



Changing the course of Puerto Rico's future

Quarterly Investor Presentation

November 9, 2010



Forward Looking Statements

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government Development Bank'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

Introduction

Luis G. Fortuño Governor of Puerto Rico

Government Development Bank

Carlos M. García Chairman & President

Department of Economic Development

José R. Pérez-Riera Secretary

Department of the Treasury

Juan C. Puig Secretary

Office of Management and Budget

María Sánchez Brás Director

Guest Speaker

Douglas Holtz-Eakin President, American Action Forum
Former Director, Congressional Budget Office



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Fiscal Progress

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Tackling Retirement System Funding Status

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Key Reforms in Place

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Concluding Remarks

**Puerto Rico continues
on track with the
implementation of the
Fiscal and Economic
Reconstruction Plan...**



We have stayed focused on delivering results as originally established in early 2009

1st Credit Conference - March 12, 2009
(*Fiscal Reconstruction Plan Presentation*):



We are ready to start the implementation phase and meet the goals of the Plan

Plan Goals	Specific actions and components of the Plan
Stabilize the fiscal situation	<ul style="list-style-type: none">• Approval of Legislative package to implement the Plan• Implement Expense and Revenue Measures• Implement Financial Measures
Strengthen PR's credit	<ul style="list-style-type: none">• Formulate and implement a multi-year plan• Re-establish transparency and investor relation programs
Re-build the economy	<ul style="list-style-type: none">• Establish organizational framework for Federal Stimulus Plan• Design a Local and Supplementary Stimulus Plans• Implement Public-Private Partnerships

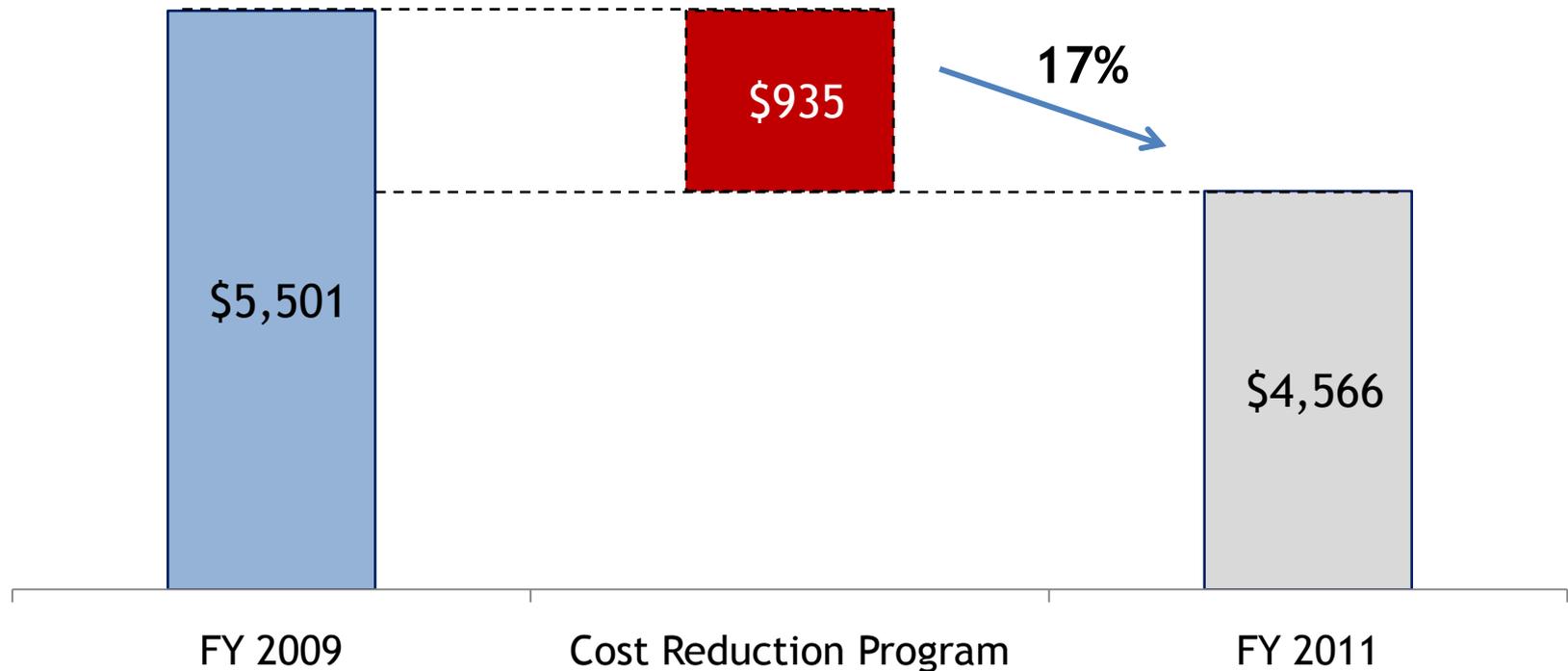
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We have achieved further savings, reducing expenses by \$935 million or 17% of total payroll...

Central Government Payroll

(in \$ millions)





In addition, we are strictly monitoring all services retained by the Government to maintain tight control over our expenses

Prior to 2009, all Central Government agencies were allowed to retain external services without centralized monitoring or analysis, resulting in limited expense control and poor fiscal discipline...

Fiscal Reconstruction and Stabilization Board

In order to comply with our Fiscal Reconstruction Plan, we established a Fiscal Board that oversees and approves every contract incurred by the Government:

of contracts revised since FY 2009:

6,013



We continue to focus on prudent cash management techniques, allowing us to monitor the Government's expenses as needed

Cash Flow Summary for the quarter ended September 30, 2010:

- Collections and receipts for the 3-month period ended September 30, 2010 increased by 3.6% compared to estimates due mainly to improved collections during the period such as:
 - An increase in property tax collections and a more efficient procurement for federal funds
- Expenses including debt service decreased by 12.1% when compared with the quarter ended on September 30, 2009.
- When compared with the previously published cash flow projection of 6/30/2010, expenses including debt service were 6.2% higher than expected mainly as a result of certain expenses that were incurred earlier than originally scheduled.
- Ending cash balance of \$125 MM was significantly higher than the \$36 MM projected in the previously published cash flow projection of 6/30/2010 due to an additional draw of Stabilization Funds in anticipation of certain programmed expenses.



First quarter of FY 2011 ended with \$89 million in cash balance over initial projections

(in \$ millions)	ACTUAL	PROJECTED *		
	Q1	Q2	Q3	Q4
Beginning Balance	87	125	86	71
Collection and Receipts	2,733	3,175	3,164	4,123
Expenses Incl. Debt Service	3,553	3,692	3,377	3,387
Total Financing Activity	700	(333)	(8)	(911)
Total Stabilization Funds**	157	811	205	132
Ending Cash Balance	125	86	71	31

This projection does not reflect impact from the Tax Reform

* These numbers are preliminary and subject to change upon FY2010 audit. Some numbers may differ due to rounding. As of 9/30/2010.

** Total Stabilization Funds include \$231 MM in ARRA funds.

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



Improved September collections are closing the gap that resulted from previous months collections and we are confident, as with past two years, that we will reach our revenue projections...

Revenue Categories (\$ millions)	Estimate	Actual vs. Estimate	Actual July - September		\$
	2011		2010	2011	Change
Individuals	\$569	(\$13)	\$548	\$555	\$7
Corporations	\$365	(\$24)	\$439	\$341	(\$98)
Non-Resident Withholdings	\$217	(\$29)	\$241	\$188	(\$53)
Property Tax*	\$66	\$23	\$20	\$89	\$69
Sales and Use Tax	\$0	\$0	\$0	\$0	\$0
Motor Vehicles	\$75	\$4	\$74	\$79	\$5
Alcoholic Beverages	\$60	(\$2)	\$59	\$58	(\$1)
Off-Shore Shipments of Rum	\$78	\$0	\$95	\$78	(\$17)
Other	\$180	(\$2)	\$221	\$178	(\$43)
Total	\$1,609	(\$42)	\$1,697	\$1,567	(\$130)

- █ First \$572 million SUT collections are distributed to COFINA and will not yet impact the General Fund.

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



Sales and Use Tax collections for the first quarter of FY 2011 have increased 2.5% on a year-over-year basis...

Year	2006	2007	2008	2009	2010	% Change
FY 2010	January	95.00	89.80	85.76	118.48	
	February	86.20	86.49	84.34	88.94	
	March	96.40	89.36	88.07	82.54	
	April	85.70	93.49	88.79	93.42	
	May	94.40	103.33	93.30	85.47	
	June	95.46	97.53	-	92.85	
FY 2011	July	96.10	95.59	94.38	95.91	1.6%
	August	90.18	91.35	88.00	90.42	2.7%
	September	86.16	77.79	84.10	86.70	3.1%
	October	93.75	86.19	83.78		
	November*	50.20	96.17	92.00	85.12	
	December	110.00	121.25	119.84	95.08	
Total	\$ 160.20	\$1,136.78	\$1,122.74	\$ 970.71	\$ 834.72	

Change in SUT reporting methodology to cash basis during month of May 2010 will allow for faster monthly reporting

* SUT collections began on November 15, 2006



Treasury Department is investing in technology to further enhance sales and use tax collections...

GOAL

Use technology to capture ALL transactions

Revenue Enhancing Measure:

- Sales and Use Tax Lottery:
 - Lottery number in every receipt with weekly prizes
 - This will attract customers to ask for receipt
 - Retailer will be connected via POS system
 - Treasury Department will be able to monitor transactions 'real-time'

■ Implementation Schedule

- Pilot Program Launch: December 2010
- State-wide: January 2011

Common store receipt





Sales and Use Tax lottery functional flow chart:



SUTEC	
TID	3500037
MERCHANT	493333333
VISA/MC	00124
SALE	
000003	TRACE 225221
APR 28, 10	HOUR 09:54
000067	AUTH 45
SALE	\$320.65
STATE TAX	\$ 19.24
MUN. TAX	\$ 3.21
TOTAL	\$343.10
IVULOTTO: ZDE4T6	
DRAW#:453 APR 28, 10	

Lottery Receipt



Online
POS
Cash Register

Batch
Tx Port
SUT Reporting Terminal

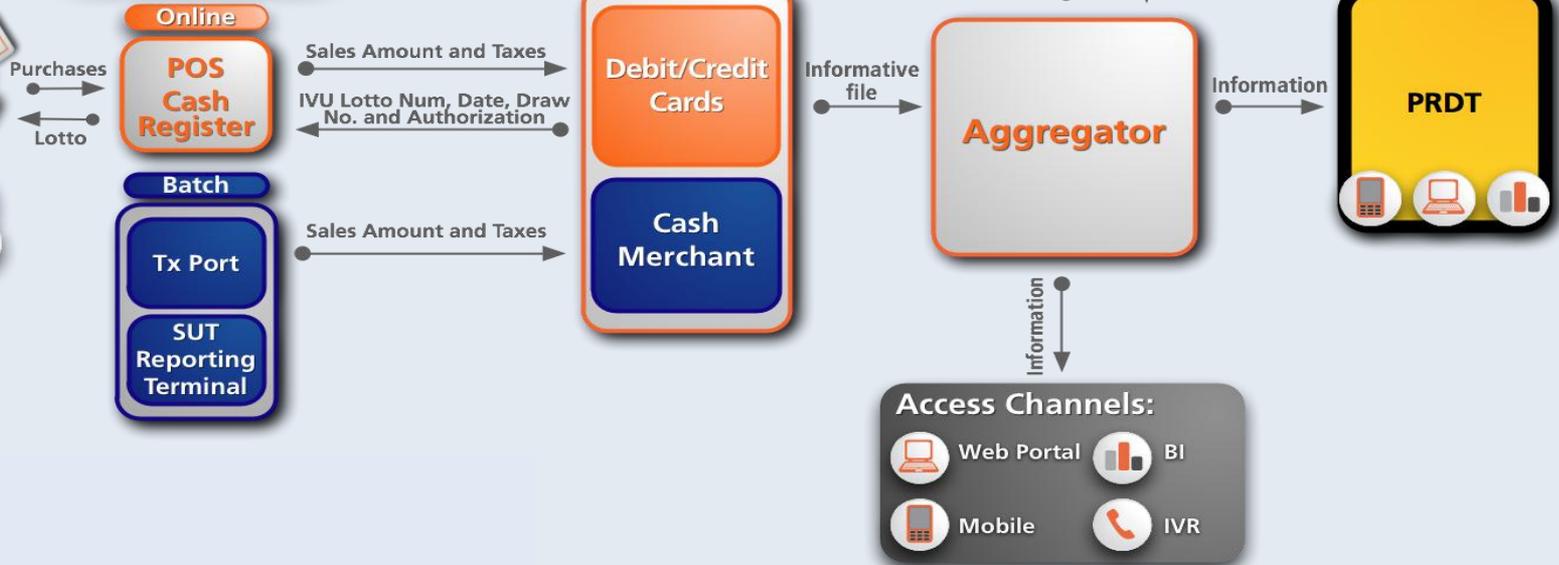
Processors
Debit/Credit Cards
Cash Merchant



Aggregator

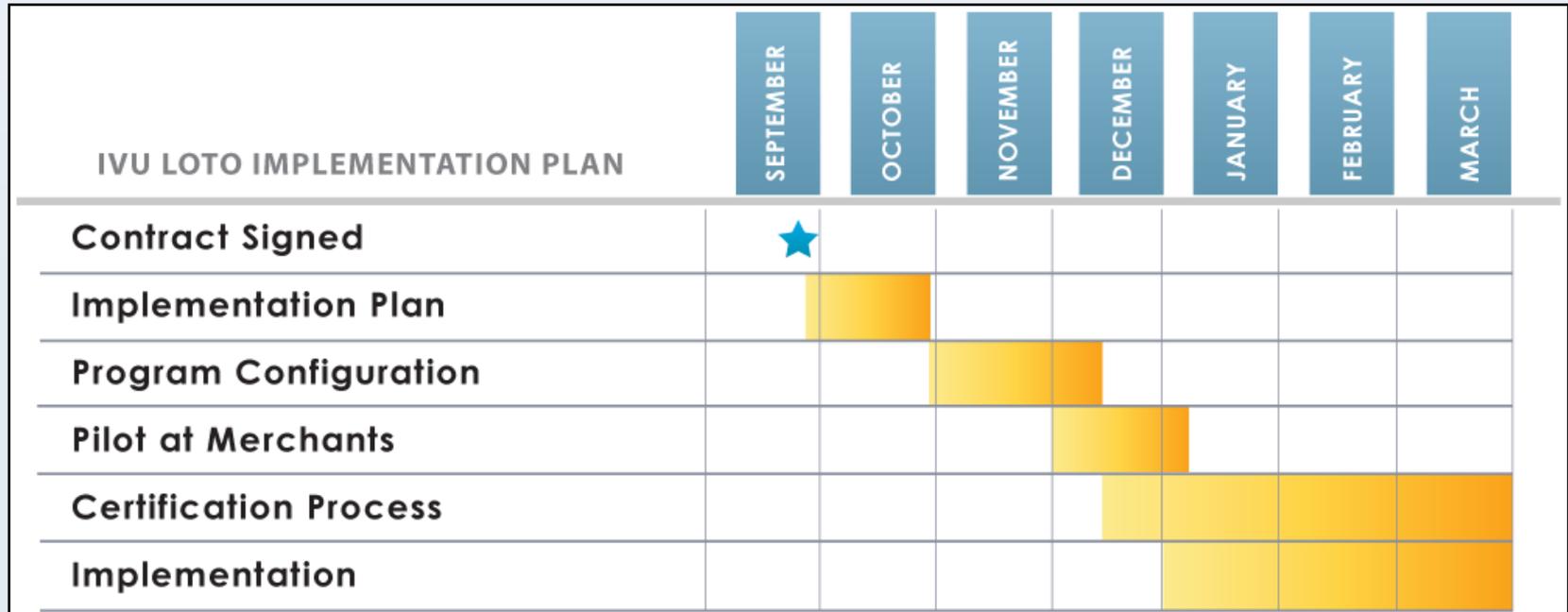


Access Channels:
Web Portal BI
Mobile IVR





Implementation Strategy



Potential to capture additional **\$400 million**
In transactions when fully implemented



Audited financial statements for FY 2009 were released as planned on October 25, 2010



Government's audited financial statements for FY 2009 confirmed deficit of \$3.306 billion...

The following table shows originally budgeted revenues and expenditures compared against actual revenues and expenditures for fiscal year 2009:

COMMONWEALTH'S STATEMENT OF REVENUE AND EXPENDITURES -
BUDGET AND ACTUAL BUDGET BASIS - GENERAL FUND
YEAR ENDED JUNE 30, 2009
(In thousands)

	Original Budget	Actual	Variance
Revenue:			
Income taxes	\$ 5,628,000	\$ 5,188,219	\$ (439,781)
Excise taxes	898,000	790,860	(117,140)
Other taxes	101,000	101,487	487
Sales and use taxes	977,000	797,194	(179,806)
Charge for services	195,000	132,483	(62,517)
Intergovernmental	377,000	407,534	30,534
Revenue from component units	24,000	23,764	(236)
Other	1,140,000	151,953	(988,047)
Total revenue	9,340,000	7,583,494	(1,756,506)
Expenditures:			
General government	543,254	886,368	343,114
Public safety	2,167,565	2,278,218	110,653
Health	1,472,104	1,542,889	70,785
Public housing and welfare	501,760	662,904	161,144
Education	3,434,816	3,738,043	303,227
Economic development	337,204	455,260	118,056
Intergovernmental	383,697	383,788	91
Total expenditures	8,840,400	9,927,470	1,087,070
Excess (deficiency) of revenues over (under) expenditures	499,600	(2,343,976)	(2,843,576)
Other financing sources (uses):			
Notes payable issued	-	171,480	171,480
Transfer in mostly from COFINA to cover deficit	148,000	3,455,064	3,307,064
Transfer out	(647,600)	(962,427)	(314,827)
Total other financing sources (uses)	(499,600)	2,664,117	3,163,717
Excess of revenues and other financing sources over expenditures and other financing uses	\$ -	\$ 320,141	\$ 320,141
Total revenues from non-financing sources	\$ 9,340,000	\$ 7,583,494	\$ (1,756,506)
Total expenditures and other uses	9,488,000	10,889,897	1,401,897
Deficiency of revenues from non-financing sources under expenditures and other financing uses	\$ (1,148,000)	\$ (3,306,403)	\$ (3,158,403)

\$ (3,306,403)



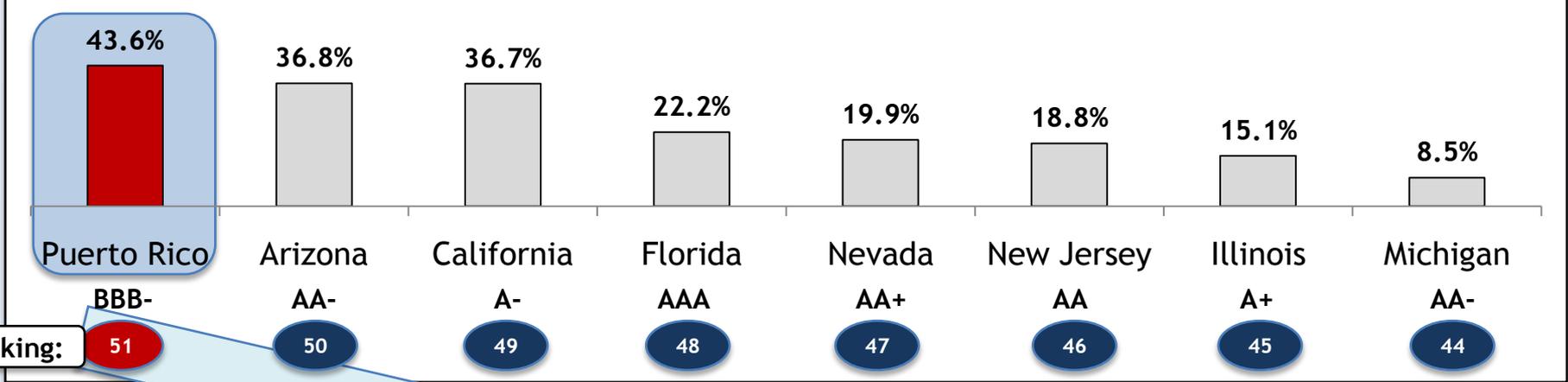
Furthermore, confirmed cash deficit of \$4.5 billion mainly as a result of a \$960 million cash shortfall carryover from FY 2008

Government of Puerto Rico Budgeted Expenditures and Cash Shortfall	(in thousands)
Total budgeted expenditures	\$10,889,897
Cash Shortfall:	
Fiscal year 2008 cash shortfall	960,000
Accounts receivables from federal funds disbursements	192,606
Total cash shortfall	1,152,606
Total expenditures (budgeted) and cash shortfall	12,042,503
Total revenue from non-financing sources	7,583,494
Total Excess Expenditures and Cash Shortfall	\$4,459,009

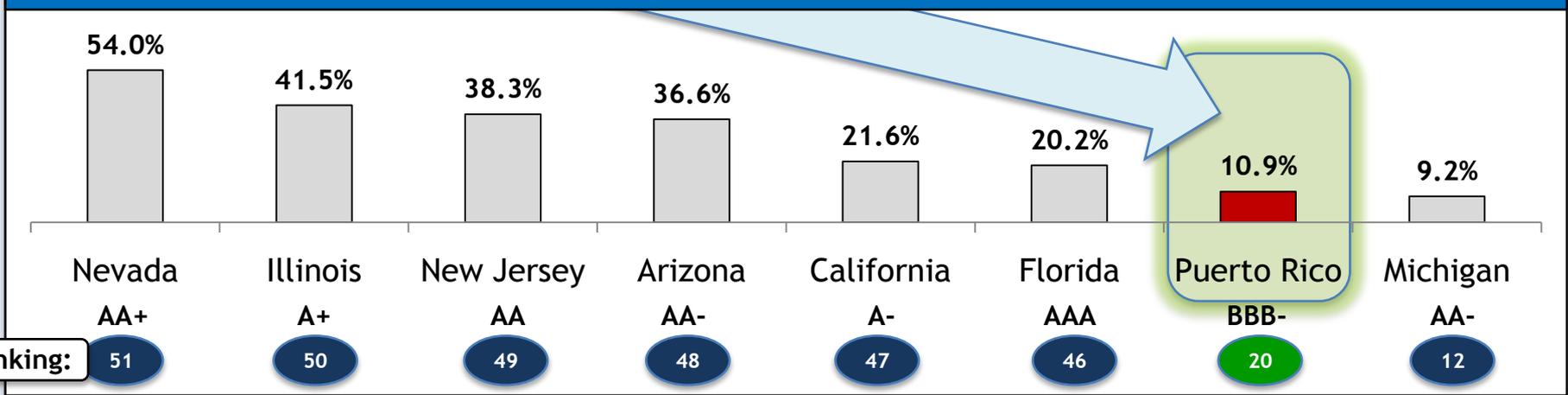


...in 22 months, we have achieved unparalleled fiscal improvement, reducing our deficit from 43.6% to 10.9% as a percent of revenues

Deficit as a % of Revenues for FY2008-2009



Budgeted deficit as a % of Revenues for FY2010-2011





We are diligently moving forward with the preparation of the 2010 CAFR to comply with continuing disclosure requirements

Adjustments made for 2010:

Strengthened Treasury's central accounting team with outside consultants with vast government accounting experience

GDB has taken an active role with the monitoring of the financial statements of the major Component Units

We have strengthened the accounting teams of major component units

An Audit Oversight Committee comprised of GDB, Treasury, OMB and Consultants has been established to monitor the progress of the audit on a weekly basis

27 Component Units have issued their financial statements

45 major component units are expected to have issued their financial statements by December 31st, 2010

65%



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We are committed to improving the funding status of our Pension System. The Special Commission appointed by the Governor has already submitted its recommendations...



We are proactively addressing the inherited challenges that have been ignored for decades...

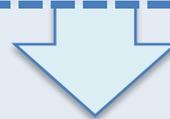
Summary of Recommendations Special Commission

Member	Increase in Employer Contribution	Increase in Employee Contribution	Change in Benefit Structure	Evaluation of Special Laws	Limit Personal Loans Grant
Milliman Consulting (Employer Rep.)	X			X	X
AON Consulting (Employer Rep.)	X		X	X	X
AFSCME (Employee Rep.)	X				
Teachers Association	X	X	X		X
Retired Employees Association	X	X	X		
Legislative Assembly	X		X	X	X
Permanent Special Commission	X	X			X



The Secretary of the Labor will present a comprehensive consensus legislation next year to tackle the unfunded liability of the System...

Recommendations provided by the Special Commission will now be carefully analyzed to present a comprehensive legislation next year:



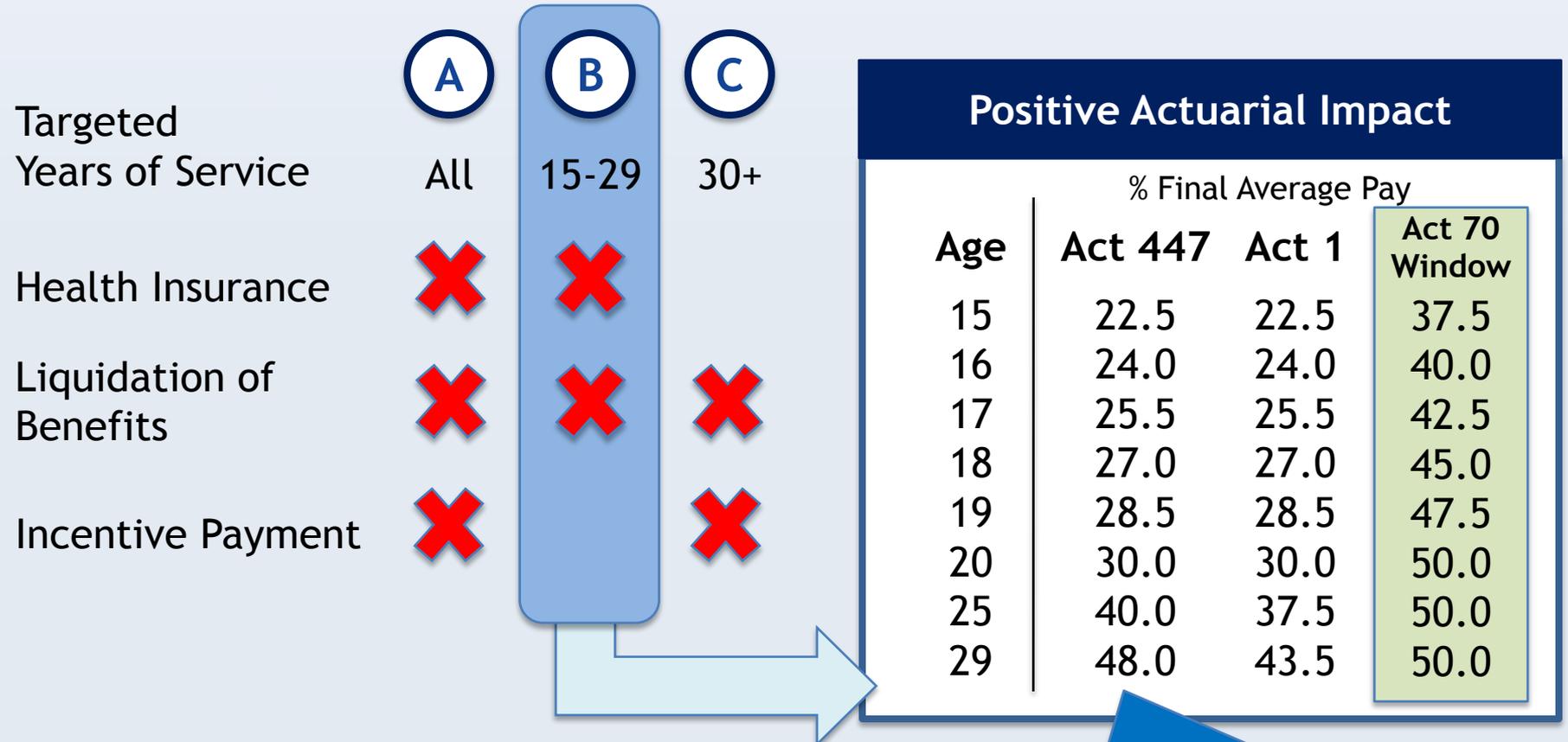
Miguel Romero, Esq.
Secretary of the Labor

Task force will evaluate the following:

- Additional employer contribution needed to reach ARC and gradually improve funding ratio
- Impact of special laws
- Impact of personal loans portfolio's impact on system cash flows



We have enacted a voluntary program to reduce government expenses and improve actuarial position, incentivizing early retirements that will provide a positive actuarial impact through Act 70 of 2010...



This employees would otherwise retire with 75% final average pay



Act 70 of 2010 provides a twofold positive impact on the System...

Employees adopting retirement incentives as of October 31, 2010:
(window will be extended through the month of November)

1,702

Act 70 of 2010

Positions affected
by Act 70 will be
eliminated

1

Employees voluntarily adopting the programs will retire with a lower pension rate than the 75% they would have received if they awaited to achieve 30 years of service

2

Opting for early retirement, retirees will be paid a pension rate based on a potentially lower salary than otherwise vested if they achieve 30 years of service



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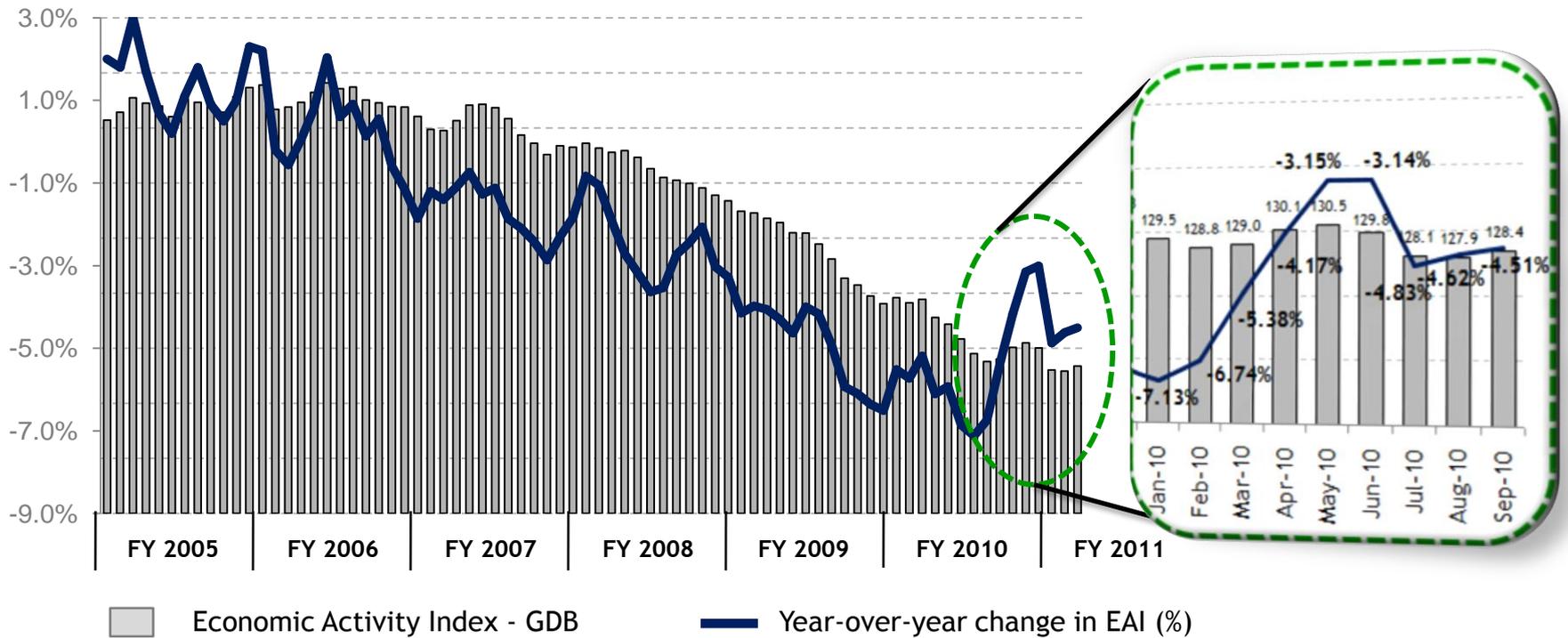
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Concluding Remarks



Economic Activity Index is reflecting improving economic trends...

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

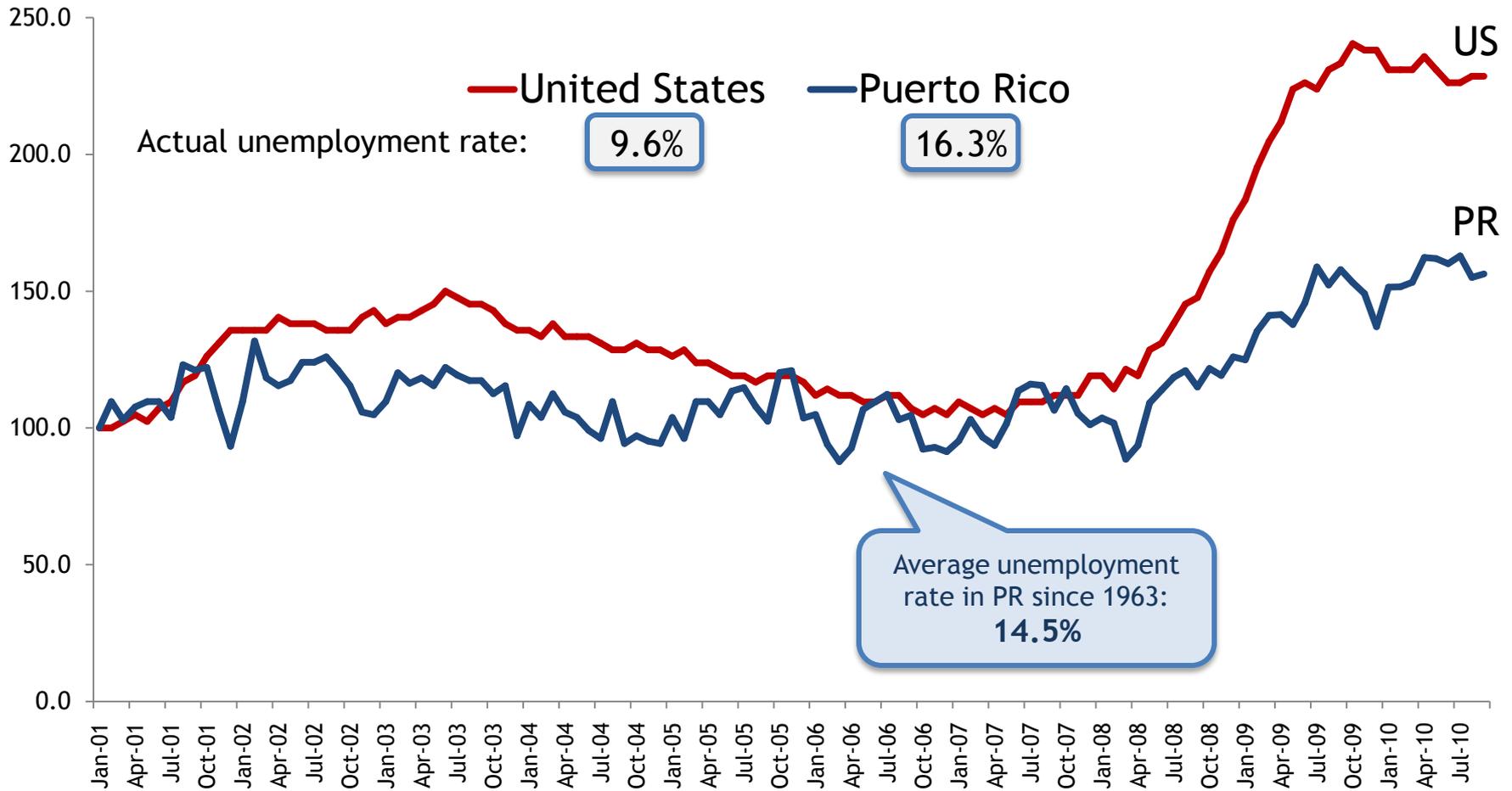


Recent months improvement in EAI has not been seen since April 2008



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

Unemployment Rate Index: United States vs. Puerto Rico





Our Reconstruction Plan continues to succeed with private sector employment showing the most favorable growth since September 2007

Private Sector Employment (Year-over-year Change in Payroll Employment)

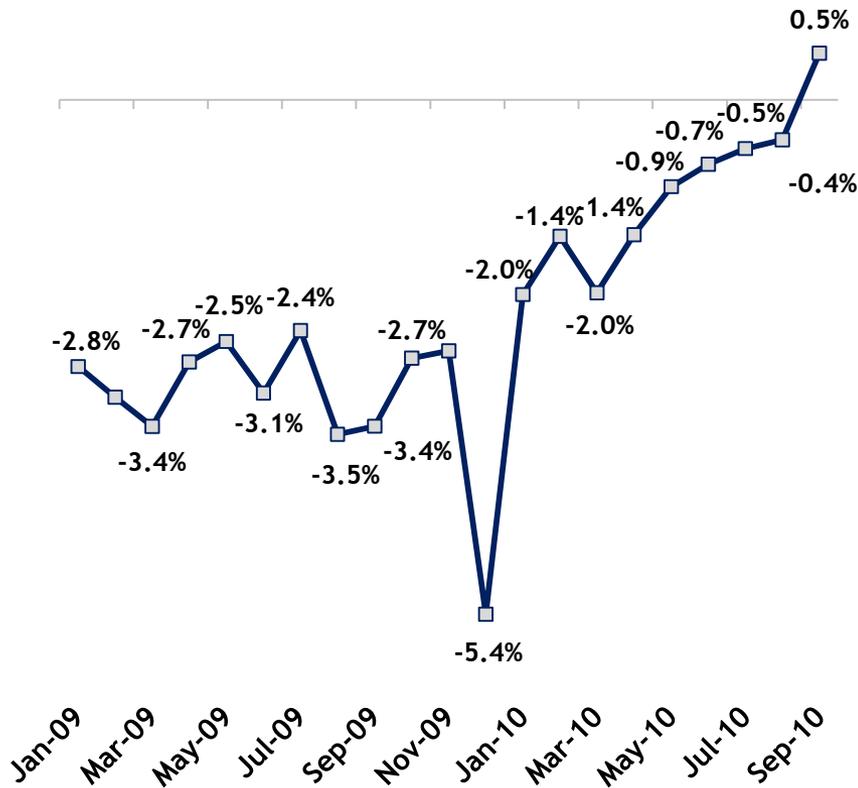




Service and financial sector employment are showing recent marked improvement

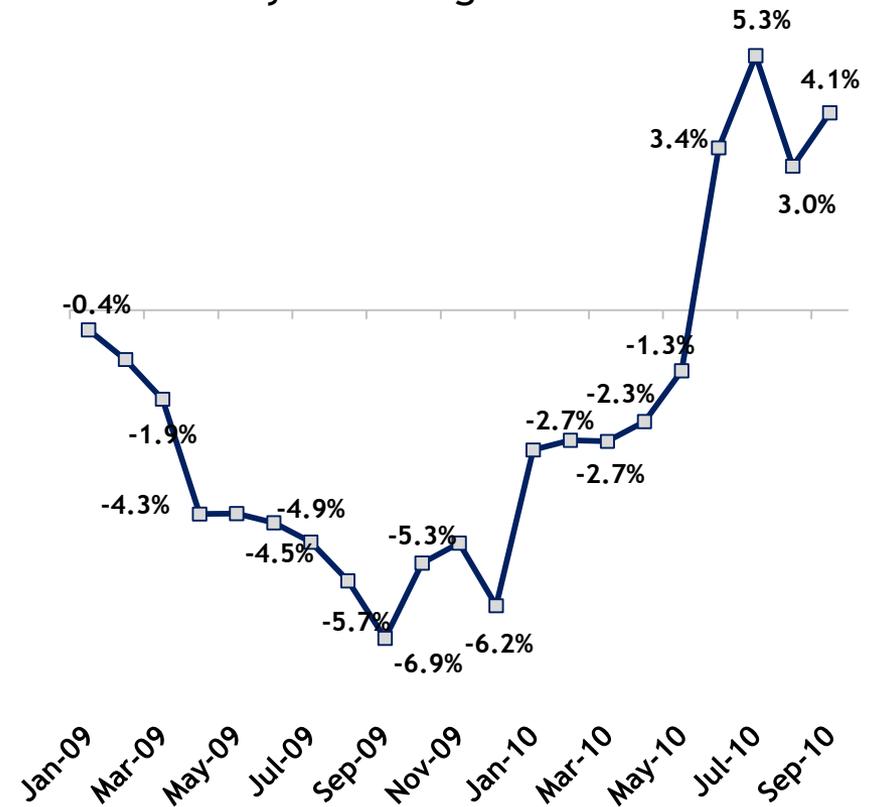
Service Sector Employment

% Year-over-year change



Financial, Insurance and Real Estate Sector Employment

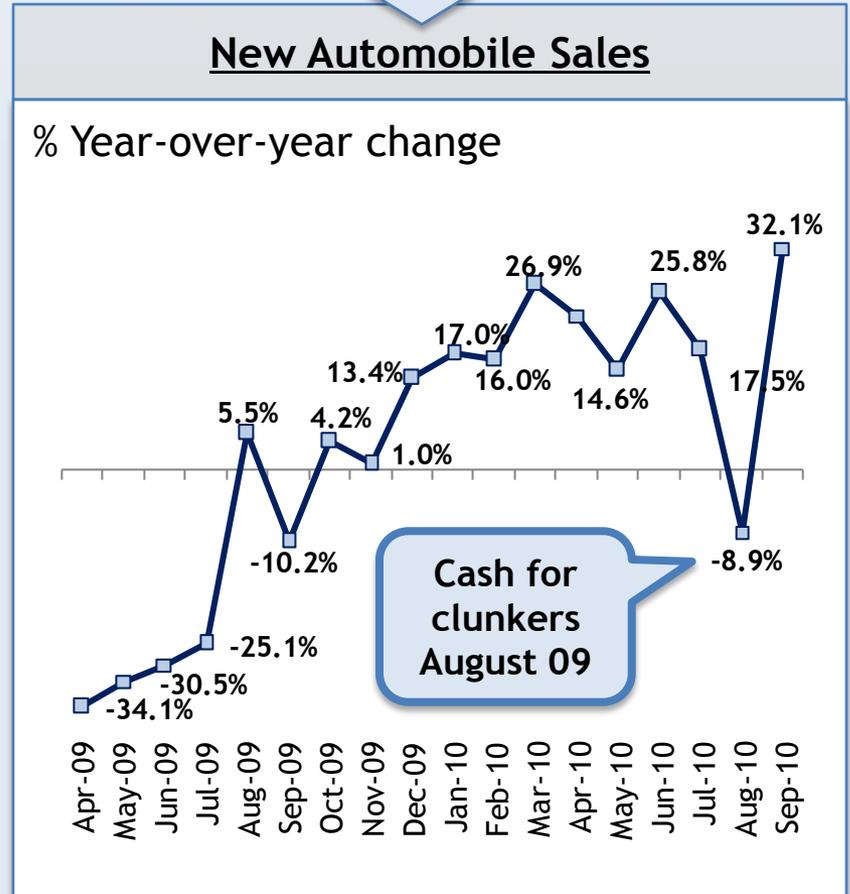
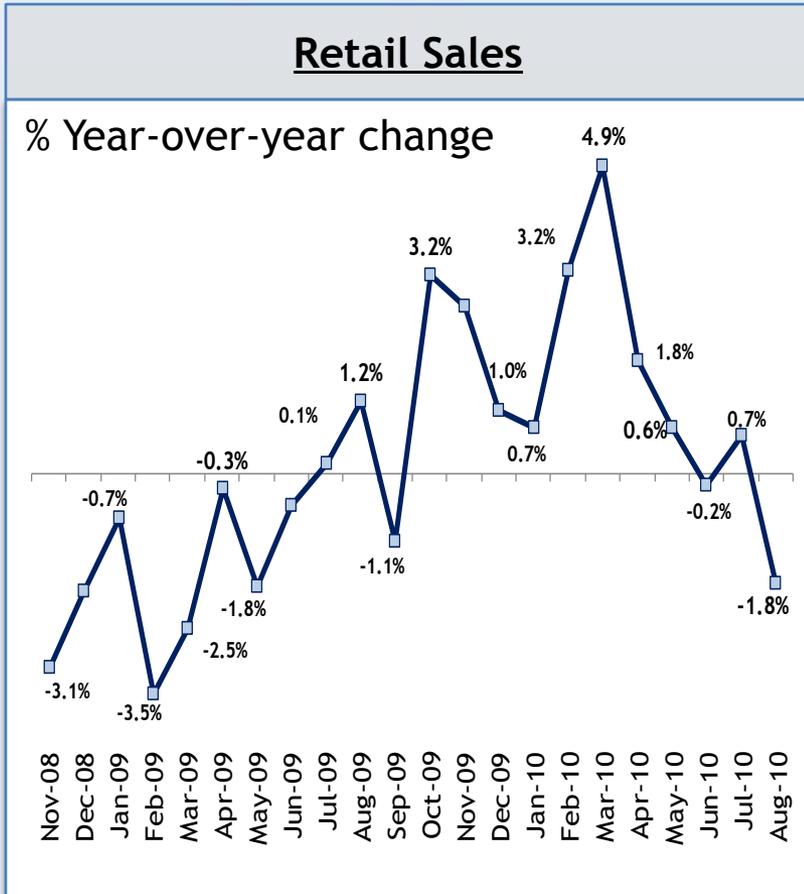
% Year-over-year change





Consumption indicators are also improving...

New automobile sales during the month of September 2010 registered a 32.1% increase on a year-over-year basis

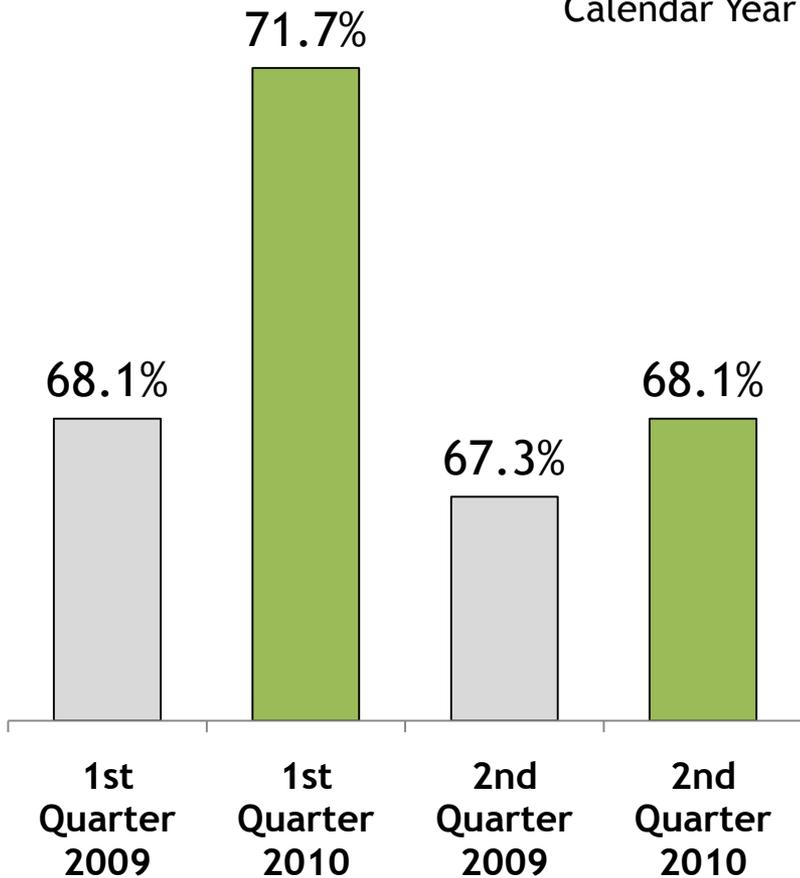




Occupancy rates and total hotel registrations are increasing consistently during 2010

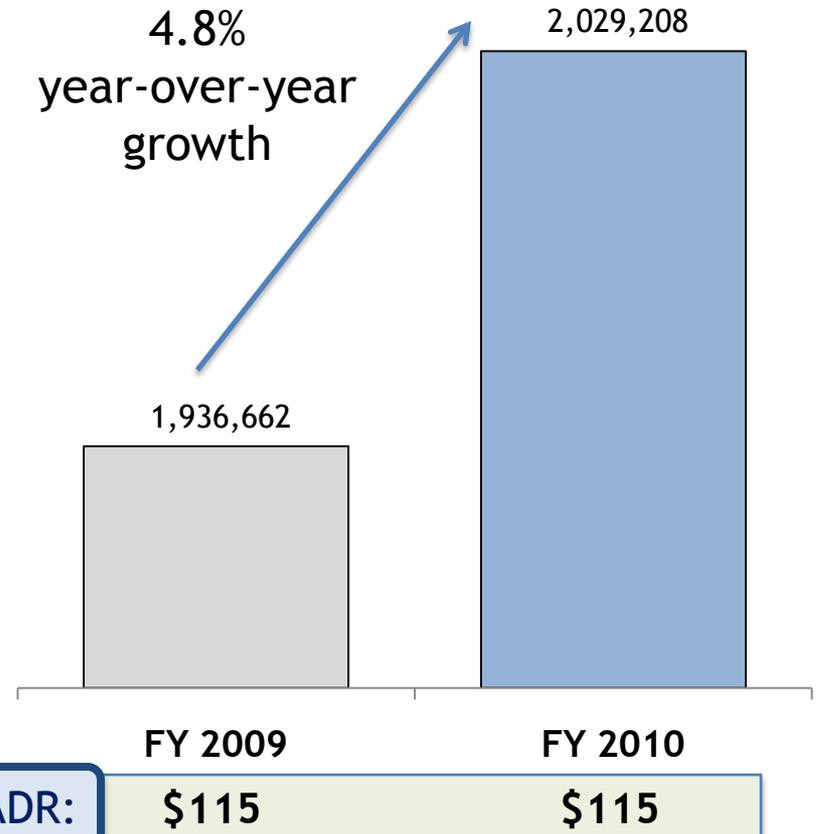
Hotels Occupancy Rates

Calendar Year



Total Hotel Registrations

4.8%
year-over-year
growth

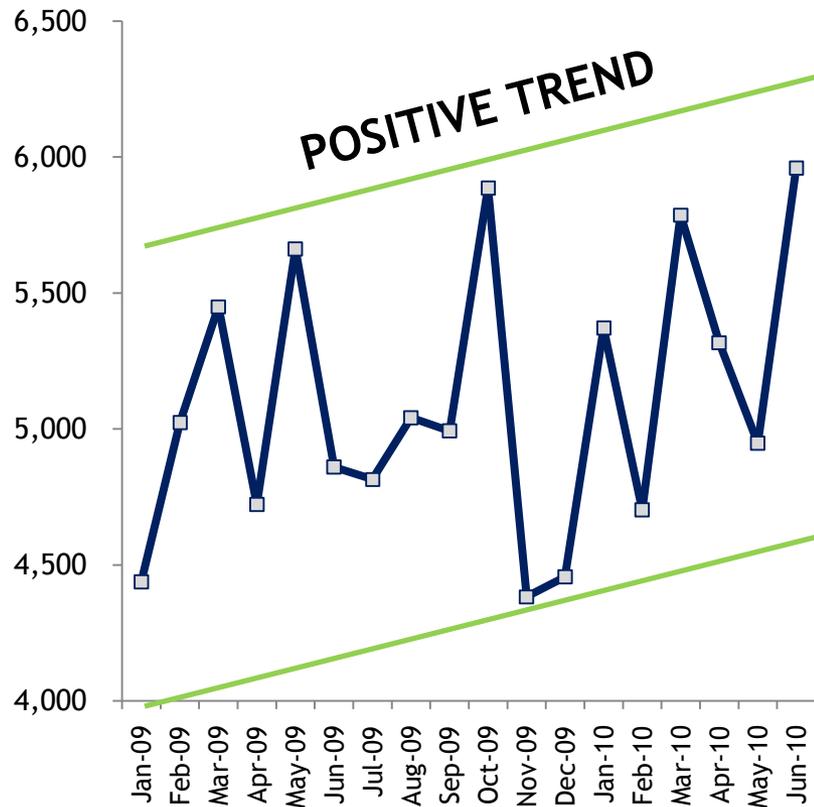




Exports are reflecting a positive movement on a year-over-year basis

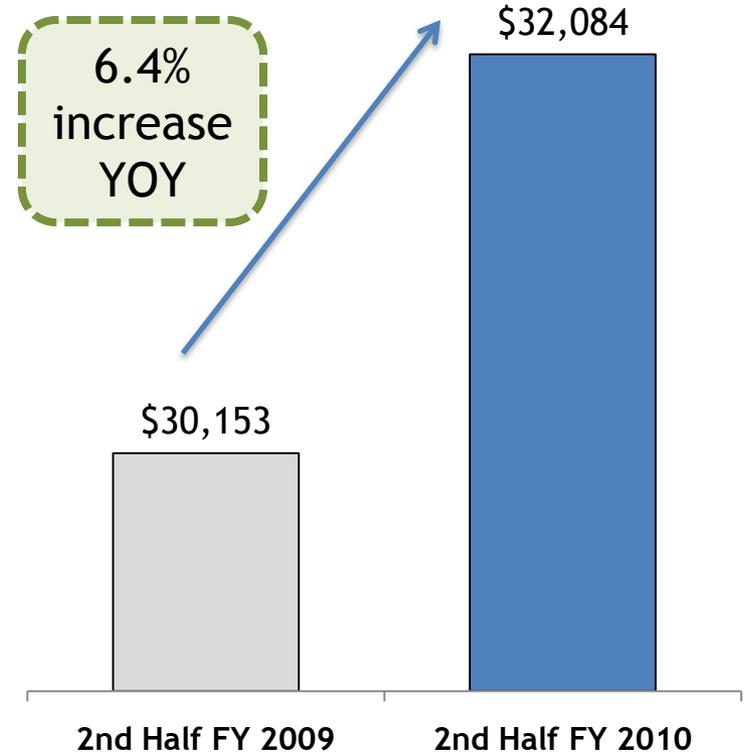
Exports: 2nd Half FY 2010

(in \$ millions)



Exports: Year-over-year comparison

(in thousands)





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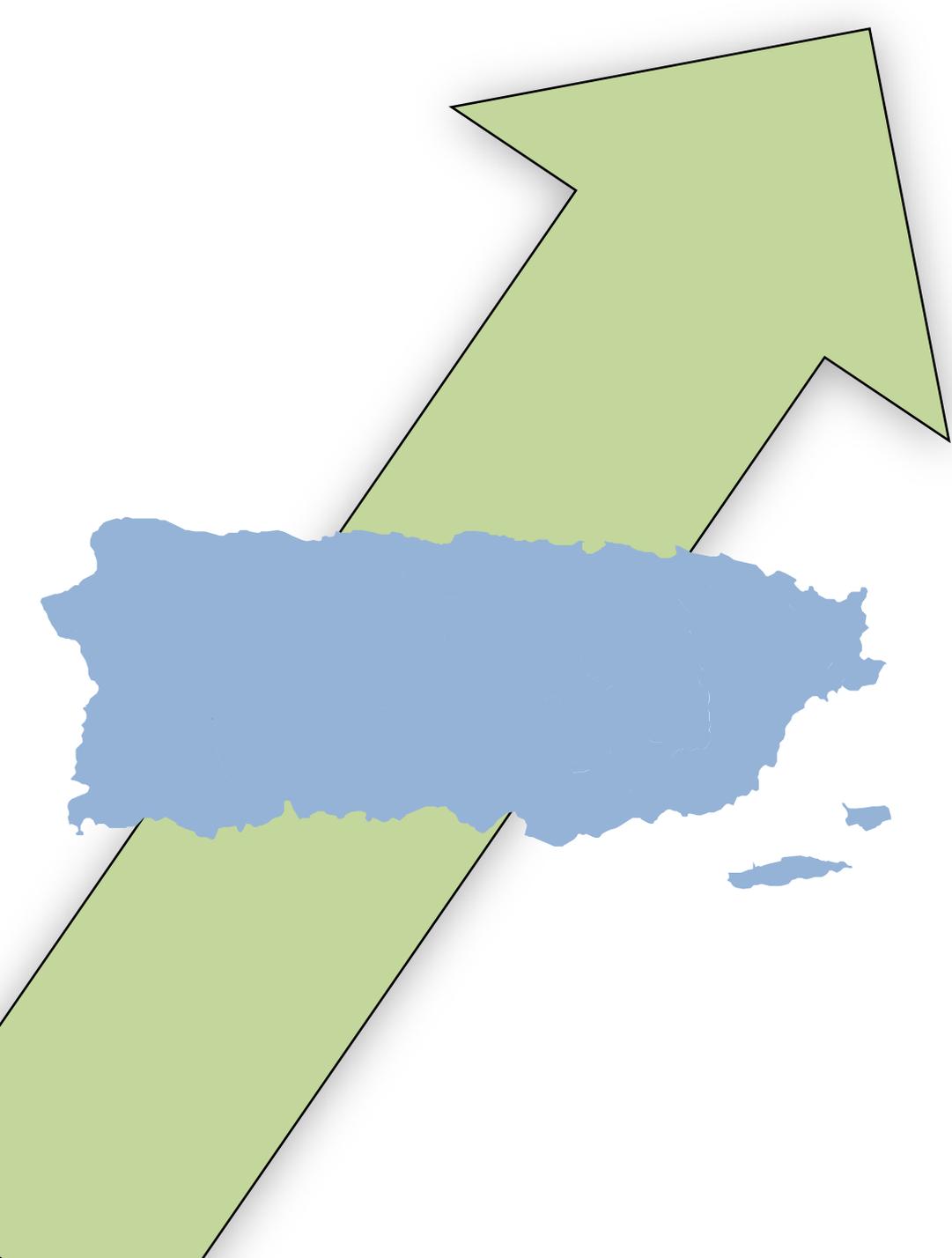
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WE ARE REBUILDING
PUERTO RICO'S
ECONOMIC STRUCTURE
THROUGH KEY REFORMS

Act 161 of 2009

PERMITS
REFORM

COMPLEX
PERMITS
PROCESS

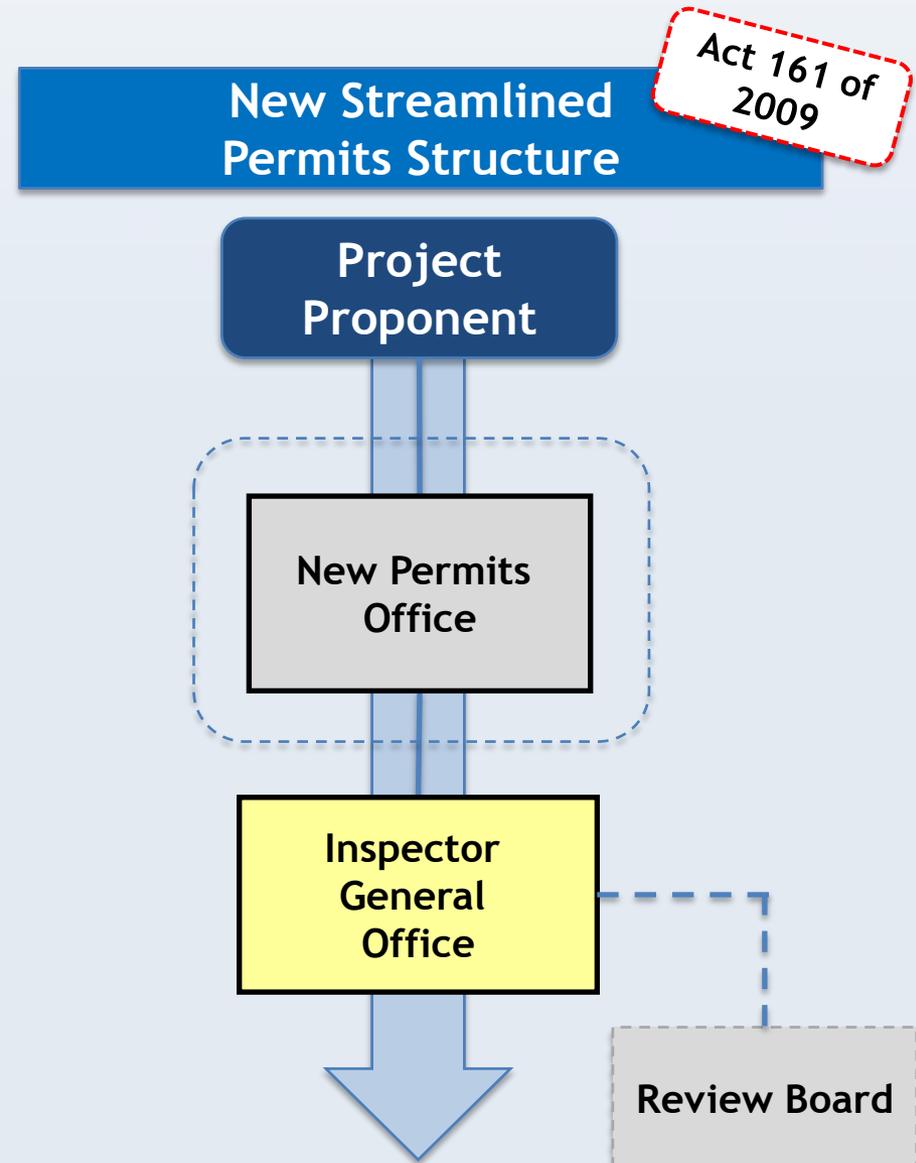
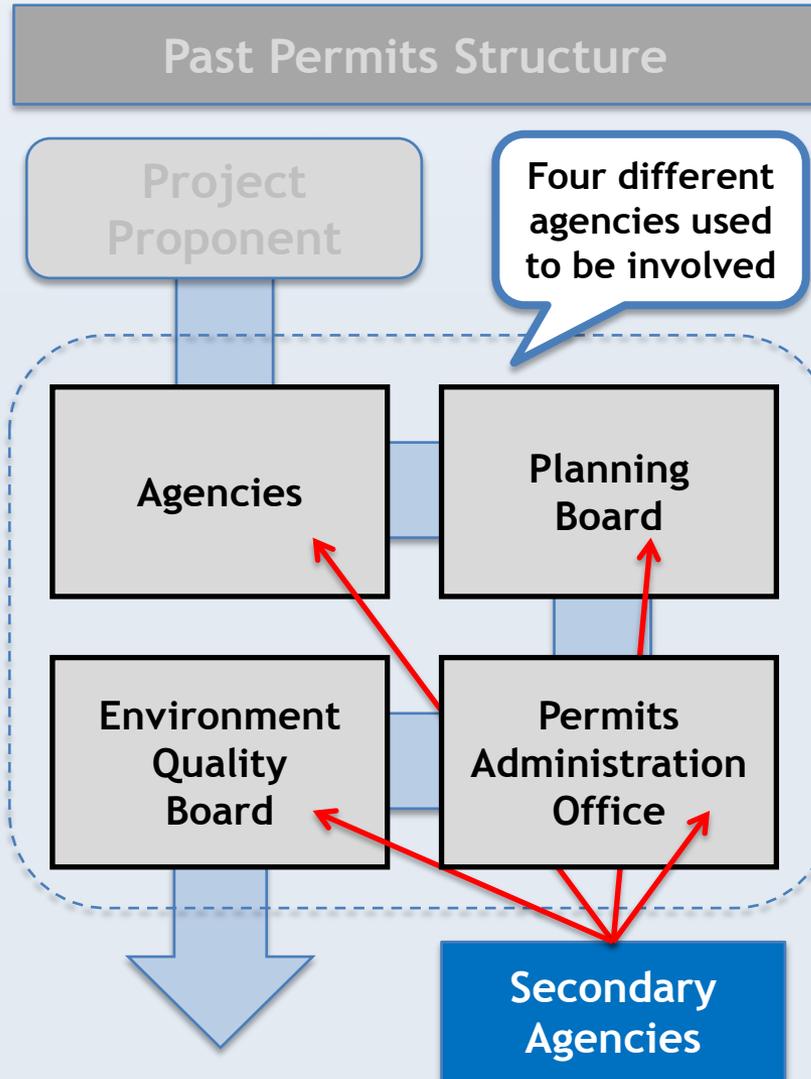


PERMITS REFORM
to streamline permits process
and facilitate business
and job creation





Act 161 provides for a complete overhaul of the permits process, which will be in place by December 1, 2010





MANY
UNINSURED
AND LIMITED
MEDICAL SERVICES



HEALTH REFORM
broadens eligible base and
increase benefits





Local Health Reform will transform actual system into a less complex one with a focus on patients



Highlights:

- New plan will eliminate the need for patients to get approval from their primary physician for every prescription
- No need from primary physician to refer you to a specialist
- Reform will require all health insurance companies to provide 24 hour phone lines for patients to consult health professionals
- Reform will also require all medical groups to have primary physician services at least until 9:00pm
- Insurance companies will be required to pay health providers at least 90% of its billed services no later than 30 days, the remaining 9% no later than 90 days, and the last 1% no later than 1 year

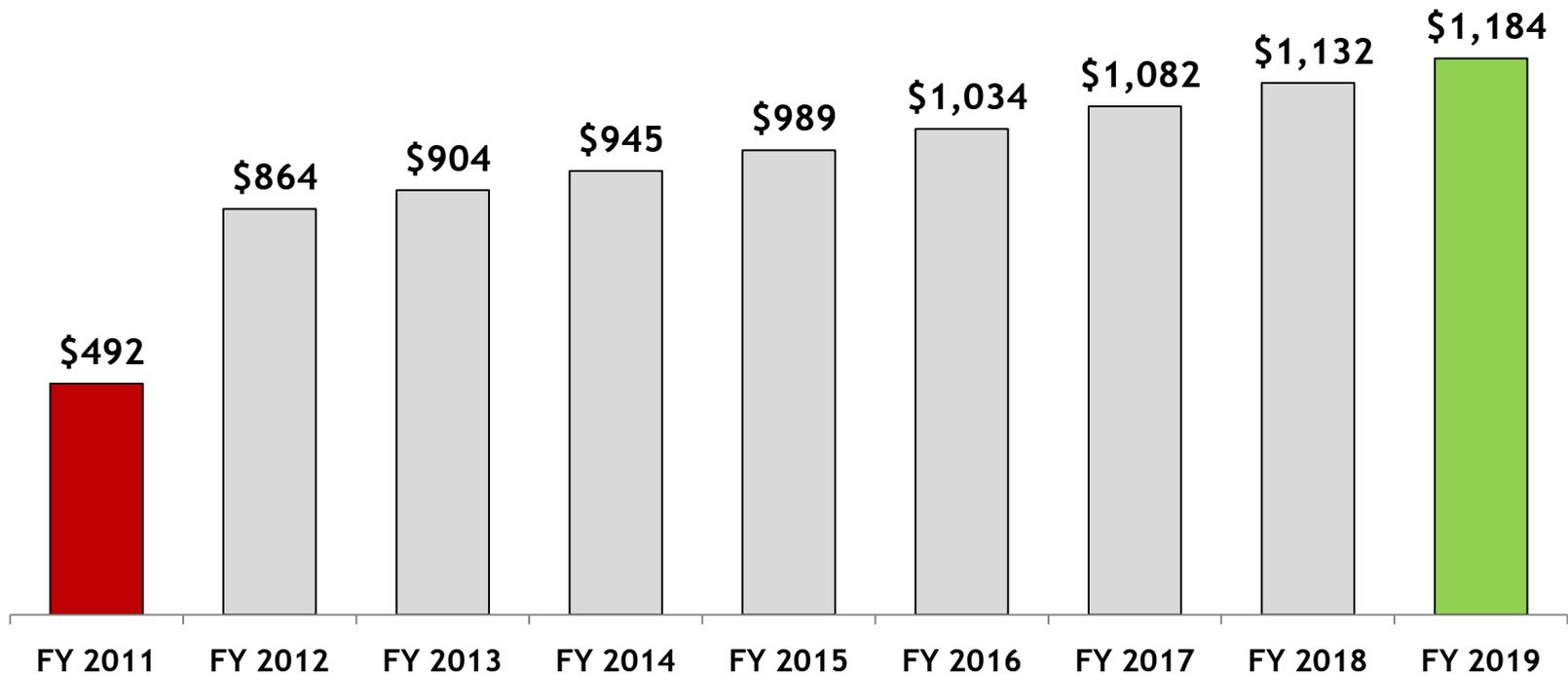


Puerto Rico was successful in securing improved Medicaid funding parity for upcoming years

(in \$ millions)

\$8.6 billion of cumulative incremental Medicaid funding in a 9-year span

Total contributions will increase matching from 22% to approximately 50% funding during FY 2019, still significantly below State average matching of 83%





In addition, we are imposing expense controls and monitoring the Health Department and Health Insurance Administration to ensure budgetary balance

Approved FY 2011 budget is enough to cover projected expenditures

- Weekly oversight of:
 - Financial Reporting
 - Federal Funds Reimbursements

We are focusing on stricter budgetary controls on our Health Department, as it represents a significant portion of our General Fund's budget

Act 82 of 2009

ENERGY REFORM

HIGH
ENERGY
COSTS

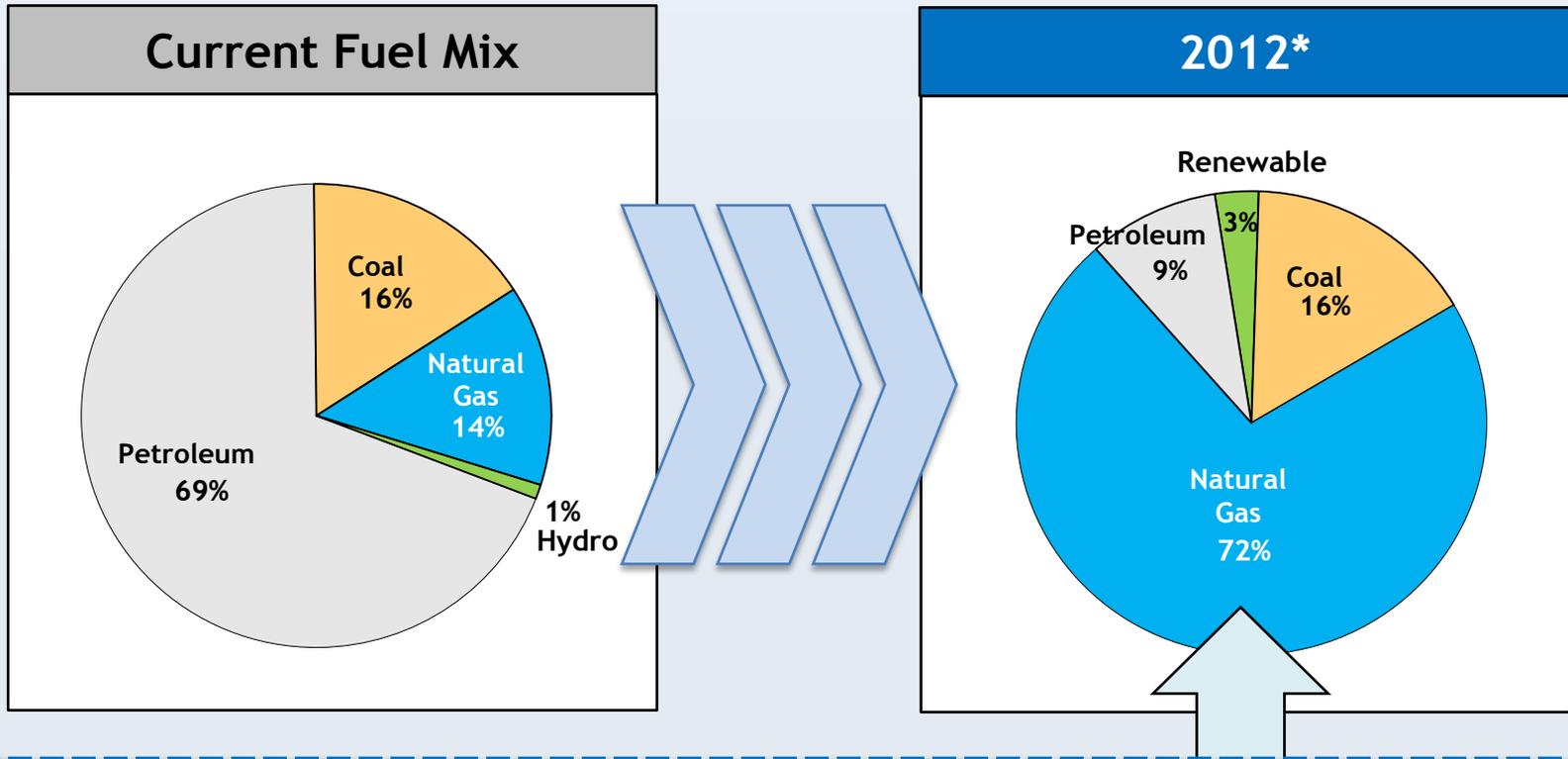


ENERGY REFORM
to reduce dependence on
oil and refocus on cheaper
fuel sources





Energy Reform will implement an aggressive fuel mix diversification to lower energy costs through Public-Private Partnerships and other PREPA initiatives

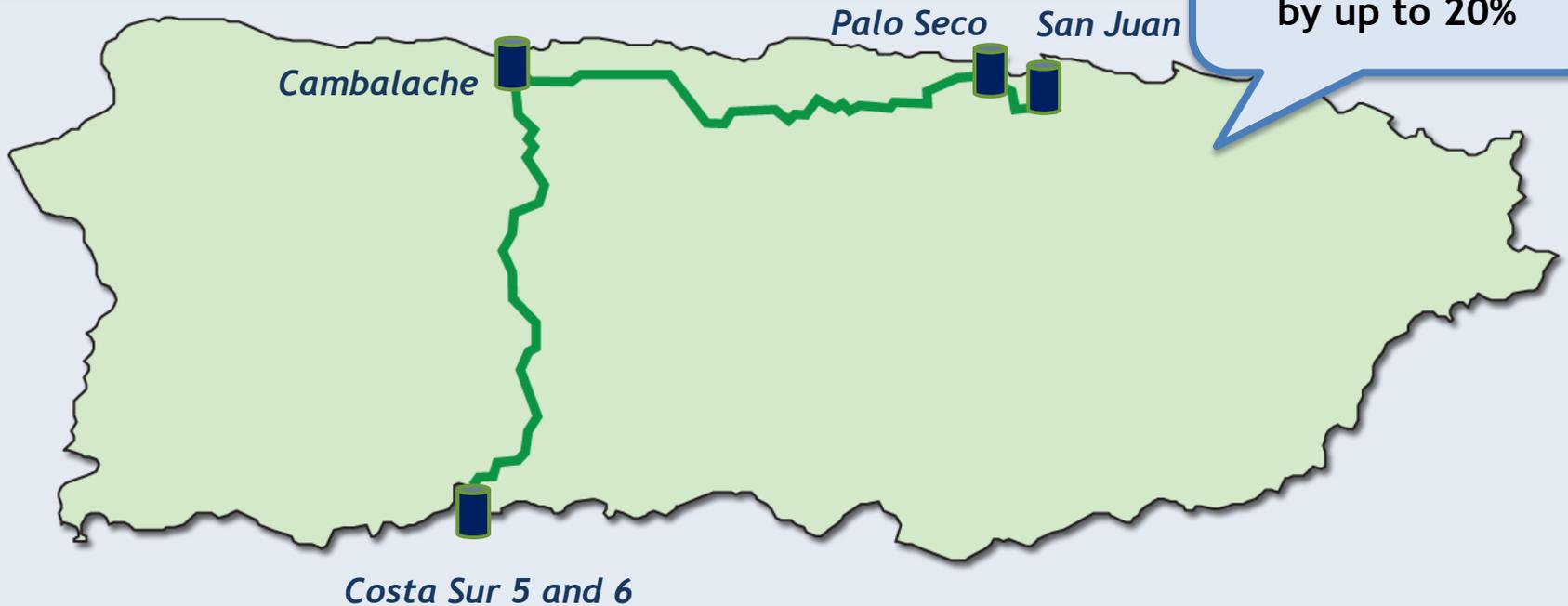


Natural gas prices should remain stable in the long-term while oil prices are projected to triple

* Generation mix as a percentage of forecasted peak load



A multi-phase implementation process will provide supply of natural gas to generation plants in Puerto Rico





The long-term plan traced on our Energy Reform is to leverage Puerto Rico's unique geographic features and further diversify our fuel mix to renewable sources

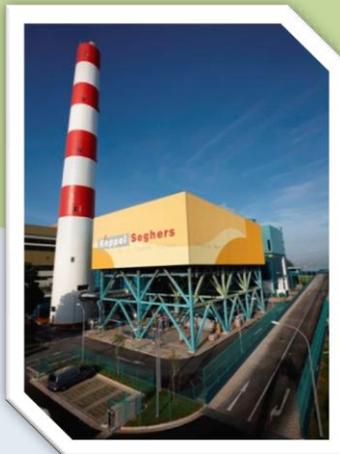
SOLAR



WIND



Over \$1 billion in potential private sector investment



WASTE-TO-ENERGY

Projects under development:

Wind: 170 MW
Solar: 20 MW
WTE: 83 MW

Total: 273 MW

Act 29 of 2009

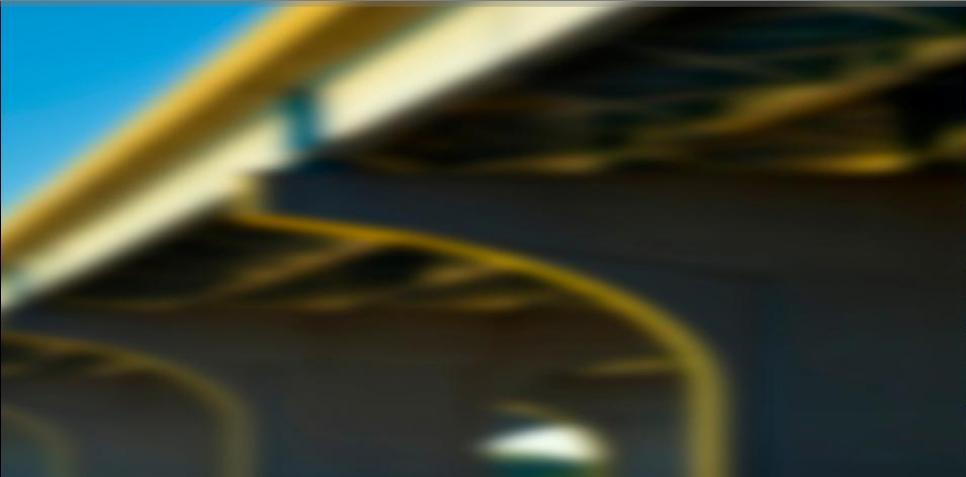


LIMITED
INVESTMENT
CAPACITY



PUBLIC PRIVATE
PARTNERSHIPS

established to enhance and
promote investment in
infrastructure



Schools: Modernization P3 Project

Project Status:

- The first two School Modernization Contracts were awarded in October 2010
- An additional group of 11 schools is already moving through the contract approval process
- 38% out of a total of 53 RFPs have been launched

Construction activity Objective:

- Award all construction contracts by Dec-10 - Feb-11 and begin construction of initial schools in late 2010
- 60 out of 100 schools expected to be awarded by Q1 2011
- Widespread construction projects representing over \$700 million investment

Financing:

- QSCBs issuance expected in 2011

First Schools Awarded

Basilio Milán School, Toa Baja



Rafael Cordero School, Cataño

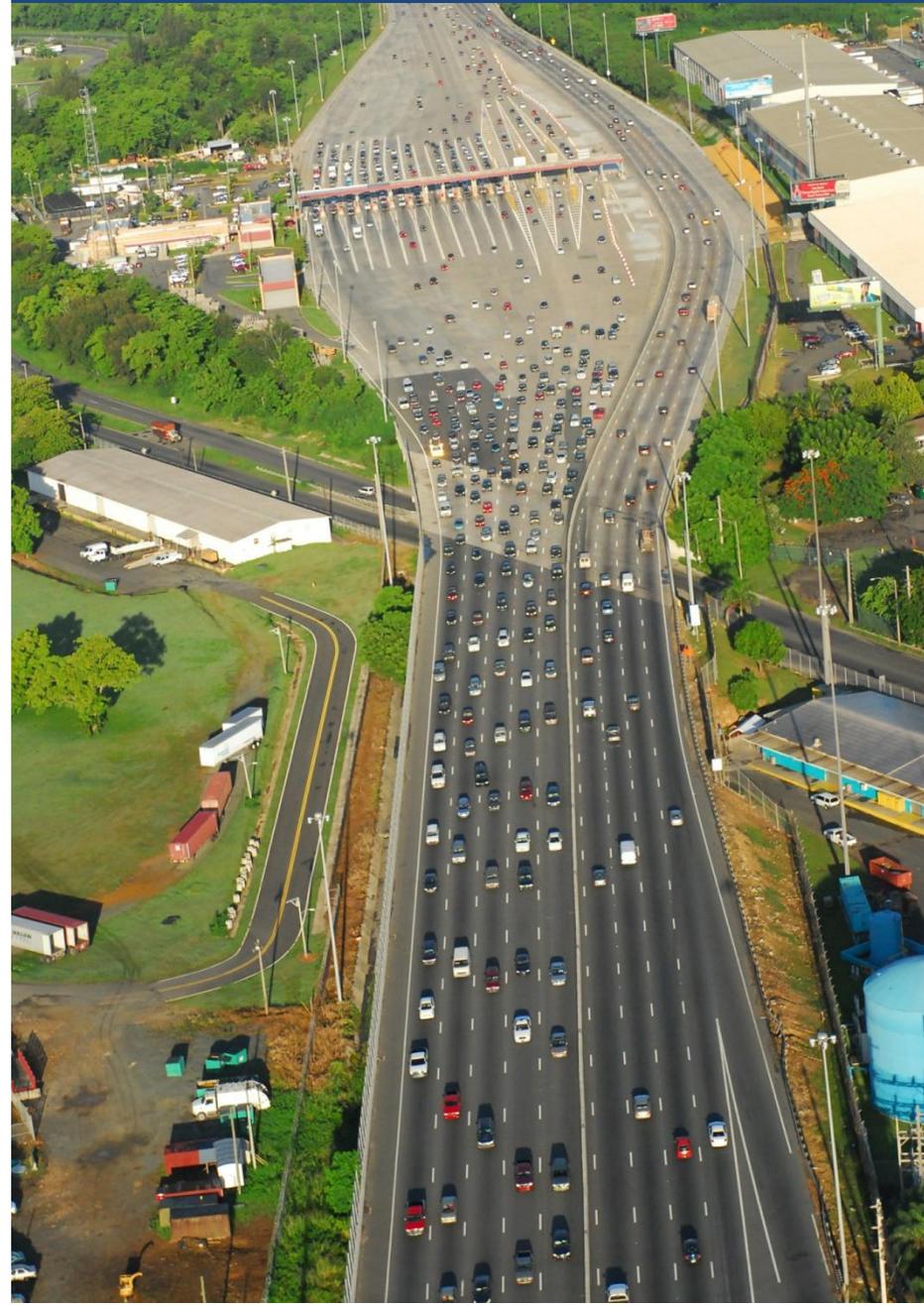


Toll Roads:

PR-22 & PR-5 Project Update

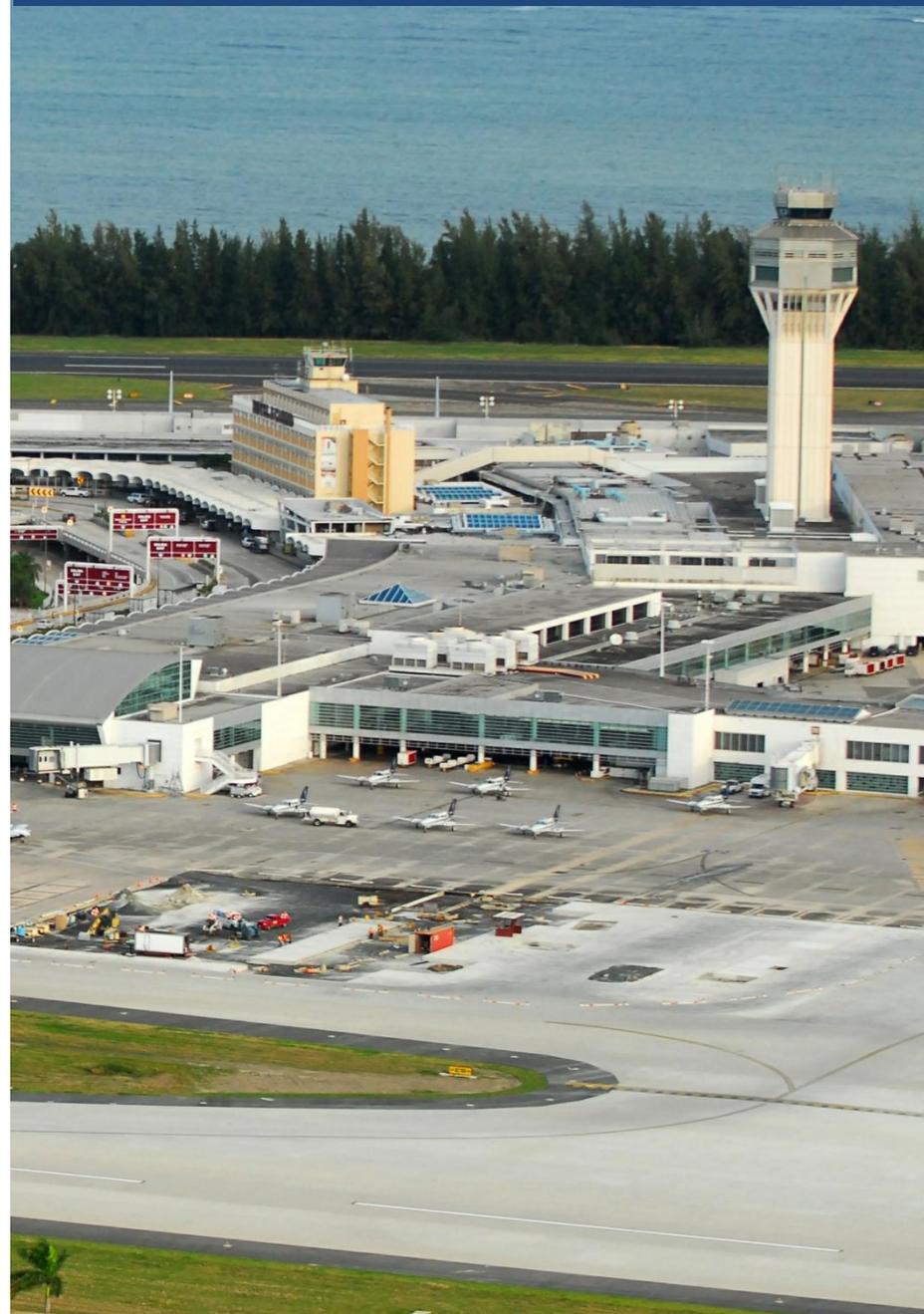
Project Status:	<ul style="list-style-type: none">• Completing final revisions to RFP and Concession Agreement draft• Bond defeasance analysis has been completed
RFP Target Date:	<ul style="list-style-type: none">• RFP and draft Concession Agreement expected to be released in November
1 st Bidders Meeting:	<ul style="list-style-type: none">• December 2010 before Christmas break (tentative)
Shortlist Status:	<p>4 shortlisted bidders:</p> <ul style="list-style-type: none">• Abertis & Goldman Sachs• Citi & Itinere Infraestructuras• CCR• Morgan Stanley & OHL

Toll Road PR-22



Airport: Full Concession of SJU

Project Status:	<ul style="list-style-type: none">• Completing cycle of meetings with airlines in order to achieve 65% approval required by FAA• FAA has continuously received updates and have been supportive of the process
RFQ Target Date:	<ul style="list-style-type: none">• To follow quickly after achieving 65% approval from airlines
Project Goals:	<ul style="list-style-type: none">• Enhance traveler experience• Infrastructure improvements• Fiscal strengthening of PRPA
Market Interest:	<ul style="list-style-type: none">• Market interest has been strong



Filed
October 2010

TAX
REFORM

OVER TAXED
POPULATION



PRO-GROWTH
TAX REFORM

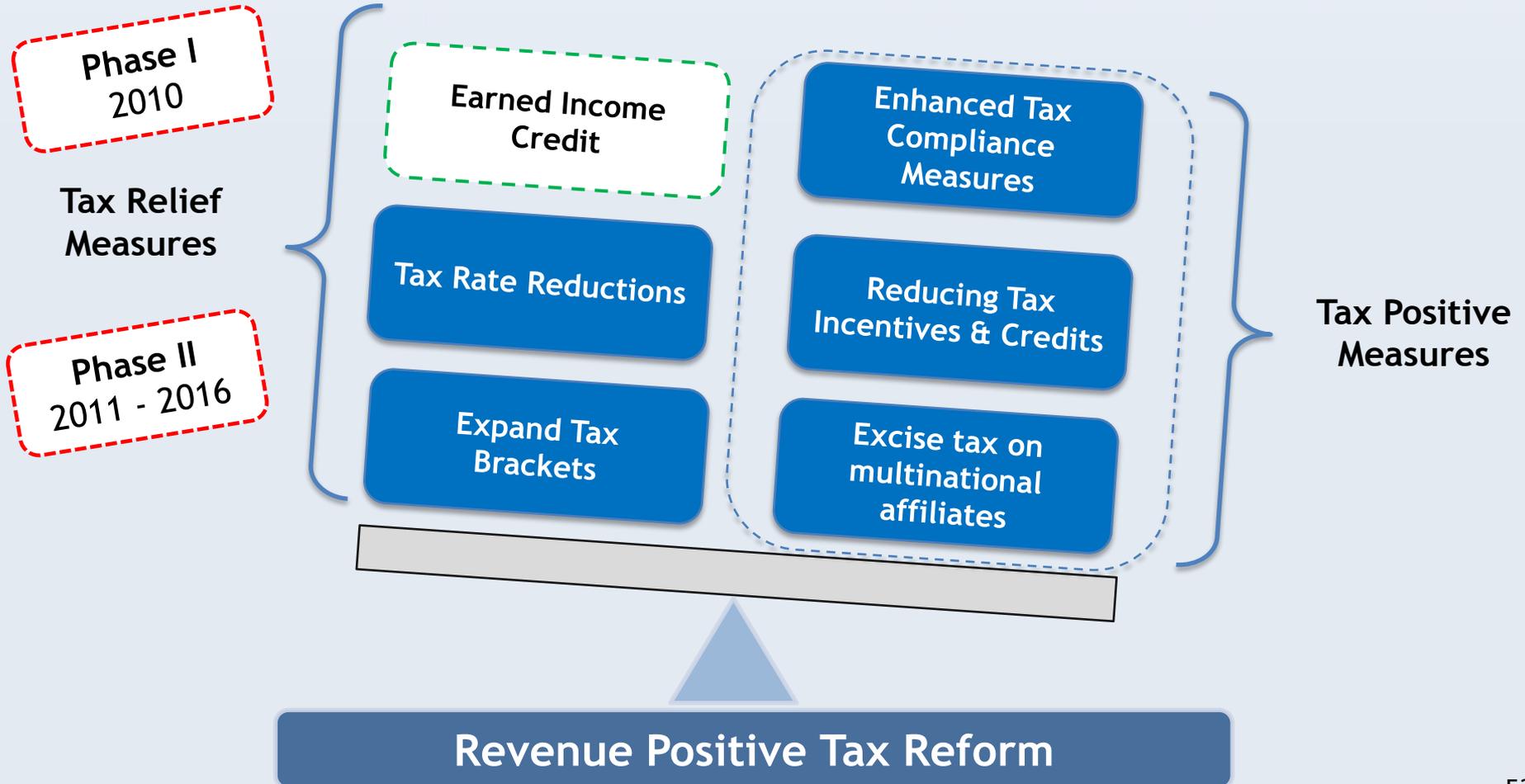
to alleviate tax burden on
corporations and individuals and
reinforce tax compliance





Implementation will occur in phases and in complete synchronization with our plan to balance the budget by FY 2013

GOAL: STIMULATE ECONOMIC GROWTH AND CREATE NEW JOBS





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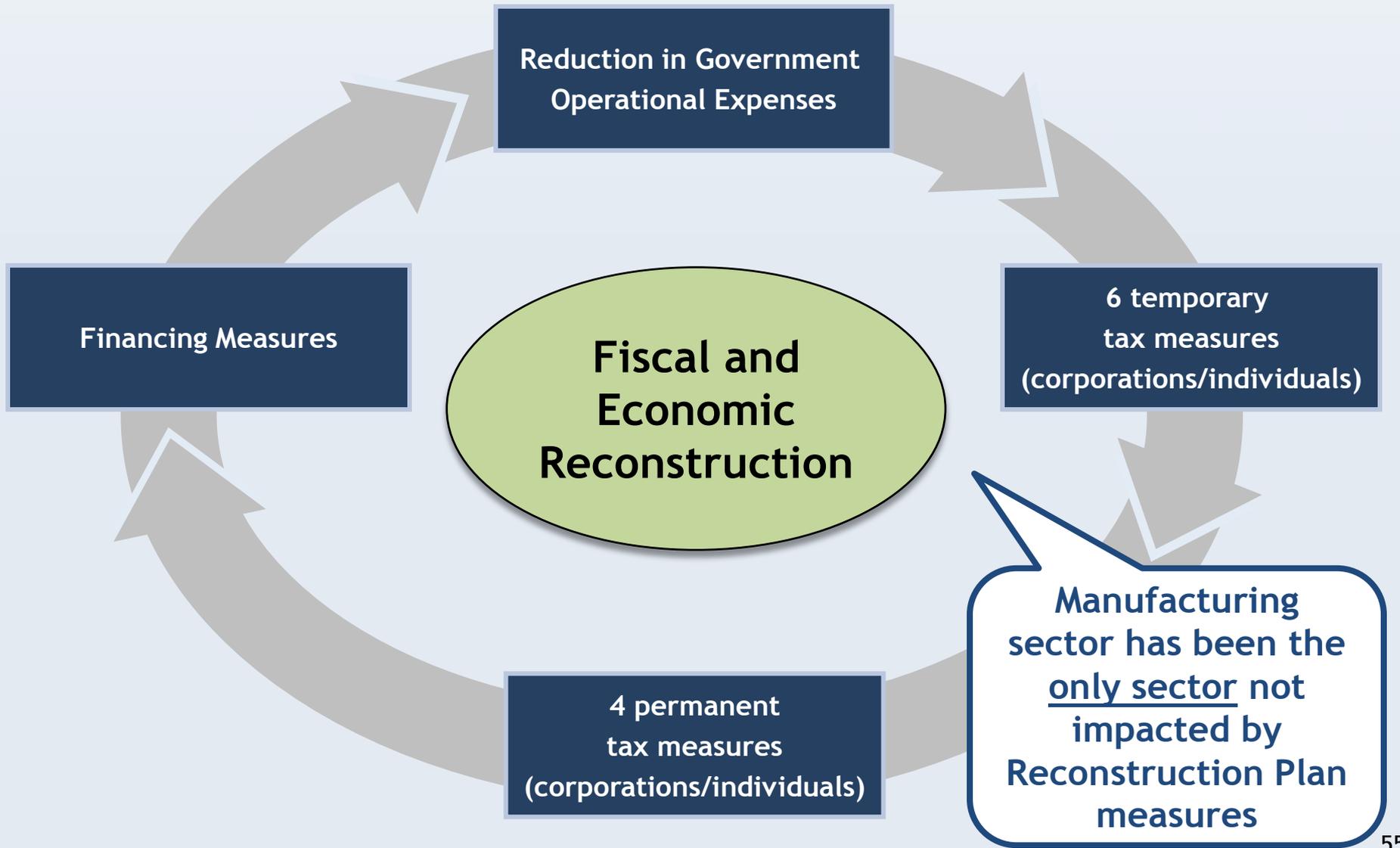
An Economy in Transition

7

Concluding Remarks



All sectors, corporations and individuals, have already contributed to the fiscal and economic reconstruction measures taken to safeguard the future of Puerto Rico...





We need the manufacturing sector to contribute in order to implement the final pillar of our KEY REFORMS

A Source Income Rule was established to determine an adequate amount of the income derived from multinationals that should be allocated to Puerto Rico



How does the Source Income Rule work?

In order for the Source Income Rule to apply, the following requirements must be met:

- 1) Manufacturer and distributor are part of the same controlled group (50% ownership or more)
- 2) Distributor purchases 10% of its products from the manufacturer or the manufacturer sells 10% of its products to the distributor



Components to calculate the tax:

- 1) Payroll
- 2) Property
- 3) Sales
- 4) Purchases

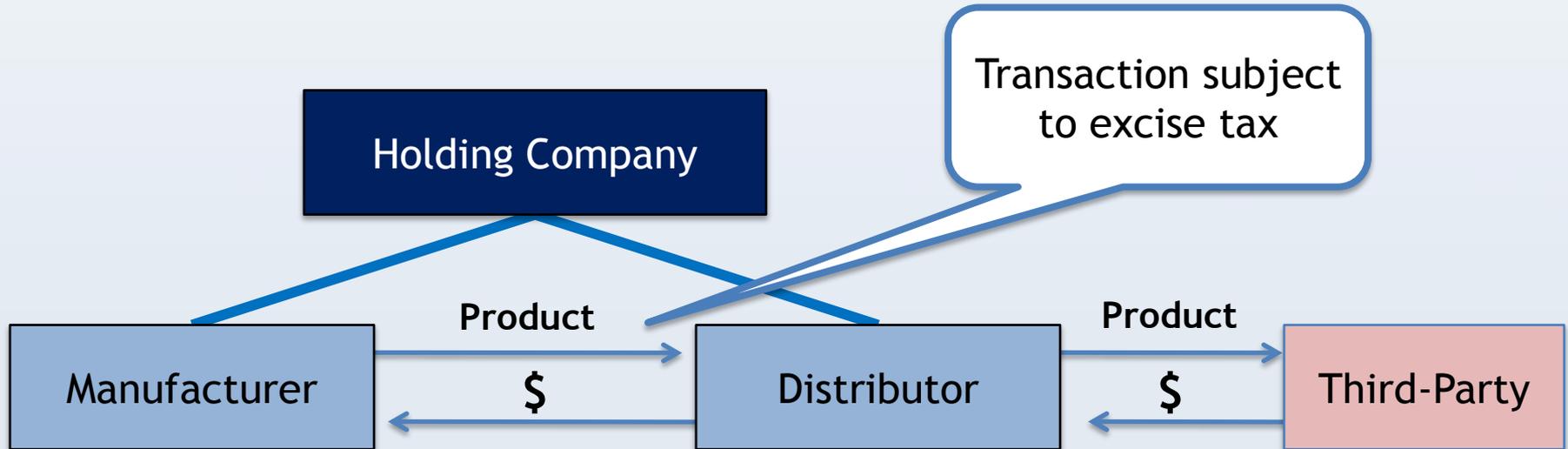
In order not to impose any undue burden, the distributor may negotiate with the Treasury Department its income allocation



Temporary Excise Tax



How does this temporary excise tax structure work?



To be subject to temporary excise tax, the following requirements must be met:

- 1 Manufacturer must have more than \$75 million in gross receipts for any of the preceding 3 years
- 2 Manufacturer and distributor are part of the same controlled group (50% ownership or more)
- 3 Distributor purchases 10% of its products from the manufacturer or the manufacturer sells 10% of its products to the distributor



Excise tax is temporary and it is reduced gradually each year



Excise tax is eliminated after tax year 2016



We have developed a fiscally responsible, revenue positive Tax Reform focused on four objectives to spur economic growth:

1 >

Tax relief for individuals and corporations

2 >

Economic development and JOB CREATION

3 >

Simplification of tax system in Puerto Rico

4 >

Reducing tax evasion



CORPORATIONS



Reduction of maximum corporate tax rate to 30% to promote investment and job creation

2011

ACTUAL

Maximum Rate:

41%

Tax Reform

Maximum Rate:

30%



Reduction of additional tax to further promote capital investment...

We will reduce additional tax in order to reduce burden on businesses and promote investment and job creation:



ACTUAL		
Additional tax based on net income subject to taxation		
FROM	TO	Marginal Tax
0	100,000	25%
100,001	150,000	35%
150,001	200,000	36%
200,001	250,000	37%
250,001	300,000	38%
300,000	-	39%
Gradual adjustment over \$500,000		41%

REFORM		
Additional tax based on net income subject to taxation		
FROM	TO	Marginal Tax
0	750,000	20%
750,001	2,500,000	25%
2,500,001	-	30%
No gradual adjustment		

Extension of carryover period for net operating losses (NOLs)

2010

Extend carryover period to deduct operating losses incurred during the years 2005-2011 to 10 years

Current Law

Current law provides for a carryover period of 7 years

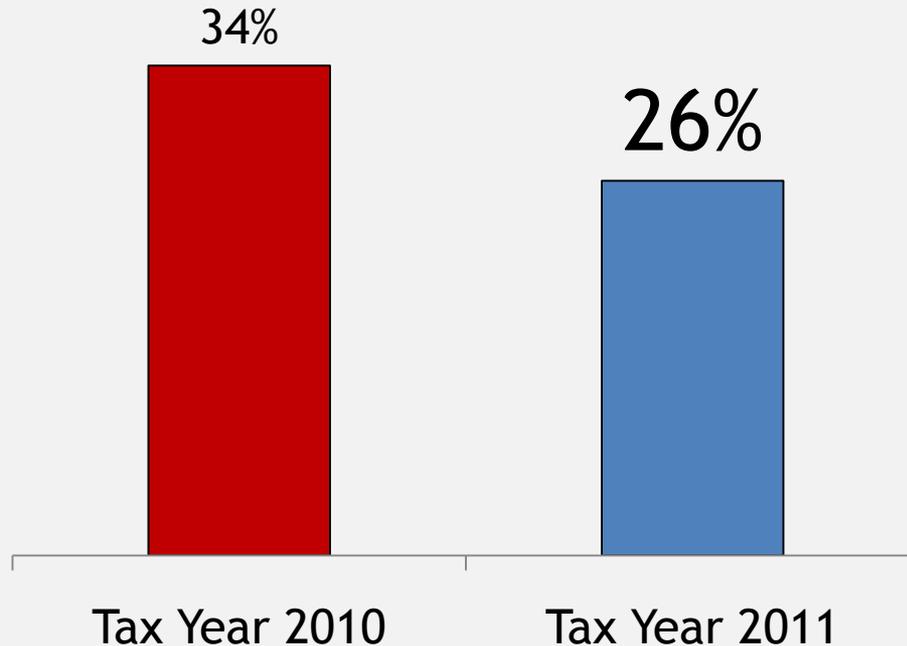
- Taxpayers will be able to reduce their tax liability through a deduction of operating losses for a period of 10 years
- This way, many corporations that have been affected as a result of the economic recession will benefit



Effective tax income for corporations in Puerto Rico will be reduced to 26% after 2011

Effective Tax Rate - Corporations

Pro-growth tax reform will transform Puerto Rico into a competitive location to conduct business





This Reform will significantly improve Puerto Rico's competitiveness...





INDIVIDUALS



We have designed a tax structure that incentivizes people to work..

This table depicts average percent savings compared to taxes paid in year 2008:

		Average tax relief for EVERYONE...						
Gross Income	2010	2011	2012	2013	2014	2015	2016	
\$0 - \$10,000	Do not pay taxes and receive reimbursement from work income credit							
\$10,000 - \$20,000	24%	166%	179%	191%	201%	215%	229%	
\$20,000 - \$30,000	14%	71%	72%	74%	80%	106%	114%	
\$30,000 - \$40,000	14%	36%	33%	36%	45%	69%	74%	
\$40,000 - \$50,000	10%	26%	27%	32%	38%	54%	55%	
\$50,000 - \$75,000	10%	24%	25%	28%	31%	42%	46%	
\$75,000 - \$100,000	9%	19%	21%	22%	25%	32%	42%	
\$100,000 - \$200,000	7%	12%	17%	18%	20%	24%	35%	
\$200,000 +	7%	2%	5%	7%	8%	11%	22%	
Average Savings	11%	25%	27%	29%	32%	40%	49%	

 Receive work income credit



We will expand the tax brackets and reduce tax rates gradually until achieving our programmatic goal

2011		
Net Income Brackets subject to tax		Marginal Tax
-	\$5,000	0%
5,001	22,000	7%
22,001	40,000	14%
40,001	60,000	25%
60,001	-	33%
Gradual adjustment over		\$100,000

2012		
Net Income Brackets subject to tax		Marginal Tax
-	\$6,500	0%
6,501	23,000	7%
23,001	42,000	14%
42,001	62,000	25%
62,001	-	33%
Gradual adjustment over		\$200,000

2013		
Net Income Brackets subject to tax		Marginal Tax
-	\$9,000	0%
9,001	25,000	7%
25,001	43,000	14%
43,001	63,000	25%
63,001	-	33%
Gradual adjustment over		\$300,000

2014		
Net Income Brackets subject to tax		Marginal Tax
-	\$12,000	0%
12,001	27,000	7%
27,001	45,000	14%
45,001	65,000	25%
65,001	-	33%
Gradual adjustment over		\$500,000

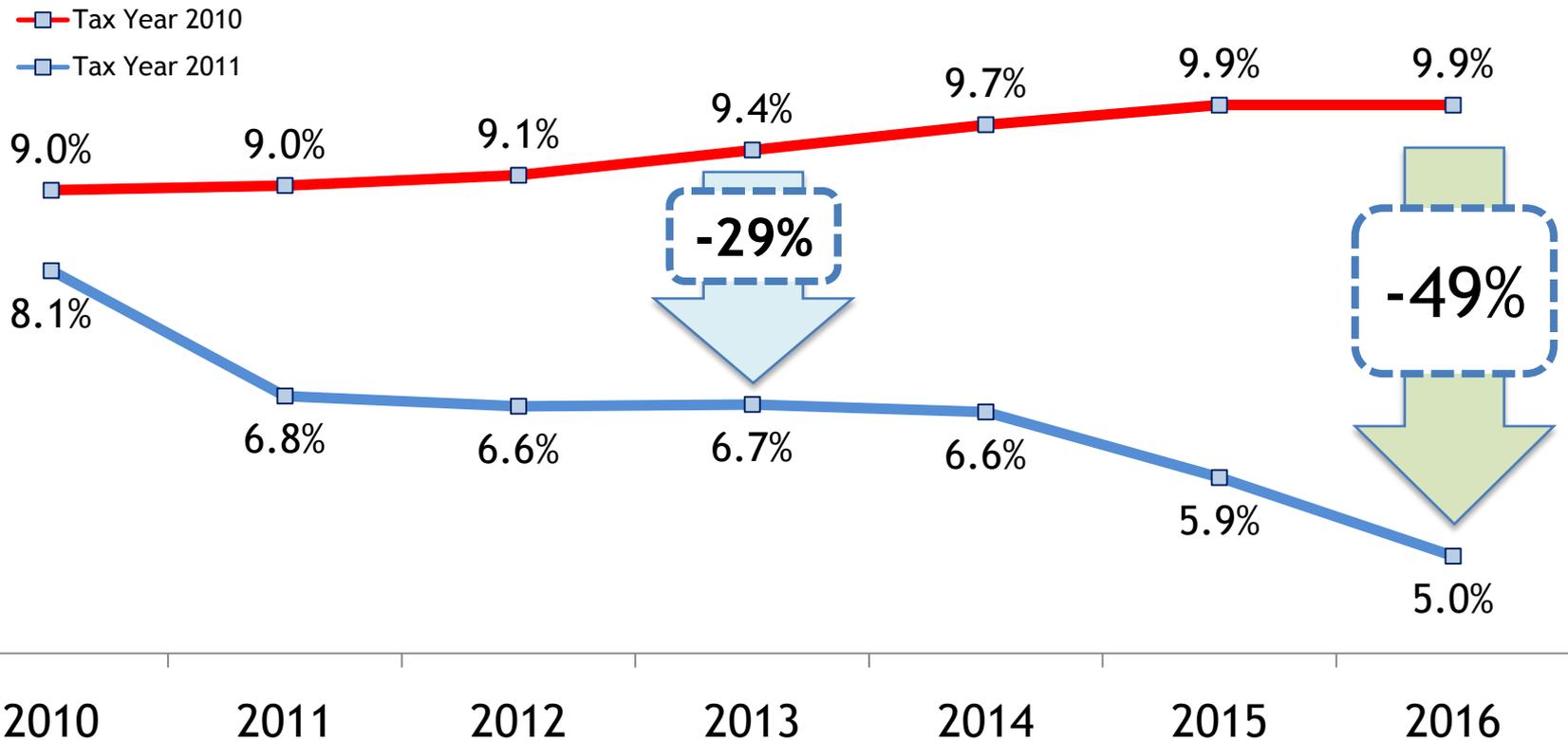
2015		
Net Income Brackets subject to tax		Marginal Tax
-	\$18,000	0%
18,001	30,000	7%
30,001	50,000	14%
50,001	70,000	25%
70,001	-	33%
No gradual adjustment		-

2016		
Net Income Brackets subject to tax		Marginal Tax
-	\$20,000	0%
20,001	30,000	7%
30,001	70,000	14%
70,001	125,000	25%
125,001	-	30%
No gradual adjustment		-



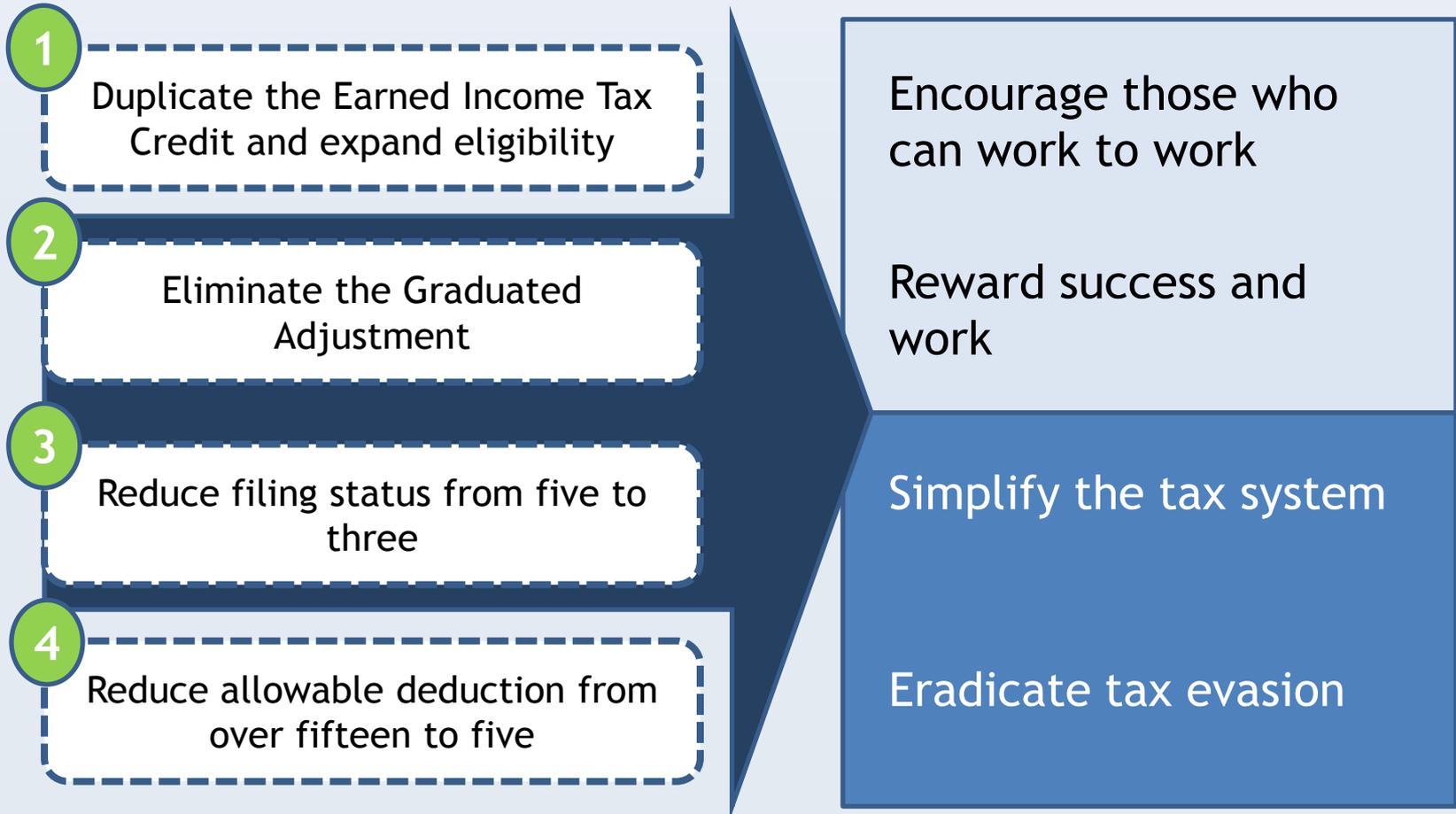
Average effective tax rate for individuals will be reduced by 49% by year 2016

Effective Tax Rate - Individuals





In addition to expanding tax brackets and reducing marginal tax rates, the tax reform will...

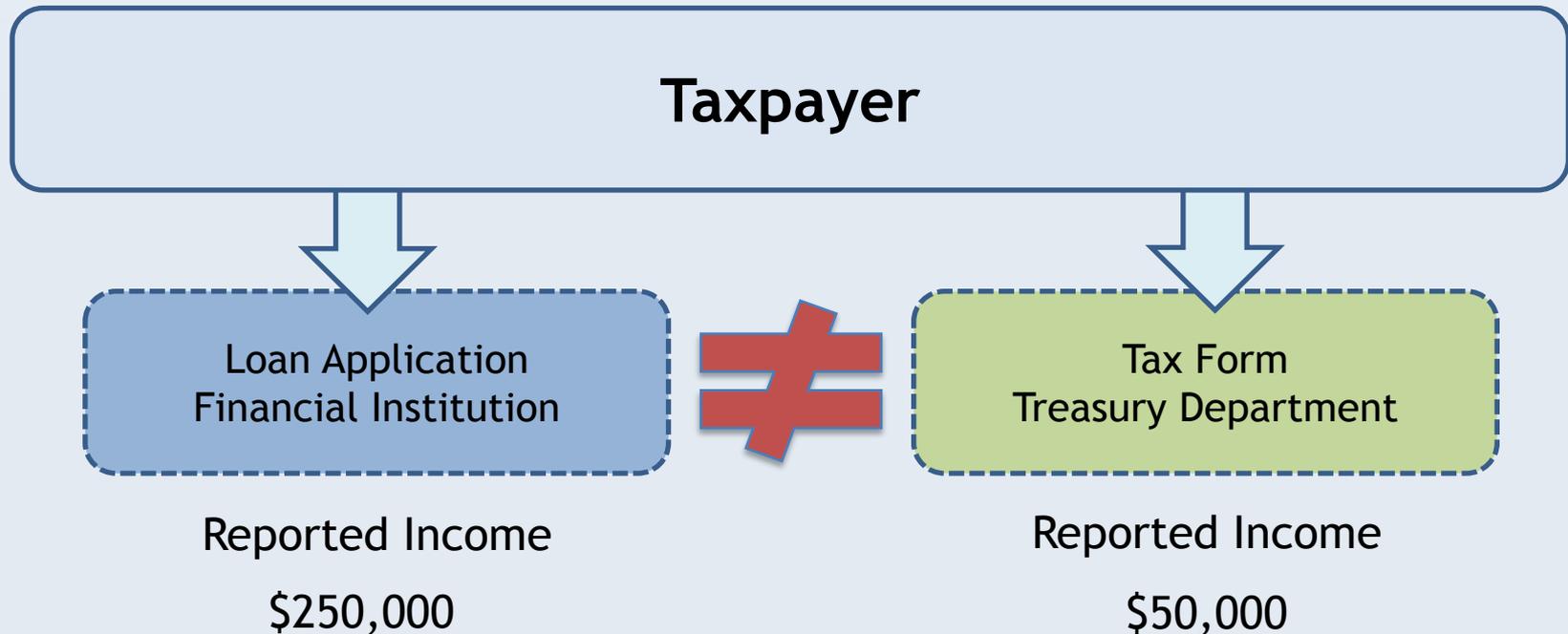


Measures to curtail tax evasion practices



We will provide an important tool to continue fighting tax evasion...

Currently...

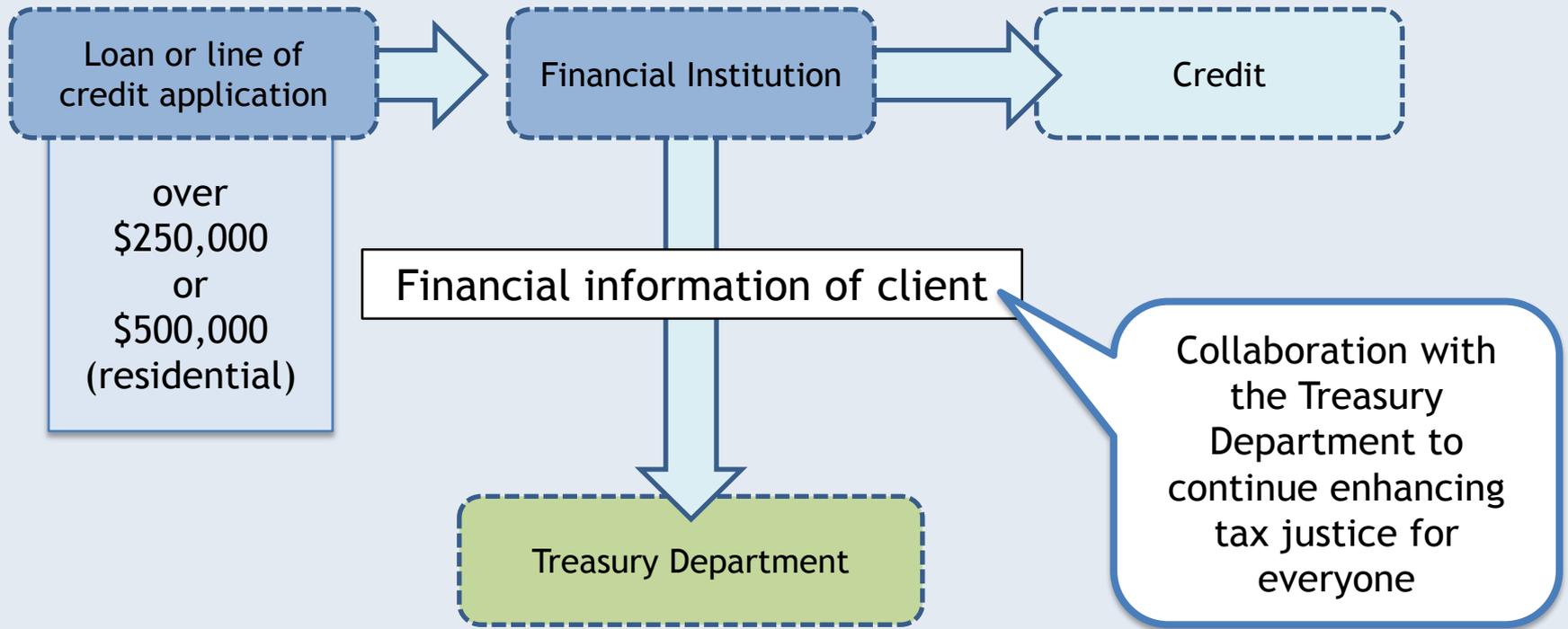




Financial institutions will be required to submit financial information of clients that apply for loans over \$250,000

Enhance resources of the Treasury Department

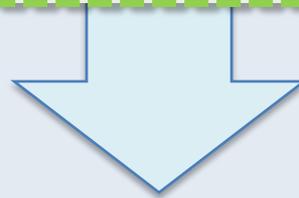
New structure:





Additional tax compliance measures included in new Tax Code ...

Personal and criminal liability on the executive responsible for corporation that withholds taxes but does not remit payment to the Treasury Department

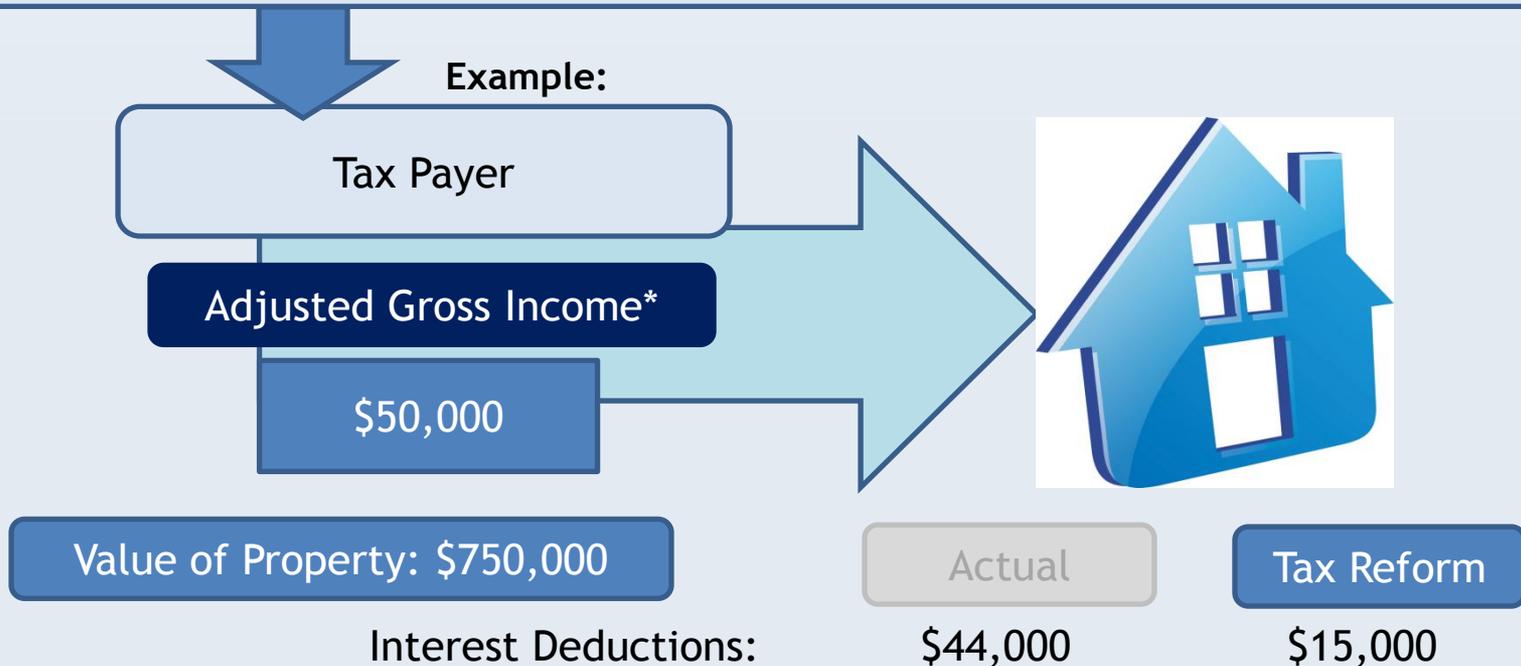


Examples: Employer Withholding and Sales and Use Tax



In order to stimulate full income reporting, we have limited the home mortgage interest deduction...

The new tax code will limit the amount permissible of mortgage interest deduction to 30% of the Adjusted Gross Income* (including exempt income)



* The 30% limitation will not apply to tax payers 65 years or older



The new tax code will expressly prohibit the following...

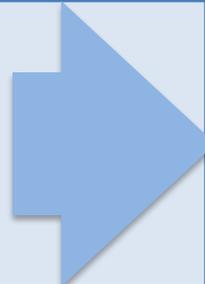
The following expenses will be expressly prohibited to be deducted as a ordinary and necessary business expense

- 1 Expenses related to the operation and administration of a boat, airplane or helicopter
- 2 Expenses related to the operation and administration of a residence located outside of Puerto Rico
- 3 Personal expenses of a partner or stockholder

Business with sales over \$1 MM

Business with sales over \$3 MM

All taxpayers



Revised Financial Statement will be required

Audited Financial Statements will be required

Tax return will include statement under oath that no such expenses have been deducted

Measures to maintain fiscal discipline

In order to maintain fiscal and budgetary discipline, a set of tests will be implemented after year 2014. Compliance with the three tests will be required to implement tax benefits of that year.



We will achieve these tax reliefs in a fiscally responsible manner...

- The tax reliefs approved for tax years 2014, 2015 and 2016 will be implemented if these three tests are met:

Tests	
1	Expenses Control Target Certification: Office of Management and Budget
2	General Fund Net Revenue Target Certification: Treasury Department
3	Economy (GDP Growth) Certification: Planning Board

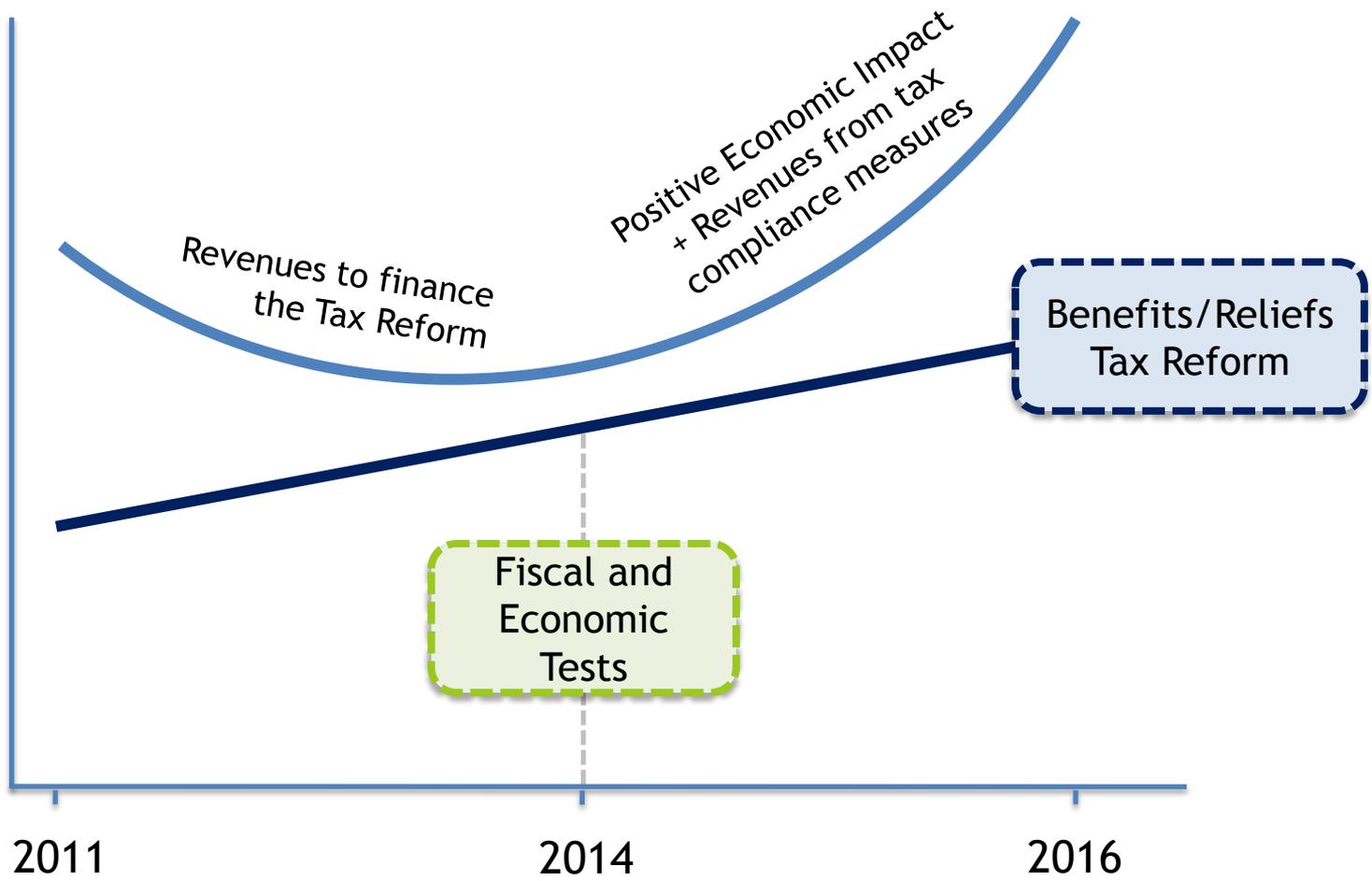
- During fiscal years 2011 through 2016, if there is a budget surplus, the first \$100 million will be deposited in a restricted reserve for a period of 10 years for the benefit of future generations

Fiscal and Economic Impact of Tax Reform



This PRO-GROWTH Reform is structured to be revenue positive while providing significant tax relief and creating conditions for job creation...

Strategy to Implement this Tax Reform





Additional tax compliance measures in combination with income source rule and special excise tax on will result in a revenue positive strategy

(in \$ millions)	FISCAL YEAR		
	2011	2012	2013
<u>Reliefs:</u>			
Tax Reform reliefs	(740)	(974)	(1,083)
Elimination of property surtax	-	(230)	-
<u>Revenue Measures:</u>			
Special excise tax	700	1,357	1,138
Window to declare non-reported revenue	50	-	-
Elimination of subsidies and certain tax credits	25	50	50
TAX REFORM IMPACT	35	203	105

REVENUE POSITIVE REFORM

These projections do not include additional revenue estimates from economic feedback and natural revenue growth that will be presented with the Tax Reform Bill



Special Guest Speaker:
DOUGLAS HOLTZ-EAKIN, Ph.D.

President, American Action Forum
Former Director Congressional Budget Office



Growth is paramount for economic recovery...

Puerto Rico is following the right economic strategy...

The tax policy is **PRO GROWTH**, and balances the source of growth between domestic production and the efforts of large multinational firms

Research has shown that fiscal consolidation is most successful when **SPENDING IS CUT** and **TAXES ARE KEPT LOW**

The tax policy is coupled with an **ENERGY REFORM** that provides corporations with significant savings

PUERTO RICO IS IMPROVING ITS VALUE PROPOSITION



How will the tax reform increase real economic activity?

1

It will raise real investment leading to higher output profit and real wages.

2

Increase the incentives for technological advances, thereby improving productivity

3

Raise labor force participation and hours worked

4

Shift the allocation of capital from non-corporate to corporate forms



The financial markets will also see the effect of the tax reform...

A cut in corporate and personal tax rates



Raises the value of existing capital, thereby producing capital gains revenues



Agenda

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Fiscal Progress

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Tackling Retirement System Funding Status

3

Economic Outlook

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Key Reforms in Place

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Comprehensive Tax Reform

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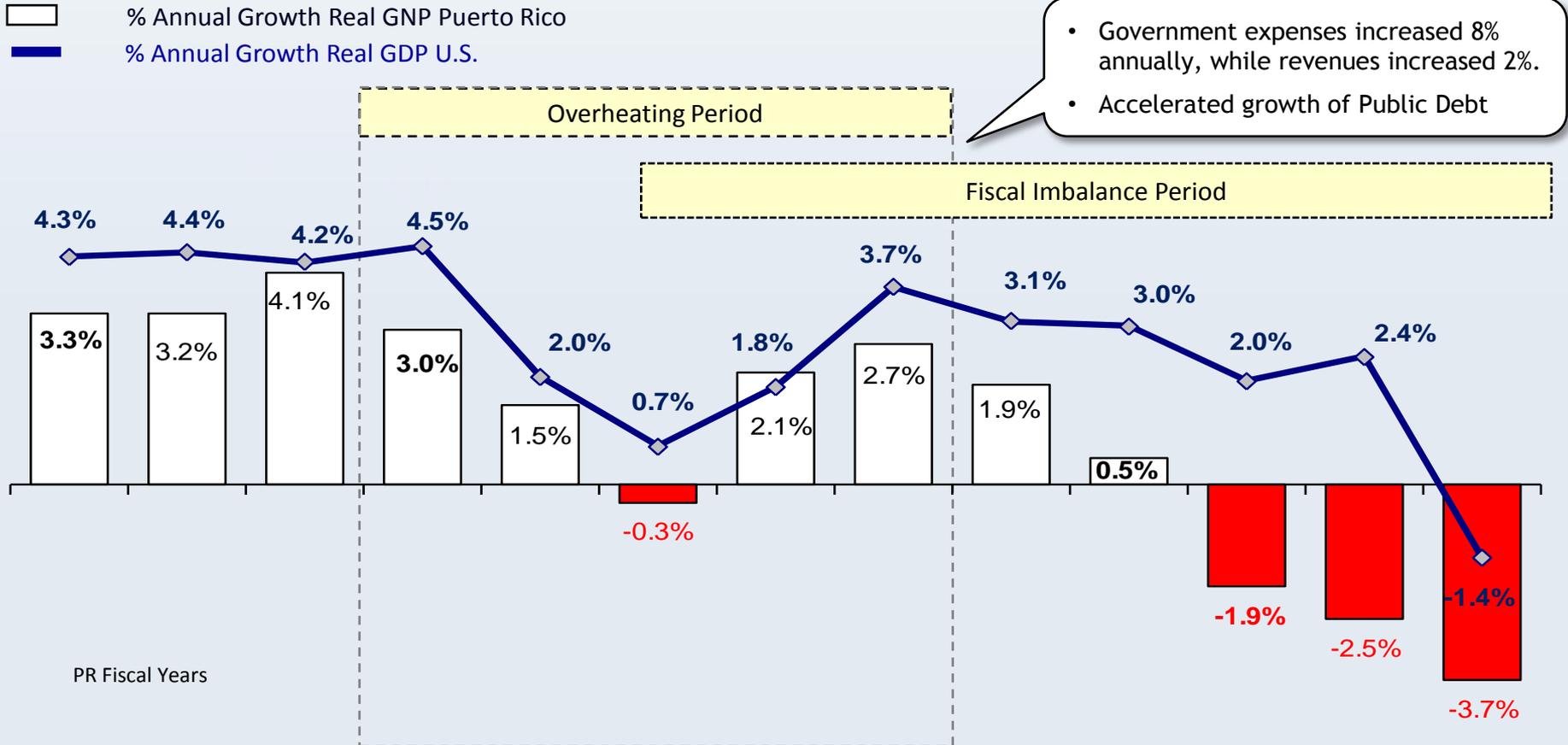
An Economy in Transition

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Concluding Remarks



Puerto Rico entered a recessionary cycle before the U.S. driven by misguided governmental policies



- Government expenses increased 8% annually, while revenues increased 2%.
- Accelerated growth of Public Debt

97	98	99	00	01	02	03	04	05	06	07	08	09
S936 funds leave system	U.S. and P.R. Growth Period					9/11	Government operational & CAPEX Overheating through issuance of debt					
	Significant PR loan growth with brokered deposits and preferred stock								Mortgage Sale Acctg Restatements		Protracted Recession	

Source: Puerto Rico planning Board.

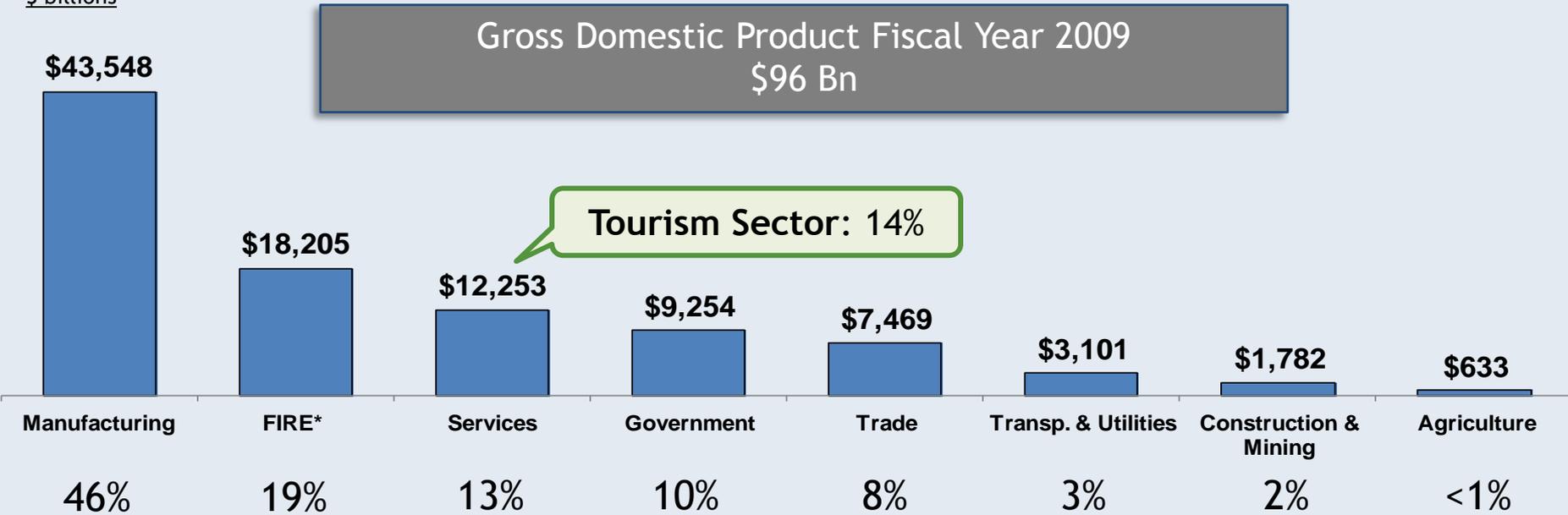
* Base projections from the PR Planning Board. U.S. projections from PR Planning Board (Exogenous Variables Projections).



The manufacturing sector represents an important component of Puerto Rico's economy in terms of Gross Domestic Product...

Exports \$61 BN	NPAs Reserves Construction Credit Restriction	Affected Small/Mid Businesses	\$3.3 B Deficit	Need to strengthen innovation management skills	Operating Losses Restructuring	20K new housing units	Priority investment area but requires sale of highly priced units	Lack of innovation
Pharma Exports \$42 BN - drug patent expirations	Over- burden Consumer	Govt. over- spending	Health & Education Growing	Insufficient CAPEX Programs	5-8 yrs of inventory build-up	Investment down 18% in F08	Not taking advantage of high-end, export & biotech opportunities	

\$ billions



Source: PR Planning Board, March 2009, 2009 Governor Economic Report.

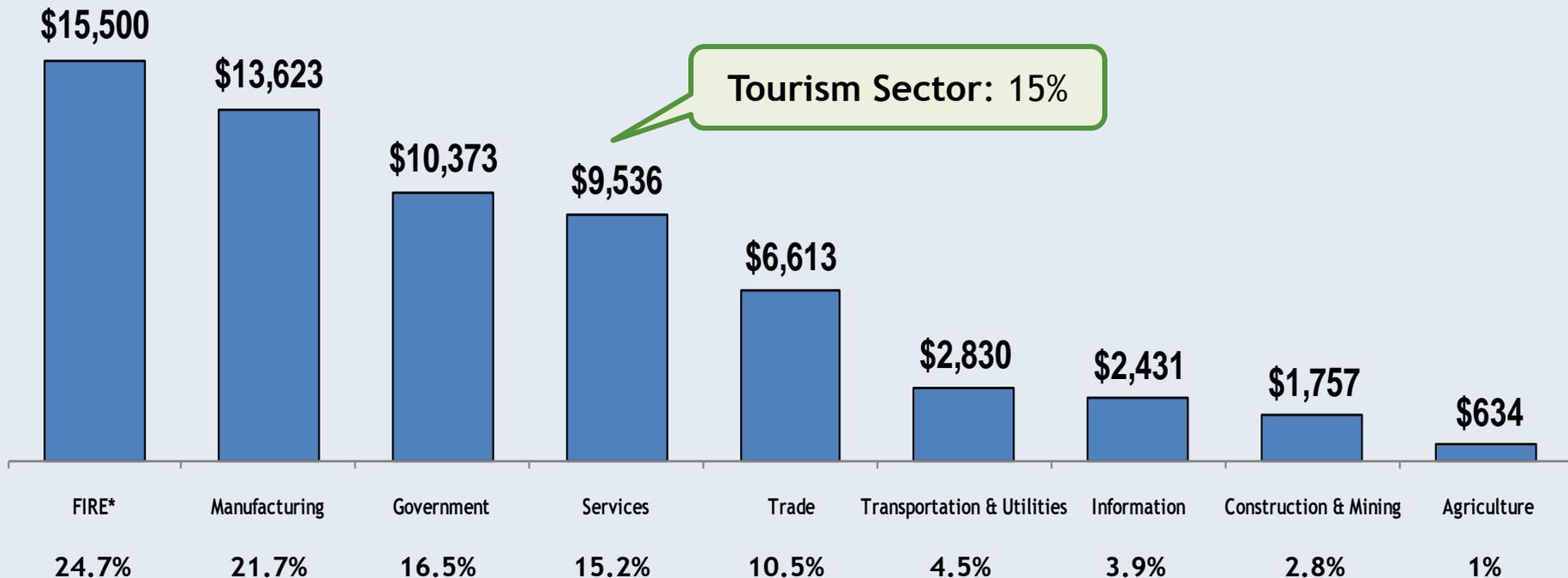
* FIRE is Financial, Insurance and Real Estate.



The large historical difference between our GDP and GNP is mainly due to transfer pricing strategies and repatriated earnings from large multinationals corporations

Gross National Product Fiscal Year 2009
\$62.8 Bn

\$ billions



* FIRE is Financial, Insurance, Real Estate, & Rental.

**Services: includes professional, scientific, technical, management, administrative, educational, health, entertainment, accommodation, food, & other

Together, we have made significant progress in the last 2 years. Nevertheless...

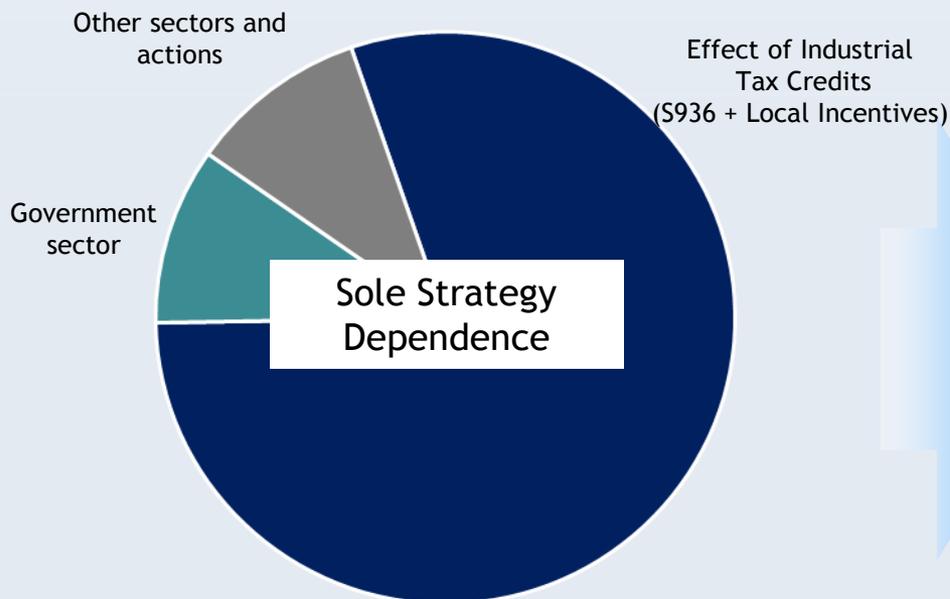
- Puerto Rico needs to break the mold that has been deterring prosperity for so long,
- We need to pursue strategies that promote sustainable economic growth,
- We need to invest in our future NOW,
- We need a **GAME CHANGER...**



We are diversifying our economy by modifying the obsolete past model strictly based on tax incentive grants and creating an environment that promotes exports in order to attract foreign investment...

Previous Model

Dependence on a sole development strategy



New Multi-Sectoral Model

Diversified portfolio of strategies that reduces fiscal impact



Model based on dominant role of industrial incentives; undiversified model; high risk concentration for the future; large government sector to cover the gap created by insufficiencies from the sole dominant development strategy

Model of diversified strategies and actions; risk is distributed throughout different strategies; government is reduced and the development of the private sector is stimulated to ensure more dynamism, fiscal stabilization, better management and implantation of public policy



Puerto Rico is an ideal location for the export of financial services

Economic incentives for financial export services

Export services incentives

- ✓ 4% income tax
- ✓ 90% exemption on property tax
- ✓ 60% exemption on municipal tax
- ✓ 0% tax on dividends after the first \$250,000 in compensation payments

Promotional Strategy

Promotional Strategy

- Incorporate into Promotional Road Show
- Meet with local and foreign bankers on the benefits of the incentives
- Integrate the financial services and insurance sector into the Branding Campaign

Qualified Export Services

Investment Banking

Asset Management

Alternative Investment Management

Management of activities related to Capital Investment

Management of Hedge Funds

Private Equity Placement

Equity Pool Management

Trust Fund Management

Escrow Account Management



**We have jumpstarted the
real estate market through an
unprecedented and
comprehensive
Housing Stimulus Bill
(Act 152 of 2010)**



We were already stimulating the real estate market through:

1

Closing Costs Bonus Program

2

Second Mortgage Program

... now we have expanded our support with:

3

Enhanced Mortgage Insurance

- Mortgage bank finances 105% loan-to-value
- Insurance covers 17% of risk and banks up to 88% of risk

4

Rental Market Stimulus

- 100% exemption on net rental income tax for 10 years

5

Housing Stimulus



Unprecedented Housing Stimulus

**Comprehensive program to stimulate buyers:
RESIDENTIAL and COMMERCIAL properties
during a window starting September 1, 2010 to June 30, 2011**

Savings on:	New Homes	Existing Homes and Non-Residential (up to \$3 MM)
Capital gains tax at time of resale	100% exemption	50% exemption (100% for seller)
Fees, stamps and vouchers	100% exemption	50% exemption
Temporary property tax	100% exemption	N/A
Property tax	5 year exemption	N/A

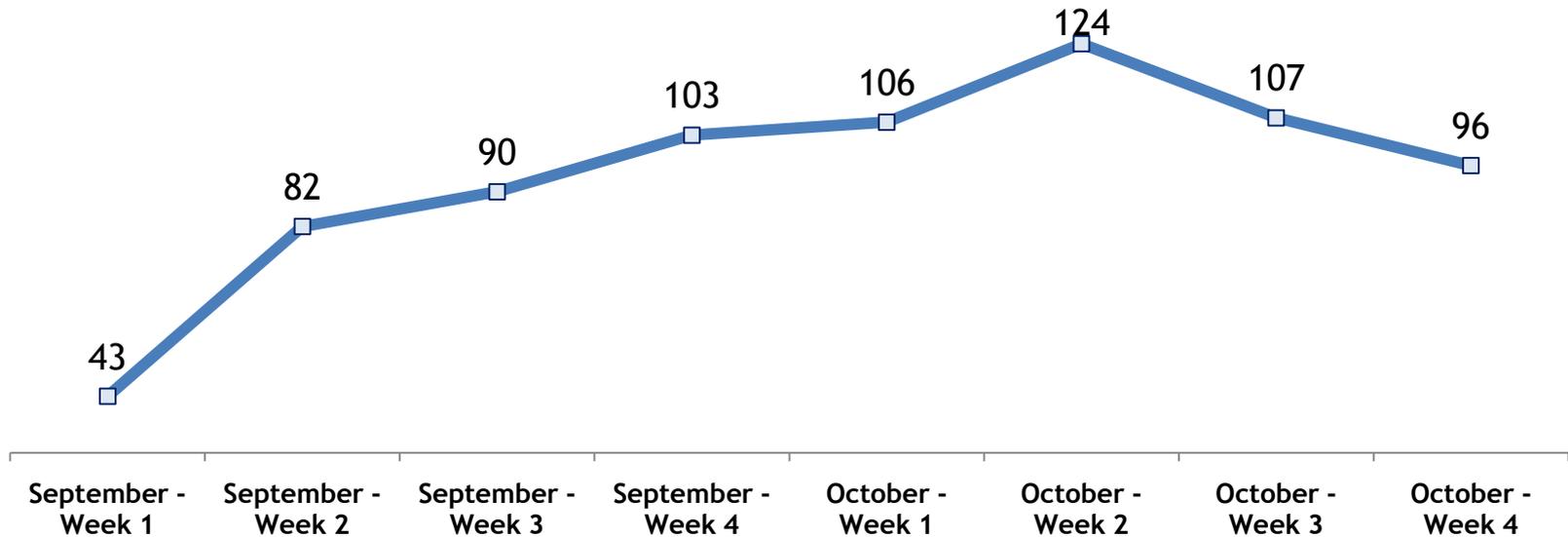
Applies to residents and non-residents

Increase in deduction up to \$5,000 for up to 15 years against ordinary income for capital loss in sales of existing homes if transaction is conducted during the window...



After two months of implementation, new home mortgage originations have almost tripled...

New homes mortgage originations since enactment of Act 152 of 2010



The stimulus bill will continue to support real estate market and strengthen local banking industry position



Through TDF, GDB continues to provide strong support to the development of hospitality and tourism industry in Puerto Rico...

Sheraton Convention Center

Total development cost: **\$210 MM**
Opened: November 2009



Dorado Beach Ritz Reserve

Total development cost: **\$342 MM**
Construction Started: July 2010
Expected Opening: Fall 2012



St. Regis Bahia Beach Resort

Total development cost: **\$172 MM**
Opened: November 2010



11 diverse projects under evaluation, **1,331** additional rooms for a total investment of **\$883 MM**



We have a concrete short term plan to start construction of the Golden Triangle

Item	Description
Project Description:	<ul style="list-style-type: none"> Long term urban redevelopment of the San Antonio Canal that is an essential component of the Golden Triangle
Statistics:	<ul style="list-style-type: none"> Project foot print of approximately 100 acres Estimated Public Investment of \$525 MM Estimated investment at \$1.4 B 444 direct and indirect jobs with the immediate improvement program 27,100 direct and indirect jobs
Progress:	<ul style="list-style-type: none"> Executive Order signed to resume the project Updated Master Plan Financial and legal structure of the project is defined \$25 MM were assigned from the Local Stimulus Plan for the immediate improvement program Site Consultation and the Environmental Impact Statement have been approved
Next Steps:	<ul style="list-style-type: none"> Continue the Implementation of the immediate improvements program Request proposals for the construction of Phase 1

BAHIA URBANA



Interim Improvement Program



STARTING WORK ON INTERIM IMPROVEMENTS BY YEAR END 2010



As a strategic project, the Port of the Americas will be the future economic engine for southern region of Puerto Rico

Item	Description
Project Description:	<ul style="list-style-type: none"> • A world class international trans-shipment Post-Panamax port with value added zones
Statistics:	<ul style="list-style-type: none"> • Programmed government investment up to \$250 MM • Total investment estimated at \$750 MM • 12,000 direct and indirect jobs • 350 permanent jobs when the Port opens
Progress:	<ul style="list-style-type: none"> • Completed the purchase and delivery of two Super Post-Panamax cranes • Completed the installations for handling up to 250,000 TEUs • \$70 MM have been requested from the Federal Tiger II Program • SGR Ponce is the first manufacturing company that will use the Port and the Value Added Zones, creating 115 jobs
Next Steps:	<ul style="list-style-type: none"> • Complete negotiations for the operation of the Port • Continue with the basic infrastructure investment program to accommodate up to 500,000 TEUs • Attract international businesses to value added zones throughout the southern region of Puerto Rico

Container Terminal



Value Added Zones



FINALIZE NEGOTIATIONS WITH OPERATOR



We are incentivizing viable renewable energy projects to further diversify our fuel sources

75 MW wind farm of up to 65 turbines in the municipality of Santa Isabel for a total investment of:

\$215 million



20-year PPA signed with PREPA

Construction Starts:
Spring 2011

Commercial Operation:
Fall 2011



We have committed our efforts for the development of a Comprehensive Cancer Center in alliance with renowned MD Anderson

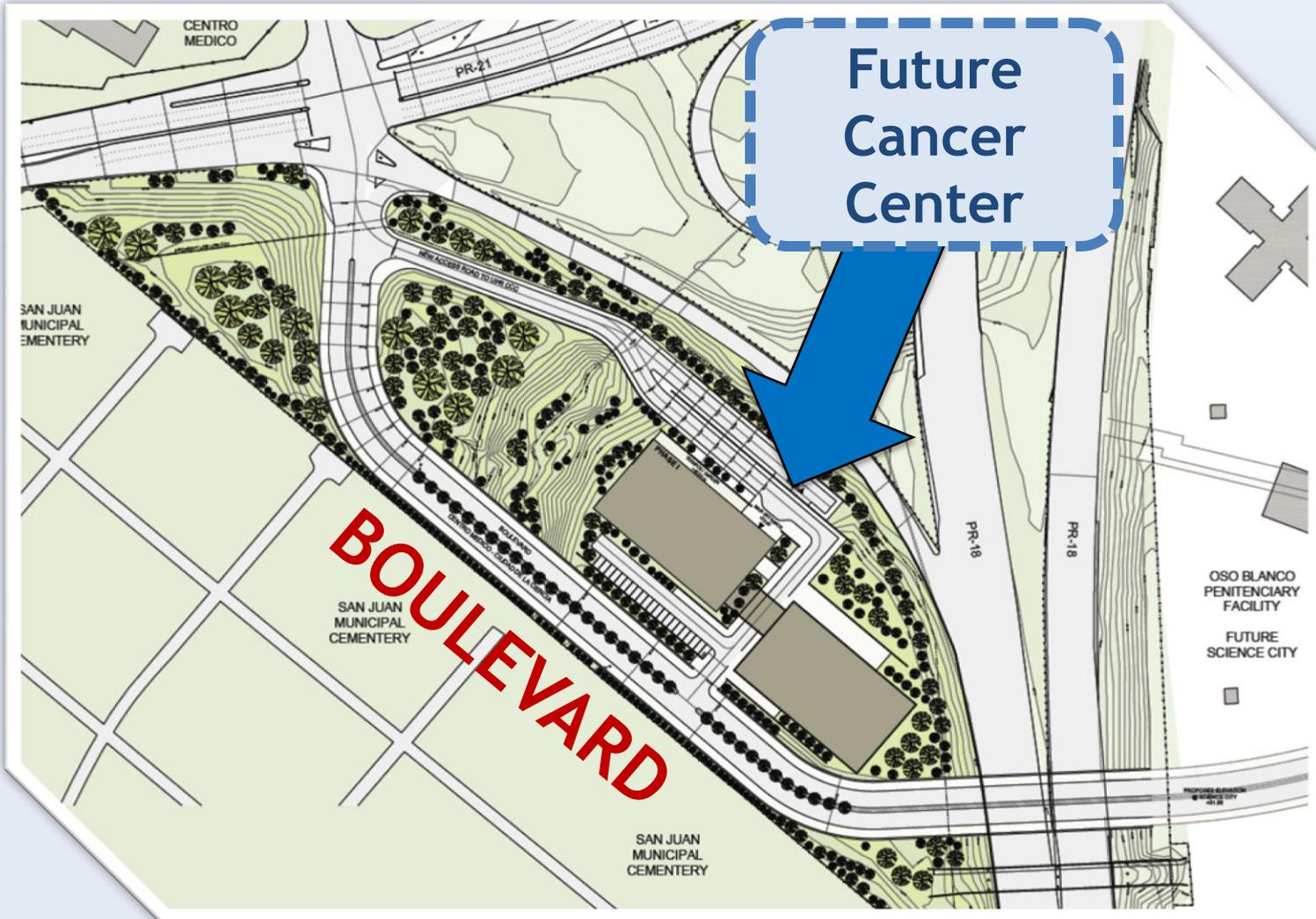
GDB is granting a \$160 MM loan for the immediate construction of the Cancer Center that will be geared towards research and life sciences



We will transform Puerto Rico into the medical hub of the Caribbean and the link with the rest of the Americas...



In addition, GDB will finance the Science Boulevard that will link San Juan Medical Center to the future Puerto Rico's Science District...



Science District will spearhead Puerto Rico's transition into a knowledge base economy...

Puerto Rico Medical Center

Science City

Botanic Garden Univ. of Puerto Rico

Univ. of Puerto Rico

Comprehensive Cancer Center

New Molecular Sciences Building Univ. of Puerto Rico

- Laboratory Space
- Research Centers
- Hotel
- Housing Units



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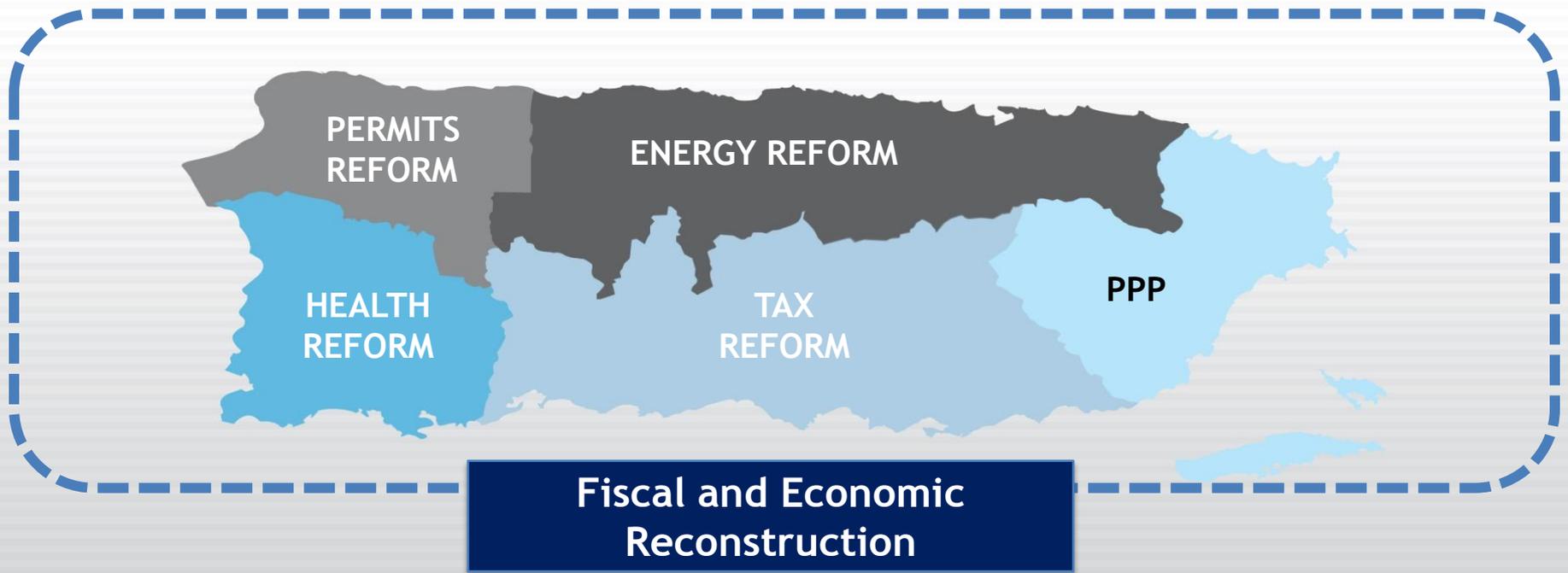
Comprehensive Tax Reform

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Concluding Remarks



Puerto Rico's future is bright...

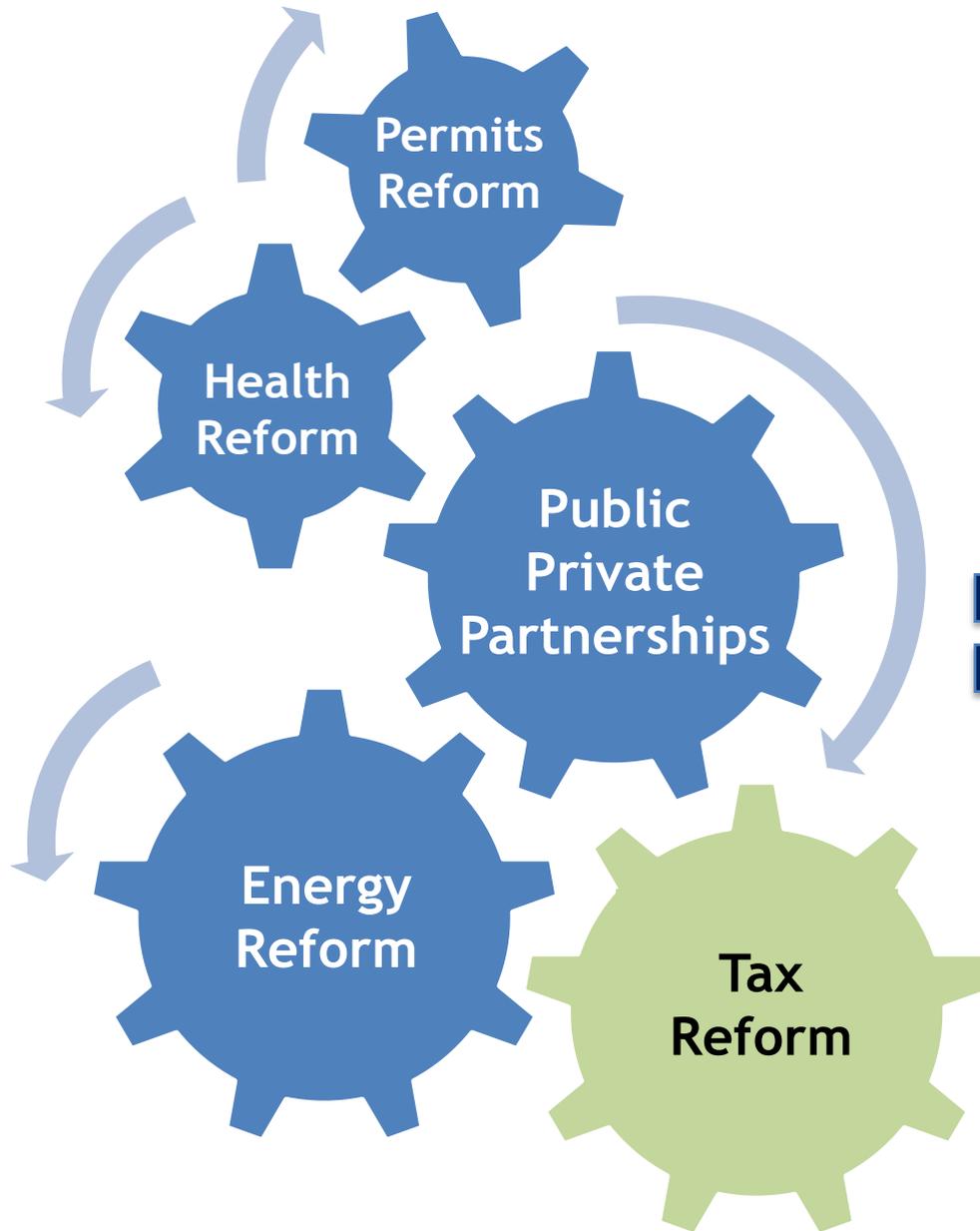
We are pursuing a broad reconstruction and recovery strategy





Concluding Remarks

- We have changed the course of Puerto Rico's future and we won't stop until we get the job done.
- We have achieved unparalleled fiscal improvement; reducing our deficit from 43.6% to 10.9% of revenues.
- We are well on our way to economic recovery.
- We have put forth key reforms to turn our situation around, restore confidence in both investors and consumers, and change the course of Puerto Rico's future.
- Our Tax Reform is the broadest, deepest, fairest, and most comprehensive tax reform in Puerto Rico's history that fosters economic growth and job creation.
- We remain committed with full transparency with the investor community and are confident that the progress we have achieved so far places Puerto Rico in an excellent position to receive a credit rating upgrade.



With the successful implementation of these key reforms and initiatives, Puerto Rico is heading full steam ahead to Economic Recovery...



Creating an environment that promotes private sector investment and fosters economic development



Forward Looking Statements

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Government Development Bank'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.