

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**

**SPECIAL LIQUIDITY UPDATE DATED OCTOBER 17, 2014**

**GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO**  
**SPECIAL LIQUIDITY UPDATE**  
**October 17, 2014**

**Introduction**

This Special Liquidity Update (the “GDB Update”) of Government Development Bank for Puerto Rico (“Government Development Bank” or “GDB”) is dated as of October 17, 2014, and should be read in conjunction with the information contained in the Commonwealth of Puerto Rico (the “Commonwealth”) Financial Information and Operating Data Report, dated October 18, 2013 (the “Commonwealth Annual Report”), which was supplemented by the Quarterly Report, dated February 18, 2014 (the “Commonwealth February Quarterly Report”), the Official Statement, dated March 11, 2014 (the “Official Statement”), relating to the issuance of the Commonwealth of Puerto Rico General Obligation Bonds of 2014, Series A (the “Series 2014 Bonds”), and the Quarterly Report, dated as of July 17, 2014 (the “Commonwealth July Quarterly Report”). The Commonwealth Annual Report, as supplemented by the Commonwealth February Quarterly Report, the Official Statement and the Commonwealth July Quarterly Report, is referred to herein as the “Commonwealth Report.”

This GDB Update is not intended to amend or otherwise update the Commonwealth Report, and should not be deemed to be a part of the Commonwealth Report. GDB does not undertake or covenant to periodically issue or update information regarding its liquidity or financial position, other than the information required to comply with GDB’s continuing disclosure undertakings pursuant to Rule 15c 2-12 under the Securities Exchange Act of 1934, as amended. Unless otherwise stated, the information included herein is current as of the respective dates as of which such information is presented in this GDB Update. You should not assume that the information in this GDB Update is accurate as of any date other than the dates indicated herein.

The fiscal year of the Commonwealth and GDB runs from July 1 through June 30 of the following year. References in this GDB Update to a particular fiscal year are to the year in which such fiscal year ends.

This GDB Update is only intended to provide a brief overview of GDB’s liquidity position as of September 30, 2014 and a liquidity projection as of such date based on the assumptions set forth herein. It is not intended to provide comprehensive or detailed information as to the financial condition of GDB or the risks facing GDB. Furthermore, although this GDB Update discusses information about the Commonwealth and certain of its instrumentalities, this GDB Update does not, and is not intended to, provide detailed information as to the financial condition of the Commonwealth or any of its instrumentalities. **Readers of this GDB Update, however, should carefully consider the risk factors affecting the Commonwealth identified in the Commonwealth Report as those risk factors may also affect the financial condition, solvency and liquidity of GDB.**

**The information included herein is intended to provide the reader with an understanding of certain factors that impact GDB’s cash flow and liquidity position, but it is not a prediction of such cash flow or liquidity. Due to the inherently uncertain nature of many factors, most notably the cash flow to be received from loans to certain counterparties during the projection period and the financing needs of, and availability of third-party financing for, the Commonwealth and its public corporations (also referred to herein as instrumentalities) and municipalities, among others, estimates related to such factors may be subject to greater volatility and variability than others, and the projection included herein does not represent GDB’s management position or opinion with respect to such counterparties’ ability to honor their contractual obligations with GDB or the ability of**

such counterparties to meet their financing needs from sources other than GDB. The ability of the Commonwealth and its instrumentalities to honor their contractual obligations with GDB and their ability to meet their financing needs from sources other than GDB are significantly impacted by the difficult financial situation that the Commonwealth and many of its instrumentalities currently find themselves. See “RISK FACTORS” in the Commonwealth July Quarterly Report. It is inherently difficult to predict with certainty the ability of the Commonwealth and its instrumentalities to obtain financing.

Furthermore, new factors emerge from time to time, and it is not possible for GDB to predict all such factors, nor can it assess the impact of each such factor or the extent to which any factor or combination of factors may cause results to differ materially from those contained in any forward-looking statement. As such, readers of this GDB Update are cautioned not to place undue reliance on the prospective financial information. Actual future results may differ materially from the forward-looking information presented herein.

The financial projection set forth herein is dependent on, and should be read in connection with, the assumptions made by GDB’s management that are explained below. GDB’s management believes, based on currently available information that such assumptions are reasonable as of the date of this GDB Update, subject to the explanations provided herein. The reader is advised that there are many factors that may make such assumptions incorrect, including further deterioration of the financial condition of the Commonwealth or of some of the key instrumentalities providing essential public services, which may trigger emergency financial assistance from GDB.

#### **Forward-Looking Statements**

The information included in this GDB Update contains certain “forward-looking” statements and information (including the liquidity projection set forth herein). These forward-looking statements may relate to the fiscal and economic condition, financial performance, plans, or objectives of GDB or the Commonwealth and its other instrumentalities. All statements contained herein that are not clearly historical facts are forward-looking, and the words “anticipates,” “believes,” “continues,” “expects,” “estimates,” “intends,” “aims,” “projects,” and similar expressions, and future or conditional verbs such as “will,” “would,” “should,” “could,” “might,” “can,” “may,” or similar expressions, are generally intended to identify forward-looking statements. The information contained herein is subjective in many respects and thus subject to interpretation.

These forward-looking statements are not guarantees of future performance and involve certain risks, uncertainties, estimates, opinions, expectations and assumptions by GDB, the Commonwealth and certain of its other instrumentalities that are difficult to predict, inherently uncertain and many of which are beyond the control of GDB, the Commonwealth and the instrumentalities. The economic and financial condition of GDB, the Commonwealth and its other instrumentalities is affected by various internal or external financial, social, economic and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by GDB, the Commonwealth and its other instrumentalities, but also by entities such as the government of the United States of America or other nations. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the projection of GDB.

The projection set forth in this GDB Update is not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the officers of GDB responsible for the preparation of such information, is prepared on a reasonable basis based on currently available information. This

information may be incomplete, however, and any information that subsequently becomes available may have a material impact on the projection. In addition, the information currently available cannot be relied upon as being indicative of future results. GDB does not undertake to update or revise this information.

Neither GDB's independent auditors, nor any other independent auditor, including those of the Commonwealth, have compiled, examined, audited or performed any procedures with respect to the financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability and disclaim any association with such financial information. Neither GDB's independent auditors, nor any other independent auditors, including those of the Commonwealth, have been consulted in connection with the preparation of the financial information set forth in this GDB Update, and the independent auditors assume no responsibility for its content.

### **Recent Developments Affecting Government Development Bank**

*GDB 2015 Series B Senior Notes Issue (Guaranteed by the Commonwealth of Puerto Rico).* On October 10, 2014, GDB entered into a Note Purchase, Revolving Credit and Term Loan Agreement (the "GDB Notes Agreement") providing for the issuance of up to \$900 million aggregate principal amount of 2015 Series B Senior Notes (the "GDB Notes"). The GDB Notes Agreement provides for a \$200 million revolving line of credit and a \$700 million term loan with scheduled draws. As of the date of this report, GDB had drawn \$700 million and the remaining \$200 million is scheduled to be drawn on November 13, 2014. The proceeds of the GDB Notes will be used to make a loan to the Commonwealth evidenced by \$900 million aggregate principal amount of Tax and Revenue Anticipation Notes of the Commonwealth of Puerto Rico, Series B (2015) (the "Series B TRANS"). The notes mature on June 30, 2015 and are subject to amortization requirements which commence on April 16, 2015.

*Commonwealth General Obligation Bond Issue.* On March 17, 2014, the Commonwealth sold \$3.5 billion aggregate principal amount of its Series 2014 Bonds. The proceeds of the Series 2014 Bonds, net of \$245 million of original issue discount, were used to (i) repay and reprogram certain lines of credit extended by GDB to the Commonwealth and to the Puerto Rico Public Buildings Authority ("PBA") (discussed further below); (ii) repay certain bond anticipation notes issued by the Puerto Rico Sales Tax Financing Authority ("COFINA"); (iii) refinance certain of the Commonwealth's outstanding general obligation bonds; (iv) pay, either directly or through reimbursement to the Commonwealth, termination amounts under certain interest rate exchange agreements; (v) provide for a portion of the payment of interest on the Series 2014 Bonds through July 1, 2016; and (vi) pay expenses related to the issuance and sale of the Series 2014 Bonds.

*Recovery Act.* On June 28, 2014, the Commonwealth enacted Act 71-2014, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the "Recovery Act"). The purpose of the Recovery Act is to create a legal framework that: (i) allows certain public corporations to adjust their debts in a manner that protects the interests of all affected creditors; (ii) provides procedures for the orderly enforcement and restructuring of the debts and obligations of eligible public corporations in a manner that is consistent with the Constitution of each of the United States and Commonwealth; and (iii) maximizes the return to such public corporation's stakeholders. Although neither the Commonwealth nor GDB is currently eligible to seek relief under the Recovery Act, certain public corporations that have outstanding loans with GDB may seek relief under the Recovery Act, which may have material adverse effects on GDB's financial and liquidity position. As of the date of this report, no public corporation has sought relief under the Recovery Act. For more information regarding GDB's outstanding loans to public corporations, see "Government Development Bank – Role as Lender" below.

*Fiscal Year 2014 Deficit.* The fiscal year 2014 approved budget totaled \$9.770 billion, excluding \$575 million in general obligation debt service to be refunded with the proceeds of the Series 2014 Bonds. The budget contemplated \$245 million in new deficit financing to be provided by GDB that, when added to the \$575 million debt refunding, resulted in a total projected budget deficit of \$820 million. During the second half of fiscal year 2014, the fiscal year 2014 budget was amended by reducing approximately \$170 million in appropriations. Moreover, in June 2014, the Governor signed Executive Order 29-2014, which ordered additional cuts in appropriations totaling \$355 million, consisting of a reduction in the appropriated rent expense payments to the PBA of \$24 million, a reduction in the appropriation to the Employee Retirement System required by the pension reform of \$84 million and a reduction in the appropriation for the payment of appropriation debt to the GDB of \$247 million. As a result, budgeted expenses were reduced to \$9.245 billion. The Office of Management and Budget (“OMB”) estimates that actual expenditures for fiscal year 2014 will be lower than the amended amount of \$9.245 billion by approximately \$64 million, for projected actual expenditures of \$9.181 billion. The difference between preliminary General Fund revenues of \$9.037 billion and preliminary General Fund expenses of \$9.245 billion (excluding the \$575 million of refunded debt service and OMB’s estimate of a reduction in actual expenditures) is equal to \$208 million. This budget deficit was covered by a \$93 million loan from GDB (which represents the \$245 million in deficit financing that was reduced to \$93 million), and \$115 million in cash management measures. After considering the \$575 million refunding, the total amount of the fiscal year 2014 budget deficit was \$783 million.

*Recent Developments Affecting GDB’s Liquidity.* Between July 1 and September 30, 2014, GDB purchased from the Commonwealth \$700 million aggregate principal amount of its Tax and Revenue Anticipation Notes, Series A (2015) (the “Series A TRANS”). On October 10, 2014, GDB issued \$700 million in GDB 2015 Series B Notes, of which \$400 million were used to refinance \$400 million of the Series A TRANS. In May 2014, GDB repurchased \$200 million in variable rate debt obligations (“VRDOs”) issued by the Puerto Rico Highways and Transportation Authority (“PRHTA”). GDB purchased the VRDOs because the underlying credit enhancement was not extended or replaced. GDB’s liquidity was also affected because it did not receive from Commonwealth budgetary appropriations a \$247 million payment of GDB appropriation debt that was reprogrammed in order to further reduce the Commonwealth’s fiscal year 2014 deficit (see above). The affected GDB appropriation debt was satisfied in part through a reallocation of approximately \$200 million in proceeds from the Commonwealth’s Series 2014 Bonds. The terms of the affected GDB appropriation debt not so reallocated were modified to provide for payment in future fiscal years.

## **Government Development Bank**

The financial information with respect to GDB presented in this GDB Update is not presented on a consolidated basis and, thus, excludes its subsidiaries. The financial information presented herein is derived from GDB’s internal accounting records and has not been audited.

*Overview.* The principal functions of GDB are to act as fiscal agent, paying agent and financial advisor to the Commonwealth, its agencies, instrumentalities and municipalities; to provide interim and long-term financing to the Commonwealth, its agencies, instrumentalities and municipalities, and to private parties for economic development; and to act as depository or trustee of funds for the Commonwealth, its agencies, instrumentalities and municipalities.

*Role as Lender.* GDB lends to, and purchases and guarantees certain obligations of, the Commonwealth, its agencies, instrumentalities and municipalities. It provides interim financing to these entities in anticipation of their refinancing such indebtedness in the bond market and also, in certain

instances, provides long-term financing to such entities. GDB's loans to the Commonwealth and its instrumentalities have, among other purposes, financed their respective operating deficits and working capital needs, capital improvement programs, collateral posting requirements under swap and hedging agreements, and mandatory prepayments and maturities of financial obligations. As a result of this lending function, GDB has served and may continue to serve as the principal source of short-term liquidity for the Commonwealth, its agencies, instrumentalities and municipalities. In a more limited manner, GDB also lends and provides guarantees to the private sector, either directly or through its subsidiaries, the Tourism Development Fund, the Puerto Rico Development Fund and the Housing Finance Authority.

In the case of loans to governmental entities, GDB is not subject to limitations on loans to one borrower. Act 164-2001, as amended by Act 24-2014, however, places significant restrictions on GDB's ability to extend credit to the Commonwealth and its instrumentalities when the source of repayment consists of future legislative appropriations or proposed increases in rates, taxes or other charges.

Loans to the Commonwealth, its agencies, instrumentalities and municipalities constitute a significant portion of GDB's assets and the majority of its loan portfolio. GDB's total loan portfolio as of September 30, 2014 (excluding the lending activities of GDB's subsidiaries) amounted to \$9.4 billion, consisting of \$2.1 billion, or 22.6%, of loans to the Commonwealth (Central Government), \$5.1 billion, or 54%, of loans to the public corporations, \$2.2 billion, or 23%, of loans to municipalities, and \$33.8 million, or 0.4%, of loans to the private sector. As of September 30, 2014, loans to the Department of the Treasury of the Commonwealth (the "Treasury Department") represented approximately 16.6% of GDB's total outstanding principal balance of loans (including \$400 million in Series A TRANS that were refinanced with the proceeds of the GDB Notes and excluding its subsidiaries). As of September 30, 2014, GDB had outstanding loans to PRHTA in an aggregate principal amount of approximately \$2.01 billion (including the \$200 million in repurchased VRDOs), the Puerto Rico Electric Power Authority ("PREPA") in an aggregate principal amount of approximately \$35.8 million, the Puerto Rico Aqueduct and Sewer Authority ("PRASA") in an aggregate principal amount of approximately \$98.7 million, the Puerto Rico Ports Authority ("PRPA") in an aggregate principal amount of approximately \$259 million, which represented 21.5%, 0.4%, 1.1% and 2.8%, respectively, of the total outstanding principal balance of GDB's loan portfolio. The amounts listed in the previous sentence are exclusive of accrued interest on such outstanding loans.

The table below shows, for each of GDB's top 20 public sector borrowers as of September 30, 2014 (including loans to GDB's subsidiaries), the name of the borrower, the aggregate outstanding principal amount under existing lines of credit and the source or sources of repayment:

<b>GDB Loan Portfolio (\$ in thousands)</b>			
	<b>Outstanding Principal Balance as of 6/30/14</b>	<b>Outstanding Principal Balance as of 9/30/14</b>	<b>% of GDB Loan Portfolio as of 09/30/14</b>
<b>Commonwealth (Central Government)</b>			
Treasury Department	\$1,048,299	\$1,550,229 <sup>(1)</sup>	16.5%
Office of Management and Budget	229,529	248,283	2.6%
Department of Education	106,308	106,308	1.1%
<b>Public Corporations</b>			
Highway and Transportation Authority (HTA)	2,013,902	2,013,902	21.4%
Special Communities Perpetual Trust	345,841	345,841	3.7%
PR Medical Service Administration (ASEM)	278,292	280,841	3.0%
Puerto Rico Ports Authority (PRPA)	262,974	259,034	2.8%
Puerto Rico Tourism Dev. Fund (TDF)	254,232	254,233	2.7%
Port of the Americas Authority (APLA)	226,677	225,859	2.4%
Housing Finance Authority	159,944	209,204	2.2%
PR Health Insurance Administration (ASES)	183,251	183,251	1.9%
Puerto Rico Public Buildings Authority (PBA)	175,417	176,339	1.9%
Convention Center District Authority (CCDA)	145,448	145,448	1.5%
Municipal Revenue Collection Center (CRIM)	150,413	149,664	1.6%
Agropecuary Enterprise Dev. Adm. (AEDA)	100,968	99,658	1.1%
PR Aqueduct and Sewer Authority (PRASA)	81,083	98,666	1.0%
PR Industrial Development Company (PRIDCO)	87,325	87,325	0.9%
<b>Municipalities</b>			
San Juan	428,660	403,403	4.3%
Guaynabo	143,024	137,875	1.5%
Ponce	113,159	107,319	1.1%
<b>Top 20 Borrowers</b>	<b>6,534,746</b>	<b>7,082,682</b>	<b>75.2%</b>
<b>Total Loan Portfolio</b>	<b>\$8,913,612</b>	<b>\$9,418,412</b>	<b>100.00%</b>

(1) Includes \$700 million in 2015 Series A TRANS, \$400 million of which were permanently repaid on October 10, 2014.

As a result of the nature and composition of GDB's public loan portfolio, conditions that adversely affect the ability of the Commonwealth, its instrumentalities and municipalities to repay their interim and other loans from GDB, including access to the bond market and other financing sources, have an adverse effect on GDB's liquidity and financial condition. See "RISK FACTORS" in the Commonwealth July Quarterly Report. Similarly, conditions that adversely affect the ability of GDB to finance its loan portfolio, including access to the bond market and other financing sources, have an adverse effect on the Commonwealth and its instrumentalities, as GDB's ability to continue providing interim and long-term financing to the Commonwealth, its instrumentalities and municipalities is reduced.

During fiscal year 2014, GDB's liquidity position was adversely affected by, among other factors, a significant increase in credit spreads for obligations of the Commonwealth and its instrumentalities, the limited capital market access of the Commonwealth and its instrumentalities during such fiscal year, and a significant reduction of liquidity in the local Puerto Rico capital markets. These factors, in turn, resulted in delays in the repayment by the Commonwealth and its instrumentalities of their loans from GDB and, at the same time, caused the Commonwealth and its instrumentalities to rely more heavily on short-term financing from GDB. GDB's liquidity was also affected by the reprogramming of certain appropriation debt payments to further reduce the Commonwealth's fiscal year 2014 deficit (as discussed above). The downgrades in February 2014 of the credit ratings of the Commonwealth and most of its instrumentalities (including GDB) to non-investment grade and the further downgrades in July 2014, have affected and could further adversely affect GDB's liquidity position.

GDB's liquidity position, however, improved significantly in March 2014 as a result of the issuance of the Series 2014 Bonds and the repayment of approximately \$1.9 billion of outstanding GDB lines of credit to the Commonwealth and PBA from the proceeds of the Series 2014 Bonds. The Commonwealth also used proceeds from the issuance of the Series 2014 Bonds to redeem or refund approximately \$807 million in short-term obligations and cover approximately \$47.7 million in interest rate swap termination payments that could have caused a further deterioration of GDB's liquidity position to the extent it may have been required to cover any payments due thereunder as a result of the Commonwealth's or a public corporation's inability to do so.

The Commonwealth and its instrumentalities may require funding from parties other than GDB during fiscal year 2015 in order to repay interim loans and other obligations owed to GDB, and therefore allow GDB to continue serving as liquidity provider to the Commonwealth and its instrumentalities to the extent its financial position permits it to do so. **While GDB intends to carry out other financings which would improve its liquidity position and/or that of the Commonwealth and its instrumentalities, the projection included herein assumes that the only financing carried out is a bond issuance to refinance GDB loans to the PRHTA. This projection also assumes that the draw scheduled for November 13, 2014 under the GDB Notes Agreement will occur as currently scheduled. See "Liquidity Projection – Projection Inflow Assumptions – Capital Markets Transaction" below.**

*Overview of Funding and Liquidity.* GDB's funding and liquidity objectives are to maintain liquidity to fund its existing asset base and to maintain an appropriate amount of cash and high quality liquid assets to meet its obligations and fund new loans in accordance with its mission. GDB's cash and liquid assets are referred to herein as its "liquidity resources." GDB's primary sources of funding consist of (i) public fund deposits, which are GDB's lowest cost source of funding, (ii) senior notes issued by GDB in the bond market with maturities ranging from calendar year 2014 through 2026 and (iii) repurchase agreements. The following table sets forth a breakdown of GDB's (excluding its subsidiaries') total funding by source as of March 31, 2014, June 30, 2014 and September 30, 2014 (figures in thousands). These numbers are preliminary and unaudited.

<b>Funding Sources</b>	<b>3/31/2014</b>	<b>%</b>	<b>6/30/2014</b>	<b>%</b>	<b>9/30/2014</b>	<b>%</b>
Public Deposits	\$5,157,368	50.1	\$5,521,952 <sup>(1)</sup>	53.4	\$4,379,545	45.8
Private Deposits	46,805	0.5	46,738	0.5	42,855	0.5
Bonds and Notes	5,037,120	48.9	4,713,181	45.6	4,633,338	48.4
Repurchase Agreements	50,000	0.5	50,000	0.5	512,353	5.4
<b>Total</b>	<b>\$10,291,293</b>	<b>100</b>	<b>\$10,331,871</b>	<b>100</b>	<b>\$9,568,091</b>	<b>100</b>

(1) Includes approximately \$700 million and \$40 million in Commonwealth and PREPA deposits, respectively, which were in each case disbursed on July 1<sup>st</sup>, 2014 to make all or a portion of such entity's respective debt service payments when due.

As of September 30, 2014, GDB's average cost of funding was 2.74% and the average life of its liabilities was 2.3 years. Of the \$4.6 billion of outstanding bonds and notes, approximately \$397 million mature in fiscal year 2015 (staggered maturities in December 2014 and January and February 2015) and \$876 million mature in fiscal year 2016 (staggered maturities in August and December 2015 and May 2016).

As of September 30, 2014, GDB's liquidity resources included (i) approximately \$136 million of deposits made by PREPA for its Reserve Account, which are invested in GDB time deposits, (ii) \$239.6 million of deposits made by PREPA for its Construction Fund, which are invested in GDB time deposits, and (iii) \$71.3 million of funds classified as "restricted assets," mostly consisting of proceeds from the issuance of tax-exempt GDB notes that are required to be used for certain qualifying purposes and that GDB expects to use during fiscal year 2015 to fund qualified disbursements under lines of credit extended by GDB to the Commonwealth and certain public corporations. On July 1, 2014, GDB disbursed (i) amounts on deposit in the Commonwealth's Redemption Fund to pay debt service on the Commonwealth's general obligation bonds and (ii) approximately \$42 million of the amount on deposit in the PREPA Reserve Account to pay debt service on PREPA's bonds. During fiscal year 2015, GDB also expects PREPA to use substantially all the funds on deposit in the Construction Fund and a portion of the funds on deposit in the Debt Service Reserve Fund currently held at GDB. As of July 1, 2014, GDB has been depositing the securities purchased with the monthly sinking fund payments for the Commonwealth General Obligation bonds with a third party financial institution and such securities are no longer held by GDB.

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

*Liquidity Resources by Source.* As of September 30, 2014, GDB's cash, bank deposits and investment portfolio at fair market value was \$1.9 billion, or 16%, of GDB's assets (excluding its subsidiaries). The following table shows GDB's liquidity resources by source, including the investment securities portfolio, which constitutes an important source of liquidity for GDB because it may be realized through either sales of securities or repurchase agreements:

<b>Liquidity Resources (in millions)</b>	<b>3/31/2014</b>	<b>6/30/2014</b>	<b>9/30/2014</b>
Cash and Bank Deposits	\$883	\$719	\$232
Federal Funds Sold and Money Market Instruments (excluding \$39 million reverse repurchase agreement with GDB subsidiary)	1,253	1,052	340
Investment Securities			
U.S. Treasury and Agencies	1,092	1,191	1,356
Government-Sponsored MBS and CMOs	230	210	2
Other Securities	39	39	1
Sub-Total	<u>1,361</u>	<u>1,440</u>	<u>1,359</u>
Total	<u>\$3,497</u>	<u>\$3,211</u>	<u>\$1,931</u>
Securities pledged	<u>(50)</u>	<u>(72)</u>	<u>(533)</u>
Net Liquidity	<u>\$3,447</u>	<u>\$3,139<sup>(1)</sup></u>	<u>\$1,398<sup>(2)</sup></u>

(1) Includes approximately \$700 million and \$40 million in Commonwealth and PREPA deposits, respectively, which were in each case disbursed on July 1<sup>st</sup>, 2014 to make all or a portion of such entity's respective debt service payments when due.

(2) Reflects the disbursement of \$400 million in Series A TRANS that were refinanced by the GDB Notes on October 10, 2014.

Net liquidity as of September 30, 2014 is net of disbursements amounting to \$700 million relating to the Series A TRANS, \$400 million of which were repaid on October 10, 2014.

GDB's investment portfolio consists mostly of investment securities classified among the three highest rating categories. As of September 30, 2014, the expected average life of the investment securities portfolio was 2.3 years and approximately \$572 million, or 30%, matures in less than one year.

The decrease in cash and unencumbered investment securities held by GDB as of September 30, 2014 compared to June 30, 2014 was driven primarily by seasonal and cyclical factors affecting GDB's funding base. The primary factors driving such reduction were (i) the payment by the Commonwealth on July 1, 2014 of \$700 million in Commonwealth general obligation bond debt service (the interest on which is due on January 1 and July 1 each year) from funds on deposit in the Commonwealth's Redemption Fund account at GDB, (ii) payment by PREPA on July 1, 2014 of \$40 million PREPA debt service (the interest on which is due on January 1 and July 1 each year) from funds temporarily on deposit in PREPA's Debt Service Reserve Fund account at GDB, (iii) \$700 million of TRANS financed by GDB during the quarter ended September 30, 2014, \$400 million more than originally projected (such incremental amount was repaid by the Commonwealth on October 10, 2014) and (iv) ordinary course fluctuations in GDB's deposit base, including the Secretary of the Treasury's account at GDB.

As of September 30, 2014, of the approximately \$1.4 billion investment securities portfolio, approximately \$513 million was pledged to secure or repay borrowings of GDB, consisting of securities sold under agreements to repurchase and \$20 million was pledged for other uses. Therefore, as of September 30, 2014, GDB liquidity resources, net of pledged securities, amounted to approximately \$1.4 billion.

## Liquidity Projection

*General.* GDB has prepared a liquidity projection for the remainder of fiscal year 2015 and the first quarter of fiscal year 2016. The projection shows the liquidity for GDB (on a stand-alone basis) only and does not show the liquidity for the Commonwealth and its other instrumentalities, whether individually or as a whole.

The projection is based on numerous assumptions and other matters that are inherently subject to significant uncertainties and contingencies beyond the control of GDB. The principal assumptions are set forth below. These assumptions involve judgments with respect to, among other things, future loan repayments and funding sources. The ability of the Commonwealth and its instrumentalities to honor their contractual obligations with GDB and their ability to meet their financing needs from sources other than GDB are significantly impacted by the difficult financial situation that the Commonwealth and many of its instrumentalities currently find themselves. See "RISK FACTORS" in the Commonwealth July Quarterly Report. Although it is inherently difficult to predict with certainty the ability of the Commonwealth and its instrumentalities to obtain financing, GDB understands it is possible to obtain financing for the Commonwealth and certain of its instrumentalities.

The projection, while presented with numerical specificity, is inherently imprecise, and there can be no assurance that it will prove to be reliable. In fact, actual results will likely vary materially from those shown in the projection. GDB does not undertake any obligation to update the projection at any time. While GDB believes, based on currently available information and subject to the explanations provided herein, these assumptions to be reasonable as of the date of this GDB Update, it cannot provide any assurance as to the likelihood that the actual results will not differ. The reader should make its own independent evaluation of the reasonableness of the assumptions made by GDB.

The projection is made only for informational purposes to assist stakeholders in analyzing GDB's liquidity requirements. Readers of this GDB Update are cautioned not to place undue reliance on the projection and are encouraged to reach their own informed conclusions based on all available public information.

If the assumptions underlying these projections, which can change rapidly, turn out to be incorrect and actual results differ materially and in a manner adverse to GDB from the assumptions on which the projection is based, the financial condition of GDB could deteriorate significantly.

The projection includes a "contingency" in the amount of \$500 million (the "Contingency Amount"), which GDB may need to use to cover financing needs of the Commonwealth and/or the public corporations and municipalities during the projection period not otherwise provided for in Loan Portfolio Disbursements included in the table below. For example, PREPA, PRHTA and PRASA have \$696 million, \$292 million and \$200 million, respectively, of short-term debt maturing on or prior to September 30, 2015 and the projection assumes that all such short-term obligations of the aforementioned public corporations are refinanced in the public or private credit markets or otherwise renegotiated. To the extent a public corporation is unable to refinance or otherwise renegotiate its short-term obligations, the projection assumes that GDB will not provide financing and that the corresponding public corporation will implement any other available alternative. Similarly, the projection assumes that (i) the Commonwealth, the public corporations and municipalities will not have budget deficits in fiscal year 2015 and will not require GDB to provide deficit financing during the projection period or, (ii) in case a budget deficit exists, that GDB will not provide deficit financing

during the projection period to cover such deficit. Although GDB has assumed that it will not provide such financing, the reader is cautioned that GDB may be forced for public policy reasons to provide such financing in an emergency situation or on a temporary basis.

The Contingency Amount is calculated by reducing the previously disclosed \$1 billion contingency by (a) \$200 million of PRHTA VRDOs purchased by GDB in May 2014, (b) \$247 million of principal and interest payments on outstanding GDB lines of credit that were reprogrammed to close the fiscal year 2014 budgetary gap and (c) a line of credit of approximately \$50 million extended to the Commonwealth to finance extraordinary liquidations of vacation and sick leave at the Department of Education. The Contingency Amount has not been reduced, however, to account for certain loans originated by GDB in the ordinary course, such as a \$40 million loan to the Puerto Rico Industrial Development Company and the PRPA to finance capital expenditures related to Lufthansa Technik's relocation to Puerto Rico, which is reflected as an outflow during the projection period.

The Contingency Amount appearing as a GDB outflow during the projection period is intended to address the impact to GDB's liquidity resulting from a decision by GDB to refinance during the projection period certain of the aforementioned short-term maturities and/or provide deficit or other financing (excluding the TRAns financing discussed below) to the Commonwealth and its instrumentalities. Given its liquidity situation, GDB's ability to sustain outflows beyond those included in the projection (including the Contingency Amount) is limited. In light of the financing needs of the Commonwealth and its instrumentalities, there is no assurance that GDB's Contingency Amount will be sufficient to cover such contingent financing needs or that GDB will limit extensions of credit to the Commonwealth and its instrumentalities to the Contingency Amount. To the extent GDB's disbursements exceed amounts projected herein (including the Contingency Amount), and GDB does not obtain additional inflows from third party financings, GDB's financial position would be materially and adversely affected.

*Summary of Principal Assumptions.* The following provides a summary of the principal assumptions used for the projection. The assumptions are integral to the projection and any change to the assumptions could have a material impact on the projection.

- **No Further Repayment of Loans from Bond Issuances or Financings.** Although GDB believes that, subject to market conditions, during the projection period, it may be able to monetize the value of, or refinance in the bond market or through private financings other loans in its portfolio, including certain property tax and municipal sales and use tax backed-loans to municipalities and outstanding loans to certain public corporations, no such monetization or refinancing transactions are assumed to be consummated in the period covered by this projection, other than the refinancing of certain PRHTA loans held by GDB (see "**Liquidity Projection – Projection Inflow Assumptions – Capital Markets Transaction**" below.).
- **Limited New Loans to the Commonwealth and Public Corporations.** The projection assumes that GDB will continue to make scheduled disbursements on its outstanding loan commitments. The projection, however, assumes no disbursements of new loans to the Commonwealth or to the public corporations during 2015, other than the \$700 million in Series A TRAns outstanding as of September 30, 2014 (\$400 million of which was repaid on October 10, 2014 from the proceeds of the GDB Notes), and additional disbursements that may be financed within the Contingency Amount, to the extent such amounts are available therefor. As of the date of this report, GDB has received requests for additional financing from public corporations. Although GDB is not required to provide any such financing, GDB may decide to provide financing to these public corporations to the extent GDB is legally allowed to do so. Any such financing would reduce the Contingency Amount.

The projection assumes that GDB will continue to finance the remaining \$300 million of Commonwealth Tax and Revenue Anticipation Notes (“TRANS”) to maturity. Municipal loans are projected to continue to be originated and disbursed at recent historical rates.

GDB expects that some public corporations will incur operating deficits in fiscal year 2015 unless such public corporations take corrective measures to address their fiscal imbalance. In making this projection, however, GDB assumed that such public corporations will either be successful in implementing such corrective measures or will be able to finance such operating deficits, as well as their respective capital expenditure programs for the projection period, through financial transactions with third parties. To the extent public corporations are unsuccessful in implementing corrective measures or in obtaining third party financing, they may need to seek relief under the provisions of the Recovery Act. Moreover, to the extent financing is necessary in order to avoid interrupting the provision of important government services, GDB may have to provide such emergency financing for public policy reasons. In that case, the projection could suffer a material change and the liquidity position of GDB could be adversely affected.

As of September 30, 2014, GDB and certain of its subsidiaries had outstanding letters of credit and financial guarantees with aggregate contractual amounts of approximately \$1.3 billion and \$538 million, respectively. The letters of credit relate mostly to bonds that are payable from annual legislative appropriations, which appropriations are expected to be included in the General Fund budget during the projection period. GDB anticipates disbursing approximately \$22.2 million during the projection period with respect to the financial guarantees of a subsidiary (the Tourism Development Fund) and such amount has been included in the outflows that are part of the projections. There can be no assurance, however, that actual required disbursements under letters of credit and financial guarantees will not exceed the projected amounts.

In addition, GDB has provided termination payment guarantees to the two entities that have entered into public-private partnerships with PRHTA and PRPA. The amount of the guarantee is the value of the respective contract at the time of termination. These guarantees are not expected to be drawn during the projection period.

Except to the extent covered under the Contingency Amount discussed above, the projection assumes that GDB will not make additional loans to fund any short-term obligations of the Commonwealth and its instrumentalities that mature pursuant to their terms during the next fiscal year or that could become due in the near future if the lenders or counterparties exercise acceleration or termination rights thereunder. The Commonwealth has informed GDB that it does not expect to require additional TRANS financing during fiscal year 2015 beyond amounts currently outstanding. As of the date of this report, GDB is financing \$300 million of TRANS and the Commonwealth has \$1.2 billion of TRANS outstanding. On October 10 2014, GDB refinanced \$400 million of the Series A TRANS with a portion of the proceeds of the GDB Notes and retained \$300 million of exposure to the TRANS.

Although GDB has assumed that it will not provide financing in excess of what is currently projected, the reader is cautioned that GDB may be forced for public policy reasons to provide such financing in an emergency situation or on a temporary basis and the liquidity position of the GDB could be adversely affected.

- **No General Fund Fiscal Year 2015 Deficit Financing.** On July 1, 2014, the Governor signed into a law the budget for fiscal year 2015. The projection assumes that the revenues estimated for fiscal year 2015 will be achieved and as a result, GDB will not need to provide new General Fund deficit financing to the Commonwealth during fiscal year 2015. In light of recent collection trends, which

currently show that General Fund revenues are approximately \$36 million below budgeted revenues for fiscal year 2015, the Commonwealth may have a deficit for fiscal year 2015 and GDB may have to provide financing to cover any such deficit.

The reader should be aware that the Commonwealth has had budget deficits for more than a decade and that there are significant limitations on the Commonwealth's ability to control the operating cost of certain departments and agencies. During fiscal year 2014, the Commonwealth's revenue estimates were \$488 million below the original projections and the deficit was \$783 million. See "*The Commonwealth may be unable to achieve a General Fund budget without deficit financing for fiscal year 2015 and thereafter*" in "RISK FACTORS" in the Commonwealth July Quarterly Report. One of the assumptions on which the projection is based is that, if the Commonwealth or the public corporations were to require a loan to cover their budget or operating deficits in excess of amounts included in the assumptions and the Contingency Amount, such financing will be covered by third party financing. **If such third party financing is not available and the financing is necessary in order to avoid interrupting the provision of important government services, GDB may have to provide such emergency financing for public policy reasons. In that case, the projection would suffer a material change and the liquidity position of GDB would be adversely affected.**

- **Deposit Activity.** The projection makes certain important assumptions about GDB's deposit base. On GDB inflows, the projection assumes that certain public sector deposits or funds in money management accounts at private financial institutions are transferred to GDB. See "Deposit Recapture Program" below. On GDB outflows, however, the projection assumes that certain public and private deposits are withdrawn from GDB during the projection period, including as a result of public and private deposit attrition. See "Deposit Attrition" below. Furthermore, although the deposit activity in certain GDB time and demand deposit accounts, particularly the Secretary of the Treasury's operating accounts at GDB, experiences significant intra-year fluctuations as a result of seasonal revenue and expense behavior (e.g., revenues are historically highest during April through June and lowest during January and February), the projection assumes that the outstanding balance in these accounts remains stable throughout the projection period. For example, the ending balances of the Treasury Department's operating accounts at GDB, as of March 31, June 30 and September 30, 2014 were \$112.5 million, \$181.1 million and \$64.4 million, respectively.

A material increase or decrease in such accounts, particularly in the Secretary of the Treasury's accounts, could have a material impact on GDB's available liquidity at any particular point in time during the fiscal year. **If in the future GDB were to be considered insolvent as a result of a significant write-down of its loan portfolio, GDB's enabling act would limit GDB's ability to accept new deposits and, in some cases, would preclude GDB from making certain transfers that would be deemed preferential.**

*Projection Model.* The table below shows the liquidity projection of GDB (excluding its subsidiaries) for the remainder of fiscal year 2015 and the first quarter of fiscal year 2016. GDB-only beginning and ending available liquidity balances are net of (i) securities pledged under repurchase agreements (approximately \$527 million) and (ii) certain restricted assets that GDB does not currently project to use during the projection period (\$20 million) to either (a) fund qualified disbursements under lines of credit extended by GDB to the Commonwealth and certain public corporations or (b) repay a portion of the GDB notes. The projection disregards these restricted funds because GDB may not use them other than for their designated purpose. The table below does not reflect the liquidity of the Commonwealth, its agencies or its instrumentalities, other than GDB.

## GDB Liquidity Projection (as of 9/30/2014)

(\$ millions)

	Actual	Projection				FY 2016 Qtr. Ended 9/30/15
	Qtr. Ended 9/30/14	FY 2015			FY 2016 Qtr. Ended 9/30/15	
		Qtr. Ended 12/31/14	Qtr. Ended 3/31/15	Qtr. Ended 6/30/15		
<b>GDB Only Beginning Liquidity Balance</b>	\$3,138	\$1,398	\$2,320	\$1,819	\$1,961	
<b>Projected GDB Inflows</b>						
Loan Portfolio (Principal and Interest)	\$385	\$484	\$146	\$646	\$89	
Deposit Recapture Program	148	39	147	-	75	
External Debt Service Deposits	20	30	87	87	28	
Interest Income on Investment Portfolio	4	5	6	5	5	
Capital Markets Transactions	-	1,000	-	-	-	
<b>Total Projected GDB Inflows</b>	<b>\$556</b>	<b>\$1,558</b>	<b>\$386</b>	<b>\$738</b>	<b>\$197</b>	
<b>Projected GDB Outflows</b>						
Loan Portfolio Disbursements	(\$931)	(\$251)	(\$244)	(\$220)	(\$509)	
External Debt Service Payments	(732)	(60)	-	(175)	-	
GDB Notes Principal & Interest Payments	(137)	(123)	(384)	(53)	(190)	
Deposit Attrition	(412)	(177)	(234)	(124)	(33)	
Other Funding Costs and Expenses	(30)	(24)	(24)	(24)	(24)	
<b>Total Projected GDB Outflows</b>	<b>(\$2,241)</b>	<b>(\$636)</b>	<b>(\$887)</b>	<b>(\$596)</b>	<b>(\$756)</b>	
Adjustments / Reclassifications	(\$55)	-	-	-	-	
<b>GDB Only Ending Liquidity Balance</b>	<b>\$1,398</b>	<b>\$2,320</b>	<b>\$1,819</b>	<b>\$1,961</b>	<b>\$1,403</b>	
Contingency Amount	(\$500)	(\$500)	(\$500)	(\$500)	(\$500)	
<b>GDB Only Ending Liquidity Balance, Net of Contingency Amount</b>	<b>\$898</b>	<b>\$1,820</b>	<b>\$1,319</b>	<b>\$1,461</b>	<b>\$903</b>	

*Projection Inflow Assumptions.* The following assumptions correspond to the line items shown in the projection:

- **Loan Portfolio (Principal and Interest).** The inflows under this line item consist of principal and interest payments on GDB loans payable from legislative appropriations and principal and interest payments on GDB loans to public corporations, agencies and municipalities.
  - The projection assumes GDB will receive \$174 million of appropriations during fiscal year 2015 on account of GDB loans payable from annual legislative appropriations. Historically, most of these appropriations have been received by GDB towards the end of the fiscal year. The fiscal year 2015 appropriation is included in the approved fiscal year 2015 General Fund budget. The appropriation which had originally been included in the fiscal year 2014 budget was reprogrammed and not paid from fiscal year 2014 budgetary appropriations, as originally contemplated. If there is a deficit in fiscal year 2015, there is a risk that this appropriation may be reprogrammed in the same manner as the fiscal year 2014 appropriation.
  - As of September 30, 2014, the projection also assumes \$468 million of inflows during the projection period related to principal and interest payments on loans that GDB has made to agencies, municipalities and public corporations.
  - This line item also includes the repayment by the Commonwealth of the TRAns line of credit (including interest of approximately \$23 million per year) extended by GDB to the Commonwealth. On July 1, 2014, the Commonwealth paid approximately \$200 million of the 2014 TRAns line of credit with proceeds from the 2015 TRAns provided by GDB. As of September 30, 2014, the fiscal year 2015 TRAns line of credit had an outstanding balance of \$700 million, \$400 million of which was refinanced with a portion of the proceeds of the GDB Notes issued on October 10, 2014. The remaining \$300 million of TRAns exposure is expected to be repaid in full on or prior to July 1, 2015. The projection also assumes that

GDB will fund \$300 million of TRANS for fiscal year 2016 during the first quarter of such fiscal year.

- **Deposit Recapture Program.** The inflows under this line item consist of the transfer to GDB of public sector deposits (almost entirely certificates of deposit) or funds in money management accounts at private financial institutions. The updated projection as of September 30, 2014 assumes that approximately \$261 million of such funds are transferred to GDB during the projection period. GDB has the legal authority to require that certain public funds currently deposited at private financial institutions, including demand deposit accounts, be deposited at GDB, subject to specified exceptions. Since, in order to properly service demand deposit accounts, GDB will have to implement significant operational adjustments, this projection assumes that the deposit accounts transferred to GDB will consist almost entirely of new certificates of deposit (and not demand deposit accounts).
- **External Debt Service Deposits.** The inflows under this line item consist of funds required to be applied to the payment of debt service on debt obligations of the municipalities held by third parties. These funds, in some cases held by GDB as trustee, are invested in time deposits at GDB in advance of debt service payments on such bonds and obligations. The projection assumes \$233 million of inflows during the projection period related to these funds. The outflows related to these deposits can be seen under “External Debt Service Payments” below. Beginning on July 1, 2014, the Commonwealth’s sinking fund deposits to cover debt service payments are being made in a third party financial institution and such amounts are no longer being deposited at the GDB. As a result, the projection does not include these amounts as an inflow. Likewise, since July 1, 2014, PREPA payments to its Debt Service Account are being deposited at a third party financial institution rather than at GDB.
- **GDB Notes Program.** The projection assumes that GDB will not place any new GDB senior notes or refinance existing GDB senior notes during the projection period, other than the GDB senior notes which have been issued to fund the 2015 TRANS.
- **Interest Income on Investment Portfolio.** The inflows under this line item consist of expected interest income from GDB’s investment portfolio. The revised projection as of September 30, 2014 assumes approximately \$21 million of cash investment income during the projection period. GDB projects expected investment portfolio balances by month and its Treasury Division projects forward yields, which are used to determine projected cash interest income.
- **Capital Markets Transaction.** The projection assumes that the remaining balance of the \$400 million in short-term bond anticipation notes of PRHTA (“PRHTA BANs”), which mature on September 1, 2015, and \$1 billion of loans made to PRHTA by GDB are refinanced during the second quarter of fiscal year 2015 from a portion of the proceeds of a long-term bond issued through the Puerto Rico Infrastructure Financing Authority (“PRIFA”). The projection also assumes principal and interest on remaining outstanding loans from GDB will continue to be paid during the projection period.

The PRHTA BANs are secured by a pledge of new revenues enacted by Act 30 and 31 of 2013. The majority of these new revenues also serve as the principal source of repayment for GDB’s outstanding loans to PRHTA. On July 1, 2014, the PRHTA BANs were amended to allow the monthly principal sinking fund deposits to be used to optionally redeem the bonds anticipation notes. Through October 2014, PRHTA optionally redeemed \$108 million aggregate amount of such notes, reducing the outstanding principal balance from the original amount of \$400 million to \$292

million. PRHTA is finalizing an additional amendment to the documents related to the PRHTA BANs in order to reduce the sinking fund deposits from an aggregate of \$132 million to approximately \$60 million from November 1, 2014 through February 1, 2014.

**If such BANs are not refinanced, the inflows to GDB from PRHTA could be materially reduced during the projection period and, as a result, the liquidity position of GDB would be adversely affected.**

*Projection Outflow Assumptions.* The following assumptions correspond to the line items shown in the projection:

- **Loan Portfolio Disbursements.** The outflows under this line item consist of scheduled disbursements on outstanding loan commitments and under outstanding guarantees and letters of credit. The projection assumes that GDB will continue to make scheduled disbursements on all of its outstanding loan commitments, guarantees and letters of credit. However, other than loans to municipalities, which are projected to be originated and disbursed at recent historical rates, the projection assumes that no new loans are extended to the Commonwealth or the public corporations (other than the TRANS financing for fiscal year 2015 described above), except for amounts that would be covered by the Contingency Amount. Total disbursements related to the loan portfolio, guarantees and letters of credit (not included within the Contingency Amount) are assumed to be \$924 million during the projection period (excluding TRANS and including disbursements to the municipalities totaling \$351 million during the projection period). As described above, as of September 30, 2014, GDB had disbursed \$700 million in TRANS to the Commonwealth, \$400 million of which were repaid on October 10, 2014 from a portion of the proceeds of the GDB Notes. The projection assumes that GDB funds only \$300 million in TRANS to maturity. **Although GDB has assumed that it will not provide financing in excess of that projected, the reader is cautioned that GDB may be forced for public policy reasons to provide such financing in an emergency situation or on a temporary basis and the liquidity position of the GDB could be adversely affected.**
- **External Debt Service Payments.** The outflows under this line item during the projection period consist of approximately \$235 million in disbursements for debt service payments on loans to the Commonwealth, public corporations and municipalities held by third parties from funds on deposit at GDB, as described under “External Debt Service Deposits” above. In addition, as noted above, beginning on July 1, 2014, amounts on deposit in the Commonwealth’s Redemption Fund and PREPA’s Bond Service Account and Redemption Account (as required by certain agreements reached by PREPA with its creditors in August 2014) are being held by a third party financial institution rather than GDB. As a result, only debt service deposits related to municipalities will be held at GDB.
- **GDB Notes Principal and Interest Payments.** The outflows under this line item consist of debt service payments on GDB senior notes, excluding debt service repayments related to the GDB 2015 Series B Senior Notes Issue (Guaranteed by the Commonwealth of Puerto Rico) mentioned above, which financed the purchase of TRANS obligations from the Commonwealth in October 2014. The projection assumes GDB will pay when due \$397 million of its medium-term notes that mature in fiscal year 2015 and \$164 million of interest payable during the remainder of fiscal year 2015. The projection assumes GDB will pay when due \$140 million of its medium-term notes that mature in the first quarter of fiscal year 2016 and \$50 million of interest payable in the first quarter of fiscal year 2016.

- **Deposit Attrition.** The outflows under this line item consist of the withdrawal of certain public and private sector deposits. The projection assumes that certain public and private deposits are withdrawn from GDB during the projection period. These include specifically identified deposits that the Commonwealth has an agreement to repay, as well as estimates for other public and private deposit attrition.
  - The Commonwealth reached an agreement with the U.S. Treasury to return certain funds related to the Making Work Pay Credit (“MWPC”) program extended to Puerto Rico under the American Recovery & Reinvestment Act (“ARRA”), which were deposited by the Commonwealth at GDB. As of October 17, 2014, the balance owed to the United States Treasury was \$123.8 million. The Commonwealth will continue to return the funds to the U.S. Treasury in monthly installments of approximately \$25 million.
  - The projection assumes attrition of public sector demand deposits currently at GDB at a gross rate of 2% per quarter. Accordingly, total attrition is expected to be \$135 million during the projection period.
  - PREPA’s Construction Fund, which totaled approximately \$239.6 million as of September 30, 2014, is held at GDB and is invested in GDB time deposits. GDB expects PREPA will fully withdraw these funds during fiscal year 2015.
  - PREPA’s Reserve Account totals \$411.7 million, of which approximately \$137 million was invested in GDB time deposits as of September 30, 2014. GDB expects PREPA will withdraw a portion of such funds during fiscal year 2015.
- **Other Expenses.** The outflows under this line item consist of expenses related to funding costs and other operating expenses of GDB. The projection assumes total other expenses of \$98 million for the projection period.
- **Instrumentality Debt Service.** GDB expects that the public corporations will be able to finance current operating deficits, as well as their respective capital expenditure programs for the projection period, through financial transactions with third parties. As a result, the projection does not include an outflow to cover this item. **Although GDB has assumed that it will not provide such financing, the reader is cautioned that GDB may be forced for public policy reasons to provide such financing in an emergency situation or on a temporary basis and the liquidity position of the GDB could be adversely affected.**

*Potential Short-Term Liquidity Needs of the Public Corporations.* Certain public corporations could have significant short-term funding needs related to obligations that mature, may be accelerated or terminated (excluding individual loans or lines of credit that are part of GDB’s loan portfolio), consisting of debt instruments and interest rate swaps or other derivative agreements. The most significant of such obligations are detailed under “*Maturity of Certain Short-Term Debt Obligations of the Commonwealth and its Instrumentalities; Effect of Downgrade on Certain Debt Obligations and Derivative Contracts*” and “*Debt – Interest Rate Exchange Agreements*” in the Commonwealth July Quarterly Report. The risk of acceleration or termination of certain of these obligations may have decreased as a result of certain extensions or modifications to the terms of these short-term obligations granted by the lenders or counterparties thereto and the repurchase or repayment of certain of these obligations.

Although GDB has previously assisted the Commonwealth and its instrumentalities in satisfying obligations similar to those referenced above and described in the Commonwealth July Quarterly

Report, GDB is not legally required to provide such assistance. No such assistance has been included in the projection included herein, except to the extent addressed by the Contingency Amount. The aggregate principal amount of financial obligations of PREPA, PRHTA and PRASA maturing during the projection period is \$696 million, \$292 million and \$200 million, respectively. To the extent that GDB financing is unavailable to fund these obligations or to fund their operating expenses, the Commonwealth and its instrumentalities may be required to find other sources of funding in order to meet their obligations.

**In the event that the public corporations cannot obtain third party financing, public corporations could take advantage of all legal alternatives available under Puerto Rico law, including seeking relief under the Recovery Act. In the case of public corporations providing essential government services, if any such financing is necessary in order to avoid interrupting the provision of important government services, GDB may have to provide emergency financing for public policy reasons. There is no assurance that the Commonwealth or its instrumentalities will be able to access other sources of financing or funding sufficient at any one time to meet their obligations as they come due or that GDB will be able to provide any such financing or funding.**