



For Immediate Release

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THE WORKING GROUP FOR THE FISCAL AND ECONOMIC RECOVERY OF PUERTO RICO RELEASES RESTRUCTURING PROPOSAL

Comprehensive Voluntary Exchange Proposal Would Reduce the Commonwealth's Mandatorily Payable, Tax-Supported Debt from \$49.2 Billion to \$26.5 Billion, Cap Annual Debt Payments at 15% of Government Revenues and Provide Creditors the Opportunity to Recover the Principal Amount of Their Investments by Making Them Partners in the Island's Future Growth

San Juan, P.R. – Today, the Working Group for the Fiscal and Economic Recovery of Puerto Rico released details of the comprehensive voluntary exchange proposal presented to advisors to the Commonwealth's creditors last week. The proposal seeks to reduce the Commonwealth's mandatorily payable tax-supported debt and near-term debt payments, providing the Island time to implement the Fiscal and Economic Growth Plan (FEGP) and to stimulate real economic growth. Together with the FEGP, the proposed debt restructuring, if accepted by the Commonwealth's creditors, will ensure the Commonwealth has sufficient resources to provide essential services to all Puerto Rican residents, pay back its suppliers and taxpayers, rebuild depleted cash resources and fund its retirement systems.

With the Commonwealth facing financing gaps in both the near and long term, the Working Group developed the FEGP, which includes a comprehensive set of measures designed to put the Island back on a path to economic growth and long-term sustainability. The implementation of the expense and revenue measures in the FEGP – totaling approximately \$20.6 billion in revenue increases and \$13.8 billion in expenditure reductions over the next ten years – are projected to reduce the Commonwealth's projected cumulative fiscal deficit for the next decade to approximately \$34.0 billion.

However, during the next ten years, the Commonwealth faces more than \$33 billion of payments on its tax-supported debt. The voluntary exchange offer is intended to restructure those payments to allow the Commonwealth to catch up with its stretched suppliers and taxpayers and implement the FEGP's fiscal and economic initiatives and, over the long term, make its tax-supported debt sustainable. In addition, the Commonwealth is instituting a fiscal control board to provide necessary oversight and ensure the Commonwealth complies with the FEGP and the terms of the exchange offer.

"Last June, we began to directly address the Commonwealth's fiscal and economic crisis through the development of a comprehensive set of solutions to grow the Island's economy while protecting the health, welfare and safety of the people of Puerto Rico," said Victor A. Suarez, Secretary of State. "This proposal is a reflection of our commitment to work with our creditors on a sustainable solution that does not place the burden on one stakeholder group alone. A crisis of this magnitude must be addressed in concert, otherwise we risk our ability and the opportunity to escape the spiral of a stagnating economy, endless deficits and increasing debt."

Specifically, the restructuring proposal contemplates that creditors will exchange their existing securities for two new securities: a "Base Bond," with a fixed rate of interest and amortization schedule, and a "Growth Bond," which is payable only if the Commonwealth's revenues exceed certain levels. The new securities would also provide creditors with enhanced credit protections, such as a Commonwealth Guarantee and statutory liens and pledges with respect to certain revenues.

Under this proposal, the \$49.2 billion of tax-supported debt would be exchanged into \$26.5 billion of newly issued mandatorily payable Base Bonds and \$22.7 billion of newly issued Growth Bonds. Interest payments on the Base Bonds would begin in January 2018, scaling up to 5% per annum by FY 2021, when principal payments would begin. The Growth Bonds would be payable only to the extent the Commonwealth's revenues exceed its current baseline projections as a result of real economic growth on the Island. By sharing in the Island's economic recovery, creditors would have the opportunity to recover the principal amount of their investments. The first such payments, if any, would be made beginning in the tenth year after the close of the exchange offer. In any given year in which the Growth Bond would be payable, creditors would receive payment of up to 25% of such revenues.

The proposal also seeks to lower the Commonwealth's debt service-to-revenue on tax-supported debt to approximately 15%, a level consistent with the debt limit contemplated by the Constitution of Puerto Rico, from the current unsustainable ratio of 36%. Although at a ratio of approximately 15% Puerto Rico would still remain at levels exceeding the most heavily indebted of the U.S. states, debt service on the Base Bonds has been structured to give the Commonwealth the opportunity to further reduce that ratio as a result of economic growth and develop into a stronger credit over time. A successful exchange offer, along with the implementation of the measures recommended in the FEGP, should improve the Commonwealth's credit-worthiness, and, if the Commonwealth's economy is able to grow in line with the growth assumed for the United States, investors will be able to recover the full principal amount of their investments through payments on the Growth Bonds.

The exchange offer is predicated upon a number of key assumptions, including very high participation levels from the creditor groups as well as the U.S. Federal Government maintaining at least its current percentage levels of programmatic support for the Commonwealth. If very high participation levels cannot be achieved or the U.S. Federal Government allows the level of programmatic support for Puerto Rico to materially decline, then the terms of the exchange offer will have to be revisited and creditor recoveries adjusted accordingly.

The Commonwealth of Puerto Rico, the Government Development Bank and the Working Group acknowledge and value the active participation of the Commonwealth's creditors in the restructuring process. Further, the Commonwealth recognizes the continuing contribution of the cooperatives in the ongoing discussions regarding Puerto Rico's Fiscal and Economic Growth Plan. Those discussions have focused on the terms of the restructuring and the key role the cooperatives play in promoting social and economic development on the Island.

The proposal is available at <http://www.bgfpr.com/>.

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Forward-Looking Statements

The information included in this statement contains certain forward-looking statements. These forward looking statements may relate to the fiscal and economic condition, economic performance, plans and objectives of the Commonwealth of Puerto Rico or its agencies or instrumentalities. All statements contained herein that are not clearly historical in nature are forward looking.

This statement is not a guarantee of future performance and involves certain risks, uncertainties, estimates, and assumptions by the Commonwealth and/or its agencies or instrumentalities that are difficult to predict. The economic and financial condition of the Commonwealth and its agencies or instrumentalities is affected by various financial, social, economic, environmental, and political factors. These factors can be very complex, may vary from one fiscal year to the next, and are frequently the result of actions taken or not taken, not only by the Commonwealth and/or its agencies or instrumentalities, but also by entities such as the government of the United States of America or other nations that are not under the control of the Commonwealth. Because of the uncertainty and unpredictability of these factors, their impact cannot, as a practical matter, be included in the assumptions underlying the Commonwealth's or its agencies or instrumentalities' projections