



Puerto Rico: Fiscal Update

Investor Presentation

June 9, 2010



Disclaimer

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



Sixteen months ago...

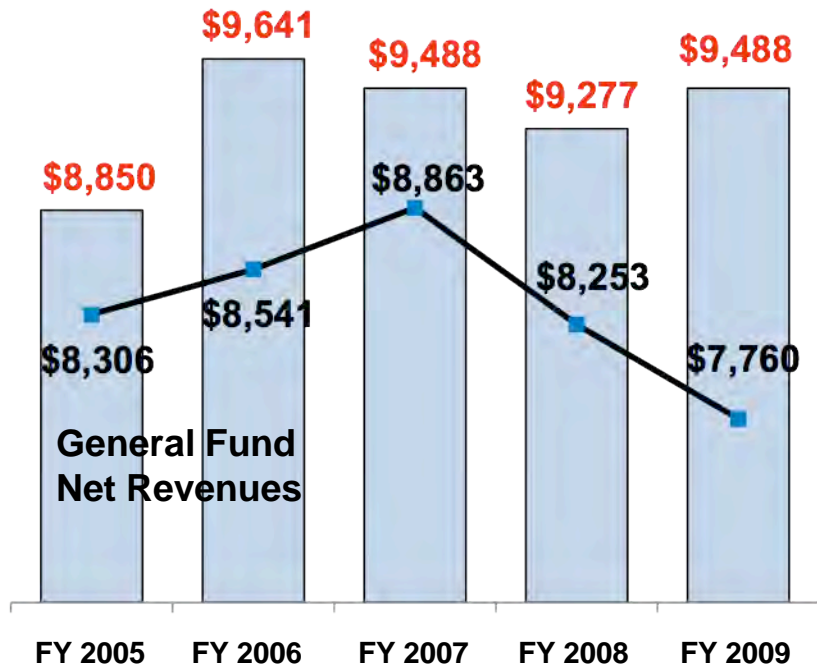


We faced a Government without expense controls, with a \$3.5 billion deficit...

1

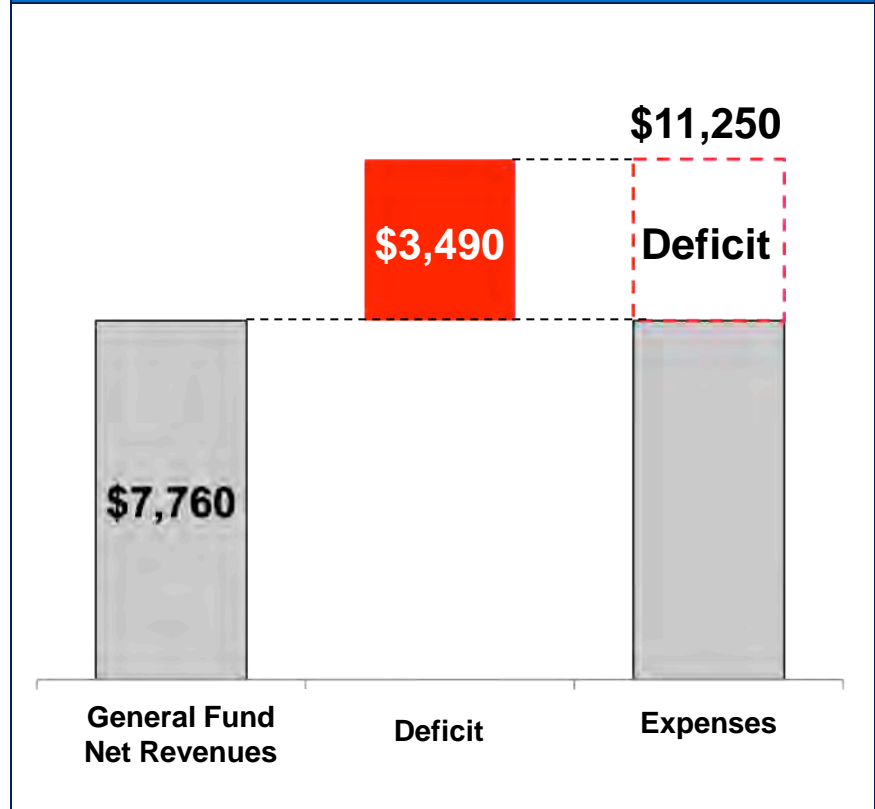
Pattern of revenue overestimation

Budgeted Expenses



2

Inherited Deficit FY 2009





Where are we now ...



We swiftly structured a clear and strict Fiscal and Economic Reconstruction Plan to address these challenges

1 Fiscal Reconstruction Plan

- Expense reduction measures based on operational and payroll expenses
- Increase in revenue measures
- Fiscal Stabilization Fund to balance multi-year budget

2 Strong Fiscal Oversight Role at GDB

- Fiscal Oversight Agreements signed with major public corporations
- MOU signed with Dept. of Education and Dept. of Health

3 Robust Economic Development Plan

- Comprehensive Plan to restore economic development and competitiveness
- Strategic use of ARRA Funds and Local Stimulus Package
- Transition to knowledge economy

11 Bills to Implement the Plan:

- Act # 1:** Additional 1% allocation to COFINA
- Act # 2:** Temporary use of deficit financing
- Act # 3:** PRIFA Corpus Account restructuring
- Act # 4:** Temporary increase on GDB loans
- Act # 7:** Fiscal Emergency Act
- Act # 8:** PRIFA as Federal Stimulus manager

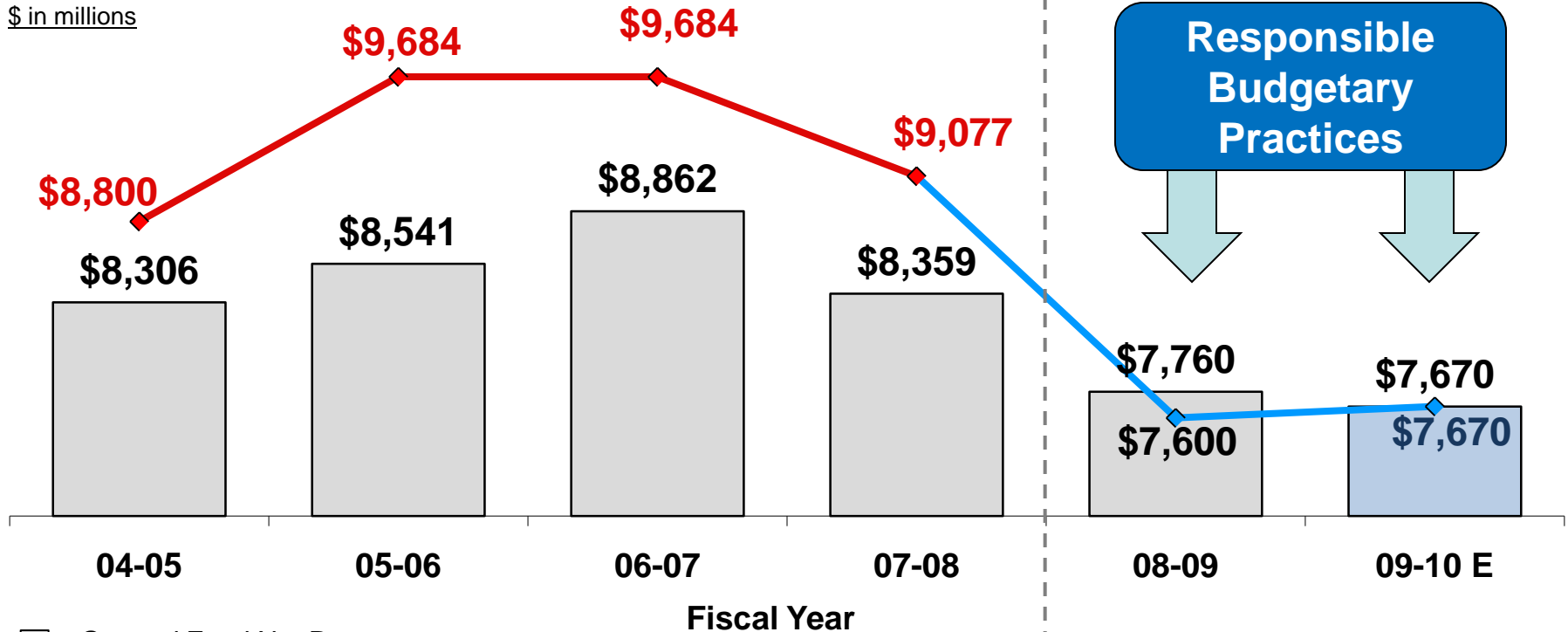
- Act # 9:** Local Stimulus Plan (amended)
- Act # 29:** Public-Private Partnerships Act
- Act # 143:** Operation of Commercial Establishments (amendment)
- Act # 161:** Permits Reform Bill
- Act # 182:** Government Reform



We have eliminated the practice of overestimating revenues to sustain high expenses

General Fund Net Revenue Projections

\$ in millions



- General Fund Net Revenues
- Past Administration Revenue Projections
- Current Administration Revenue Projections
- Current Projection of General Fund Revenues



Government Reform aims to provide a more agile and efficient government

Board to Review Municipal Complaints

Filed

Merger of Government Retirement Systems' Administration

Filed

Merger of multiple Advocate Offices

Filed

Merger of Education Councils

Filed

Reorganization of key Central Government Agencies

Merger of multiple Appeal Commissions

Overhaul of Government Procurement Process

Enhancement of PR.gov services



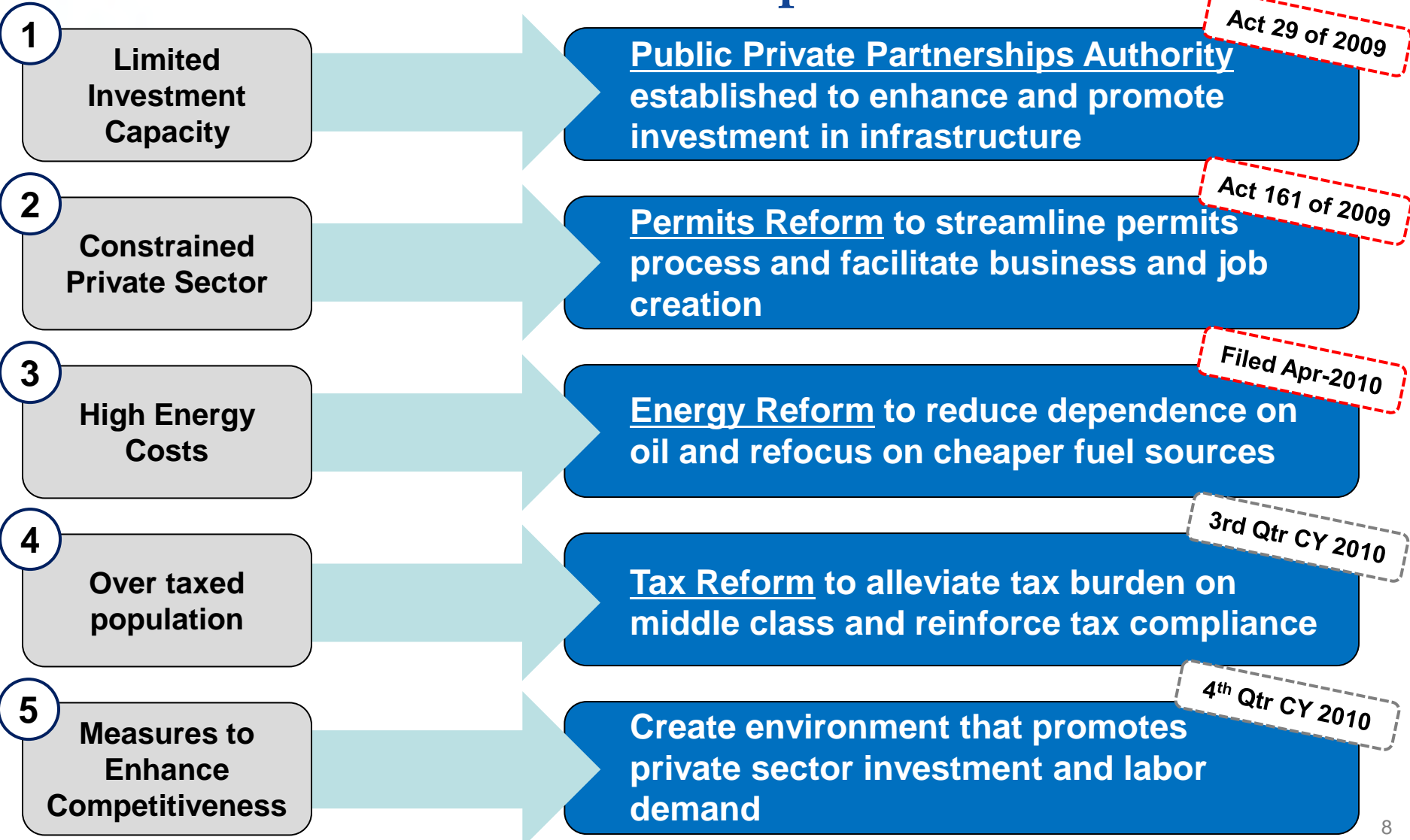
Launched

To be filed in upcoming weeks

(July-August)



We have transformed the Government's model by simultaneously addressing key challenges to restart economic development





The Government has been focused on achieving results and is strictly monitoring the progress of the Fiscal Reconstruction Plan

Goals

1

Balanced Budget by FY 2013

2

Safeguard investment grade credit rating

3

Liquidity Management

4

Debt Management

Report Card

- Revenues FY 2010
- Expenses FY 2010

Within Estimates

- Stable Ratings
- Access to Capital markets

- Ample liquidity: \$158 MM in cash (as of March 31, 2010)
- FY 2009: \$750 MM in payables paid
- FY 2010: Less than \$2.5 B expected to be used in stabilization & transition fund
- FY 2011 Budget: Already funded \$500 MM for SF

- \$1.2 B in PRIFA bonds repaid
- \$4.3 B in debt provided with a source of repayment



**On April 19, 2010, Moody's
Investor Services recalibrated its
municipal ratings to the Global
Scale...**



Puerto Rico received the maximum possible increase of 3 notches as a result of the Moody's municipal rating recalibration

State	Before	Actual	Change
Puerto Rico	Baa3	A3	3
California	Baa1	A1	3
Arizona	A1	Aa2	2
Illinois	A2	Aa3	2
Louisiana	A1	Aa2	2
USVI	Baa3	Baa1	2
Alabama	Aa2	Aa1	1
Alaska	Aa2	Aa1	1
Arkansas	Aa2	Aa1	1
Colorado	Aa2	Aa1	1
Connecticut	Aa3	Aa2	1
Hawaii	Aa2	Aa1	1
Idaho	Aa2	Aa1	1
Indiana	Aa1	Aaa	1
Iowa	Aa1	Aaa	1
Kentucky	Aa2	Aa1	1
Maine	Aa3	Aa2	1
Mass.	Aa2	Aa3	1

State	Before	Actual	Change
Michigan	Aa3	Aa2	1
Mississippi	Aa3	Aa2	1
Montana	Aa2	Aa1	1
Nevada	Aa2	Aa1	1
New Hampshire	Aa2	Aa1	1
New Jersey	Aa3	Aa2	1
New Mexico	Aa1	Aaa	1
New York	Aa3	Aa2	1
North Dakota	Aa2	Aa1	1
Ohio	Aa2	Aa1	1
Oklahoma	Aa3	Aa2	1
Oregon	Aa2	Aa1	1
Pennsylvania	Aa2	Aa1	1
Tennessee	Aa1	Aaa	1
Texas	Aa1	Aaa	1
West Virginia	Aa3	Aa2	1
Wisconsin	Aa3	Aa2	1

35 of 52 were recalibrated



Concluding Remarks

- **General Fund net revenues as of March 2010 are within striking distance of the budget estimate**
- **Proposed budget for FY 2010-11 is \$2.1 billion, or 18% less than expenses for FY 2008-09**
- **Estimated deficit for recommended FY 2010-11 budget is 12% of revenues, a reduction from 45% in FY 2008-09**
- **Economic growth is projected to be positive in FY 2010-11 after four years of significant economic contraction**