

PUBLIC FINANCE CORPORATION (“PFC”) BONDS

The “PFC Bonds” are limited obligations of PFC payable solely from the proceeds of payments of principal of and interest on certain promissory notes (the “Notes”) issued to PFC by certain departments, agencies, instrumentalities and public corporations (the “Authorized Debtors”) of the Commonwealth, which Notes are in turn payable solely from budgetary appropriations approved annually by the Legislature of Puerto Rico pursuant to certain legislation (the “Appropriation Acts”). The [name of the entity] is one of the Authorized Debtors under the Notes (see Note ____).

The Appropriation Acts require the Office of Management and Budget of the Commonwealth (“OMB”) to include the amounts required to pay debt service on the Notes in the proposed annual budget of the Commonwealth that is submitted by the Governor to the Legislature of Puerto Rico. However, the Legislature of Puerto Rico is not legally required to appropriate funds for such payments. The non-appropriation of funds for payments on the Notes resulted in a lack of proceeds available under the Notes to pay the principal and interest due on the PFC Bonds. The debt service payments of the PFC Bonds are payable solely from the proceeds of the Notes, and the PFC Bonds are limited obligations of PFC and not of any Commonwealth entity. Therefore, in the event of a non-appropriation of funds and the resulting lack of payment of the PFC Bonds, bondholders have no recourse to other assets of the Authorized Debtors or of PFC, nor do they have recourse against the Legislature of Puerto Rico, the Commonwealth or other governmental entities of the Commonwealth.

Due to the non-appropriation of funds for the payment of the Notes in the annual budget for fiscal year 2016, none of the payments on the Notes, nor the corresponding payments on the PFC Bonds, that have come due and payable this fiscal year have been made in full. As publically disclosed by GDB and PFC following the approval of the annual budget for fiscal year 2016, the non-appropriation of the necessary funds to make the payments on PFC Bonds reflects the reality of the Commonwealth’s current liquidity situation and fiscal challenges, in combination with the balance of the Commonwealth’s obligations to its creditors and the equally important obligations to the citizens of Puerto Rico to ensure the provision of essential services. As of the date hereof, GDB is unaware of any claims being asserted by holders of the PFC Bonds or the PFC Bonds trustee under the governing agreements and/or the Notes in connection with the missed payments on the PFC Bonds.