



The Path to Fiscal and Economic Reconstruction

**Government Development Bank for Puerto Rico
Investor Presentation**

February 10, 2009

Index

1. Overview and New Financial and Economic Team

2. Local Economic Trends and FY 2009 Budget

3. Roadmap to Fiscal and Economic Reconstruction

4. Investor Relations and Transparency



New Financial and Economic Team

- Experienced team of professionals who understand the challenges of the Commonwealth of Puerto Rico

Carlos M. García
Chairman and President
Government Development Bank

Former COO Santander BanCorp
(NYSE: SBP)

Juan Carlos Puig
Secretary of the Treasury

Former US IRS Executive and PR
Treasury Deputy Assistant Secretary of
Internal Revenue Area

María Sánchez-Brás
Director
Office of Management & Budget

Former CFO of Marsh Saldaña, Inc.

Government Financial and Economic Team

Héctor Morales
President
Puerto Rico Planning Board

Former PR Planning Board Associate
Member and Licensed Engineer

José Pérez-Riera, Esq.
Director
*Dept. Economic Development &
Commerce*

Former Barclays Capital, UBS municipal
finance Banker

Fernando L. Batlle
Executive VP Financing & Treasury
Government Development Bank

Former Executive VP First BanCorp
(NYSE: FBP)

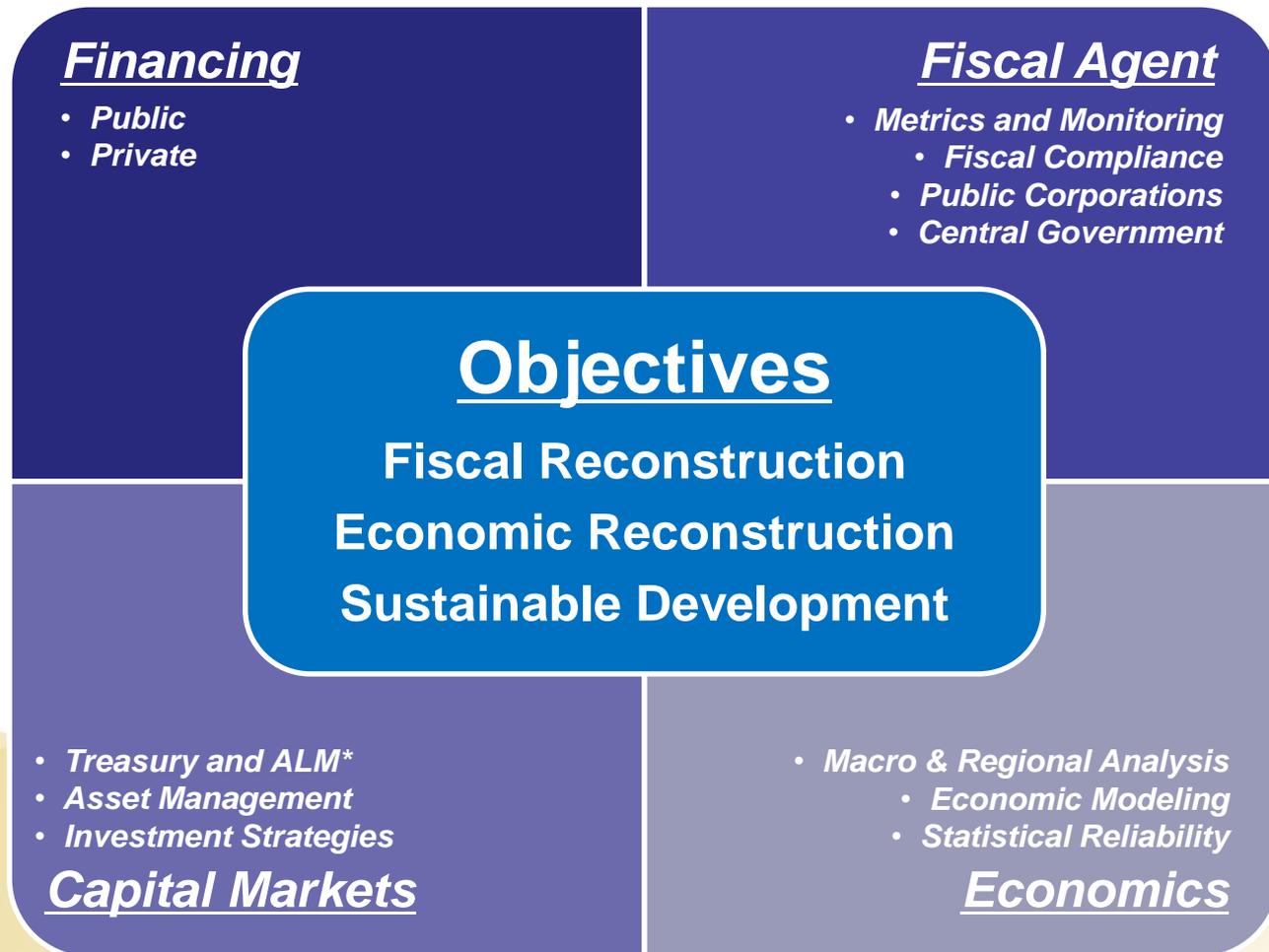
William Lockwood
Executive VP Fiscal Agent
Government Development Bank

Former GDB President
Former Fiscal and Econ. Reconstruction
Advisory Board Member



New Financial Management Team

- GDB is developing a comprehensive approach to achieve the financial objectives of the Commonwealth



* Asset and Liability Management



Accomplishments in the first 30 days

1. Enacted legislation approving 4 urgent fiscal measures on January 15
2. Implemented Fiscal Emergency Executive Order
3. Revised and projected GNP figures up to FY 2010 to allow for policy decisions on fiscal measures, as well as federal and local stimulus packages
4. Completing the evaluation of the fiscal deficit
5. Created consensus by communicating the severity of the fiscal challenges facing the Commonwealth
6. Developed a local stimulus package (**PEC** by its Spanish acronym*)
7. Completed due diligence on key public corporations and established new GDB oversight controls on operations, loan disbursements and CAPEX
8. Planned investor outreach initiatives for 1Q-2009

* PEC = Plan de Estímulo Criollo

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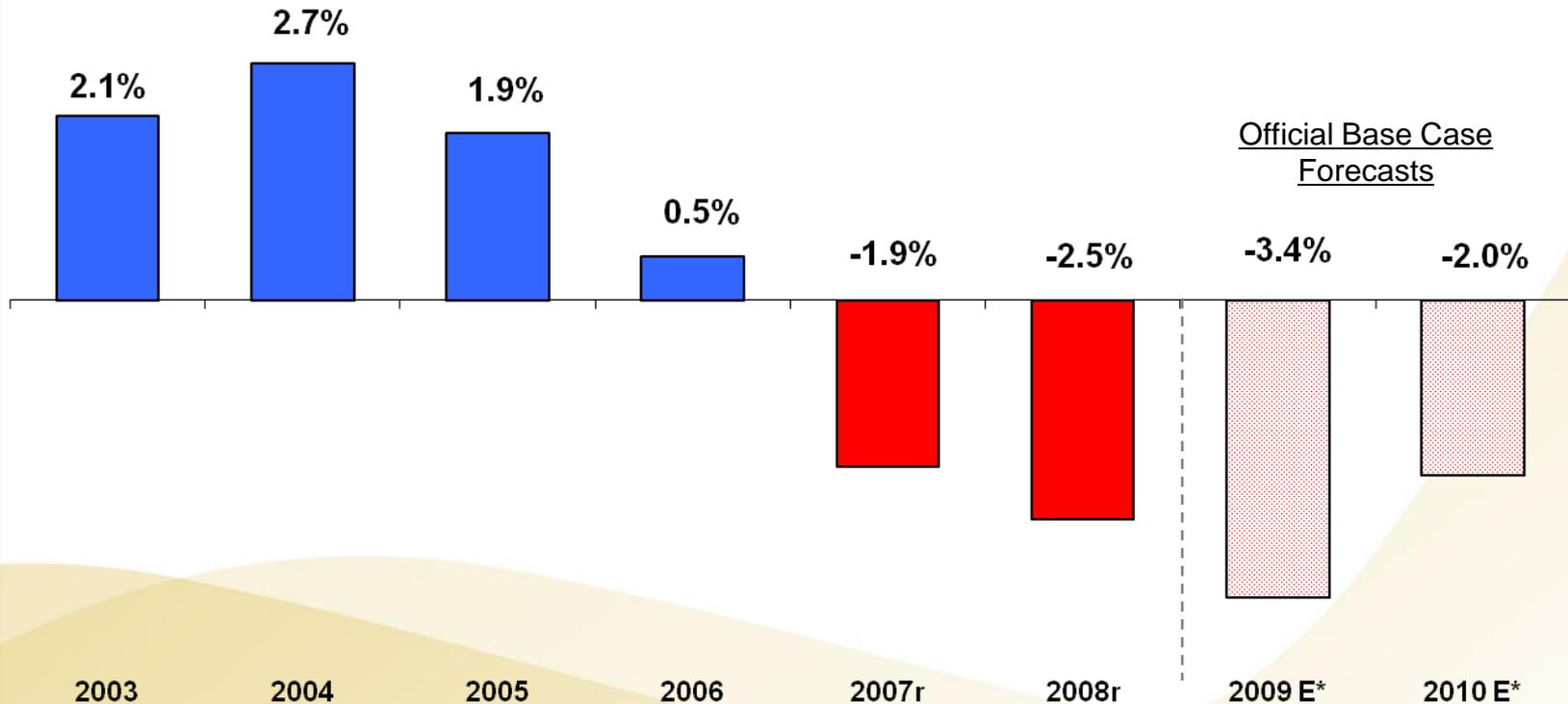
4. Investor Relations and Transparency



Increasing productive capital investment is key to growth

- The local economy entered into a recession during FY 2006
- Revised forecasts show recession for FY 2009 and FY 2010

Annual Growth in Real Puerto Rico GNP (fiscal years)



Source: Puerto Rico. Planning Board. Puerto Rico fiscal years consist of the twelve month period ending on June 30 of every year.

* E = Estimates. Estimates correspond to the Base Case Scenarios.

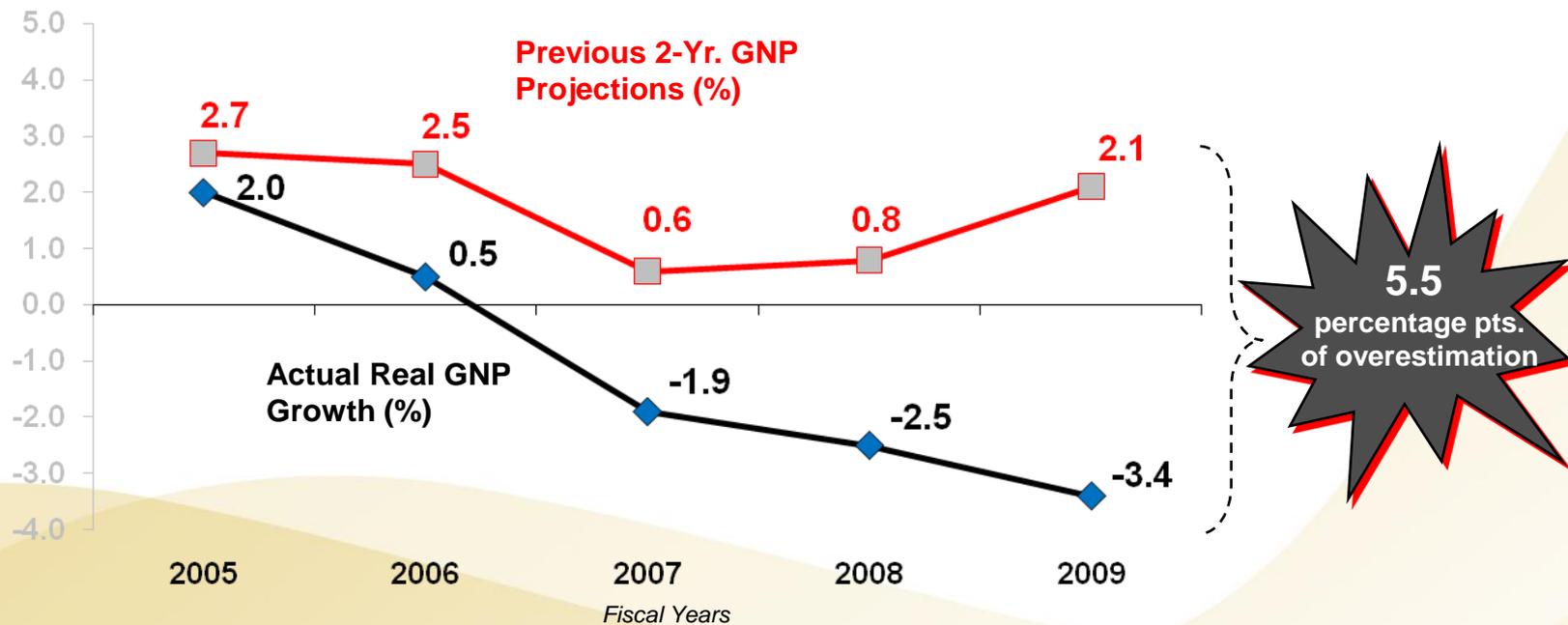


Local Economic Trends and FY 2009 Budget

- The Planning Board and GDB are working to conduct thorough economic projections that minimize unrealistic forecasts

Over-optimistic forecasts of local economy increase the likelihood of overstating forecasts for tax revenues, which lead to budget deficits

Comparison of 2-Yr. Projections and Actual GNP (% Growth)



Source: Puerto Rico. Planning Board. Puerto Rico fiscal years consist of the twelve month period ending on June 30 of every year.
* E = Estimates. Estimates correspond to the Base Case Scenarios.



Local Economic Trends and FY 2009 Budget

- High oil prices and downturn in U.S. economy have been taking a toll on the local economy

GNP Main Variables	F2007 r	F2008 p	Base Case	
			F2009	F2010
Real GNP	- 1.9%	- 2.5%	- 3.4%	- 2.0%
Personal Consumption	1.9%	- 0.5%	- 0.6%	0.2%
Construction Investment	- 7.6%	- 8.8%	- 11.1%	- 10.5%
Equipment Investment	0.9%	- 8.1%	- 9.9%	- 11.3%
Govt. Spending	- 1.3%	- 6.5%	- 2.8%	- 1.4%
Average Oil Prices*	\$63.4	\$96.8	\$65.3**	\$47.3**

Largest segment in local economy turned negative in F08 mainly due to record oil prices

Fixed investment also affected by oil prices and previous overheating of the construction sector

Record oil prices heavily impacted the consumers and small and medium-sized businesses

Source: Puerto Rico. Planning Board. Puerto Rico fiscal years consist of the twelve month period ending on June 30 of every year.
 * E = Estimates. Estimates correspond to the Base Case Scenarios. P = Preliminary.



Local Economic Trends and FY 2009 Budget

- Economic performance can be explained by the effects of U.S. growth and oil prices

Matrix of estimated effects of U.S. Growth and oil prices on the local economy

	Oil Prices*	U.S. Real GNP Growth							
		-2.0%	-1.5%	-1.0%	0.0%	1.0%	1.5%	2.0%	2.5%
		Puerto Rico Real GNP Growth							
FY 2010	\$30	-1.9%	-1.5%	-1.1%	-0.3%	0.5%	0.9%	1.3%	1.7%
	\$45	-2.8%	-2.4%	-2.0%	-1.2%	-0.4%	0.0%	0.4%	0.8%
	\$55	-3.4%	-3.0%	-2.6%	-1.8%	-1.0%	-0.6%	-0.2%	0.3%
FY 2009	\$65	-4.0%	-3.6%	-3.2%	-2.4%	-1.5%	-1.1%	-0.7%	-0.3%
	\$75	-4.6%	-4.2%	-3.8%	-2.9%	-2.1%	-1.7%	-1.3%	-0.9%
	\$85	-5.2%	-4.7%	-4.3%	-3.5%	-2.7%	-2.3%	-1.9%	-1.5%
FY 2008	\$95	-5.7%	-5.3%	-4.9%	-4.1%	-3.3%	-2.9%	-2.5%	-2.1%
	\$100	-6.0%	-5.6%	-5.2%	-4.4%	-3.6%	-3.2%	-2.8%	-2.4%
	\$150	-8.9%	-8.5%	-8.1%	-7.3%	-6.5%	-6.1%	-5.7%	-5.3%

Source: Puerto Rico. Planning Board. Puerto Rico fiscal years consist of the twelve month period ending on June 30 of every year.

* E = Estimates. Estimates correspond to the Base Case Scenarios. P = Preliminary.

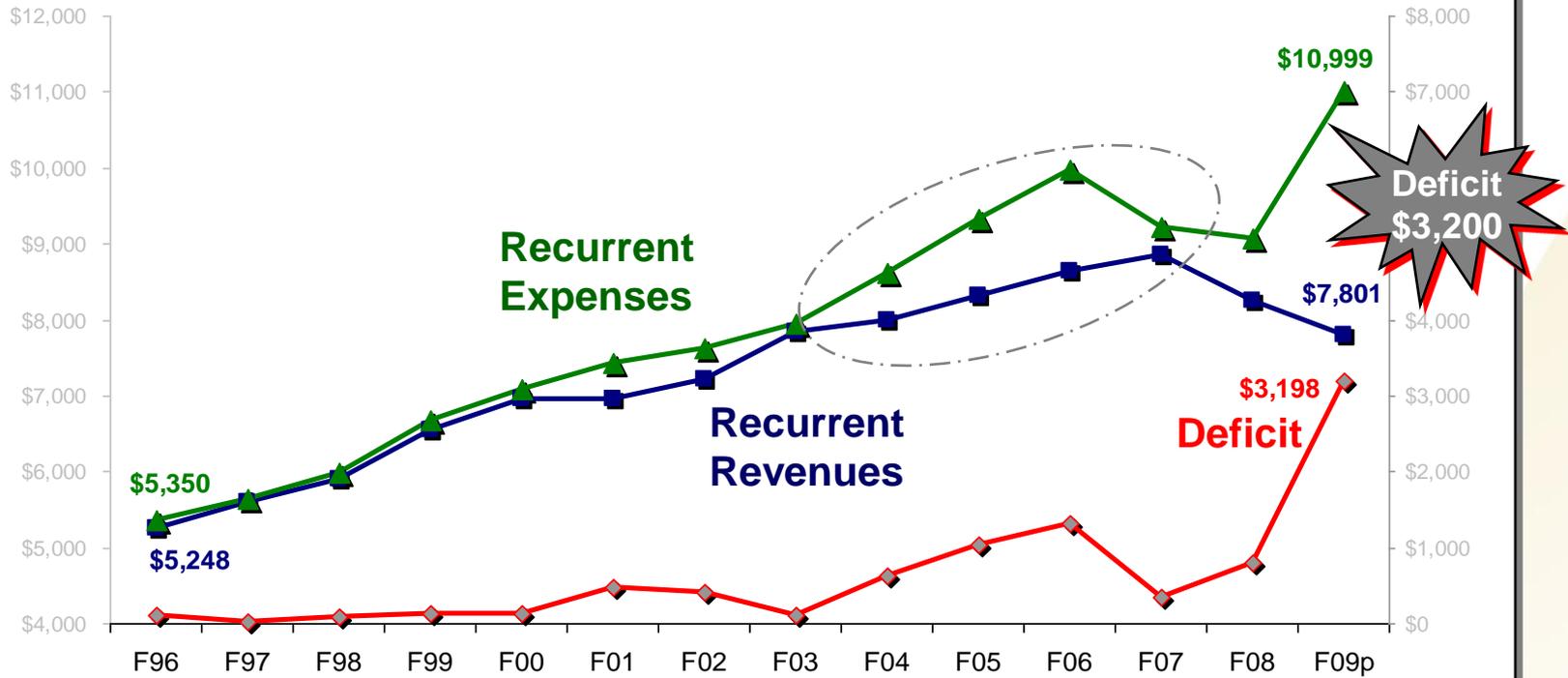


Local Economic Trends and FY 2009 Budget

- The Commonwealth has experience a historic trend of overspending, which accelerated beginning in FY 2004

Trend in Recurrent Activity of the General Fund

\$ millions

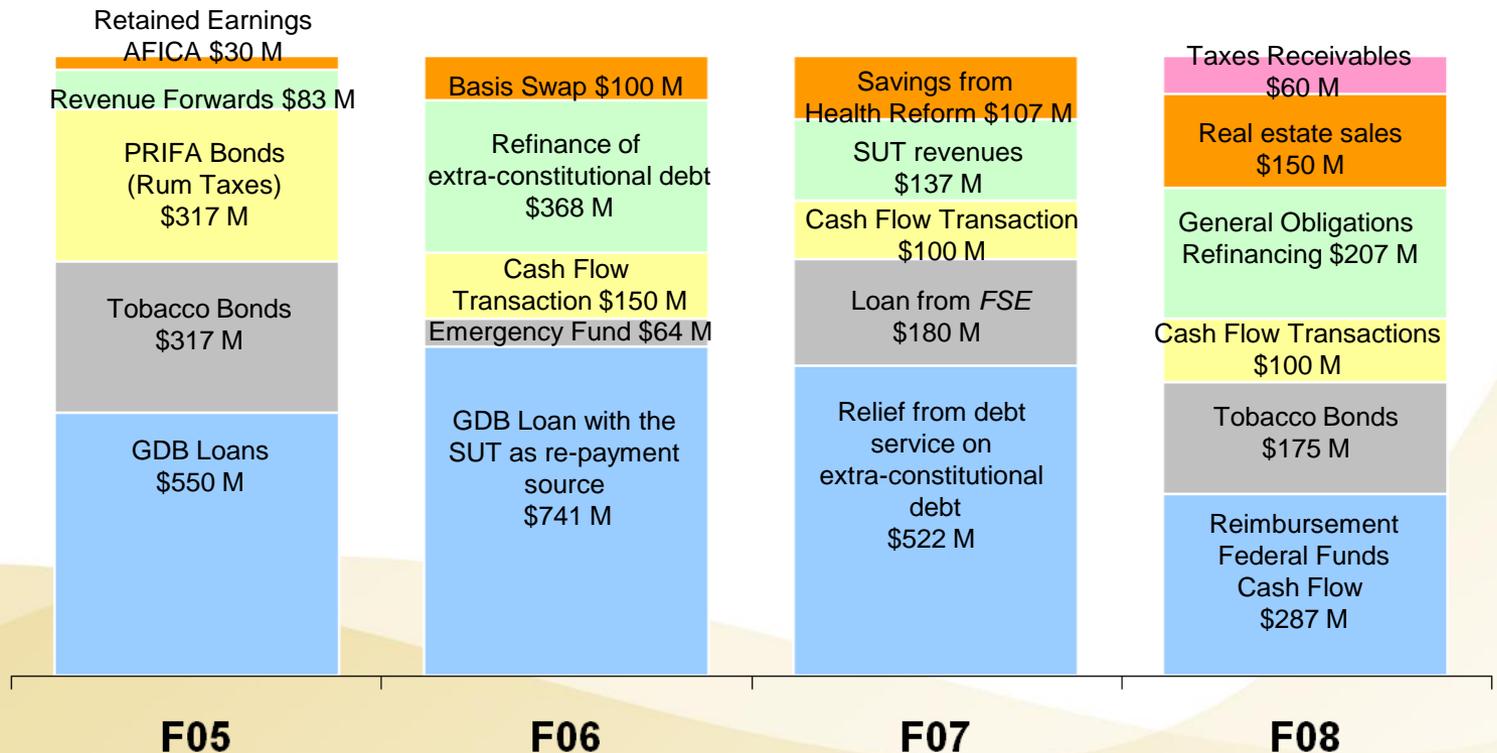




Local Economic Trends and FY 2009 Budget

- Recurring deficiencies were frequently “corrected” by non-recurring activities
- The current fiscal team will seek to minimize or avoid this practice to reduce specific market and execution risks

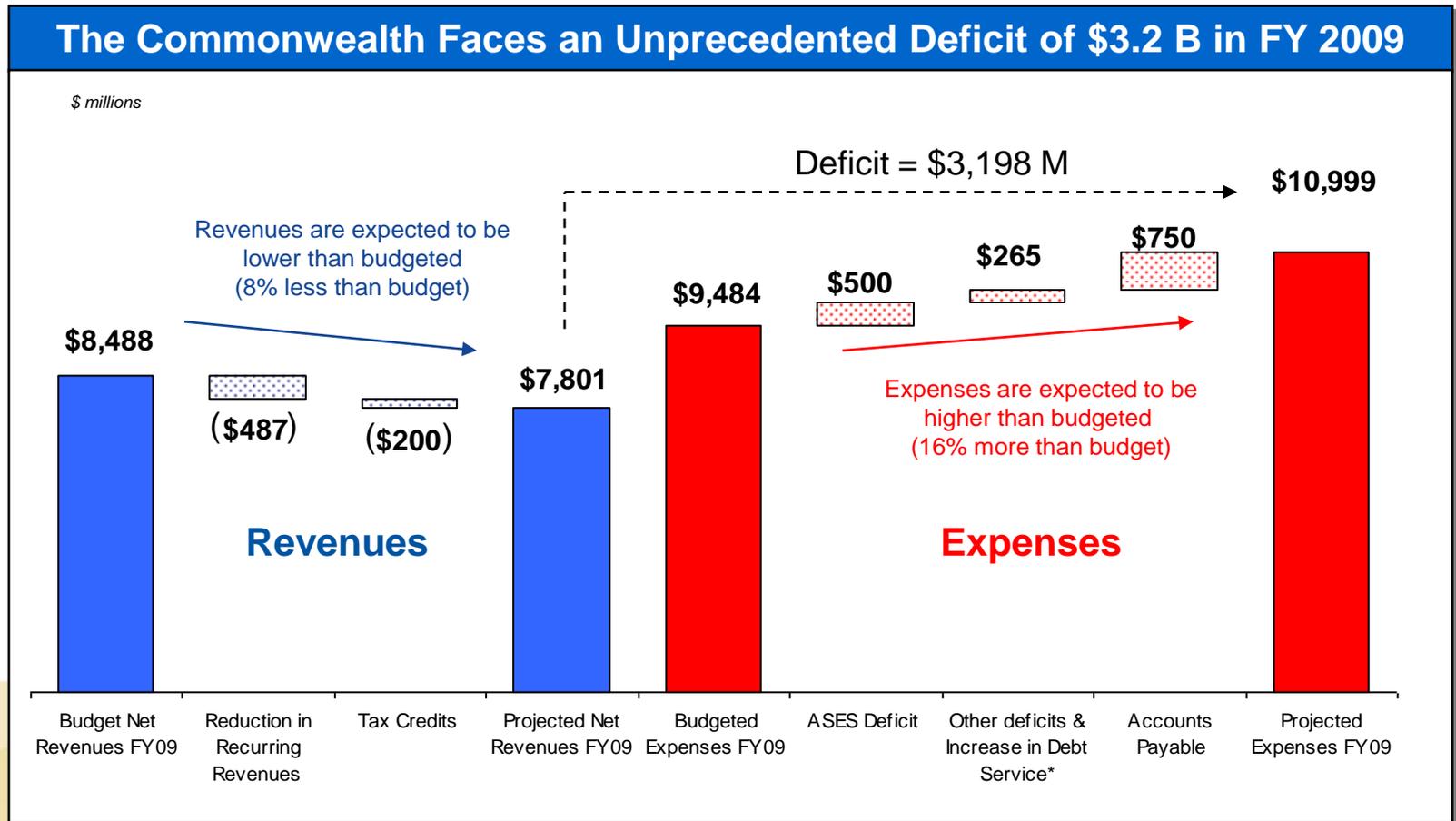
\$ M = million





Local Economic Trends and FY 2009 Budget

- Recurring structural deficit has grown to an estimated \$3.2 billion



Source: Fiscal and Economic Reconstruction Advisory Board Report (Jan-08-09).

* Includes other deficits + increases in debt service + increase in debt service GDB.



Local Economic Trends and FY 2009 Revenues

- The budget for FY 2009 included a proposed sale of a portfolio of \$1.0 bn of tax receivables, but market conditions have not allowed for the sale to materialize
- The trend in revenues for the 1H of FY2009 reveal a nominal drop of 5.2%

Revenue Sources	Actual FY2008	Budget FY2009	% Ch.	Jul-Dec FY2008	Jul-Dec FY2009	\$ Ch.	% Ch.
Individual	\$2,793	\$2,770	-0.8%	\$1,270	\$1,273	\$3.7	0.3%
Corporations	\$1,566	\$1,751	11.8%	\$774	\$687	-\$86.5	-11.2%
Non-Resident Withholdings	\$1,088	\$1,015	-6.7%	\$469	\$423	-\$46.5	-9.9%
GF Sales and Use Tax (1)	\$911	\$977	7.2%	\$397	\$369	-\$28.3	-7.1%
Excise Taxes	\$864	\$922	6.8%	\$416	\$408	-\$8.4	-2.0%
Federal Excise Taxes on Rum	\$362	\$372	2.8%	\$169	\$207	\$38.7	23.0%
Other	\$670	\$681	1.7%	\$395	\$321	-\$73.9	-18.7%
Total	\$8,253	\$8,488	2.8%	\$3,889	\$3,688	-\$201.2	-5.2%
Tax Receivable Financing	-	\$1,000	-	-	-	-	-
Grand Total	\$8,253	\$9,488	15.0%	\$3,889	\$3,688	-\$201.2	-5.2%

Source: Puerto Rico Treasury Department.

(1) Aggregate 5.5% sales and use taxes 3.6% below FY 2008 YTD

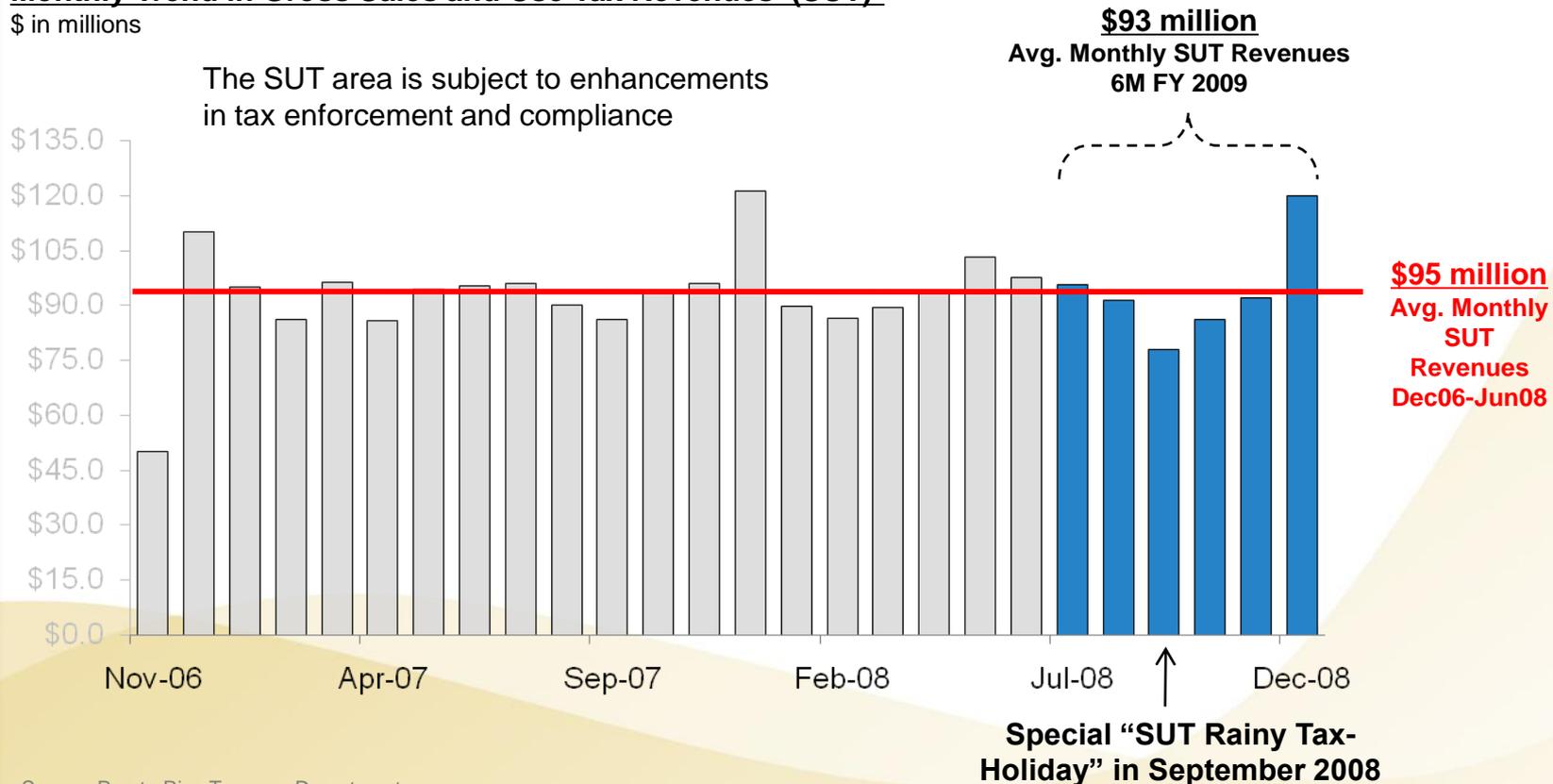


Local Economic Trends and FY 2009 Budget

- The gross revenues of the Sales and Use Tax (SUT) remain in line with the average monthly revenues for the first 6 months of FY 2009

Monthly Trend in Gross Sales and Use Tax Revenues (SUT)*

\$ in millions



Source: Puerto Rico Treasury Department.
* Gross without excluding the assignment to COFINA.



Local Economic Trends and FY 2009 Budget

- General Fund revenues are expected to decline by 10.5%
- Sharp decline in corporate revenues mainly due to losses in local banks and slowdown in global sales of pharmaceutical products

General Fund Tax Revenue Forecast FY 2009 (forecast as of Feb-02-09)

\$ in millions

Forecasts by Revenue Sources	Initial Forecasts F09	New Average Forecasts F09*	\$ Change	% Change
Individual	\$2,770	\$2,569	(\$201)	-7.3%
Corporations	\$1,751	\$1,432	(\$319)	-18.2%
Non-Resident Withholdings	\$1,015	\$879	(\$136)	-13.4%
Sales and Use Tax**	\$977	\$911	(\$66)	-6.8%
Motor Vehicles	\$414	\$342	(\$72)	-17.4%
Permits Fees and Penalties	\$195	\$137	(\$58)	-29.7%
Other	\$1,366	\$1,331	(\$35)	-2.6%
Total	\$8,488	\$7,601	(\$887)	-10.5%

Source: Puerto Rico Treasury Department.

* Forecast as of Feb-02-09.

**Aggregate 5.5% sales and use taxes 3.6% below FY 2008 YTD

Local Economic Trends and FY 2009 Budget

- **Implementation of expense reduction measures and steps towards multi-year budgeting**

Executive Order # 1 (Jan-08-2009) – (EO #1)

1. Prohibits the creation of new government positions and eliminates vacant positions
 2. 30% reduction in non-career government positions
 3. 10% annualized reduction (5% in FY 2009) in operational expenses
- ***There has been 877 non-career positions already eliminated***
 - ***70% of public agencies have reported progress in implementing EO #1***
 - ***Potential savings of \$91.4 million by the 2nd half FY 2009***

Multi-Year Budgeting

1. Elaborate longer-term budgets to bring about more stability to the fiscal planning process
2. Introduction and implementation of zero-based budgeting
3. Expense control measures:
 - a. Stronger analysis and monitoring of public agencies
 - b. Gain control of Federal Grants process
 - c. Thorough analysis and specific measures for agencies and public corporations in more difficult situation

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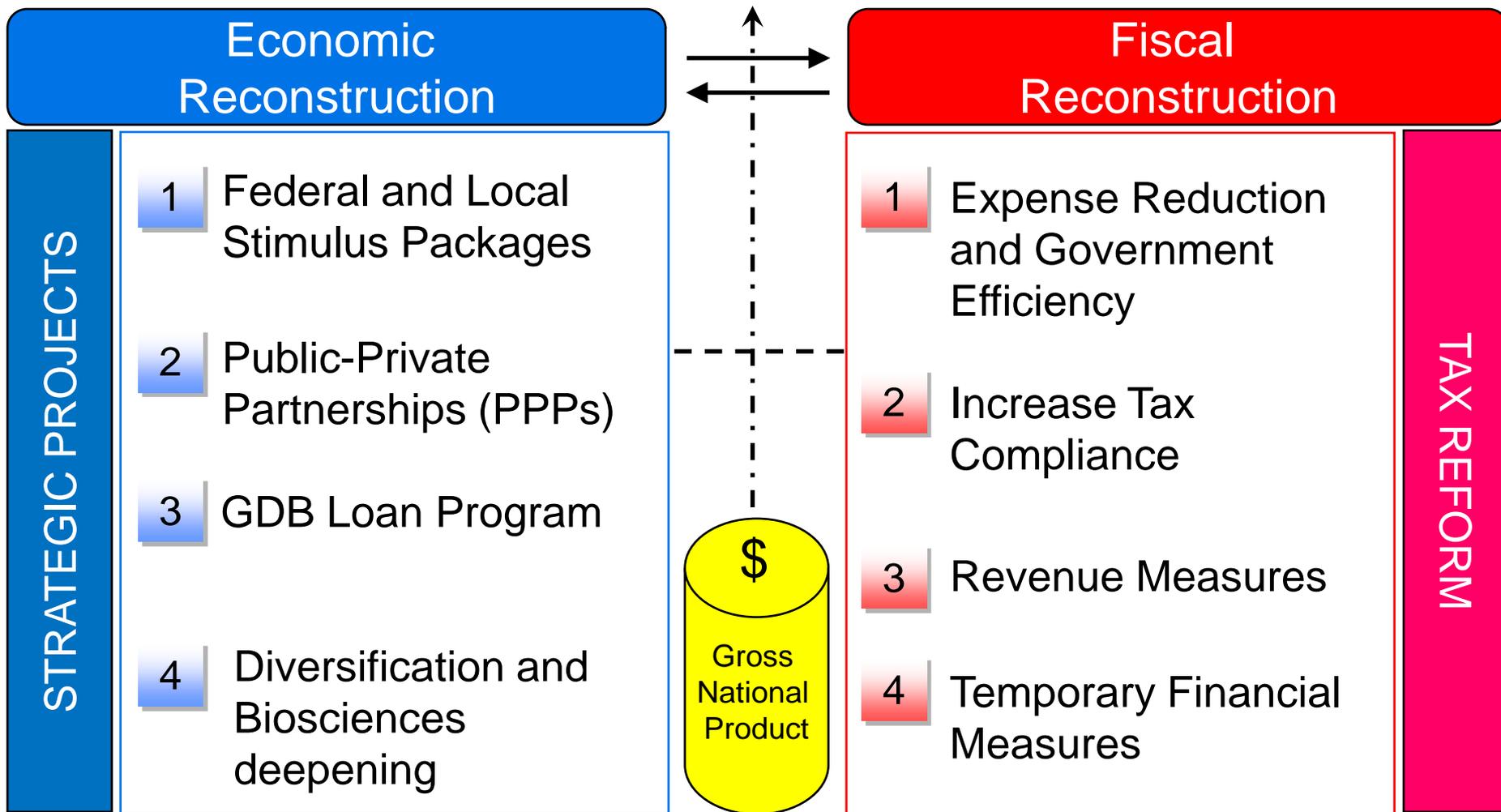
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Roadmap to Reconstruction

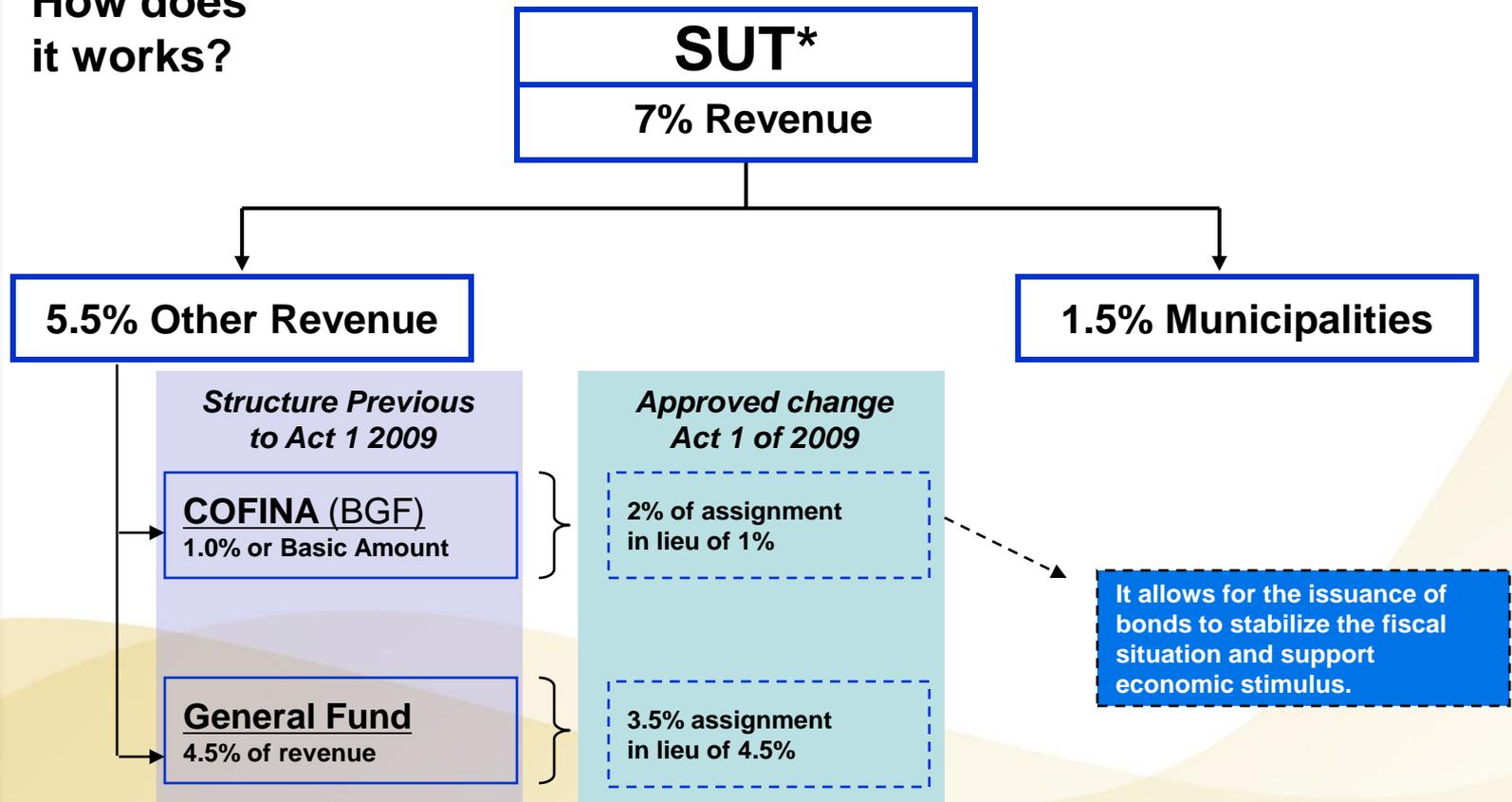


Roadmap to Reconstruction

Legislature approved Act 1 of 2009 (on Jan-15-2009) :

- a. Pledges an additional 1% of the SUT to the Dedicated Sales Tax Fund (2% in total)
- b. Enhances access to the bond market through a “single-A” credit
- c. Existing COFINA bonds will not be affected by new COFINA bonds

How does it works?





Proposed measures barely impact total debt levels

\$ Billion

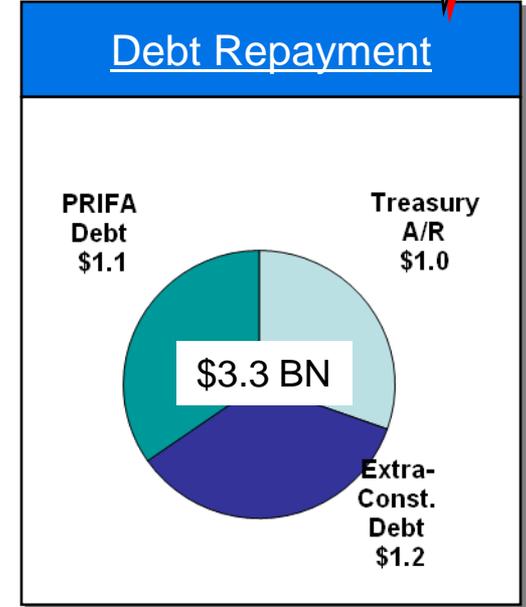
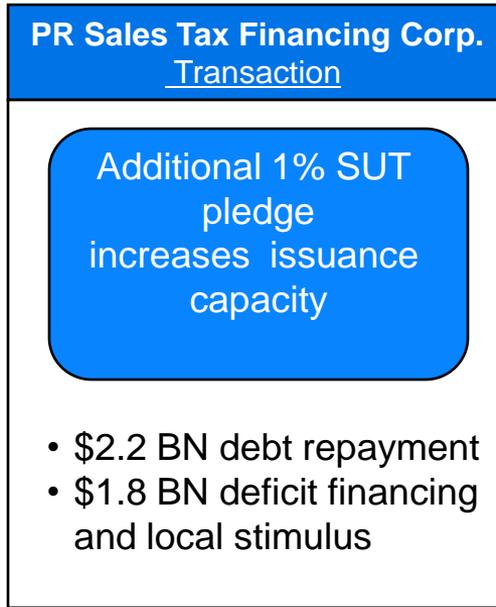
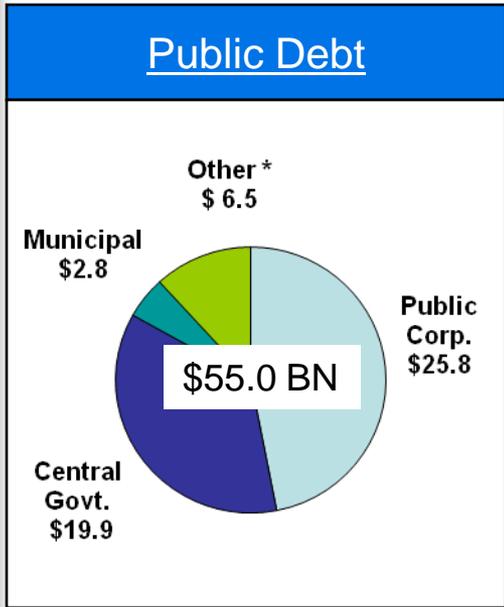
\$55.0

+

\$4.0

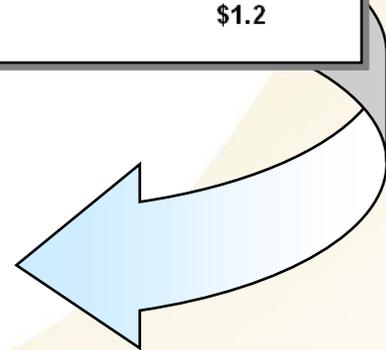
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\$3.3



Net debt increase:
\$710 million
 or 1.3%

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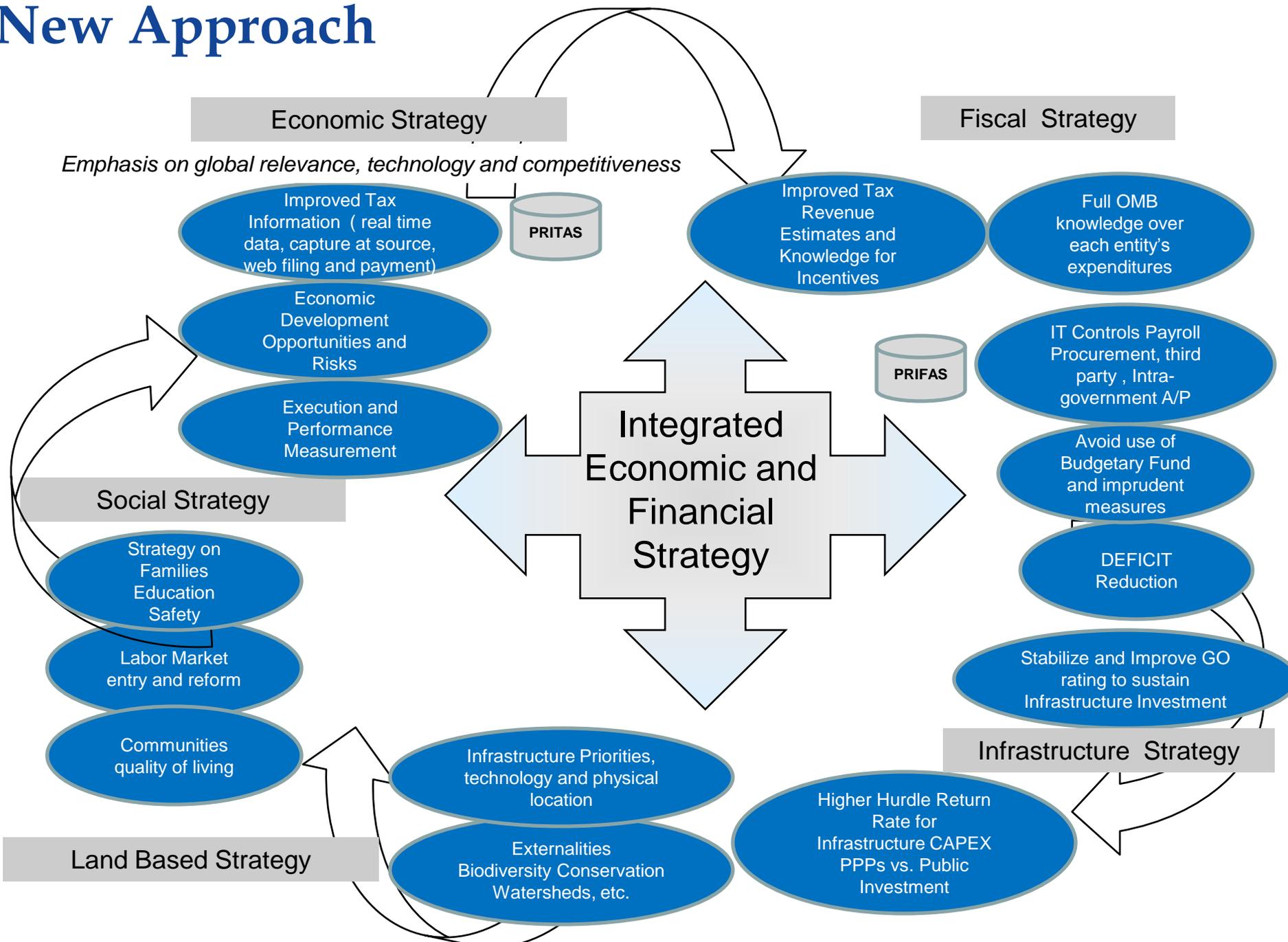




Roadmap to Reconstruction

- **GDB is fully collaborating with Treasury and OMB and enhancing its role as Fiscal Agent**
- Fiscal management will be centralized and supported by optimal use of information technology for reengineering and savings
- Public agencies will be required to develop multi-year budgets with specific milestones for operations, cash flows, capital investment and asset management
 - Integration to PRIFAS will lead to comprehensiveness, accuracy, real time data, performance measurement and faster audit cycles
 - Monthly monitoring will enhance fiscal control
- Each agency will have specific financial ratios to comply with by certain dates
- All agencies will share the same underlying assumptions for economic trends and future revenue growth
- Risk management will be integrated into all decision-making on investment, financial, operational, infrastructure technology and asset management

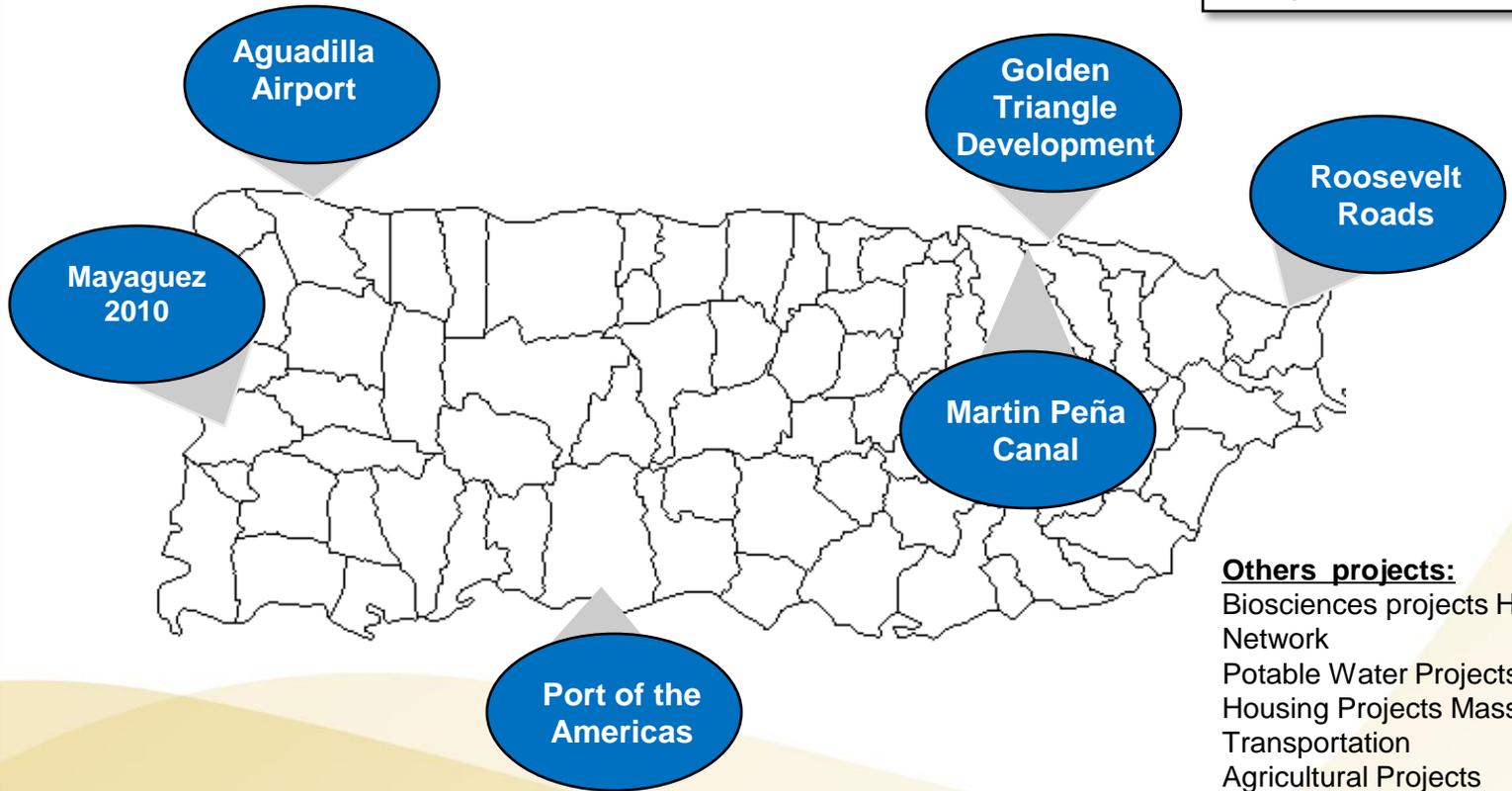
New Approach



Roadmap to Reconstruction

- Strategic projects that will enhance competitiveness of local economy

Key Infrastructure Projects:



Key Reforms:

- Health Reform
- Energy Reform
- Permitting Process
- Non-profit sector

Others projects:

- Biosciences projects
- Highway Network
- Potable Water Projects
- Housing Projects
- Massive Transportation
- Agricultural Projects



Public-Private Partnerships

- **New Public-Private Partnerships Legislation Will Provide A Clear Legal Framework to Execute Agreements**
 1. Legislation will be introduced in FY 2009
 - a. Alternate financing mechanism to fund needed infrastructure investments
 - b. Reduce debt issuance by the central government and public corporations
 - c. Ongoing P3 efforts at HTA and Ports Authority will be pursued within the new legal framework

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Investor Relations and Transparency

- **The New Administration is committed to improving Investor Relations and provide transparency**
 - Commitment to release financial information on timely basis
 - Carry out investor calls on regular basis
 - The following information is posted on the internet:
 - Official statements for U.S. and local market transactions: emma.msrb.org
 - Monthly General Fund Net Revenues: www.hacienda.gobierno.pr
 - Economic data from the Puerto Rico Planning Board: www.jp.gobierno.pr
 - Investor presentations and Fiscal and Economic Reconstruction Advisory Board Report: www.gdb-pur.com
 - English translations of legislation: www.oslpr.org/english
 - We welcome your feedback to help us establish disclosure best practices.



Upcoming Credit Conference

(Preliminary Agenda Subject to Change)

DAY 1. ECONOMIC RECONSTRUCTION	
THURSDAY, FEBRUARY 19TH	
<u>TOPIC / MEETING</u>	<u>SPEAKER / PARTICIPANTS</u>
OPENING	President GDB
Economic Forecasts	Planning Board President
Economic Dev. Vision	Sec. Econ. Dev./Commerce
BREAK	
Public-Private Partnerships	Panel of Experts
MUSEUM TOUR	
Networking DINNER	

DAY 2. FISCAL RECONSTRUCTION	
FRIDAY, FEBRUARY 20TH	
<u>TOPIC / MEETING</u>	<u>SPEAKER / PARTICIPANTS</u>
Welcome	Governor of Puerto Rico
Multi-Year Budget Plan	Office of Budget & Mgnt. Director
Tax Compliance	Treasury Dept., Secretary
BREAK	
Fiscal Update & Financial Measures	President GDB
Credit Challenges	Rating Agencies Panel
What to Expect from PR?	Investors Panel
LUNCH	
Private Sector Coalition	Rating Agencies / Investors

Summary Remarks



Commitment to Sound Fiscal Management

- 1** The new Economic and Financial Team understands the challenges ahead and is committed to a reconstruction roadmap
- 2** The new administration has made significant progress in its first 30 days in office
- 3** The local recession has affected revenues and has aggravated the financial condition of the Commonwealth
- 4** The recurring fiscal deficit is no less than \$3.2 billion for FY 2009
- 5** The roadmap to fiscal and economic reconstruction has already been drafted and we are moving ahead diligently with further analysis and definition of implementation phase.
- 6** GDB will continuously reach out to investors in order to provide transparency



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