GOVERNMENT DEVELOPMENT BANK FOR PUERTO RICO AND PUERTO RICO FISCAL AGENCY AND FINANCIAL ADVISORY AUTHORITY STATEMENT ON IMPLEMENTATION OF EMERGENCY MEASURES UNDER ACT 21

July 1, 2016

San Juan – The Government Development Bank for Puerto Rico (“GDB”) and the Puerto Rico Fiscal Agency and Financial Advisory Authority (“AAFAF”) released the following statement today regarding the implementation of further emergency measures by the Commonwealth of Puerto Rico (the “Commonwealth”) pursuant to Act 21-2016, the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act, as amended (“Act 21”):

“On June 30, the Governor of Puerto Rico took a historic step to protect the Commonwealth’s ability to provide essential public services to the residents of Puerto Rico and to put the Commonwealth on the path to recovery. Under the powers granted to the Governor under Act 21, the Governor issued two executive orders, Executive Order No. OE-2016-30 and Executive Order No. OE-2016-31 (the “Executive Orders”), that declare a moratorium on the payment of the Commonwealth’s debt and the debt of certain other instrumentalities, implement various cash and liquidity preservation measures and protect the Commonwealth and its instrumentalities from the exercise of creditor remedies as the Commonwealth addresses its fiscal and economic crisis.

“The fiscal situation of the Commonwealth on the last day of fiscal year 2016 is dire. Despite extraordinary liquidity and cash management measures implemented by this Administration over the last fiscal year, the Commonwealth is expected to end the month of June with approximately $200 million of cash in its operating account (such account known as the “Treasury Single Account” or “TSA”), and another approximately $150 million in funds that were directed from certain public corporations pursuant to Executive Orders OE-2015-046 and OE-2015-049 and held in the “Clawback Account”. Against this very strained liquidity, the Commonwealth faces, on July 1, approximately $1 billion of general obligation (“GO”) and Commonwealth-guaranteed debt service obligations coming due that would typically be paid out of the TSA, either directly or, in the case of certain guaranteed indebtedness such as that of the Puerto Rico Public Buildings Authority, indirectly through appropriations (including for lease payments) from the TSA that would in turn be used for debt service.1 After accounting for reserves available to pay GO and Commonwealth-guaranteed indebtedness expected to be payable on July 1, the Commonwealth projects that GO and Commonwealth-guaranteed creditors will still be owed over $800 million on July 1, 2016.2 Even if the Commonwealth were to devote every last penny in the TSA and the Clawback Account to debt service on July 1, it would still owe holders of the public debt hundreds of millions of dollars.

1 Consistent with the Commonwealth’s historical reporting, the approximately $1 billion of debt service referenced is net of capitalized interest amounts and mandatory principal redemptions from escrowed funds, but is not reported net of debt service reserves, including monthly set-aside amounts deposited with any bond trustee, if applicable.
2 Creditors may receive some portion of this amount through insurance policies on their bonds, if available.
“The Department of the Treasury’s cash flow projections for this fiscal year paint a similarly challenging picture. Based on the Commonwealth’s projections, the government will need to continue implementing certain extraordinary liquidity measures over the coming six months -- such as delaying payments to vendors and special contributions to the Commonwealth’s retirement systems, extending internal financing to the Commonwealth from certain of its instrumentalities and delaying capital expenditures -- in order to continue to provide essential services to Puerto Rico’s citizens. These measures will need to be taken even if the Commonwealth does not pay any of the GO and Commonwealth-guaranteed indebtedness over the period. After these extraordinary measures, based on current revenue and expense projections, the TSA will exhaust its liquidity balance in the next 30 to 60 days. Even after the implementation of the measures in the Executive Orders, the balance in the TSA is still projected to fall below approximately $95 million during the remainder of this year.³ This is a dangerously low cash position for a government that funds services to millions of Puerto Ricans.

“The Executive Orders signed by the Governor yesterday respond to the critical financial position of the Commonwealth that currently exists and that is anticipated to only worsen over the coming months.

- **First**, the Executive Orders declare the Commonwealth and several additional government entities to be in a state of emergency, and extend the state of emergency that was previously declared for certain other governmental entities. These include operating entities such as the Puerto Rico Highways and Transportation Authority, the University of Puerto Rico and the Metropolitan Bus Authority, who provide essential services to Puerto Rico’s citizens, and financing entities such as the Puerto Rico Infrastructure Financing Authority, whose debt service obligations are supported by tax revenues paid for by the people of Puerto Rico.

- **Second**, the Executive Orders allow the Commonwealth and the other issuers to suspend the transfer of certain funds to and from the entities, in order to support the conservation of cash at the central government and, as a result, avoid a government shutdown and the consequences for the millions of Puerto Rico’s citizens who depend on the services provided by the government.

- **Third**, the Executive Orders implement a stay on creditor remedies against these entities. This is a crucial element of enabling the Commonwealth to seek a debt restructuring and right the island’s ship, without which Puerto Rico’s human and financial resources would be diverted to dealing with dozens of lawsuits seeking a piece of a rapidly dwindling pie – and resources and funds consumed by litigation will serve only to further affect our creditors’ recoveries.

- **Fourth**, the payment obligations of the Commonwealth under its GO and guaranteed debt, along with the payment obligations of certain other issuers, are suspended until January 31, 2017.

“While the measures implemented yesterday are unprecedented for the island, they are not without forewarning. Even as the Commonwealth has spent the last year developing a sustainable fiscal and economic growth plan and attempting to bring creditors to the table to reach a voluntary plan for debt relief, the government has always said that Puerto Rico’s debt is unpayable and that the music would stop. The temporary measures contained in the Executive Orders issued yesterday are necessary for the

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³ In addition to this amount, the Clawback Account (assuming no further deposits or application of funds contained in such account) would continue to have approximately $150 million.
Commonwealth to fulfill its duty to provide essential services to the people of Puerto Rico and necessary for the Commonwealth to have the tools to finally reach an agreement with its creditors without the legal and economic distractions posed by chaotic and disorderly defaults. These actions are part of this government’s commitment to correcting the fiscal mistakes of the past decades, as opposed to continuing them by accepting a band-aid of short-term financing that saddles Puerto Rico with further unpayable debt. The measures enacted yesterday will not, however, take the place of either the real and significant debt relief that the Commonwealth must achieve or the hard work that must be done by the government itself to rein in spending, boost revenues and re-ignite the island’s economy.

“Today, with these measures and PROMESA’s federal restructuring authority in place, the Commonwealth is finally in a position to return to prosperity.”

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Not an Offering of Securities

This statement does not constitute, nor does it form part of, an offer to sell or purchase, or the solicitation of an offer to sell or purchase, any securities or an offer or recommendation to enter into any transaction. This presentation has been prepared for informational purposes only. Any offer or sale of any security may only be made pursuant to the relevant offering documents and binding transaction document and is subject to the detailed provisions therein, including risk considerations. Prospective purchasers should obtain a copy of the relevant offering materials prior to making any investment decisions.

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.