



PUERTORICO  
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2011

# Swap Portfolio Update

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## Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government of Puerto Rico's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Government of Puerto Rico, 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.



# Agenda

1

Swap Portfolio Overview

2

Collateral Analysis

3

Cash Flow - Risk Exposure

4

VRDO Exposure



## GDB is proactively managing the swap portfolio

As Fiscal Agent, GDB has followed a comprehensive strategy in managing the swap portfolio exposure of the Government of PR and all its public corporations

- Centralized monitoring of mark to market and collateral postings
- Maximized portfolio liquidity by lessening the volatility impact on mark to market
- Proactive management of roll over risk due to liquidity facility expirations
- Reduced portfolio and simplified overall debt and swap profile

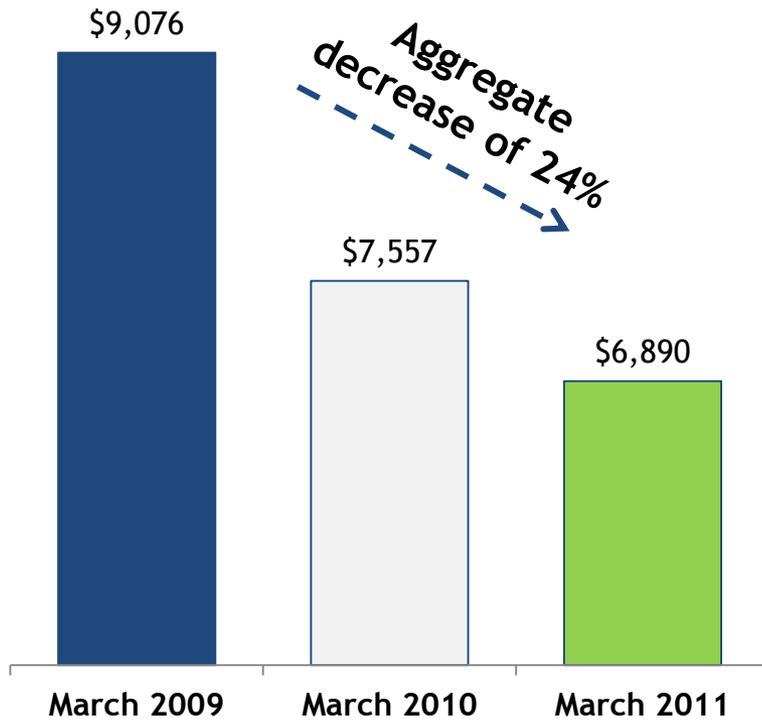


# Notional exposure has been reduced by \$2.1 billion

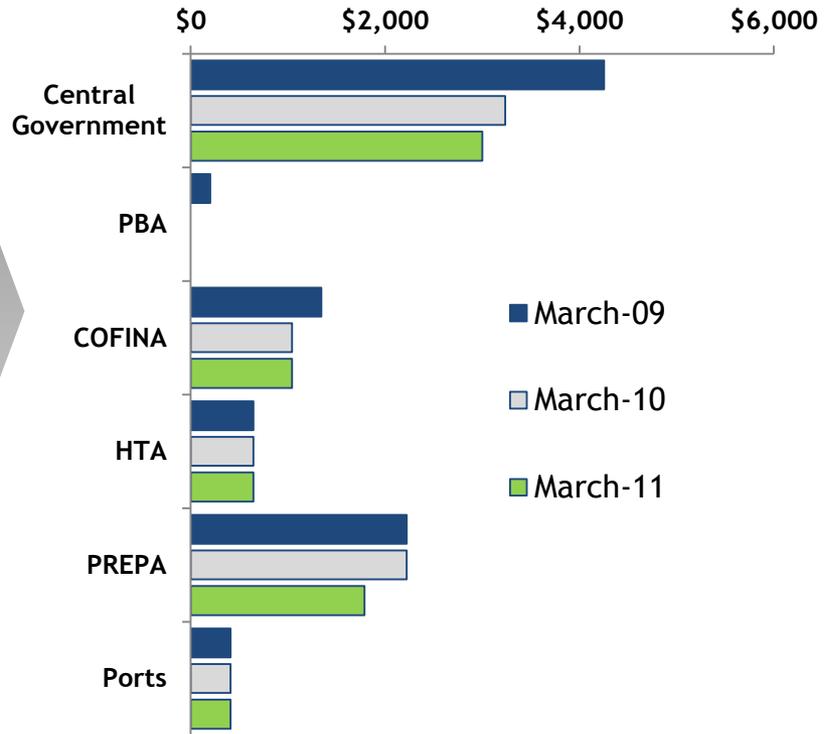
## Swap Portfolio Breakdown by Notional Amount

( in \$ millions)

### Total Swap Portfolio\*



### Swap Portfolio by Issuer



\* Includes central government and public corporations

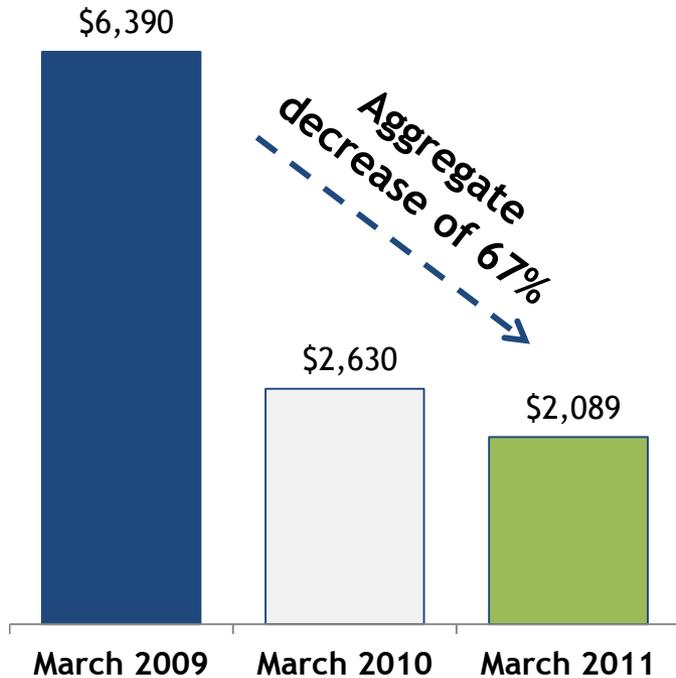


# We have significantly reduced our sensitivity to interest rate fluctuations

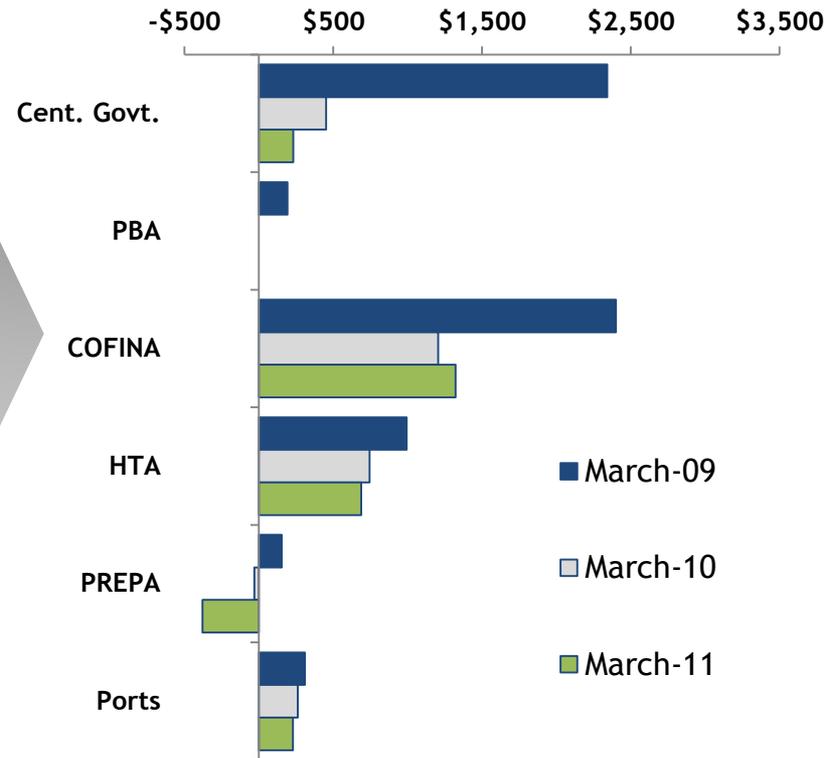
## Swap Portfolio Breakdown by Dollar Value of 1 basis point (DV01)

( in \$ millions)

**Total Swap Portfolio by DV01\***



**DV01 Swap Portfolio by Issuer**



\* Includes central government and public corporations

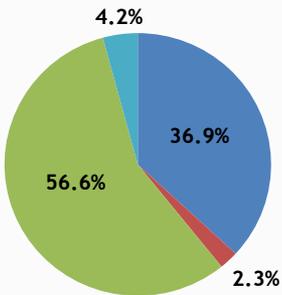


# Swap Portfolio Composition

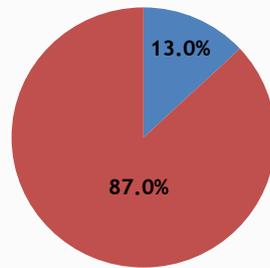
## Notional Amount (USD) by Issuer and Structure Type

PR Credit	LIBOR Fixed/Floating	LIBOR Forward	LIBOR/SIFMA Basis	CMS	CPI	TOTAL	% of Total Notional	% of Total Bonds & Loans
Central Government	\$1,106,810,000	\$69,165,000	\$1,698,370,000	--	\$126,725,000	\$3,001,070,000	43.56%	26.99%
Sales Tax (COFINA)	136,000,000	907,000,000	--	--	--	1,043,000,000	15.14%	7.76%
HTA	589,060,000	--	--	--	57,965,000	647,025,000	9.39%	8.93%
PREPA	340,245,000	--	1,375,000,000	71,580,000	--	1,786,825,000	25.94%	22.47%
Ports Authority	411,705,000	--	--	--	--	411,705,000	5.98%	56.39%
<b>Total</b>	<b>\$2,583,820,000</b>	<b>\$976,165,000</b>	<b>\$3,073,370,000</b>	<b>\$71,580,000</b>	<b>\$184,690,000</b>	<b>\$6,889,625,000</b>	<b>100.00%</b>	<b>17.02%</b>
<b>% of Total Notional</b>	<b>37.5%</b>	<b>14.2%</b>	<b>44.6%</b>	<b>1.0%</b>	<b>2.7%</b>	<b>100.0%</b>	<b>--</b>	

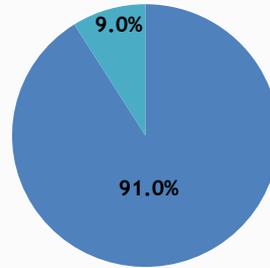
Central Government



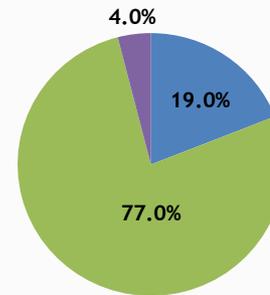
Sales Tax (COFINA)



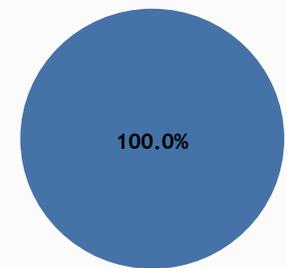
HTA



PREPA



Ports Authority



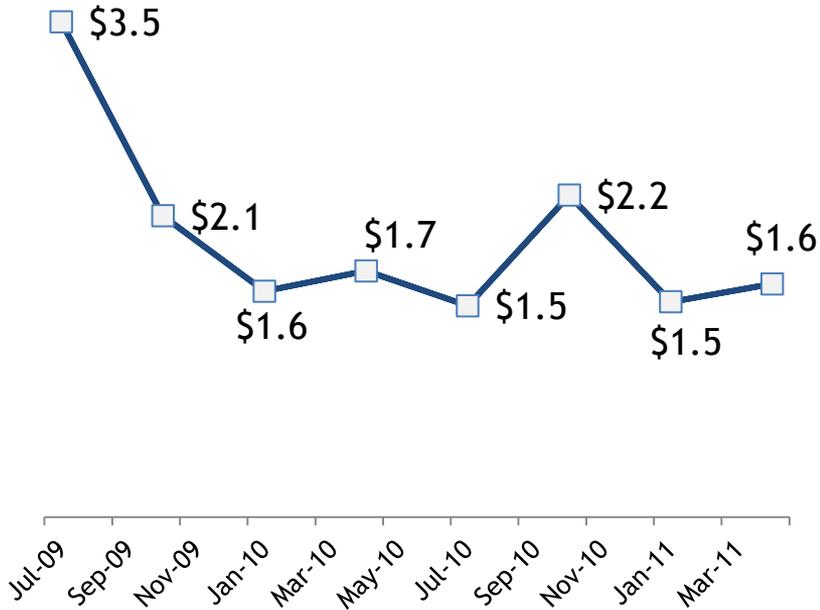
■ Libor Fixed/Floating 
 ■ Libor Forward 
 ■ LIBOR/SIFMA Basis 
 ■ CMS 
 ■ CPI



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

## Central Government

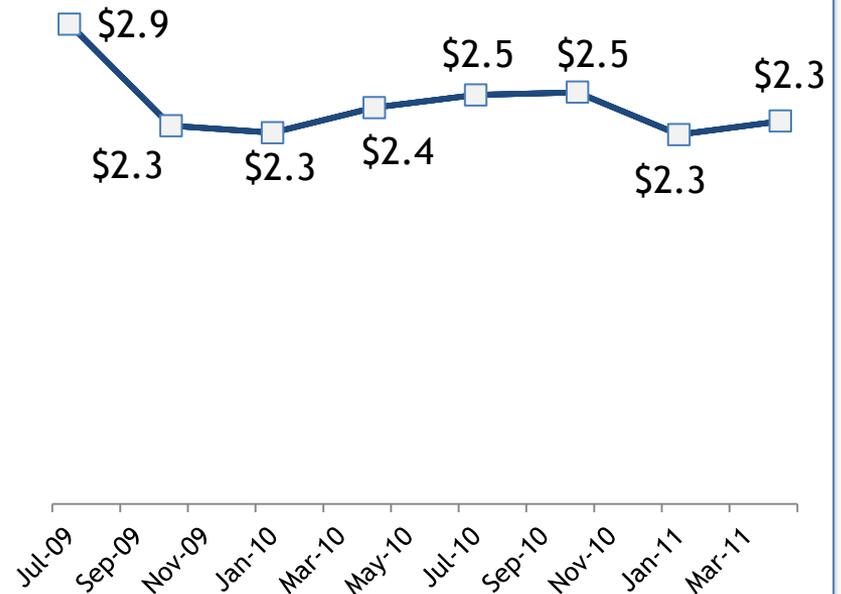
\$ in Millions



Govt. net cash flow accrual since July 2009:  
**\$15.7 million**

## PREPA

\$ in Millions



PREPA's net cash flow accrual since July 2009:  
**\$19.5 million**



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# No collateral requirement under current scenarios

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

## Current MTM Requirements

Credit	Notional	MTM as of 3/31/11	Collateral requirement	Collateral requirement upon 1 notch PR downgrade + downgrade of AGM below A3 or A-	Incremental Requirement
1 Central Government	\$3,001,070,000	\$(185,248,390)	--	\$9,222,255	\$9,222,255
2 COFINA	1,043,000,000	(174,238,498)	--	--	--
3 PREPA	1,786,825,000	(58,780,545)	--	--	--
4 HTA	647,025,000	(84,004,382)	--	4,099,836	4,099,836
5 Ports	411,705,000	(43,134,090)	--	43,134,090	43,134,090
<b>Total</b>	<b>\$6,889,625,000</b>	<b>\$(545,405,904)</b>	<b>--</b>	<b>\$ 56,456,181</b>	<b>\$ 56,456,181</b>

Currently, none of the issuers are posting collateral and GO threshold levels have increased due to our most recent upgrade by S&P to BBB / stable



# Well-positioned portfolio to withstand adverse interest rate scenarios

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

## Adverse MTM Requirements

	Credit	Notional	MTM after -50 bps move	Collateral requirement	Collateral requirement upon 1 notch PR downgrade + downgrade of AGM below A3 or A-	Incremental Requirement
1	Central Government	\$3,001,070,000	\$(196,808,190)	--	\$25,370,092	\$25,370,092
2	COFINA	1,043,000,000	(240,329,648)	--	--	--
3	PREPA	1,786,825,000	(39,807,295)	--	--	--
4	HTA	647,025,000	(118,377,332)	--	20,113,855	20,113,855
5	Ports	411,705,000	(54,556,090)	4,556,090	54,556,090	50,000,000
	<b>Total</b>	<b>\$6,889,625,000</b>	<b>\$(649,878,554)</b>	<b>\$4,556,090</b>	<b>\$100,040,037</b>	<b>\$95,483,947</b>

**No significant liquidity impact from adverse scenario**



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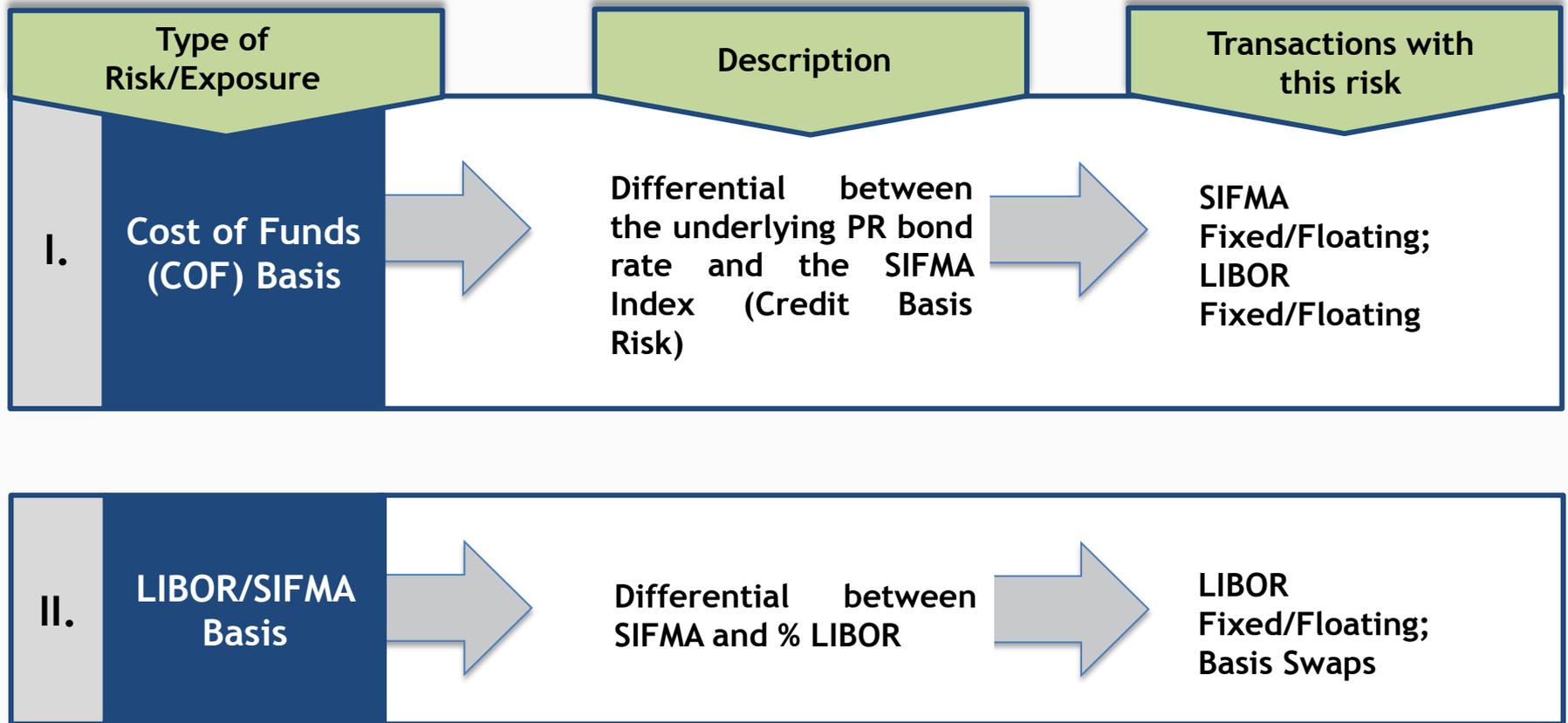
Cash Flow - Risk Exposure

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VRDO Exposure



# Swap Portfolio has manageable exposure to Cost of Funds and LIBOR/SIFMA Basis risks...





# Summary of Cashflow Risks/Exposure

## Cash flow Notional Amount (USD) by Credit and Type of Exposure

	PR Credit	COF Basis	LIBOR/SIFMA Basis	Total	% of Total
1	Central Government	\$ 491,450,000	\$ 2,805,180,000	\$3,296,630,000	65.0%
2	HTA	200,000,000	200,000,000	400,000,000	7.9%
3	PREPA	--	1,375,000,000	1,375,000,000	27.1%
	<b>Total</b>	<b>\$691,450,000</b>	<b>\$4,380,180,000</b>	<b>\$5,071,630,000</b>	<b>100.0%</b>
	% of Total Exposure	13.6%	86.4%	100.0%	
	% of Total Swap Notional (\$6.9 Bn)	10.0%	63.6%	73.6%	



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**VRDO Exposure**



To minimize the risk of the GO debt outstanding, we will continue to reduce our VRDO exposure by opportunistically terminating swaps and refunding with fixed rate bonds

## VRDO Exposure

In order to preserve flexibility, we have been actively executing a multi-prong strategy:

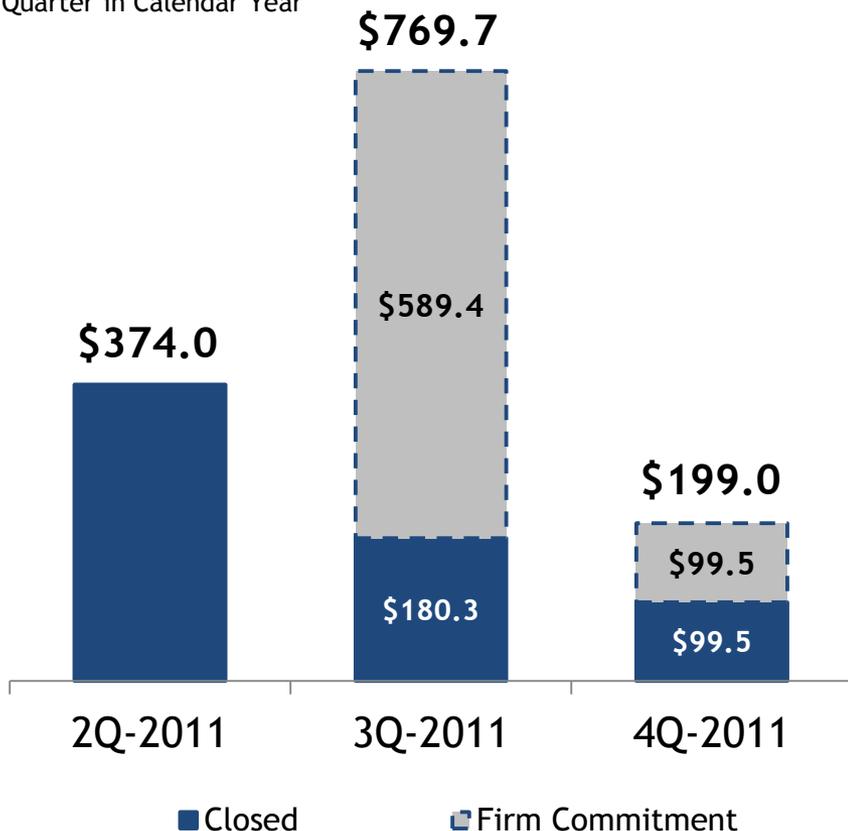
- 1 Extension of Letters of Credit
- 2 Issuance of Floating Rate Notes
- 3 Private Placement Direct Purchases



# VRDO exposure has been reduced by \$653.8 million

## Liquidity Facility Expirations

\$ in Millions  
Quarter in Calendar Year



- Due to recent closed transactions & firm commitments, the VRDO roll over risk has been fully managed
  - Used private sector balance sheet to mitigate market impact
  - Preserved insurance
  - Executed term outs without altering debt service schedule among other structures

Structure	Amount	Term (years)	% of Total
Term Outs	\$230 MM	-	17.1%
Direct Purchase	\$620.2 MM	2-3	45.9%
Letter of Credit	\$188 MM	2	13.9%
Index Notes	\$212 MM	2	15.7%
Other LOCs*	\$99.5 MM	1	7.4%



## Concluding Remarks

1

Established a centralized monitoring system that allows us to mitigate and withstand unforeseen adverse interest rate shocks

2

In depth restructuring of swap portfolio achieved a more balanced risk profile

3

Effective management of GO roll over risk therefore avoiding higher interest rates and accelerated amortization schedules set forth in the expiring liquidity facilities

4

Improved reporting granularity by adding a more comprehensive snapshot of the swap portfolio in the Commonwealth Report



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