Flexible Financing Facility (FFF)
Stand Alone Hedges to Manage IDB Debt*

IDB Finance

FINANCIAL SOLUTIONS

About the FFF

The FFF offers financial solutions to further borrowers' risk management capabilities in projects, lending programs and asset-liability management strategies. Sovereign borrowers can choose from a menu of embedded options to tailor financial terms of Ordinary Capital (OC) loans. The FFF also offers stand alone hedges to transform risk characteristics of all IDB obligations. These financial solutions address borrowers' changing needs during the life of IDB loans.

Hedging IDB debt

Using standard market techniques, borrowers have the option to manage interest rate, currency and other types of exposures through direct hedges with the IDB throughout the life of IDB loans. Hedges are offered against outstanding loan balances (OLBs) on a loan or loan portfolio basis. To access hedging products, an ISDA Master Derivatives Agreement (MDA) must be signed with the Bank.

Hedges carry the following characteristics:

- Notional amounts of hedges cannot exceed the borrower's underlying IDB loan portfolio outstanding balance during the hedges' life.
- Cross-default provisions between loans and hedges apply and are included in the MDA; all loan agreements are amended to include this provision.
- Credit Support Annex (CSA) or posting of collateral is not required.
- Termination events (full or partial) on hedges include: (i) default or delay in payments on a hedge or loan acceleration, (ii) illegality, and (iii) if, as a result of loan prepayment, the notional amount of outstanding debt in US$ is less than the aggregate notional amount of hedges measured by US$ side of hedges.
- Cash flows, payment amounts and due dates of hedges are independent of those of loans. The two instruments are contracted and settled separately with no payment netting.

At a Glance

- Management of interest rate, currency and other types of exposures through direct hedges with the IDB.
- Hedges are offered against an IDB loan or loan portfolio outstanding amounts.
- ISDA MDA must be signed with the IDB.
- Hedge pricing is based on borrower's desired protection level.
- Early termination of hedges are subject to IDBs ability to unwind its operations with the market.
- Costs/gains resulting from IDBs redeployment of funds are passed on to borrowers.

Types of hedges

Subject to market availability, borrowers can hedge the interest rate basis or currency exposures using swaps, or limit interest rate volatility by purchasing caps and/or collars. Currency swaps are offered into any IDB member currency.

Pricing and Transaction Fees for Stand Alone Hedges

The IDB executes hedging operations via a match funding approach. Hedges are subject to market availability and pricing is on a cost pass-through basis plus applicable fees.

Hedge pricing is based on borrower's desired protection level. The resulting rate reflects market conditions as found by the IDB and is the same paid by IDB in its hedging operations.

For applicable Transactions Fees, please refer to www.iadb.org/rates.

Early terminations of hedges by the borrower are subject to IDBs ability to unwind its own hedges with the market. Costs/gains resulting from IDBs redeployment of funds are passed on to the borrower.

Please consult with us for these and other hedging options.

*** All loans negotiated after January 1st, 2012, will be approved under the Flexible Financing Facility.**

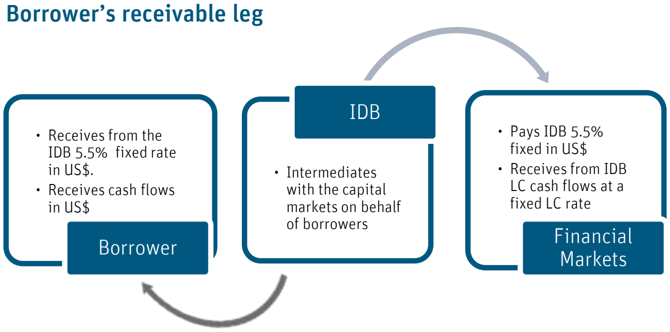
Stand Alone Hedges | Terms and Conditions *

Types of hedges	- Interest rate basis using swaps. - Interest rate volatility limits by purchasing caps and/or collars. - Currency risks of US$ or local currency denominated financing via swaps into any IDB member currency. - Hedges are subject to market availability.
Documentation	- Hedges require an ISDA Master Derivatives Agreement (MDA) executed with the IDB.
Underlying eligible debt	- Individual IDB loans. - Multiple/portfolio of IDB loans.
Exposure limits	- Notional amounts of hedges cannot exceed underlying IDB loan portfolio outstanding balance during the hedges' life, measured by the US$ side of the hedge.
Cross default provisions	- Cross-default provisions between loans and hedges apply and are included in the MDA; all loan agreements are amended to include this provision, i.e., arrears sanctions on loans are triggered by default or payment delays on hedges and vice versa.
Loan and hedge payments	- Cash flows, payment amounts and due dates of hedges are independent of those of loans. - Hedges and loans are contracted and settled separately with no payment netting.
Early termination	- Subject to IDBs ability to unwind its own hedges with the market. - Costs/gains resulting from IDBs redeployment of funds are passed on to the borrower.
Termination events	- Default or delay in payments on a hedge by borrower or loan acceleration. - Illegality. - Notional amount of outstanding debt in US$ is less than the aggregate notional amount of hedges measured by US$ side of hedges due to loan prepayment.
Pricing	- Pricing is based on borrower's desired protection level. - Cost is on a pass-through basis.
Fees	- Fees apply. For a complete list of transaction fees, please refer to www.iadb.org/rates.

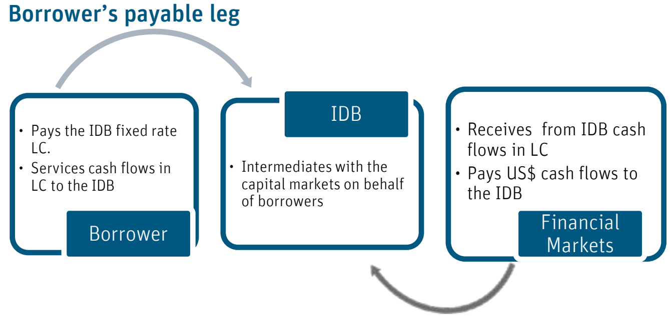
Example of an currency swap

- Borrower has a US$ fixed rate loan that would like to hedge to LC at a fixed rate.
- Borrower determines 5.5% as its desired rate to receive in US$. On the LC leg of the swap, the borrower pays a fixed rate in LC, which is equivalent to the 5.5% in US$.

Borrower's receivable leg



Borrower's payable leg



*** All loans negotiated after January 1st, 2012, will be approved under the Flexible Financing Facility.**