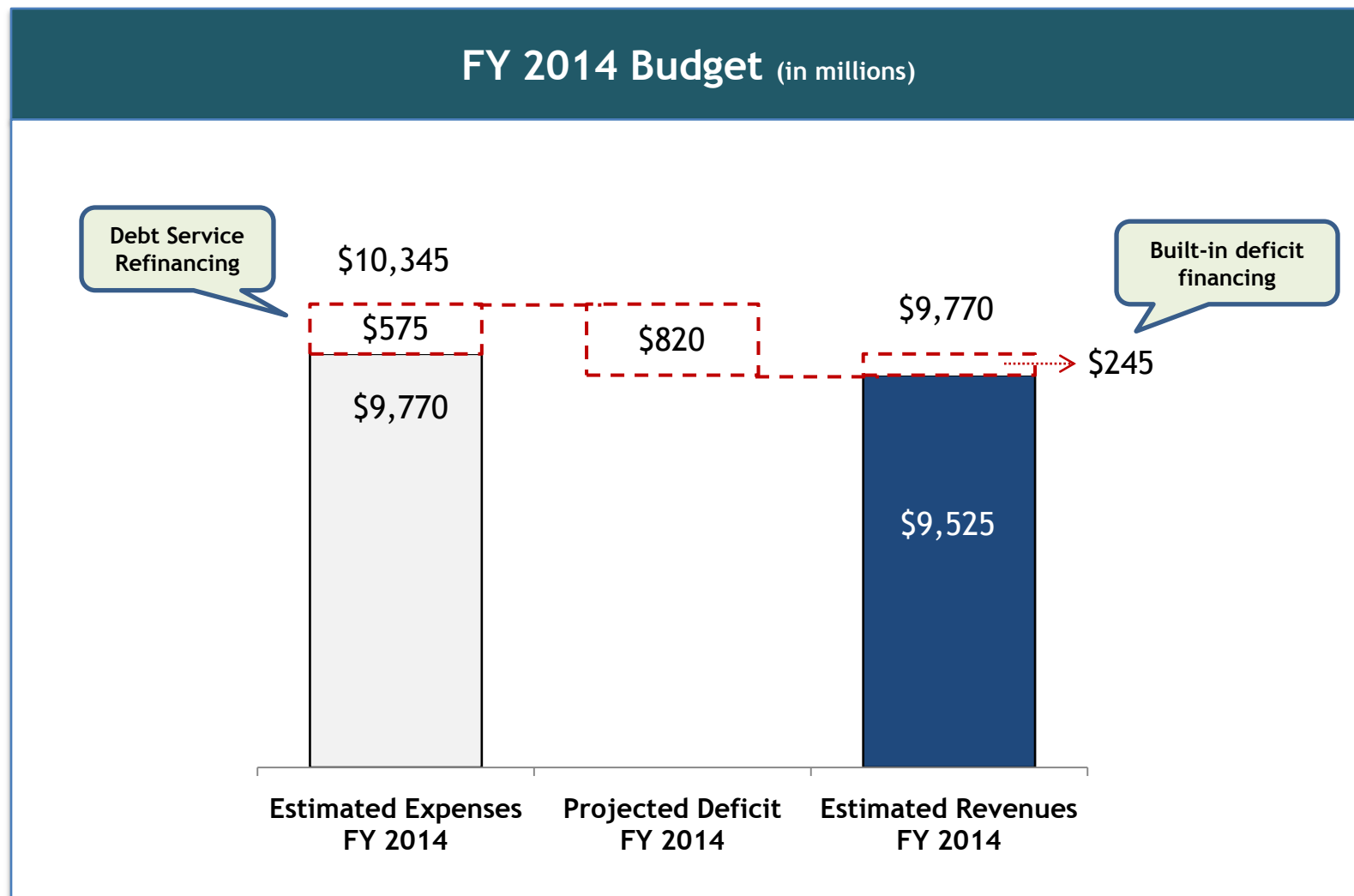
*Economic growth projections reflect the most up-to-date PR Planning Board projections for FY 2014 (+0.2%).

Adopted budget for FY 2014 includes new tax measures expected to result in \$1.071 billion of additional revenues, excluding the SUT expansion



* Numbers are preliminary estimates and subject to change.

FY 2014 General Fund budget deficit represents a reduction of 65% vs. audited FY 2012 results*

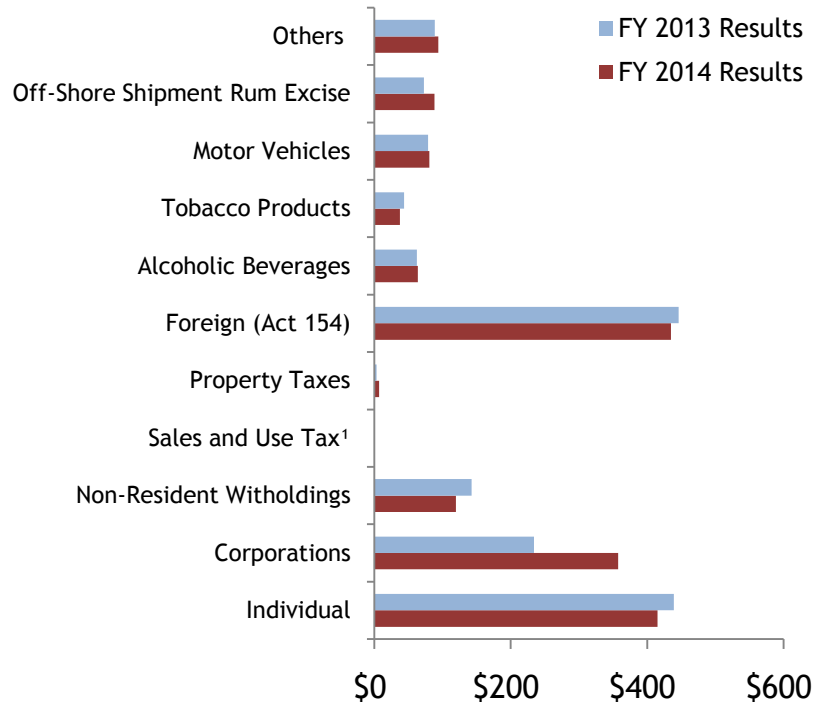


* The FY2014 GF deficit represents a reduction of 65% when compared to audited June 30, 2012 deficit results, 63% when compared to preliminary FY2013 deficit projection as of January 31, 2013, and a reduction of 37% when compared to most recent estimates of the FY2013 deficit.

FY 2014 Q1 revenues are above estimates...

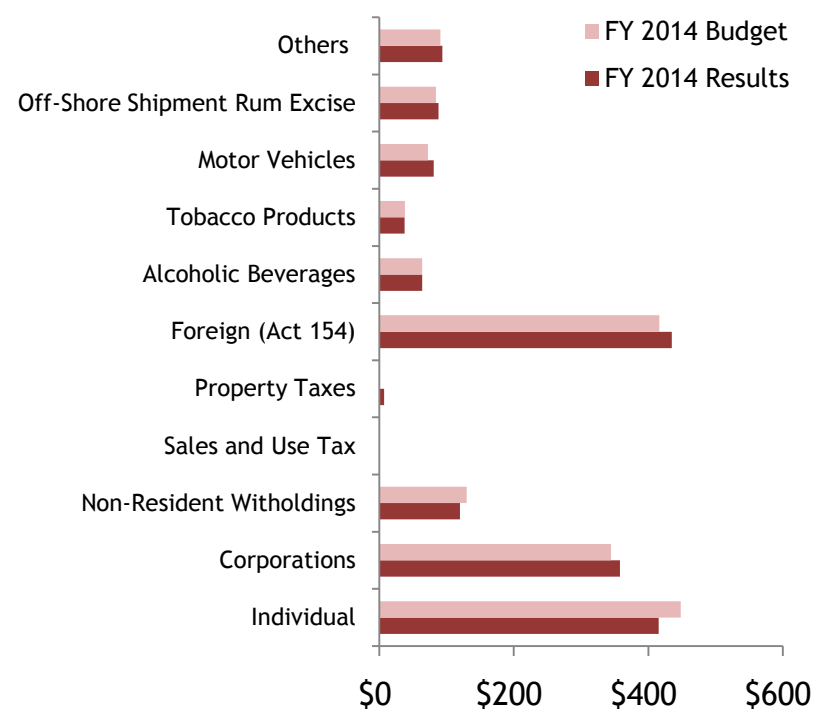
Q1 FY 2013 vs. Q1 FY 2014

FY 2013 YTD Results: \$1,611 million
FY 2014 YTD Results: \$1,699 million



FY 2014 Q1 Budget vs. FY 2014 Q1 Results

FY 2014 YTD Budget: \$1,688 million
FY 2014 YTD Results: \$1,699 million



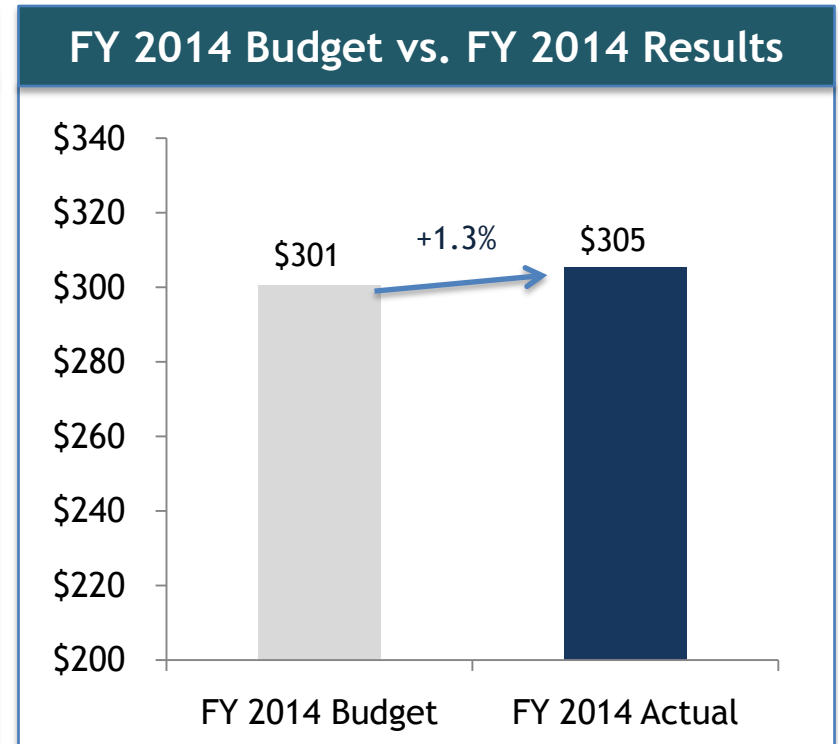
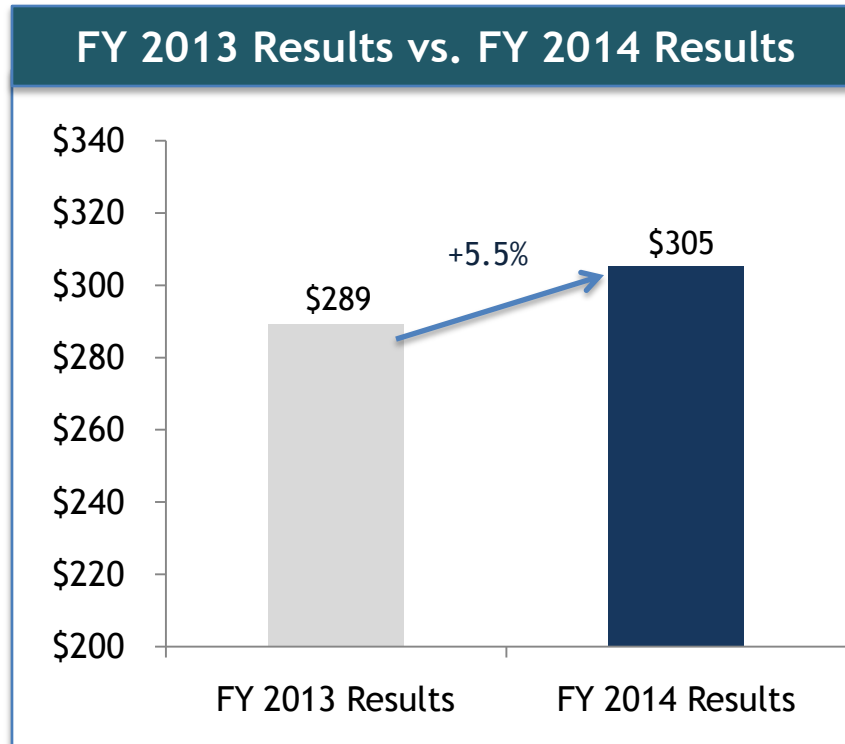
General Fund July-September (Q1) preliminary revenues are higher by (i) \$88 million above FY 2013 Q1 results and (ii) \$10.4 million over budgeted estimates for FY 2014 Q1.

* Detailed revenue numbers are available in the Appendix A.

¹ Sales and Use tax revenues flow to COFINA until receiving the Pledged Sales Tax Base Amount.

...and Sales Tax Fiscal YTD revenue is also above projections

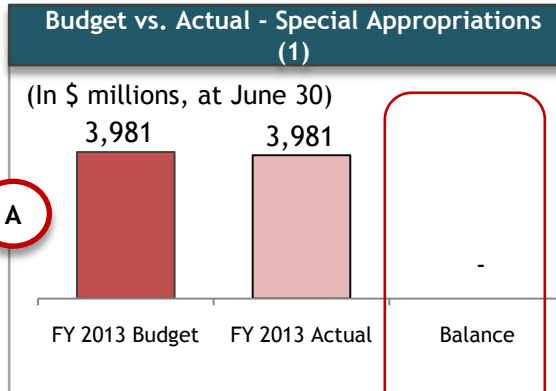
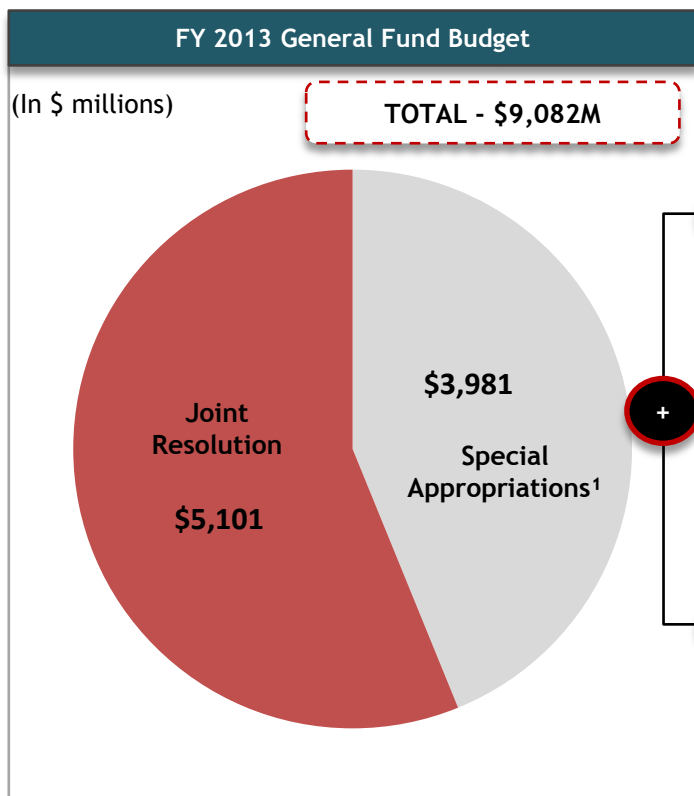
SUT Revenues for FY 2014 Q1 were \$16 million higher than for the same period in FY2013, even without the full effect of SUT base expansion.



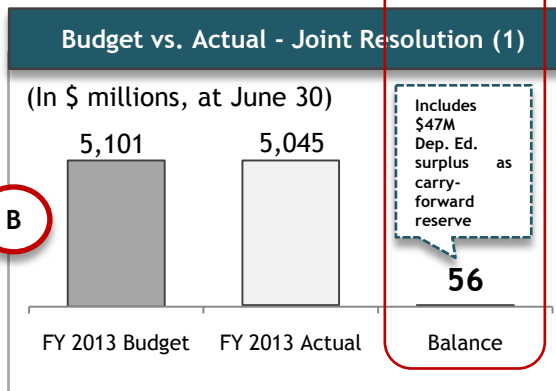
July-September (Q1) preliminary SUT collections of \$305.3 million are (i) 5.5% above the same period of FY 2013 and (ii) 1.3% above budgeted estimates.

FY2013 and FY2014 Expense Update

FY 2013 Preliminary Expense Results show a \$56 million under spending vs. budget overview



- Appropriations for specific purposes. Three year life. Obligated as expenses at FY-end regardless of uncommitted balance.
- Debt service, public health insurance, public corporation subsidies, retirement special laws, and pre-legislated formula based contributions to the UPR, Judicial Branch and Municipalities, among others



- Operating cost of the agencies of the Commonwealth of Puerto Rico. Unobligated balance released as surplus at FY-end, except for carry-forward of the Dep. Ed.
- Includes: Payroll (including employer contributions); operating expenses such as facilities, transportation, services and materials; and "non-distributed" lump sum appropriations.

Corrections to the overspending forecast during the 2nd Semester (January - June) of FY 2013:

Excess Spending Estimate at Jan 2013

(-)	Freezing of account balances per spending control Executive Order (transferred in June to the Dep. Ed.)	\$140M
(-)	Department of Education year-end spending versus initial projections at January 2013	\$29M
(-)	Payment of excess sick leave for the Police Department covered with one-time transfer of non-General Fund balance	\$32M
(-)	Payment of excess sick leave for certain agencies paid with non-General Fund, internal sources (fee income, federal)	\$30M
(-)	Additional factors (slowdown of spending due to transition effect; austerity measures; conservative forecast)	\$28M
		\$76M

Year End Excess (+) or Under (-) Spending Estimate at Sep 2013

-\$56M

(1) All results per PRIFAS Central Accounting System balances, as adjusted by OMB, in its best judgment, to reflect pending obligations or disbursements, unsynchronized independent platforms at different agencies, and other adjustments. As with all estimates, final results will vary. At this date, with the Department of Education final balance certified, we expect no substantial changes to the outlook.

FY 2014 Approved Budget - Non Discretionary Pre-Legislated Expenses

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
Debt to GDB	Special Appropriations - To Public Corp's	Department of Education - Payroll
Retirement Systems - Special Laws		

32%

**Total Non
Discretionary
\$3,167M**

12%

**Total Semi
Discretionary
\$1,168M**

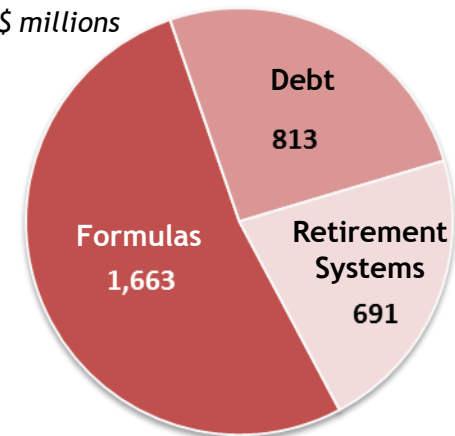
56%

**Total Discretionary
\$5,435M**

Non Discretionary Expenses - \$3,167M

UPR Formula	\$834M
Retirement System - Special Laws	\$691M
General Obligations and 3 rd Party Debt	\$521M
Municipalities & Legislature Formulas	\$480M
Judicial Branch Formula	\$349M
Debt to GDB	\$291M

In \$ millions



FY 2014 Approved Budget - Semi-Discretionary Expenses (Primarily Entitlements and Contributions)

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
Debt to GDB	Special Appropriations - To Public Corp's	Department of Education - Payroll
Retirement Systems - Special Laws		

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\$3,167M**

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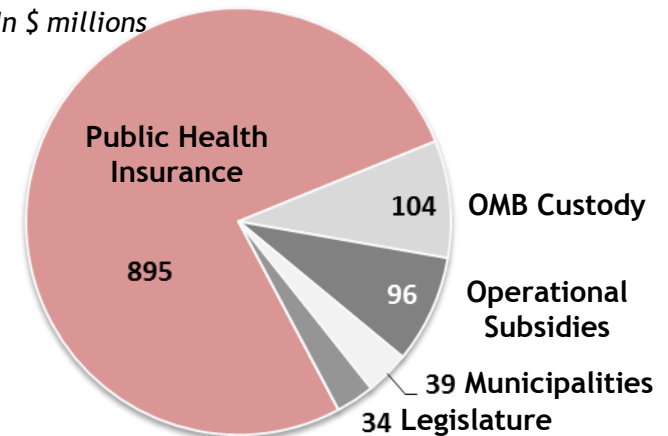
56%

**Total Discretionary
\$5,435M**

Semi Discretionary Expenses - \$1,168M

Public Health Insurance - ASES (Public Corporation)	\$895M
Special Appropriations - OMB Custody	\$104M
Operational Subsidies - Public Corporations	\$96M
Contributions to Municipalities	\$39M
Contributions to Legislature	\$34M

In \$ millions



FY 2014 Approved Budget - Discretionary Expenses (Commonwealth Agencies)

Non Discretionary	Semi Discretionary	Discretionary
UPR Formula	Public Health Insurance	Special Appropriations - Agencies/Programs
Judicial Branch Formula	Special Appropriations - OMB Custody	Department of Education - Operating Cost
Municipalities Formula & Legislature (Fixed)	Contributions to Legislature	All Other Agencies - Operating Cost
General Obligations & 3 rd Party Debt	Contributions to Municipalities	All Other Agencies - Payroll
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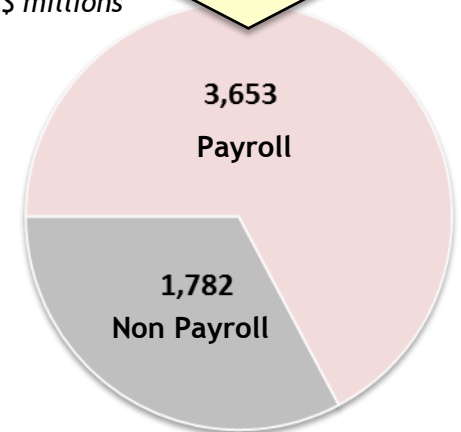
56%

Total Discretionary
\$5,435M

Non Payroll Expenses - \$1,782M

Rent and Utilities	\$532M	Transportation	\$146M
↳ PBA Rent (Excluding Debt)	\$214M	Professional Services	\$106M
↳ PREPA & PRASA	\$149M	Materials	\$90M
Non Distributed Appropriations	\$398M	Others	\$55M
Purchased Services	\$257M	Equipment	\$32M
Subsidies and Incentives	\$151M	Federal Funds Matching	\$15M

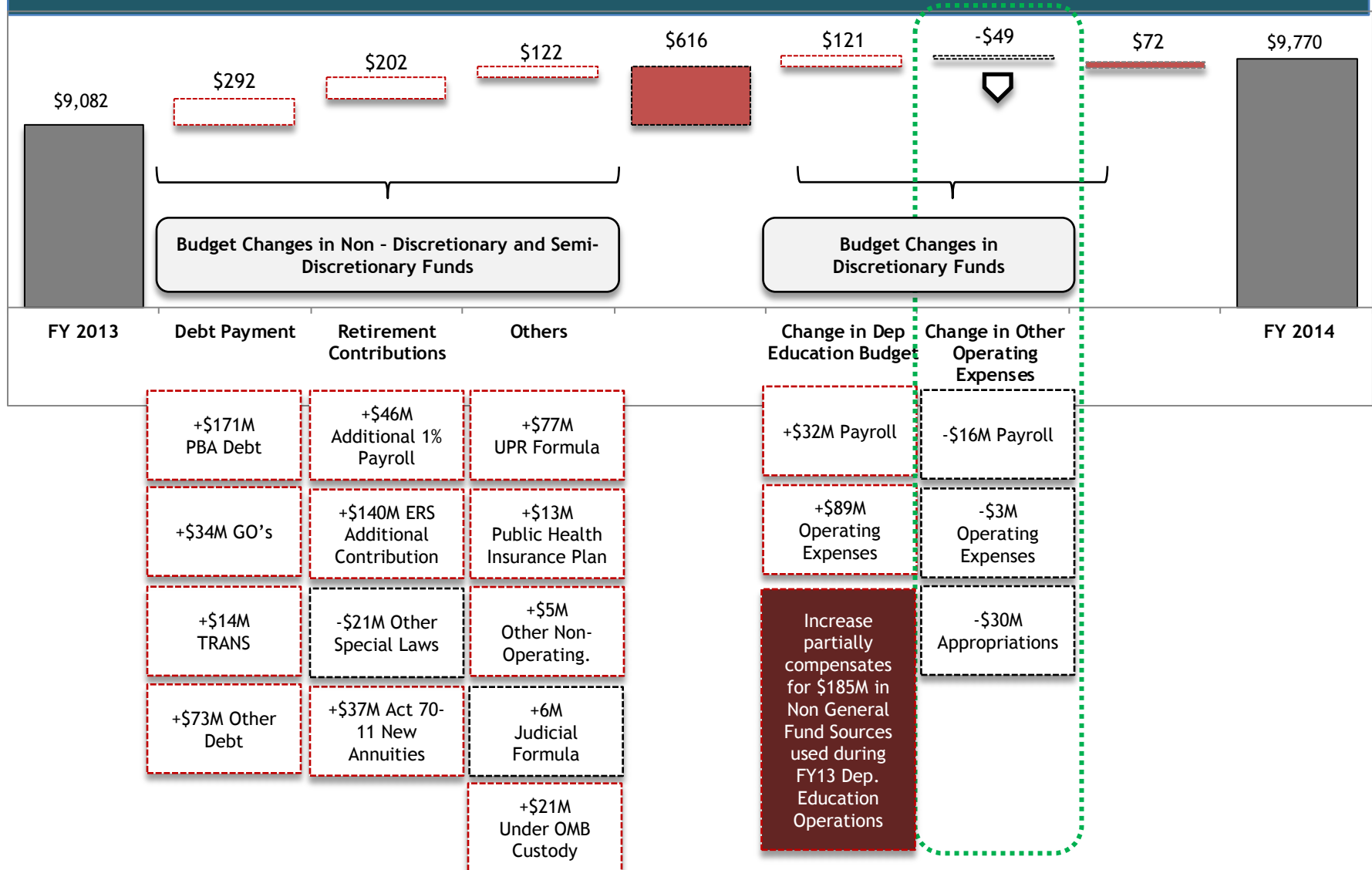
In \$ millions



*Reconciliation with Joint Resolution for Operating Expenses: Discretionary Expenses of \$5,435M plus (i) add-back \$171M in PBA Rent that were reclassified as Non Discretionary - Debt Service; (ii) add-back of Legislature budget of \$119M that were reclassified as Non-Discretionary - Legislature; and (iii) subtract Special Appropriations (\$351M) which are substantially Discretionary in nature but not included in the Joint Resolution for Operating Expenses. This reconciles with the \$5,375M in Joint Resolution total appropriations.

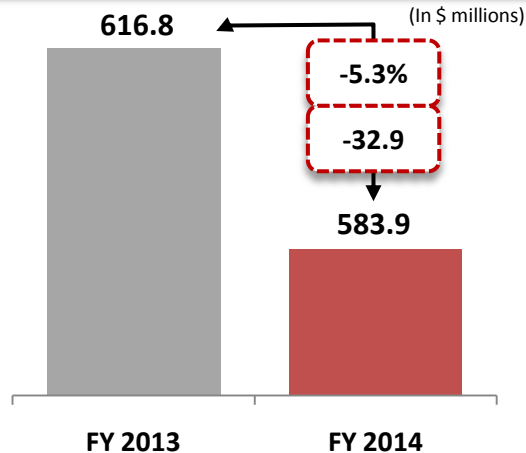
FY 2014 Approved Budget - Detail on Appropriation Increments

Year-over-Year Change in Adopted General Fund Budget (in millions)



FY 2014 Approved Budget - YTD Expenses (Q1 - July to September 2013)

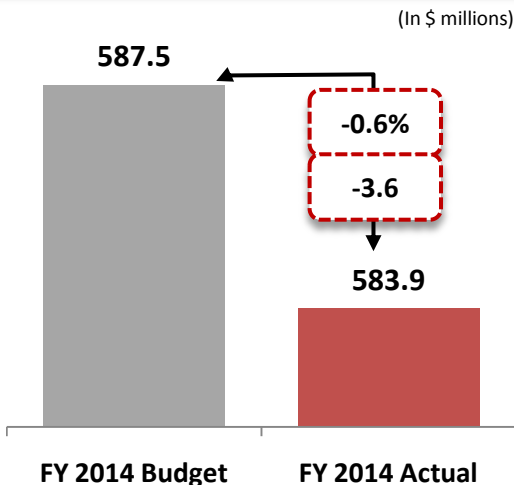
1 Year over Year Payroll (Jul to Sept)



- Reduction primarily due to employee attrition from Act 70 (early retirement); unusual retirement pattern due to the enactment of Act 3 ERS Reform; and austerity in hiring and rehiring measures, including political appointees.
- Figures exclude payroll at 22 smaller agencies with autonomous platforms that have a separate payroll from Treasury (for example, the State Elections Commission; Office of the Comptroller; et cet).

Payroll accounts (excluding *Schoolwide* appropriation) represent ~\$2.6 billion or 27% of the General Fund Budget

2 Budget vs Actual Payroll (Jul to Sept)



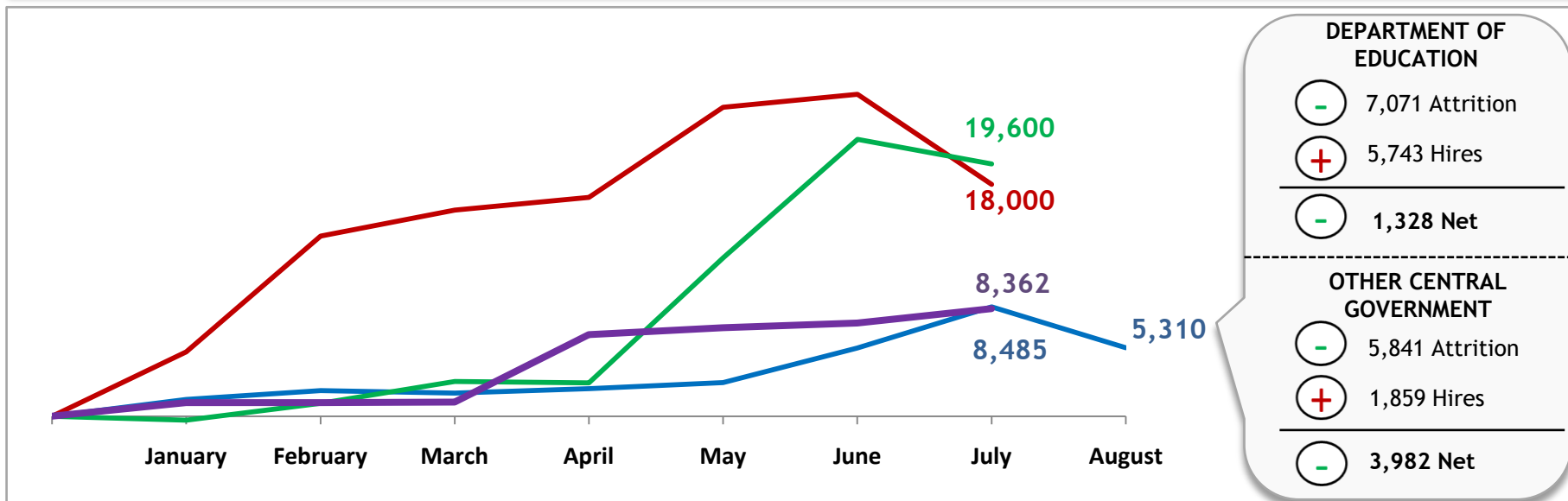
- Not all of the year over year reduction flows into budget vs actual savings since
 - reserves of ~\$140 million for one-time liquidation payments were budgeted or have since been transferred to OMB custody and are excluded from the budget figures
 - some payroll savings were already built into the budget, particularly to cover previously agreed-upon collective bargaining increases
 - Budget includes other adjustments upward or downward, including higher annuity payments for those retirees under Act 70 incentive program
- OMB has issued re-hiring guidelines with respect to employees that retired on June 30 due to the effect of Act 3 Employee Retirement System Reform. A limited number will be rehired.

Department of Education

- These numbers do not include the *Schoolwide Program* mixed federal and state funds pool, which covers much of the payroll at the individual schools. Not charged as a payroll account but rather a non-distributed appropriation. The process of allocating expenses to state or federal has a lag.
- Dep. Of Education as of August 31st reported projected expenses over budget, mostly related to summer hiring for the new school year. However, this is preliminary and corrective measures are expected to be effective so that an over-spending forecast is not currently warranted. Corrective measures include carryforward reserve; applicable of eligible federal resources, actions to reduce security & transportation; application of surpluses at other agencies and overall OMB contingencies.
- Going forward, teachers retirement system reform will also probably result in attrition, representing an opportunity for school consolidation and payroll adjustments.

Calendar YTD Cumulative Headcount Reduction - January 2013 - August 2013

Cumulative Headcount Reduction – January to August 2013 (By Information Source)



Source	Scope	Comments
PR Department of Labor – Payroll Register	<ul style="list-style-type: none"> Includes all government employees, including Municipal, Federal, and Public Corporations Monthly official statistics from the Statistics Bureau of the Dep. of Labor. 	Relies on payroll surveys of actual salaried employees.
PR Department of Labor – Workforce Poll		Relies on polls from a statistical sample. Depends on self-reported employer classification.
Office of the Comptroller	<ul style="list-style-type: none"> Includes government agencies whose operating expenses are funded by the Budget Joint Resolution. Excludes, for example, UPR, Judicial Branch and Municipalities. Excludes 22 smaller agencies funded by General Fund remittances whose payroll is independent from the central Treasury System, except for the Police, which was included as self-reported. 	Figures are self reported by agencies. May include statistical input for blank data. Includes all sources, state and federal.
Dep. Treasury – Payroll Database (1)		Includes only employees covered by General Fund sources and by Schoolwide mixed state and federal funding pool.

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Puerto Rico Economic Roadmap: Overview

Vision

Build upon Puerto Rico's historic strengths to achieve a *more diversified, knowledge-driven economy* that addresses the challenges of globalization and seizes upon emerging opportunities

Goals

Near-term goal

Shore up and diversify the economy by leveraging Puerto Rico's competitive advantages and consolidating its productive base

Long-term goal

Build sustainable competitive advantage with a diversified, adaptive economy and workforce driven by technology and innovation

Policy Priorities

- 1 *Defend anchor industries* while diversifying job sources on the Island
- 2 *Stimulate local entrepreneurship* - drive growth of small and medium enterprises (SMEs)
- 3 Support Puerto Rico's status as a *stable, business-friendly jurisdiction*
- 4 Take full advantage of opportunities tied to *Puerto Rico's relative fiscal autonomy*

Impact

By beginning of 2016

Over 90,000 jobs created
\$6 to \$7 billion in incremental GDP

By beginning of 2018

Over 130,000 jobs created
\$10 to \$12 billion in incremental GDP

Strategic Priorities

Four themes drive the focus on and strategies behind the priority sectors

- Seize our capabilities to provide **high-quality products and services at competitive costs**
- **Leverage our unique geographic positioning** between the US, Latin America, and the Caribbean
- **Identify and win emerging opportunities** - sectors and niche markets
- Bring technology and innovation to **build upon historic strengths** and "move up value chain"

Five priority sectors identified

Global	Life Sciences	<ul style="list-style-type: none"> • Defend traditional Pharmaceutical base and pursue innovative opportunities (generics, biologics, contract manufacturing) • Consolidate Puerto Rico's position as a global manufacturing hub for medical devices • Bolster Puerto Rico as the Center for Scientific R&D in the Americas (Agricultural Biotechnology)
	Knowledge Services	<ul style="list-style-type: none"> • Become the Knowledge Services Center of the Americas • Pursue niche plays to grow Insurance and Financial Services
	Tourism	<ul style="list-style-type: none"> • Re-capture historic strengths in tourism to become a premier U.S. and global travel destination • Additionally, target emerging niche markets including ecotourism, medical, cultural and sports tourism
Internal	SMEs	<ul style="list-style-type: none"> • Build world-class SME support through a full-suite of coordinated programs targeting SMEs at all levels of development
	Agriculture	<ul style="list-style-type: none"> • Reduce reliance on food imports by investing in high-productivity agricultural production

Investments in infrastructure will support longer-term competitiveness

- **Infrastructure investment** required to support growth in sectors and boost long-term competitiveness (e.g. airports, seaports, roads etc.)
- **Strategic initiatives** such as developing Roosevelt Roads and the Science City that can add significant long-term lift to Puerto Rico's economy

Recent successes underline Puerto Rico's potential (I/II)

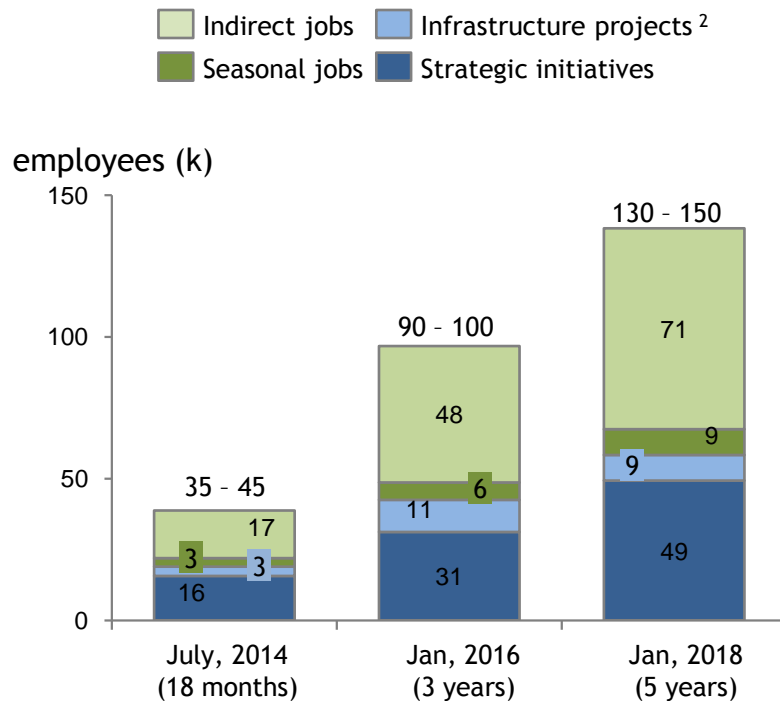
Area	Recent wins
Life sciences	<p>Biopharma manufacturing</p> <ul style="list-style-type: none">• Expansion of Johnson & Johnson with 308 new jobs and \$226 million in investment• Expansion of Bristol Myers Squibb with the creation of 100 new jobs and an investment of \$200 million in expansion and renovation of the physical plant and factor equipment <p>Medical devices manufacturing</p> <ul style="list-style-type: none">• Expansion of CooperVision's manufacturing facilities attracting \$250 million investment and 350 new jobs• Expansion of Covidien's manufacturing facilities attracting 200 new jobs• Expansion of Saint Jude Medical with the creation of 150 new jobs over a period of 5 years, with estimated payroll expansion worth \$6.2 million
Knowledge services	<ul style="list-style-type: none">• Expansion of IBM / True North with the creation of 400 new jobs• Expansion of AON Hewitt with the creation of 200 new jobs
Tourism	<ul style="list-style-type: none">• Increased air access (Southwest to Orlando, Avianca to Bogota, expanded Caribbean services via Seabourne); with focus on LatAm. expansion ongoing (e.g. Brazil)• Cruise ships visits increased 84% in August 2013 vs. year before and targeted incentives in place to drive traffic in years to come, supported by Pier 3 infrastructure improvement• Over 900 hotel rooms under construction and hundreds more in the pipeline

Recent successes underline Puerto Rico's potential (II/II)

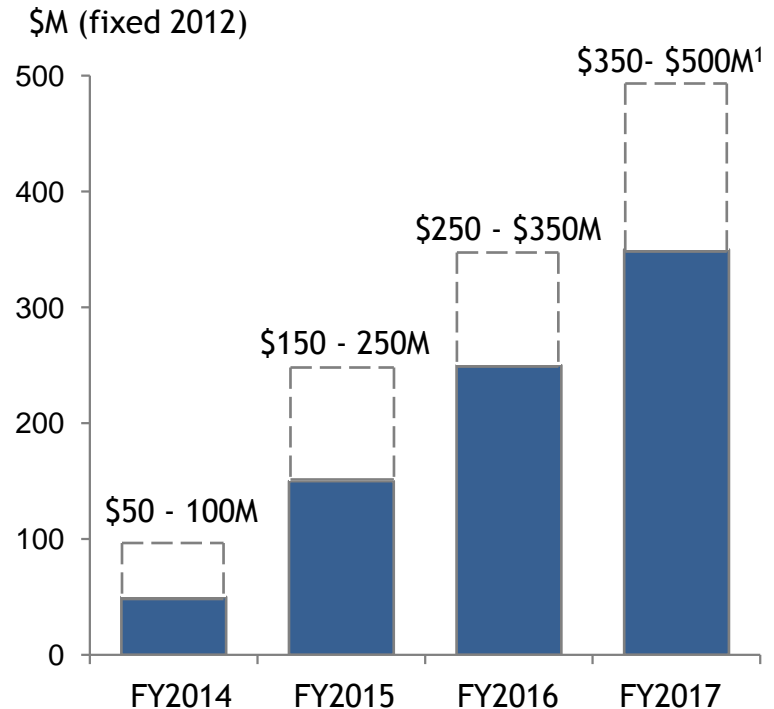
Area	Recent wins
Other key wins	<p>Jobs and investments</p> <ul style="list-style-type: none">• Commitments for 5,860 new jobs in small and medium-size enterprises under the incentives of the Jobs Now Act• Commitments for over 7,500 new jobs under incentives offered by PRIDCO• Federal contract win: \$137 million 3-year military apparel mfg contract worth 2,200 jobs• Putnam Bridge Company to invest \$450 million in renovating Marina Puerto Del Rey, creating up to 400 construction jobs and up to 500 permanent jobs• Paulson & Co. acquired an 80% interest in the Bahía Beach Resort & Golf Club, including the St. Regis Resort, and plans to invest \$500 million in further development <p>Recognition around the world</p> <ul style="list-style-type: none">• Ranked #30 in 2013 World Economic Forum ranking, higher than last year and top Latin American country• Included in FutureBrand Top LatAm countries for first time (ranked in top ten)
Promising leads	<ul style="list-style-type: none">• Outreach negotiations at advanced stages with multiple new KS players• Life sciences: Promising opps. in emerging areas (e.g. Generics, Med. Devices)
Supporting reforms	<ul style="list-style-type: none">• Energy transition to natural gas has begun, first plant converted June 2013; Major Aguirre plant scheduled for early 2015• Plan to increase share of energy produced with natural gas from 24% to 72% by 2017• Permitting IT systems improvement plan in place and contracted

Estimated jobs creation and resulting tax revenues

Jobs created by strategic initiatives in Economic Roadmap



Potential gross tax revenue from Roadmap's strategic initiatives

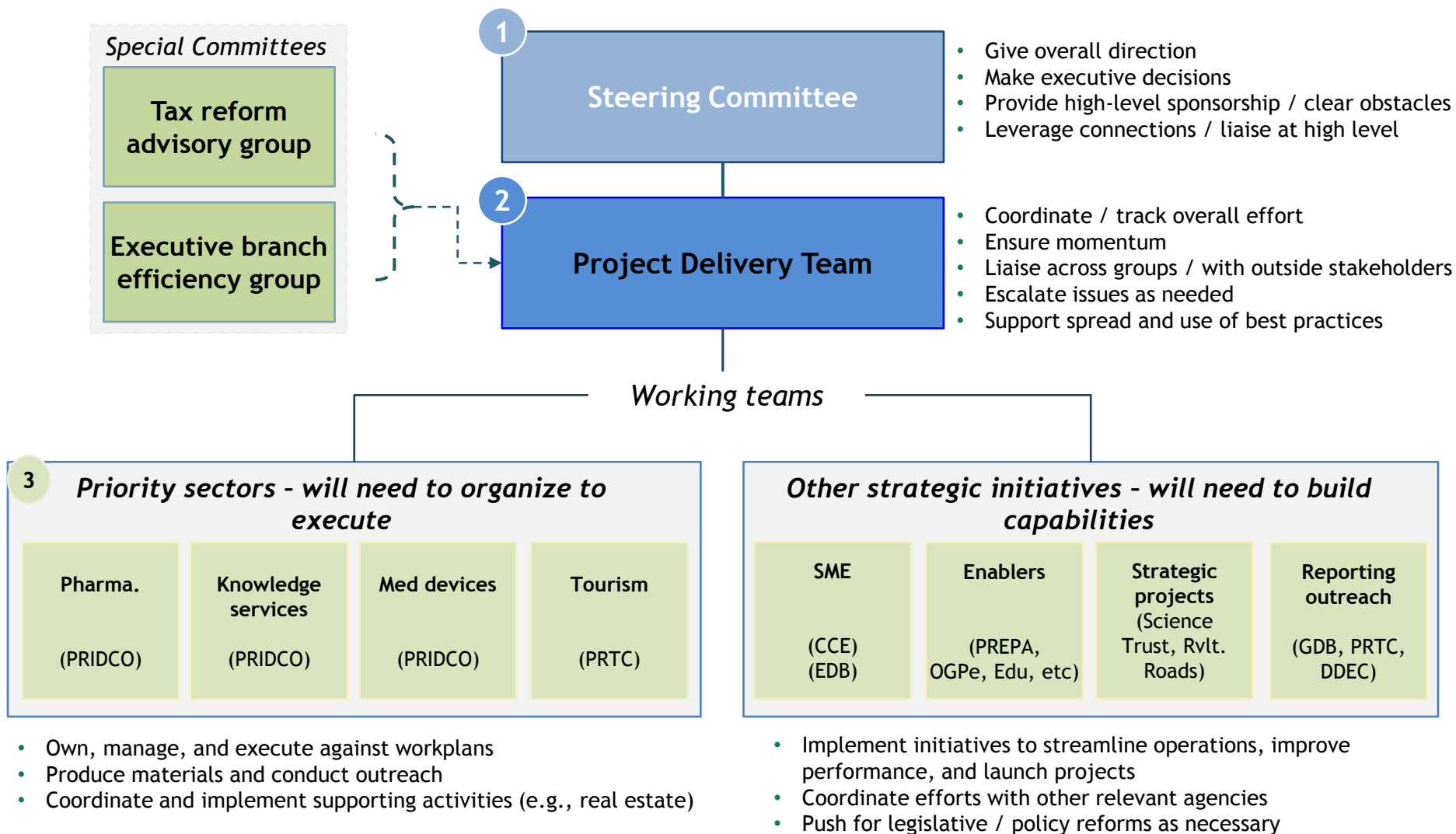


The economy is expected to benefit from imported capital which will create jobs and generate tax revenues

1. Jobs added in non-focus sectors based on La Fortaleza's job tracker, but excludes jobs which overlap w/ strategic initiatives in Economic Roadmap (eg. Jobs Now). Assumes all committed jobs will be created within 18 months, given current run-rate of 22k jobs created in 7 months. 2. Includes strategic bets (RR, Port of the Americas); 3. Total number of jobs will depend on degree of overlap between indirect jobs created from strategic initiatives and jobs projected outside of strategic initiatives; Note: Initiative job impacts estimated by PR initiative leads w/ BCG validation; Sources: BCG economic model, PR Economic Planning Board, Bureau of Labor Statistics, Bureau of Economic analysis, Initiative leads, La Fortaleza jobs tracker

1. Upper range assumes historical average effective tax rates from 2008 to 2012 multiplied by incremental GDP over baseline. Note that recent tax changes and revenue collection efforts may push average effective tax rates upwards in the future. 2. Includes impact from both direct and indirect jobs created. Source: Puerto Rico Planning Board, Puerto Rico Treasury Department, BCG analysis

Proposed Implementation Taskforce structure



Cumulative direct jobs estimates by initiative (I/II)

Group	Initiative	2013	2014	2015	2016	2017	Description
Life sciences	Biopharma. mfg.	-	400	1,100	1,800	2,600	1. Defend pharma: Goal to defend projected jobs loss. 2. Generics, co-mfg, supply chain: Goal of 5 plants / packing operations each
	Medical devices mfg	400	800	2,700	4,500	5,800	Target of 40 new projects in 5 yrs. Attract global giants, cardiac, high growth segments.
	Ag-bio (scientists)	100	200	300	400	500	Jobs growth driven by creation and expansion of seed research laboratories.
	Ag-bio (contract farmers)	400	800	1,300	1,900	2,600	Assumes 5x contract farmer jobs created per scientist job created. Contract farmer works 8-12 months/yr
Services	Knowledge services	750	1,600	3,200	5,600	8,700	Target of 28 new co's in 5 yrs. Attract ITO, BPO, KPO, Integrated outsourcers, Aerospace & defense.
	Insurance & financial services	40	60	150	200	300	Target attract 90 insurers incl. 15 class 4 co's in 5 yrs.
Tourism	Traditional tourism	400	2,900	5,500	6,500	7,500	90% jobs growth is in new hotel, diversifying offerings
	Medical tourism & related health services	-	300	500	900	2,700	Based on PRHA projections for US and LatAm market penetration
SMEs	SMEs	3,900	7,500	7,700	8,100	8,300	Jobs mostly driven by Jobs Now. Others include incubator, Urban Center programs.
Agriculture	Traditional agriculture	2,500	5,000	7,500	10,000	10,000	Jobs driven by 5.5k jobs in coffee, 4k in sugarcane and 500 jobs in greenhouses
	Agriculture - seasonal workers	1,600	3,300	4,900	6,500	6,500	Seasonal workers for coffee picking
Other	Film & media production	-	100	100	200	200	Jobs driven by Film Co's incentive promotions
	MRO	-	-	400	400	400	Potential MRO facility - currently in discussion w/ co's
	Military apparel mfg	-	2,200	2,200	2,200	2,200	Jobs growth from one large Federal contract.
INITIATIVES TOTAL		10,100	24,900	37,300	49,200	58,400	

Cumulative direct jobs estimates by initiative (II/II)

Group	Initiative	2013	2014	2015	2016	2017	Description
Strategic bets	Roosevelt Roads	-	100	1,600	1,700	1,700	Construction of Industrial Zone, Academic project, Eco-tourism, Marina
	Science Trust	-	-	100	200	300	Estimates for Oso Blanco, Cancer Center, Biomolecular bldg, & Bioprocess Dev't Complex - to be refined
	Port of the Americas	-	-	400	400	400	350 operating jobs once begins operations.
Strategic bets total		-	100	2,000	2,200	2,300	
Infra-structure	Airport P3	-	600	600	600	600	PPP w/ \$195M investment in 3yrs, \$1,400M in 40 yrs
	Highways (PR-22)	-	-	4,000	4,000	4,000	\$1B investment across 2015-2017.
	Caguas Commuter Rail	-	-	1,200	1,200	1,200	\$400M investment. Currently in feasibility / desirability phase.
	PRASA (water)	-	1,300	1,300	1,300	-	\$354M construction for Valencia water treatment plant and reservoir
	Correctional facilities	-	-	900	900	900	\$220M investment. Feasibility / desirability phase set to finish Oct. 2013
	Natural Gas Infrastructure	-	1,300	1,300	-	-	\$180M-\$300M investment . Feasibility / desirability phase set to finish Dec. 2013
Infrastructure total		-	3,200	9,300	8,000	6,700	
TOTAL DIRECT JOBS		10,100	28,200	48,700	59,400	67,500	

Agriculture, Tourism and SMEs

Target Growth Sector: Agriculture

<u>Focus sector</u>	<u>Vision</u>			
Agriculture	Reduce reliance on food imports by building on Puerto Rico's traditional strengths and increasing capacity for high-productivity industrial agricultural production			
<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>		
<p>Once a major component of the Puerto Rican economy, still significant room for growth</p> <ul style="list-style-type: none"> • Puerto Rico currently produces only 15-20% of total food needs • Opportunity to reduce roughly \$3.5B in agricultural imports per year, keeping money in local economy <p>New opportunities for innovative, high-productivity agricultural production</p> <ul style="list-style-type: none"> • Room to expand both cultivated land and modern production technology 	<p>Favorable climatic conditions</p> <ul style="list-style-type: none"> • Allow PR to have several harvests per year, including year-round mango production <p>Strong internal infrastructure</p> <ul style="list-style-type: none"> • Allows quick and efficient transportation of high-value crops <p>Close proximity to the U.S.</p> <ul style="list-style-type: none"> • Ability to access one of the largest agricultural importers in the world <p>Highly skilled and technically proficient workforce</p>	<p>Expand dairy production - Support partnerships with local dairy producers and processing facility workers</p> <p>Invest in sugarcane processing - Partner with the Puerto Rican Rum Association to invest in the expansion of sugarcane production and processing</p> <p>Build high technology greenhouses - Develop five high technology greenhouses to pilot the production of high-value vegetables for export markets</p> <p>Expand coffee cultivation - Increase the acreage available for coffee production by 16,000 acres</p>		

Target Growth Sector: Tourism

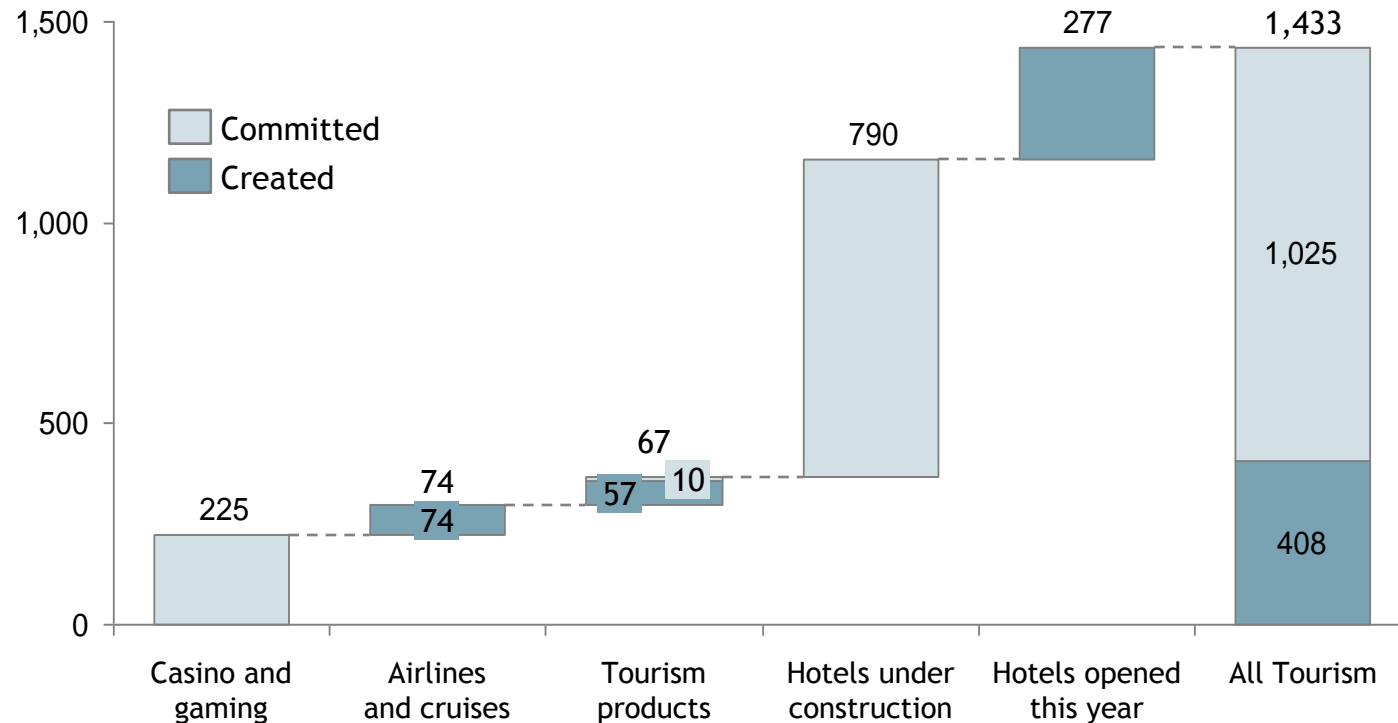
<u>Focus sector</u>	<u>Vision</u>
Tourism	Capitalize on Puerto Rico's diverse tourism offerings to develop new niche markets and become premier U.S. and global travel destination

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>Tourism is a fundamental driver of the local economy and job creation</p> <ul style="list-style-type: none"> Represents 6% of total GDP <p>Puerto Rico's tourism sector has significant room for growth</p> <ul style="list-style-type: none"> Global average of 9% GDP Opportunity to meet global average <p>U.S. economic recovery provides base to drive tourism sector recovery</p> <ul style="list-style-type: none"> Puerto Rico highly dependent on U.S. tourism, which declined significantly in 2008-2009, but has been steadily improving since 	<p>Most developed air access within all the Caribbean</p> <ul style="list-style-type: none"> Makes travel to/from PR faster and more convenient than any other Caribbean destination <p>Relationship with the U.S.:</p> <ul style="list-style-type: none"> Tourists do not need passports to come to the Island (making PR easy for short-term vacation segment) Tourists have the advantage of being in U.S. territory where medical and legal services are similar to their home states, making PR a safer destination. <p>Highest skilled labor force in the Caribbean, largely bilingual</p> <p>Modern infrastructure (roads, convention and meeting facilities, etc)</p>	<p>Promote and market Puerto Rico - Roll out "Five Star Reviews" and "Puerto Rico: All-Star Island" campaigns</p> <p>Improve air and maritime access - Expand into Lat Am., recover position as hub of Caribbean, grow cruise access, rebuild European connections</p> <p>Tourism product development - Expand range of accommodations, from ultra luxury to urban bed and breakfasts.</p> <p>Grow niche markets - Particular emphasis on luxury, nature, adventure, gastronomy, and sports tourism</p> <p>Strengthen quality and service - Ally with key academic institutions to develop tourism and quality and service educational programs</p>

Tourism: 408 jobs created and 1,025 committed (Jan - Sep 2013)

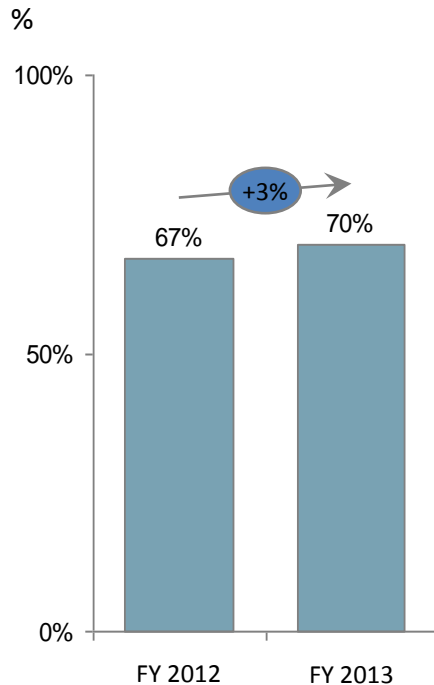
Jobs committed and created by category, as of Sept 24th

Created / Committed Jobs

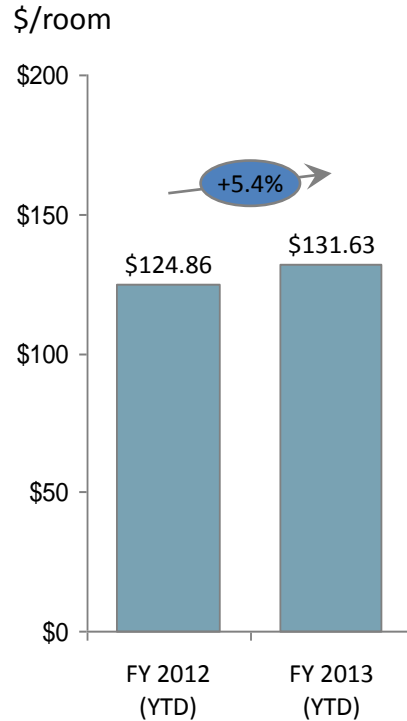


Key Tourism metrics are up in 2013 compared to 2012

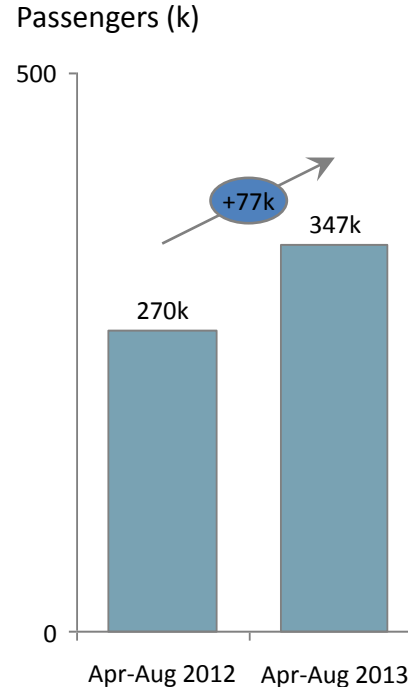
Occupancy (%) as of April 2013



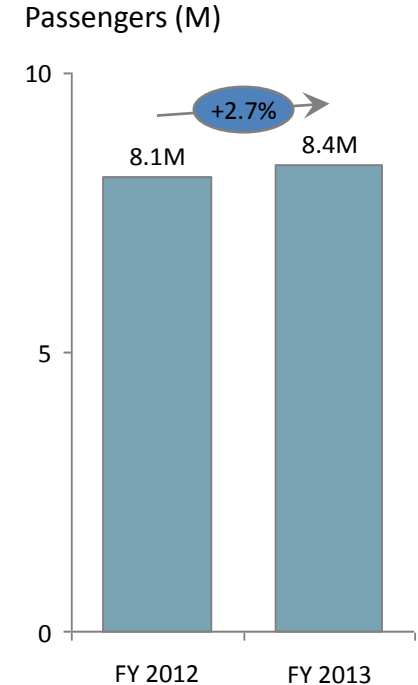
Average Room Rate (\$) as of April 2013



Cruise Passenger Movement



Airport Turnover (Total Passengers)



Source: PRTC - Registration and Occupancy %/ Average Room Rate (ARR\$) Report Surveys, April 2013; Puerto Rico Ports Authority

Target Growth Sector: Small & Medium Size Enterprises

<u>Focus sector</u>	<u>Vision</u>		
Small and Medium- Sized Enterprises	Build world-class SME support through a full suite of coordinated programs targeting SMEs at all levels of development		
<u>Why is this sector important?</u>	<u>Where is Puerto Rico today?</u>	<u>Key initiatives</u>	
<p>Small and medium-sized enterprises (SMEs) are the largest sector in Puerto Rico's economy - representing ~65% of employment¹ and up to 90% of companies²</p> <p>SMEs have struggled to recover from the economic downturn - small business bankruptcies in PR increased by over 8% from 2009-2011, compared to a decrease in 7.5% for the U.S. overall³</p>	<p>Today, there is no overarching strategy to support and grow SMEs</p> <ul style="list-style-type: none"> ~ 11 government agencies and nongovernmental organizations (NGOs) are involved in supporting SMEs Many have overlapping missions - offering redundant services or leaving open gaps No central coordination mechanism to ensure that SMEs receive needed support (e.g., Puerto Rico Trade and Export Company cannot expedite loans from the Economic Development Bank) <p>Because services are spread through many agencies, additional burden on small businesses seeking support</p> <ul style="list-style-type: none"> No "one-stop shop" where SMEs can seek help in a central location 	<ul style="list-style-type: none"> Improve coordination of SME support services around the Island Support entrepreneurial culture and development of innovative companies through educational programs, mentoring, and the establishment of incubators Help SMEs start, expand, and succeed through targeted incentives/credit, business advisory programs, and coordinated financing Take mature SMEs to the next level through trade and export programs, taking advantage of increased air and sea connectivity to Latin America and other key trade partners 	

1. "Puerto Rico: Small and medium-sized business sector initiatives for job creation." Presentation by the Economic Development Bank, May 2012. SME defined here as is a company with up to 250 employees and less than \$5M in sales. 2. U.S. Census Bureau, 2011 County Business Patterns. SMEs defined here as a company with up to 20 employees; Nearly 99% of all establishments counted had fewer than 250 employees. 3. Small Business Administration and the US Territories Small Business Profile 2012.

Jobs Now Act Commitments: 5,860 jobs (Mar - Oct 2013)

Jobs Now Act Overview

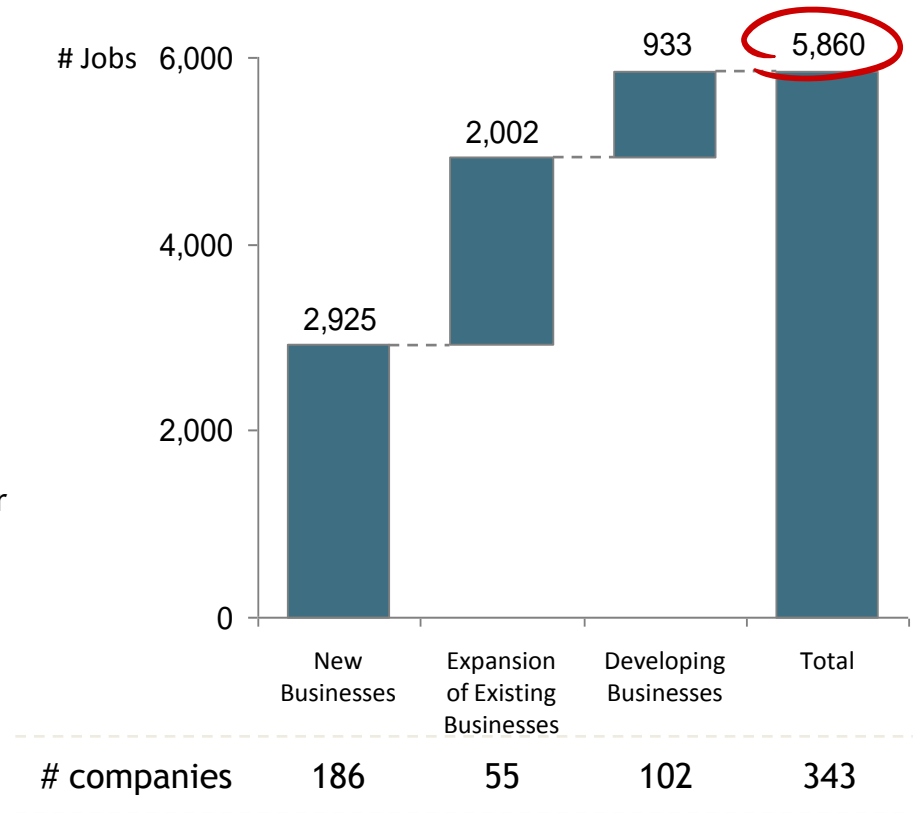
Jobs Now Act objective is to foster immediate job creation across the Island

- Eases the permitting process to enable the establishment and expansion of businesses
- Reduces costs of doing business by offering several tax and energy related credit incentives

Eligible businesses will then receive, the following incentives, among others:

- Discounts on worker compensation premiums to developing businesses (15 employees or less)
- Salary subsidies for hiring certain former public sector employees, women who are 40 or older, and indigent persons who are 25 or younger
- Salary subsidies for certain new co-op businesses
- Property and municipal tax exemptions for new businesses
- Special rental rates for certain PRIDCO and CCE properties
- Expedited application process for loans with the Economic Development Bank
- Credits for the payment of electricity

Jobs committed by type of eligible business, as of October 2



Life Sciences and Services

A 3D map of the Americas, including North and South America, rendered in a light gray color. A small Puerto Rican flag is placed on the map, specifically over the island of Puerto Rico. The map has a slight shadow, giving it a three-dimensional appearance.

Our goal is to position **PUERTO RICO** as a GLOBAL
LEADER in the KNOWLEDGE ECONOMY, based upon
our competitive advantages to generate:

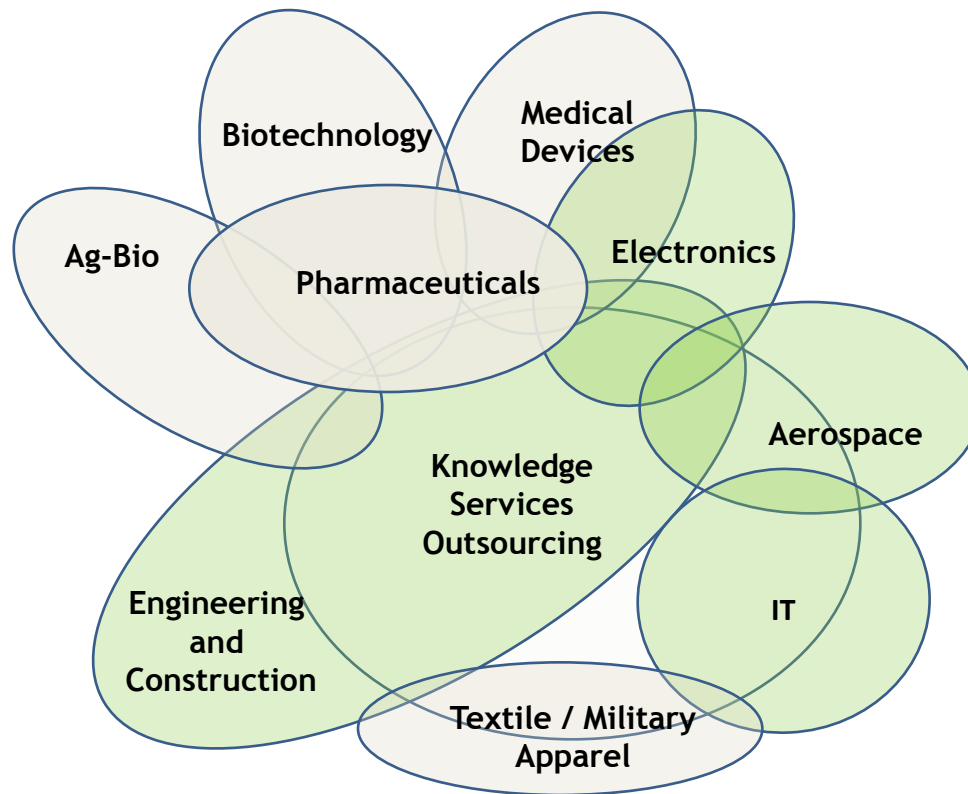
- ◆ **SUSTAINABLE ECONOMIC GROWTH**
 - ◆ **JOB CREATION**

Strategic Priorities

- Protect existing industrial base
- Enable the expansion of existing companies through cluster strategies
- Attract new global (and local) companies to invest in Puerto Rico
- Identify emergent segments that match Puerto Rico's capabilities



Puerto Rico Strategic Clusters



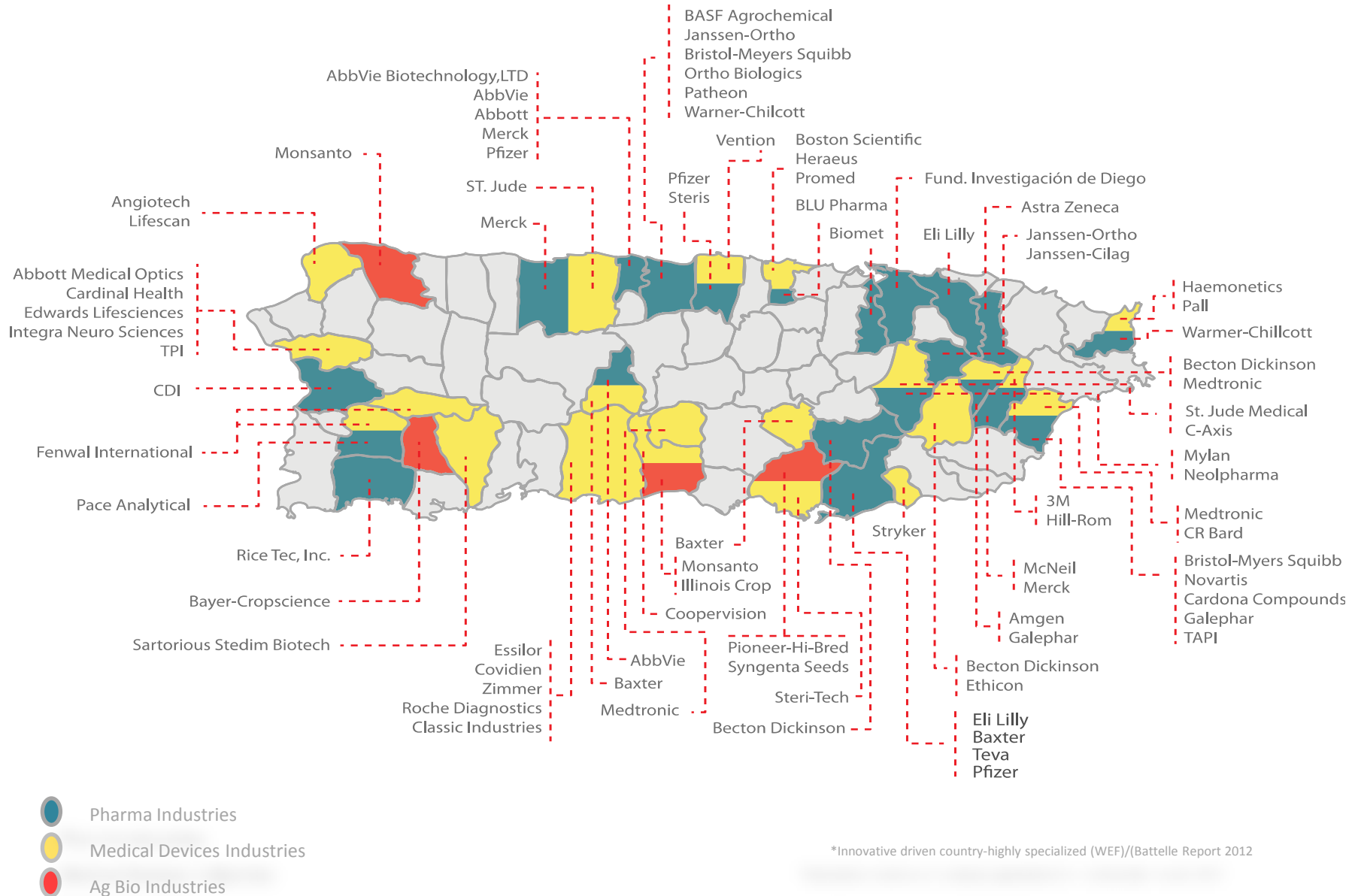
Based on three major pillars:

Human Capital

Infrastructure

Regulatory, Financial and
Institutional Environment

Puerto Rico is already a global powerhouse in Pharma, Biotech Medical Devices, Hi-Tech Manufacturing and Ag-Bio



*Innovative driven country-highly specialized (WEF)/(Battelle Report 2012)

Target Growth Sector: BioPharma Manufacturing

<u>Focus sector</u>	<u>Vision</u>
BioPharma manufacturing	Preserve Puerto Rico's status as key BioPharma manufacturing location and increase share of growing sub-segments (generics) & advanced technologies (biologics)

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>BioPharma manufacturing represents ~25% of PR's GDP</p> <p>To date, ~17K people work in the sector</p> <p>Special attention needed to preserve jobs in this sector</p> <p>Focus to be placed in generics and biologics / biosimilars</p> <ul style="list-style-type: none"> • Generics sub-sector expected to continue fast growth • Most new products in innovation pipeline are biologics • Biologic technologies require higher quality manufacturing sites 	<p>PR is a proven, high-quality manufacturing location</p> <p>Opportunity to acquire high quality plants at low prices</p> <p>PR well suited for large batch production</p> <ul style="list-style-type: none"> • Benefit for biologics and niche drugs as they grow in scale <p>Low manufacturing cost compared to US and western countries</p> <p>PR uniquely advantaged of potential contract manufacturing opportunity</p> <ul style="list-style-type: none"> • High industry concentration • No IP concerns with generics 	<ul style="list-style-type: none"> • Defend existing Pharma operations • Opportunistically pursue generics and biologics / biosimilars <ul style="list-style-type: none"> – I.e. support repurpose of assets • Make innovative bets <ul style="list-style-type: none"> – Establish contract manufacturing operation – Enable direct to retail distribution – Invest in education for advanced technologies

Target Growth Sector: Medical Device Manufacturing

<u>Focus sector</u>	<u>Vision</u>
Medical device manufacturing	Consolidate Puerto Rico's position as a global manufacturing hub for the medical technology sector

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>The medical technology sector has seen significant growth over the past decade (\$300B in sales with 7-8% growth projected through 2020)</p> <p>The U.S. med tech market is the world's largest (~\$120 billion in sales in 2012)</p> <p>U.S. manufacturers shifting to low cost and tax-advantaged locations abroad (e.g., Ireland, Latin America), in order to re-import to the U.S.</p> <p>At \$4.5B in exports, Puerto Rico supplies ~2% of global med tech export market, on par with Singapore</p> <p>Med tech sector supports over 19,000 jobs in Puerto Rico today</p>	<p>PR has a 50-year history of life sciences manufacturing experience</p> <p>Puerto Rico has a competitive advantage given tax incentives, skilled workforce, and U.S. jurisdiction (FDA, IP protection)</p> <p>Industry trends favor Puerto Rico's positioning</p> <ul style="list-style-type: none"> Industry consolidation leading to larger facilities, manufacturing network optimization Affordable Care Act's med device excise tax makes PR tax advantage more important <p>Opportunity to target companies seeking low-cost nearshore manufacturing for U.S. market</p>	<p>Grow share from global giants already present in Puerto Rico - Support process innovation and production of higher value products</p> <p>Create the Cardiac Cluster of the Americas - Establish PR as a global destination for cardiovascular device manufacturing</p> <p>Attract companies from high-growth segments aligned with PR's strengths - Orthopedics/trauma, minimally invasive surgery, and vision/ophthalmic devices</p> <p>Attract med tech suppliers to establish an advanced supply chain ecosystem - Opportunity to create significant competitive advantage for Puerto Rico</p>

Target Growth Sector: Agriculture Biotechnology

<u>Focus sector</u>	<u>Vision</u>
Agriculture Biotechnology	Bolster Puerto Rico as the center for scientific crop R&D in the Americas

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>Agricultural Biotechnology (R&D) employment expected to increase by 5.5% annually</p> <ul style="list-style-type: none"> Result of rapid adoption of biotech crop technology in developing countries 	<p>Major Ag Biotech companies are already operating in Puerto Rico:</p> <ul style="list-style-type: none"> Monsanto, Illinois Crop, Pioneer, Ag Reliant Genetics, Dow Agro, Rice Tec, Syngenta Seeds, etc. <p>Puerto Rico offers major advantages to Ag Biotech companies:</p> <ul style="list-style-type: none"> Positive weather and environmental conditions ideal for agriculture Quality labor force and employee availability Excellent soil quality Government incentives Easy transport to mainland U.S. Same regulatory environment as U.S. 	<p>Vertical integration of research activities within established companies - Explore possibility of integrating trait identification and selection laboratories and genetic modification of seeds with companies already on Island</p> <p>Diversify and add research capabilities to existing companies in PR - Expand research on improved seed varieties to include greenhouse vegetables (tomato, bell pepper, etc) and sugarcane varieties</p> <p>Grow the availability of contract research in Agriculture Biotechnology - Expand and diversify contract research opportunities to smaller companies operating throughout the world</p>

Target Growth Sector: Knowledge Services

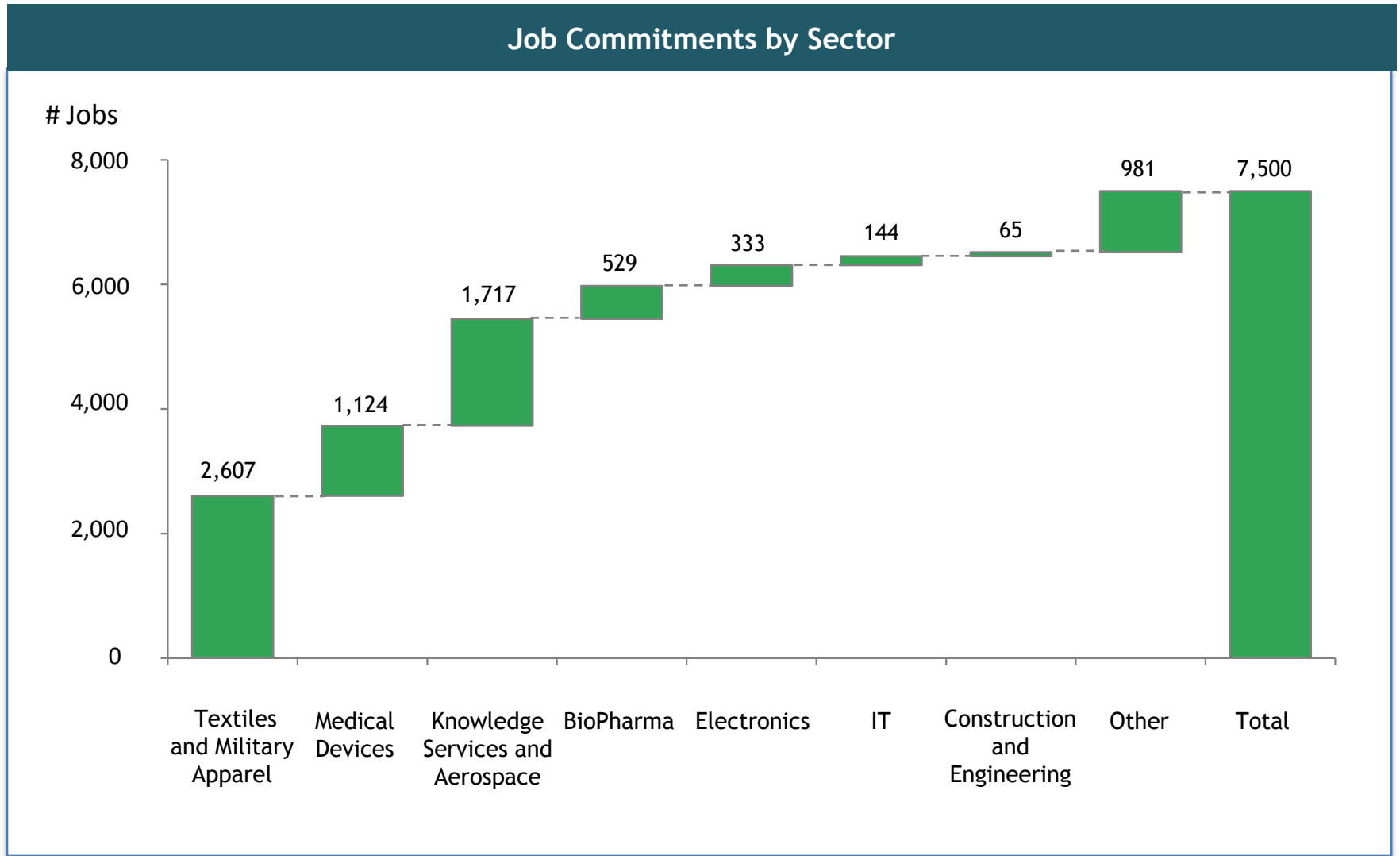
<u>Focus sector</u>	<u>Vision</u>
Knowledge Services	Establish Puerto Rico as a global center for the Knowledge Services industry, especially focused on near-shoring

<u>Why this sector?</u>	<u>Why PR can win</u>	<u>Key initiatives</u>
<p>Companies are seeking to specialize in core business and outsource other activities</p> <ul style="list-style-type: none"> • Solid growth for KS in past 10 years <p>Outsourcing shifting from pure cost arbitrage (low-cost focus) to higher productivity, better workforce profile</p> <ul style="list-style-type: none"> • Trend favors Puerto Rico, given highly-trained and bilingual labor pool <p>Ease of operations becoming increasingly important</p> <ul style="list-style-type: none"> • Clients want more control over outsourcing operations <ul style="list-style-type: none"> – Near-shoring, same time zone, ease of communications • PR offers compelling proposition given proximity to mainland U.S. • Talent pools in some areas becoming saturated (e.g., Chile, Costa Rica) 	<p>PR has convincing value proposition for America-focused near-shoring</p> <ul style="list-style-type: none"> • Low cost structure and solid tax incentives (Act 20, 22 and 73) • Highly-skilled workforce, better trained than region's competitors <p>As U.S. jurisdiction, PR has access to industries with U.S. soil requirement</p> <ul style="list-style-type: none"> • PR ideal destination for US A&D, financial services <p>Recognized through high ranking from World Economic Forum (#30), higher than Chile, other competitors</p>	<p>Establish PR as a worldwide KPO hub: Provide knowledge services to clients worldwide, with focus on the Americas and mainland U.S.</p> <p>Selectively go after integrated outsourcers: Large integrated outsourcers with presence across the sector, with high potential for job creation</p> <p>Expand ITO and BPO sectors: Focus on clients with presence in the Americas, seeking to expand to U.S./Caribbean - promote software development</p> <p>Build on initial progress to expand in Aerospace & Defense: Focus on U.S. industry across all KS sectors, with concentration in ER&D and support functions</p>

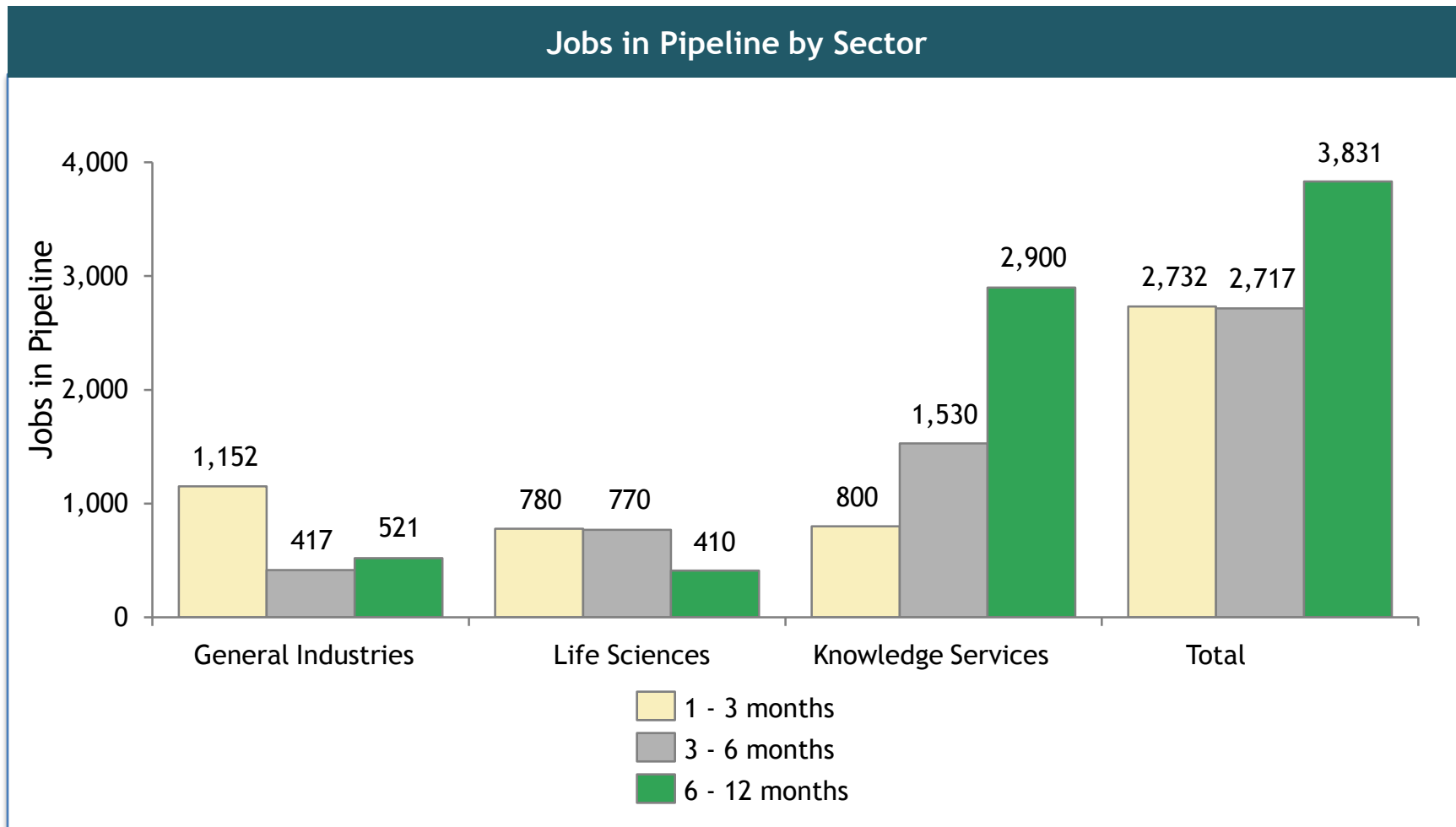
Sample deals achieved YTD 2013

Company	Job Commitment / Date	Segment
AON Hewitt	200 / February 2013	Knowledge Services
Covidien	200 / April 2013	Medical Devices
CooperVision	350 / April 2013	Medical Devices
IBM / True North	400 / May 2013	Knowledge Services
Proper International	2,200 / September 2013	Military Apparel

Job Commitments (January - September 2013): 7,500



Expected new jobs based upon ongoing negotiation: 9,280 in the next 12 months



Life Sciences Sector includes: Pharmaceuticals, Bio Technology, Ag-Bio & Medical Devices

Knowledge Services Sector includes: Aerospace & Defense, Information Technology, telecommunications

General Industries Sector includes: Electronics, Engineering & Construction, Textile / Military Apparel, and Others

Agenda

1 Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

4 Financing Highlights

5 Concluding Remarks

GDB promotes fiscal stability and economic development through four primary roles

1

Lending Institution

Structures and approves all permanent financing and provides interim and permanent lending, together with private financial institutions, to government entities

2

Fiscal Agent

Oversees the credit and financial management of the Commonwealth, its municipalities, agencies and public corporations

3

Financial Advisor

Manages all financings and capital market activities for the Commonwealth, its municipalities, agencies and public corporations

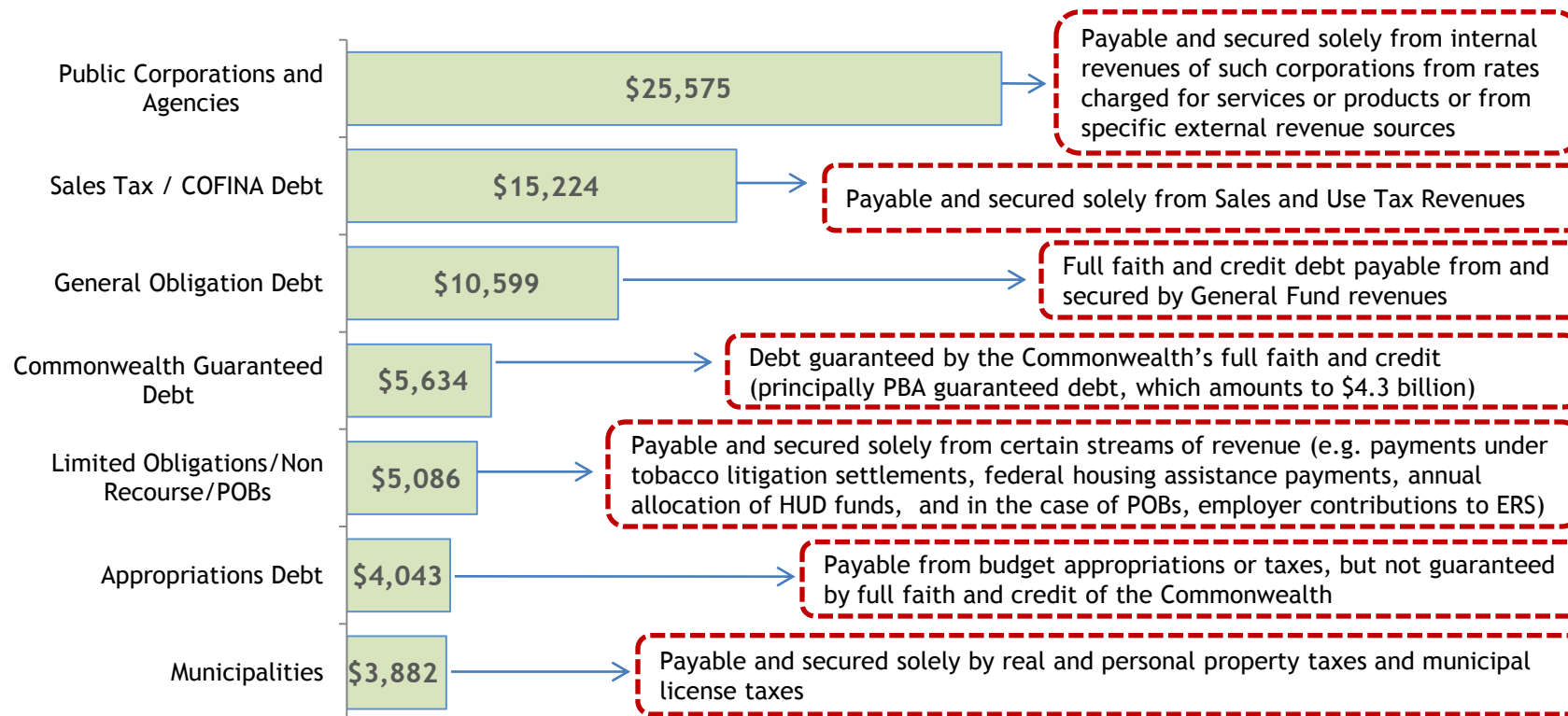
4

Economic Development

Promotes investment in strategic projects to fuel economic development and growth

GDB, as fiscal agent, oversees the Commonwealth's credit and approves the terms of any debt issuance

Puerto Rico outstanding debt by category as of June 30, 2013 (in millions)



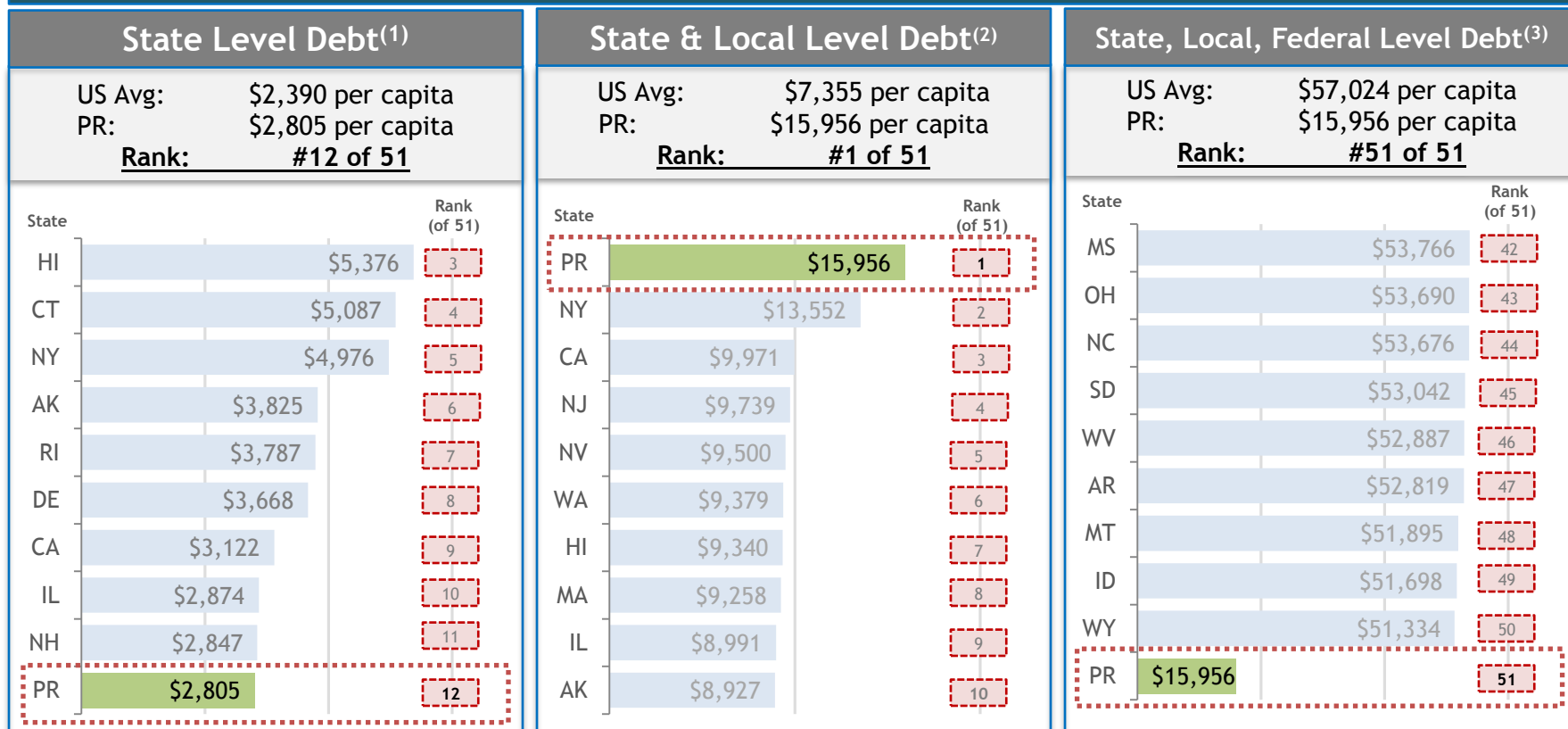
The consolidated budget of the Commonwealth, its agencies, and instrumentalities, including federal funds, but excluding municipalities, is approximately \$29 billion per year.

Note: For a comprehensive description of the outstanding debt of the Commonwealth, its agencies and instrumentalities, see "Commonwealth of Puerto Rico—Financial Information and Operating Data Report—DEBT—Public Sector Debt", dated October 15, 2013.

GDB believes that any comparison of the public debt levels of Puerto Rico with the states should include state, local and federal debt

If one factors in the federal debt load, PR would rank last in outstanding debt per capita amongst all US jurisdictions*

Puerto Rico Debt Per Capita vs the USA Comparison Analysis as of June 30, 2011 (in millions)



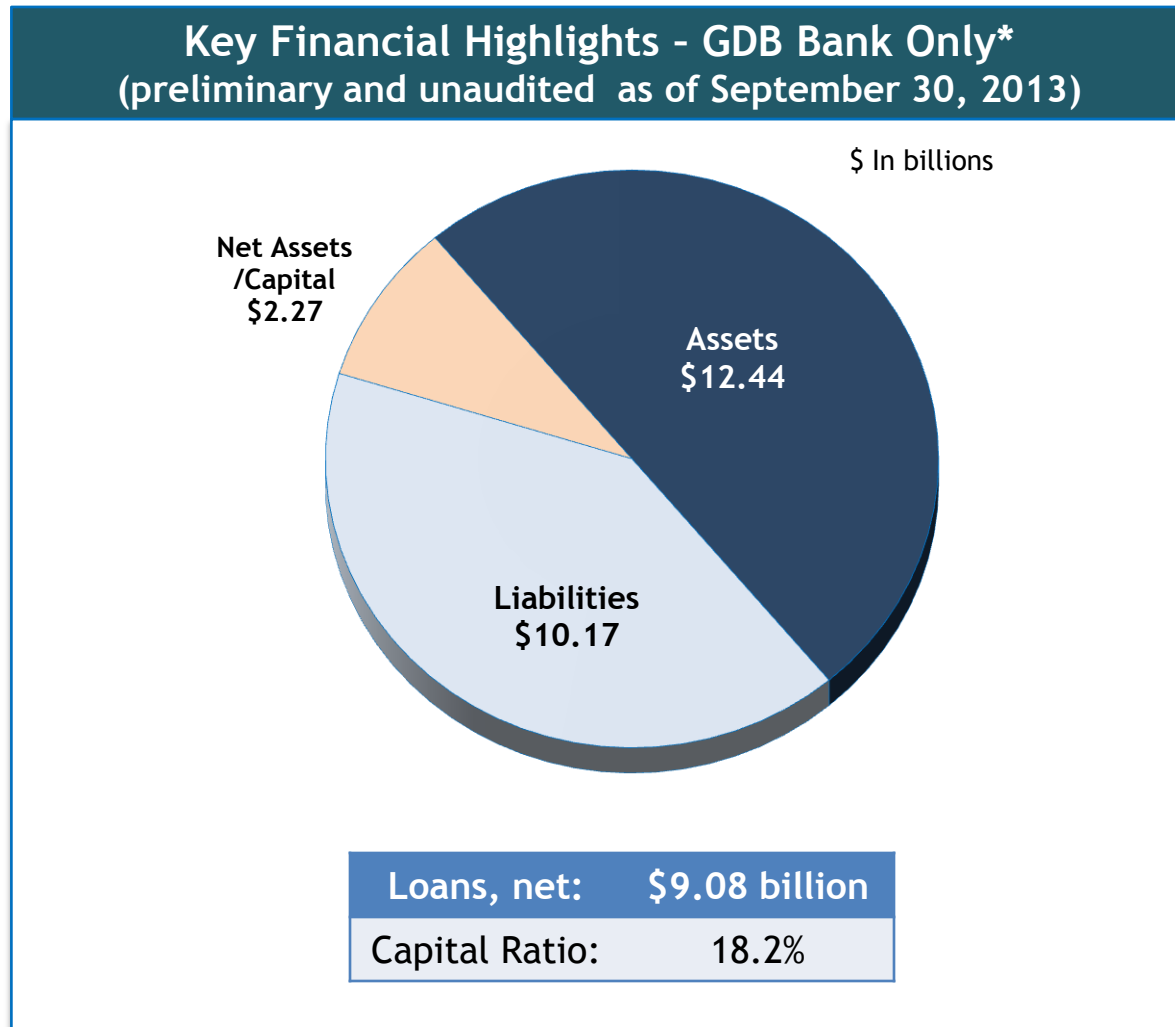
*Source: US Bureau of the Census and the Government Development Bank for Puerto Rico

(1) For Puerto Rico State Debt includes GO debt.

(2) For Puerto Rico local debt includes debt of Municipalities and Public Corporations.

(3) US Federal Debt per capita is \$49,669

The strength of GDB's balance sheet enables it to continue providing liquidity support to the Commonwealth



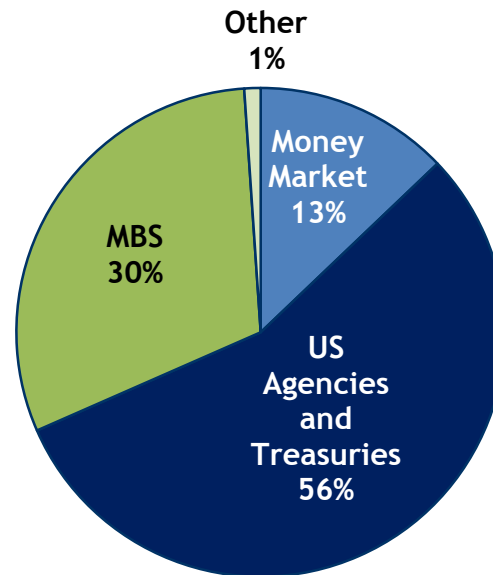
* GDB serves a multi-purpose economic development mandate through the direct oversight of 5 subsidiaries. "GDB Bank Only" information refers only to the bank's operating activities, excluding subsidiaries and other component units.

GDB's investment portfolio consists primarily of high quality, liquid securities*

Investment Portfolio Composition

(\$ in millions, mark-to-market)

September 30, 2013*



Market Value: \$2.77 B

- High-grade investment portfolio (98.6% > A-)
- Portfolio average life is 3.48 years

* Preliminary financial information is unaudited and subject to change as of September 30, 2013.

GDB has a diversified and stable source of funding

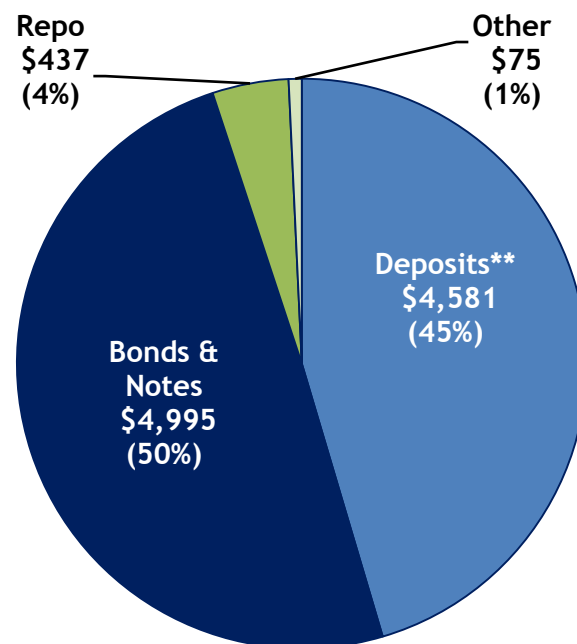
Diversified Funding Sources

- Approximately \$5 billion in GDB notes provide locked-in rates and multi-year, staggered maturity structure.
- The primary source of short-term funding are public sector deposits (\$4.1 billion).
- The Office of the Commissioner of Financial Institutions informed that there are currently approx. \$2.8 billion in governmental deposits at private institutions, a significant portion which could be brought to the GDB in short order.
- GDB has nine Master Repurchase Agreements (MRAs) with primary dealers which provided aggregate REPO commitments in excess of \$2 billion dollars as of September 30, 2013.

Cost and Average Life of Funding Sources*

	Average Cost	Average Life
Liabilities	2.72%	2.70 Y

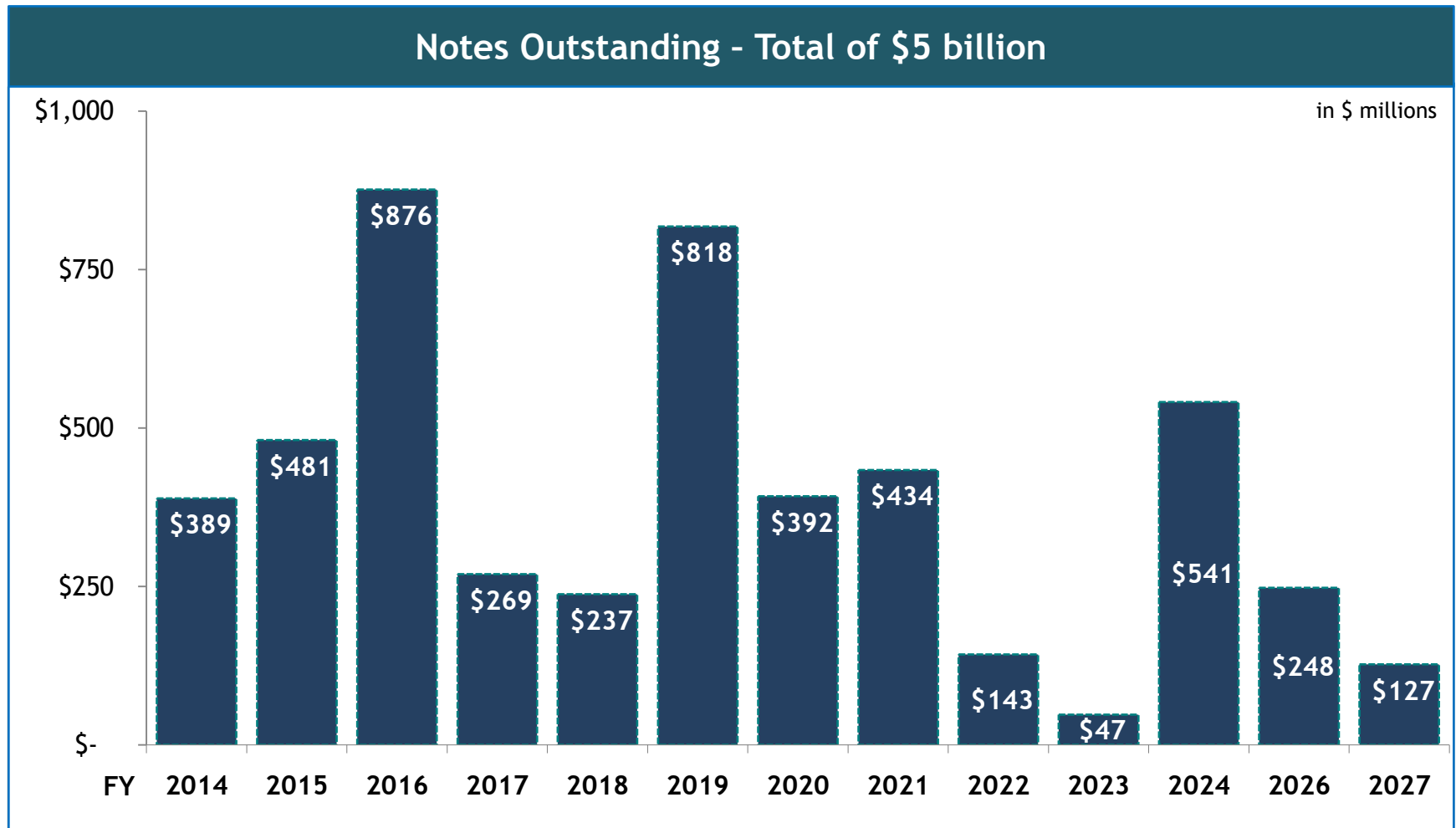
in \$ millions



* Unaudited and preliminary financial information as of September 30, 2013.

** Includes demand deposits, CDs and private deposits.

Staggered maturities of our Senior Notes' program reduce roll-over risk



* As of September 30, 2013. Outstanding amount distributed as of fiscal year.

Projected Transaction Calendar*

Current Calendar Year	Calendar Year 2014
<u>Sales Tax Financing Corp. (COFINA)</u> Restructuring FYs 2013-2014 (103)	<u>Sales Tax Financing Corp. (COFINA)</u> Restructuring FYs 2013-2014 (103) <u>Highways and Trans. Auth. (HTA)</u> GDB L/C's (Take-out)(103)

- GDB's capital markets plan for the remainder of the calendar year is limited to between \$500 million and \$1.2 billion of debt, depending on market conditions.
- The GDB is only contemplating a bond issuance through COFINA for the rest of the calendar year.
- Measures taken to provide HTA with approximately \$270 million in new revenues have significantly diminished HTA's needs to access the capital markets in the short-term.

The Commonwealth and the GDB have the financial flexibility to adjust its financing plan and transaction calendar as necessary

New COFINA Legislation

- With the enactment of Act 116-2013, the Sales and Use Tax percentage allocated to COFINA is increased from 2.75 percent to 3.50 percent, increasing Puerto Rico's financing capacity.

COFINA's credit is bolstered by strong legal protections for bondholders

COFINA is secured by a stable stream of revenues that is not subject to "claw-back"

- Law 91-2006, which created COFINA, transferred ownership of a portion of the Sales Tax to COFINA and provided that any transferred portion was not "available resources" under the Constitutional provisions relating to full faith and credit bonds.
- COFINA will close, by resolution, its Senior and First Subordinate liens (except for refundings that generate savings).
- Law provides that no amendments to the law shall impair any obligation to COFINA bondholders.
- For a future legislature to exercise its constitutional power to limited or restrict the SUT, COFINA's bond documents require written confirmation of all outstanding ratings, taking the substitution into account, and opinions confirming that new revenue would not constitute "available resources".
- US-based Bond Counsel, PR-based Underwriter's Counsel and the PR Secretary of Justice have provided, for each COFINA transaction (13 in total), strong legal opinions that the SUT is not subject to "claw-back" by GO bondholders under the PR Constitution.
- "Claw-back" opinion enjoys broad bipartisan support: four different Secretaries of Justice, serving three different administrations (of alternating political parties), have issued official opinions that the SUT allocated to COFINA is not subject to "claw-back".
- Any new COFINA transaction would again receive "claw-back" opinions from Bond Counsel, Underwriter's Counsel and the PR Secretary of Justice.
- Legal opinions can be made available for review by existing and prospective bondholders

COFINA is the best rated credit among Puerto Rico issuers and has historically been the most attractive source of financing for the Commonwealth.

GDB expects to have the liquidity necessary to fund the Commonwealth's needs through at least fiscal year 2014

- The GO has \$786 million in short-term financings maturing during FY 2014 that the Commonwealth expects to manage through refinancings, or repayments in full.
- GDB has addressed the short-term financing needs of our main public corporations.
 - PRASA does not need funding from the Commonwealth or GDB to cover its operational expenses or finance its capital improvement plan as a result of its recent rate increase.
 - HTA's \$270 million in additional recurring revenues allows HTA to begin amortizing its outstanding financing with GDB and other financial institutions and fund its operational expenses.
 - PREPA issued approximately \$673 million in bonds in August 2013, funding PREPA's capital improvement plan for the next two years.
 - The Commonwealth's cash flow needs for FY2014 have been met through the issuance of \$1.2 billion in Tax and Revenue Anticipations Notes.
- Additional financing alternatives available to the Commonwealth and GDB include:
 - Accessing, within a short timeframe, a significant amount of the approximately \$2.8 billion in unrestricted government deposits in private financial institutions.
 - Entering into secured or unsecured credit lines with private financial institutions.
 - Securing medium-term or long-term private placements with institutional investors.

Even without extraordinary measures, Puerto Rico can choose not to access the capital markets during FY 2014.

Agenda

1 Principal Credit Accomplishments

2 Revenue and Expense Update

3 Economic Development

4 Financial Highlights

5 Concluding Remarks

We have delivered on our investors' expressed concerns

- ✓ Our track record proves that we have the political will and ability to address each of our investors' concerns in a swift, decisive and unprecedented manner.
- ✓ The tough decisions made by this Administration stand in stark contrast with the failure of many other U.S. jurisdictions, and previous Commonwealth administrations, to take similar steps to address their fiscal and economic challenges.
- ✓ We know that there is yet work to be done. Our plans include:
 - Filing, before the end of the calendar year, a comprehensive reform of our teacher's pension system in order to ensure that the system never runs out of assets, alleviating future pressure on the General Fund.
 - Cutting our deficit by submitting a budget for fiscal year 2015 that contains no new deficit financing and reduces to approximately \$400 million or less our need for debt service restructurings.
 - Taking necessary action to eliminate the budget deficit completely by no later than fiscal year 2016.
 - Ensuring that tax revenues remain on track with estimates and acting decisively to address any projected revenue shortfall or overspending.
 - Executing the economic growth plan that will result in immediate and long-term results.

The people of Puerto Rico are confident that investors will recognize what we have accomplished responsibly through hard work and shared sacrifice.

Puerto Rico will take action to improve its disclosure practices and increase information available to investors

Actions to improve disclosure practices

GDB will begin holding regular investor webcasts at least once per quarter

GDB will publish the Commonwealth Report on a regular quarterly basis

Treasury and OMB will continue providing revenue and expense updates at least once per month

Consistent with PREPA's disclosure practices, PRASA and HTA will begin posting their quarterly and, when ready, their monthly results on their webpage

GDB will continue to hold its annual Credit Conference in Puerto Rico

GDB will require disclosure counsel for all bond issuances

The Commonwealth and GDB are committed to observe best disclosure practices and improve our relationship with our investor base

Appendix A - YTD Revenue Detail

Fiscal 2014 YTD General Fund Revenues

YTD General Fund Revenues (July - September)							
(in millions)	YTD Results				Estimated Jul-Sep FY2014	Revenues vs Estimated (\$)	Revenues vs Estimated (%)
Tax Type	FY13	FY14	Variance	% Change			
Individual	\$438.90	\$415.40	(\$23.50)	-5.35%	\$448.10	(\$32.70)	-7.30%
Corporations	\$233.90	\$357.70	\$123.80	52.93%	\$344.50	\$13.20	3.83%
Non-Resident Withholdings	\$142.50	\$119.70	(\$22.80)	-16.00%	\$129.70	(\$10.00)	-7.71%
Sales and Use Tax	\$0.00	\$0.00	\$0.00	0.00%	\$0.00	\$0.00	0.00%
Property Taxes	\$3.30	\$7.00	\$3.70	112.12%	\$0.00	\$7.00	0.00%
Foreign (Act 154)	\$446.20	\$435.00	(\$11.20)	-2.51%	\$416.40	\$18.60	4.47%
Alcoholic Beverages	\$62.30	\$63.70	\$1.40	2.25%	\$63.80	(\$0.10)	-0.16%
Tobacco Products	\$43.70	\$37.70	(\$6.00)	-13.73%	\$37.90	(\$0.20)	-0.53%
Motor Vehicles	\$78.90	\$80.70	\$1.80	2.28%	\$72.50	\$8.20	11.31%
Off-Shore Shipment Rum Excise	\$72.50	\$88.20	\$15.70	21.66%	\$84.40	\$3.80	4.50%
Others	\$88.60	\$93.70	\$5.10	5.76%	\$91.10	\$2.60	2.85%
Total YTD Results	\$1,610.80	\$1,698.80	\$88.00	5.46%	\$1,688.40	\$10.40	0.62%

Sales Tax Fiscal 2014 YTD Revenue

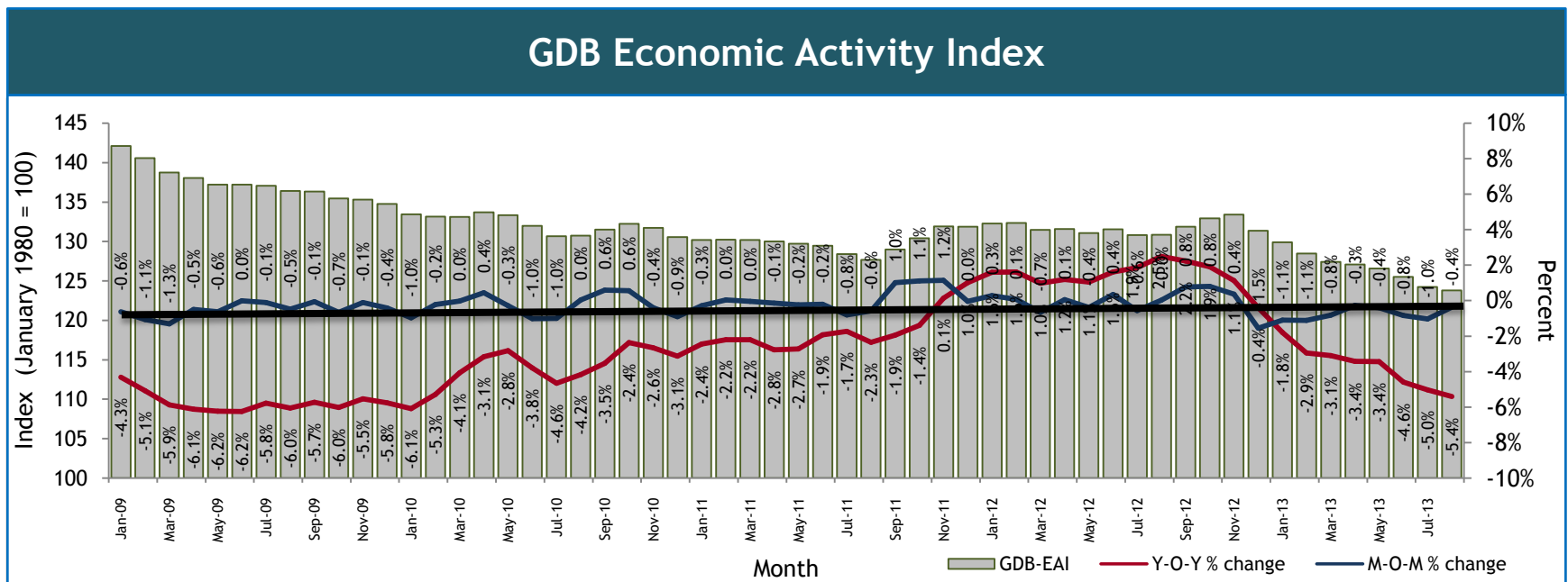
<u>SUT Revenues (in millions)</u>							
	FY13	FY14	FY13 to FY14 Variance	FY13 to FY14 %	FY2014 Budget	FY2014 Actual Vs Budget (\$)	FY2014 Actual Vs Budget (%)
July	\$102.90	\$111.50	\$8.60	8.36%	\$105.20	\$6.30	5.99%
August	\$93.90	\$96.30	\$2.40	2.56%	\$96.10	\$0.20	0.21%
September	\$92.60	\$97.50	\$4.90	5.29%	\$99.30	(\$1.80)	-1.81%
YTD Results	\$289.40	\$305.30	\$15.90	5.49%	\$300.60	\$4.70	1.56%

Appendix B - GDB-EAI

Understanding the GDB Economic Activity Index

The GDB-EAI is an indicator of the general economic activity, not a direct measurement of the real GNP. The GDB-EAI annual growth rates are not the same as the real GNP growth rates, because the former are more volatile than the latter.

- When it is annualized, the level of the EAI is highly correlated with the level of the real GNP. Nevertheless, the annual growth rate of the EAI IS NOT the same as the annual growth rate of the real GNP. Being highly correlated does not mean being equal.
- The negative indicators of the GDB-EAI for 2013 may have been accentuated by the consequences of the election cycle in 2012, which activated particularly the construction and the services sectors, and the revision of the payroll employment benchmark, which increased the employment base for 2012. Finally, the employment reductions during the past three months have been more noticeable due to the significant reduction in state and local public employment, both related to Act 3 of 2013.





The Commonwealth of Puerto Rico

Update on Fiscal and Economic Progress

Q & A Session
