



Government Development Bank for Puerto Rico (“GDB”) Overview

December 5, 2016

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Introduction to GDB

GDB was created in 1942 with the goal of helping to finance Puerto Rico's economic infrastructure projects and to act as fiscal agent and financial advisor to Puerto Rico and its instrumentalities. Over time, GDB's role evolved such that it became significantly intertwined in the daily functioning of the Puerto Rican government

- GDB's stated mission is: "to safeguard the fiscal stability of Puerto Rico and promote its competitiveness in order to transform our economy into one of the most developed economies in the world, hence, fostering the social and economic enhancement of our people"
- In working to achieve its goals, GDB played the roles of bank, fiscal agent and financial advisor to Puerto Rico and its instrumentalities
 - The fiscal agent and financial advisor functions have facilitated capital markets access for the Commonwealth and its instrumentalities, making Puerto Rico one of the largest issuers of municipal bonds with a complex system of 18 issuers
 - Additionally, GDB has facilitated access to bank debt for Puerto Rico's 78 municipalities via loans made by both GDB and other local banks
 - GDB's primary role as bank was to consolidate the overall creditworthiness of smaller public entities and select private projects. GDB collected the deposits of public entities and issued bonds to fund the loans it made to 1) small public entities which otherwise would not have access to the capital markets and 2) private entities undertaking projects to promote economic growth
- ☞ Despite operating soundly for much of its history, the bank became subject to political pressures and ultimately made many loans that could not be repaid according to their initial terms
 - Some of these loans were made to Hacienda in order to cover operating deficits or perceived short-term funding needs. In reality, a wholesale overhaul of the revenue collection and budgeting processes was required
- ☞ As the recent recession took hold and market access was eliminated, depositors withdrew funds to finance their operations, many of which provide essential services to island residents
- ☞ Today, GDB has significant nonperforming assets, limited liquidity and is unable to repay its debts as they come due
- Its recent years, financial distress has left GDB largely inactive with limited cash flowing in/out of the bank; public entities are depositing funds elsewhere and few clients are repaying loans according to their terms



Note: All figures contained herein are preliminary in nature and subject to additional diligence but have been provided to aid in the discussion of GDB's role in the Commonwealth.

GDB Historical Context

One of GDB's goals is to intervene directly in Puerto Rico's economic progress by investing in critical infrastructure, housing, education and industrial development projects that the private sector is unable or unwilling to finance

- Early in its history, GDB financed the first condominiums, office buildings, and hotels, and established the First Mortgage Trust to build affordable new homes
 - Importantly, the Bank functioned primarily as a lender for infrastructure and private sector economic development
- After the economic headwinds faced during the 1970s, a new wave of manufacturing and capital investments was spurred by Section 936 of the US Internal Revenue Code (enacted in 1976)
 - Section 936 represented a key source of low-cost funding for GDB as the Commonwealth's local banking regulations required Section 936 companies to maintain a percentage of their earnings and deposits in GDB
- The end of the Section 936 era in 1996, and the subsequent 10-year phase out period, had a significant impact on GDB as Section 936 companies transitioned out of Puerto Rico
- The loss in Section 936 deposits forced GDB to adopt a commercial paper program ("CPP") (i.e. short term debt financing) as one of its main sources of funding
 - The CPP was available to GDB due, in large part, to the Bank's (and the Commonwealth's) strong credit rating
- During the final years of the Section 936 phase out period, economic growth began to slow and macroeconomic and demographic indicators began to deteriorate
 - Further, rating agencies began to downgrade the Commonwealth's GO bonds and subsequently GDB's ratings, jeopardizing the viability of the CPP and eventually leading to its termination by 2009



GDB Historical Context (cont'd)

With the phase out of Section 936, the Commonwealth began to rely more and more on deficit financing, a significant portion of which was provided by GDB

- The phase out period of Section 936 led to slower GNP growth and deteriorating economic activity indices and demographic trends
 - Facing declining revenues, increasing expenditures and anemic or declining private sector growth, the Commonwealth began relying on deficit financing to fund the government's operations
- Against this backdrop, the Commonwealth's central government created multiple financing vehicles to fund operating deficits and relieve liquidity pressure on the central government's general fund
 - These new financing vehicles led to a dramatic increase in tax-supported debt outstanding
 - The two main sources of funds for deficit financing were COFINA and GDB's Notes Program
- Since 2006, as the Commonwealth's operating deficits widened, gross debt issuances increased dramatically; the Commonwealth commissioned a report that recommended a comprehensive tax reform policy that was expected to reduce the persistent budget deficits that had been plaguing the government. However, the recommendations from this report, including adopted of a Value Added Tax (VAT), were not implemented
 - The GDB Notes Programs of 2006 and 2009-2012 completed GDB's transformation from a strategic lender for economic development and social progress into a vehicle to finance governmental deficits
 - ☞ GDB issued notes with bullet maturities with the expectation that they would be able to refinance the principal at maturity with new notes
- The liquidity injection provided by these issuances, effectively 'postponed' the restructuring of the Commonwealth's governmental operating structure and allowed the Commonwealth to maintain the 'status quo' over a period of continued economic decline
 - Bond issuances of Commonwealth instrumentalities were primarily sold in the 103 triple-tax exempt market



GDB Historical Context (cont'd)

The ongoing economic crisis and limited market access further stressed the liquidity of the Commonwealth and its instrumentalities, depleting GDB's deposit base and further limiting their ability to service debt owed to GDB

- The Commonwealth and its instrumentalities have systematically depleted their deposit reserves and otherwise stretched liquidity by delaying payables in order to finance their operations; as a result, a key source of GDB's funding has been eliminated
 - As a result, GDB's public sector loan portfolio has underperformed as borrowers prioritize operating expenses over repaying GDB
 - In response, starting in 2009, many of the public sector loans were restructured into long-term (20 years or more) amortizing structures, effectively lowering yearly debt service payments to GDB
- With no market access and a shrinking depositor base, GDB's sole recurring source of liquidity was the payment of principal and interest on its loan portfolio, including loans to the public sector, municipalities and private borrowers
 - Sources of repayment generally include government appropriations and municipal IVU and property taxes. Further, many loans are dependent on "future bond issuances" for repayment
- Thus, GDB has been essentially cut-off from all of its major funding sources – long-term debt, deposits and loan repayments – while trying to continue to pay debt service as due and fund deposit disbursement requests

GDB Historical Financials

(\$mm)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14
Cash & Cash Equivalents ⁽¹⁾	\$2,734	\$3,301	\$3,617	\$4,546	\$5,036	\$4,955	\$4,425	\$5,410	\$4,101	\$3,640
Loans, net ⁽²⁾	5,649	7,269	6,232	5,454	6,677	6,950	8,361	8,324	9,635	6,382
Total Assets	10,366	12,747	11,927	12,316	14,039	14,049	15,510	15,780	14,326	10,347
Deposits	4,873	5,783	5,458	7,004	7,555	6,149	5,554	6,067	5,577	5,215
Debt Securities	1,747	3,036	2,543	973	2,089	3,374	5,487	5,568	5,290	4,957
<i>Memo:</i>										
Loans / Total Assets	54.5%	57.0%	52.2%	44.3%	47.6%	49.5%	53.9%	52.8%	67.3%	61.7%
Loans / Deposits	115.9%	125.7%	114.2%	77.9%	88.4%	113.0%	150.5%	137.2%	172.8%	122.4%
Deposits / Total Funding	73.6%	65.6%	68.2%	87.8%	78.3%	64.6%	50.3%	52.1%	51.3%	51.3%
Debt Securities / Total Funding	26.4%	34.4%	31.8%	12.2%	21.7%	35.4%	49.7%	47.9%	48.7%	48.7%



(1) Includes cash & cash due, fed funds sold, deposits placed with banks and investments.

(2) Includes \$2.5bn loan loss reserve in FY14

Source: GDB Audited Financial Statements 2005-2014

GDB Historical Context (cont'd)

With the majority of its loans non-performing and depositors seeking to withdraw funds, GDB had few options forward

- Over the years GDB was forced to make a significant number of loans to government entities that could not obtain the funds elsewhere
- GDB made nearly \$2bn in loans to HTA from 2008-2013; these loans were originally scheduled to be repaid via bond proceeds; however, when HTA lost market access, the source of repayment was changed to the revenues from Act 30 / 31
- In August 2015, GDB engaged in negotiations with its creditors to exchange GDB debt for new PRIFA notes backed by the petroleum products tax. In addition to exchanging existing GDB notes, a new money component of up to \$[2] billion was proposed by the GDB creditors, subject to very onerous terms, including high over-collateralization and a high interest rate
 - By completing this transaction GDB would have been able to wipe out a significant portion of its own debt and transfer the \$2bn of non-performing HTA loans off balance sheet
 - However, GDB was not able to complete the GDB-PRIFA debt financing / exchange and instead transitioned toward a more comprehensive restructuring of GDB's debt

Largest GDB Nonperforming Loans

Borrower	No. of Credit Facilities	Total Loan Balance	Date Range of Loan Originations	Source of Repayment
HTA	25	\$2.0 bn	Apr. 2008 – Aug. 2013	When originated, Bond Proceeds; after, Act 30/31 Revenues
PR Treasury	18	\$870 mm	2002 – 2013	Commonwealth's General Fund / Bond Proceeds
Special Comm. Trust	1	\$345 mm	Jun. 2003	Commonwealth's General Fund / Bond Proceeds
Port. Authority	5	\$286 mm	2008 / 2013	Commonwealth's General Fund / Bond Proceeds
ASEM	1	\$282 mm	Nov. 2010	Commonwealth's General Fund / Bond Proceeds
OMB	2	\$263 mm	2006 / 2012	Commonwealth's General Fund / Bond Proceeds
ASES	1	\$183 mm	Mar. 2011	Commonwealth's General Fund / Bond Proceeds
PRCCDA	3	\$145 mm	1999/2003	Commonwealth's General Fund / Internal Sources
Total		4,374mm		

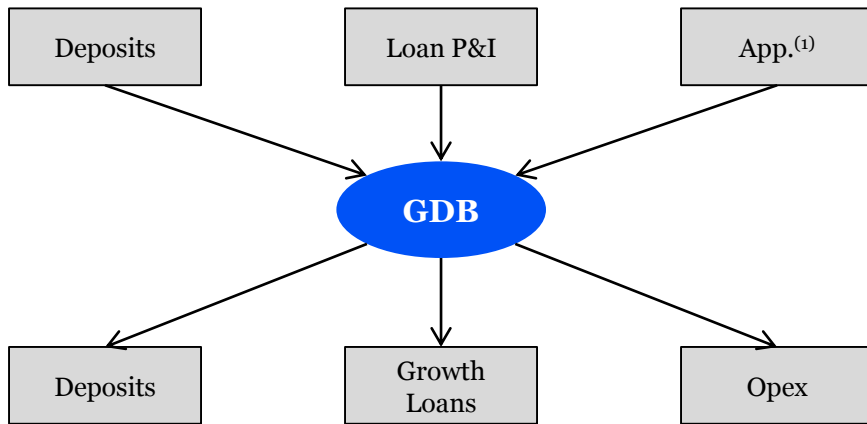


Source: GDB TOMIS

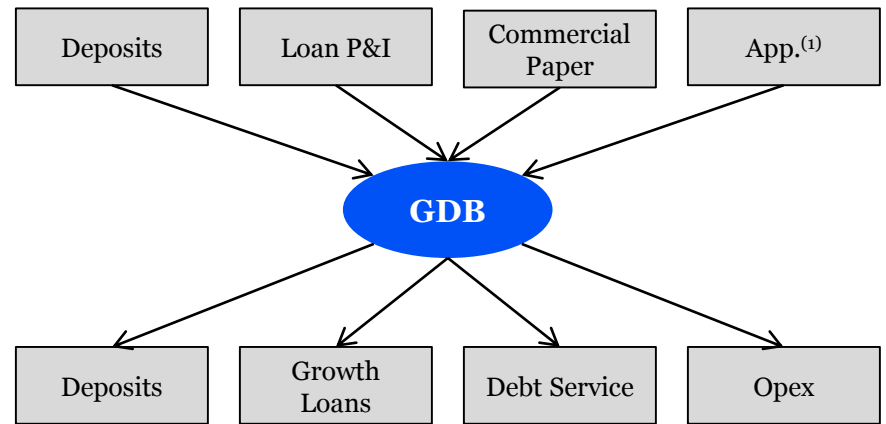
GDB Historical Context (cont'd)

GDB's structure and cash flows have changed over the years as it transformed from a strategic lender for economic development and social progress into a vehicle to finance governmental deficits

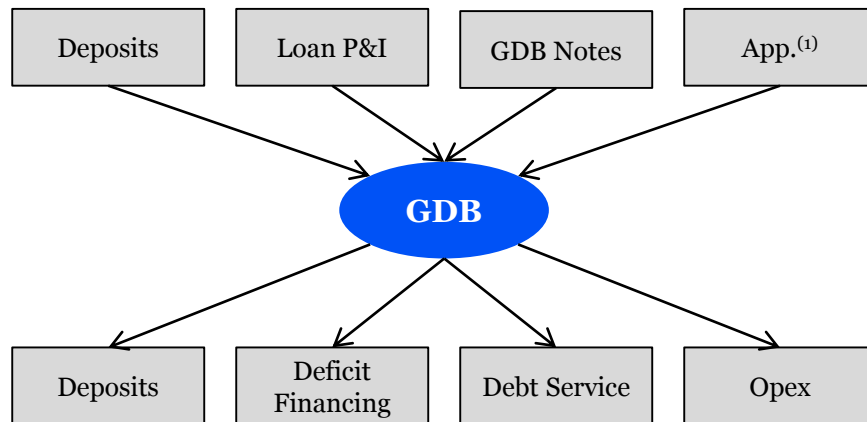
GDB in the Beginning



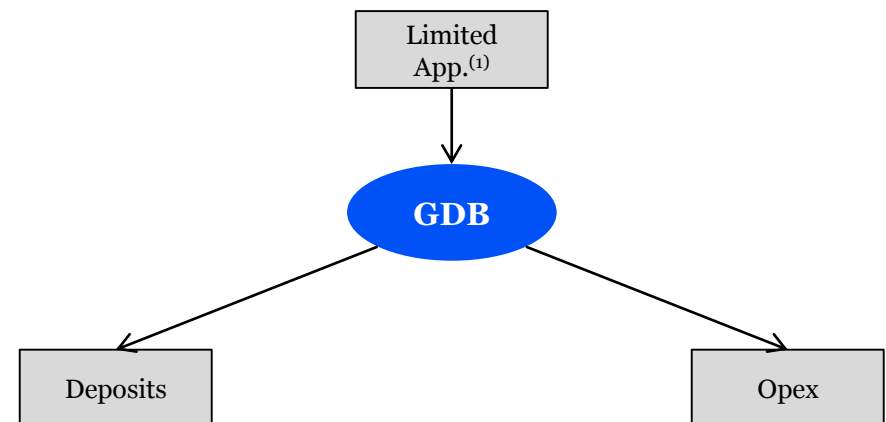
GDB in the 1990s



GDB in the 2000s



GDB Now



¹⁾ General Fund appropriations

GDB Recent History

In recent years, GDB has taken extraordinary measures to conserve liquidity; in doing so, it had drastically scaled back bank operations

- During FY16, additional restrictions have been implemented to manage GDB's liquidity as required by executive orders, which in turn put incremental pressure on Hacienda and the rest of its depositors and borrowers. Such measures have included:
 - Reduced Hacienda's \$300mm Tax Revenue Anticipation Note (TRAN) to \$125mm in Q2 of FY 2015. GDB's liquidity and the restrictions imposed have not allowed for Hacienda to draw any amounts under this facility.
 - Ceased new loan origination and significantly scaled-back disbursements under existing credit facilities
 - The GDB Board began to limit withdrawals, scrutinize requests for withdrawals and adhere to disbursement limits
 - Facilitated asset sales by GDB subsidiaries in order to generate additional cash flow available to repay GDB loans
 - ☞ HFA loan sale (\$90mm) and St. Regis loan sale (\$40mm)
 - Sought deposits that were required to be held at the bank under Act 24 and worked with the relevant agencies to move those funds to GDB
 - Restricted deposit disbursements, requiring depositors to submit deposit requests to the bank, which were then reviewed by bank management and funded on a limited and delayed basis.
 - ☞ Since the declaration of the Emergency Period, deposit disbursements require a certification⁽¹⁾ stating they are for the provision of essential services and that no other sources of funding are available
 - ☞ Deposit disbursements have also been restricted to weekly limits starting at \$10mm per week and have recently been reduced to \$2mm per week. In August 2016 Hacienda began appropriating funds to GDB to be used solely for specific purposes, primarily the funding of deposit disbursements for select depositors that provide essential services
- Upon the declaration of a moratorium and due to GDB's limited liquidity, it failed to make a \$360mm principal payment in May 2016; GDB reached an agreement with a group of Coops to extend \$40mm of the maturity to May 2017
- GDB continued to pay interest on its debt obligations through the end of FY16, however, GDB has not made an interest payment since July 1, 2016
 - ☞ The GDB Board stopped asking for authorization from the Governor to pay GDB debt service once liquidity reached a critical level and uncertainty around the Commonwealth's ability to perform on its budget and for GDB to collect on other revenues created too much uncertainty for the Board to continue debt service payments



(1) The Judicial Branch, the Legislative Branch, UPR, the Office of the Comptroller, the Office of the Electoral Comptroller, the State Elections Commission, the Government Ethics Office, the Independent Prosecutors Panel and municipalities are permitted to self certify, all other need to have Hacienda certify their withdrawal requests.

GDB's Legal Framework

GDB has been subject to numerous legal changes due to recently enacted legislation

▪ **Emergency Moratorium and Financial Rehabilitation Act**

- On April 6, 2016, the Governor signed into law the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, Act 21 – 2016 (“Moratorium Act”), which:
 - ⌘ Authorizes the Governor to declare a state of emergency over the Commonwealth and its instrumentalities effectively suspending payments on debt obligations, enacting a stay over claims and activating emergency measures to guarantee the continued provision of essential government services
 - ⌘ Modernizes GDB’s receivership provisions and provides a more robust legal framework in the event the Governor orders a winding down of GDB operations
 - ⌘ Authorizes the creation of a bridge bank, in order to facilitate the transfer of certain assets and liabilities to new entities to continue bank operations
 - ⌘ Creates the Puerto Rico Fiscal Agency and Financial Advisory Authority to assume role of Commonwealth’s fiscal agent and oversee debt restructuring efforts

▪ **Executive Order 2016-10 Declaring State of Emergency over GDB under the Moratorium Act**

- On April 8, 2016, the Governor decreed Executive Order 2016 - 10, activating an emergency period over GDB under the Moratorium Act (“EO 2016 – 10”), which:
 - ⌘ Limits and restricts GDB fund outflows to only those necessary to maintain essential services in the ordinary course of business and sets out a certification procedure whereby GDB depositors must certify withdrawal requests as necessary to fund essential services
 - ⌘ Authorizes GDB to set weekly disbursement maximums and to implement a disbursement priority of withdrawal requests according to the schedule set forth in EO 2016 - 10
 - ⌘ Authorizes GDB to take necessary measures to continue ordinary operations



GDB's Legal Framework (cont'd)

GDB has been subject to numerous legal changes due to recently enacted legislation

- **Executive Order 2016-14 Declaring moratorium over GDB payment Obligations**
 - On April 30, 2016, the Governor decreed Executive Order 2016-14 (“EO 2016-14”) pursuant to the Moratorium Act, imposing a moratorium over GDB payment obligations, which:
 - ☞ Imposes a moratorium over all GDB payment obligations, but allows for the Board of Directors to seek the Governor’s permission to pay interest on the Bank’s notes, liquidity permitting
 - ☞ Deems deposits “covered obligations” under the act, activating a stay, but does not subject deposit disbursements to moratorium
 - ☞ Permits limited deposit disbursements for essential services in accordance with EO 2016-10
 - ☞ Allows GDB to continue making disbursements pursuant to its obligations as paying agent
- **Puerto Rico Oversight Management and Economic Stability Act**
 - On June 30, 2016, President of the United States of America signed into law the Puerto Rico Oversight Management and Economic Stability Act (“PROMESA”) which:
 - ☞ Establishes a Fiscal and Management Oversight Board (“Oversight Board”) to provide a method for a “covered territory” to achieve fiscal responsibility and access to the capital markets
 - On September 30, 2016, the Oversight Board designated GDB as a “Covered Territorial Instrumentality”, which:
 - ☞ Requires the presentation of its operating budget to the Oversight Board for their review and approval
 - ☞ Prevents new debt issuance or alteration of any debt already emitted without the Oversight Board’s approval
 - ☞ Allows for the Oversight Board to intervene in any new or ongoing litigation against GDB
 - ☞ Allows for the negotiation and/or restructuring of GDB’s debt under Titles III or VI of PROMESA
 - ☞ Does not affect the daily operations of the Bank



GDB under the Emergency Period

With the declaration of the Emergency Period, GDB has been operating on an extremely conservative basis in order to limit outflows and ensure GDB maintains sufficient liquidity to continue operations

- Due to the liquidity conservation measures that have been taken, many entities have ceased transferring funds to GDB, whether in the form of deposits or loan payments
- Municipalities have generally ceased depositing property tax (CAE) and sales & use tax (IVU) collections at GDB other than the minimum amount necessary to repay loans from GDB; however, GDB did receive \$10mm from COFIM in September 2016 related to repayments on advances GDB had previously made
- Agencies and Corporations have stopped depositing funds at the bank and instead are transacting through the commercial banks on the island
- GDB has been receiving minimal inflows related to its public, private and Tourism Development Fund loan portfolios
 - Since August, GDB has been receiving \$11mm per month in appropriations from Hacienda. A portion of these funds is used to fund the operating expenses of the bank and the remainder is restricted to funding certain deposit disbursements
- GDB deposit disbursements have been restricted to only those certified to be for the provision of essential services
- GDB has not been paying debt service since July 1, 2016 and is not projected to have the liquidity to make any debt service payments for the foreseeable future
- Absent a restructuring, GDB would likely continue to distribute limited funds until it completely exhausts its available resources
 - The Emergency Period expires on January 31, 2017, subject to a two month extension by the Governor
 - ☞ Upon expiration of the Emergency Period, the restrictions on the withdrawal of deposits and the disbursement of loans expires. Similarly, the moratorium on the payment of GDB's debt expires and all amounts not paid during the emergency period will become due and payable
 - ☞ GDB has been able to continue operating in a limited capacity given the restrictions and protections imposed by the Moratorium Act. Additional measures and decisions will need to be taken after the expiration of such period, which will depend on the public policy decisions regarding GDB's future

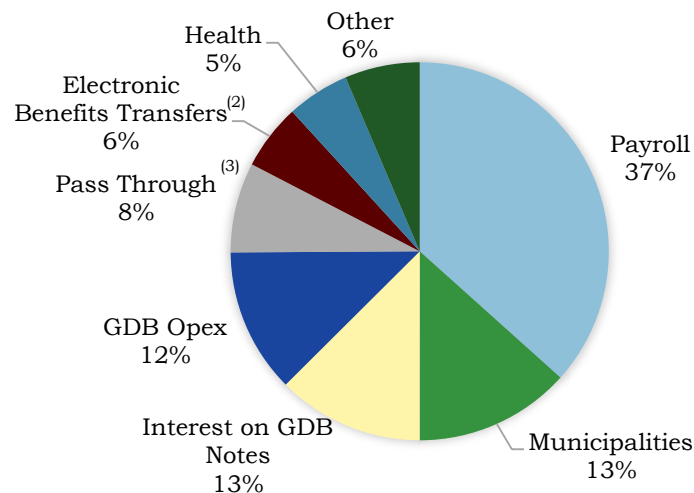


GDB Disbursements during the Emergency Period

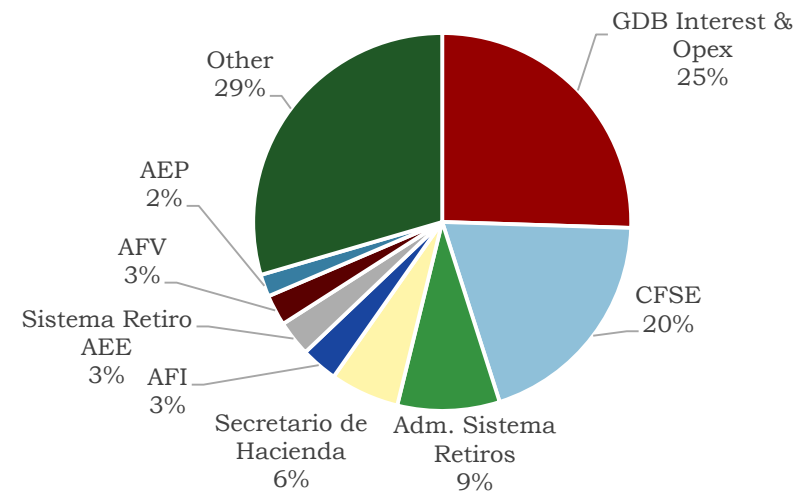
During the Emergency Period GDB is prioritizing deposit disbursements to provide for the Health, Safety and Welfare of the residents of Puerto Rico. All disbursements must be for the provision of essential services for which there is no other source of funding

- From April 11, 2016 through November 25, 2016 GDB has disbursed approximately \$345mm
- Payroll disbursements were made to:
 - CFSE – \$48mm
 - Retirement Systems – \$30mm
 - Prepa Retirement System – \$11mm
 - \$38mm related to other entities

Disbursements by Category⁽¹⁾



Disbursements by Entity⁽¹⁾



(1) Data from 4/11/2016 through 11/25/2016
 (2) Withdrawals from State Insurance Fund by individuals qualifying for benefits under the workmen's compensation plan – withdrawals done via card
 (3) Outflows for which a related inflow was received (outflow would not occur without the corresponding inflow) which has no impact on GDB's liquidity balance
 Note: Disbursements do not include checks written before the Emergency Period which were honored until they expired in mid-October
 Source: GDB Accounting Department

GDB's Current Balance Sheet – Overview

GDB's balance sheet consists of significant “modified” and “nonperforming” loans that are not paying according to their initial terms and have caused severe financial distress

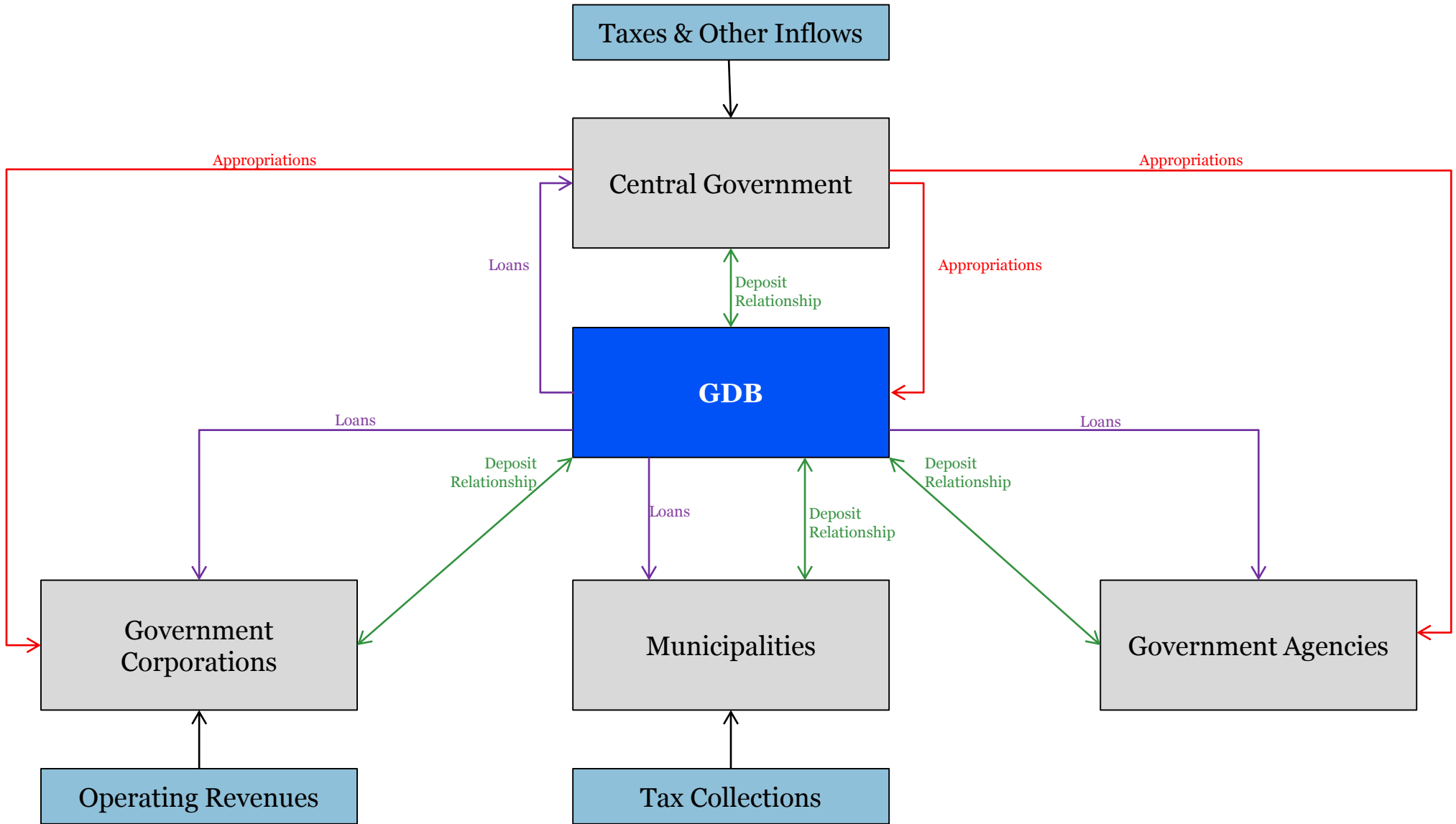
- GDB accounted for its inherent losses in the public sector loan portfolio following applicable financial reporting and accounting pronouncements
- Certain events subsequent to the issuance of the audited financial of FY2013 led management to re-assess such inherent losses
 - Total allowance for loan losses amounted to approximately \$2.5bn
 - A significant amount of provisions for loan losses was thus recorded during FY2014
 - To establish such provision, management relied on the results of the Commonwealth's January 2016 Fiscal and Economic Growth Plan (the FEGP)⁽¹⁾
- The vast majority of GDB's public loans are repaid via Hacienda appropriations or proceeds from bond issuances. Due to Hacienda's own liquidity constraints and the Commonwealth's lack of market access, almost all of GDB's public loans are non-performing
 - Even some of the loans with dedicated sources of repayment, such as Act 30-31 revenues for an HTA line of credit, are non-performing as these revenue streams have not been received by GDB

<i>(\$mm)</i>	<u>6/30/2016</u>		<u>6/30/2016</u>
<u>Assets:</u>		<u>Liabilities:</u>	
Cash & Cash Equivalents	\$224.9	Total Deposits	\$3,732.5
Loans:		Allowance For Losses on Guarantees and LOCs	52.6
Public Entity Loans	6,484.1	Accrued Interest Payable	37.0
Municipal Loans	2,639.9	Accounts Payable	68.9
Private Sector Loans	1.1	Notes Payable	3,762.9
Allowance for Loan Losses	(2,504.3)	Total Liabilities	<u>\$7,653.8</u>
Total Loans, net	\$6,620.9	Net Position	(\$569.5)
Accrued Interest Receivable:		Total Liabilities and Net Position	<u>\$7,084.3</u>
Accrued Interest: Investments	0.0		
Accrued Interest: Public Entity Loans	90.7		
Accrued Interest: Municipal Loans	55.1		
Accrued Interest: Private Sector Loans	0.0		
Accrued Interest Receivable	\$145.8		
Real Estate Owned	62.7		
Other Assets	30.0		
Total Assets	<u>\$7,084.3</u>		

Source: GDB Accounting Department Draft Financial Statements
 (1) The Bank's management used the results of the FEGP, specifically the set of cash flows and assumptions related to the forecast of the financing gaps for the next ten fiscal years for those entities within the FEGP, including measures that could be implemented to reduce such gaps, to estimate the potential future debt service payments on its public sector loan portfolio including those payable from appropriations from the Legislature to establish an allowance for loan losses.

GDB's Role in the Commonwealth

GDB resides in the middle of a complex web of relationships that form the Commonwealth's financial system

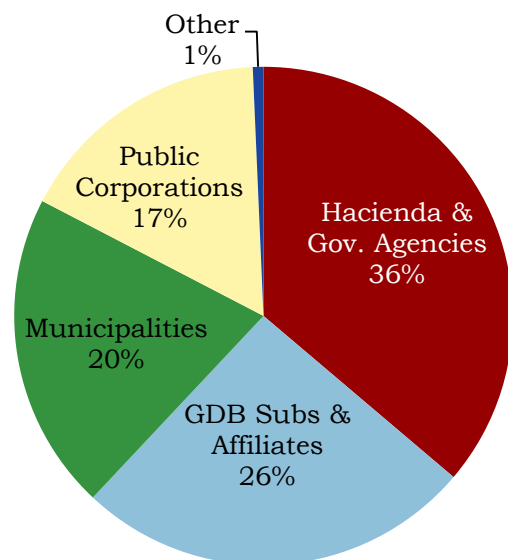


GDB's Current Balance Sheet – Deposits

GDB holds \$3.5bn of deposits for various agencies, corporations and municipalities. Due to GDB's limited liquidity, access to these funds has become severely restricted

- Most depositors have transitioned their operating accounts away from GDB and have been transacting via commercial banks since April 2016
- The majority of the municipal deposits are related to reserve accounts for payment on the municipal loan portfolio and escrow accounts (undisbursed loan commitments held as a deposit of the bank)

GDB Deposits (9/30/16)



Total Deposits: \$3.5bn

Top 20 GDB Depositors (\$ millions) (9/30/16)

Depositor	Balance
Departamento de Hacienda	\$502
Municipal Financing Corporation (COFIM)	253
Autoridad para el Financiamiento de la Infraestructura (AFI)	231
Autoridad para el Financiamiento de la Vivienda (PRHFA)	172
Fondo de Desarrollo Turistico	156
Banco Gubernamental de Fomento (BGF) ⁽¹⁾	153
Municipio de San Juan	153
Autoridad de Energia Electrica (AEE)	149
Municipal Fund Administration (FAM)	131
Fideicomiso Comunidades Especiales	102
Universidad de Puerto Rico (UPR)	92
Fideicomiso Para La Ciencia Tecnologia E Investigacion	85
Departamento del Trabajo y Recursos Humanos	82
Municipio de Carolina	74
Special Municipal Funds	53
Corporacion del Fondo del Seguro del Estado (CFSE)	43
Autoridad de Edificios Publicos (AEP)	41
Municipio de Mayaguez	40
Administracion de Terrenos	38
Compania de Turismo de Puerto Rico	34
Others	939
Total Deposits	\$3,521



Source: GDB Bankmate Accounting System

GDB's Current Balance Sheet – Loans

Almost all loans to municipalities are performing⁽¹⁾ while nearly all public sector loans are nonperforming. However, the municipal loans are not currently generating cash flow ⁽²⁾

Top 20 Borrowers: Public Portfolio⁽³⁾ (\$mm)

Borrower	Balance
Highways & Transportation Authority (HTA)	\$1,933.7
Hacienda	884.6
Special Communities Trust	345.8
Ports Authority	286.5
Medical Services Administration (ASEM)	282.4
Office of Management and Budget (OMB)	265.5
Port Authority of the Americas (APLA)	227.2
Health Insurance Administration (ASES)	183.3
Public Buildings Authority (PBA)	182.2
PR Conventions Center	145.3
Comprehensive Cancer Center	120.5
CRIM - Ponce	107.4
Department of Education	106.3
Administration for Agricultural Development	92.8
Housing Finance Authority	85.2
Transportation and Public Works (DTOP)	82.9
Department of Corrections and Rehabilitation	82.5
PR Industrial Development Company (PRIDCO)	77.8
University of Puerto Rico (UPR)	76.4
Solid Waste Authority	71.9
Other Public Loans	590.3
Total Public Portfolio	\$6,230.4

Top 20 Borrowers: Municipal Portfolio⁽³⁾ (\$mm)

Borrower	Balance
San Juan	\$414.6
Guaynabo	143.1
Ponce	98.2
Toa Baja	75.9
Aguadilla	71.9
Caguas	64.3
Bayamon	58.4
Mayaguez	56.7
Dorado	53.3
Manati	47.8
Arecibo	45.2
Cayey	39.7
Juncos	37.8
Barceloneta	35.7
Trujillo Alto	32.9
Vega Baja	29.6
Yauco	28.6
Gurabo	28.2
Cabo Rojo	26.4
Toa Alta	25.4
Other Municipal Loans	622.9
Total Municipal Portfolio	\$2,036.6

GDB Total Loan Portfolio (\$mm)	
Public Loans	\$6,230.4
Municipal Loans	2,036.6
Municipal FAM Advances	168.1
Municipal COFIM Advances	326.2
Private Sector Loans / Other	0.9
AFV Reverse Repo	24.8
Overdrafts	17.4
Capitalized Interest	(4.5)
Gross Loans	\$8,799.9
Loan Loss Reserve	(2,504.3)
Net Loans	\$6,295.7



(1) Municipalities are offsetting amounts due against their deposits at GDB.

(2) GDB did receive \$10mm in September 2016 from COFIM

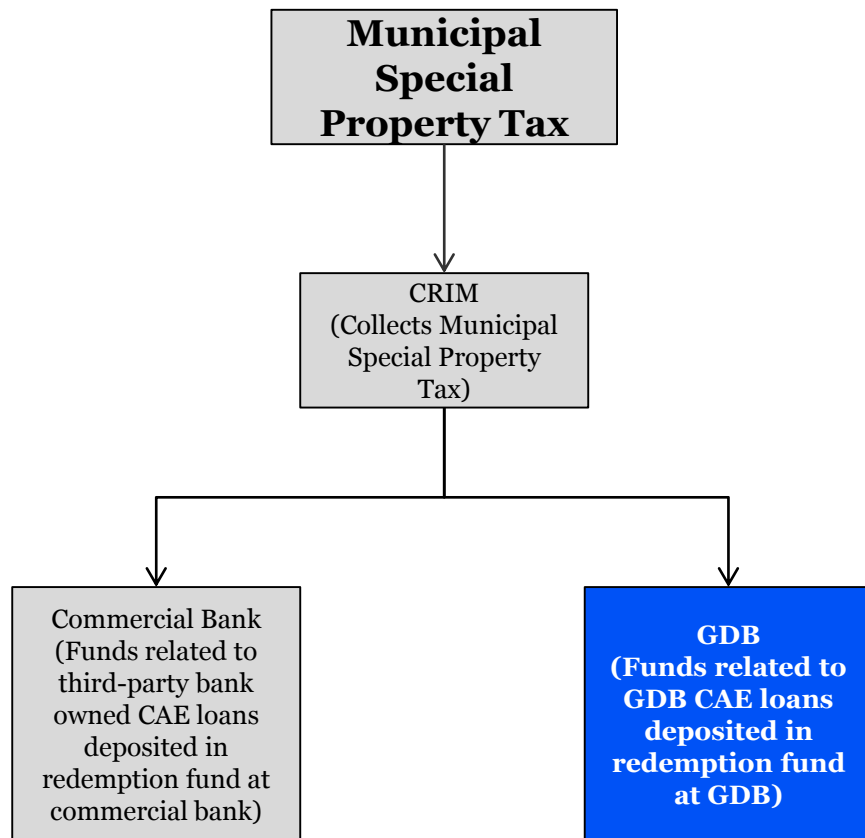
(3) As of 9/30/2016

Source: GDB Accounting Department Draft Financial Statements

Municipal Loan Repayment Structures – CAE

The following diagram shows GDB's role in the flow of funds related to its CAE municipal loans

CAE Loan Structure



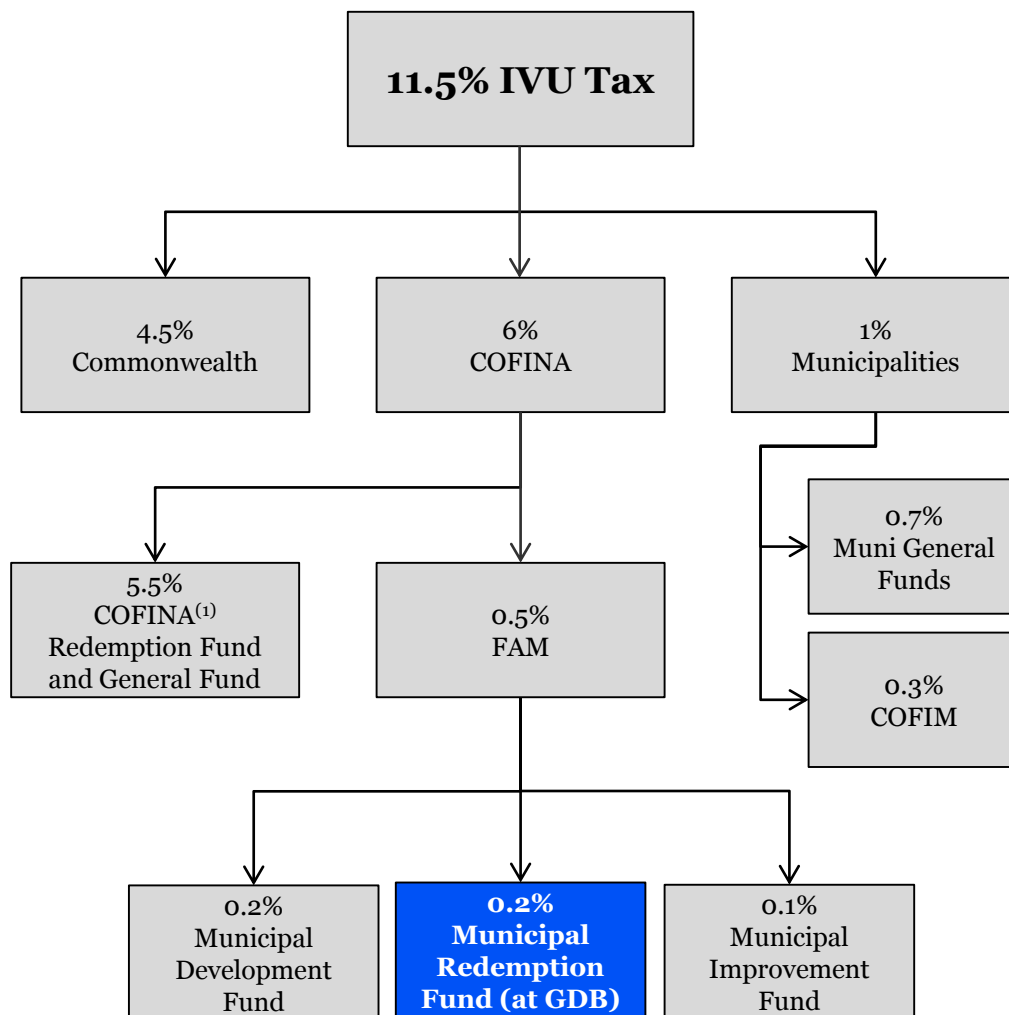
- For CAE loans, CRIM collects the special municipal tax and historically has deposited a portion at GDB and a portion at a commercial bank
 - The funds at GDB were for payment on the CAE loans held by GDB, while the funds at the commercial bank were for payment on CAE loans held by other banks
- Recently CRIM has stopped sending CAE funds to GDB
 - Instead, the municipalities have been compelling an offset of amounts due on their loans against deposits held at GDB
 - As a result, GDB has not been receiving any cash flow related to its CAE municipal loans since March 2016
 - If municipalities do not withdraw any excess funds from GDB, they will have enough deposits at GDB, both in the redemption funds and other deposit accounts, to continue offsetting for approximately 2 years
- In total the municipalities have more loans with GDB than deposits; if GDB were to force a full offset of loans and deposits, municipalities would end up with a net liability to GDB



Municipal Loan Repayment Structures – IVU

The following diagram shows GDB’s role in the flow of funds related to its IVU municipal loans

IVU Loan Structure



- A portion of the IVU tax is dedicated for the repayment of GDB municipal loans
 - There are two distinct structures in place to allow for loans to be repaid via the IVU tax: the FAM and COFIM structures
 - ☞ While the COFIM structure is in place, no COFIM loans have been issued⁽²⁾; all outstanding IVU loans are through the FAM structure
- Of the 6% of the IVU that COFINA collects, 0.5% is sent to FAM and then further split between the Municipal Development Fund, Municipal Redemption Fund, and Municipal Improvement Fund
- Recently, Act 84-2016 was passed which allows COFIM to divert the IVU funds away from GDB and directly to a private institution
 - The municipalities have been compelling an offset of amounts due on their loans against deposits held at GDB
 - As a result, GDB has not been receiving any cash flow related to its IVU municipal loans since March 2016
 - If municipalities do not withdraw any excess funds from GDB, they have enough deposits at GDB, both in the redemption funds and other deposit accounts, to continue offsetting for approximately 2 years



(1) The current COFINA structure continues to operate as designed despite expected legal challenges regarding whether or not proceeds from the sales and use taxes are “Available Revenues”. The COFINA bonds are repaid via their portion of these funds.
 (2) GDB has historically made advances to the municipalities based on expected COFIM inflows; however, GDB has stopped this practice and now the COFIM funds flow directly to the municipalities.

Negotiations Summary – New Financing

While there were several offers to complete financing transactions that would have resulted in a short term cash infusion to GDB, the terms were unacceptable to GDB and no new financing was completed

- In August 2015, GDB engaged in negotiations with its creditors to exchange GDB debt for new PRIFA notes backed by the petroleum products tax (“la crudita”). In addition to exchanging existing GDB notes, a new money component of up to \$[2] billion was proposed by the GDB creditors, subject to very onerous terms, including high over-collateralization and a high interest rate
 - The Commonwealth and GDB did not pursue a GDB-PRIFA debt financing / exchange and instead worked toward a more comprehensive restructuring of GDB
- In August 2015 OHorizons Global LLC, a hedge fund, submitted an indication of interest for a proposed \$1bn financing of GDB’s CAE municipal loan portfolio
 - The financing was to be structured as a loan to GDB secured by the CAE portfolio
 - If agreeable terms for a financing could not be reached, OHorizons stated they would also consider an outright purchase or securitization of the CAE loan portfolio
 - Ultimately GDB decided against encumbering its strongest performing asset and no agreement with OHorizons was reached



Negotiations Summary – GDB Interim Exchange

The Commonwealth and the GDB Ad Hoc Group (“AHG”) have reached an initial agreement whereby the AHG would accept a 47% recovery in a global Commonwealth-wide exchange

- Since announcing the agreement on May 1, 2016, the Commonwealth has attempted to reengage with the GDB Ad Hoc Group to continue making progress toward a final agreement on the transaction
- The indicative terms disclosed on May 1 indicated that several key terms remained subject to further discussion, including the following:
 - Terms relating to the treatment of interest on the GDB bonds through closing of the interim exchange (i.e., an exchange of GDB bonds for interim GDB bonds prior to the global exchange) and treatment of PIK and accrued interest on the interim GDB bonds through the global exchange
 - Usage of excess cash flow from the collateral (i.e. municipal loans) and collection mechanisms for cash flow from the collateral (e.g., a third-party lock-box mechanism)
 - Terms and conditions for the ultimate exchange consideration to be offered to GDB bondholders in the global exchange
 - Terms and conditions for other consideration to be offered in the exchange to certain GDB creditors such as the Cooperativas
- The GDB Ad Hoc Group initially brought litigation against GDB but withdrew their request for a temporary restraining order once the provisions of Act 21-2016 were put in place to protect GDB’s liquidity. However, despite indications from the Commonwealth and GDB that it would be difficult for the Commonwealth and GDB to continue to engage in negotiations should the Ad Hoc Group continue its lawsuit, the Ad Hoc Group amended their complaint in late May to challenge the constitutionality of Act 21-2016 (as amended)
- On June 22, the Commonwealth and GDB sent their response to the various items that were left open in the indicative terms agreed on May 1. While both groups have indicated willingness to continue negotiations, the Commonwealth and GDB have not yet received a reply to this response

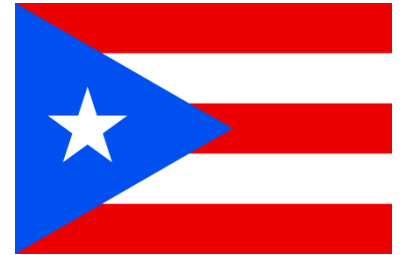


Considerations for the Future of GDB

There are three strategies available to GDB in a restructuring including 1) a recapitalization, 2) run-off/ status quo and 3) liquidation

Strategy	Benefits	Considerations
Recapitalization	<ul style="list-style-type: none"> Structure of current entity may be maintained Infrastructure already in place 	<ul style="list-style-type: none"> May hinder implementation of best practices (poor habits continue) Debt will need to be repaid, cancelled or exchanged which may result in additional risks <ul style="list-style-type: none"> Legacy lawsuits could continue for years, hindering the bank's ability to operate Loans to Commonwealth entities would need to be restructured in such a way as to ensure payment; otherwise, GDB would be highly susceptible to relapsing due to non-payment by its largest borrowers Other Commonwealth creditors will likely be opposed to a cash infusion at GDB and would prefer those funds be used to increase recoveries in the restructuring of other parts of the Commonwealth debt stack
Run-Off / Status Quo	<ul style="list-style-type: none"> In line with strategy shown in the Fiscal Plan Likely results in less litigation than liquidation given debt is eliminated via a global exchange 	<ul style="list-style-type: none"> Litigation likely to ensue depending on the recoveries achieved by the municipalities, bondholders and government instrumentalities <ul style="list-style-type: none"> Recoveries impacted by the decision to include GDB debt in a global exchange (or not) Additional impact from Hacienda decision to appropriate funds to repay loans from GDB (or not) If an exchange has not been completed / agreed upon at the end of the moratorium period, there is no current plan for GDB Hacienda would need to appropriate funds in order for depositors to receive disbursements
Liquidation	<ul style="list-style-type: none"> GDB or another new development bank can be established with a clean slate Depending on the time frame for establishing the new bank, GDB's existing infrastructure could be utilized 	<ul style="list-style-type: none"> Litigation likely to ensue depending on the recoveries achieved by the municipalities, bondholders and government instrumentalities <ul style="list-style-type: none"> Recoveries impacted by the decision to include GDB debt in a global exchange (or not) Additional impact from Hacienda decision to appropriate funds to repay loans from GDB (or not)





Appendix

GDB Special Financing Vehicle

The following entities are related to GDB but have their own independent debt obligations

- COFINA
 - COFINA is an independent instrumentality of the Commonwealth that was originally created in 2006 pursuant to the provisions of Act No. 91-2006, as amended, for the purpose of financing the payment of certain appropriation-backed debt outstanding as of June 30, 2006 payable to GDB and PFC, among other things
 - In 2009, the Legislative Assembly of the Commonwealth expanded the purposes for which COFINA was created to include, among other things, the payment or financing of Commonwealth operational expenses for certain subsequent fiscal years
 - COFINA Senior and First Subordinate bonds are secured by a net pledge of a portion of the Commonwealth's sales and use tax ("SUT") collections that are deposited in the Dedicated Sales Tax Fund, a special fund held and owned by COFINA separate from the Commonwealth's General Fund
- Public Finance Corporation (PFC)
 - PFC is a subsidiary corporation of GDB that provided agencies and instrumentalities of Puerto Rico with alternate means of meeting financing requirements
 - Obligations of PFC are not obligations of GDB
 - Proceeds from PFC's bond issuances were used to fund the purchase of certain promissory notes issued in connection with the restructuring of various loans made by GDB to certain departments, agencies, instrumentalities and public corporations of the Commonwealth
- Municipal Finance Agency (MFA)
 - MFA is a public corporation and governmental instrumentality created to allow the municipalities of Puerto Rico to access the capital markets in order to more effectively finance their public improvement programs
 - The agency issued bonds for the purposes of (i) purchasing bonds and notes of municipalities and (ii) refunding certain outstanding MFA bonds

