

Government Development Bank

Strong Capital Base to Support Puerto Rico's Economic Upturn

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Forward Looking Statements

This presentation includes certain statements that are not historical in nature. These statements are based on the Government Development Bank for Puerto Rico's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government Development Bank for Puerto Rico, the Government of Puerto Rico and its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.

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1 Government Development Bank Overview

2 Asset / Liability Management

3 Swap Portfolio Update

4 Fiscal Agency Oversight

5 Capital Markets Review and Transaction Calendar

6 Concluding Remarks

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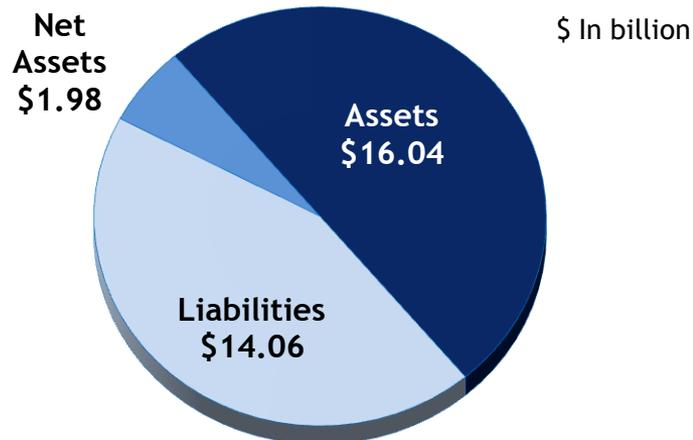
Concluding Remarks

A strong balance sheet enables GDB to support fiscal stability and promote economic development

Key Financial Highlights

- Solid capital-to-asset ratio of 12.3%
- Stable loan portfolio
- Liquid, high quality investment portfolio
- Proven responsible access to capital markets
- Increased and consistent profitability
- Transparent communication with investors
- Experienced and dedicated management team
- Board of Directors - 4 of the 7 members from the private sector

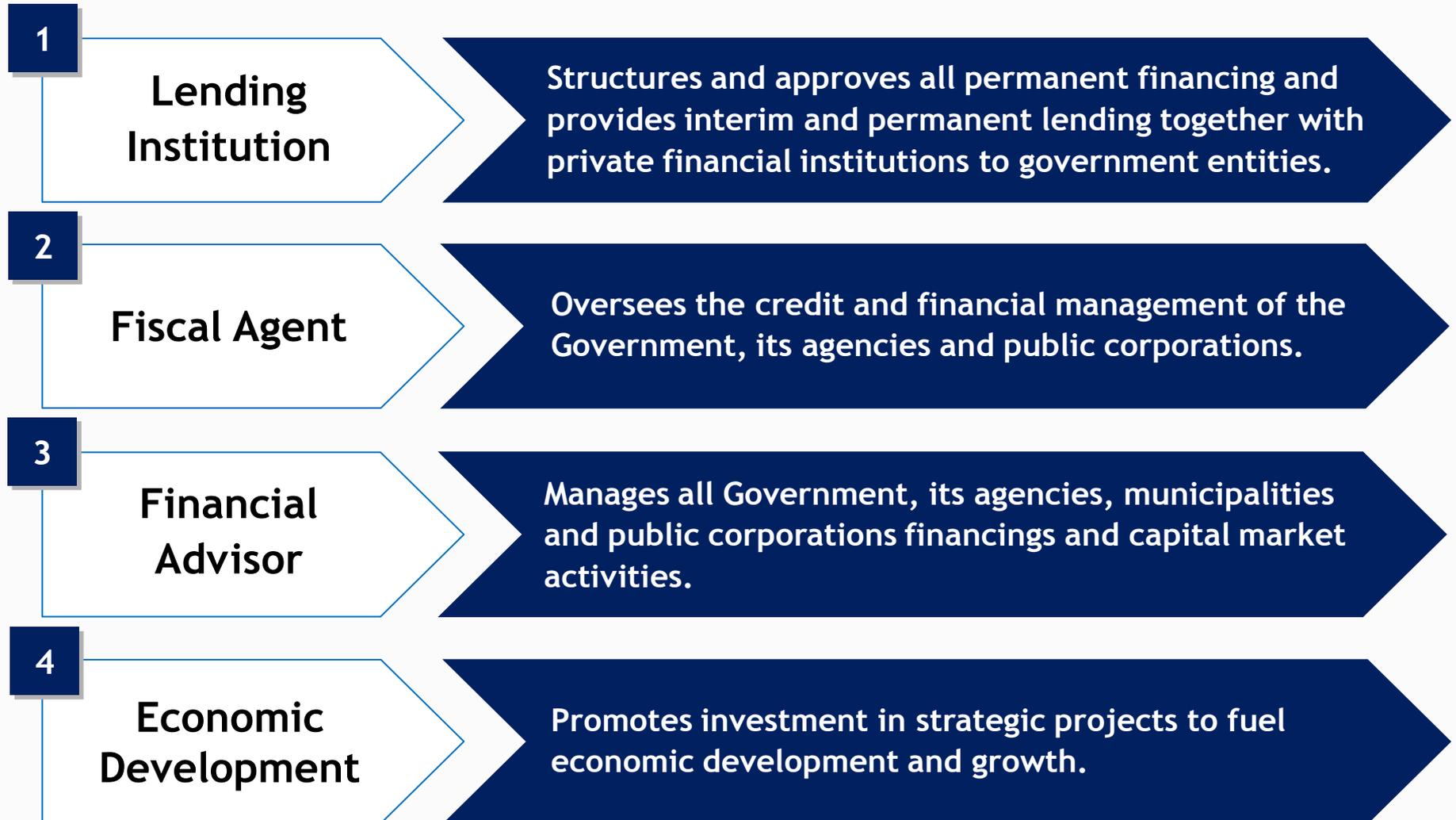
GDB (Bank Only)*



Loans, net:	\$9.40 bn
Capital Ratio:	12.3%
Rating:	BBB/Baa1

* As of March 31, 2011

GDB promotes fiscal stability and economic development through four primary roles:



Institutional Profile

Subsidiaries:

Tourism Development Fund

Housing Finance Authority

Puerto Rico Development Fund

Public Finance Corporation

GDB Capital Fund

José Berrocal Institute

Affiliates:

Municipal Finance Authority

AFICA¹

Infrastructure Finance Authority

Public-Private Partnerships
Authority

Special Communities Trust

Children's Trust

COFINA²

¹ AFICA: Spanish acronym for Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority

² Puerto Rico Sales Tax Financing Corporation

TDF has enabled 25 projects, \$2.3B in investment and more than 5,100 hotel rooms

Over \$1.1 billion in total investment during the past 3 years

Sheraton Convention Center

Development Cost: \$210 MM
Opened: November 2009

St. Regis Bahía Beach Resort

Development Cost: \$172 MM
Opened: November 2010

Dorado Beach Ritz Reserve (Phase I & II)

Total Investment: \$408 MM
Rooms: 154
Jobs: 289



Opening:
December 2012

Condado Palm Best Western

Total Investment: \$21 MM
Rooms: 154
Jobs: 131



Opening:
December 2012

Hyatt Place Bayamón

Total Investment: \$50 MM
Rooms: 156
Jobs: 234



Opening:
Q2 2014

Condado Vanderbilt*

Total Investment: \$276 MM
Rooms: 90
Jobs: 90



Opening:
October 2012

* Preliminary data; includes La Concha Resort

Several other projects in the pipeline for the next year...

Over \$550 million in total investment

Hyatt Place Manatí

Investment: \$38 MM
Rooms: 104
Jobs: 156



Estimated
Opening:
Q3 2014

Four Seasons Cayo Largo

Investment: \$247 MM
Rooms: 159
Jobs: 239



Estimated
Opening:
Q2 2016

Wyndham Barceloneta

Investment: \$65 MM
Rooms: 125
Jobs: 188



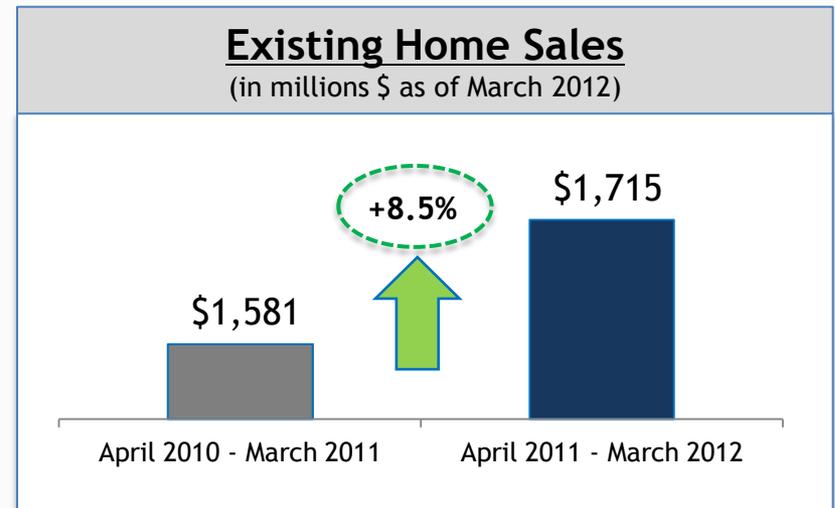
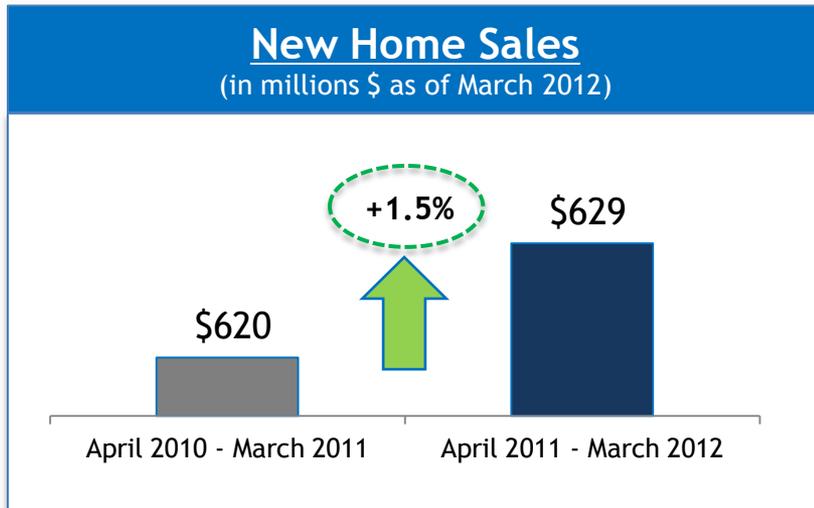
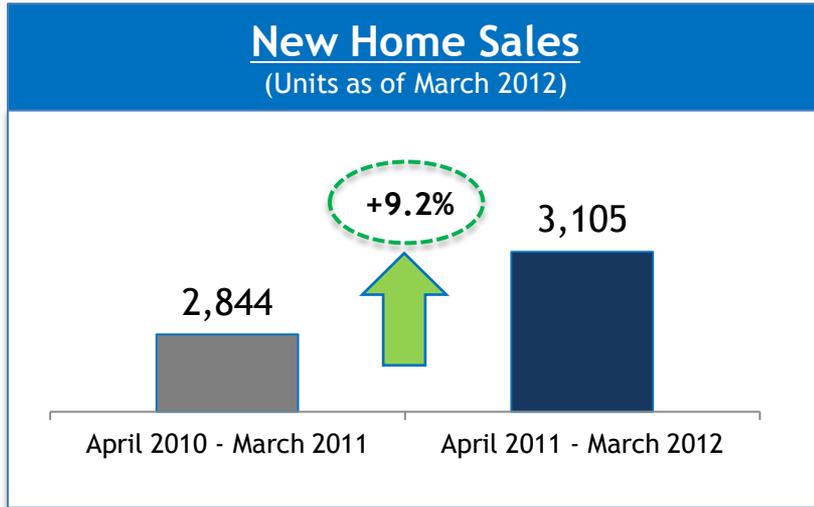
Estimated
Opening:
Q3 2014

Dorado - Cerromar Re-Development

Investment: \$214 MM
Rooms: 400
Jobs: 600

Estimated
Opening:
Q2 2016

The Housing Stimulus Program, managed by HFA, has yielded unparalleled results, with over 15,000 units and \$2.3B in sales during the past 12 months



Puerto Rico Development Fund, a GDB subsidiary, is currently promoting a loan guaranty program to help the small and medium-size business sector in Puerto Rico

**Puerto Rico Development Fund Guaranty Program
(\$200 million)**



Up to \$800 million in new and restructured loans through commercial banking sector facilitating credit to small and medium-sized business to promote job creation (and retention) and economic development

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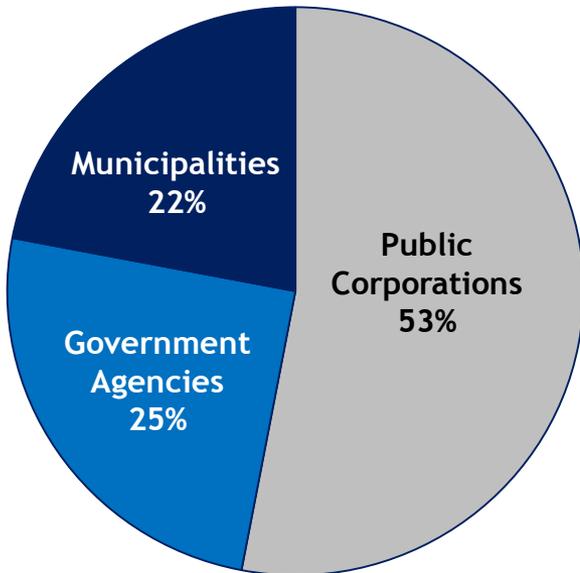
Concluding Remarks

Loan Portfolio Overview

Our loan portfolio consists mainly of credit facilities granted to public corporations, government agencies and municipalities

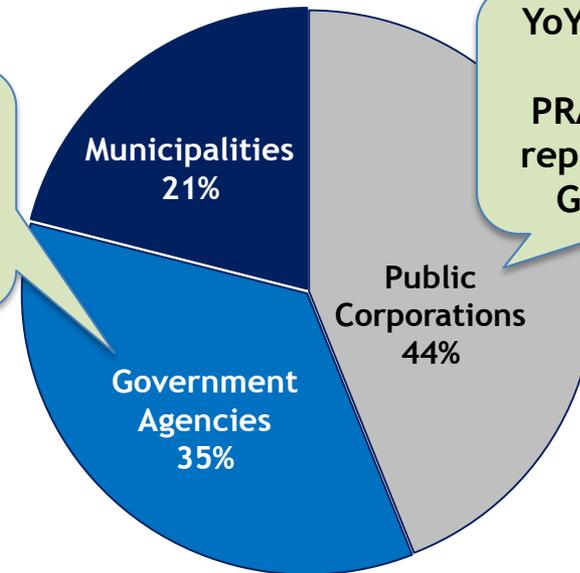
Loan Portfolio Composition

March 31, 2011



Total Loans: \$7.879 B

March 31, 2012



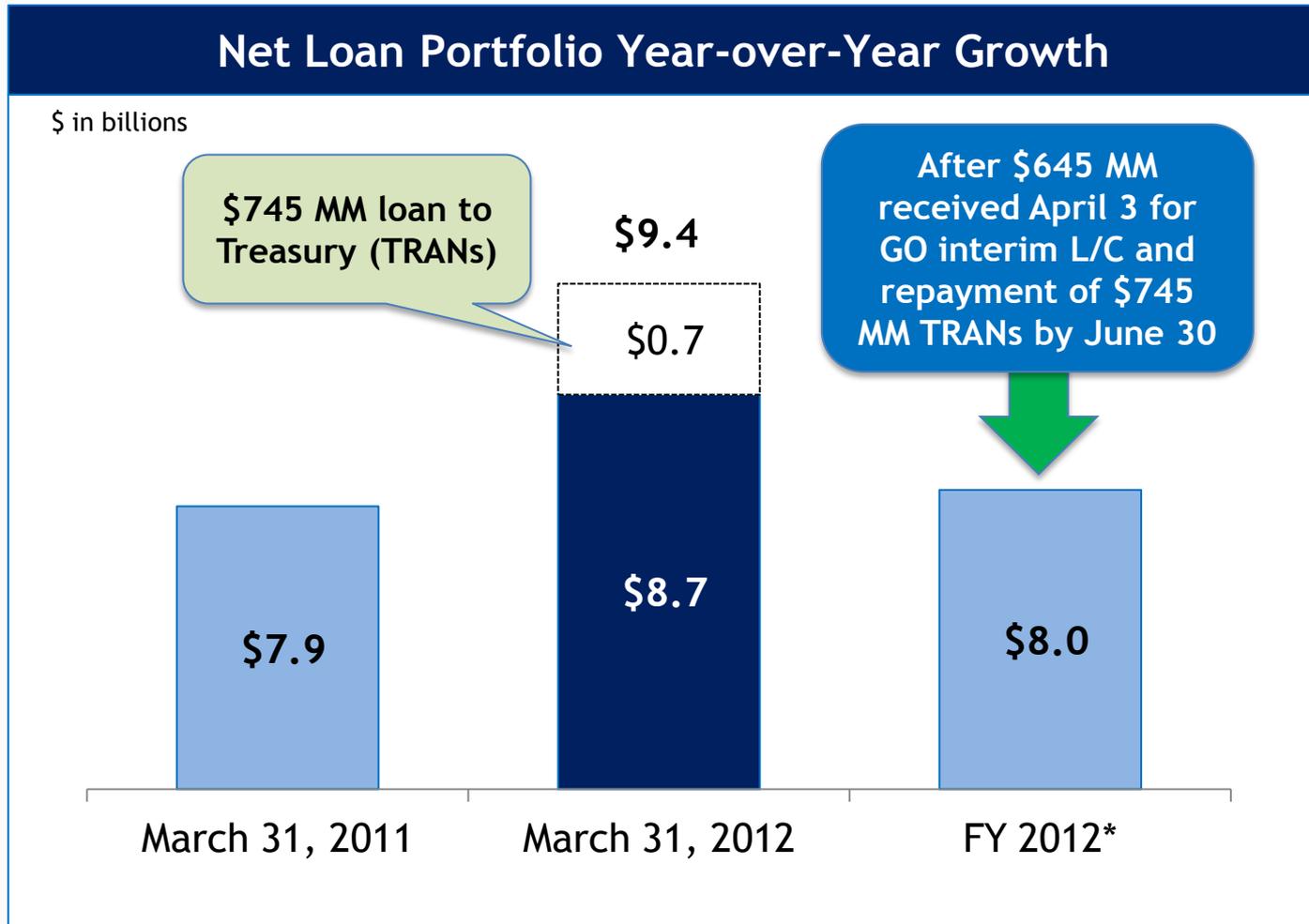
Total Loans: \$9.395 B

Includes \$745MM loan to the Treasury (TRANS)

YoY decrease due to PRASA's \$1B repayment of GDB lines

Preliminary and subject to change.

We are actively managing our loan portfolio, providing interim financings to government entities



* Preliminary and subject to change.

Investment Portfolio and Funding Structure Update

Investment portfolio consists of liquid, high quality securities

Investment Strategy

1

Investment securities with high credit quality (over 80% rated A through AAA)

2

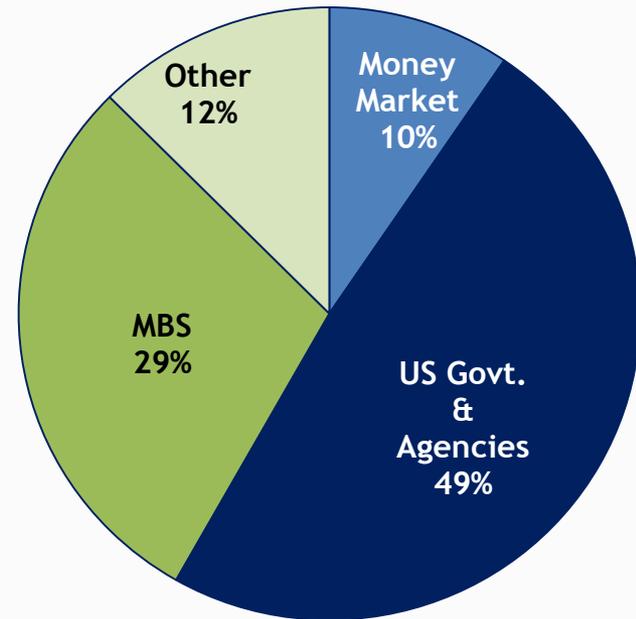
Total expected portfolio average life of 2.87 years

3

Securities with high liquidity for sale or funding through Repo's

* Preliminary and subject to change.

March 31, 2012



Total: \$5.9 B

* Bank only (book value)

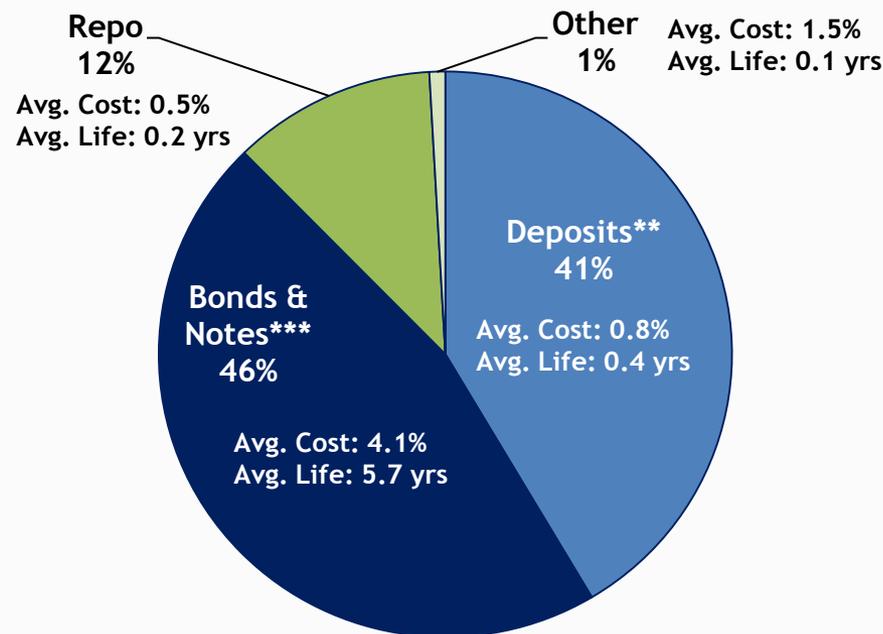
We have a diversified and adequate source of funding

Diversified Funding Sources Overview

- GDB Medium Term Note program has been well received by investment community
- Consistent flow of private and public deposits
- GDB has nine Master Repurchase Agreements (MRAs) with primary dealers which provides ample REPO accessibility
- Availability of unsecured lines of credit with financial institutions
- GDB's subsidiary PRHFA has recently been accepted as Federal Home Loan Bank System member
- Maintaining investment policy geared towards highly liquid securities

Cost and Average Life of Funding Sources*

	Average Cost	Average Life
Total & Weighted Average	2.32%	2.80



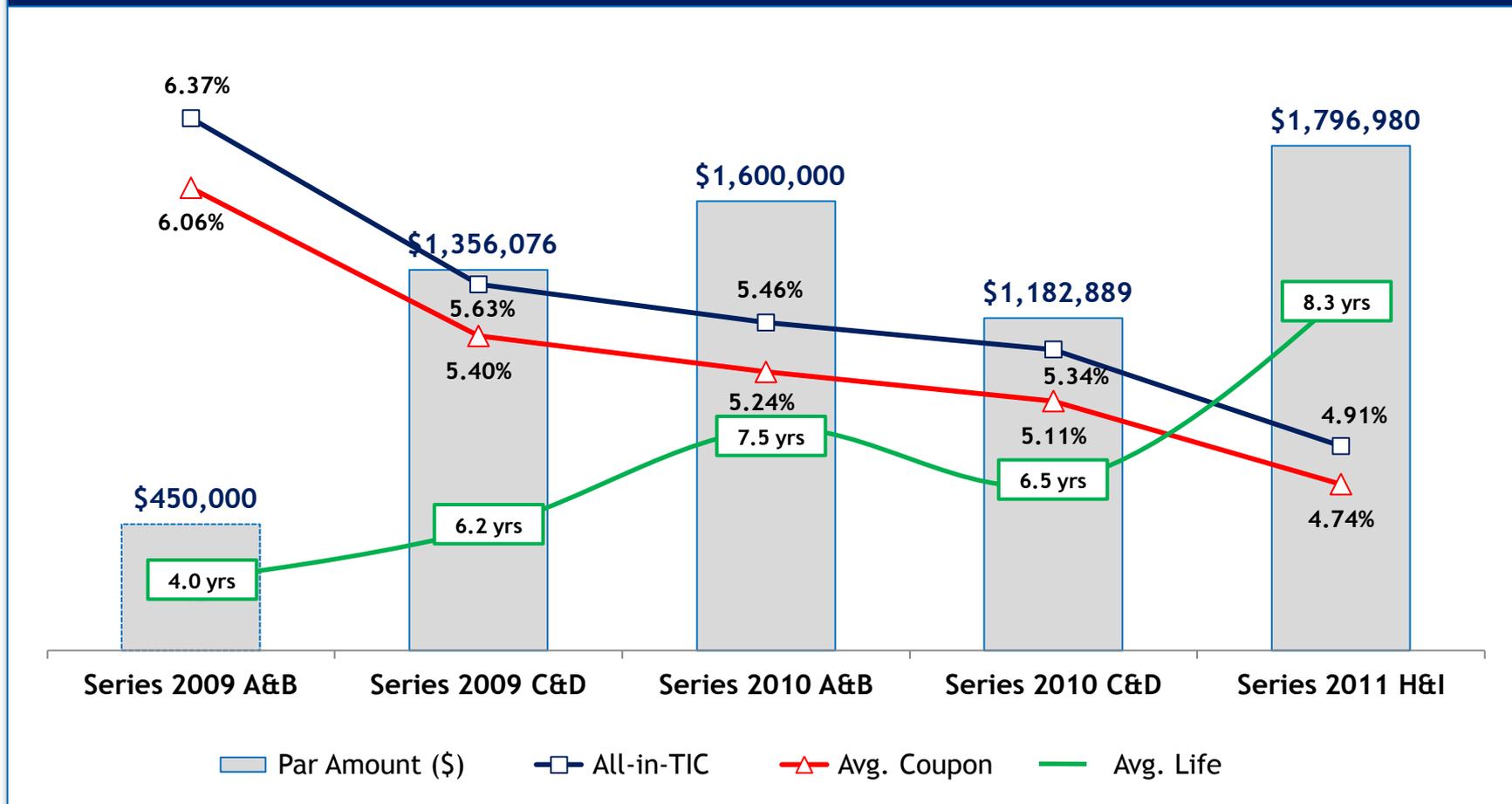
* Data as of March 31, 2012.

** Includes demand deposits, CDs, and private deposits.

***Includes \$267 million in previously variable-rate GDB Notes. Preliminary and subject to change.

By interplaying the taxable and local markets, we have achieved significant savings in our MTN program

GDB Senior Notes Financing Summary - Savings



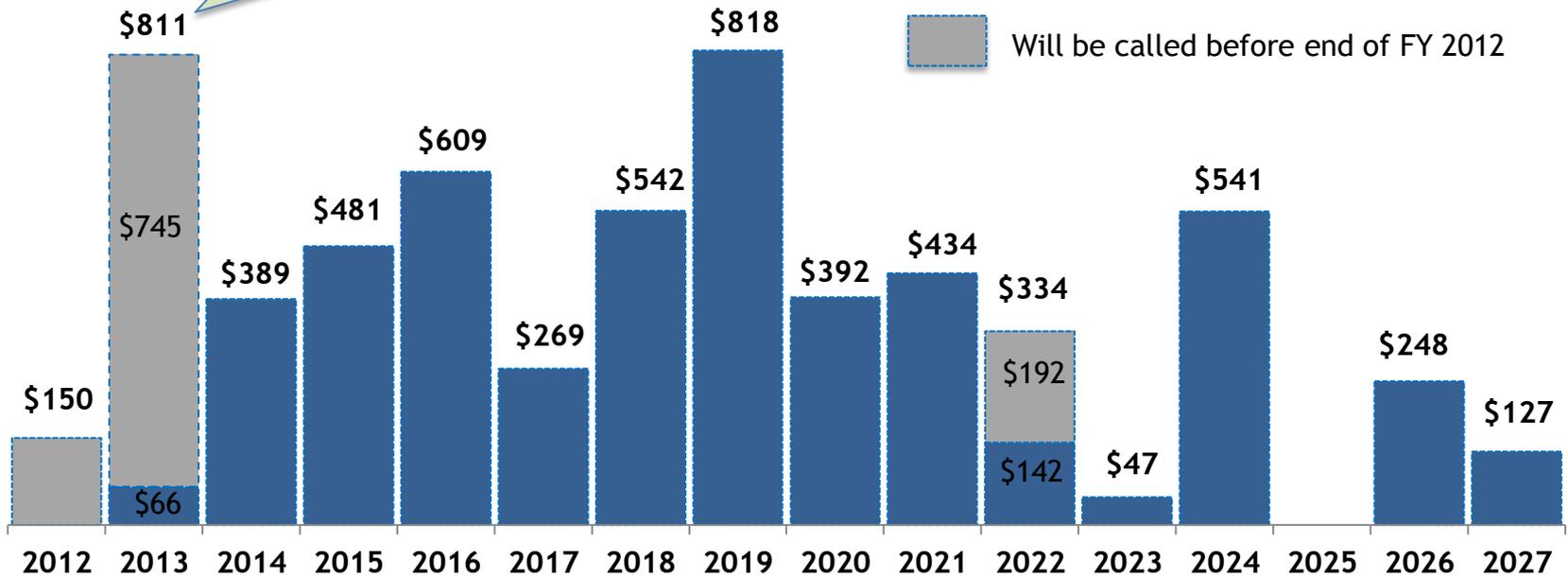
Staggered maturities with callability features minimize rollover risk

GDB Outstanding Note Maturities - in \$ millions (March 31st, 2012)

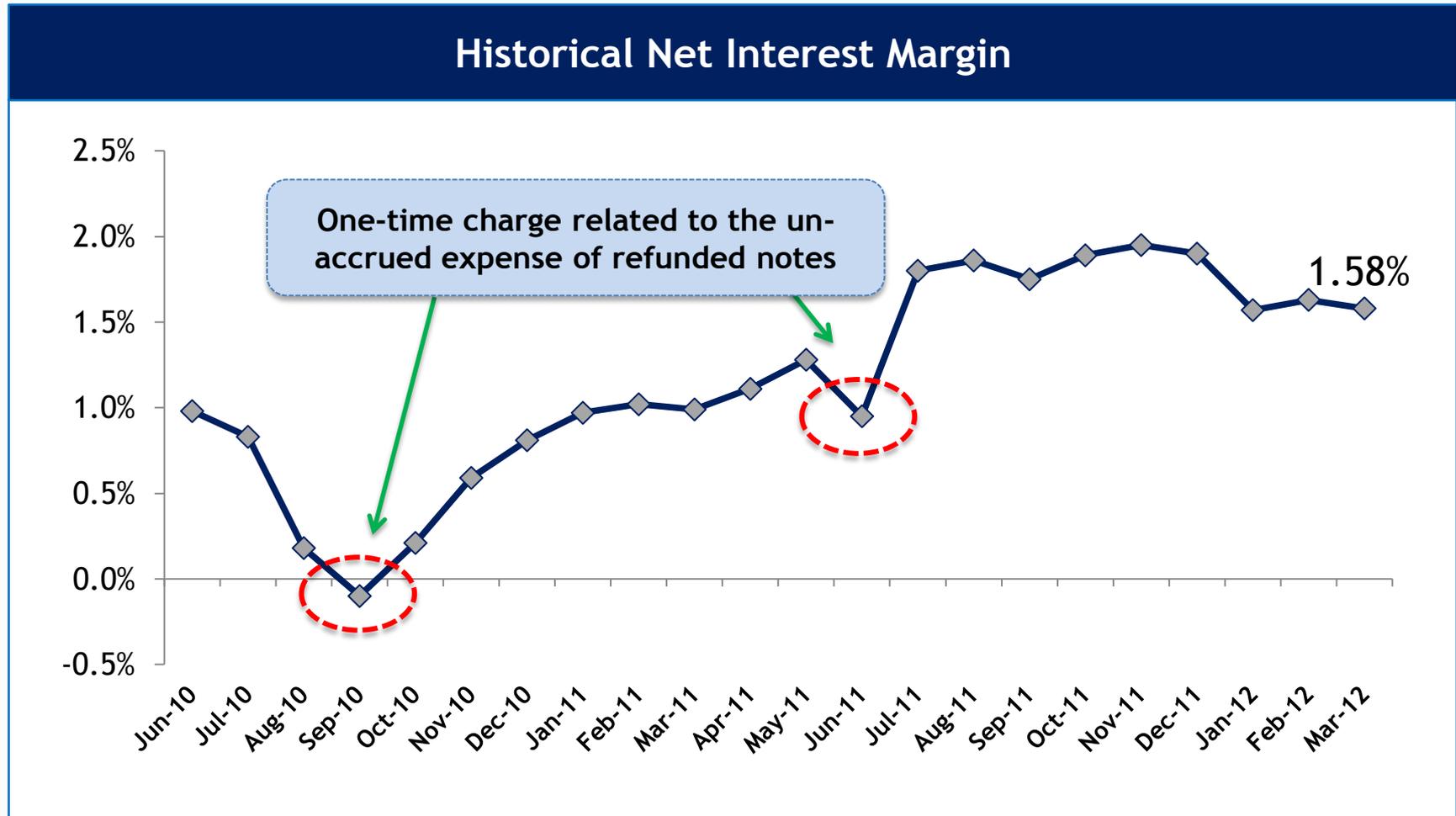
\$745 MM payable from loan to Treasury (TRANS) due on or before June 30, 2012

- Average Years to Maturity: 5.8 years
- Average Cost: 4.19%
- \$150 MM will be redeemed on April 11, 2012
- On June 1, 2012, \$192 MM in notes due on 2022 will be called

Will be called before end of FY 2012

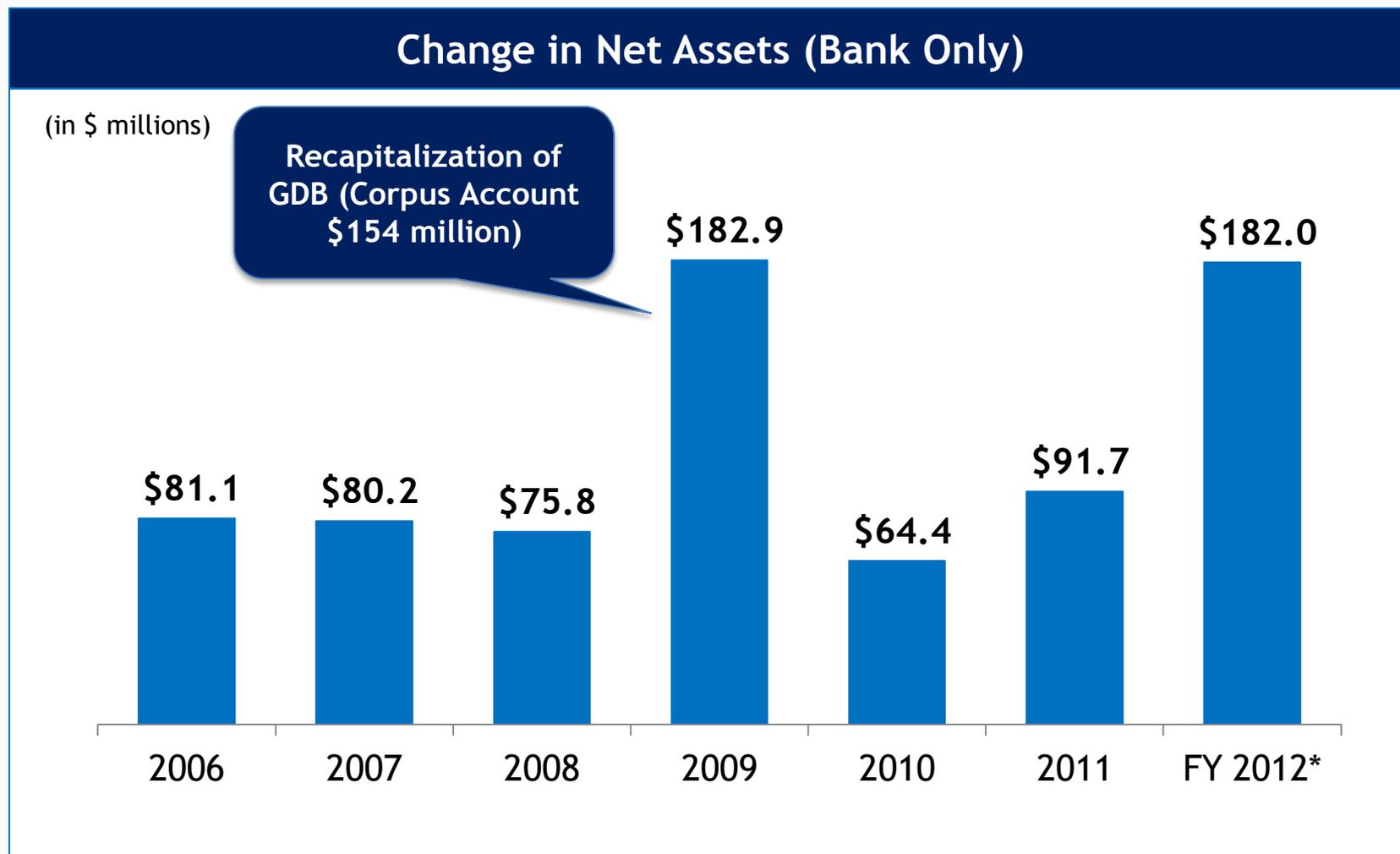


Net interest margin has improved considerably...



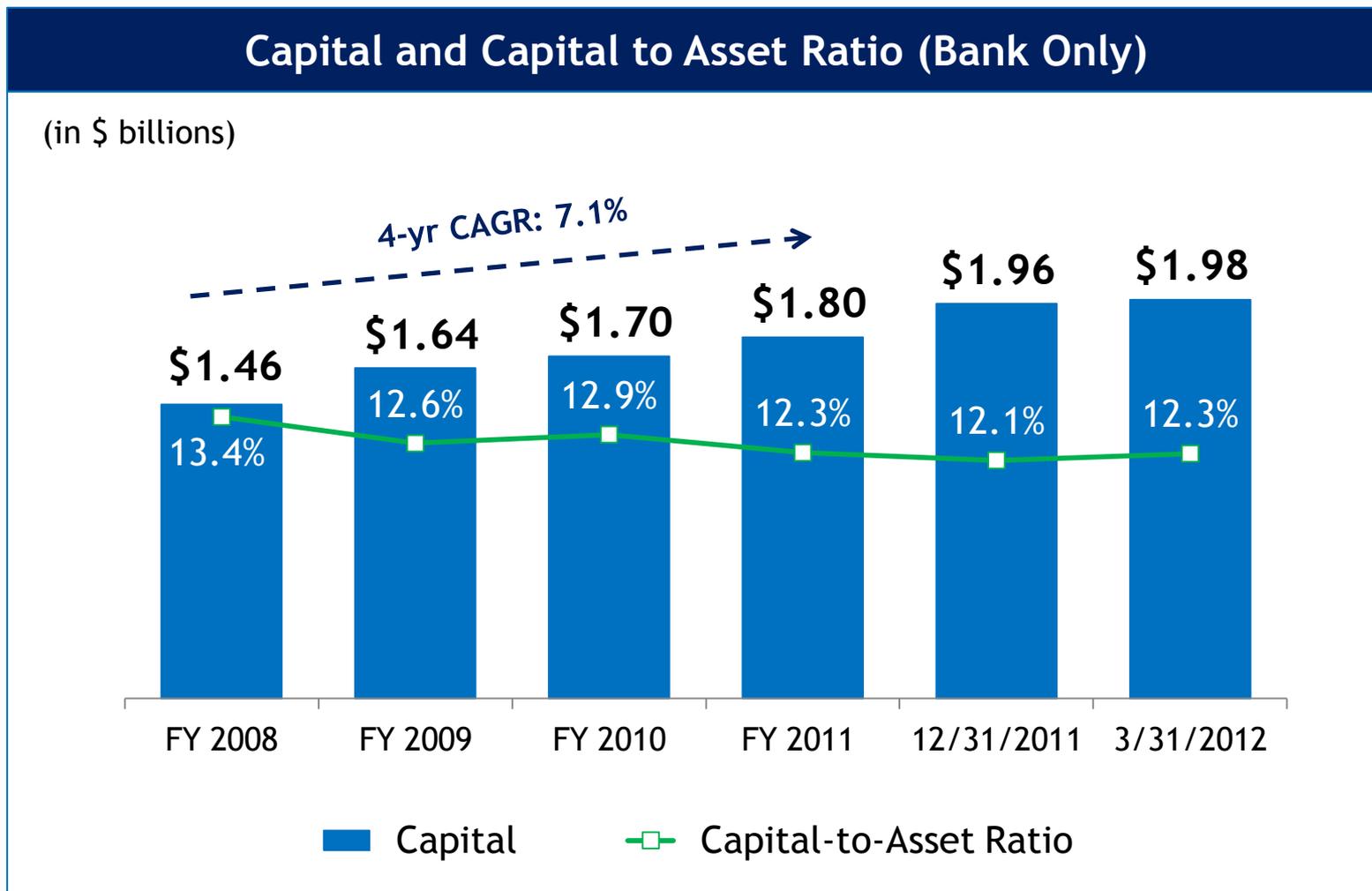
Preliminary and subject to change.

...and as a result, earnings are on an upward trend...



* First 9 months of FY 2012. Excludes reserves.

...while our capital base has shown consistent improvement, allowing us to better execute our mandate



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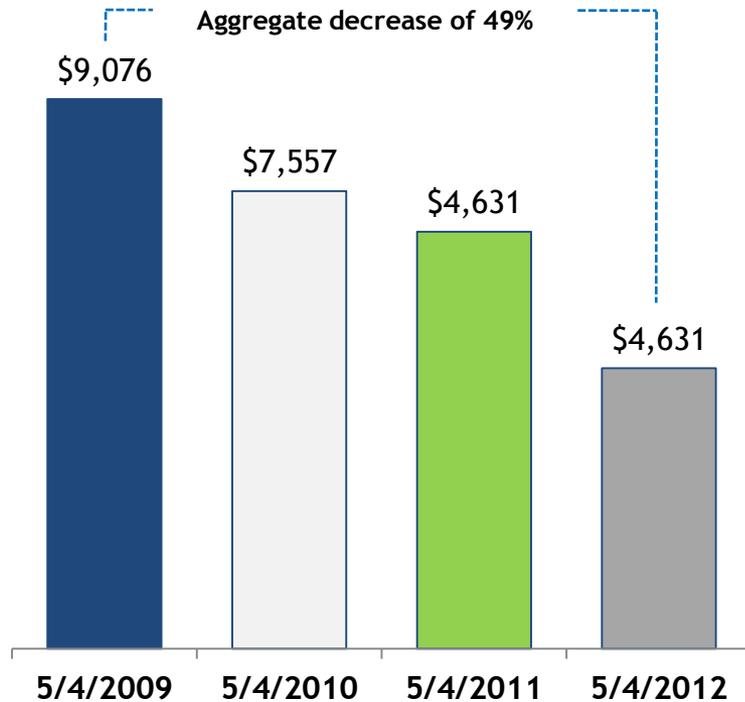
Concluding Remarks

We have reduced our notional exposure by almost \$4.5 billion since May 2009

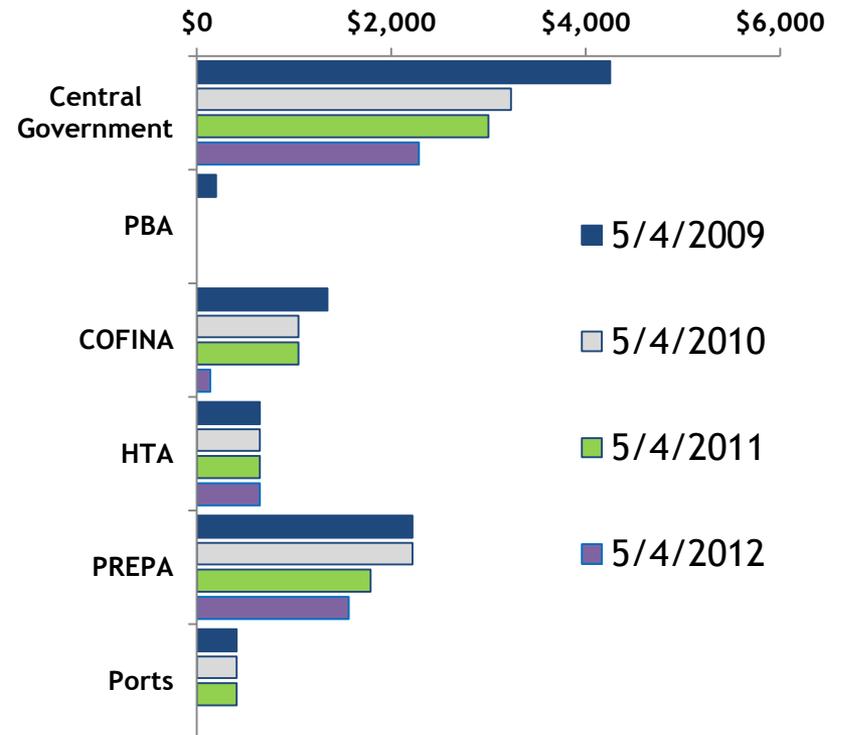
Swap Portfolio Breakdown by Notional Amount

(in \$ millions)

Total Swap Portfolio*



Swap Portfolio by Entity

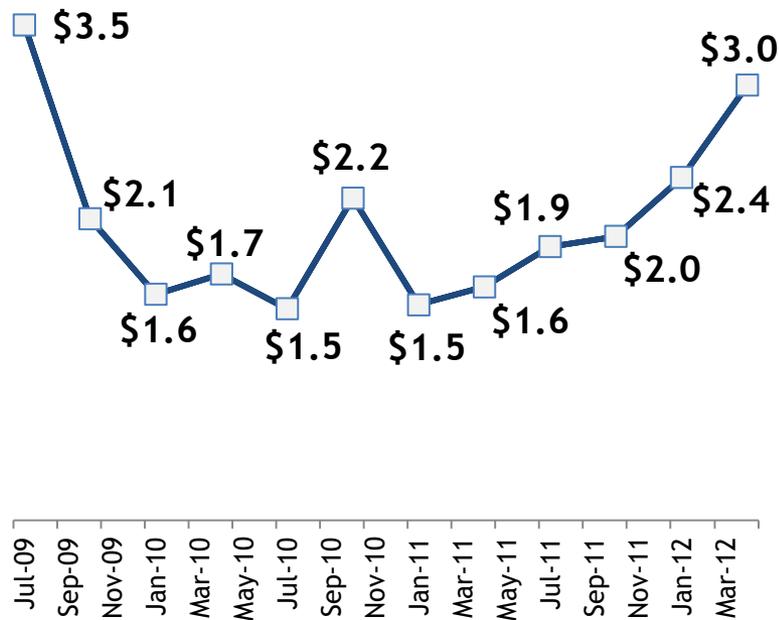


*Includes central government and public corporations

Basis swap exposure has consistently provided both PREPA and the Central Government with positive cash flows

Central Government

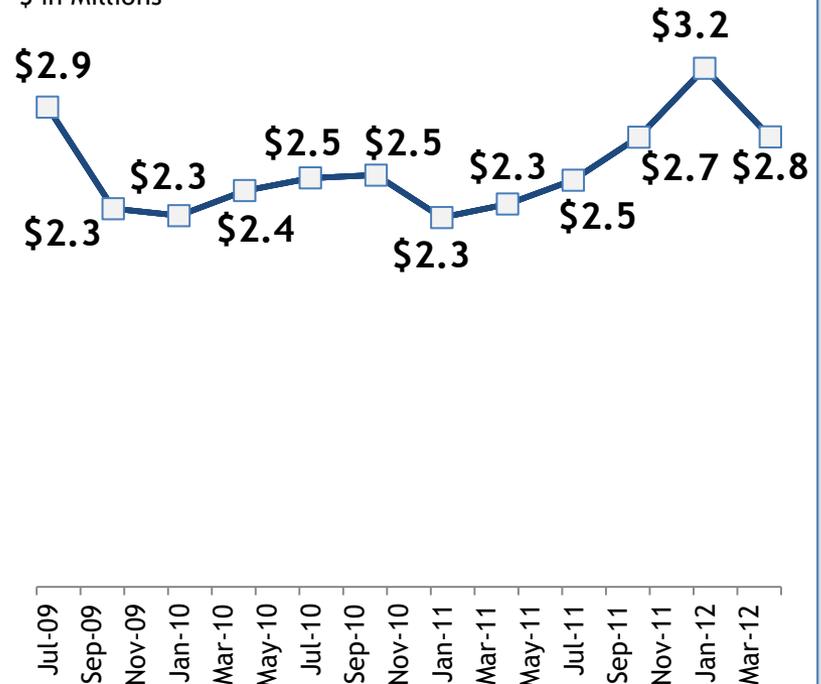
\$ in Millions



Govt. net cash flow accrual since inception:
\$50.8 million

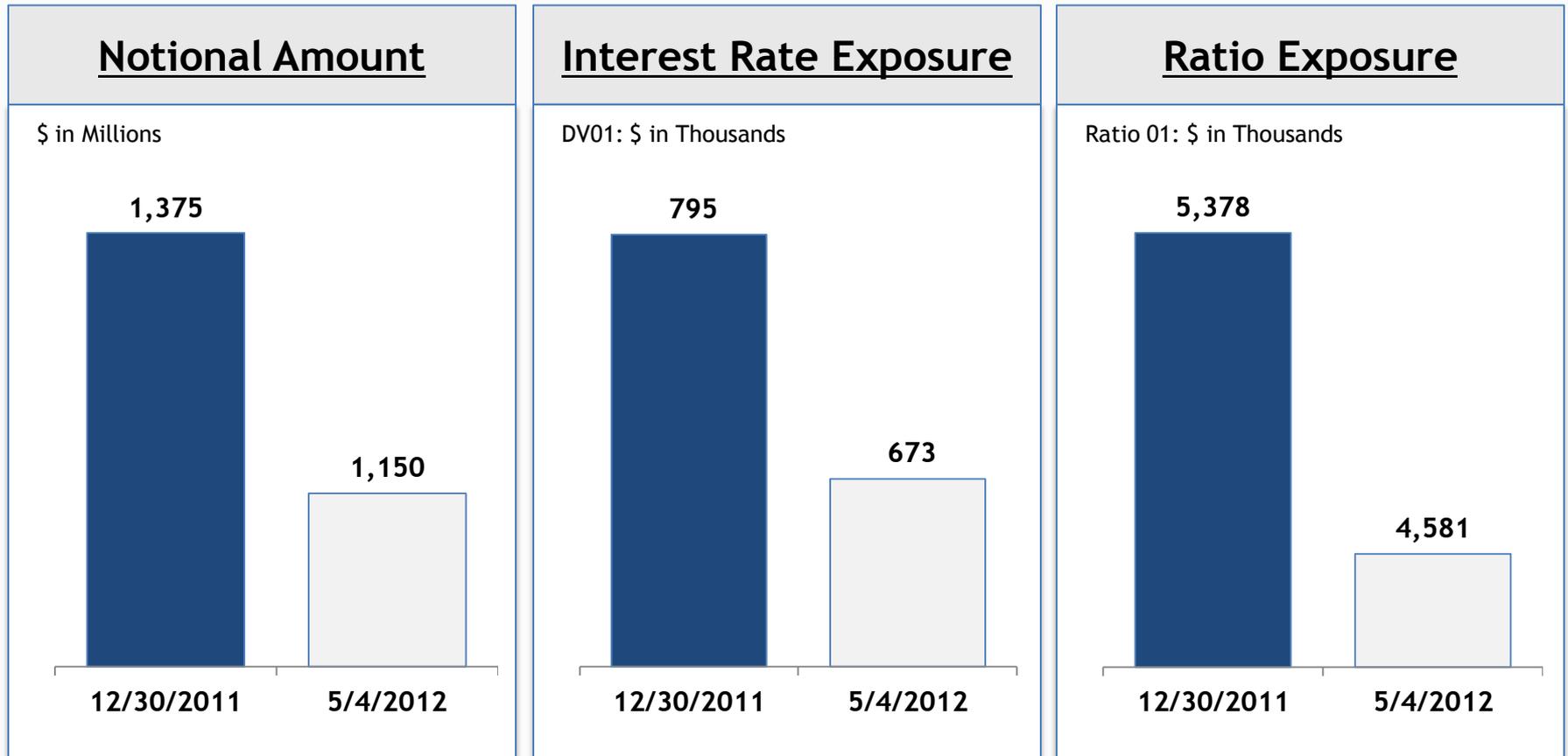
PREPA

\$ in Millions



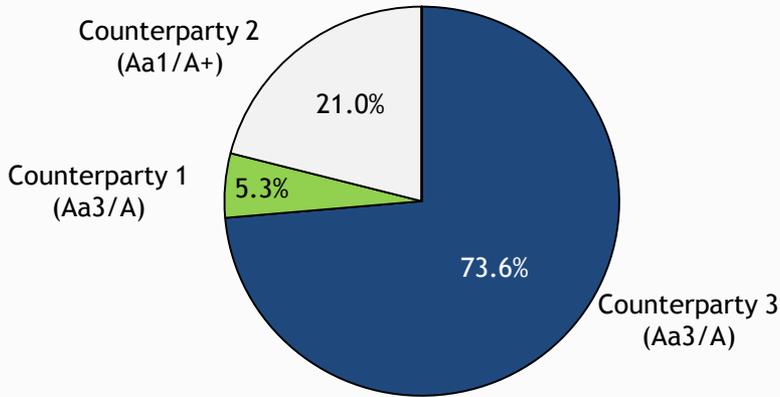
PREPA's net cash flow accrual since inception:
\$35.8 million

Recent partial terminations of PREPA's basis swap have reduced exposure to rates and SIFMA/LIBOR ratios

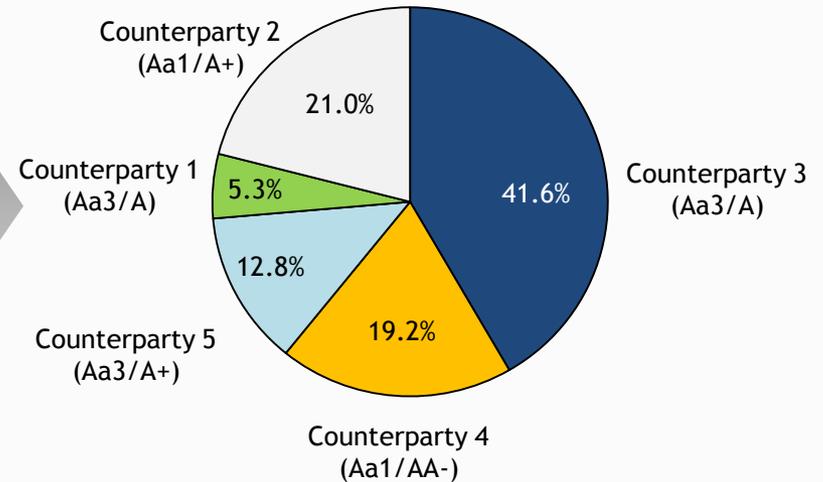


PREPA: Counterparty Diversification Initiative

Current Exposure (\$ millions)



New Exposure (\$ millions)



Proactive risk management results in the following benefits to PREPA:



Significantly reduced risk of collateral posting



Two new highly-rated counterparties added



Cashless novation achieved

Collateral requirement under current scenario

* Insurer events have occurred on the AMBAC and MBIA-insured swaps.

Current MTM Requirements

	Credit	Notional	MTM as of 5/4/12	Collateral requirement	Collateral requirement upon 1 notch PR downgrade + downgrade of AGM below A3 or A-	Incremental Requirement
1	Central Government	\$2,285,935,000	\$(125,232,752)	--	\$20,439,741	\$20,439,741
2	COFINA	136,000,000	(77,520,763)	--	--	--
3	PREPA	1,561,825,000	(78,550,807)	--	2,468,140	2,468,140
4	HTA	647,025,000	(196,183,681)	44,084,645	92,367,169	48,282,524
Total		\$4,630,785,000	\$(477,488,003)	44,084,645	\$ 115,275,050	\$ 71,190,405

The Government can withstand an adverse rating scenario under the current liquidity management program

Well-positioned portfolio to withstand adverse scenarios

* Insurer events have occurred on the AMBAC and MBIA-insured swaps.

Adverse MTM Requirements					
Credit	Notional	MTM after -50 bps move	Collateral requirement	Collateral requirement upon 1 notch PR downgrade + downgrade of AGM below A3 or A-	Incremental Requirement
1 Central Government	\$2,285,935,000	\$(103,021,088)	--	\$28,560,704	\$28,560,704
2 COFINA	136,000,000	(94,099,312)	--	--	--
3 PREPA	1,561,825,000	(63,456,251)	--	10,251,935	10,251,935
4 HTA	647,025,000	(236,973,926)	76,645,599	131,072,060	54,426,461
Total	\$4,630,785,000	\$(497,550,577)	\$76,645,599	\$169,884,700	\$93,239,100

In addition, we will continue to proactively manage and reduce variable rate debt (VRDB), improving our constitutional debt limit

Steady reduction in variable rate debt exposure

In \$ millions

\$1,636.9



-72%

\$1,174.6



\$460.8



Jan-09

Dec-11

Apr-12

GDB expects to fix these outstanding VRDBs in CY 2012

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Concluding Remarks

GDB has a thorough fiscal oversight and loan approval process

Loan Approval Criteria

- Each request for financing is primarily reviewed based on: legal authority, purpose and amount of the requested financing, and repayment source
 - Most loans are interim financings for capital improvements prior to a bond issue
 - Operational loans require some borrowers to enter into a Fiscal Oversight Agreement (FOA) with the GDB

GDB has a thorough fiscal oversight and loan approval process

Loan Approval Criteria

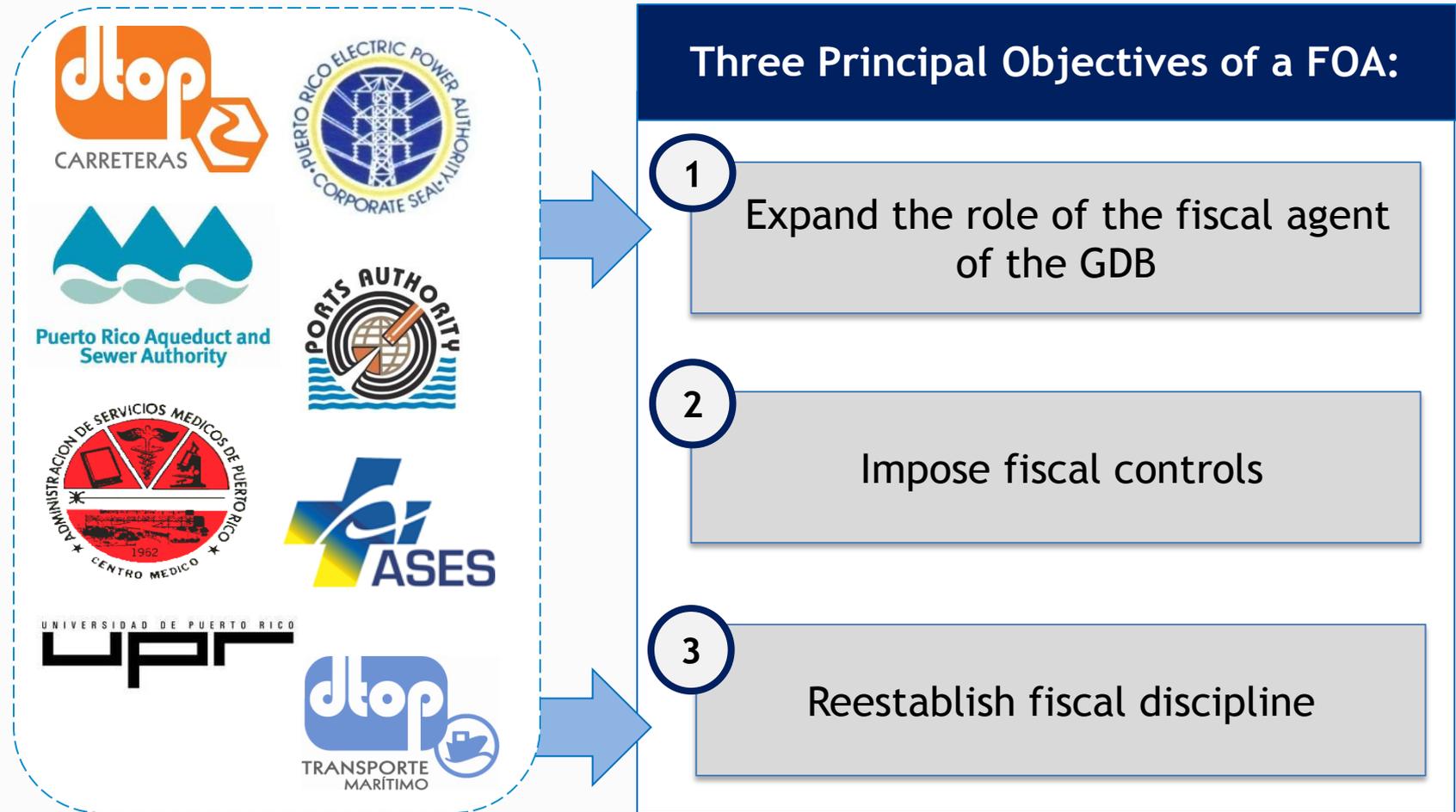
- **Fiscal Oversight Agreements** improve visibility and leverage of the GDB on the public corporations and government instrumentalities
 - Public corporations must be in full compliance with the **FOA** as a condition for disbursement of the loan or drawing of a line of credit
 - **FOAs** are in effect until such time as it is mutually agreed by the parties that the public corporation or agency has regained a level of financial stability and is able to secure long-term financing
- All loans are subject to final approval by the GDB Board of Directors

Through various reporting requirements, GDB's Fiscal Agency is able to assess the operational and financial performance of the public corporation

General Requirements

- Present and implement fiscal stabilization plans (usually on a quarterly basis)
- Submit the following key reports:
 - Cash Flow Statements (weekly)
 - Statements of revenues and expenses (monthly)
 - Balance Sheet (monthly)
 - Aging report of accounts payable and accounts receivable (monthly)
 - Debt service coverage report (monthly)
- The GDB Board of Directors are presented with monthly reports on findings and recommendations

GDB has executed various Fiscal Oversight Agreements with several public entities



All public corporations and agencies have complied with the material terms and conditions of their respective FOAs

Since mid 2011, GDB has provided fiscal support to the Health Insurance Administration (ASES) in order to ensure orderly operation of the “Mi Salud” program

GDB support to operational initiatives



Established a Fiscal Oversight Task Force to maximize available funds and contain costs

Helped transition to a new Administrative Service Only (ASO) model in the regions previously managed by MCS (to Triple S)

Ensure payments to insurance companies and providers with a working capital line of credit (via private banks) as the federal funds of over \$1 billion are received through a reimbursement program

Weekly monitoring of cash flow needs through the oversight agreement and financial reporting

New IT infrastructure and software provided to ensure reporting requirements of the Federal Health Reform are met

Fiscal control measures have contributed to an improved operation of ASES and efficient delivery of Mi Salud services

Results to operational initiatives



Established control measures to ensure cost containment in key expense areas like emergency room and pharmacy over usage

Identified available federal funds not considered originally that helped minimize Mi Salud operational deficit

Improved relationships with key health industry stakeholders with on-time payments, better monitoring and communication

Smooth transition into the new ASO model for the Triple S regions (previously MCS)

Currently, GDB is focused on providing fiscal support in order to implement necessary initiatives to lower energy costs for residential customers without subsidy

GDB support to operational initiatives



Restructure PREPA's current debt to improve debt service cash flow

Transfer the purchase of oil (to generate electricity) from PREPA to GDB; improve payment terms to suppliers to pass savings on to consumers

Implement a hedging program to reduce upswing of oil prices to PREPA's fuel charges

Implement a Natural Gas Plan in order to diversify energy production out of oil, beginning with Costa Sur and Aguirre power plants

Assist in the repayment of outstanding public corporation's debts with PREPA

Ensure PREPA meets its expense reduction targets tied to contracts, and maintaining under control overtime, mileage, and diets expenses

GDB has been actively engaged with PREPA in transforming the operational drivers that will lower energy costs in Puerto Rico

Results to operational initiatives



Assisted PREPA in the recent bond issuance to repay GDB line, opportunistic refundings and fund their FY 13 CIP Program

New Fuel Procurement model already yielded \$3.2MM savings in 3 months for one plant (Aguirre)

GDB already began implementing a hedging Strategy to protect PREPA and its customers from the volatility of fuel oil prices

Helped PREPA finish operational process and financial negotiations to ensure natural gas burned at Costa Sur in April 25, 2012

Assisted PREPA in collecting over \$90MM in old debt from Public Corporations and other agencies by January 2012

Hired Álvarez and Marsal Business Consulting to seek additional operational savings in the next 3-5 years, with a primary focus on delivering \$30MM savings this year

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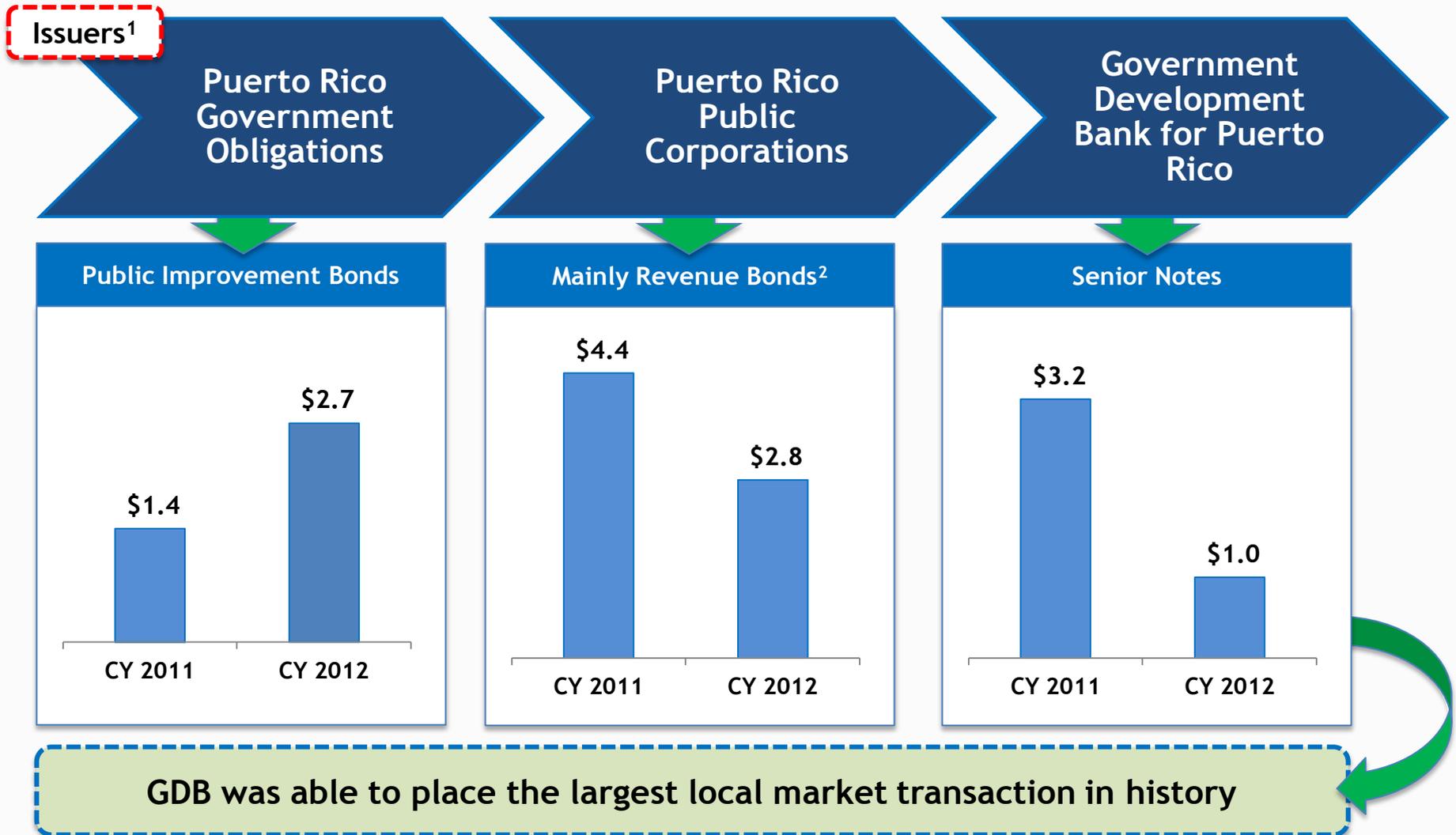
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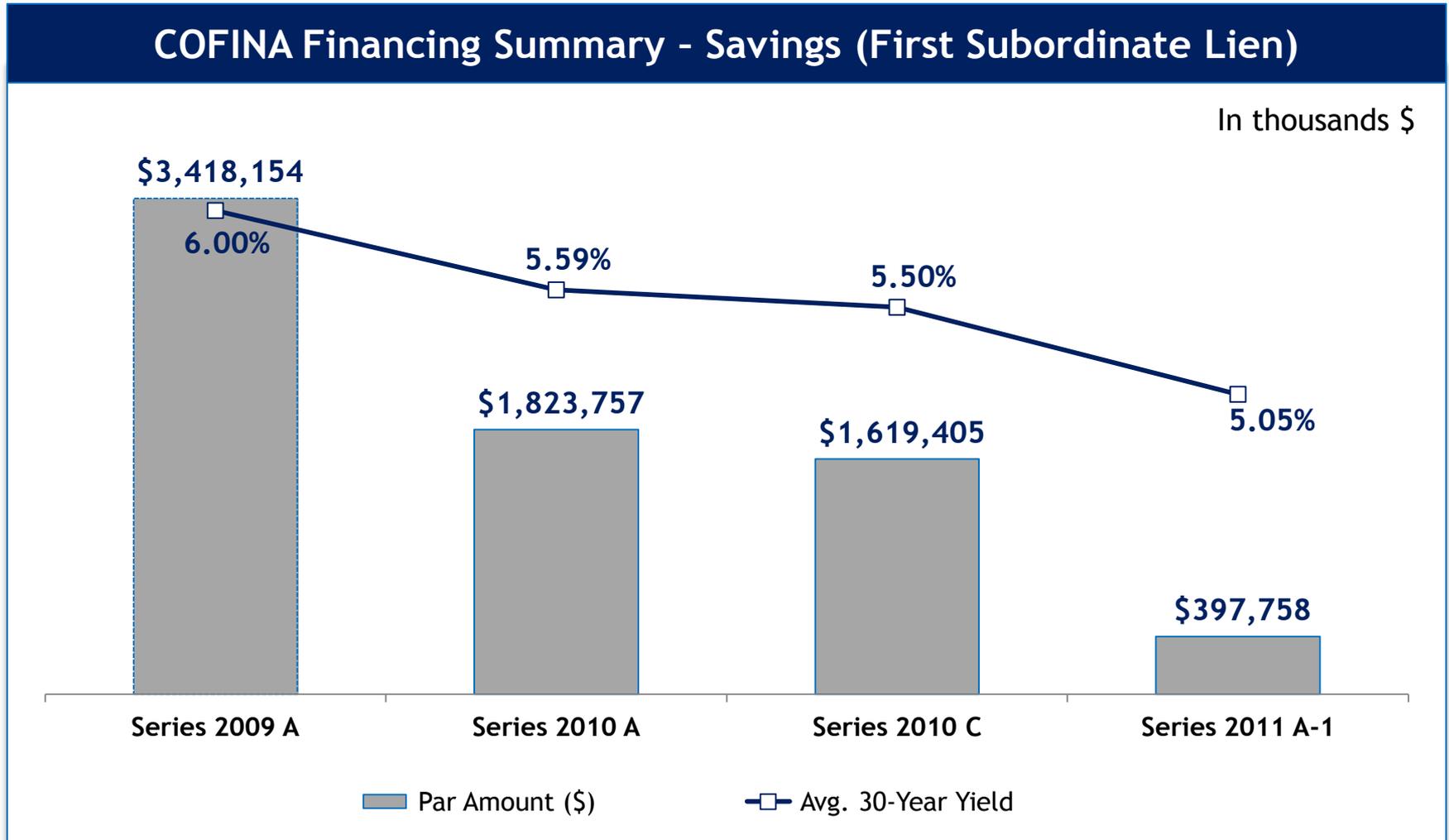
Market issuers have continuously demonstrated substantial market access



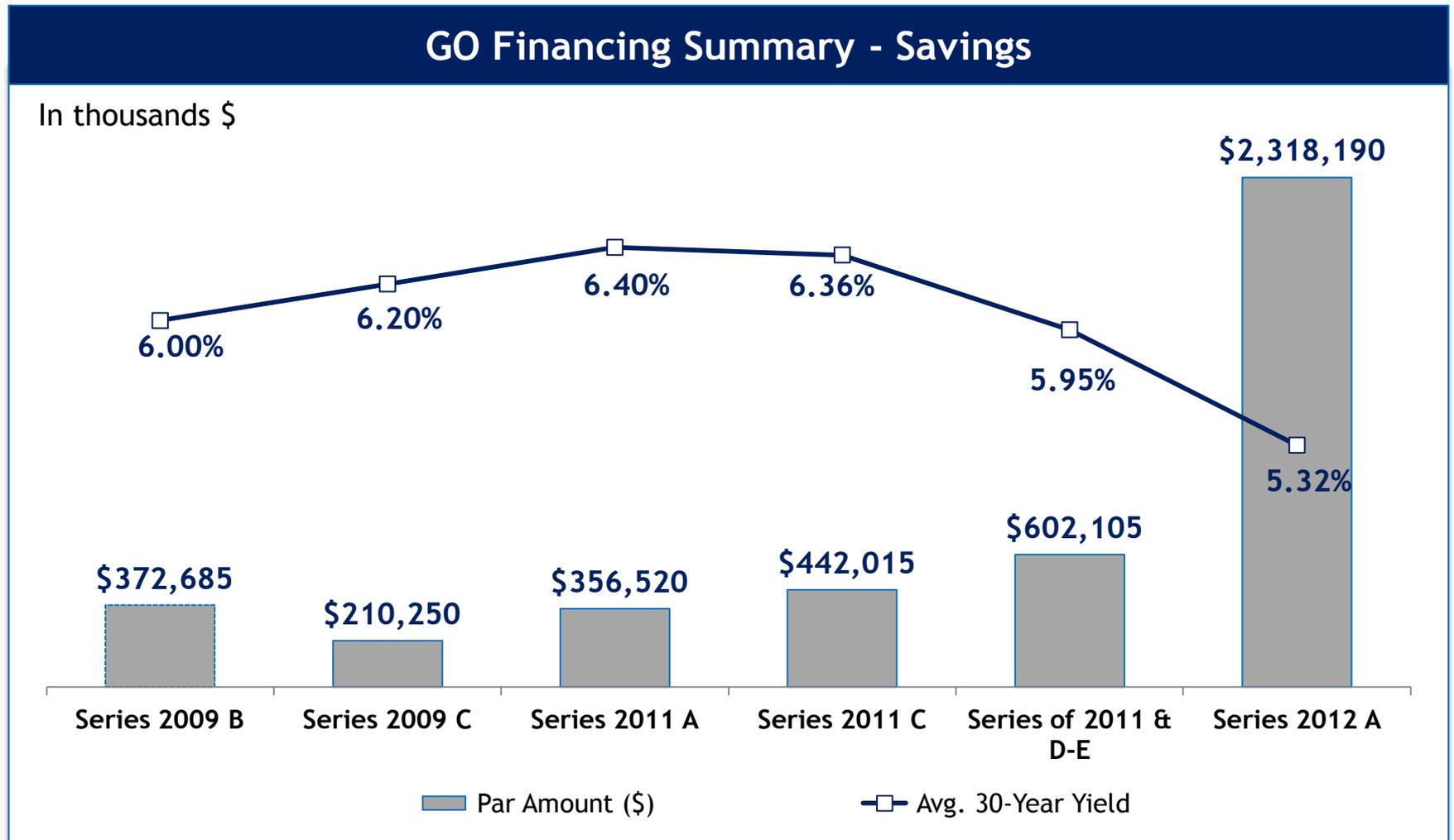
¹ Data from January 2011 - May 2012 in billions (\$)

² Includes COFINA, PRASA, PBA, PRIFA, PFC , & PREPA bond issuances

Market support and conditions have allowed us to benefit from historical low rates as seen with our COFINA program...



... and GO transactions



Capital markets activity during the balance of 2012 will focus on refundings subject to market conditions

Projected Calendar for 2012

PBA

Refunding - \$350 MM (103)
Mandatory Tender - \$335 MM (103/private)

PFC

Refunding for savings - \$350 MM (local)

HTA

Revenue & Refunding Bonds - \$1 Bn (103)
(Refunding and CIP)

MFA

Refunding for savings - \$300 MM (103)

GDB

Refunding for savings - \$TBD (Local)

COFINA

CABs - \$100 MM (Private Placement)

GO

New Money - \$290 MM (103)

This projected calendar is preliminary and subject to change

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GDB is a financially strong institution that plays a key role balancing fiscal progress and economic development for Puerto Rico



GDB provides lending to public instrumentalities and private sector to foster economic growth with prudent risk management practices



Robust liquidity position and capital base with a consistently improving NIM and profitability since June 2009



Active management of our loan portfolio, providing interim financings to government entities while ensuring source of repayment



Strong fiscal agent role with close oversight of public corporations and municipalities (Fiscal Oversight Agreements)



Key financial advisor role to all government entities for financings and capital market transactions



Proven and continued access to capital markets



Continued communication and transparency with investor community and rating agencies

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