

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD  
FOR PUERTO RICO**



*José B. Carrión III*  
Chair

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*José R. González*  
*Ana J. Matosantos*  
*David A. Skeel, Jr.*

*Natalie A. Jaresko*  
Executive Director

By Email

July 31, 2017

Honorable Ricardo A. Rosselló Nevares  
Governor of Puerto Rico  
La Fortaleza  
PO Box 9020082  
San Juan, PR 00902-0082

Honorable Thomas Rivera Schatz  
President of the Senate of Puerto Rico

Honorable Carlos J. Méndez Núñez  
Speaker of the House of Representatives  
of Puerto Rico

Dear Governor Rosselló Nevares, Senator Rivera Schatz, and Speaker Méndez Núñez:

On July 12, 2017, the Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), by unanimous written consent (a copy of which is attached hereto), approved the revised proposed fiscal plan dated June 30, 2017 for the Government Development Bank for Puerto Rico (“GDB”) (a copy of which is attached hereto). We refer to the approved, revised fiscal plan as the “GDB Fiscal Plan.”

The Oversight Board is pleased, pursuant to PROMESA § 201(e), to hereby certify the GDB Fiscal Plan as compliant with PROMESA § 201(b), and to hereby deliver this compliance certification to you.

The Oversight Board looks forward to working with the Commonwealth and the GDB to accomplish the requirements and goals of PROMESA for the benefit of the people of Puerto Rico and its creditors and other stakeholders.

Honorable Ricardo A. Rosselló Nevares  
Honorable Thomas Rivera Schatz  
Honorable Carlos J. Méndez Núñez  
July 31, 2017  
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Sincerely,

A handwritten signature in black ink, appearing to read 'J. Carrión', with a long, sweeping underline that extends to the left.

José B. Carrión  
Chair

Andrew G. Biggs  
Carlos M. García  
Arthur J. González  
José R. González  
Ana J. Matosantos  
David A. Skeel, Jr.

CC: Natalie A. Jaresko  
Christian Sobrino Vega



**GOVERNMENT OF PUERTO RICO**  
**Government Development Bank for  
Puerto Rico**



# **Government Development Bank for Puerto Rico Amended Fiscal Plan**

San Juan, Puerto Rico

June 2017

# Disclaimer

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**GOVERNMENT OF PUERTO RICO**  
**Government Development Bank for  
Puerto Rico**



# **I. Executive Summary**

# Executive Summary

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- GDB was originally created to aid the Government in the performance of its fiscal duties and to more effectively carry out its responsibility to develop the economy of Puerto Rico
- Over time, GDB evolved and its role expanded to include, among other services, acting as a financing backstop for fiscal losses of the Government, its Agencies, Municipalities, and Public Corporations
- The GDB was also called upon to provide financial support during periods of financial distress, leveraging its strong credit rating, reputation, access to the capital markets and its constructive relationship with the investment community, to provide financial support to troubled public entities and assist them in regaining financial stability
- Due to the expansion of services and a confluence of other decisions and actions, in recent years the GDB has found itself immersed in a fiscal and viability crisis
- The loss of its investment grade rating in 2014 and the resulting loss of market access left the GDB with significant non-performing assets, limited available liquidity, and the inability to repay its debts as they come due
- With the fiscal challenges affecting the GDB, AAFAF was created to assume the roles of fiscal agent, financial advisor, and disclosure agent of the Government
- Presently, the GDB's primary role is to serve as an agent in (i) collecting on its loan portfolio and (ii) disbursing funds pursuant to strict priority guidelines



# Executive Summary

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- Given the reduced services that GDB is currently providing, an important question was asked and answered – Can the GDB be restructured, become a viable going concern, and reinstate its past banking operations? After review of information and current circumstances, and the exclusion of appropriations to the GDB as payment for certified government debt in the Government’s certified fiscal plan, there is no clear path to achieve long term viability for the GDB, based on its current financial condition<sup>(1)</sup>
- GDB leadership has concluded that an orderly wind down of its operations would mitigate the impact to its stakeholders (municipalities, depositors, and other creditors, etc.)
- To efficiently effectuate the orderly wind down, GDB’s management has created a Project Management Office (“PMO”) that will allow for a smooth transition of GDB’s current operations
- On May 15, 2017, AAFAF and GDB announced a Restructuring Support Agreement (“RSA”) with a significant portion of GDB’s financial creditors, which became effective pursuant to its terms on May 17, 2017
  - *The RSA contemplates dividing GDB’s assets into two separate entities: a New Issuer for the benefit of its financial creditors consisting of Bondholders, Municipal Depositors, and Non-Government Entity Depositors (“New Issuer”) and a Public Entity Trust (“PET”) for the benefit of Other Depositors (Government Entity Depositors)*
  - *The RSA terms are expected to be consummated pursuant to a consensual restructuring of GDB using a Title VI Qualifying Modification*
  - *Once approved by the requisite financial creditors of GDB, the Oversight Board, and the US District Court (Puerto Rico) the Restructuring (as defined in the RSA) will provide GDB’s stakeholders a recovery based on the claim type*
- This GDB Amended Fiscal Plan (“Plan”) incorporates the RSA framework, resolving the mechanism by which projected cash flow will be allocated among the New Issuer and PET



(1) Analysis and assessment based on unaudited financial information



# Executive Summary

## GDB Snapshot<sup>(d)</sup>

### Balance Sheet: Key Assets

(\$000s)	1/31/2017
<b>Unrestricted Cash</b>	<b>153,845</b>
Municipal	2,009,570 <sup>(a)(c)</sup>
Public Sector	2,971,159 <sup>(b)</sup>
Appropriations	2,832,569
Private/Other	941,935
Adjustments	<u>(2,491,340)<sup>1</sup></u>
<b>Loan Portfolio</b>	<b>6,263,894</b>
<b>REO Assets</b>	<b>62,710</b>
<b>Key Assets</b>	<b>6,480,448</b>

### Balance Sheet: Key Liabilities

(\$000s)	1/31/2017
<b>Outstanding Balances</b>	
Deposits	3,489,214
Accrued Interest	<u>6,320</u>
<b>Total Deposit Balance</b>	<b>3,495,534</b>
GDB Notes	3,763,817
Accrued Interest	<u>113,602</u>
<b>Total GDB Note Balance</b>	<b>3,877,419</b>
<b>Key Liabilities</b>	<b>7,372,953</b>

204 Total Employees (1/31/17)  
110 Union – 73 General – 21 Appointed

Note: Differs from Assets on unaudited balance sheet:

- a) \$494mm of ‘advances’ through the Municipal Administration Fund (FAM, for its Spanish acronym) and COFIM were recategorized from ‘Municipal’ to ‘Other’
- b) Public Sector: Excludes investment assets
- c) Municipal loans and deposits are net of a ~\$25mm collateralized deposit secured my municipal loans
- d) Unaudited

### Current Objective / Services Provided

- All fundamental new business banking and origination activities have ceased
- Service the existing loan portfolio through maturity or refinancing by third party financial institutions
- Coordinate and execute collection efforts on loans pursuant to the terms of the RSA
- Formalize the process for a transparent and orderly sale of real estate assets at fair market value
- Restructure GDB’s workforce through “Single Employer Program<sup>(2)</sup>” and voluntary separation plan

(1) GDB FY2014 Audited Financial Statements

(2) Act 8 of 2017 (Single Employer Act), establishes the Government of Puerto Rico as a single Employer and allows greater mobility of public sector employees between Government entities

Source: Government Development Bank; unaudited financial data is subject to change





**GOVERNMENT OF PUERTO RICO**  
**Government Development Bank for  
Puerto Rico**



## **II. Transaction Overview**

# Transaction Overview

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## Executive Summary

- On May 15, 2017, AAFAF and GDB announced an RSA with a significant portion of GDB's financial creditors, which became effective pursuant to its terms on May 17, 2017
- On June 19, 2017, AAFAF and GDB announced that parties representing over 50% of GDB's Participating Bond Claims (as defined in the RSA) had signed the RSA
- The RSA is consistent with the GDB Fiscal Plan certified on April 28, 2017, as it contemplates the orderly wind down of GDB
- The RSA contemplates dividing GDB's assets into two separate entities: the New Issuer for the benefit of Bondholders, Municipal Depositors, and Non-Government Entity Depositors and the PET for the benefit of Other Depositors (Government Entity Depositors)
- Prior to closing of the transaction, GDB seeks to 1) adjust loan balances based on undisbursed municipal loan proceeds against corresponding loans, and 2) provide accelerated setoff of public entity deposits to non-performing loans where applicable

## Management and Trust Structure Summary

- Upon closing of the transaction, unrestricted cash will be used to fund 1) PET disbursements (prioritizing federal fund deposits), 2) transaction costs (including professional fees and contemplated settlements), 3) \$25mm PET minimum cash balance, and 4) remainder (estimated at \$167mm) for the benefit of the New Issuer
- Upon closing of the transaction, GDB will have 12 months to transfer the servicing of the New Issuer assets (or New Bond Collateral as defined in the RSA) to a third party servicer. During this time, GDB's operational expenses will be paid by both the New Issuer and the PET and each trust will maintain a minimum cash balance of approximately \$25mm
- A considerably reduced GDB operation will remain to service the New Issuer assets for up to 12 months, and to service the PET and wind down the operations of GDB



*Note: Please refer to the RSA and Term Sheet for structure details including description of securities to be issued by the New Issuer*

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

# Transaction Overview

Pre Transaction

Pro-Forma Allocation Pre-Transaction

## Asset Summary

### Pre Transaction - Key Assets

Post Setoff	
(\$000s)	9/30/2017
<b>Unrestricted Cash</b>	<b>313,318</b>
Municipal	1,657,641
Public Sector	2,591,100
Appropriations	2,119,359
Private/Other	504,846
<b>Loan Portfolio</b>	<b>6,872,946</b>
<b>REO Assets</b>	<b>62,710</b>
<b>Key Assets</b>	<b>7,248,974</b>

### New Issuer - Key Assets

Post Setoff	
(\$000s)	9/30/2017
<b>Unrestricted Cash</b>	<b>167,338</b>
Municipal	1,657,641
Public Sector	2,460,521
Appropriations	481,210
Private/Other	504,846
<b>Loan Portfolio</b>	<b>5,104,218</b>
<b>REO Assets</b>	<b>62,710</b>
<b>Key Assets</b>	<b>5,334,266</b>

### PET - Key Assets

Post Setoff	
(\$000s)	9/30/2017
<b>Unrestricted Cash</b>	<b>75,000</b>
Public Sector	130,580
Appropriations	1,638,148
<b>Loan Portfolio</b>	<b>1,768,728</b>
<b>Key Assets</b>	<b>1,843,728</b>

Note: \$71.0mm difference between Pre Transaction and Pro Forma key assets is due to estimated transaction and settlement related costs (actual costs will vary)

## Liability Summary

### Pre Transaction - Key Liabilities

Post Setoff	
(\$000s)	9/30/2017
<b>Outstanding Balances</b>	
Deposits	1,406,183
<b>Total Deposit Balance</b>	<b>1,406,183</b>
GDB Notes	3,763,817
<b>Total GDB Note Balance</b>	<b>3,763,817</b>
<b>Key Liabilities</b>	<b>5,170,000</b>

### New Issuer - Key Liabilities\*

Post Setoff	
(\$000s)	9/30/2017
<b>Outstanding Balances</b>	
Muni Deposits	383,041
NGE Deposits	181,469
<b>Total Deposit Balance</b>	<b>383,041</b>
GDB Notes	3,763,817
<b>Total GDB Note Balance</b>	<b>3,763,817</b>
<b>Key Liabilities</b>	<b>4,146,858</b>

### PET - Key Liabilities\*

Post Setoff	
(\$000s)	9/30/2017
<b>Outstanding Balances</b>	
Public Entity Deposits	1,023,142
<b>Total Deposit Balance</b>	<b>1,023,142</b>
<b>Key Liabilities</b>	<b>1,023,142</b>

\*To show allocation of the Key Assets and Key Liabilities, before giving effect to any modification of such assets or liabilities pursuant to the Restructuring, as between the New Issuer and PET





**GOVERNMENT OF PUERTO RICO**  
**Government Development Bank for  
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## **III. Fiscal Plan**

# Fiscal Plan

## Fiscal Plan Approach and Assumptions

- The Plan is based on the expected performance of GDB's existing loan asset portfolio
- Based on the assessment of the loan portfolio<sup>(1)</sup> and the Government's certified fiscal plan, the Plan assumes municipality loans, select public sector loans, and the sale of real estate owned assets are the only sources of revenue after 6/30/2017
- To the extent a loan asset is "non-performing", the Plan assumes such loan remains "non-performing" and therefore would not be a source of future inflows, although GDB, or any successor entity, reserves the right to pursue collection efforts
- The Plan assumes the orderly sale or other legally available disposition of real estate owned assets at fair market value over a period of 24 months
- Although GDB's operations are expected to be wound down in a shorter period, the Plan reflects a reduction of overall operating activities during the 10 year projection period, given the uncertainty surrounding existing and potential litigation and collection efforts of PET assets
- The Plan assumes a cash balance of approximately \$25mm is maintained at each of the New Issuer and PET to provide adequate funding of their operations for 12 months post closing. After 12 months the New Issuer and PET will have minimum cash balances of \$5mm and \$10mm, respectively
- The Plan is not contradictory to the Government's certified fiscal plan and other instrumentality fiscal plans
  - GDB has confirmed with AAFAF and its advisors that public sector deposits at GDB do not have an impact on the Government's certified fiscal plan as none of the component units assume the disbursement of such deposits
  - GDB has confirmed with AAFAF and its advisors that assumptions in the Plan are consistent with assumptions in other instrumentality fiscal plans, where applicable



(1) As of January 31, 2017 - Unaudited

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

# Fiscal Plan

## Overview – Combined New Issuer and PET

### Government Development Bank Fiscal Plan - Fund Flows

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
New Issuer Inflows	70,011	196,334	168,285	168,738	172,802	175,078	178,654	176,428	175,553	170,755	1,652,640
PET Inflows	9,123	14,091	14,031	13,982	13,933	13,779	11,775	11,726	11,677	10,564	124,682
Pre-Transaction Inflows	164,389	-	-	-	-	-	-	-	-	-	164,389
<b>Total Cash Inflows</b>	<b>243,523</b>	<b>210,425</b>	<b>182,316</b>	<b>182,720</b>	<b>186,736</b>	<b>188,857</b>	<b>190,429</b>	<b>188,154</b>	<b>187,230</b>	<b>181,319</b>	<b>1,941,711</b>
New Issuer Outflows	-	3,237	6,291	6,111	5,926	5,736	5,538	5,340	5,138	4,934	48,250
PET Outflows	19,054	6,718	3,874	3,914	3,912	3,968	4,024	4,085	4,147	4,211	57,908
Pre-Transaction Outflows	9,834	-	-	-	-	-	-	-	-	-	9,834
<b>Total Operating Outflows</b>	<b>28,888</b>	<b>9,955</b>	<b>10,165</b>	<b>10,025</b>	<b>9,837</b>	<b>9,704</b>	<b>9,562</b>	<b>9,425</b>	<b>9,285</b>	<b>9,144</b>	<b>115,992</b>
<b>Net Cash Flows</b>	<b>214,635</b>	<b>200,470</b>	<b>172,151</b>	<b>172,695</b>	<b>176,898</b>	<b>179,153</b>	<b>180,867</b>	<b>178,729</b>	<b>177,945</b>	<b>172,175</b>	<b>1,825,719</b>
<b>Beginning Cash Balance</b>	<b>158,763</b>	<b>50,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>14,979</b>	<b>14,990</b>	<b>15,000</b>	<b>158,763</b>
<i>Net Cash Flows</i>	<i>214,635</i>	<i>200,470</i>	<i>172,151</i>	<i>172,695</i>	<i>176,898</i>	<i>179,153</i>	<i>180,867</i>	<i>178,729</i>	<i>177,945</i>	<i>172,175</i>	<i>1,825,719</i>
<i>Transaction Costs</i>	<i>(70,980)</i>	-	-	-	-	-	-	-	-	-	<i>(70,980)</i>
<i>Disbursements</i>	<i>(252,418)</i>	<i>(235,470)</i>	<i>(172,151)</i>	<i>(172,695)</i>	<i>(176,898)</i>	<i>(179,153)</i>	<i>(180,888)</i>	<i>(178,718)</i>	<i>(177,935)</i>	<i>(173,221)</i>	<i>(1,899,549)</i>
<b>Ending Cash Balance</b>	<b>50,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>15,000</b>	<b>14,979</b>	<b>14,990</b>	<b>15,000</b>	<b>13,953</b>	<b>13,953</b>

Note: FY 2018 beginning cash balance and transaction costs are estimates

Source: GDB. Financial projections are based on unaudited financial data provided by GDB"



# Fiscal Plan

## New Issuer Overview - Beginning at Transaction Close (9/30/17)

Government Development Bank  
Fiscal Plan - Fund Flows - New Issuer

Note: Trust is set up at transaction closing (assumed 9/30/17) all prior cash flows are distributed at closing

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Municipal Loans	38,427	174,291	168,273	168,725	172,790	175,066	178,642	176,416	175,541	170,743	1,598,913
REO Asset Sales	31,525	22,016	-	-	-	-	-	-	-	-	53,540
Interest on Cash	60	27	13	13	13	13	13	13	13	13	186
New Issuer Inflows	70,011	196,334	168,285	168,738	172,802	175,078	178,654	176,428	175,553	170,755	1,652,640
Trust Servicing Fee	-	3,237	6,291	6,111	5,926	5,736	5,538	5,340	5,138	4,934	48,250
GDB Funding	13,385	1,245	-	-	-	-	-	-	-	-	14,630
Total Operating Outflows	13,385	4,482	6,291	6,111	5,926	5,736	5,538	5,340	5,138	4,934	62,880
<b>Net Cash Flows</b>	<b>56,627</b>	<b>191,852</b>	<b>161,994</b>	<b>162,627</b>	<b>166,877</b>	<b>169,342</b>	<b>173,116</b>	<b>171,088</b>	<b>170,415</b>	<b>165,821</b>	<b>1,589,760</b>
<b>Beginning Cash Balance</b>	<b>167,338</b>	<b>25,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>167,338</b>
<i>Net Cash Flows</i>	<i>56,627</i>	<i>191,852</i>	<i>161,994</i>	<i>162,627</i>	<i>166,877</i>	<i>169,342</i>	<i>173,116</i>	<i>171,088</i>	<i>170,415</i>	<i>165,821</i>	<i>1,589,760</i>
<i>Disbursements</i>	<i>(198,965)</i>	<i>(211,852)</i>	<i>(161,994)</i>	<i>(162,627)</i>	<i>(166,877)</i>	<i>(169,342)</i>	<i>(173,116)</i>	<i>(171,088)</i>	<i>(170,415)</i>	<i>(165,821)</i>	<i>(1,752,098)</i>
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>

Note: Unused cash balance held at PET above a minimum amount to be negotiated under the RSA will be disbursed to the New Issuer 12 months post close – Not contemplated in inflows above

### New Issuer - Key Assets \*

Post Setoff

(\$000s)	9/30/2017
<b>Unrestricted Cash</b>	<b>167,338</b>
<i>Municipal</i>	<i>1,657,641</i>
<i>Public Sector</i>	<i>2,460,521</i>
<i>Appropriations</i>	<i>481,210</i>
<i>Private/Other</i>	<i>504,846</i>
<b>Loan Portfolio</b>	<b>5,104,218</b>
<b>REO Assets</b>	<b>62,710</b>
<b>Key Assets</b>	<b>5,334,266</b>

### New Issuer - Key Liabilities \*

Post Setoff

(\$000s)	9/30/2017
<b>Outstanding Balances</b>	
<i>Muni Deposits</i>	<i>383,041</i>
<i>NGE Deposits</i>	<i>181,469</i>
<b>Total Deposit Balance</b>	<b>383,041</b>
<i>GDB Notes</i>	<i>3,763,817</i>
<b>Total GDB Note Balance</b>	<b>3,763,817</b>
<b>Key Liabilities</b>	<b>4,146,858</b>

\*To show allocation of the Key Assets and Key Liabilities, before giving effect to any modification of such assets or liabilities pursuant to the Restructuring, as between the New Issuer and PET

Source: Government Development Bank.



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: Differs from Assets on unaudited balance sheet:

a) \$494mm of 'advances' through the Municipal Administration Fund (FAM, for its Spanish acronym) and COFIM were recategorized from 'Municipal' to 'Other'



# Fiscal Plan

## PET and Wind Down of GDB Overview – Beginning at Transaction Close (9/30/17)

Government Development Bank  
Fiscal Plan - Fund Flows - PET

Note: Trust is set up at transaction closing (assumed 9/30/17) all prior cash flows are distributed at closing

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Public Sector Loans	9,076	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540	124,406
Interest on Cash	47	36	25	25	25	25	24	24	24	24	276
From New Issuer	13,385	1,245	-	-	-	-	-	-	-	-	14,630
<b>GDB Inflows</b>	<b>22,507</b>	<b>15,336</b>	<b>14,031</b>	<b>13,982</b>	<b>13,933</b>	<b>13,779</b>	<b>11,775</b>	<b>11,726</b>	<b>11,677</b>	<b>10,564</b>	<b>139,312</b>
Payroll and Related	7,390	2,320	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118	18,191
Other Operating	11,664	4,398	2,864	2,893	2,877	2,918	2,958	3,003	3,047	3,093	39,716
<b>Total Operating Outflows</b>	<b>19,054</b>	<b>6,718</b>	<b>3,874</b>	<b>3,914</b>	<b>3,912</b>	<b>3,968</b>	<b>4,024</b>	<b>4,085</b>	<b>4,147</b>	<b>4,211</b>	<b>57,908</b>
<b>Net Cash Flows</b>	<b>3,453</b>	<b>8,618</b>	<b>10,157</b>	<b>10,068</b>	<b>10,022</b>	<b>9,811</b>	<b>7,751</b>	<b>7,641</b>	<b>7,530</b>	<b>6,353</b>	<b>81,404</b>
<b>Beginning Cash Balance</b>	<b>25,000</b>	<b>25,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>9,979</b>	<b>9,990</b>	<b>10,000</b>	<b>25,000</b>
<i>Net Cash Flows</i>	3,453	8,618	10,157	10,068	10,022	9,811	7,751	7,641	7,530	6,353	81,404
<i>Transaction Flows</i>	50,000	-	-	-	-	-	-	-	-	-	50,000
<i>Disbursements</i>	(53,453)	(23,618)	(10,157)	(10,068)	(10,022)	(9,811)	(7,772)	(7,630)	(7,520)	(7,400)	(147,451)
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>9,979</b>	<b>9,990</b>	<b>10,000</b>	<b>8,953</b>	<b>8,953</b>

Note: Unused cash balance held at PET above a minimum amount to be negotiated under the RSA will be disbursed to the New Issuer 12 months post close – Not contemplated in inflows above

### PET - Key Assets\*

Post Setoff	9/30/2017
(\$000s)	
<b>Unrestricted Cash</b>	<b>75,000</b>
<i>Public Sector</i>	<i>130,580</i>
<i>Appropriations</i>	<i>1,638,148</i>
<b>Loan Portfolio</b>	<b>1,768,728</b>
<b>Key Assets</b>	<b>1,843,728</b>

### PET - Key Liabilities\*

Post Setoff	9/30/2017
(\$000s)	
<b>Outstanding Balances</b>	
<i>Public Entity Deposits</i>	<i>1,023,142</i>
<b>Total Deposit Balance</b>	<b>1,023,142</b>
<b>Key Liabilities</b>	<b>1,023,142</b>

\*To show allocation of the Key Assets and Key Liabilities, before giving effect to any modification of such assets or liabilities pursuant to the Restructuring, as between the New Issuer and PET

Source: Government Development Bank; unaudited financial data is subject to change



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: Differs from Assets on unaudited balance sheet:

a) \$494mm of 'advances' through the Municipal Administration Fund (FAM, for its Spanish acronym) and COFIM were recategorized from 'Municipal' to 'Other'

# Fiscal Plan

## Inflows Approach and Assumptions – Combined New Issuer and PET

The Plan assumes projected inflows from assets including (a) cash and cash equivalents, (b) loan portfolio assets, and (c) real estate assets based on GDB’s unaudited balance sheet as of January 31, 2017

Item	Assumption
Cash on Hand <sup>(1)</sup>	Assumes a combined minimum cash balance of ~\$50mm earning interest at an annualized rate of 0.25% <sup>(2)</sup> Minimum cash balance of \$25mm for each of the New Issuer and the PET Trust for 12 months post close, then reduced to \$5mm and \$10mm, respectively (subject to change based on negotiations with creditors)
<u>Loan Assets:</u>	
Appropriation Loans	Government’s certified fiscal plan does not include appropriations after June 30, 2017 to repay these loans
Municipality Loans	Assumes the municipalities will pay all of their loans as contracted. The Plan assumes that municipal loan balances will be adjusted downward on the transaction closing date to account for municipal escrow deposits  There have been instances when municipalities have made late payments on their revenue and/or operational loans, or may have other delinquent statutory debts with other Government entities, all events have been cured prior to the disbursement of any excess CAE funds historically held by GDB and now being deposited in a trust account at Banco Popular with GDB as Trustee  Based on the repayment structure, safeguards of municipal obligations, and historical performance, GDB has not assumed any impairments on future cash flows
Public Sector Loans	Assumes debt service payments on four loans <sup>(3)</sup> will continue based on a review of historical performance and collateral. For all other remaining loans, Plan assumes no debt service will be collected, although GDB reserves the right to pursue collection efforts
Private Loans	Assumes no debt service on private loans will be collected; however, GDB reserves the right to pursue collection efforts
<u>Other Assets:</u>	
Real Estate Owned (REO) Assets	Assumes real estate assets are sold at fair market values within a two-year time frame



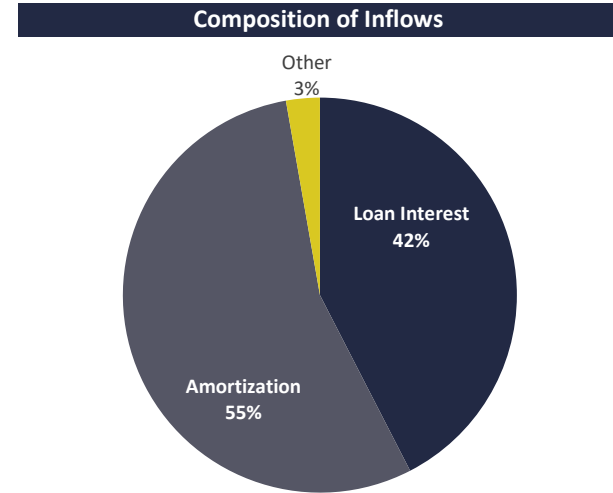
(1) Cash on Hand is subject to revision (2) GDB Actual interest rate earned on Cash on Hand  
(3) Includes two loans with CRIM, one loan with BDE, and one loan with Servicios Medicos Universitarios

# Fiscal Plan

## Summary of Inflows – 2018 – 2027 – Combined New Issuer and PET

The Plan projects \$1.9bn of Total Cash Inflows to be collected during the projection period primarily comprised of loan portfolio collections

- Appropriation Loans: Generate no cash flow pursuant to Government’s certified fiscal plan of March 13, 2017, as amended
- Municipal Loans: Generate \$1.76bn of cash flow over the projection period. Cash flows are based on contracted interest and amortization schedules
- Public Sector Loans: Generate \$129mm of cash flow over the projection period. Cash flows are based on four loans that are expected to perform based on contracted interest and amortization schedules



### Government Development Bank Summary of Cash Inflows

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
<b>Inflows from Loan Portfolio</b>											
Total Appropriation Loans	-	-	-	-	-	-	-	-	-	-	-
Total Municipal Loans	197,614	174,291	168,273	168,725	172,790	175,066	178,642	176,416	175,541	170,743	1,758,100
Total Public Sector Loans	14,104	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540	129,434
<b>Total Loan Inflows</b>	<b>211,718</b>	<b>188,347</b>	<b>182,279</b>	<b>182,683</b>	<b>186,699</b>	<b>188,820</b>	<b>190,393</b>	<b>188,118</b>	<b>187,194</b>	<b>181,283</b>	<b>1,887,534</b>
<b>Other Inflows</b>											
PR HTA Bond Interest	-	-	-	-	-	-	-	-	-	-	-
Dividends and Interest	-	-	-	-	-	-	-	-	-	-	-
Interest on Cash	286	63	37	37	37	37	36	36	36	36	642
REO Asset Sales	31,525	22,016	-	-	-	-	-	-	-	-	53,540
<b>Total Cash Inflows</b>	<b>243,528</b>	<b>210,425</b>	<b>182,316</b>	<b>182,720</b>	<b>186,736</b>	<b>188,857</b>	<b>190,429</b>	<b>188,154</b>	<b>187,230</b>	<b>181,319</b>	<b>1,941,716</b>

Source: Government Development Bank; unaudited financial data is subject to change



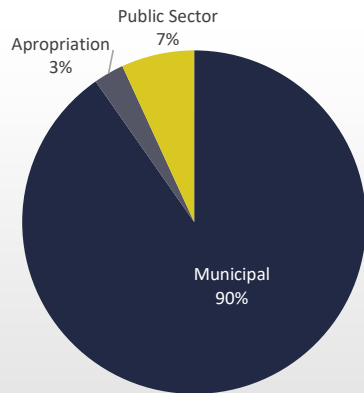
# Fiscal Plan

## Detail of Loan Portfolio Inflows – 2018 – 2027 – Combined New Issuer and PET

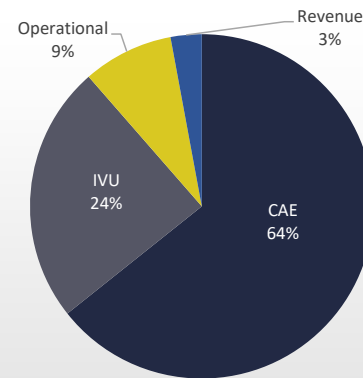
Government Development Bank  
Fiscal Plan - Cash Inflows from Loan Portfolio

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
<b><i>Municipal Portfolio Cash Flows</i></b>											
CAE	129,633	113,285	108,491	108,560	110,745	111,543	113,461	113,620	113,950	109,756	1,133,042
IVU	45,117	40,841	40,280	41,159	42,772	44,099	45,214	41,863	42,043	41,663	425,052
Operational	17,835	15,195	14,488	13,936	14,346	14,441	14,867	15,200	14,400	14,148	148,856
Revenue	5,028	4,970	5,013	5,070	4,928	4,984	5,100	5,733	5,148	5,176	51,150
<b>Municipal Portfolio</b>	<b>197,614</b>	<b>174,291</b>	<b>168,273</b>	<b>168,725</b>	<b>172,790</b>	<b>175,066</b>	<b>178,642</b>	<b>176,416</b>	<b>175,541</b>	<b>170,743</b>	<b>1,758,100</b>
<b>Appropriation</b>	-	-	-	-	-	-	-	-	-	-	-
<b>Public Sector Loans</b>	<b>14,104</b>	<b>14,055</b>	<b>14,007</b>	<b>13,958</b>	<b>13,909</b>	<b>13,754</b>	<b>11,751</b>	<b>11,702</b>	<b>11,653</b>	<b>10,540</b>	<b>129,434</b>
<b>Cash Flow From Loan Portfolio</b>	<b>211,718</b>	<b>188,347</b>	<b>182,279</b>	<b>182,683</b>	<b>186,699</b>	<b>188,820</b>	<b>190,393</b>	<b>188,118</b>	<b>187,194</b>	<b>181,283</b>	<b>1,887,534</b>

Total Loan Portfolio by Cash Inflow



Municipal Portfolio by Cash Inflow



Source: Government Development Bank; unaudited financial data is subject to change



# Fiscal Plan

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## Real Estate Owned (REO) Assets

- GDB owns a portfolio of real estate assets, the majority of which were transferred to the Bank in exchange for a \$150mm loan on December 30, 2008 used by the central government to cover a portion of the FY 2008-2009 deficit. The source of repayment for the \$150mm loan was expected to come from the sale proceeds of the properties; however, previous sales efforts have been uncoordinated and inconsistent with only a handful of properties sold between 2011 and 2012
- GDB has created an REO Management and Disposition Working Group Committee with the objective of managing and selling REO properties through an open, transparent, and orderly process within 24 months



# Fiscal Plan

## Outflows Approach and Assumptions – Combined New Issuer and PET

The Plan assumes projected outflows consisting of operational expenses deemed necessary to ensure an orderly wind down, adjusted for inflation per the Government’s certified fiscal plan

Item	Assumption
Payroll and Benefits	Workforce restructuring started April 1, 2017 with targeted annual payroll of \$1mm by FY2020 (growing with inflation consistent with the Governments certified fiscal plan)
Rent and Utilities	Assumes rent and utilities will be paid throughout projection period reduced by 50%, pro rata on a monthly basis, starting July 1, 2017 through the end of FY2018 and an additional reduction to 10% of pre-wind down levels by FY2019
Other General Operating Expenses	Assumes only critical and essential operating expenses; such expenses will be reduced throughout the projection period with a target of \$4mm for all operating expenses by 2020
Workforce Restructuring	Assumes cost to implement a workforce restructuring through the Single Employer Act <sup>(1)</sup> and incentivized separation plan
Professional and Legal Fees	Assumes costs for legal and financial professionals deemed necessary during the wind down period and reduced by 85% by 2020 (may need to be revised – seek additional resources from AAFAF, as needed)
New Issuer Servicing Fee	Portfolio servicing fee assumed to be 20bps of the New Issuer AUM paid semiannually from cash flows produced by the New Issuer assets

(1) Act 8 of 2017: An Act for the Transformation and Administration of Human Resources of the Government of Puerto Rico

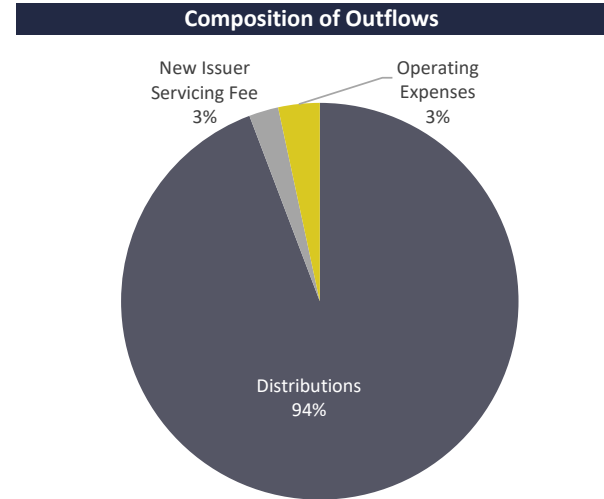


# Fiscal Plan

## Summary of Outflows – 2018 – 2027 – Combined New Issuer and PET

The Plan projects \$2.0bn of Total Cash Outflows during the projection period

- Operating Expenses: Projected to steadily decline throughout the projection period. Expenses are reduced to essential services required to wind down operations
- Distributions: Distributable cash flow is projected to be \$1.9bn through the projection period and will be allocated among GDB’s creditors pursuant to the terms of the RSA



### Government Development Bank Summary of Cash Outflows

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Total Payroll Related	12,190	2,320	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118	22,991
Rent/Utilities	643	89	90	91	92	93	95	96	98	99	1,487
Legal services	6,688	1,733	1,263	1,276	1,293	1,312	1,332	1,353	1,375	1,397	19,023
Professional services	4,865	1,567	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118	14,913
Other Operating Outflows	4,503	1,009	502	505	458	462	466	470	474	479	9,328
<b>Total Operating Outflows</b>	<b>28,888</b>	<b>6,718</b>	<b>3,874</b>	<b>3,914</b>	<b>3,912</b>	<b>3,968</b>	<b>4,024</b>	<b>4,085</b>	<b>4,147</b>	<b>4,211</b>	<b>67,742</b>
New Issuer Servicing Fee	-	3,237	6,291	6,111	5,926	5,736	5,538	5,340	5,138	4,934	48,250
Distributions	252,423	235,470	172,151	172,695	176,898	179,153	180,888	178,718	177,935	173,221	1,899,554
<b>Total Outflows</b>	<b>281,311</b>	<b>245,425</b>	<b>182,316</b>	<b>182,720</b>	<b>186,736</b>	<b>188,857</b>	<b>190,450</b>	<b>188,143</b>	<b>187,221</b>	<b>182,366</b>	<b>2,015,546</b>

Note: FY 2017 Disbursements are estimates and subject to material change



# Fiscal Plan

## Summary of Payroll and Payroll Related Expenses – Combined New Issuer and PET

The Plan projects over 90% decline in aggregate payroll expenses to \$1mm by FY2020 as operations wind down. The Plan assumes the workforce restructuring to be in accordance with the Single Employer Act<sup>(1)</sup> and incentivized separation program to be implemented in three phases:

- Phase One (Initial 30% reduction in payroll):
  - Restructuring costs are estimated to be \$2.65mm and take place by June 30, 2017 (Achieved)
- Phase Two (Additional 45% reduction in payroll):
  - Restructuring costs are estimated to be \$4.0mm and will take place evenly across FY2018
- Phase Three (Reduction to \$1mm of annual payroll expense):
  - Expected to occur 12 months after transaction closing when GDB transfers performing assets to a third party servicer
- Pro forma payroll expense at GDB is projected to be ~\$1.0mm per year by FY2020 and beyond (current run-rate level is \$17.8mm)

Government Development Bank  
Fiscal Plan - Fund Flows - Consolidated

(\$000s)	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal
	7/31/17	8/31/17	9/30/17	10/31/17	11/30/17	12/31/17	1/31/18	2/28/18	3/31/18	4/30/18	5/31/18	6/30/18	2018	2019	2020
<b>Projected Outflows</b>															
<i>Operating Disbursements</i>															
Salaries & Wages	620	585	550	515	480	445	409	374	339	304	269	234	5,124	1,484	707
Fringe Benefits	375	353	332	311	290	269	247	226	205	184	163	141	3,096	835	303
Workforce Restructuring	662	662	662	662	662	662	-	-	-	-	-	-	3,970	-	-
Total Payroll - Subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Payroll Related	1,656	1,600	1,544	1,487	1,431	1,375	657	601	544	488	432	375	12,190	2,320	1,010

(1) Act 8 of 2017 (Single Employer Act), establishes the Government of Puerto Rico as a single Employer and allows greater mobility of public sector employees between Government entities  
Source: Government Development Bank; unaudited financial data is subject to change





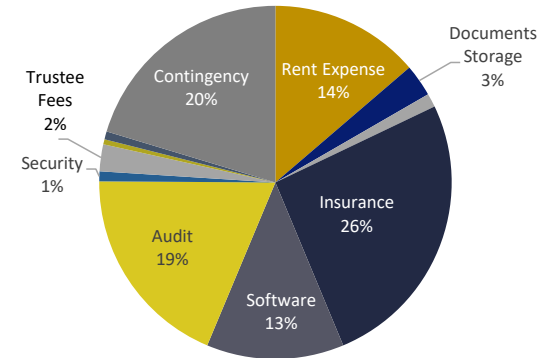
# Fiscal Plan

## Summary of Non-Payroll Operating Expenses

The Plan projects a 84% reduction in non-payroll operating expenses by FY2020 as operations wind down and further reductions occur throughout the projection period

- Other Expenses: GDB will transfer the servicing of its performing loan portfolio to a third party and will transfer corporate functions to AAFAF, while retaining only essential operations to complete its wind down

Composition of Non-Payroll Outflows



Government Development Bank  
Summary of Non-Payroll Expenses

(\$000s)	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027	Fiscal Total
Rent/Utilities Expense	643	89	90	91	92	93	95	96	98	99	1,487
Legal Services	6,688	1,733	1,263	1,276	1,293	1,312	1,332	1,353	1,375	1,397	19,023
Professional Services	4,865	1,567	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118	14,913
<b>Other Expenses</b>											
Documents Storage	270	5	5	5	5	5	5	5	6	6	318
Utilities- Telephone	30	20	10	10	10	10	11	11	11	11	135
Insurance	2,287	500	-	-	-	-	-	-	-	-	2,787
Software	621	78	79	80	81	82	84	85	86	88	1,365
Audit	608	150	152	153	155	157	160	162	165	168	2,030
Security	99	-	-	-	-	-	-	-	-	-	99
Service and Trustee Fees	265	-	-	-	-	-	-	-	-	-	265
Maintenance	51	-	-	-	-	-	-	-	-	-	51
Office Supplies	22	6	6	6	6	6	6	6	7	7	79
Contingency	250	250	250	250	200	200	200	200	200	200	2,200
<b>Total Other Outflows</b>	<b>4,503</b>	<b>1,009</b>	<b>502</b>	<b>505</b>	<b>458</b>	<b>462</b>	<b>466</b>	<b>470</b>	<b>474</b>	<b>479</b>	<b>9,328</b>
<b>Total Non-Payroll Outflows</b>	<b>16,698</b>	<b>4,398</b>	<b>2,864</b>	<b>2,893</b>	<b>2,877</b>	<b>2,918</b>	<b>2,958</b>	<b>3,003</b>	<b>3,047</b>	<b>3,093</b>	<b>44,750</b>



Source: Government Development Bank; unaudited financial data is subject to change

GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: Operating outflows are subject to further adjustments arising from a restructuring

# Fiscal Plan

## Debt Sustainability Analysis

The fiscal plan will restructure GDB as GDB will not be able to service its current obligations according to contracted terms

### Government Development Bank

#### Senior Unsecured Note - Summary of Pre-Restructuring Obligations

(\$ millions)	2018	2019	2020	2021	2022	2023	2024	2025	2026
GDB Available Cash Flow	252	235	172	173	177	179	181	179	178
<u>Contractual Debt Service</u>									
Principal	277	848	432	434	143	47	541	-	374
Interest	140	123	79	55	46	43	18	16	10
<b>Total Contractual Debt Service</b>	<b>417</b>	<b>971</b>	<b>512</b>	<b>488</b>	<b>189</b>	<b>91</b>	<b>559</b>	<b>16</b>	<b>384</b>

Source: Government Development Bank; unaudited financial data is subject to change



# Fiscal Plan

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## Subsidiaries, Guarantees and Letters of Credit

### GDB Subsidiaries

GDB is authorized under Article 2 of its enabling act, Act 17 of 1948, to create subsidiaries by resolution of the Board of Directors. The GDB Charter provides that GDB Subsidiaries shall constitute government instrumentalities, independent of and separate from GDB<sup>(1)</sup>. GDB is currently working with external legal counsel to determine the best approach to legally and operationally separate itself from its subsidiaries and affiliates

### Puerto Rico Housing Finance Authority (HFA)

Subsidiary of GDB and a government instrumentality of the Government, created in 1977 for the purpose of financing the construction, reconstruction, improvement, alteration and repair of decent, safe and sanitary dwellings for persons of limited income under state and federally subsidized homeownership programs

- HFA has approximately \$400mm of tax-exempt bonds outstanding that are limited obligations payable solely from underlying mortgages and payments thereon or funds allocated to the Puerto Rico Public Housing Administration by HUD
- HFA owes approximately \$85mm to GDB. For purposes of the Plan, it is assumed that GDB will not collect on this HFA loan, although it reserves the right to pursue collection efforts
- HFA has \$164mm in deposits at GDB

**Given the current financial condition of HFA, GDB has not assumed any additional collections from HFA**

### Puerto Rico Development Fund (PRDF)

Established in 1977 to provide an alternate source of financing to private enterprises, including to provide guarantees and invest in equity securities of such enterprises

**The Plan assumes no collections from PRDF are received by GDB**



(1) Section Fourth (J)(1) of the GDB Charter, 7 L.P.R.A § 552

# Fiscal Plan

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## Subsidiaries, Guarantees and Letters of Credit

### Puerto Rico Tourism Development Fund (TDF)

Created in 1993 to promote the hotel and tourism industry by making capital investments in, or by providing financing directly or indirectly (through the use of letters of credits and guarantees) to, entities that can contribute to the development of the industry

- TDF has experienced significant losses and has an accumulated net deficits due to decreased economic activity in the hotel and tourism industries in recent years
- Although TDF has covered its deficits through contributions from the Government, as permitted by legislation, and from financial support provided by GDB, no additional contributions or support are expected
  - *The Government's certified fiscal plan does not assume any appropriations allocated to TDF*
- No recourse to GDB: GDB has confirmed, through an analysis by outside legal counsel, that the resolution that created TDF “specifically provides that GDB shall not be liable for the payment of any of TDF’s debts “of any nature,” unless expressly guaranteed by GDB”
- As of December 31, 2016, TDF had outstanding guarantees on financings for six projects totaling \$247.5 mm and loans to three projects with combined outstanding balances of \$31.8 mm. All outstanding guarantees are non-current and one of the three outstanding loans is non-current
- TDF reserves the right to pursue collection efforts on all of its private sector loans

**Given the current financial condition of TDF, GDB has not assumed any additional collections from TDF**



# Fiscal Plan

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## Subsidiaries, Guarantees and Letters of Credit

### Other Guarantees and/or Letters of Credit

- **GDB Direct-Pay Letter of Credit (“Direct-Pay LOC”)** securing Puerto Rico Infrastructure Financing Authority Revenue Bonds (Ports Authority Project), Series 2011 A and 2011 B with a current outstanding balance of \$196mm. The Direct-Pay LOC is currently outstanding with an expiration date of December 15, 2026. GDB has included this guarantee as a liability on its balance sheet presented in this fiscal plan, *pari passu* with other senior unsecured creditors
- **GDB Stand-by Letter of Credit (“Stand-by LOC”)** for the benefit of Puerto Rico Public Finance Corporation 2011 Series A and B Bonds and 2012 Series A Bonds (the “Bonds”). The Stand-by LOC does not impact GDB’s Fiscal Plan. The Trustee may only draw from the Stand-by LOC when a budget for a new fiscal year is not approved and adopted, a legislative appropriation for the current fiscal year exists and is lower than the debt service payment due on the Bonds for the next fiscal year for which a new budget is not adopted. In such an instance, the Stand-by LOC may be drawn in the amount that the debt service on the Bonds for the upcoming fiscal year is higher than the appropriated amount for debt service on the Bonds during the current fiscal year, if any
  - The Stand-by LOC is not intended to and does not cover the risk that no appropriation is made by the Legislature of Puerto Rico for any particular fiscal year, or that an appropriation is made in an amount lower than the amount of debt service on the Bonds due with respect to any fiscal year. If the budget for any fiscal year is adopted but no appropriation for the payment of the Bonds is included in such budget, or an appropriation is made in an amount lower than the amount of debt services on the Bonds, the Trustee may not make a drawing under the Stand-by LOC



# Fiscal Plan

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## Subsidiaries, Guarantees and Letters of Credit

### Public Private Partnerships and Respective Payment Guarantees

#### PR-22 and PR-5 Toll Roads<sup>(1)</sup>

- GDB payment guarantee in favor of Metropistas (toll road operator) for any “Termination Damages” due and payable in cash by the Puerto Rico Highways and Transportation (HTA in turn agreed to reimburse GDB)

#### Luis Muñoz Marín International Airport<sup>(2)</sup>

- GDB payment guarantee in favor of Aerostar (airport operator) for any “Termination Damages” due and payable in cash by the Puerto Rico Ports Authority, which would be reimbursable to GDB by the Ports Authority

On February 23, 2017, GDB and AAFAF received a letter from the Puerto Rico Public Private Partnership Association where it indicated that a “restructuring (rather than a liquidation) of the GDB is clearly the preferred and most beneficial approach”

**The Plan assumes the payment guarantees remain outstanding during the wind down period**

#### Source:

(1) Concession Agreement between Metropistas and HTA and Reimbursement Agreement between HTA and GDB

(2) Lease Agreement between Aerostar and Ports Authority and Reimbursement Agreement between Ports Authority and GDB





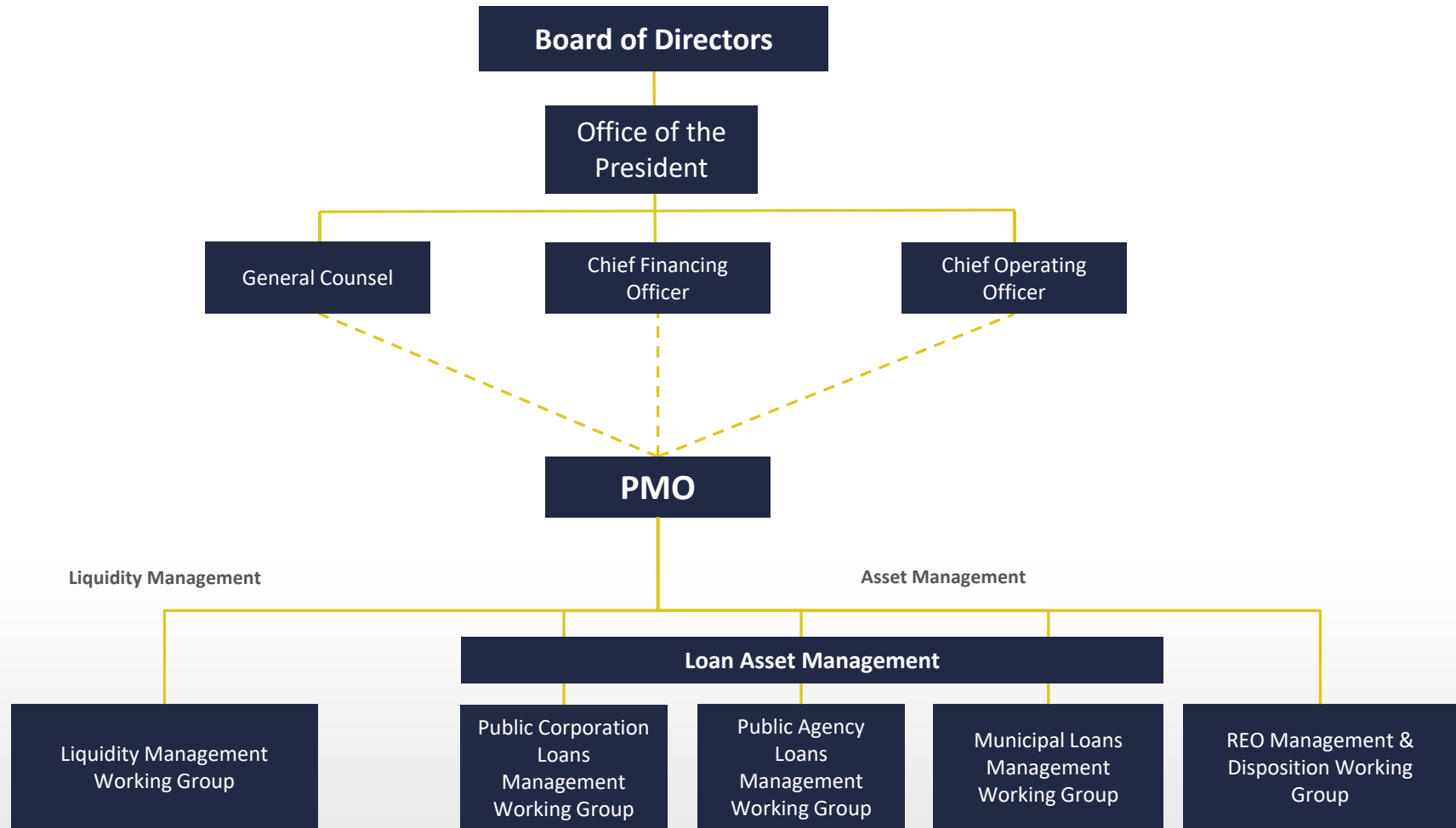
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## **IV. Fiscal Plan Implementation**

# Fiscal Plan Implementation

## PMO Structure





# GDB Project Management Office

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## Driving Fiscal Plan Implementation

- GDB has established a project management office (“PMO”) to drive the implementation of the Plan
- PMO leadership, comprised of senior GDB personnel, has created PMO working groups, to undertake the required work to advance assigned Plan initiatives. The daily activities of these working groups are managed and undertaken by internal GDB staff knowledgeable in the relevant subject matter areas, and assigned members meet regularly with PMO leadership to report on progress and facilitate necessary decision-making
- PMO leadership will ensure that implementation of initiatives are in compliance with the Plan, necessary legal and regulatory evaluations are undertaken, and best practices are incorporated whenever possible. PMO leadership is also responsible for escalating any decisions requiring approval by the GDB President and/or its Board of Directors
- Detailed implementation plans were submitted to the Oversight Board on May 28, 2017





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## **V. Appendices**



**GOVERNMENT OF PUERTO RICO**  
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## **V.i. Current Balance Sheet Information**

# Current Balance Sheet Information

## Current Balance Sheet

- GDB's balance sheet includes a significant number of "non-performing" assets
- Historically, GDB accounted for its inherent losses in its public sector loan portfolio following applicable financial reporting and accounting pronouncements and experiences on recoveries on its loan portfolio over several decades
- Events between 2013 and 2016 resulted in loss of investment grade rating and market access that caused:
  - Total allowance for loan losses amounted to approximately \$2.5bn, in audited FY2014 Financial Statements*
- "Clawback" of revenues by the Government in its certified fiscal plan permanently impaired a large portion of GDB public corporation loans

(\$ in millions)	1/31/2017
<b>Assets:</b>	
Cash & Cash Equivalents	\$260.7
<b>Loans:</b>	
Public Entity Loans	6,264.7
Municipal Loans	2,529.7
Private Sector Loans	1.0
Allowance for Loan Losses	(2,504.7)
<b>Total Loans, net</b>	<b>\$6,290.7</b>
<b>Accrued Interest Receivable:</b>	
Investments	0.0
Public Entity Loans	110.7
Municipal Loans	16.0
Private Sector Loans	0.0
<b>Total Accrued Interest Receivable</b>	<b>\$126.7</b>
Real Estate Owned	62.7
Other Assets	26.2
<b>Total Assets</b>	<b>\$6,767.0</b>
<b>Liabilities:</b>	
Total Deposits	\$3,514.6
Allowance For Losses on Guarantees and LOCs	52.6
Accrued Interest Payable	36.1
Accounts Payable	604.2
Notes Payable	3,384.6
<b>Total Liabilities</b>	<b>\$7,592.1</b>
Net Position	(\$825.1)
<b>Total Liabilities and Net Position</b>	<b>\$6,767.0</b>

Note:

- From unaudited Balance Sheet
- Accounts Payable includes \$360mm of GDB notes that have matured
- Allowance for Loan Losses from GDB FY2014 Audited Financial Statements
- COFIM and FAM advances totaling \$326.2mm and \$168.1mm, respectively, are being reconciled against deposits received from municipal IVU from each entity. FAM advances will be netted out completely where COFIM would still owe \$57.2mm to GDB.

Source: GDB Accounting Department Draft Financial Statements



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

# Current Balance Sheet Information

## Loans

- All loans to municipalities are currently performing while substantially all other public sector loans are non-performing

GDB Loan Portfolio (\$ in millions)	
<u>Public Corporation:</u>	
Highways & Transportation Authority (HTA)	\$1,733.7
Special Communities Trust	345.8
Ports Authority	286.5
CRIM - Ponce	107.4
PR Industrial Development Company (PRIDCO)	77.8
Other Public Corporation Loans	419.9
<b>Total Public Corporation Portfolio</b>	<b>\$2,971.2</b>
<u>Public Agency:</u>	
Hacienda	\$884.6
Medical Services Administration (ASEM)	282.4
Office of Management and Budget (OMB)	265.5
Health Insurance Administration (ASES)	183.3
Public Buildings Authority	182.2
Other Public Agency Loans	1,034.7
<b>Total Public Agency Portfolio</b>	<b>\$2,832.6</b>
<u>Municipal:</u>	
San Juan	\$414.6
Guaynabo	143.1
Ponce	98.2
Toa Baja	75.9
Aguadilla	71.9
Other Municipal Loans	1,232.7
<b>Total Municipal Portfolio</b>	<b>\$2,036.4</b>
<u>Private:</u>	
<b>Total Private Portfolio</b>	<b>\$1.0</b>
<b>Total Portfolio</b>	<b>\$7,841.1</b>

GDB Total Loan Portfolio (\$ in millions)	
Public Loans	\$5,803.7
Municipal Loans	2,036.4
Municipal FAM Advances	168.1
Municipal COFIM Advances	326.2
Private Sector Loans / Other	426.5
AFV Reverse Repo	21.1
<b>Gross Loans</b>	<b>\$8,782.1</b>
Adjustments	(2,491.3)
<b>Net Loans</b>	<b>\$6,290.7</b>

Note: Differs from Assets on unaudited balance sheet:

- 1) As of 1/31/17, Unaudited
- 2) Public Loans: Excludes Investment assets
- 3) COFIM and FAM advances totaling \$326.2mm and \$168.1mm, respectively, are being reconciled against deposits received from municipal IVU from each entity. FAM advances will be netted out completely where COFIM would still owe \$57.2mm to GDB.



# Current Balance Sheet Information

## Deposits

- As of February 28, 2017, GDB held approximately \$3.03bn<sup>(1)</sup>, net of COFIM and FAM, in deposits for various government agencies, corporations, municipalities and other entities. Access to these deposits is restricted
- Most depositors have transitioned their operating accounts away from GDB and have been transacting via commercial banks since April 2016

Top 20 GDB Depositors (2/28/17) <sup>1</sup>			
(\$ in millions)			
Depositor	Balance	Depositor	Balance
PR Treasury Department	504	PR Highways and Transportation Authority	43
PR Infrastructure Financing Authority <sup>2</sup>	230	Puerto Rico State Insurance Fund	43
PR Electric Power Authority	150	PR Public Buildings Authority	41
Municipality of San Juan	145	Land Administration	38
Special Communities Perpetual Trust	102	Municipality of Mayaguez	37
PR Science & Technology Trust <sup>3</sup>	92	PR Tourism Company	34
University of Puerto Rico	92	Government Employees Retirement System	33
Department of Labor and Human Resources	82	Agricultural Enterprises Development Administration (ADEA)	31
Municipality of Carolina	73	Municipality of Guaynabo	29
Special Fund Health and Operational Safety	49	Other	1,157
<b>Total Deposits</b>			<b>3,005</b>

Source: GDB

(1) Balance of deposits excludes \$268mm and \$196mm of COFIM and FAM deposits, respectively, that are the repayment of advances made by GDB to municipalities before July 1<sup>st</sup>, 2016 through COFIM and FAM. GDB is currently reconciling its books to reflect this. Net effect will be an advance payable from COFIM to GDB of \$57.2mm. All amounts unaudited

(2) Includes \$188mm representing repayments by PRASA to the State Revolving Fund Loans

(3) Indicates funds deposited by Science and Technology Trust are from a private non-profit entity

(4) Excluded from the presentation of Top 20 Depositors are affiliated entities of GDB. Tourism Development Fund (TDF) and Housing Finance Authority (HFA) maintain deposit balances of \$158mm and \$140mm, respectively



# Current Balance Sheet Information

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## Senior Unsecured Medium Term Notes

### Description of GDB's Medium Term Notes (MTN) Program

- MTNs are highly customizable debt securities that serve the needs of both issuers and investors and are a major source of funding for government agencies and corporations
- MTNs are an effective tool of asset-liability management for issuers and buyers as they can match terms with specific needs
- Following the 2008 global financial crisis, GDB shifted its reliance from commercial paper to a Medium Term Senior Unsecured Notes program (MTNs) for funding purposes, which provided a more stable source of funding at fixed and predictable rates
- From 2006 to 2010, GDB MTNs were issued exclusively to Puerto Rico retail and institutional investors
- Between 2011 and 2012, GDB was able to restructure the maturity profile of its MTNs to allow for a longer and smoother maturity schedule
- Concurrently, GDB was able to diversify the composition of its investor base by issuing notes outside Puerto Rico
- Proceeds from MTNs were used to fund GDB's lending activities with, the Government, certain instrumentalities, and municipalities
- **After losing its investment grade rating and market access in 2014, GDB has been unable to refinance its MTNs and is now facing a severe liquidity crisis**

### Source of Repayment

- GDB MTNs are general, unsecured obligations, except for the Series 2013 B-1 Notes that were guaranteed by the Government and purchased and held by the State Insurance Fund
- GDB generates revenues to repay its obligations primarily from interest and principal payments from its loan portfolio
- Loss of appropriations from the Government and "claw back" of other revenues previously used to fund debt service of certain public corporations debt severely impeded GDB's ability to meet obligations





**GOVERNMENT OF PUERTO RICO**  
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## **V.ii. Financial Model**



# Financial Model

## Pre-transaction Monthly Projections

Government Development Bank			
Fiscal Plan - Fund Flows - Consolidated			
(\$000s)			
	7/31/17	8/31/17	9/30/17
<b>Projected Inflows</b>			
<i>Loan Asset Portfolio Interest Income:</i>			
Appropriation Loans	-	-	-
Municipal Loans	159,186	-	-
Public Sector Loans	4,318	172	538
<b>Total Loan Asset Portfolio Inflows</b>	<b>163,505</b>	<b>172</b>	<b>538</b>
<i>Other Cash Receipts:</i>			
PR HTA Revenue Bond Interest	-	-	-
Interest and Dividend Income	-	-	-
Interest Income on Cash Deposits	50	66	58
<b>Total Other Inflows</b>	<b>50</b>	<b>66</b>	<b>58</b>
REO Asset Sales	-	-	-
<b>Total Cash Inflows</b>	<b>163,555</b>	<b>238</b>	<b>597</b>
<b>Projected Outflows</b>			
<i>Operating Disbursements</i>			
Salaries & Wages	620	585	550
Fringe Benefits	375	353	332
Workforce Restructuring	662	662	662
Total Payroll - Subsidiary	-	-	-
<b>Total Payroll Related</b>	<b>1,656</b>	<b>1,600</b>	<b>1,544</b>
Rent/Utilities	70	67	64
Legal Services	716	716	716
Professional Services	422	422	422
Other Operating Outflows	473	473	473
<b>Total Operating Outflows</b>	<b>3,337</b>	<b>3,278</b>	<b>3,219</b>
Creditor Trust Servicing Fee	-	-	-
<b>Net Cash Flows</b>	<b>160,217</b>	<b>(3,040)</b>	<b>(2,622)</b>
Beginning Cash Balance	158,763	318,980	315,940
Net Cash Flows	160,217	(3,040)	(2,622)
Transaction Costs	-	-	(70,980)
Disbursements	-	-	-
<b>Ending Cash Balance</b>	<b>318,980</b>	<b>315,940</b>	<b>242,338</b>

Source: GDB. Financial projections are based on unaudited financial data provided by GDB



# Financial Model

## New Issuer Monthly Projections

Government Development Bank  
Fiscal Plan - Fund Flows - New Issuer

(\$000s)	10/31/17	11/30/17	12/31/17	1/31/18	2/28/18	3/31/18	4/30/18	5/31/18	6/30/18	Fiscal <sup>1</sup> 2018
<b>Projected Inflows</b>										
<i>Loan Asset Portfolio Interest Income:</i>										
Appropriation Loans	-	-	-	-	-	-	-	-	-	-
Municipal Loans	-	-	-	38,427	-	-	-	-	-	38,427
Public Sector Loans	-	-	-	-	-	-	-	-	-	-
<b>Total Loan Asset Portfolio Inflows</b>	-	-	-	38,427	-	-	-	-	-	38,427
<i>Other Cash Receipts:</i>										
Interest Income on Cash Deposits	20	5	5	5	5	5	5	5	5	60
REO Asset Sales	-	-	3,905	-	-	8,779	-	-	18,841	31,525
<b>Total Other Inflows</b>	20	5	3,910	5	5	8,784	5	5	18,845	31,584
<b>Total Cash Inflows</b>	<b>20</b>	<b>5</b>	<b>3,910</b>	<b>38,432</b>	<b>5</b>	<b>8,784</b>	<b>5</b>	<b>5</b>	<b>18,845</b>	<b>70,011</b>
<b>Projected Outflows</b>										
<b>New Issuer Servicing Fee</b>	-	-	-	-	-	-	-	-	-	-
GDB Funding	2,982	2,923	2,647	-	1,507	-	1,388	1,522	416	13,385
<b>Net Cash Flows</b>	(2,962)	(2,918)	1,264	38,432	(1,502)	8,784	(1,383)	(1,517)	18,430	56,627
Beginning Cash Balance	167,338	25,000	22,082	23,345	25,000	23,498	25,000	23,617	22,100	167,338
Net Cash Flows	(2,962)	(2,918)	1,264	38,432	(1,502)	8,784	(1,383)	(1,517)	18,430	56,627
Disbursements	(139,376)	-	-	(36,778)	-	(7,282)	-	-	(15,529)	(198,965)
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>22,082</b>	<b>23,345</b>	<b>25,000</b>	<b>23,498</b>	<b>25,000</b>	<b>23,617</b>	<b>22,100</b>	<b>25,000</b>	<b>25,000</b>

Operating outflows are subject to further adjustments arising from a restructuring

Source: GDB. Financial projections are based on unaudited financial data provided by GDB



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: New Issuer is set up at transaction closing (assumed 9/30/17); all prior cash flows are distributed at closing  
1) 9 months

# Financial Model

## New Issuer Annual Projections

Government Development Bank  
Fiscal Plan - Fund Flows - New Issuer

(\$000s)	Fiscal <sup>1</sup> 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027
<b>Projected Inflows</b>										
<i>Loan Asset Portfolio Interest Income:</i>										
Appropriation Loans	-	-	-	-	-	-	-	-	-	-
Municipal Loans	38,427	174,291	168,273	168,725	172,790	175,066	178,642	176,416	175,541	170,743
Public Sector Loans	-	-	-	-	-	-	-	-	-	-
<b>Total Loan Asset Portfolio Inflows</b>	<b>38,427</b>	<b>174,291</b>	<b>168,273</b>	<b>168,725</b>	<b>172,790</b>	<b>175,066</b>	<b>178,642</b>	<b>176,416</b>	<b>175,541</b>	<b>170,743</b>
<i>Other Cash Receipts:</i>										
Interest Income on Cash Deposits	60	27	13	13	13	13	13	13	13	13
REO Asset Sales	31,525	22,016	-	-	-	-	-	-	-	-
<b>Total Other Inflows</b>	<b>31,584</b>	<b>22,043</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>Total Cash Inflows</b>	<b>70,011</b>	<b>196,334</b>	<b>168,285</b>	<b>168,738</b>	<b>172,802</b>	<b>175,078</b>	<b>178,654</b>	<b>176,428</b>	<b>175,553</b>	<b>170,755</b>
<b>Projected Outflows</b>										
<b>New Issuer Servicing Fee</b>	-	3,237	6,291	6,111	5,926	5,736	5,538	5,340	5,138	4,934
GDB Funding	13,385	1,245	-	-	-	-	-	-	-	-
<b>Net Cash Flows</b>	<b>56,627</b>	<b>191,852</b>	<b>161,994</b>	<b>162,627</b>	<b>166,877</b>	<b>169,342</b>	<b>173,116</b>	<b>171,088</b>	<b>170,415</b>	<b>165,821</b>
Beginning Cash Balance	167,338	25,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Net Cash Flows	56,627	191,852	161,994	162,627	166,877	169,342	173,116	171,088	170,415	165,821
Disbursements	(198,965)	(211,852)	(161,994)	(162,627)	(166,877)	(169,342)	(173,116)	(171,088)	(170,415)	(165,821)
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>

Operating outflows are subject to further adjustments arising from a restructuring

Source: GDB. Financial projections are based on unaudited financial data provided by GDB



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: New Issuer is set up at transaction closing (assumed 9/30/17); all prior cash flows are distributed at closing  
1) 9 months

# Financial Model

## PET Monthly Projections

Government Development Bank  
Fiscal Plan - Fund Flows - PET

(\$000s)	10/31/17	11/30/17	12/31/17	1/31/18	2/28/18	3/31/18	4/30/18	5/31/18	6/30/18	Fiscal <sup>1</sup> 2018
<b>Projected Inflows</b>										
Appropriation Loans	-	-	-	-	-	-	-	-	-	-
Public Sector Loans	172	172	389	4,318	172	2,492	172	172	1,019	9,076
Total Loan Asset Portfolio Inflows	172	172	389	4,318	172	2,492	172	172	1,019	9,076
<i>Other Cash Receipts:</i>										
Interest Income on Cash Deposits	5	5	5	5	5	5	5	5	5	47
Total Other Inflows	5	5	5	5	5	5	5	5	5	47
<b>Total Cash Inflows</b>	<b>177</b>	<b>177</b>	<b>394</b>	<b>4,324</b>	<b>177</b>	<b>2,497</b>	<b>177</b>	<b>177</b>	<b>1,024</b>	<b>9,123</b>
<b>Projected Outflows</b>										
<i>Operating Disbursements</i>										
Salaries & Wages	515	480	445	409	374	339	304	269	234	3,369
Fringe Benefits	311	290	269	247	226	205	184	163	141	2,036
Workforce Restructuring	662	662	662	-	-	-	-	-	-	1,985
Total Payroll - Subsidiary	-	-	-	-	-	-	-	-	-	-
Total Payroll Related	1,487	1,431	1,375	657	601	544	488	432	375	7,390
Rent/Utilities	61	58	55	52	49	46	43	40	37	441
Legal Services	716	716	716	399	399	399	399	399	399	4,541
Professional Services	422	422	422	388	388	388	388	388	388	3,597
Other Operating Outflows	473	473	473	247	247	247	247	440	240	3,085
<b>Total Operating Outflows</b>	<b>3,159</b>	<b>3,100</b>	<b>3,041</b>	<b>1,743</b>	<b>1,684</b>	<b>1,624</b>	<b>1,565</b>	<b>1,699</b>	<b>1,440</b>	<b>19,054</b>
<b>Net Cash Flows before Transfer</b>	<b>(2,982)</b>	<b>(2,923)</b>	<b>(2,647)</b>	<b>2,581</b>	<b>(1,507)</b>	<b>873</b>	<b>(1,388)</b>	<b>(1,522)</b>	<b>(416)</b>	<b>(9,932)</b>
<b>Transfer from Creditor Trust</b>	<b>2,982</b>	<b>2,923</b>	<b>2,647</b>	<b>-</b>	<b>1,507</b>	<b>-</b>	<b>1,388</b>	<b>1,522</b>	<b>416</b>	<b>13,385</b>
<b>Net Cash Flows</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,581</b>	<b>-</b>	<b>873</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,453</b>
Beginning Cash Balance	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Net Cash Flows	-	-	-	2,581	-	873	-	-	-	3,453
Transaction Flows	50,000	-	-	-	-	-	-	-	-	50,000
Disbursements	(50,000)	-	-	(2,581)	-	(873)	-	-	-	(53,453)
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>	<b>25,000</b>

Source: GDB. Financial projections are based on unaudited financial data provided by GDB  
Operating outflows are subject to further adjustments arising from a restructuring



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: Trust is set up at transaction closing (assumed 9/30/17) all prior cash flows are distributed at closing 1) 9 months

# Financial Model

## PET Annual Projections

Government Development Bank  
Fiscal Plan - Fund Flows - PET

(\$000s)	Fiscal <sup>1</sup> 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Fiscal 2026	Fiscal 2027
<b>Projected Inflows</b>										
Appropriation Loans	-	-	-	-	-	-	-	-	-	-
Public Sector Loans	9,076	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540
Total Loan Asset Portfolio Inflows	9,076	14,055	14,007	13,958	13,909	13,754	11,751	11,702	11,653	10,540
<i>Other Cash Receipts:</i>										
Interest Income on Cash Deposits	47	36	25	25	25	25	24	24	24	24
Total Other Inflows	47	36	25	25	25	25	24	24	24	24
<b>Total Cash Inflows</b>	<b>9,123</b>	<b>14,091</b>	<b>14,031</b>	<b>13,982</b>	<b>13,933</b>	<b>13,779</b>	<b>11,775</b>	<b>11,726</b>	<b>11,677</b>	<b>10,564</b>
<b>Projected Outflows</b>										
<i>Operating Disbursements</i>										
Salaries & Wages	3,369	1,484	707	715	724	735	746	758	770	782
Fringe Benefits	2,036	835	303	306	310	315	320	325	330	335
Workforce Restructuring	1,985	-	-	-	-	-	-	-	-	-
Total Payroll - Subsidiary	-	-	-	-	-	-	-	-	-	-
Total Payroll Related	7,390	2,320	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118
Rent/Utilities	441	89	90	91	92	93	95	96	98	99
Legal Services	4,541	1,733	1,263	1,276	1,293	1,312	1,332	1,353	1,375	1,397
Professional Services	3,597	1,567	1,010	1,021	1,034	1,050	1,066	1,083	1,100	1,118
Other Operating Outflows	3,085	1,009	502	505	458	462	466	470	474	479
<b>Total Operating Outflows</b>	<b>19,054</b>	<b>6,718</b>	<b>3,874</b>	<b>3,914</b>	<b>3,912</b>	<b>3,968</b>	<b>4,024</b>	<b>4,085</b>	<b>4,147</b>	<b>4,211</b>
<b>Net Cash Flows before Transfer</b>	<b>(9,932)</b>	<b>7,373</b>	<b>10,157</b>	<b>10,068</b>	<b>10,022</b>	<b>9,811</b>	<b>7,751</b>	<b>7,641</b>	<b>7,530</b>	<b>6,353</b>
<b>Transfer from Creditor Trust</b>	<b>13,385</b>	<b>1,245</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Cash Flows</b>	<b>3,453</b>	<b>8,618</b>	<b>10,157</b>	<b>10,068</b>	<b>10,022</b>	<b>9,811</b>	<b>7,751</b>	<b>7,641</b>	<b>7,530</b>	<b>6,353</b>
Beginning Cash Balance	25,000	25,000	10,000	10,000	10,000	10,000	10,000	9,979	9,990	10,000
Net Cash Flows	3,453	8,618	10,157	10,068	10,022	9,811	7,751	7,641	7,530	6,353
Transaction Flows	50,000	-	-	-	-	-	-	-	-	-
Disbursements	(53,453)	(23,618)	(10,157)	(10,068)	(10,022)	(9,811)	(7,772)	(7,630)	(7,520)	(7,400)
<b>Ending Cash Balance</b>	<b>25,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>9,979</b>	<b>9,990</b>	<b>10,000</b>	<b>8,953</b>

Source: GDB. Financial projections are based on unaudited financial data provided by GDB  
Operating outflows are subject to further adjustments arising from a restructuring



GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO

Note: New Issuer is set up at transaction closing (assumed 9/30/17); all prior cash flows are distributed at closing  
1) 9 months



**GOVERNMENT OF PUERTO RICO**  
**Government Development Bank for  
Puerto Rico**



## **V.iii. GDB Overview, History and Root Causes of its Crisis**

# GDB Overview, History and Root Causes of its Crisis

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## Overview

- Originally created pursuant to Act 252 of 1942 for the purpose of attaining "the complete development of the human and economic resources of Puerto Rico"
  - Act 272 of 1945 authorized it to act as ***fiscal agent and financial advisor of the central government and its agencies***;
  - Act 17 of 1948 created GDB's Charter and established its duties and powers
- **GDB's Mission:** "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. We serve as a bank, fiscal agent and financial advisor for the Government of Puerto Rico, and its instrumentalities"
- During its prime, GDB was considered one of the island's most important and prestigious institutions with total assets of \$14bn, net assets of almost \$2bn and over 280 employees as of June 30, 2010<sup>(1)</sup>
- Despite operating soundly for much of its history, supporting economic development as well as troubled public entities, failed political policies starting in the early 2000s and recurrent chronic public deficits had an adverse impact on GDB's financial position
- As the Government, its instrumentalities, and public corporations required increased liquidity and financing support from GDB, their financial health became interrelated

(1) Basic Financial Statements and Required Supplementary Information for FY2010



# GDB Overview, History and Root Causes of its Crisis

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## Overview (continued)

- In working to achieve its goals, GDB historically facilitated capital markets access to the Government, its agencies, municipalities and public corporations until 2014
- During the summer of 2014, Puerto Rico's public sector lost access to the capital markets mainly due to:
  - *A confrontational governmental attitude towards the investment community*
  - *Lack of transparency interpreted by the investment community as lack of good faith*
  - *Lack of a coherent plan to facilitate economic development, reign in public spending, and safeguard Puerto Rico's credit ratings and capital market access*

*Loss of access to readily available, cost-effective short and long-term credit triggered the collapse of the Island's public financial system and is the **primary cause for widespread defaults across Puerto Rico's debt profile and the current liquidity and solvency crisis affecting the GDB***

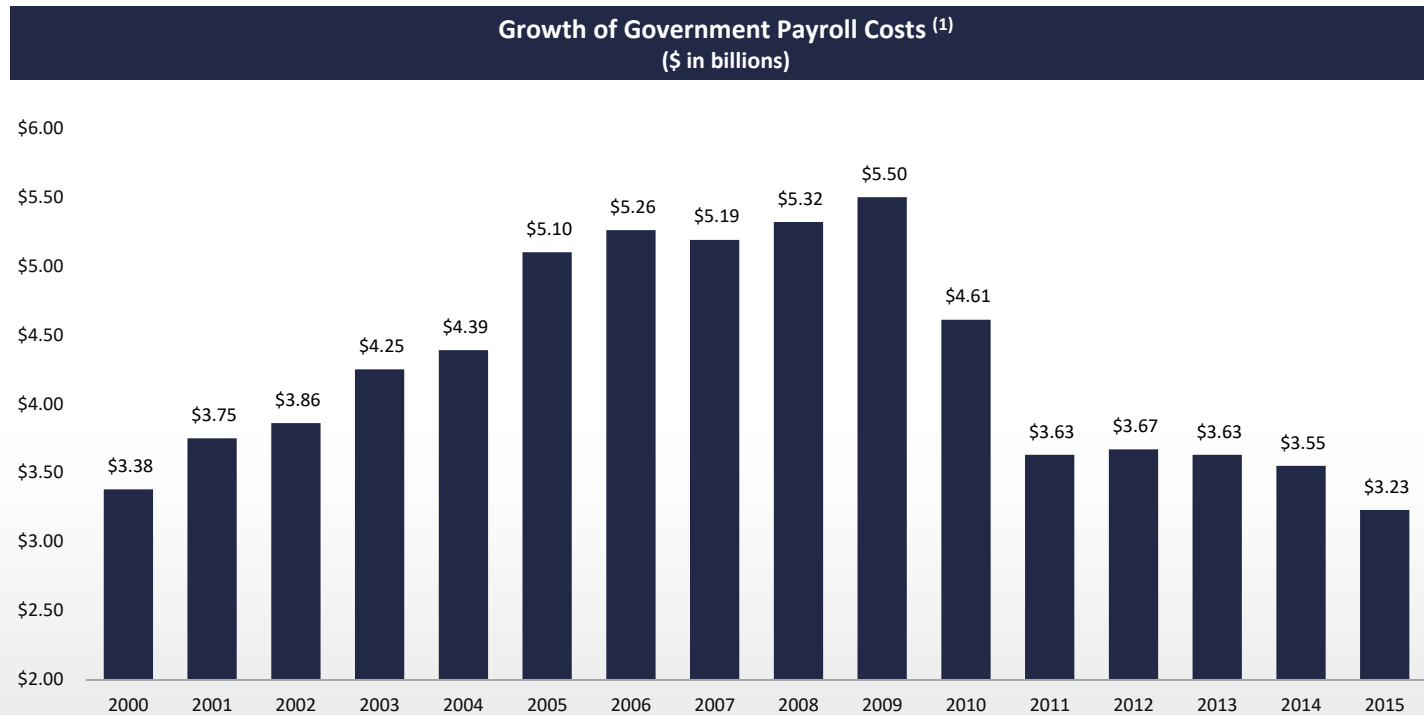




# GDB Overview, History and Root Causes of its Crisis

## Historical Context

- Available data shows that fiscal irresponsibility and ineffective leadership (public and private) was the root cause of Puerto Rico’s economic and debt crisis
- The fiscal crisis began in earnest as a result of excessive spending, starkly evident, for example, with unchecked growth in government payroll between fiscal years 2001 and 2009 and persistent central government deficits



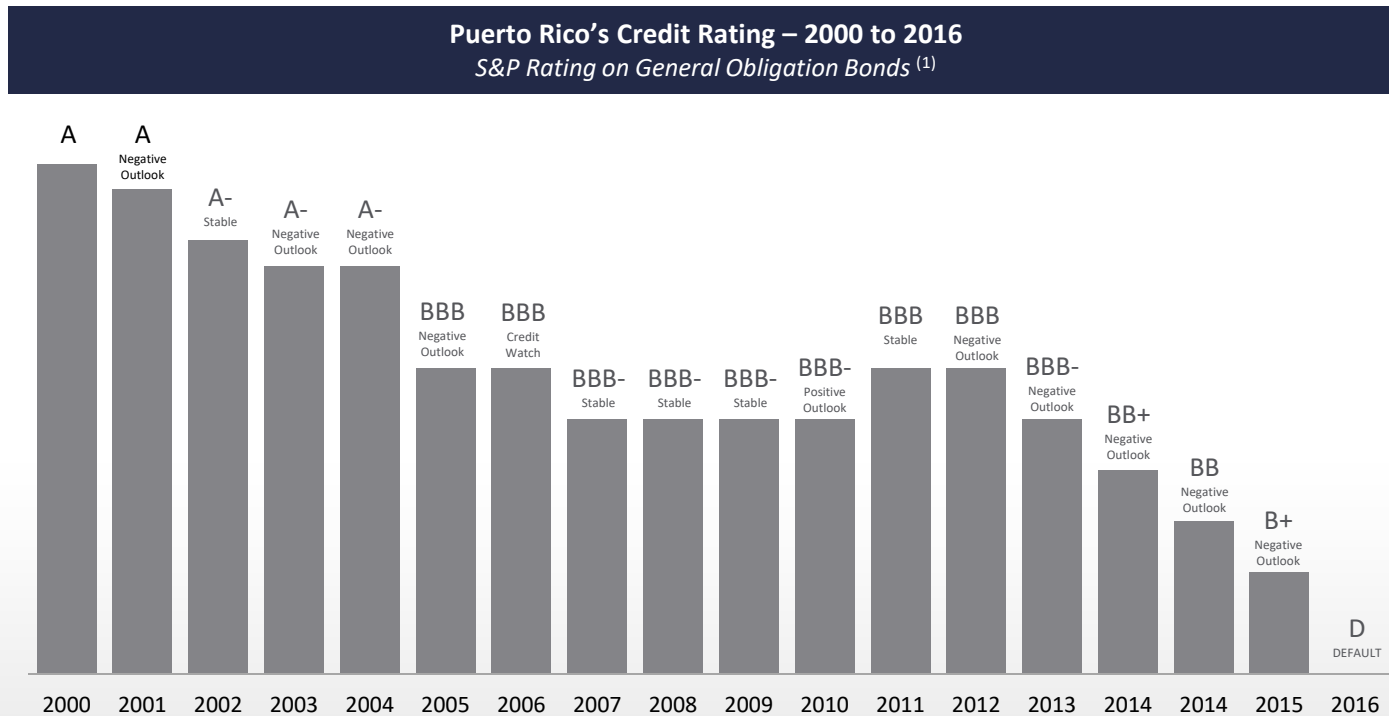
(1) Source: Government Financial Information and Operating Data Reports (various years) and Government Comprehensive Annual Financial Reports



# GDB Overview, History and Root Causes of its Crisis

## Historical Context (continued)

- Historical facts point to fiscal mismanagement and irresponsible behavior since 2001, except between 2009 and 2012 where credit ratings stabilized and improved



(1) Source: Standard & Poor's



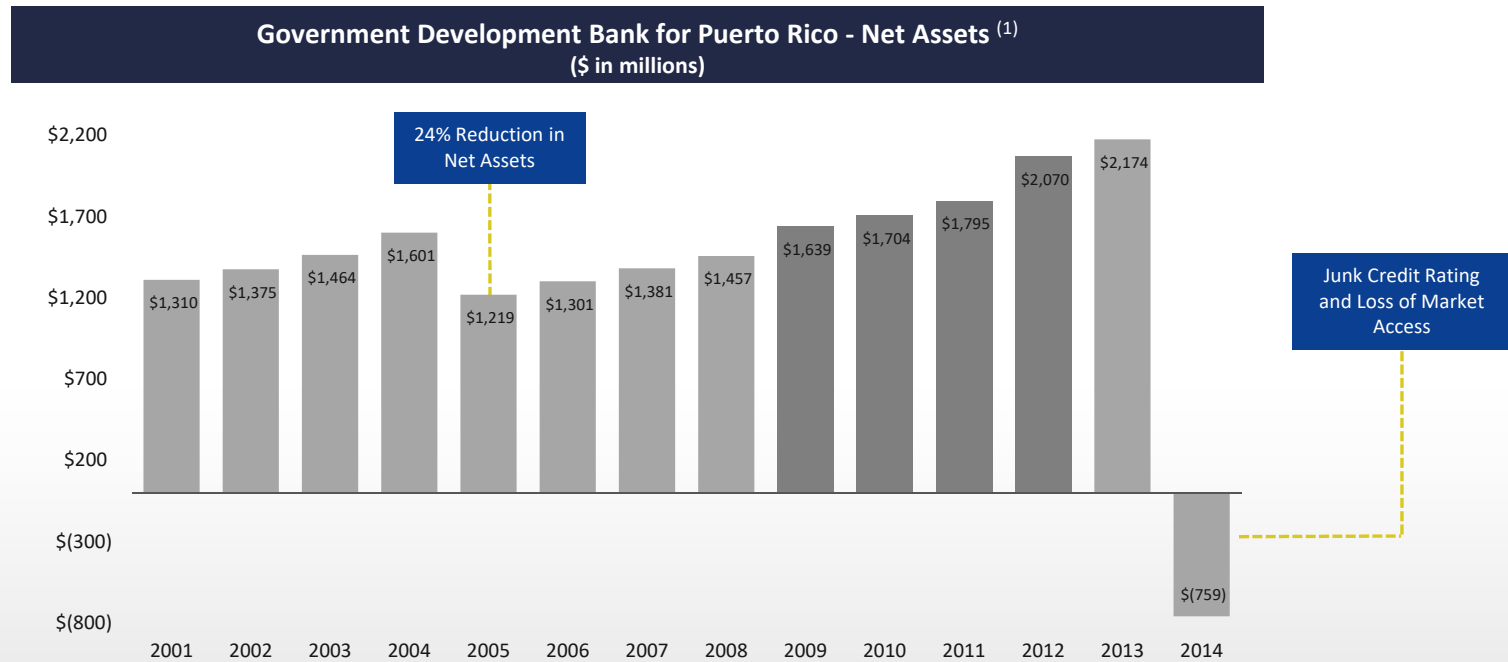
# GDB Overview, History and Root Causes of its Crisis

## Historical Context – Timeline of Relevant Events

2004:

**Assault on GDB's Capital**

Out of control public spending including fiscally unsound legislation in FY 2005 that forced GDB to make a \$500mm special dividend and a \$500mm appropriation loan to fund the Special Communities Perpetual Trust, resulted in a 24% reduction in GDB's net assets



(1) Source: GDB Basic Financial Statements and Required Supplementary Information on Fiscal Years 2001 – 2014



# GDB Overview, History and Root Causes of its Crisis

## Historical Context – Timeline of Relevant Events

### Looking the Other Way

The public sector ignored the weakening economy, population loss, and ensuing declining government revenue base and instead increased public spending that resulted in a recurrent practice of deficit financings and a crowding out effect of the private sector starting in FY2001

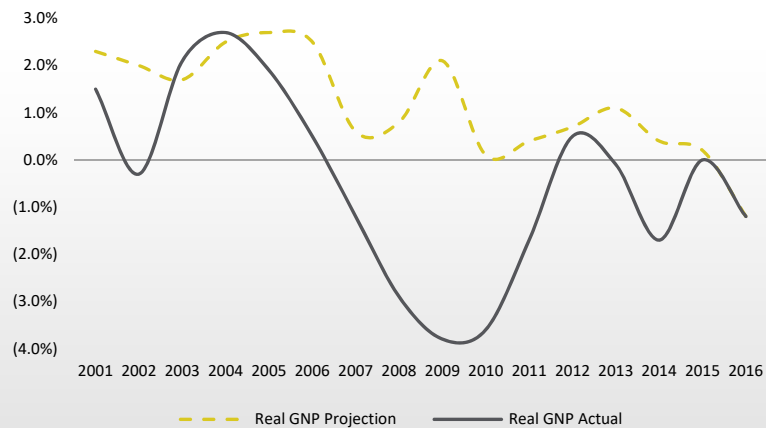
2006:

Weakening economic prospects resulting from a lack of coherent economic initiatives, government inefficiencies and a crowding out effect on private sector investment due to unchecked public sector spending triggered an accelerated population decline that fueled economic contraction

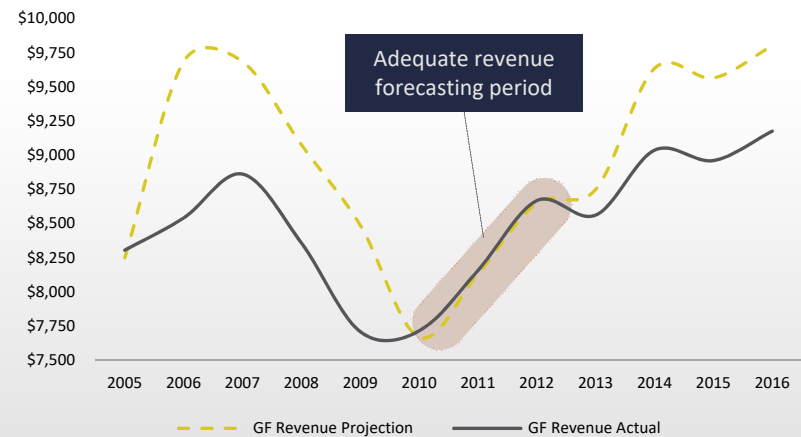
### Government Shutdown & Economic Recession

A Government shutdown, overestimation of economic growth prospects and government revenues that incorrectly justified aggressive government spending, resulted in massive deficits that were covered with one-time measures and GDB loans

**Economic Projections vs Actual Since 2001 – 2016 <sup>(1)</sup>**  
(% Change)



**Revenue Projections vs Actual Since 2005 <sup>(2)</sup>**  
(\$ in millions)



(1) Base case projection for each fiscal year as projected prior to or at the beginning of each fiscal year by the Puerto Rico Planning Board

(2) Source: Estimated General Fund Net Revenues for Fiscal Years 2001 to 2016 as presented by the Secretary of the Treasury during each fiscal year's budget approval process



# GDB Overview, History and Root Causes of its Crisis

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## Historical Context – Timeline of Relevant Events

2007/2008:

### Credit Deterioration

Credit deterioration due to persistent structural imbalances and an accelerated economic decline put additional pressure on the public sector, increasing reliance on GDB's balance sheet for short-term financing to continue funding public improvements and operational expenses

### Global Financial Crisis

The global financial crisis and the temporary collapse of asset-backed commercial paper programs (CPP) forced GDB to seek alternative sources of funding

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2008/2009:

### Medium Term Notes Program

GDB found a funding alternative in its Medium Term Senior Unsecured Notes program (MTNs) that provided a fixed and cost-effective source of funding based on readily available market access



# GDB Overview, History and Root Causes of its Crisis

## Historical Context – Timeline of Relevant Events

2011/2012:

Given strong credit ratings and a proven track record in the capital markets, GDB was able to restructure the maturity profile of its MTN program to allow for a longer maturity schedule

Concurrently, GDB diversified the composition of its investor base while reducing the exposure of local retail and institutional investors to Puerto Rico credits:

**Investor Base  
Diversification**

FY 2010 <sup>(2)</sup>	FY 2012 <sup>(2)</sup>
<b>Noteholders</b>	<b>Noteholders</b>
100% Local	69% Local; 31% Stateside

2012:

“The Government of Puerto Rico’s general obligation bonds reflects the significant progress made by the outgoing administration in implementing widespread reforms despite economic underperformance. Maintenance of the rating will require policy decisions that continue this progress and achieve budget balance and a slowing in the growth of long-term liabilities...” <sup>(1)</sup>

**Fitch Ratings  
Disclosure**

2013:

Former Governor García Padilla’s administration adopted a hostile stance toward the investment community by publicly disregarding the input and recommendations of rating agencies, beginning a confrontational relationship with the local and national investment community

**Governor’s  
Defiance**

2014:

The García Padilla administration enacted a local bankruptcy regime (later invalidated by SCOTUS), severely damaging Puerto Rico’s historic credit reputation and track record

**Credit  
Reputation  
Damaged**

(1) Source: Fitch Ratings Disclosure – December 18, 2012

(2) GDB audited basic financial statements



# GDB Overview, History and Root Causes of its Crisis

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## Historical Context – Timeline of Relevant Events

2015:

**Unwillingness  
to  
Pay**

As the investment community lost confidence and trust in the Garcia Padilla administrations, the Governor shifted Puerto Rico’s longstanding “willingness to pay” stance to an “unwillingness to pay”

**Immediately following the Governor’s public statements, a significant portion of GDB’s public sector loan portfolio defaulted creating a domino effect within GDB’s asset and liability structure, forcing the bank to consider restrictive disbursement measures on approved loans and deposits, eventually defaulting on its own debt obligations (MTNs), and threatening the provision of essential services by select depositors**

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2016:

**GDB Default**

Loss of cash flow from a significant portion of its public sector loan portfolio resulting from the central government’s “unwillingness” to honor its moral obligations and other loans whose source of repayment was “clawed back” rendered the GDB practically inoperative with a rapidly decreasing liquidity base and inability to refinance maturing MTN obligations



**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD  
FOR PUERTO RICO**

**UNANIMOUS WRITTEN CONSENT APPROVING  
CERTIFIED FISCAL PLAN, AS REVISED**

WHEREAS, on June 30, 2016, the federal Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) was enacted; and

WHEREAS section 101 of PROMESA created the Financial Oversight and Management Board for Puerto Rico (the “Board”); and

WHEREAS section 201 of PROMESA establishes a multi-step procedure for the development, review, and approval of fiscal plans for covered territorial instrumentalities, requiring that (i) the proposed fiscal plan be submitted to the Board; (ii) the Board review the proposed fiscal plan and determine either that it satisfies PROMESA’s requirements or that it does not, in which case the Board must issue a notice of violation and recommended revisions, giving an opportunity to correct the violations; (iii) a revised proposed plan be then submitted to the Board; and (iv) if there is failure to submit timely a proposed fiscal plan that the Board determines in its sole discretion satisfies PROMESA’s requirements, the Board shall develop and submit to the Governor and the Legislature its own compliant fiscal plan; and

WHEREAS, on March 13, 2017, the Board announced that it had received a proposed fiscal plan for the Government Development Bank for Puerto Rico (“GDB”); and

WHEREAS, after substantial deliberations, and after having received public comment on the proposed fiscal plan, the Board certified the proposed fiscal plan at the Board’s April 28, 2017 meeting (the “Fiscal Plan”); and

WHEREAS, following certification of the Fiscal Plan, AAFAF, GDB and certain supporting creditors negotiated the terms of a Restructuring Support Agreement, dated May 15, 2017 (the “RSA”) in respect of GDB’s obligations towards its financial creditors; and

WHEREAS the Board is in receipt of a letter from the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) dated June 30, 2017, a copy of which is attached hereto as Exhibit A (the “Letter”); and

WHEREAS, AAFAF, as the Governor’s representative, and GDB believe that, although the RSA does not change the underlying strategy of the Fiscal Plan resulting in an orderly wind down of GDB’s operations, it is necessary and appropriate that the Fiscal Plan be amended to reflect the structure agreed in the RSA; and

WHEREAS, AAFAF, as the Governor’s representative, and GDB have proposed certain revisions to the certified Fiscal Plan, which revisions are set forth in Exhibit C to the Letter attached hereto; and



WHEREAS the Board has had the opportunity to consider the proposed revisions to the certified Fiscal Plan and discuss them with its experts, consultants and attorneys, and believes that they are satisfactory; and

WHEREAS, after substantial deliberations, the Board has determined to approve and certify the Fiscal Plan as so revised; and

NOW, THEREFORE, IT IS HEREBY RESOLVED THAT the Board approves and certifies the revisions proposed by the AAFAF, as the Governor's representative, and GDB, and certifies the Fiscal Plan, as so revised, pursuant to PROMESA § 201(c)(3); and it is

FURTHER RESOLVED that the Board will issue a compliance certification for such revised Fiscal Plan to the Governor and the Legislature pursuant to PROMESA § 201(e).

Dated: July 12, 2017



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José B. Carrión, Chair

Dated: July 12, 2017



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Andrew G. Biggs

Dated: July 12, 2017



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Carlos M. García

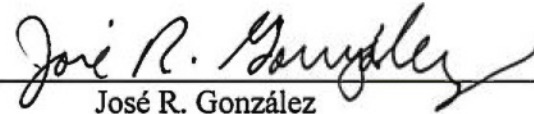
Dated: July 12, 2017



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Arthur J. González

Dated: July 12, 2017



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José R. González

Dated: July 12, 2017



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Ana J. Matosantos

Dated: July 12, 2017



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David A. Skeel, Jr.