



Leveraging Puerto Rico's Fiscal Recovery to Restore Sustainable Economic Growth

Investor Webcast

September 8, 2011



Forward Looking Statements

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 Development Bank for Puerto Rico, the Government of Puerto Rico and its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



Participants

Government Development Bank

| | |
|---------------------------|-----------|
| Juan Carlos Batlle | President |
|---------------------------|-----------|

| | |
|----------------------|--------------------------------------|
| José R. Otero | Executive Vice President - Financing |
|----------------------|--------------------------------------|

Department of the Treasury

| | |
|------------------------|-----------|
| Jesús F. Méndez | Secretary |
|------------------------|-----------|

Office of Management and Budget

| | |
|--------------------------|----------|
| Juan Carlos Pavía | Director |
|--------------------------|----------|



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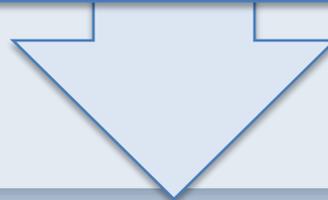
Concluding Remarks



We have achieved considerable milestones in recent years...

Including the implementation of measures that are transforming the Government of Puerto Rico:

- 1 Fiscal stabilization with reduced deficit and improved ratings
- 2 Comprehensive Tax Reform to reduce burden on ALL taxpayers
- 3 P3 program that is already showing concrete results
- 4 Housing stimulus program that has resulted in significant increase in new and existing home sales
- 5 Working on projects to transition into natural gas and renewables to reduce high energy costs
- 6 More agile and efficient government with access to online services





All government-related services can now be easily obtained through PR.GOV



PR.gov is registering almost 1 million visits per month



Certificate of Good Conduct

488,632 requests
January - August



Certificate of Compliance - Child Support

356,261 requests
January - August



Certificate of Tax Filing Compliance - Treasury

92,619 issued
January - August



Certificate of Good Standing (no debt) - Treasury

92,704 issued
January - August



Birth Certificate

114,016 issued since
its publication



Corporate Annual Reports Filing

58,906
Issued to date



Power and Water bill payments

80,915 payments in the
month of August



With over \$1.4 billion in private investment, the first toll road concession was awarded under our Public Private Partnerships program

Winning Consortium



PR-22 / PR-5



Largest US infrastructure investment in 2011

Terms

Concession:

40 years

Financing:

12 syndicated banks



We are now focusing on the concession of our International Airport, for which we received 12 Statements of Qualifications in August

Key global players have submitted qualifications:

Fraport AG and Goldman Sachs
Infrastructure Partners

GMR Infrastructure and Incheon
International Airport Corporation

AENA Internacional

Puerto Rico Gateway Group
(GE Capital Aviation)

TAV Airports Holdings
(Turkish Entity)

Grupo Aeropuertos Avance
(Macquarie & Ferrovial)

AGUNSA
(Chilean Operator)

Grupo Aeroportuario del Sureste (ASUR)
and Highstar Capital

Grupo Aeroportuario del Centro Norte
(Mexican Operator)

Corporación América S.A.
(Argentinean Operator)

Advent International Corporation

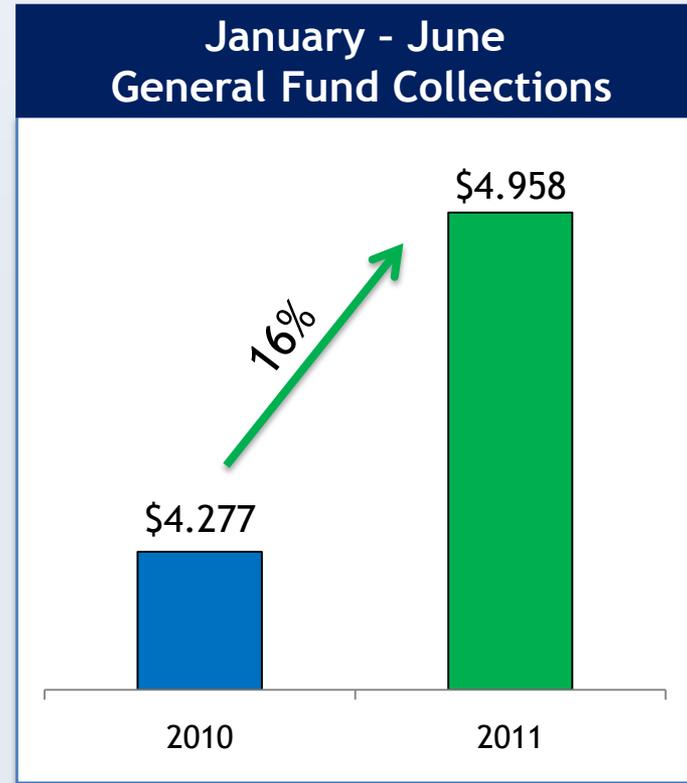
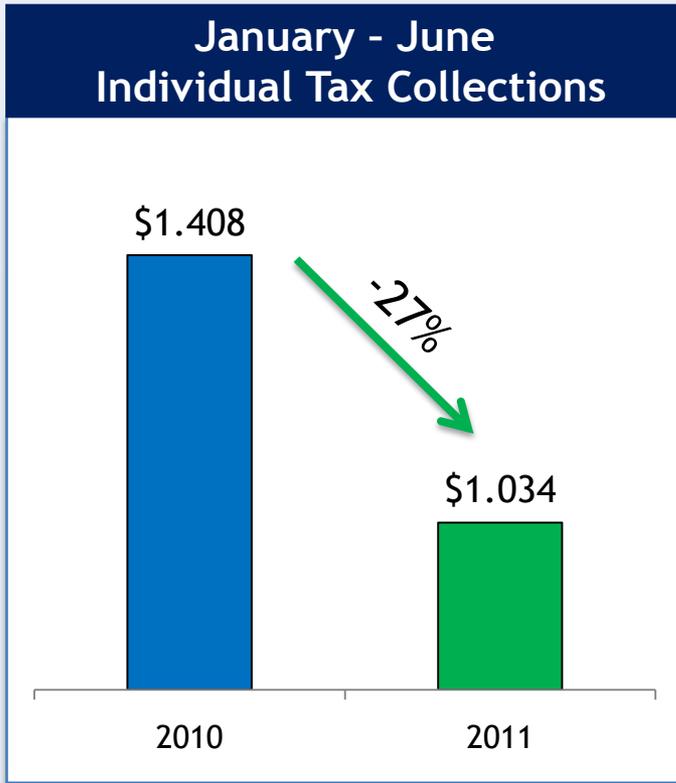
Flughafen Zürich AG, PSP, Camargo
Corrêa, & Gestión e Ingeniería IDC

Project Status

- RFQ -----> Received
- RFP -----> September 2011
- Award of Concession -----> December 2011



Implemented Tax Reform that is clearly reflecting the intended results, significantly reducing tax burden to individuals



In spite of decreased Individual Tax Collections, General Fund Collections have increased during the first 6 months of 2011, in part due to the “Revenue Positive” effects of the Tax Reform



This new PRO-GROWTH Tax Reform has significantly improved Puerto Rico's competitiveness on a global scale...



Puerto Rico improves 15 positions in global ranking



GDB continues to support the development of key tourism projects in Puerto Rico...

Sheraton Convention Center

Development Cost: \$210 MM

Opened: November 2009



St. Regis Bahía Beach Resort

Development Cost: \$172 MM

Opened: November 2010



Dorado Beach Ritz Reserve

Development Cost: \$342 MM

Construction Started: July 2010

Opening: December 2012



11 additional projects under evaluation, 1,331 additional rooms with a total construction investment of \$883 million



FOUR SEASONS



JW MARRIOTT
HOTELS & RESORTS



We are investing in strategic projects and initiatives that will promote economic activity in Puerto Rico

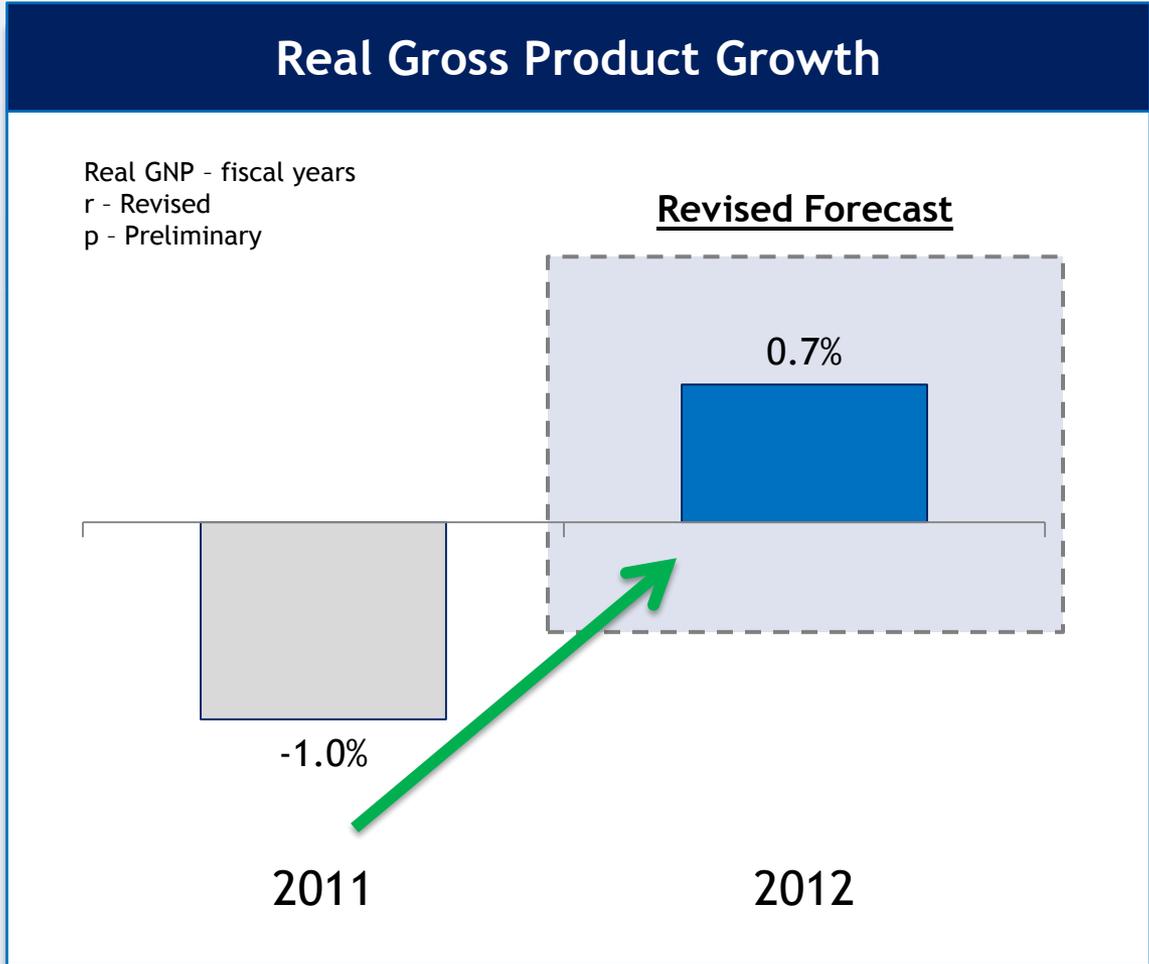
Significant investment in various economic sectors:

| | | | | |
|---|--|---|----------|------------------------|
| ✓ | Housing Stimulus | → | \$180 MM | Real Estate |
| ✓ | Schools for the 21 st Century | → | \$756 MM | Infrastructure |
| ✓ | Road Improvements | → | \$304 MM | Infrastructure |
| ✓ | Local Stimulus Plan | → | \$500 MM | Various* |
| ✓ | ARRA Funds | → | \$7.0 B | Various* |
| | GDB/EDB/Banking Sector Joint Venture | → | \$250 MM | Small business lending |
| | Natural Gas Pipeline (Via Verde) | → | \$500 MM | Infrastructure |

* Includes investments in infrastructure, real estate, small business lending, and other sectors



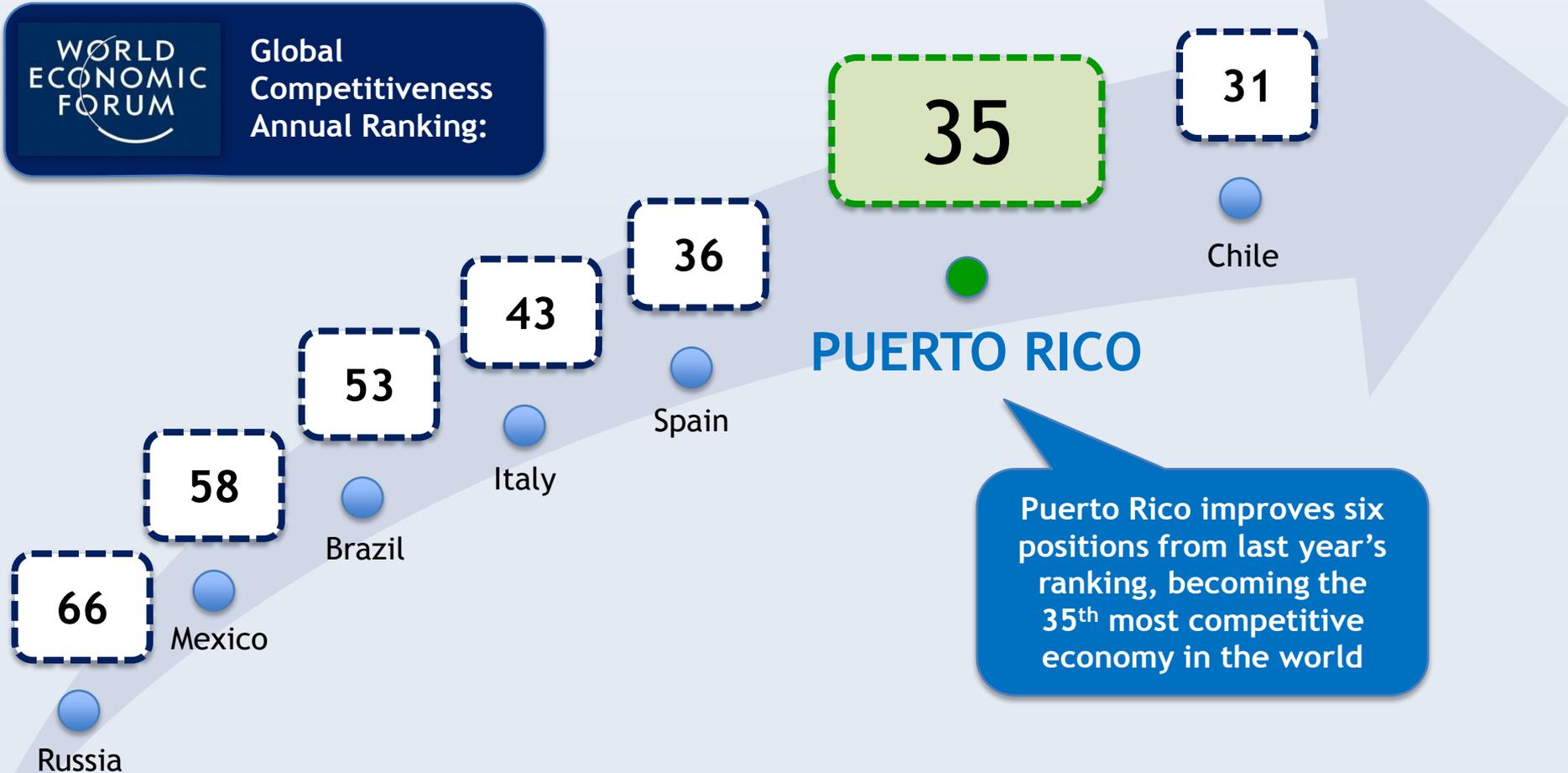
After years of deterred economic growth, Puerto Rico is now ready to achieve positive growth during FY 2012



Source: Planning Board



Our measures have been recently recognized by the World Economic Forum, which significantly increased our competitiveness ranking...



Source: "The Global Competitiveness Report 2011-2012" World Economic Forum



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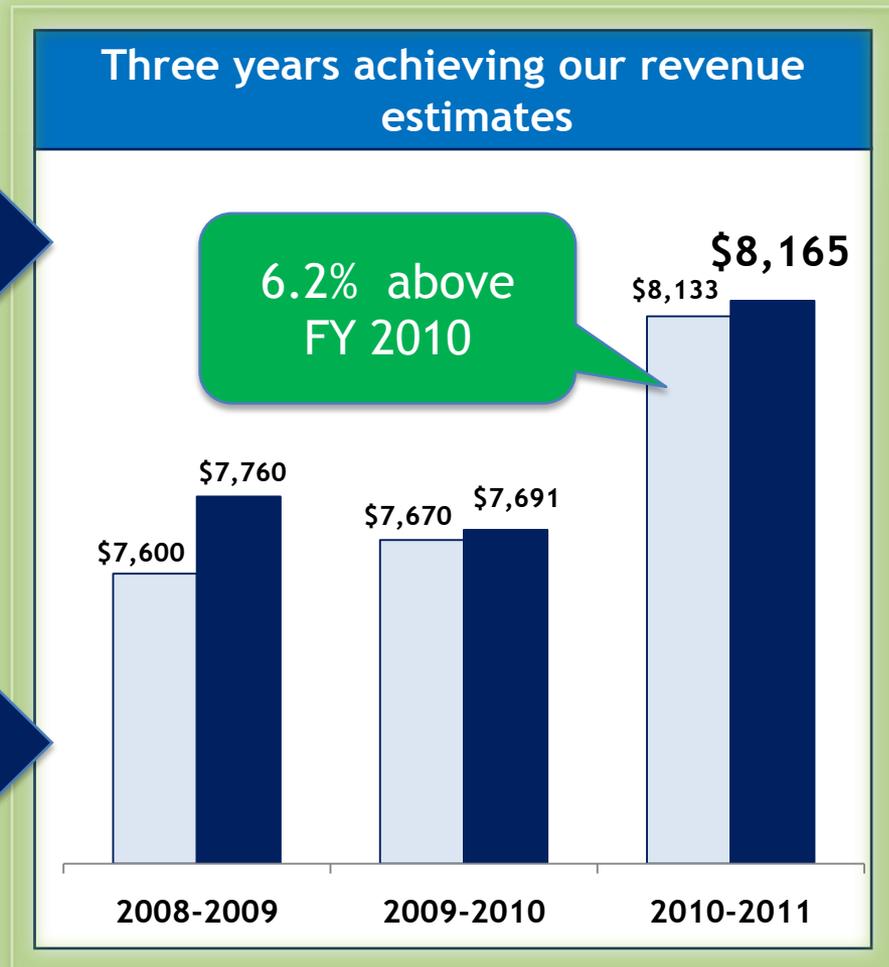
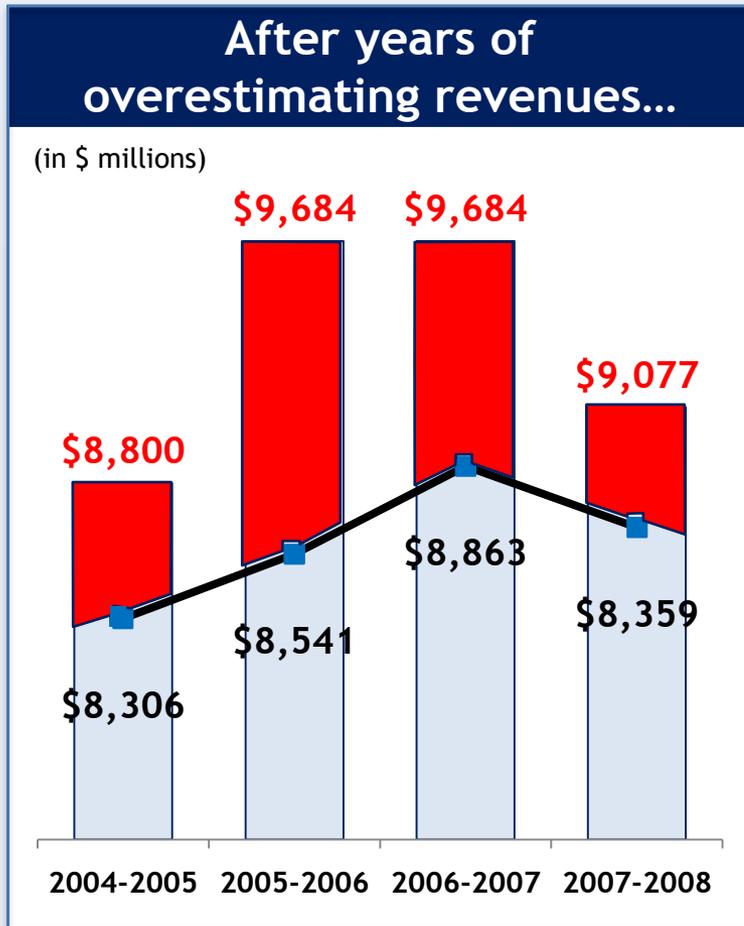
Capital Market Transactions

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Net Revenues for FY 2011 were \$32 million above projections, the third consecutive year surpassing our budget...



— Budgeted Revenues — Actual Revenues

— Budgeted Revenues — Actual Revenues



Net revenues for the fiscal year ending June 30th, 2011 were \$8,165 million or 6.2% above FY 2010 collections

| Revenue | Actual July - June | | \$ | Estimate | Actual vs. |
|----------------------------|--------------------|----------------|--------------|----------------|-------------|
| Categories (\$ millions) | 2010 | 2011 | Change | 2011 | Estimate |
| Individuals | \$2,575 | \$2,198 | (\$377) | \$2,348 | (\$150) |
| Corporations | \$1,678 | \$1,678 | \$0 | \$1,566 | \$112 |
| Non-Resident Withholdings | \$830 | \$1,000 | \$170 | \$952 | \$48 |
| Property Tax* | \$228 | \$246 | \$18 | \$238 | \$8 |
| Sales and Use Tax | \$539 | \$553 | \$14 | \$555 | (\$2) |
| Act 154 Excise Tax | \$0 | \$678 | \$678 | \$609 | \$69 |
| Motor Vehicles | \$344 | \$358 | \$14 | \$369 | (\$11) |
| Alcoholic Beverages | \$285 | \$284 | (\$1) | \$289 | (\$5) |
| Off-Shore Shipments of Rum | \$352 | \$329 | (\$23) | \$337 | (\$8) |
| Other | \$860 | \$841 | (\$19) | \$871 | (\$30) |
| Total¹ | \$7,691 | \$8,165 | \$474 | \$8,134 | \$31 |

After allocating a total of \$572 million SUT collections to COFINA for the payment of outstanding bonds.

*Act 7-Temporary increase in property tax.
¹Numbers June not add up due to rounding.



Net Revenues for the month of July FY 2012 were 26% above FY 2011 collections

| Revenue Categories (\$ millions) | July | | \$ Change | Estimate 2012 | Actual vs. Estimate |
|-------------------------------------|--------------|--------------|--------------|------------------|------------------------|
| | 2011 | 2012 | | | |
| Individuals | \$172 | \$136 | (\$36) | \$147 | (\$12) |
| Corporations | \$98 | \$66 | (\$32) | \$84 | (\$19) |
| Non-Resident Withholdings | \$57 | \$33 | (\$24) | \$56 | (\$23) |
| Property Tax | \$2 | \$2 | \$0 | \$0 | \$2 |
| Sales and Use Tax | \$0 | \$0 | \$0 | \$0 | \$0 |
| Act 154 Excise Tax | \$0 | \$231 | \$231 | \$134 | \$97 |
| Motor Vehicles | \$27 | \$8 | (\$18) | \$9 | (\$0) |
| Alcoholic Beverages | \$15 | \$17 | \$3 | \$16 | \$2 |
| Off-Shore Shipments of Rum | \$28 | \$30 | \$2 | \$27 | \$2 |
| Other | \$48 | \$39 | (\$9) | \$46 | (\$7) |
| Total | \$445 | \$561 | \$116 | \$518 | \$43 |

▪ \$20 million transfer to Green Energy Fund

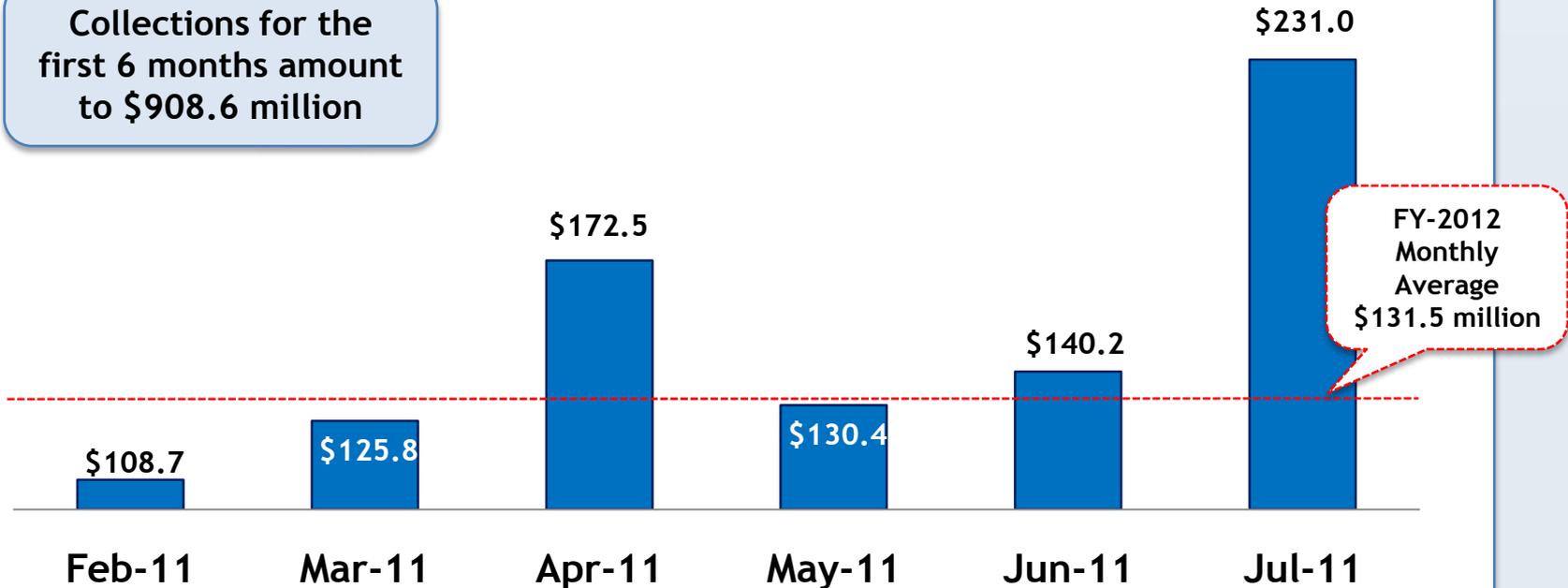


Special excise tax revenues from Act 154 have averaged \$151.4 million per month since its implementation

Special Excise Tax (Act 154) Monthly Collections

(in \$ millions)

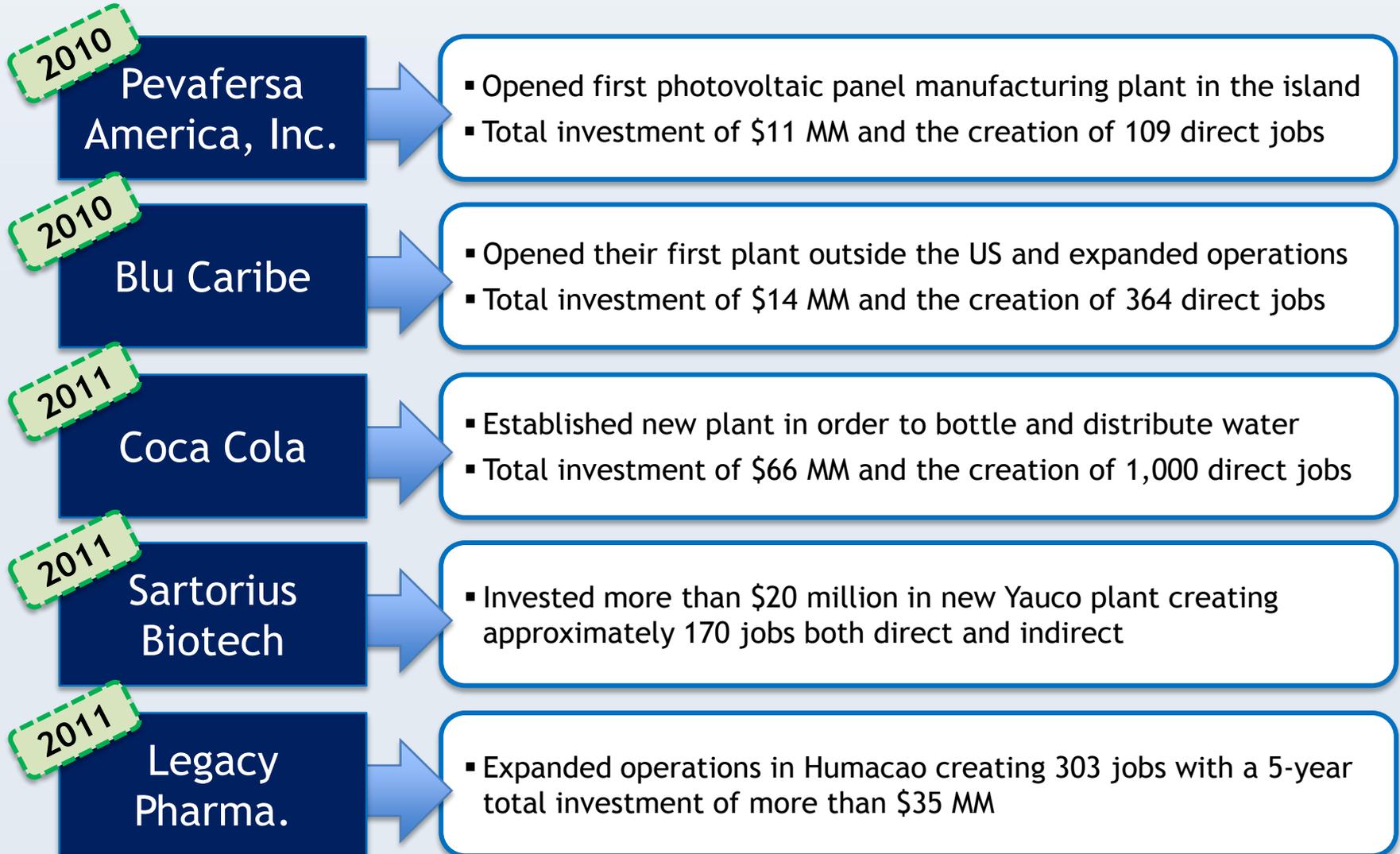
Collections for the first 6 months amount to \$908.6 million



Budgeted collections for FY 2012 are \$1.578 billion, an average \$131.5 million per month

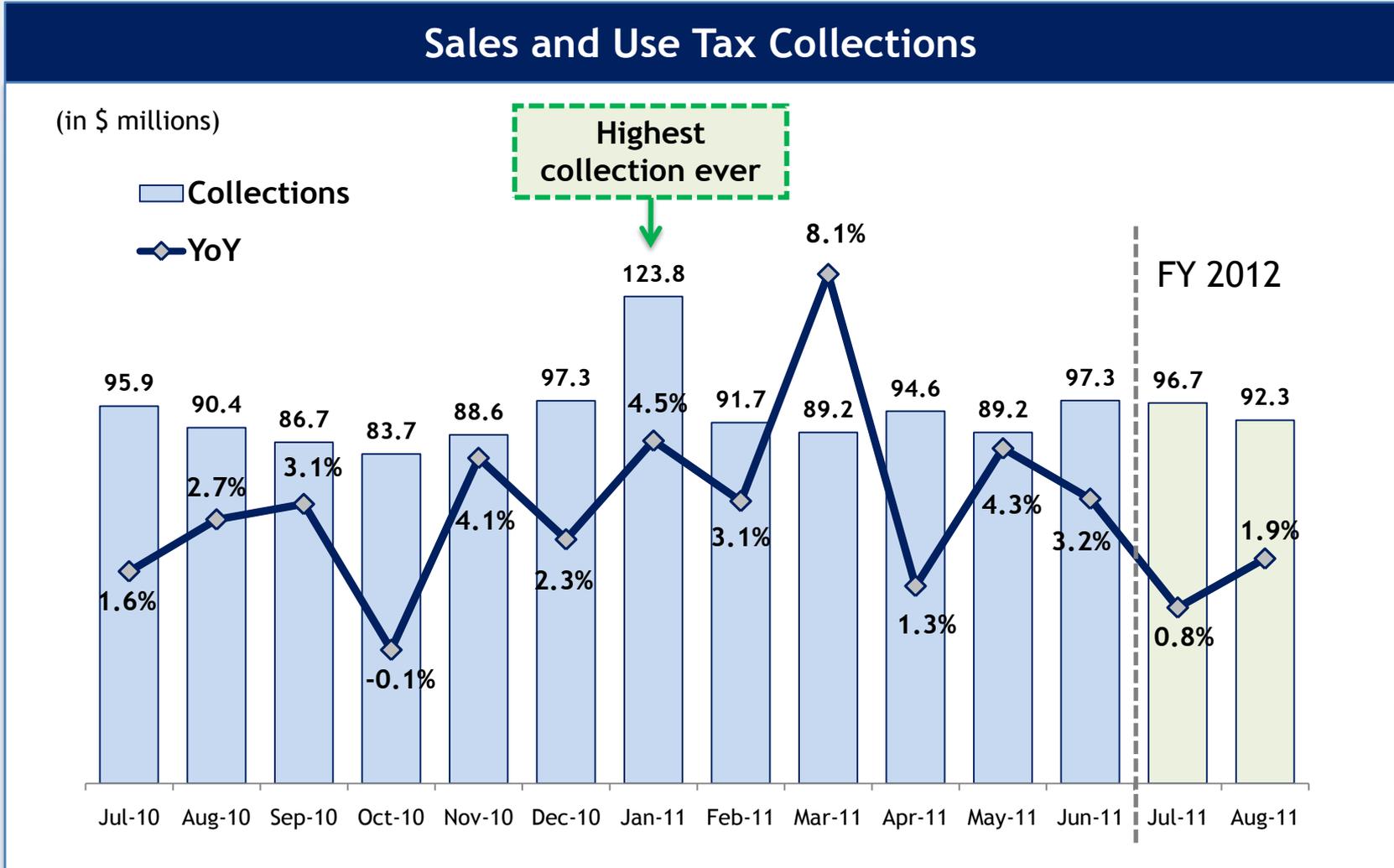


Manufacturing continues to be a strong growth-driving economic sector...





SUT collections for FY 2011 increased 3.2% on a year-over-year basis





Continuing our sound cash management practices, General Fund ended FY 2011 with \$204.2 million in cash balance

| (in \$ millions) | Actual (For Fiscal Year 2011) | | | | Projected |
|-----------------------------|-------------------------------|------------|------------|------------|-----------|
| | Q1 | Q2 | Q3 | Q4 | Q1-2012 |
| Beginning Balance | 87 | 125 | 401 | 141 | 204 |
| Collection and Receipts | 2,734 | 3,376 | 3,229 | 4,281 | 3,072 |
| Expenses Incl. Debt Service | 3,553 | 3,637 | 3,673 | 3,557 | 3,797 |
| Total Financing Activity | 700 | (225) | 43 | (1,072) | 319 |
| Total Stabilization Funds* | 157 | 761 | 142 | 410 | 243 |
| Ending Cash Balance | 125 | 401 | 141 | 204 | 41 |

Collections and receipts for Q4 ended 7.8% above projections

* Total Stabilization Funds include ARRA funds.

Note: These numbers are preliminary and subject to change upon FY2011 audit.

Source: Department of the Treasury and Government Development Bank for Puerto Rico



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FY 2012 Adopted Budget

FY 2012

(in \$ millions)

Revenues

| | |
|-----------------------|----------------|
| Revenues | \$8,650 |
| Stabilization Fund | \$610 |
| <i>Total Revenues</i> | <i>\$9,260</i> |

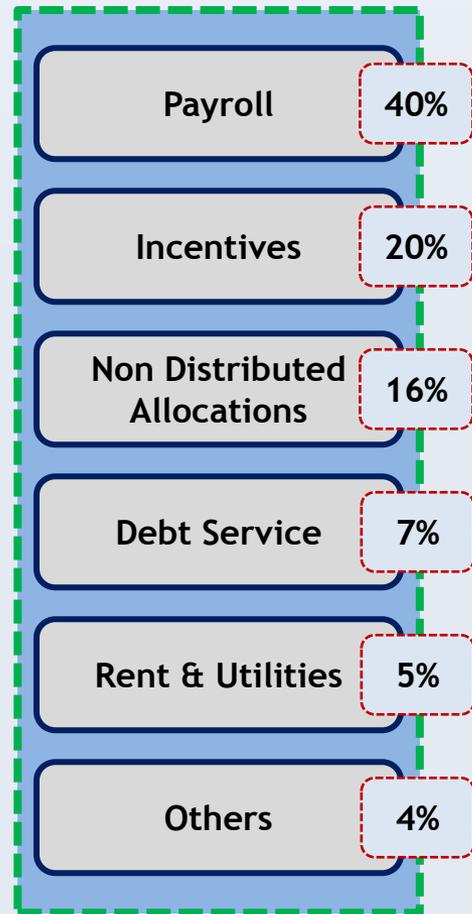
Expenses

| | |
|------------------------|----------------|
| Joint Resolution | \$5,229 |
| Special Appropriations | \$3,421 |
| Stabilization Fund | \$610 |
| <i>Total Expenses</i> | <i>\$9,260</i> |

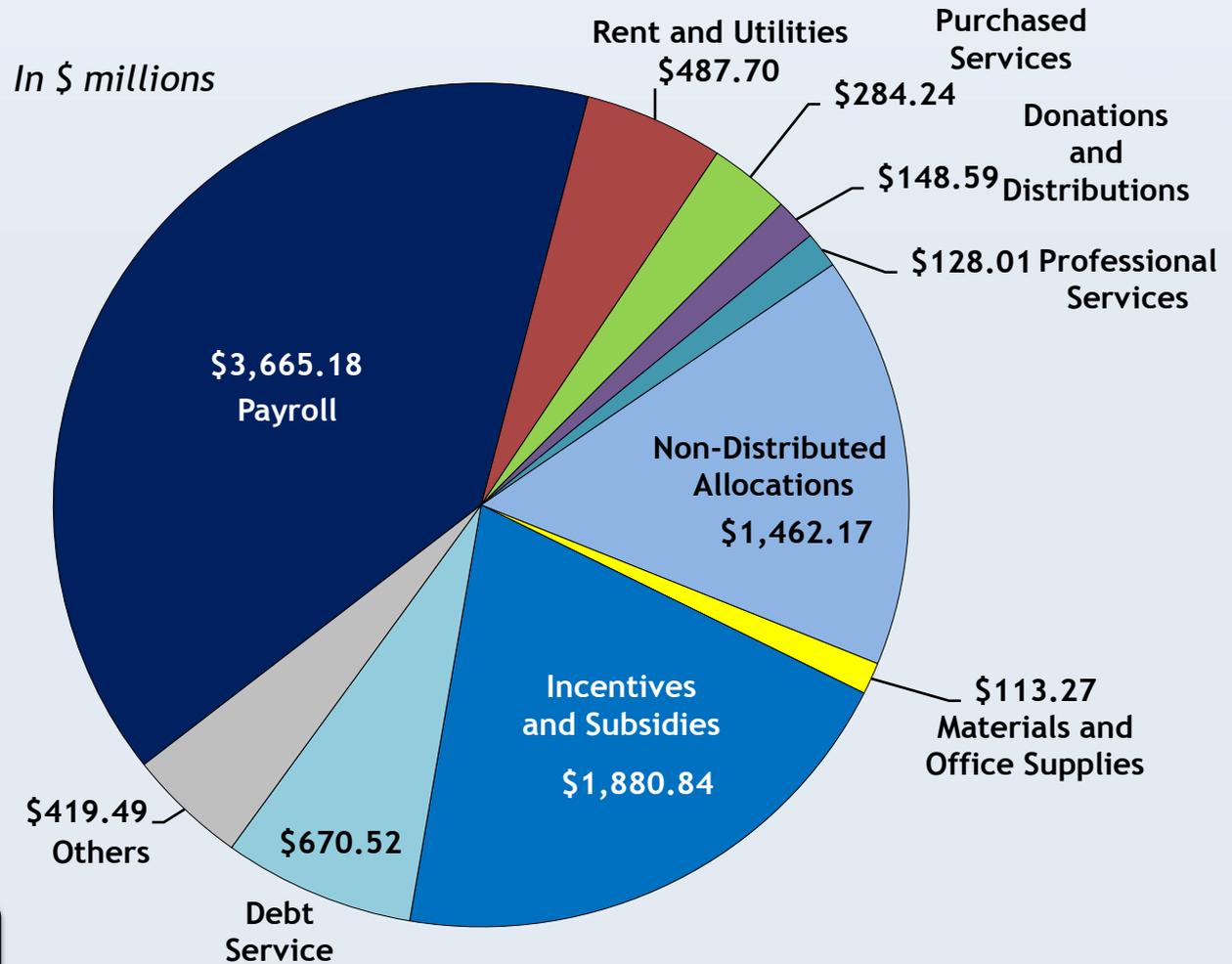


Payroll and related expenses represent 40% of General Fund budget, a \$1.8 billion reduction from FY 2009

General Fund Budget - Distribution by Expenses FY 2012



TOTAL General Fund \$9,260

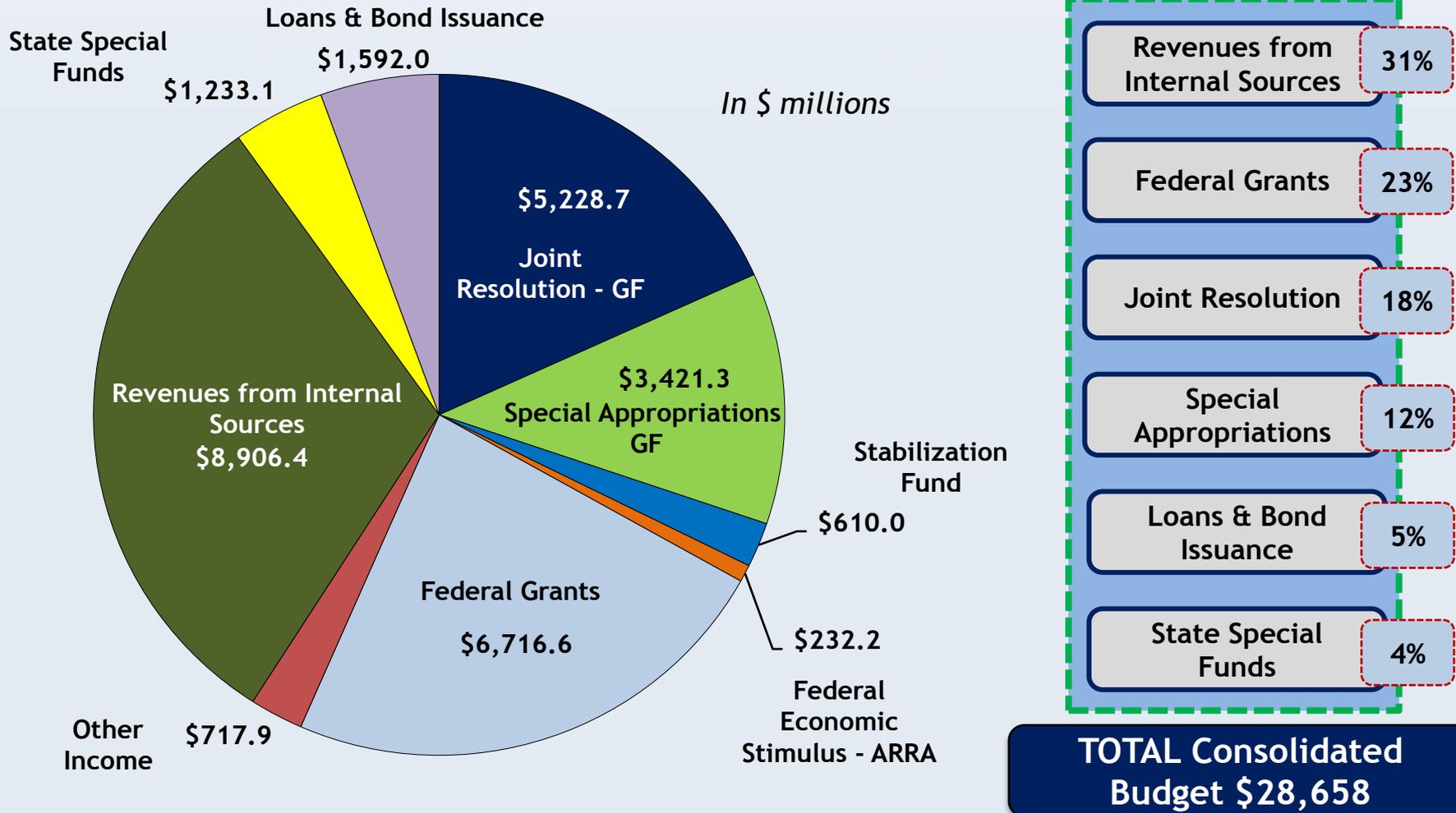


Numbers may not add due to rounding



Federal grants represent approximately 23% of consolidated budget

Consolidated Budget - Source of Funds FY 2012



Numbers may not add due to rounding



As presented at Credit Conference on April 2011, the new Budget versus Actual System (BvA) is an effective budget instrument for visibility that allows us to monitor real time expenses...



System that help us manage budgets, together with the agencies to be more efficient

→ Provides VISIBILITY and TRANSPARENCY

You have greater visibility of the budget of an agency, therefore:

You may notice excessive or lower recurring expenses and make all the necessary adjustments on time in order to prevent over-spending

During the month of **October**, the Office of Management and Budget for Puerto Rico (OMB) will release its first Quarterly Expense Update



Expenses for first two months are in line with budget...

| Category | Budget | Actual Expenses | Variance % |
|------------------------------------|--------------|-----------------|--------------|
| Payroll & Payroll Related Expenses | \$395 | \$393.8 | 0.3% |
| Rent and Utilities | \$50 | \$49.5 | 1.0% |
| Purchased Services | \$8 | \$9.5 | -19.0% |
| Donations and Subsidies | \$10 | \$6.2 | 38.0% |
| Transportation Expenses | \$1 | .753 | 25.0% |
| Professional Services | \$2 | \$1.2 | 41.0% |
| Non-Distributed Expenses | \$295 | \$291 | 1.0% |
| Materials and Equipment Services | \$3 | \$4.2 | -41.0% |
| Other Expenses | \$4 | \$4.2 | -5.0% |
| TOTAL | \$768 | \$760.6 | 1.01% |

Variances are mainly due to timing differences

*Approved Budget of \$9.26 bn includes \$2.2 bn in appropriations to the Judicial and Legislative branches, UPR, Municipalities, State Controllers Office and others that are not included in the Budget vs Actual System and thus are not included in the numbers presented above.

** All numbers are preliminary and subject to change



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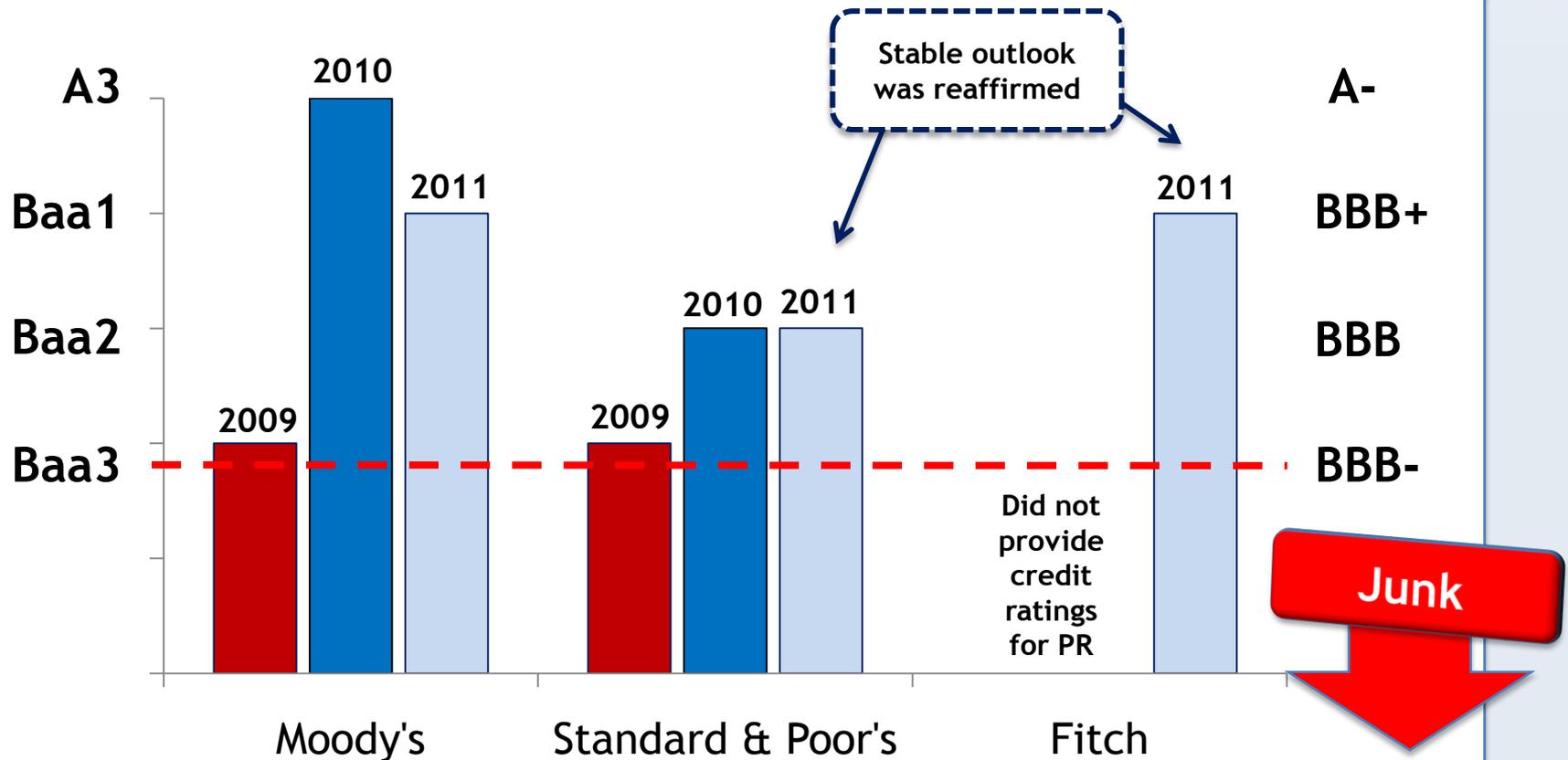
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On August 8th, Moody's lowered Puerto Rico's credit rating to Baa1 with a negative outlook citing primarily the current situation of the Government's retirement system

In spite of this rating action, Moody's credit rating remains above the rating we had on January 2009 and the S&P rating





We have implemented several measures that will improve liquidity and extend the life of System assets by approximately 8 years

Pension Reform

Main Components:

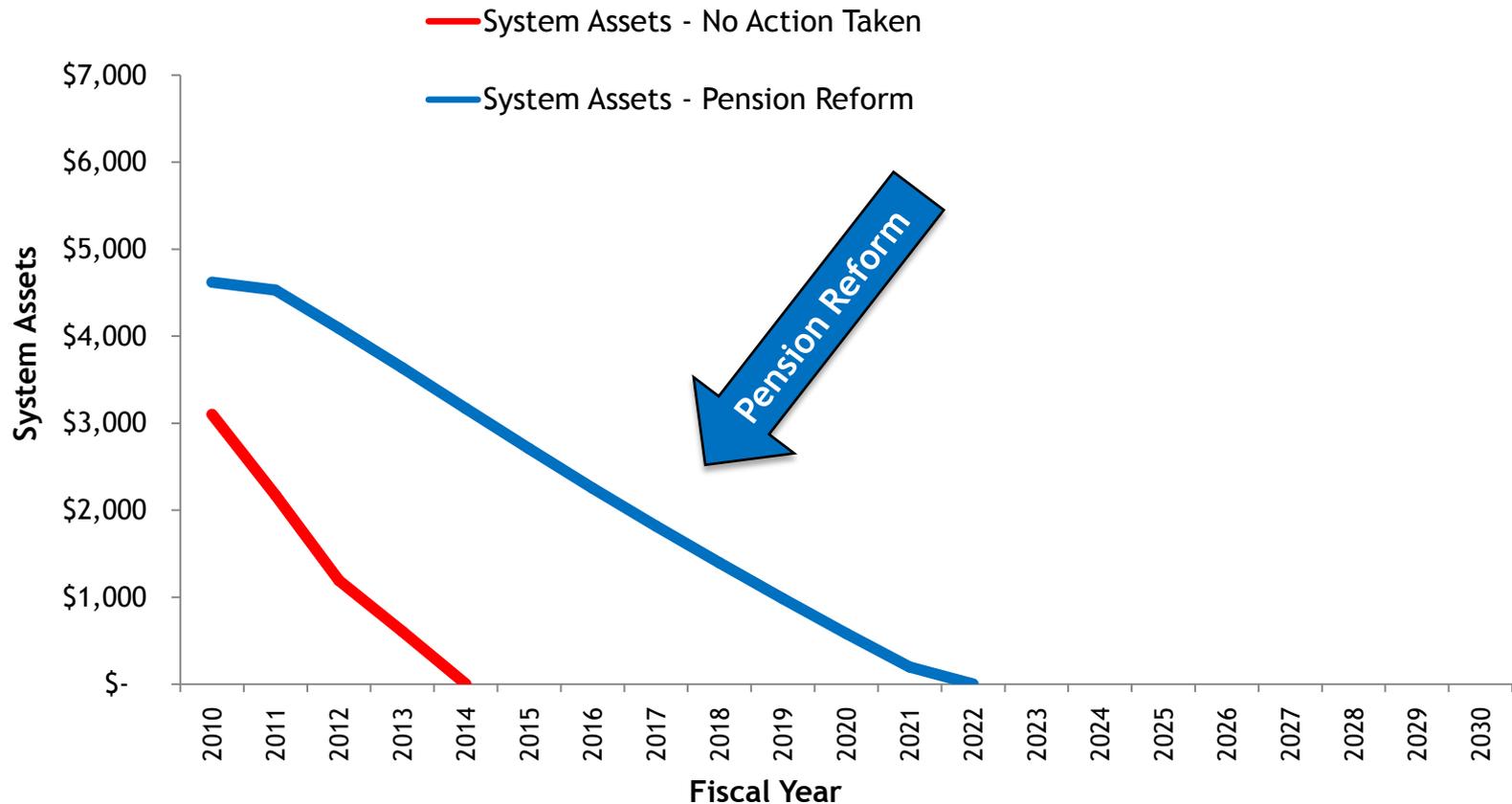
- 1 Increasing Employer Contribution Rate**
- 2 Decreasing maximum loan limit**
- 3 Capital injection of \$162.5M invested in Capital Appreciation Bonds accruing to over \$1.5 billion by year 2043**



With these three measures we achieved our initial goal of improving liquidity and extending the life of System assets

System's Current Situation After Pension Reform

(in \$ millions)



*Basado en las mejores presunciones actuariales disponibles en el momento. Data al 30 de junio de 2011

The Governor has created a bipartisan Committee to evaluate additional measures that will further extend the life of the System as we continue to work towards permanent solution



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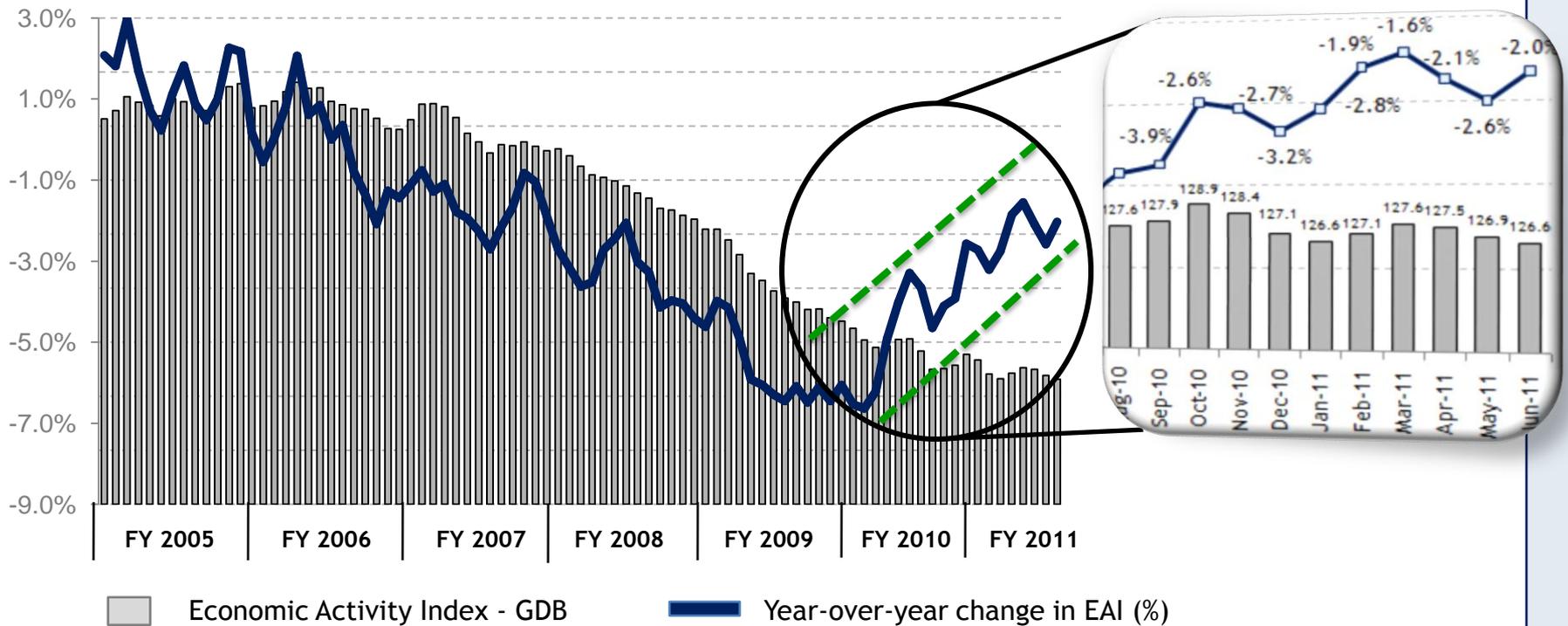
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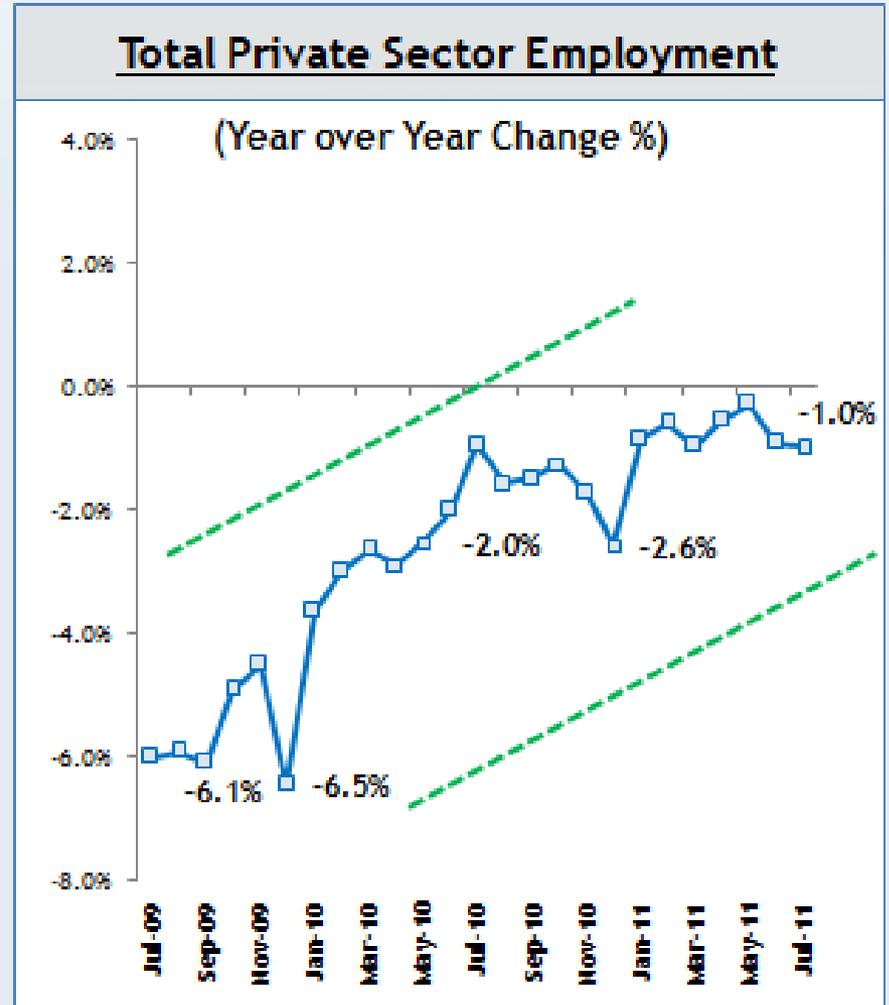
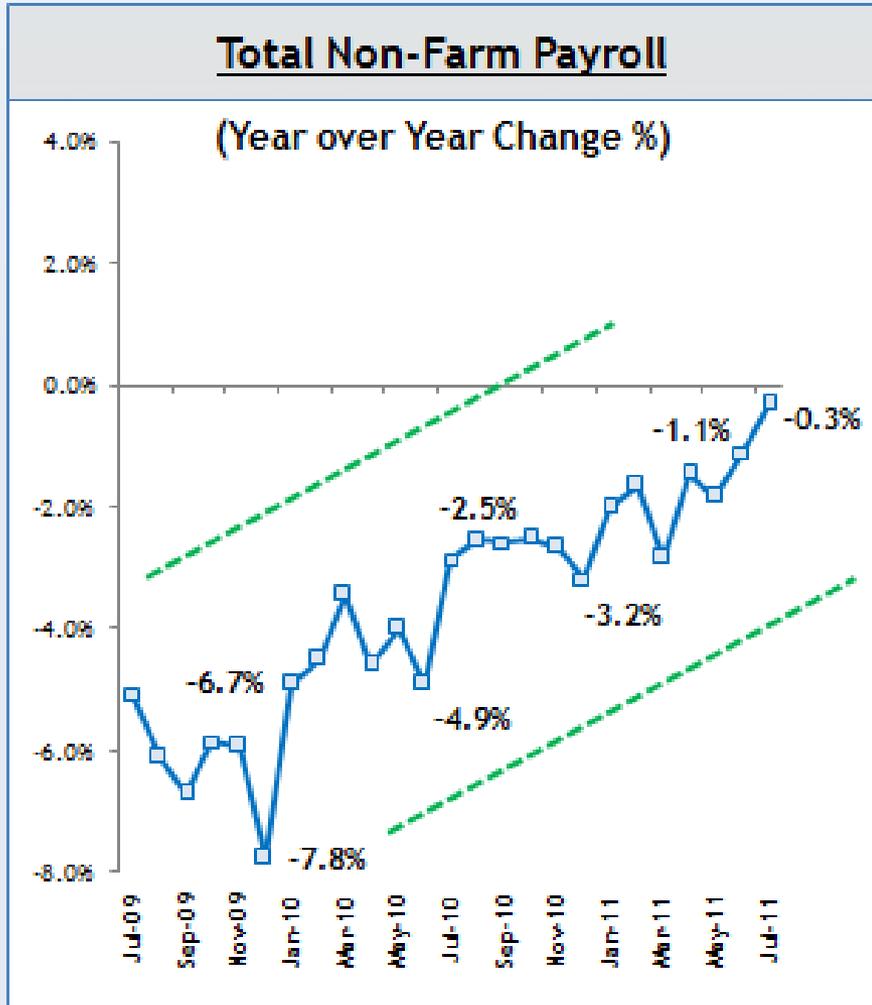
Economic Activity Index is reflecting constant improving economic trends...

GDB Economic Activity Index (EAI): 98% correlation with GNP





Employment trends show marked improvement towards positive territory...



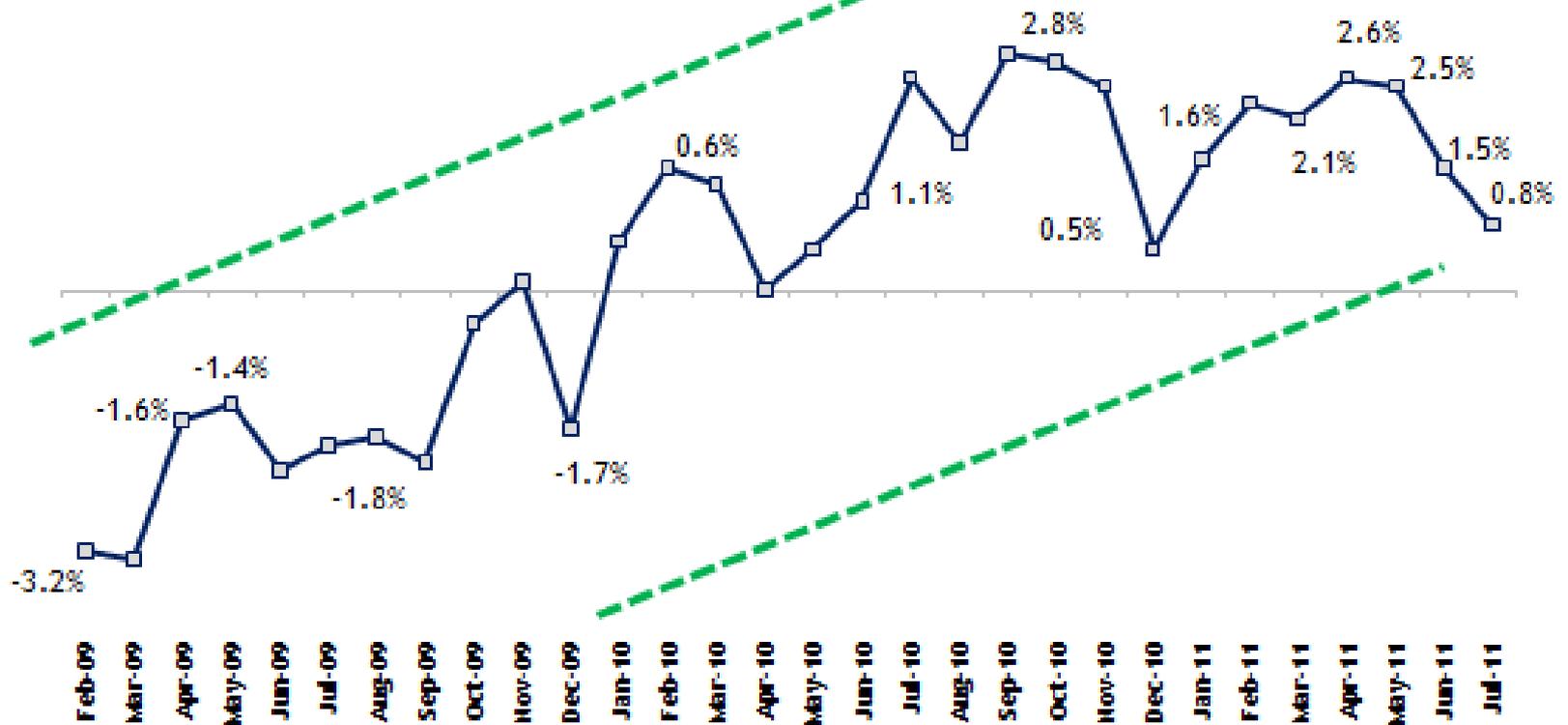
Private sector employment continues to show a marked improvement



Within the private sector, service sector employment continues to lead the way...

Service Sector Employment

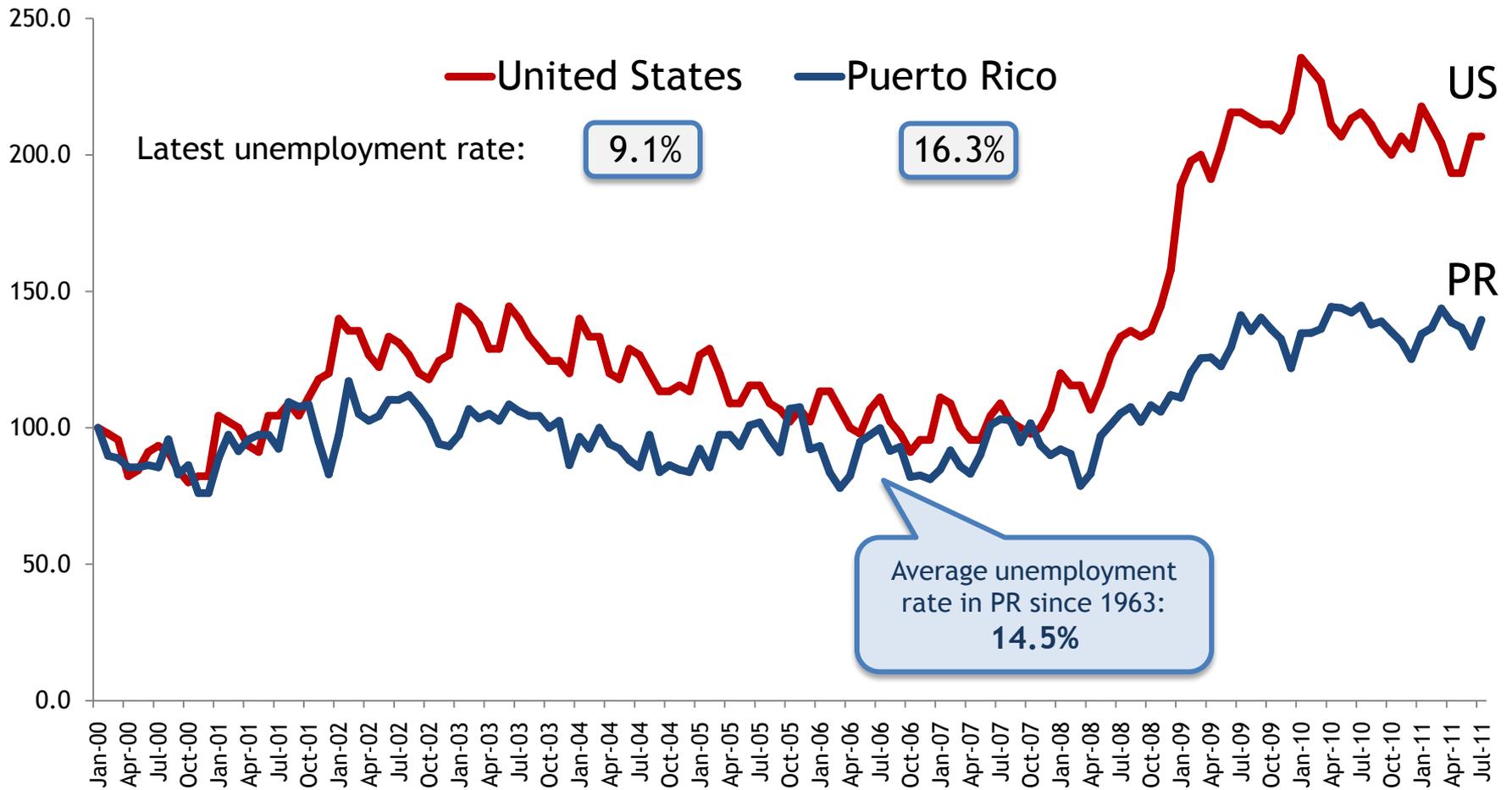
% Year-over-year change





Although unemployment rate remains a challenge in Puerto Rico, recent patterns depict a favorable position when compared to the US

Unemployment Rate Index: United States vs. Puerto Rico



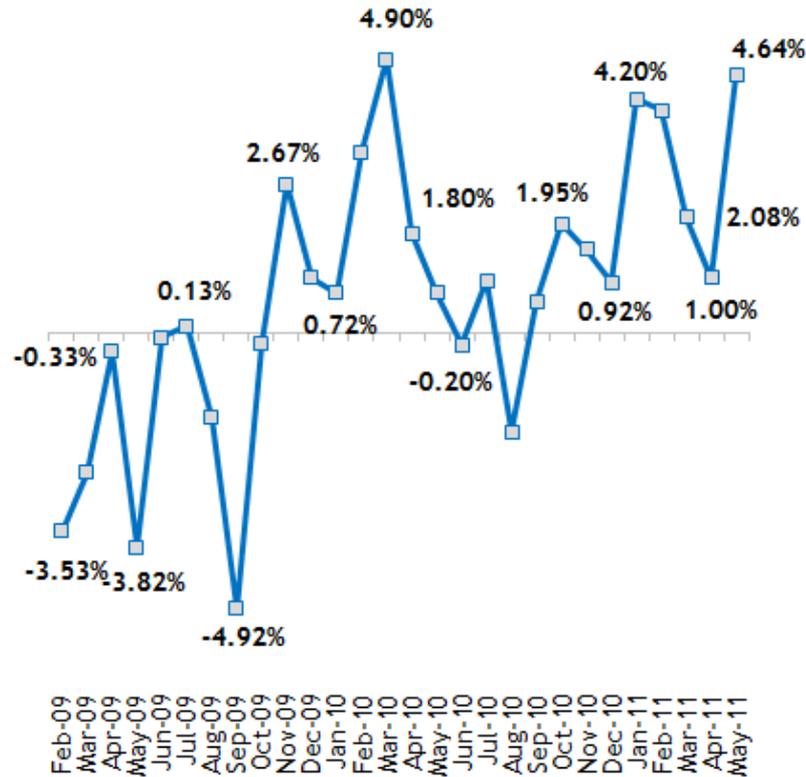


Increased consumer confidence is evidenced by a rise in retail and auto sales

Retail Sales

(as of May 2011)*

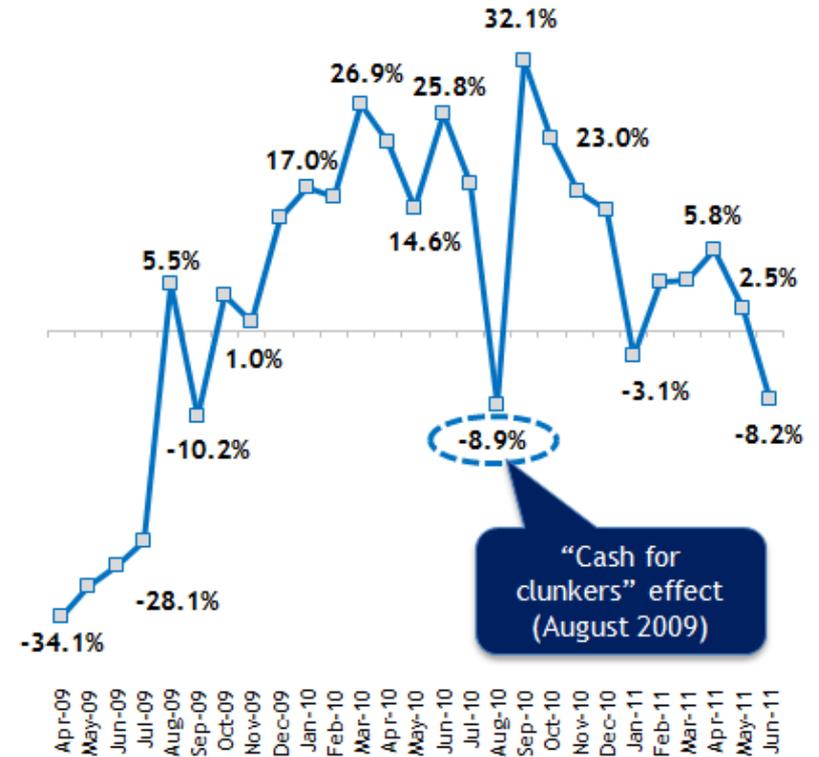
% Year-over-year change



Auto Sales

(as of June 2011)

% Year-over-year change



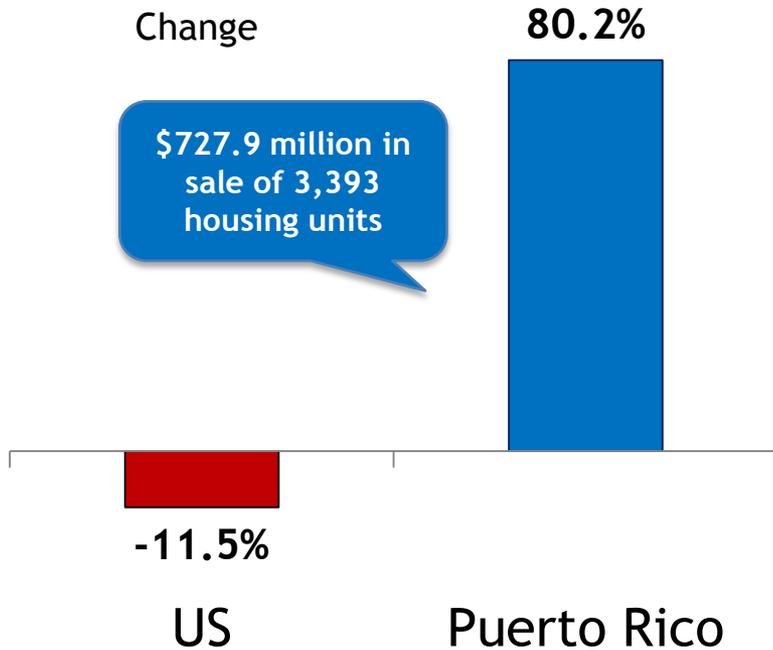
* Latest number available



The Housing Stimulus Plan enacted in 2010 has jumpstarted our residential real estate market

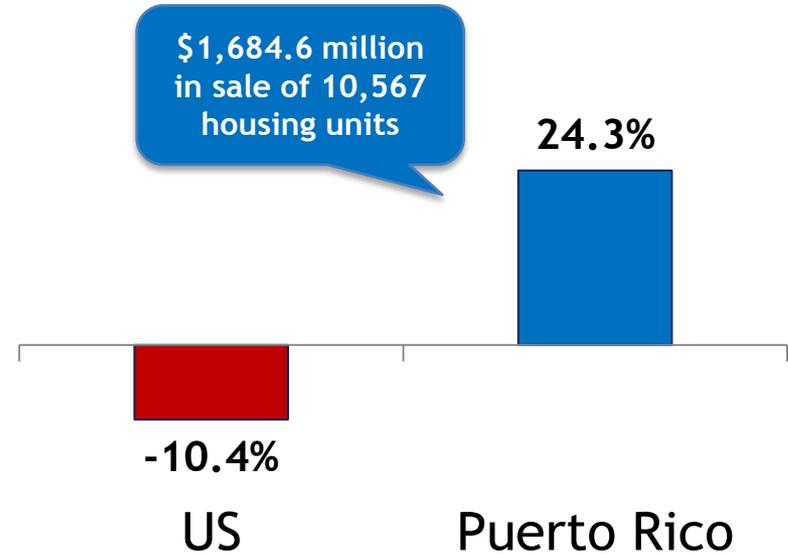
New Home Sales YOY Growth

From September-July 2011
Overall Year-over-Year
Change



Existing Home Sales YOY Growth

From September-July 2011
Overall Year-over-Year
Change



Housing Stimulus Bill was extended until October 2011

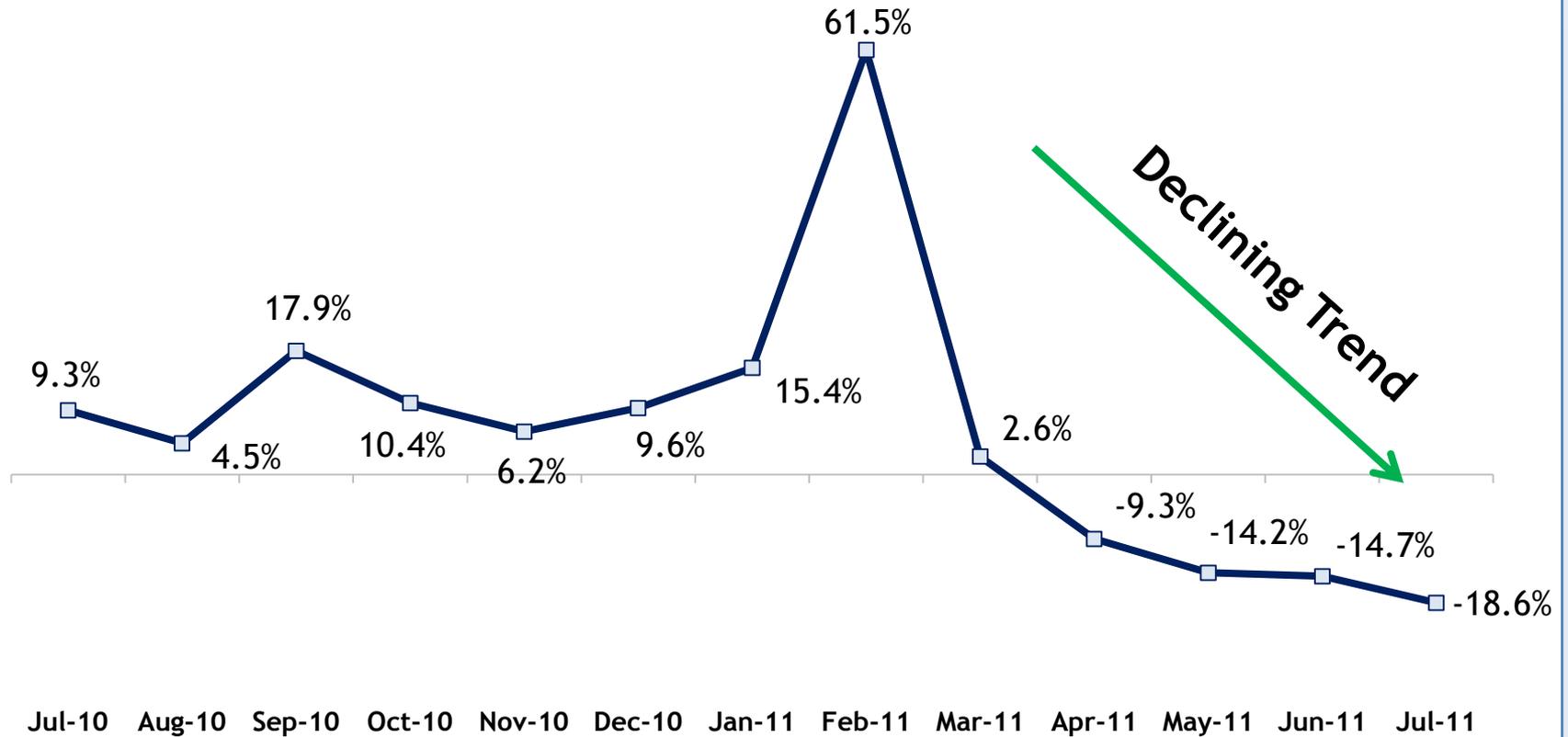
* Housing Finance Authority



Trend of declining bankruptcies in recent months reflect improving economic conditions

Bankruptcies

Year-over-year change





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Joint efforts between FDIC, OCFI and GDB resulted in a successful approach and a three bank simultaneous consolidation in April 2010...

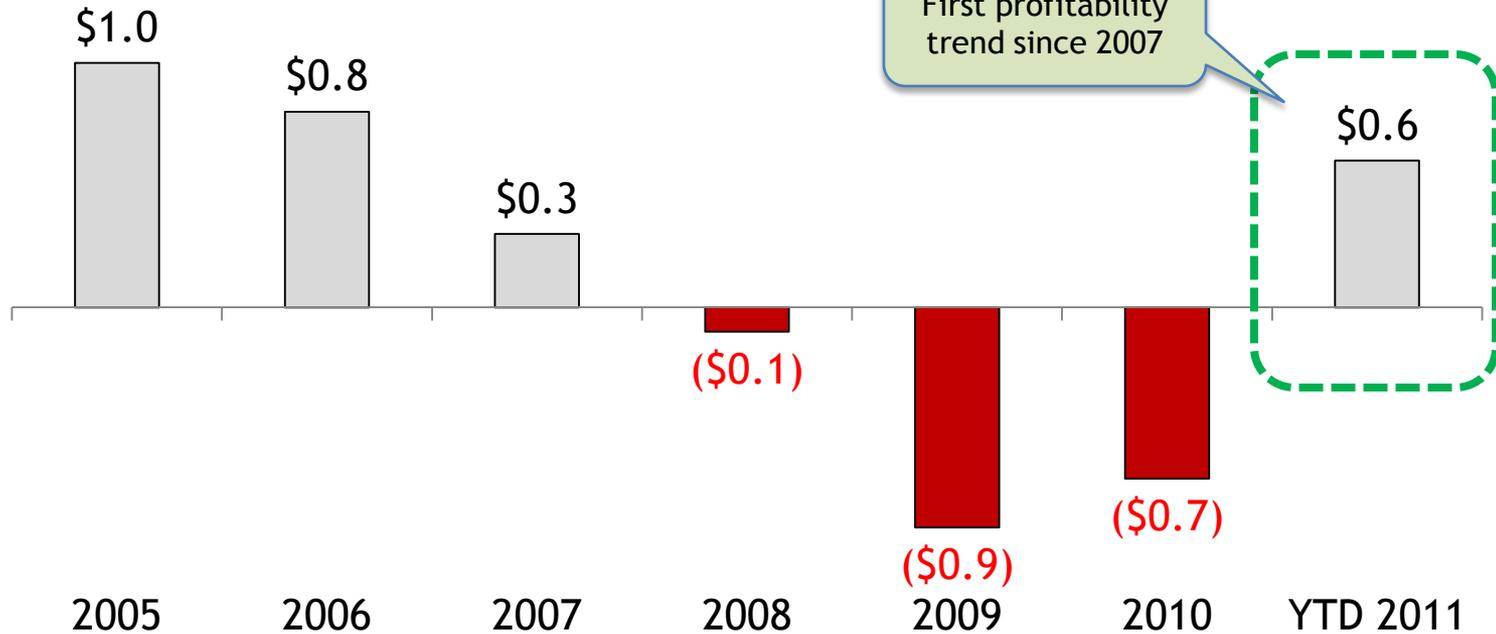
...a year after the FDIC-assisted transactions, the banking system has significantly deleveraged



Measures taken by local banks have allowed the sector to return to profitability

Operating Income - Local Banking Sector

(in billions)



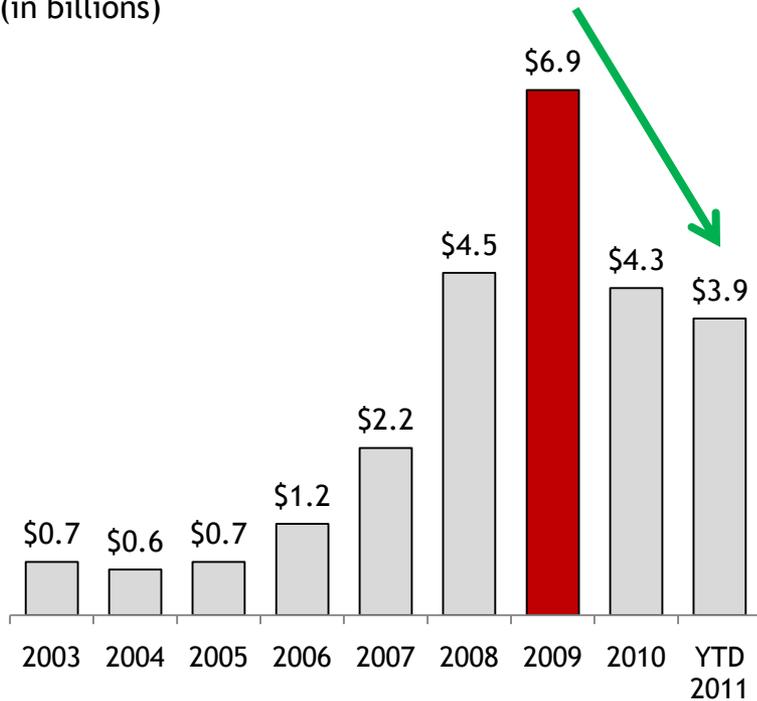
*As of June 30, 2011



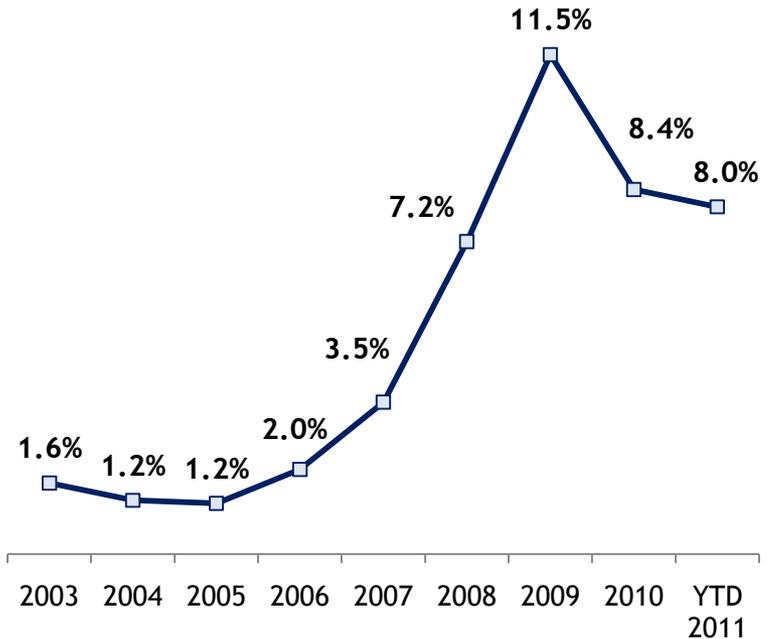
Significant deleveraging has improved the Banks' balance sheet

Non-performing Assets

(in billions)



NPL / Total Assets



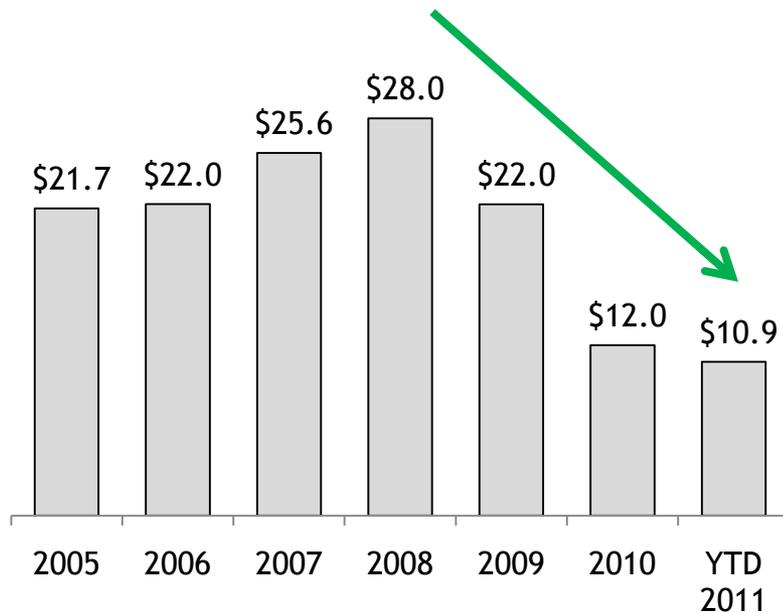
*As of June 30, 2011



As part of the deleveraging process, local banks have significantly reduced dependence on brokered deposits while maintaining core deposits base...

Brokered Deposits

(in billions)



Core Deposits

(in billions)



*As of June 30, 2011



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Active transaction calendar so far this year...

1st & 2nd Quarter

Completed Transaction:

GO

Refunding Series A - \$357 M

Refunding Series C - \$442 M

GDB

Senior Notes (U.S. Taxable) - \$650 M

First half of 2011 has been very active in the capital markets

3rd Quarter

Completed Transaction:

GO

Public Improvement Bonds - \$304 M

Refunding Series D & E - \$298 M

COFINA

Stabilization Fund FY 2012 - \$327 M
(Private Transaction)

PBA

QSCB Series R - \$756 M

Gov't Facilities Rev. Bonds Series S - \$304 M



4th quarter of 2011 will center around COFINA and GDB Notes issuance

4th Quarter

GDB
Notes Issuance (Refunding) - \$500 M

COFINA
Stabilization Fund FY 2012 - \$285 M

PFC
Refunding - TBD



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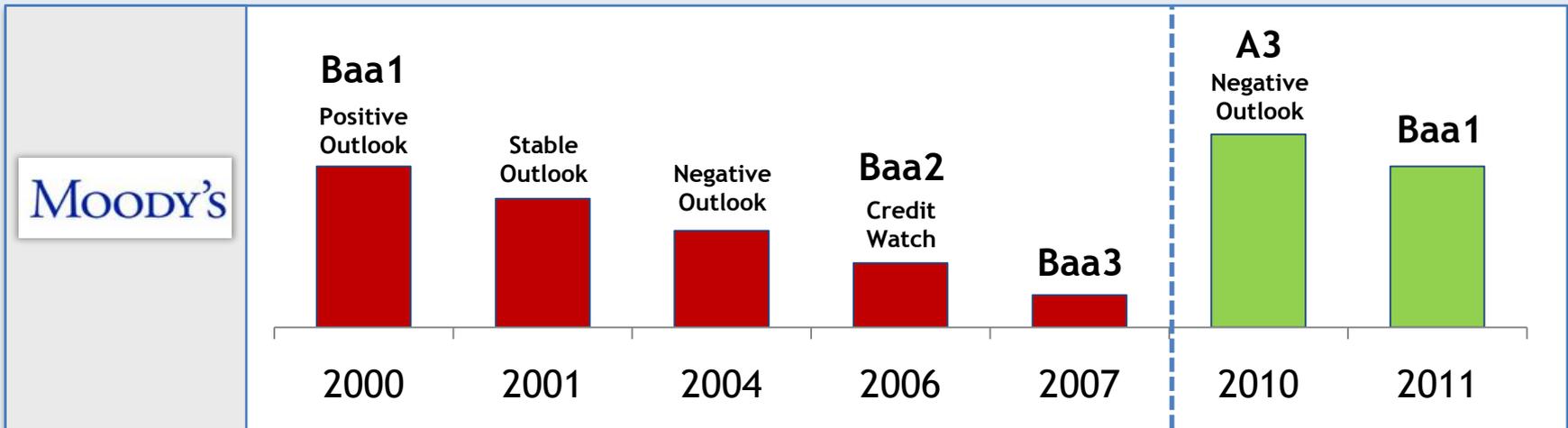
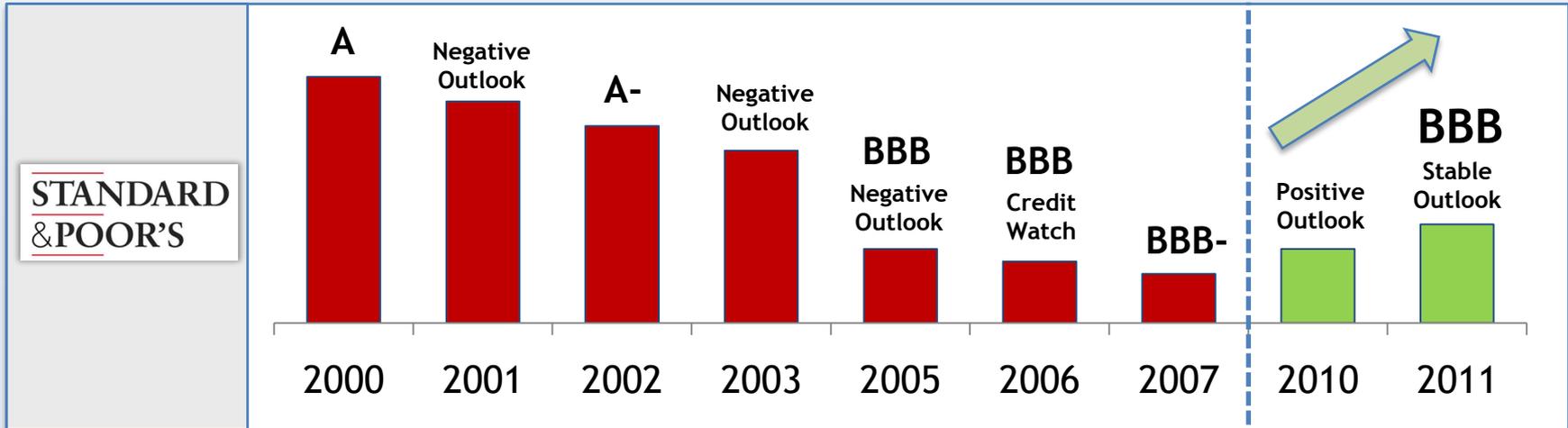
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Implemented measures to date have been positively recognized by the credit rating agencies



FitchRatings Inaugural rating : **BBB+ Stable Outlook**



Puerto Rico continues to stay the course while delivering concrete results...What we face going forward may force us to change our plans, but not our goals



Rating agencies have recognized our vision of fiscal discipline



We have implemented significant initial steps to address our pension system while committed to keep working to permanently solve our funding status



We are now focused on completing key infrastructure projects that will improve Puerto Rico's global competitiveness



Proven access to capital markets by maintaining a transparent relationship with our investor community; we reiterate the commitment and will soon launch a program of one-to-one meetings with investors



Increased lending activity of our revitalized local banking system should further contribute to the economic growth of Puerto Rico



Leveraging Puerto Rico's fiscal recovery to restore sustainable economic growth

Investor Webcast

September 8, 2011