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Ambac

Puerto Rico Exposure Overview

February 2014

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Summary

- ▶ **Ambac insures \$2.5bn of Puerto Rico related debt**
- ▶ **Approximately 90% of Ambac's Puerto Rico exposure is Revenue Debt**
 - Revenue pledges from toll receipts, and sales, gas, rum, and hotel occupancy taxes
 - Senior lien positions
 - Required segregation of collected funds
 - Certain pledged revenue streams supporting revenue bonds may be subject to the Commonwealth's constitutional claw-back provision (see page 9)
- ▶ **Approximately 10% is Commonwealth GO backed debt**
- ▶ **Puerto Rico is highly leveraged**
 - Reliance on deficit financing requires sustained fiscal and political resolve to maintain market access while also addressing economic and structural issues
 - Ambac is currently monitoring the Commonwealth's progress

Puerto Rico Exposure Summary

Transaction ⁽¹⁾	Gross Par ⁽²⁾ as of Dec 31, 2013 (\$mm)	Maturity Date	Debt Service Coverage Ratio ⁽⁴⁾
Puerto Rico Sales Tax Revenue Bonds (COFINA)	\$808	2054	3.0X
Puerto Rico Highway and Transportation Authority Revenue Bonds	\$760	2045	2.7X (1968 Res) 1.4X (1998 Res – Senior)
Puerto Rico Infrastructure Financing Authority – Rum Tax	\$574	2044	2.8X
Puerto Rico Convention Center District Authority – Hotel Tax	\$137	2031	1.4X
Puerto Rico Public Buildings Authority (GO Guaranteed)	\$191	2035	n/a
Puerto Rico Commonwealth GOs	\$59	2023	n/a
Total	\$2,529		

(1) For CUSIP* information, see “Detailed Schedule of Insurance Exposures” in the Investor Relations section of www.ambac.com

(2) Gross Par excludes accrued interest

(3) Ratings as of Feb 7, 2014

(4) Source: Commonwealth’s FY 2012 Continuing Disclosure

*CUSIP is a registered trademark of the American Bankers Association

Sales Tax Revenue Bonds

Series 2007A Capital Appreciation Bonds

- ▶ \$808mm gross par
- ▶ Payable from first collections of the Commonwealth's portion (currently 5.5%) of sales and use taxes.
- ▶ Collections are made monthly and required to be segregated
- ▶ COFINA statute and documents require daily deposit of first revenues with trustee, aggregating to a minimum base amount, subject to monthly top-up if pledged portion of the tax (3.5%) exceeds base amount
- ▶ COFINA shall direct the Office of Management and Budget to recommend a budgetary appropriation of funds if less than base amount is received
- ▶ Subject to non-impairment covenant of the Commonwealth
- ▶ The sales and use tax revenues are stated to be exempt from the Commonwealth Constitution's claw-back provision

Highway and Transportation Authority

Highway Revenue Bonds - 1968 Resolution (\$28mm)

Transportation Revenue Bonds - 1998 Resolution (\$732mm)

- ▶ \$760mm gross par
- ▶ Gross revenue pledge on certain toll receipts, excise taxes, vehicle license fees and investment income
- ▶ Pledged funds (other than toll receipts) required to be deposited in a designated fund held at the Treasury of the Commonwealth in favor of the Authority and toll receipts required to be deposited with a qualified depository in the name of the Authority
- ▶ Toll revenues (approx. 27% of revenues) are stated to be exempt from the Commonwealth Constitution's claw-back provision
 - Other pledged revenues may be subject to claw-back under Commonwealth's Constitution

Infrastructure Financing Authority (Rum Tax) Special Tax Revenue Bonds, Series 2005

- ▶ \$574mm gross par
- ▶ Secured by Federal excise taxes on rum and other articles, if any, produced in Puerto Rico and sold in the US
- ▶ First \$117mm of annual receipts required to be deposited with a designated fund maintained by or on behalf of the Authority
- ▶ The Authority may direct the Office of Management and Budget to recommend a budgetary appropriation of funds if less than \$117mm of Federal excise taxes are received by the Authority
- ▶ Revenues may be subject to claw-back under Commonwealth's Constitution

Convention Center District Authority

Hotel Occupancy Tax Revenue Bonds, Series A

- ▶ \$137mm gross par
- ▶ Secured by revenue pledge of hotel occupancy tax
- ▶ Tourism and business-related visitor activity revenue stream from casinos, resorts, hotels, motels and inns, among others
- ▶ Tax collections required to be remitted monthly to a pledged segregated account at the Government Development Bank, which is required to transfer funds to the trustee within three business days of receipt
- ▶ Subject to non-impairment covenant of the Commonwealth
- ▶ Revenues may be subject to claw-back under Commonwealth's Constitution

Public Buildings Authority

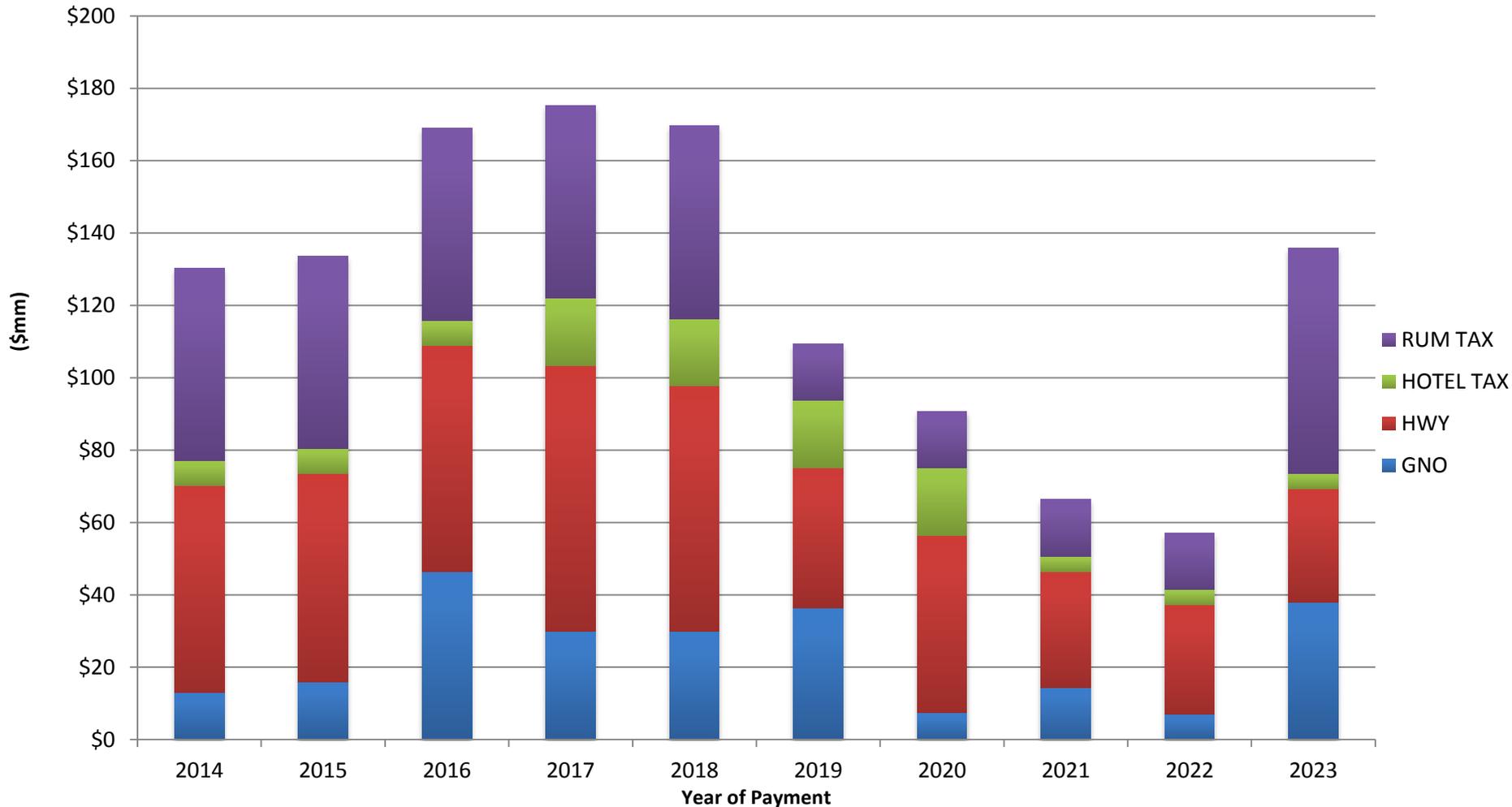
Commonwealth GO Guaranty

- ▶ \$191mm gross par
- ▶ The Public Buildings Authority is authorized to construct, purchase or lease office, school, health, correctional and other facilities for lease to departments, public corporations and instrumentalities of the Commonwealth
- ▶ Bonds issued to finance such facilities are payable from lease payments (which include amounts sufficient to pay principal and interest) to which the good faith and credit of the Commonwealth (or of the municipality, for municipal leases) are pledged
- ▶ Bonds are also supported by the Commonwealth's guaranty
- ▶ Subject to non-impairment covenant of the Commonwealth

Commonwealth GO

- ▶ **\$59mm gross par**
- ▶ **The Commonwealth has pledged its good faith, credit, and taxing power for the prompt payment of principal and interest**
- ▶ **The Constitution of Puerto Rico provides that public debt of the Commonwealth constitutes a first claim on available Commonwealth resources**
 - The Commonwealth may be able to claw-back from its instrumentalities revenues that are considered to be Commonwealth resources, to the extent all other available resources of the Commonwealth are insufficient for paying principal and interest on Commonwealth public debt

Schedule of Debt Service on Ambac Insured Debt (2014-2023)



Debt service on Ambac Insured Sales Tax (COFINA) Debt does not begin until 2047