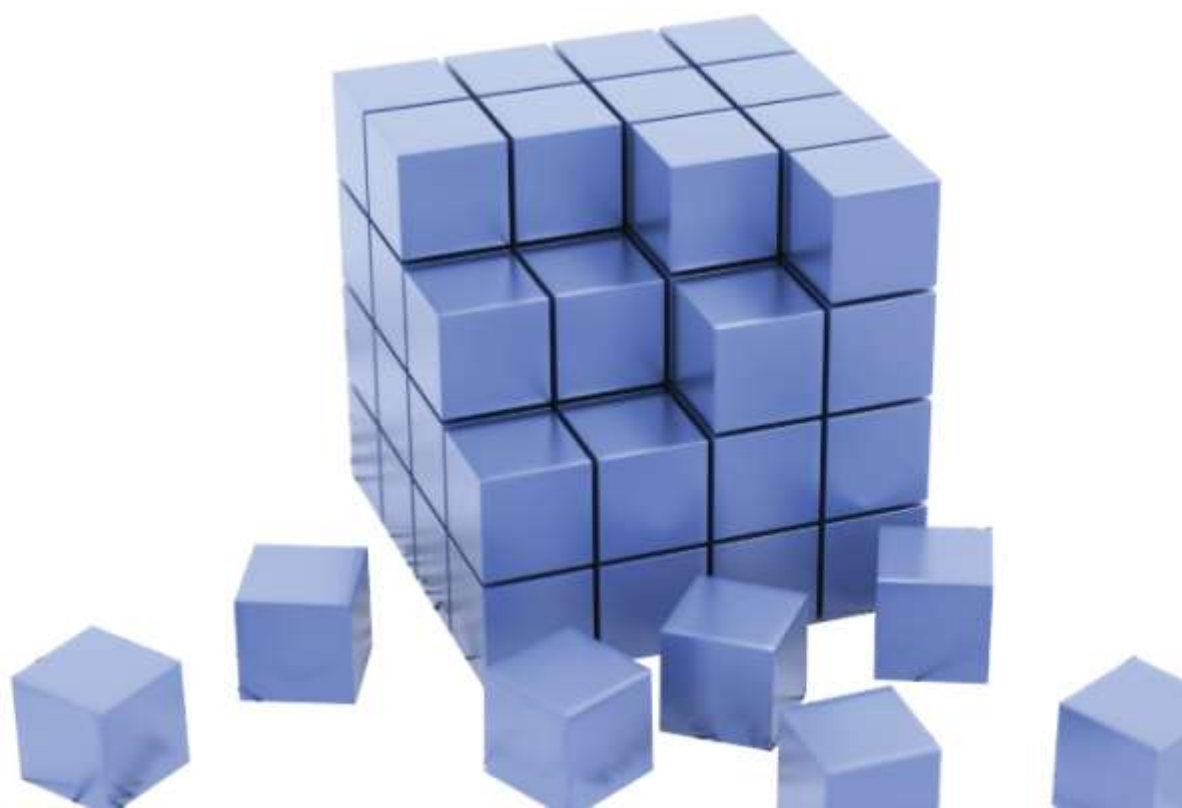


# Operational Procedures

## FLEXIBLE FINANCING FACILITY

2020



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## 1. DEFINITIONS

1. **Amortization Schedule:** means the original schedule requested by the Borrower at Loan Contract signature for the payment of the Loan amortization installments or any modified schedule or repayment profile requested by the Borrower in a Request Letter and agreed to by the Bank.
2. **Amortization Schedule Modification Notification Letter:** a communication from the Bank to the Borrower which responds to a Borrower's Request Letter to modify a Loan Amortization Schedule.
3. **Base Interest Rate:** for US dollar denominated Loans, corresponds to the 3-month USD LIBOR plus the IDB's funding margin; for LC denominated or for LC/MC converted Loans, corresponds to the selected currency equivalent of (i) LIBOR plus the Bank's estimated funding cost; or (ii) the actual funding cost.
4. **Borrower:** the party of the Loan Contract to which the Loan is extended.
5. **Commodity:** a raw material or primary agricultural product for which IDB can execute a Commodity Conversion subject to market availability, operational and risk management considerations.
6. **Commodity Conversion:** options linked to Commodity prices embedded in FFF loans.
7. **Conversion:** a modification of the terms of all or any portion of a Loan as requested by the Borrower, accepted by the IDB, and provided in the Loan Contract. A Conversion may be: (i) an Interest Rate Conversion; (ii) a Currency Conversion; (iii) the establishment of an Interest Rate Cap or Interest Rate Collar on the variable rate; or (iv) the establishment of a Commodity Conversion.
8. **Converted Currency:** a Loan's currency denomination during a Conversion or the disbursed LC for Loans approved in LC (see Currency Conversion).
9. **Conversion Effective Date:** the Effective Date or such other date as the Bank determines on which a Conversion enters into effect.
10. **Conversion Notification Letter:** letter sent by the Bank to the Borrower detailing the financial terms and conditions upon which a Conversion was effected.
11. **Conversion Period:**
  - **For Conversions other than Commodity Conversions:** the period from the Conversion Effective Date through the last day of the interest period in which a Conversion terminates in accordance with its terms. For the purpose of enabling the final payment of interest and principal, such period ends on the payment date immediately following the last day of said final applicable interest period.
  - **For Commodity Conversion:** the period from the Conversion Effective Date through the date set forth in the Conversion Notification Letter.
12. **Counterparty:** the party with which the Bank enters into a derivatives transaction in order to effect a Conversion.
13. **Currency Conversion:** a change of the Loan Currency on the total or on a partial amount of a disbursement or an outstanding Loan balance. In the case of Loans approved in Local

Currency, a Currency Conversion also refers to disbursements in LC as the Bank must execute a Market Transaction to effect such disbursement.

14. **Currency Hedge Transaction:** for a Currency Conversion, one or more currency swap transactions entered into by the Bank with a Counterparty as of the Execution Date.
15. **Commodity Hedge:** one or more Option contracts entered into by the Bank with a Counterparty as of the Execution Date.
16. **Execution Date:** with respect to a Conversion, the date on which the Bank has undertaken all actions to execute a Conversion, as reasonably determined by the Bank.
17. **Execution Period:** is the period during which the Bank can execute its Market Transaction/price a transaction via Screen Rates or a combination of both in connection with a Conversion as specified in the Request Letter. The Execution Period starts from the date the Request Letter is received by the Bank and will end on a specified number of calendar days later, as specified by the Borrower in the Request Letter.
18. **Fixed Rate:**
  - a) Upon an Interest Rate Conversion from the Variable Rate, a fixed rate of interest applicable to the amount of the Loan to which the Conversion applies, equal to either (i) the interest rate that reflects the fixed rate of interest payable by the Bank under the Interest Rate Hedge Transaction relating to the Conversion; or (ii) the Screen Rate, if the Bank so determines in accordance with these procedures.
  - b) Upon a Currency Conversion of an amount of the Loan that shall accrue interest at a fixed rate during the Conversion Period, a fixed interest rate applicable to such amount is equal to either (i) the interest rate that reflects the fixed rate of interest payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) the interest rate component of the Screen Rate, if the Bank so determines in accordance with these procedures.
19. **Full-Term Conversion:** refers to a Borrower's ability to request a Conversion over a specific period that where upon expiration the converted amount must be fully repaid by the Borrower without an option to roll-over.
20. **Grace Period:** period between signature date and the originally scheduled first principal repayment date.
21. **Interest Rate Hedge Transaction:** for an Interest Rate Conversion, one or more interest rate swaps transactions entered into by the Bank with a Counterparty as of the Execution Date.
22. **Interest Rate Cap:** establishing an upper limit on the cost base of a variable rate, as requested by a Borrower.
23. **Interest Rate Collar:** establishing an upper and lower limit on the cost base of a variable rate, as requested by a Borrower.
24. **Interest Rate Conversion:** a change of the interest rate basis applicable to all or any amount the outstanding Loan balance, from the variable rate to the fixed rate or vice versa or any other change in the terms of the interest rate applicable to a Loan. For purposes of these guidelines, the establishment of an Interest Rate Cap or Collar also constitutes an Interest Rate Conversion.

25. **Investment Loan:** a Loan that finances goods works and services for promoting social and economic development.
26. **Loan:** means the financing the Bank has agreed to make available to the Borrower, as set forth in the Loan Contract, or depending on the context, the outstanding balance of such Loan.
27. **Loan Contract:** includes the Special Conditions, General Conditions, annexes, and appendices, pursuant to which the Bank agrees to provide financing to a borrowing member country or entity guaranteed by a borrowing member country, as well as all supplemental agreements or amendments to the Loan Contract.
28. **Legacy Financial Products:** includes Loans under the Currency Pooling System (CPS) adjustable and fixed, the Single Currency Facility (SCF) adjustable, and the Dollar Window (DW).
29. **LIBOR (London Interbank Offered Rate):** for any interest period, the London interbank offered rate for deposits in the relevant Loan Currency for 3 months, expressed as a percentage per annum, that appears on the Relevant Rate Page as of 11:00 am London time on the Rate Determination Date for the interest period. The 3-month USD-LIBOR reset dates are the 15th of January, April, July, and October. The Rate Determination Date is 2 relevant business days prior to the reset date.
30. **Loan Currency:** the currency denomination of the original Loan. If the Loan Contract provides for Conversions, during the Conversion Period the Loan Currency is the Converted Currency and will return to the Loan Currency upon termination of the Conversion. If the Loan is denominated in more than one currency due to multiple currency Conversions, Loan Currency refers separately of each of such currencies.
31. **Major Currencies (MC):** the currencies of non-borrowing member countries of the Bank that the Bank can efficiently source in accordance with its risk management policies and its operational considerations.
32. **Market Based Loans:** for the purpose of these Operational Procedures, refers to Loans documented under the IDB's Single Currency Facility (SCF)-LIBOR, SCF-fixed, Local Currency Facility (LCF), and SCF and Currency Pooling System (CPS)-adjustable rate Loans converted under the 2009 and 2010 Conversion Offer.
33. **Market Transaction:** undertaking an Interest Hedge Transaction or a Currency Hedge Transaction, market sourcing for IDB's LC treasury operations, purchasing/selling an Interest Rate Cap or Interest Rate Collar, or entering into a Commodity Hedge transaction by the Bank in the financial markets.
34. **Option:** a financial derivative instrument that offers the buyer the right, but not the obligation, to buy (in the case of a Call Option) or to sell (in the case of a Put Option) a specified amount of a Commodity at an agreed-upon price (i.e., the Strike Price) during a certain period of time or on a specific date.
35. **Option Type:** available option types to execute a Commodity Conversion in FFF loans include:
  - European Option: Option that can only be exercised at termination based on the price of the underlying Commodity at termination date.

- Fixed-strike Arithmetic Asian Option: Option that uses the average underlying price over some pre-set period to determine its payoff; it can only be exercised at termination.
  - Binary Option: Option in which the payoff is either some fixed monetary amount or zero; it pays a predetermined fixed amount if the option expires in the money at termination date.
36. **Original Disbursement Expiration Date:** the originally scheduled last date stipulated for disbursement, as per the Loan Contract.
  37. **Original Disbursement Period:** the period between the effective date and the Original Disbursement Expiration Date of the Loan as determined in the Loan Contract.
  38. **Partial Term Conversion:** refers to the option a Borrower has to request a Conversion for a shorter period than the maturity of the Loan with option to, upon request and subject to market availability, roll over such Conversion, or revert to the Loan's original terms.
  39. **Policy-Based Loan (PBL):** a Loan that supports the Bank's borrowing member countries in their macroeconomic and sector policy reforms and institutional changes
  40. **Rate Determination Date:** see LIBOR.
  41. **Request Letter:** an irrevocable request from the Borrower to the Bank to execute a Conversion or a modification of Amortization Schedule under the terms there specified.
  42. **Required OLB:** Will have the meaning set forth in Section 4.3.4.4.
  43. **Screen Rate:** a market rate displayed by established information vendors such as, but not limited to, Bloomberg or Reuters.
    - a) For an Interest Rate Conversion from the variable rate to the fixed rate, the fixed rate of interest determined by the Bank on the Conversion Execution Date on the basis of the variable rate and market rates displayed by information vendors reflecting the Conversion Period, the currency amount and the repayment provisions of the amount of the Loan to which the Conversion applies;
    - b) For Interest Rate Conversion from the fixed rate to the variable rate, the variable rate of interest determined by the Bank on the Conversion Execution Date on the basis of the fixed rate and market rates displayed by information vendors reflecting the Conversion Period, the currency amount and the repayment provisions of the amount of the Loan to which the Conversion applies;
    - c) For a Currency Conversion of a disbursement or an outstanding Loan balance, each of (i) the exchange rate between the Loan Currency immediately prior to the Conversion and the Converted Currency, determined by the Bank on the Conversion Execution Date on the basis of market exchange rates displayed by established information vendors; and (ii) the fixed or variable interest rate (whichever applies to the Conversion) determined by the Bank on the Execution Date in accordance with the Conversion procedures established in these Operational Procedures on the basis of the interest rate applicable to such amount immediately prior to the Conversion and market rates displayed by established information vendors reflecting the Conversion Period, the currency amount and the repayment provisions of the amount of the Loan to which the Conversion applies;

- d) For early termination of a Conversion, each of the rates applied by the Bank for the purpose of calculating the Unwinding Amount as of the date of such early termination in accordance with the Conversion procedures established in the Operational Procedures on the basis of market rates displayed by established information vendors reflecting the remaining Conversion Period, the currency amount and the repayment provisions of the amount of the Loan to which the Conversion and such early termination apply.
- 44. **Settlement Currency:** refers to the currency used to settle debt services payments. For fully convertible currencies, the Settlement Currency is the Converted Currency; for non-convertible currencies, the Settlement Currency is USD.
- 45. **Strike Price:** the fixed price at which the owner of an Option can buy (in the case of a Call Option) or sell (in the case of a Put Option), the underlying Commodity.
- 46. **Unwinding Amount:** for converted amounts in cases of early termination of Conversions, return of advanced funds, prepayments, and repayment acceleration (i) an amount payable by the Borrower to the Bank equal to the net aggregate amount payable by the Bank under Market Transactions undertaken by the Bank to terminate a Conversion, or if no such transactions are undertaken, an amount determined by the Bank on the basis of the Screen Rate, to represent the equivalent of such net aggregate amount; or (ii) an amount payable by the Bank to the Borrower equal to the net aggregate amount receivable by the Bank under Market Transactions undertaken by the Bank to terminate a Conversion, or if no such transactions are undertaken, an amount determined by the Bank on the basis of the Screen Rate, to represent the equivalent of such net aggregate amount.
- 47. **Valuation Date:** a date that is a number of business days prior to any amortization, interest payment or both, as determined by the Bank.
- 48. **Weighted Average Life (WAL):** the weighted average time period from the date of execution of a Loan Contract to the date of repayment of the respective installments calculated on outstanding Loan balances. The WAL allows comparing, from a cash-flow perspective, the equivalence of different types of Amortization Schedules. For example, a straight-line amortizing Loan can be equated to a bullet-type Loan, provided that the WAL of the straight-line amortizing Loan is equal to the maturity of the bullet. A 25-year maturity Investment Loan with a 5.5-year Grace Period translates into a WAL of 15.25 years. A 20-year maturity PBL with 5.5-year Grace Period translates into a WAL of 12.75 years.

“WAL” means the Original WAL or the weighted average life of the Loan resulting from a modification of the Amortization Schedule, whether as a result of a Conversion or otherwise. The WAL is calculated in years (to two decimal places) based on the Amortization Schedule of all tranches and is defined as the division of (i) by (ii) below, where:

- (i) is the sum of the products of (A) and (B), defined as:
  - (A) the amount of each amortization payment;
  - (B) the difference in the number of days between the amortization payment date and the date of signature of this Contract, divided by 365 days;
  - and
- (ii) the sum of amortization payments.

The applicable formula is the following:

$$WAL = \frac{\sum_{j=1}^m \sum_{i=1}^n A_{i,j} \times \left( \frac{PD_{i,j} - ED}{365} \right)}{TA}$$

where:

WAL is the weighted average life of all amortizations, expressed in years

m is the total number of tranches of the Loan

n is the total number of amortization payments for each tranche of the Loan

$A_{i,j}$  is the amortization amount referring to payment i of tranche j, calculated in dollar equivalent at the exchange rate determined by the Bank, as of the date of modification of the Amortization Schedule

$PD_{i,j}$  is the payment date referring to payment i of tranche j

ED is the execution date of this Contract

TA is the sum of all  $A_{i,j}$ , calculated in dollar equivalent as of the date of the calculation and at the exchange rate determined by the Bank

## 2. INTRODUCTION

### 2.1. Purpose

- 2.1.1. The Flexible Financing Facility (FFF) is the IDB's sole financial platform under which all Ordinary Capital (OC) Sovereign Guaranteed (SG) Loans are negotiated starting January 1<sup>st</sup> 2012. As of this date, the FFF also replaced the Single Currency Facility (SCF)-LIBOR and the Local Currency Facility (LCF).
- 2.1.2. Also, starting January 1<sup>st</sup> 2012, existing IDB Market-Based Loans (i.e., SCF-LIBOR, SCF-fixed, LCF, and converted SCF and Currency Pooling System (CPS) - adjustable rate Loans under the 2009 and 2010 Conversion Offer) and Loans documented under Legacy Financial Products can take advantage of the options offered under the FFF. Borrowers would need to make a specific request to the Bank to incorporate such options in their Loans<sup>1</sup>. The Bank would analyze such requests on a case by case basis, based on its operational, legal and risk management considerations.
- 2.1.3. The purpose of these Operational Procedures is to set out the procedures for requesting and using the different options available under the FFF in accordance with the terms and conditions set forth in the corresponding Loan Contract between the Inter-American Development Bank (Bank, IDB) and a Borrower, and any amendments thereto.
- 2.1.4. These Operational Procedures are not intended to serve as a debt management advisory service to borrowing member countries. The different debt management options offered under the FFF are optional and each Borrower may select them according to its individual needs and risk management strategies.

### 2.2. Eligibility

- 2.2.1. The described options/Conversion provisions are only available to FFF Loans including the Regular-OC portion of "blended" loans approved since January 1<sup>st</sup>, 2017. The FFF does not apply to Guarantees, to the Regular-OC portion of the Bank's "blended" Loans approved until December 31<sup>st</sup>, 2016<sup>2</sup>, or to Non-Sovereign Guaranteed (NSG) operations.

### 2.3. Applicability

- 2.3.1. These Operational Procedures are applicable to all OC SG Loans negotiated after January 1<sup>st</sup>, 2012, and to Loans approved or negotiated prior to such date that qualify for one or more of the Conversion options offered under the FFF. The Bank may modify these Operational Procedures at any time and such modifications will not affect Loans or options/Conversions executed prior to the date of such modifications.
- 2.3.2. Loan Contracts signed between the Bank and the Borrowers will reflect the agreed upon options offered under the FFF as of the date of the Loan Contract, or any amendment thereto. In the event of any discrepancy between these Operational Procedures and the terms of a Loan Contract due to an update of the Operational Procedures or otherwise, the terms of the Loan Contract shall prevail.
- 2.3.3. The latest Operational Procedures are posted on the IDB website.  
[www.iadb.org/flexiblefinancing](http://www.iadb.org/flexiblefinancing).

### 3. LOAN CHARACTERISTICS UNDER THE FFF

#### 3.1. General

- 3.1.1. Approval: The standard Loan under the FFF is approved in US dollars (dollars, USD) or in the respective country's Local Currency (LCs), subject to the Bank's ability to efficiently source the requested currency and meet internal risk management and operational considerations.
- 3.1.2. Currency of disbursement: The standard FFF Loan is disbursed in the approved currency, or upon a Borrower's request, with the Guarantor's consent if applicable, in other currencies<sup>3</sup> through Conversions. Currency Conversions are subject to market availability and risk management and operational considerations. If the desired currency is not available at the time of a request, after consulting with the Borrower, the Borrower will have the option to request a disbursement in US dollars or in another currency and request a Conversion of outstanding balances to the desired currency at a later date, when the currency becomes available.
- 3.1.3. Currency of repayment: FFF Loans shall be repaid in the disbursed currency or in the Converted Currencies.
- 3.1.4. Lending rate: The lending rate of a standard US dollar denominated FFF Loan is the result of three components: (i) a variable rate based on 3-month LIBOR, plus (ii) the Bank's funding margin, plus (iii) the Bank's variable lending spread. The 3-month USD-LIBOR resets on the 15th of January, April, July and October and is applied retroactively to the first day of the month<sup>4</sup>. The lending rate of FFF LC Loans is the LC equivalent of (i) LIBOR plus the Bank's US dollar estimated funding margin; or (ii) actual funding cost; plus (iii) in both cases, the Bank's variable lending spread.
- 3.1.5. Other Loan charges: FFF Loans are subject to a Credit Fee and an Inspection and Supervision Fee pursuant to Bank policies.
- 3.1.6. Please refer to [www.iadb.org/rates](http://www.iadb.org/rates) for current lending rates and fees.
- 3.1.7. Tenor: The Grace Period for a standard Investment Loan is 5.5 years (66 months) with a maximum 25 years maturity; and the Grace Period for a standard Policy Based Loan (PBL) is 5.5 years (66 months) with a maximum 20 years maturity.

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<sup>1</sup> This would require Loan Contract modifications to incorporate options offered under the FFF.

<sup>2</sup> The Regular-OC portion of blended Loans approved until December 31, 2016 was approved under the SCF-LIBOR product.

<sup>3</sup> Refers to currencies of borrowing and non-borrowing member countries that the IDB can efficiently source, subject to market availability, and risk management and operational considerations.

<sup>4</sup> The Rate Determination Date is 2 business days prior to the reset date.

### 3.2. Prepayments

- 3.2.1. FFF Loans denominated in US dollars with LIBOR based floating rates may be prepaid upon the Bank receiving an irrevocable notice in writing, at least 30 calendar days in advance, accompanied by the written consent of the Guarantor, if applicable. Prepayments may be made on any scheduled interest payment date along with all accrued interest, fees and costs due or outstanding, if any. In the event of a prepayment of a partial Loan amount, the prepayment will be applied proportionately to the remaining amortization quotas. There are no costs to the Borrower associated with such prepayments.
- 3.2.2. For all other FFF Loans including Loans denominated in US dollars with non-LIBOR rates, Loans denominated in all other currencies, and Loans that may or may not have Conversions, full or partial Loan prepayments may be made upon the Bank receiving an irrevocable notice in writing at least 30 calendar days in advance accompanied by the written consent of the Guarantor, if applicable. Prepayments may be made on any scheduled interest payment date along with all accrued interest, fees and costs due or outstanding, if any, and cannot be less than \$3 million dollars or its equivalent in the Loan Currency. Such prepayments are subject to an Unwinding Amount, which will be passed on to the Borrower. In the event of a prepayment of a partial Loan amount, the prepayment will be applied proportionately to the remaining amortization quotas, if applicable. The Bank will inform the Borrower of when the prepayment can take effect and the resulting Unwinding Amount, if any. Unwinding Amounts in favor of the Borrower will be first applied to any amounts due and payable by the Borrower to the Bank. Also, Unwinding Amounts in favor of the Borrower (i.e., Commodity Conversion Cash Settlement Amount) resulting from an early termination of a Commodity Conversion will be passed-through to the Borrower in accordance to section 14, subject to section 4.3.4.6.
- 3.2.3. Prepayments of Loans that have been divided into one or more tranches require that the prepayment covers the full amount of a tranche, unless otherwise agreed to by the Bank with the Borrower.

### 3.3. Non-performing Loans

Treatment of nonperforming Loans is as follows:

## Treatment of Non-Performing Sovereign-Guaranteed Loans \*

30 days after Loan due date	<ul style="list-style-type: none"> <li>- The Bank suspends disbursements on the Loan in arrears and all other Loans to the borrower.</li> <li>- The Bank informs the guarantor, if applicable, of the arrears by the Borrower, and requests prompt payment of the amount in arrears.</li> <li>- No Loan Contract with any Borrower in the country in question is signed by the Bank.</li> <li>- No Loan proposals for a borrowing member country are approved.</li> </ul>
120 days after Loan due date	<ul style="list-style-type: none"> <li>- The Bank suspends disbursements on all Loans to the guarantor and to other borrowers guaranteed by the same guarantor, if the guarantor fails to pay the amounts due.</li> </ul>
180 days after Loan due date	<ul style="list-style-type: none"> <li>- The Bank places in non-accrual status all Loans for the country in question of which the government, the Central Bank or any government entity is a borrower or guarantor, unless it is determined that all payments of amounts in arrears are in process and will be collected in the immediate future.</li> <li>- Placement in non-accrual status implies a reversal of all accrued income to date and no further income accumulation until all pending amounts are received.</li> <li>- All Bank missions to the country intended for programming, preparing or processing of Loans are suspended.</li> </ul>

- \* Arrears on payments of OLBs, and, if applicable, on any fees and/or premiums associated with a Conversion, will remain in the outstanding currency. To mitigate the risk of currency exposure to the Bank, overdue amounts under such currencies will accrue interest at a floating interest rate index in the overdue currency plus 1%. In cases when the spread is not sufficient to cover the costs assumed by the Bank, additional charges will be assessed consistent with a full cost-pass through approach.
- \* In the case of Commodity Conversions, with regards to unpaid premiums, additional charges will be assessed consistent with a full cost-pass through approach.

#### 4. DESCRIPTION OF THE OPTIONS AVAILABLE UNDER THE FFF

The FFF offers borrowers Flexible Repayment Options, Currency Options, Interest Rate Options, and Commodity Hedging Options as summarized in the table below and further described in the following sections.

## Summary of available options under the FFF \*

Flexible Repayment options	<ul style="list-style-type: none"> <li>- Borrowers can select, with the Bank's approval, a different repayment profile from the standard semiannual, straight-line, and equal payments Amortization Schedule; these could include bullet repayments, extended Grace Periods, uneven Amortization Schedules, and shorter repayment periods.</li> <li>- Multiple Loan profiles or tranches are available within the same Loan.</li> <li>- Choice of Amortization Schedules subject to maintaining the Loan's Weighted Average Life (WAL) and the Loan's original maturity.</li> <li>- Minimum amounts apply.</li> </ul>
Currency options	<ul style="list-style-type: none"> <li>- Loans are approved in US dollars or local currency.</li> <li>- Loans can be converted to other major currencies or to regional local currencies.</li> <li>- Currency options are available throughout the life of a Loan and can apply to individual disbursements, and/or to partial or total outstanding Loan balances.</li> <li>- Currency options are available for Partial or Full-Term Conversions.</li> <li>- Currency options are subject to minimum Conversion amounts and transaction fees.</li> <li>- Currency options are subject to market availability and cost is on a pass-through basis plus applicable lending spread and fees.</li> </ul>
Interest rate options	<ul style="list-style-type: none"> <li>- Flexibility to manage interest rate exposures by fixing or floating the interest rate basis and/or by limiting interest rate volatility.</li> <li>- Interest rate options are available throughout the life of a Loan and can apply to individual disbursements, and/or to partial or total outstanding Loan balances.</li> <li>- Interest rate options are available for Partial or Full-Term Conversions.</li> <li>- Interest rate options are subject to minimum Conversion amounts and transaction fees.</li> <li>- Interest rate options are subject to market availability and cost is on a pass-through basis plus applicable lending spread and fees.</li> </ul>
Commodity Hedging options	<ul style="list-style-type: none"> <li>- Borrowers can manage exposures to Commodity prices by requesting to the Bank Commodity Conversions embedded in FFF Loans.</li> <li>- Commodity Conversions can only be embedded in USD denominated OLB of FFF loans.</li> <li>- Commodity Conversions are available throughout the life of a Loan and can apply to partial or total outstanding Loan balances subject to Required OLB.</li> <li>- Commodity Conversions are subject to minimum Conversion amounts and transaction fees.</li> <li>- Commodity Conversions are subject to market availability and cost is on a pass-through basis.</li> <li>- Commodity Conversions will be structured on a case-by-case basis subject to operational and risk management considerations.</li> <li>- Cash settlement: Commodity Conversions will settle in cash only (i.e., no physical delivery).</li> </ul>

\* FFF options are subject to market availability and IDB's risk management and operational considerations.

### 4.1. IDB's operational and risk management considerations

4.1.1. Options available to Borrowers under the FFF are subject to market availability, the Bank's operational and risk management considerations, and applicable transaction fees. The IDB

will do its best efforts to respond to Borrowers' requests but the IDB cannot provide assurance that all requests can be executed.

4.1.2. All Loans approved under the FFF qualify for Conversions and Flexible Repayment Options.

4.1.3. For existing market-based Loans (i.e., SCF-LIBOR, SCF-fixed, LC Facility, and converted SCF and CPS-adjustable rate Loans under the 2009 and 2010 Conversion Offer) that were approved and negotiated prior to January 1, 2012, Borrowers may elect to request Conversions and Flexible Repayments under the terms of the FFF<sup>5</sup>. The IDB will consider such requests, which may require amendments to existing Loan Contracts, subject to paragraph 3.1.1.

4.1.4. For Legacy Financial Products, FFF options will only be offered to the extent that the Bank can execute a market-based transaction that is cost and risk-neutral, and equitable to all Bank Borrowers. Individual customized Conversions will be reviewed and approved by the Bank's Assets and Liabilities Committee (ALCO) and its costs will be absorbed by the Borrower.

#### 4.2. Flexible repayments options

4.2.1. A standard FFF Loan repays in equal and consecutive semiannual installments. Unless the Borrower requests otherwise and the Bank accepts such request, such Amortization Schedule will be the one established in the Loan Contract.

4.2.2. Upon Borrower's request and with the Bank's acceptance, changes in repayment profiles, i.e., Grace Period, repayment period and Amortization Schedule are available to facilitate Borrowers' debt management with the IDB. Repayment profiles available under the FFF include bullet repayments, extended Grace Periods, uneven Amortization Schedules, and shorter repayment periods.

4.2.3. Flexible repayments profiles are anchored on the Loan's original Weighted Average Life (WAL) which is a mathematical formula that allows comparing –from a cash flow perspective– the equivalence of different types of Amortization Schedules. This formula determines the extent of the flexibility that a Borrower has to select between different repayment profiles. The maximum WALs of Loans approved under the FFF are 15.25 years for standard Investment Loans and 12.75 years for standard PBLs. These WALs are calculated based on a 25-year maturity and a 5.5-year (66 months) Grace Period for Investment Loans and a 20-year maturity and a 5.5-year (66 months) Grace Period for PBLs. In both cases, in calculating the WAL it is assumed an Amortization Schedule with equal and consecutive semiannual installments starting at the end of the Grace Period.

4.2.4. Flexible repayment profiles are subject to: (i) the cumulative WAL of all tranches, which cannot exceed the Loan's original WAL; and (ii) the Loan's original final maturity date, which cannot be exceeded in any tranche. Both limitations are established in the Loan Contract. In addition, for operational reasons, the Bank will not accept amortization payments for less than US\$50,000.00 unless otherwise agreed to between the Bank and the Borrower.

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<sup>5</sup> Borrowers that want to take advantage of FFF options must seek Guarantor consent, if applicable.

- 4.2.5. Extensions to a Loan's Original Disbursement Period generally have an impact on a Loan's WAL. In such cases in which extensions are granted to the Original Disbursement Period (i) resulting in an extension of such period beyond a date that is sixty (60) days prior to the due date for the first amortization installment of the Loan or the tranche of the Loan, as the case may be, and (ii) when disbursements occur during such extension period<sup>6</sup>, the Bank would need to modify the Loan's Amortization Schedule to ensure that the cumulative WAL remains the same as or below the Loan's original WAL<sup>7</sup>. Such modification would consist in shortening the final maturity date of the Loan (i.e., the Loan would amortize faster), or the final maturity date applicable to those disbursements or tranches made during such extension<sup>8</sup>, as the case may be, unless the Borrower expressly requests otherwise as follows. In this last case, the Borrower could request a single adjustment to the first amortization payment following each disbursement or tranche that generated a longer WAL than the Loan's original WAL by increasing the amount paid in such amortization payment. In this case, the Bank would determine the required amount to be applied to each affected amortization payment to reestablish the Loan's original WAL.
- 4.2.6. A Borrower may request an Amortization Schedule with a WAL that exceeds the Loan's original WAL. This could only occur when the cumulative WAL of all other tranches' repayment profiles in a Loan is shorter than the Loan's original WAL. In this case, the Borrower could request a new tranche with a repayment profile such that its individual WAL could be greater than the Loan's original WAL, as long as the cumulative WAL of all tranches (i.e., Amortization Schedules remains below or equal to the Loan's original WAL).
- 4.2.7. Loans will be amortized in accordance with the Amortization Schedule selected, which must comply with the parameters set forth in this section. Interest and amortization installments will be paid on the fifteenth day (15th) of the corresponding month, as set forth in the Special Conditions of the Loan Contract, in an Amortization Schedule Modification Notification Letter or in a Conversion Notification Letter, as the case may be. Amortization payment dates shall always coincide with an interest payment date. If the expiration date of the period for the payment of the first amortization installment does not fall on the fifteenth (15th) day of the month, the payment of the first amortization installment shall be made on that date which is the fifteenth (15th) day of the month, which date most immediately precedes the expiration date of such period (in the same month or the prior month, as the case may be). If the final amortization date does not fall on an interest payment date, the payment of the last amortization installment shall be made on the interest payment date immediately preceding the final amortization date. This applies unless the Borrower selects specific payment dates, which in any case must coincide with the 15<sup>th</sup> of a specific month.

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<sup>6</sup> This event would result in a cumulative WAL that is greater than the Loan's original WAL, violating condition 4.2.4. (i).

<sup>7</sup> Given operational complexities and uncertainty to Borrowers regarding the Amortization Schedule (given WAL parameters), during Loan negotiations the Bank will not consider Loans with Original Disbursement Periods longer than the Grace Period of the Loan.

<sup>8</sup> In this case, final maturity dates of prior disbursements associated with Conversions would not be affected.

4.2.8. For more information on Flexible Repayment Options, please refer to [www.iadb.org/flexiblefinancing](http://www.iadb.org/flexiblefinancing).

#### 4.2.9. Flexible Repayment Options for Loans approved in US dollars - LIBOR

The Flexible Repayment Options described in this section apply to Loans approved in US dollars with a LIBOR based rate. Flexible Repayment Options for Loans approved in LC and for those that make use of risk management options through Conversions are described in section 4.3 below. To avoid any Unwinding Amounts, modifications to loan repayment profiles should be requested by the borrower prior to or concurrently with any request for an interest rate conversion.

4.2.10. Flexible repayment schedules are available up to Loan signature<sup>9</sup> and during the disbursement period as long as the Bank approves, in both cases respectively, such request. A US dollar denominated FFF Loan may have up to four different repayment profiles or tranches. The minimum size of each repayment profile is \$3 million.

- a) Flexible repayment options by Loan signature. If a Borrower wishes to define the Loan's repayment profile (Amortization Schedule) by Loan signature, the Borrower must inform the Bank during the Loan negotiation phase of the desired repayment profile that would apply to the entire Loan amount, unless otherwise agreed to by the Bank prior to signature date. Such repayment profile will apply to the whole Loan amount unless the Borrower indicates otherwise, as provided in part b) below.
- b) Flexible repayment options during the disbursement period. At any point up to 60 days prior to a Loan's Original Disbursement Period expiration date, a borrower may request to the Bank a modification to the repayment profile applicable to a tranche or to the entire Loan amount. The Bank reserves the right to approve or reject such request. Once requested and accepted by the Bank, the selected repayment profile cannot be changed.

### 4.3. Risk management options

#### 4.3.1. Currency options for Conversions to Major Currencies (MCs)

4.3.1.1. Available currency options. A Borrower may choose to convert a disbursement or an OLB of a USD or LC denominated Loan into other MCs. MCs are those of non-borrowing member countries that the IDB can efficiently source. Other currency options, such as the option to fix the exchange rate at a predetermined level on a future date, are also available to Borrowers, subject to market availability and the Bank's risk management and operational considerations.

4.3.1.2. Partial or Full-Term Currency Conversions. A Borrower may request a Partial or a Full-Term Currency Conversion. Partial Term Conversions refer to the ability of a Borrower to request a Currency Conversion for a shorter period than the maturity of the Loan with the ability to, upon request and subject to market availability, roll over the Currency Conversion or revert to the Loan Currency. A Full-Term Currency Conversion refers to the Borrower's request for a Currency Conversion over a

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<sup>9</sup> It is understood that this determination would be made by the Borrower during Loan negotiations.

specific period where upon expiration, the converted amount must be fully repaid by the Borrower without an option to roll-over.

4.3.1.3. Conversion requirements. A Borrower may request up to four MC Conversions each with a minimum amount of \$3 million unless, in the case of a fully disbursed Loan, the OLB is less than such amount. Each MC Conversion request must also specify the repayment profile associated with such Currency Conversion, subject to the requirements described in section 4.2.

4.3.1.4. Notwithstanding the latter, if a Borrower makes a Partial or Full Term Currency Conversion request less than 60 days prior to the first amortization payment of the Loan, or of a Loan tranche associated with such Currency Conversion request, as the case may be, Full or Partial Term Conversions of OLBs will have the additional limitation that the OLBs established under the new repayment profiles cannot exceed, at any point in time, the OLBs of the loan's original Amortization Schedule, taking into account the exchange rates established in the Conversion Notification Letter.

4.3.1.5. Loan servicing. Payments of principal and interest shall be made in the Converted Currency. Other Loan charges shall be paid in LC if the Loan was approved in LC or in USD if the Loan was approved in USD<sup>10</sup>. Transaction fees shall be paid in the Converted Currency.

4.3.1.6. Pricing and fees. Pricing of Currency Conversions is based on a pass-through approach of Bank's costs to the Borrower and reflects market conditions at the time execution. Pricing of Currency Conversions is based on the MC equivalent of LIBOR +/- the IDB's estimated USD funding margin or the actual funding cost at the time of execution plus, in both cases, the Bank's variable lending spread. In addition, Currency Conversions are subject to transaction fees. Please refer to [www.iadb.org/rates](http://www.iadb.org/rates) for current applicable fees.

#### 4.3.2. Currency options for Conversions to LCs

4.3.2.1. Loan approval. FFF Loans may be approved in LCs of borrowing member countries, subject to the Bank's ability to efficiently source such currency and meet its risk management and operational considerations.<sup>11</sup> However, the IDB cannot guarantee delivery of financing in LC when a Loan is approved in LC. Should the LC not be available at the time of a disbursement request or market conditions are not attractive to the Borrower at the time of the request, after consulting with the Borrower, the Bank will proceed to disburse in US dollars unless otherwise agreed to by the Borrower with the Bank (i.e. other MCs or LCs). The Bank will continue to make disbursements in US dollars as long as the lack of access to the LC remains. Alternatively, Loans may be approved in US dollars and be converted into LC at the

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<sup>10</sup> Other Loan charges refer to the Credit Fee and the Inspection and Supervision fee (FIV).

<sup>11</sup> For the purpose of these Operational Procedures, the term Currency Conversion also refers to LC disbursements of Loans approved in LC for which the Bank executes a Market Transaction to effect such disbursement.

time of disbursement or at a later time, in which case a Borrower would be converting OLBs.

- 4.3.2.2. Available LC options. Upon approval of a Loan in US dollars, a Borrower has the option to convert a disbursement or an OLB into LC. LCs are those of all borrowing member countries' currencies that the IDB can efficiently source and meet risk management/operational considerations. Other currency options, such as the option to fix the exchange rate at a predetermined level on a future date, are also available subject to market availability.
- 4.3.2.3. Partial or Full-Term Currency Conversions. A Borrower may request a Partial or a Full-Term Currency Conversion. Partial Term Currency Conversions refer to the option of a Borrower to request a LC Conversion for a shorter period than the maturity of the Loan, (i) to meet its debt management needs, or (ii) because market conditions do not allow for the execution of a Conversion for the full maturity of the Loan. Upon expiration of the Partial Term Currency Conversion, a Borrower has the option, upon request and subject to market availability, to roll over the LC Conversion or revert to the Loan Currency. A Full-Term Currency Conversion refers to the Borrower's request for a Currency Conversion over a specific period where upon its expiration, the converted amount must be fully repaid by the Borrower to the Bank without an option to roll-over.
- 4.3.2.4. Conversion requirements. Due to limitations in LC markets, the LC financing desired by the Borrower may not be able to comply with the maximum number of 4 Conversions applicable to MC Conversions. In agreement with the Borrower, the Bank will execute over time as many Conversions as necessary, subject to market conditions, to deliver the LC financing desired by the Borrower. The Bank will not execute LC Conversions for amounts less than \$3 million unless, in the case of a fully disbursed Loan, the OLB is less than such amount. Each LC Conversion request must specify the repayment profile associated with such Currency Conversion, subject to the requirements described in section 4.2.
- 4.3.2.5. Notwithstanding the latter, if a Borrower makes a Partial or Full Term Currency Conversion request less than 60 days prior to the first amortization payment of the Loan, or of a Loan tranche associated with such Currency Conversion request, as the case may be, Full or Partial Term Conversions of OLBs will have the additional limitation that the OLBs established under the new repayment profiles cannot exceed, at any point in time, the OLBs of the loan's original Amortization Schedule, taking into account the exchange rates established in the Conversion Notification Letters.
- 4.3.2.6. Loan servicing. Payments of principal and interest shall be made in the Converted Currency. Other Loan charges shall be paid in LC if the Loan was approved in LC or in USD if the Loan was approved in USD. Transaction fees shall be paid in the Converted Currency and also apply to Loans approved and disbursed in LC.
- 4.3.2.7. Pricing and fees. Pricing of Currency Conversions is based on a pass-through approach of Bank's costs to the Borrower and reflects market conditions at the time

execution. Pricing of Currency Conversions corresponds to the LC equivalent of LIBOR +/- the IDB's estimated USD funding margin or the actual funding cost at the time of execution, plus, in both cases, the Bank's variable lending spread. In addition, Currency Conversions are subject to transaction fees. Please refer to [www.iadb.org/rates](http://www.iadb.org/rates) for applicable fees.

4.3.2.8. LC Conversions of "non-deliverable" Currencies. The Bank may offer, on a case-by-case basis, LC Conversions where repayments to the Bank are denominated in LC but the Settlement Currency is in USD (or in other MCs determined by the Bank). The availability of these terms will be dependent on the Bank's ability to enter into a Market Transaction for such Conversions. The terms of such Conversions will be determined on a case by case basis and will be specified in the Conversion Notification Letter for each transaction or group of transactions effected by the Bank.

### 4.3.3. Interest rate options

4.3.3.1. Borrower's options to manage interest rates exposures include:

- a) Fix the IDB's LIBOR-base cost applicable to a Loan for the desired maturity (i.e., fixing the 3-month LIBOR plus the IDB's estimated USD funding margin);
- b) Fix the 3-month LIBOR for a desired maturity;
- c) Fix the IDB's estimated USD funding margin for a desired maturity;
- d) Purchase an Interest Rate Cap;
- e) Structure an Interest Rate Collar (purchase/sale of cap/floor);
- f) Contract an option to fix the LIBOR base rate at a predetermined level on a future date (forward starting swap) for a desired maturity;
- g) Convert to an inflation-linked rate<sup>12</sup>;
- h) Other options as negotiated by the Bank with the Borrower.

4.3.3.2. These options refer to the Base Interest Rate and do not apply to the IDB lending spread which shall remain variable throughout the life of a Loan.

4.3.3.3. In addition, Borrowers who already have outstanding LC/MC Conversions with the Bank may also request Interest Rate Conversions, e.g., fixing a LC/MC floating base rate financing at a later date. In such case, the Interest Rate Conversion must be executed for the full outstanding amount and for the remaining maturity of the original LC/MC Conversion, unless otherwise agreed to and accepted by the Bank with the Borrower. Such Interest Rate Conversion will be subject to market availability and the Bank's risk management and operational considerations.

4.3.3.4. Partial or Full-Term Interest Rate Conversions. A Borrower may request a Partial or a Full-Term Interest Rate Conversion. Partial Term Interest Rate Conversions refer to the ability of a Borrower to request an Interest Rate Conversion for a shorter period than the maturity of the Loan with the option to roll it over, upon request and

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<sup>12</sup> Depending on the type of inflation linked instrument used as a benchmark in the domestic market, it may mean Conversion to an inflation-linked principal (and not an Interest Rate Conversion per se).

subject to market availability, or revert to the Loan's original interest rate. A Full-Term Interest Rate Conversion refers to the Borrower's request for an Interest Rate Conversion over a specific period where upon expiration, the converted amounts must be fully repaid by the Borrower to the Bank and cannot be rolled-over.

4.3.3.5. Interest Rate Conversion requirements. A Borrower may request up to four Interest Rate Conversions each with a minimum amount of \$3 million unless, in the case of a fully disbursed Loan, the OLB is less than such amount. Each Interest Rate Conversion request must also specify the repayment profile associated with such Conversion.

4.3.3.6. Notwithstanding the latter, if a Borrower makes a Partial or Full-Term Interest Rate Conversion request less than 60 days prior to the first amortization payment of the Loan, or of a Loan tranche associated with such Conversion request, as the case may be, Full or Partial Term Conversions of OLBs will have the additional limitation that the OLBs established under the new repayment profiles cannot exceed, at any point in time, the OLBs of the loan's original Amortization Schedule, taking into account the exchange rates established in the Conversion Notification Letter, if applicable.

4.3.3.7. Pricing and fees. Pricing of Interest Rate Conversions is based on a pass-through approach of Bank costs to the Borrower and reflects market conditions at the time of execution. For interest rate fixings in USD of IDB's LIBOR-base cost, pricing corresponds to the Fixed Rate equivalent of LIBOR +/- IDB's estimated USD funding margin or the actual funding cost at the time of execution, plus in both cases, the Bank's variable lending spread. In addition, Interest Rate Conversions are subject to transaction fees. Please refer to [www.iadb.org/rates](http://www.iadb.org/rates) for applicable fees.

#### 4.3.4. Commodity Conversions

4.3.4.1. Borrower's options to manage Commodity price exposures include:

- a) Buying a Call Option to protect from Commodity price increases;
- b) Buying a Put Option to protect from Commodity price decreases;
- c) Structuring other options, as negotiated by the Bank with the Borrower.

4.3.4.2. Commodity Conversions will be subject to market availability and the Bank's risk management and operational considerations.

4.3.4.3. Partial or Full-Term Commodity Conversions. A Borrower may request a Partial or a Full-Term Commodity Conversion. Partial Term Commodity Conversions refer to the option of a Borrower to request a hedge for a shorter period than the maturity of the Loan, (i) to meet its debt management needs, or (ii) because market conditions do not allow for the execution of a Conversion for the full maturity of the Loan, or (iii) because costs associated with such conversion are beyond what a Borrower is willing to pay. A Borrower may request one or more new Commodity Conversions to the extent the Required OLB is available, and subject to market availability.

4.3.4.4. Partial or Full-Term Conversion Commodity Conversions operational requirements include:

- a) Commodity Conversions can only be embedded in USD denominated OLB of FFF loans.
- b) The Bank will not execute a Commodity Conversion linked to an OLB for less than \$3 million.
- c) There is no limit to the number of Commodity Conversions that can be executed during the life of a Loan.
- d) Option Types that may be selected by the Borrower include European, Fixed-strike Arithmetic Asian, and Binary options.
- e) Purchase of a Call Option by a Borrower - OLB required<sup>13</sup> to execute such a Commodity Conversion with the Bank is calculated as follows:

$$\text{Required OLB} = \text{Number of Units of the Underlying Commodity} * (Z - \text{Strike Price})$$

Where:

Z is the highest expected forward oil price at Option's maturity linked to the Option Type as calculated by IDB.

- f) Purchase of a Put Option by a Borrower - OLB required to execute such a Commodity Conversion with the Bank is calculated as follows:

$$\text{Required OLB} = \text{Number of Units of the Underlying Commodity} * (\text{Strike Price} - Y)$$

Where:

Y is the lowest expected forward oil price at Option's maturity linked to the Option Type as calculated by IDB.

- g) To meet the Required OLB, Commodity Conversions can be embedded in one or jointly in multiple USD FFF loans.

4.3.4.5. Commodity Conversions may be terminated early upon a Borrower's request, or in case of loan prepayments. In such cases, any resulting Cash Settlement Amount due by the Bank will be passed-through to the Borrower in accordance to section 14. The request for an early termination of a Commodity Conversion must be duly signed and comply with requirements set forth in section 6.5.

4.3.4.6. Premium and fees. Premium of Commodity Conversions is based on a pass-through approach; i.e. the Borrower will pay to the Bank the premium associated with the Commodity Conversion executed by the Bank with a Counterparty, which will reflect market conditions at the time of execution. In addition, the execution and early termination of Commodity Conversions are subject to transaction fees charged by the Bank. Please refer to [www.iadb.org/rates](http://www.iadb.org/rates) for applicable fees.

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<sup>13</sup> Required OLB will be determined by the Bank on a case-by-case basis in discussions with the Borrower before the execution date to make sure the OLB is sufficient to execute the Commodity Conversion, independently of market conditions at the time of execution, and will be determined before the Borrower submits a Request Letter.

## 5. DOCUMENTATION

### 5.1. Loan Contracts

Loan Contracts for FFF Loans include standard clauses that enable Borrowers to request the options described herein. Such clauses are stipulated in the General Conditions and the Special Conditions of Loan Contracts.

### 5.2. Request Letter

In furtherance to the provisions included in the Loan Contract, the Borrower is required to provide the Bank a Request Letter in the terms detailed in the following section for each option requested. If applicable, the Request Letter must also have the consent of the Guarantor.

### 5.3. Conversion Notification Letter

Following the execution of a Conversion requested by the Borrower, the Bank will provide the Borrower with a Conversion Notification Letter in the terms detailed in section 9 below, with a copy to the Guarantor if applicable.

## 6. REQUEST FOR CONVERSIONS AND FOR OTHER OPTIONS AVAILABLE UNDER THE FFF

### 6.1. Submitting a Request Letter

6.1.1. A Borrower may, at any time, submit a Request Letter to the Bank<sup>14</sup>; the Request needs to be in writing and delivered to the Bank as described in the Loan Contract and described in detail in Section 6.5 for the Bank to accept it. By submitting a Request Letter, it will be understood that the Borrower:

- a) Has made its own independent decision to present such request;
- b) Is not relying on any communication or confirmation from the Bank as a recommendation to request such Conversion or any other option offered under the FFF.
- c) Confirms that the Request Letter contains the entirety of the financial terms and conditions being requested by the borrower regarding the related Conversion, notwithstanding any prior or parallel communications held between the IDB and the borrower regarding such request; and that any such prior or parallel communications are deemed without effect for purposes of the Request Letter.
- d) Acknowledges that, unless otherwise explicitly indicated in the Request Letter, the IDB will inform the borrower on the final terms of the conversion once all terms have been determined during the execution process with the market, which may take several days before they are fully determined.

6.1.2. **A Request Letter is binding and irrevocable as per its terms and conditions.** The Bank will provide a template letter to the Borrower as soon as the Borrower manifests its desire to proceed with a Conversion or with any other option offered under the FFF. Please refer to Annex A for sample templates to request USD interest rate fixings of IDB's LIBOR-base cost.

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<sup>14</sup> Unless otherwise agreed to with the Bank, Request Letters will be accepted for execution not later than December 15<sup>th</sup> of a calendar year.

## 6.2. Options available

6.2.1. The Borrower may request one or more of the FFF options available under the Loan Contract, which will apply to all or any portion of the principal amount of the Loan. The Borrower may request:

- a) Flexible Amortization Schedules
- b) Currency Conversions
- c) Interest Rate Conversions
- d) Interest Rate Caps or Collars
- e) Commodity Conversions

6.2.2. For Loans negotiated or approved prior to January 1st, 2012 whose Loan Contracts do not include the FFF options, the Borrower may request an amendment to such Contracts to exercise these options. The Bank will respond to such requests on a case by case basis subject to operational, legal and risk management considerations.

## 6.3. Minimum amounts

Unless the Bank otherwise agrees to with a Borrower, the minimum amount of a Loan for which a Borrower may request a Conversion or any other option available under the FFF in a single request is \$3 million unless, in the case of a fully disbursed Loan, the OLB is less than such amount.

## 6.4. Maximum amounts

The Bank can reasonably determine a maximum amount in respect to which the Borrower may request in a single request a Conversion or any other option available under the FFF. This will be communicated to the Borrower prior to the Borrower submitting the Request Letter such that when the Conversion or any option is executed, it will be effected for up to the amount mutually agreed based on market availability.

## 6.5. Communication of Request Letter

Each Request Letter, duly signed, must be submitted to the Bank via electronic mail to the addresses specified below and will be deemed received on the date the electronic mail is received by the Bank at the email addresses specified below. In addition, and if possible, on the same day, the original Request Letter must be delivered to the corresponding Country Office.

Claudia Franco, Head Treasury Client Solutions: [cfranco@iadb.org](mailto:cfranco@iadb.org)  
Treasury Client Solutions: [FIN-TCS@iadb.org](mailto:FIN-TCS@iadb.org)  
IDB Country Office Representative

## 6.6. Authorized representative and address of Borrower for purposes of making requests

The Borrower's duly authorized representative(s) is authorized to sign Request Letters. The Borrower's address for the purpose of these Operational Procedures is the address specified in the Loan Contract. Before or at the time the Request Letter is submitted, the Borrower's representative may, by written notice at the address specified in the Loan Contract, authorize additional persons to sign the Request Letters. Such authorization must include the specimen signature of such authorized person, together with his/her title and address, including telephone and fax numbers, as well as email address.

## 6.7. Request Letter content

Each Request Letter shall contain the following information. The list below is intended to provide a guide on the type of information required but is not exhaustive.

### 6.7.1. General information

- a) Loan number(s);
- b) Amount of the Loan and/or tranche to be converted<sup>15</sup>;
- c) Type of option requested;
- d) Execution Period (in number of business days -New York and Borrower's location);
- e) Authorization and specimen signature of authorized representative;
- f) Bank account where funds, if any, shall be deposited as a result of the Conversion;
- g) Business days and day count convention;
- h) Interest rate compounding and compounding frequency;
- i) Special instructions, if any.

### 6.7.2. Additional information for Flexible Repayment Options

- a) Portion of the Loan to which the new Amortization Schedule will apply;
- b) Proposed repayment schedule type;
- c) Proposed first and last repayment dates under the new schedule;
- d) Frequency of repayments.

### 6.7.3. Additional information for Currency Conversions

- a) Currency into which the Borrower wishes to convert the requested Loan amount;
- b) For Conversion of disbursements, the amount to be converted expressed in the Loan Currency, in dollars or in the desired currency<sup>16</sup>;
- c) For Conversion of OLBs, the amount to be converted expressed in the outstanding currency;
- d) Proposed repayment cash flows;
- e) If the Conversion is a Full or Partial Term Conversion;
- f) If the Borrower is making a conditional request, the maximum interest rate and/or exchange rate, if applicable, the Borrower is willing to pay following the Conversion;
- g) If the Borrower wants exchange of notional amounts;
- h) In the case of LCs, the Settlement Currency. If the currency is fully deliverable, IDB will settle in such currency; otherwise, the currency of settlement will be US dollars.

### 6.7.4. Additional information for Interest Rate Conversions (other than caps and collars)

- a) Type of reference rate selected (fixed, floating, inflation linked);
- b) Type of rate fixing (fixing of LIBOR-base cost, of LIBOR only, or of IDB's estimated funding margin only);
- c) If the Borrower is making a conditional request, the maximum interest rate and/or exchange rate, if applicable, the Borrower is willing to pay following the Conversion;
- d) If the Conversion is a Full or Partial Term Conversion.

### 6.7.5. Additional information for Interest Rate Cap

- a) Upper limit applicable to the variable rate;

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<sup>15</sup> In the Request Letter, the Borrower shall indicate the desired maximum amount for a Conversion; depending on market conditions, the Bank may or may not be able to execute such requested amount.

<sup>16</sup> If the Conversion request refers to the last disbursement, such request must be made in units of the Loan Currency.

- b) Portion of the Loan's outstanding or disbursement(s) to which the Conversion will apply.

6.7.6. Additional information for Interest Rate Collar

- a) Upper and lower limits applicable to the variable rate;
- b) The portion of the Loan's outstanding or disbursement to which the Conversion will apply.

6.7.7. Additional information for Commodity Conversions

- a) Transaction type (i.e., put/call Option);
- b) Commodity;
- c) Number of units of the underlying commodity to be hedged;
- d) Strike Price;
- e) Conversion period;
- f) Option Type (i.e., European, Fixed-strike Arithmetic Asian, Binary)
- g) Bank account where funds, if any, shall be deposited as a result of a Commodity Conversion Cash Settlement Amount;
- h) Premium payment (i.e., lump sum up front/installments/annualized);
- i) Special instructions, if any.

- 6.7.8. Annexes 1-4 present model Request Letters for interest rate fixings of IDB's LIBOR-base cost in USD. For other types of Conversions or other options offered under the FFF, the Bank will furnish a model Request Letter to the Borrower on a case by case basis.

6.8. Conversion and/or other options offered under the FFF Effective Date

The Effective Date for Conversions and/or for other options requested by the Borrower and executed by the Bank is the start of the Conversion Period or start date as specified by the Bank in an Amortization Schedule Modification Notification Letter or in a Conversion Notification Letter, and could be either one of the following:

- a) The Conversion Effective Date or the requested option effective date on which the Conversion or option enters into effect; or
- b) The date indicated by the Borrower in the Request Letter and accepted by the Bank.

7. EXECUTION PERIOD

7.1. General

- 7.1.1. The Bank will exercise reasonable efforts to execute any Request Letter that is in form and substance satisfactory to the Bank within the Execution Period established in the Request Letter. However, the Bank shall not be liable if, in the exercise of such reasonable efforts, is unable to execute the request specified in the Request Letter. In such case, the Request Letter will expire without execution and the Borrower may submit a new Request Letter.
- 7.1.2. In executing a Conversion or any other option requested by a Borrower, the Bank will exercise the same standard of care as it uses with respect to its own transactions, in accordance with its fiduciary responsibilities. Since interest rates, exchange rates, and commodity prices may fluctuate throughout the Execution Period, and the final rates and/or premiums will only be known after the Conversion or requested option is executed, the

Bank cannot ensure the resulting financial terms it will obtain in executing the requested transaction.

7.1.3. Borrowers should take note that the execution of any Conversion or option requested depends on the Bank's: (i) ability to source the currency, interest rate type, or Commodity Conversion requested, and (ii) risk management and operational considerations.

7.1.4. If, during the Execution Period, any national or international calamity or development, crisis of a political or economic nature, or change in the financial markets in which a Conversion transaction may be executed has occurred, the effect of which, in the judgment of the Bank, would materially and adversely affect its ability to execute such transaction, the Bank will notify the Borrower of such circumstances, and the Bank and the Borrower together will determine what actions, if any, should be taken with respect to the Request Letter.

## 7.2. [Review of request](#)

Upon receipt of any Request Letter, the Bank will determine whether the information is complete, accurate and acceptable to the Bank.

## 7.3. [Acceptance of request](#)

If upon review the Bank finds the Request acceptable, it will proceed to effect the Conversion.

## 7.4. [Non-complying Requests; Re-submission](#)

If the Bank determines that a Request Letter does not comply with the requirements specified in the Loan Contract and in these Operational Procedures, the Bank will, within the Execution Period, notify the Borrower that such Request Letter fails to meet certain requirements and cannot be executed. In that case, the Bank will take no further action to execute the Conversion or requested option. The Borrower may re-submit a Request Letter complying with all requested requirements. Such Request Letter will be treated as a new Request Letter for the purposes of calculating the Execution Period.

## 7.5. [Communications during the Execution Period](#)

Follow-up discussions during the Execution period may occur between the Borrower and the Bank. Also, during such period, the Bank may rely on the identity of anyone communicating with the Bank and purporting to be an authorized representative of the Borrower.

## 7.6. [Withdrawal of Requests](#)

Request Letters are irrevocable. As such, they cannot be withdrawn by the Borrower.

# 8. EXECUTION

## 8.1. [Pricing](#)

8.1.1. All Conversions are priced on the basis of Screen Rates or Market Transactions, or a combination thereof, and reflect market conditions at the time of execution, as follows:

- 8.1.2. Currency Conversion: In the case of a Currency Conversion for a portion or for the full Loan amount, pricing reflects:
- a) The relevant Conversion Period;
  - b) The spot or forward exchange rate between the existing Loan Currency and the Converted Currency into which the portion of the Loan will be converted on the Conversion Effective Date;
  - c) IDB's estimated USD funding margin or actual funding cost, and the resulting interest rate applicable in the selected currency on the Conversion Effective Date with respect to the portion of the Loan to be converted;
  - d) The repayment provisions related to the converted portion of the Loan.
- 8.1.3. Interest Rate Conversion: In the case of an Interest Rate Conversions for a portion or for the full Loan amount, pricing reflects:
- a) The relevant Conversion Period;
  - b) IDB's USD estimated funding margin or actual funding cost and the resulting interest rate applicable on the Conversion Effective Date with respect to the portion of the Loan to be converted;
  - c) The repayment provisions related to the converted portion of the Loan.
- 8.1.4. Interest Rate Caps and/or Collars: In the case of Interest Rate Caps or Collars, pricing (i.e., premium) reflects:
- a) The relevant Conversion Period;
  - b) The requested Cap and/or Collar rates;
  - c) The repayment provisions related to the converted portion of the Loan.
- 8.1.5. Commodity Conversions: In the case of Commodity Conversions, pricing (i.e., premium) reflects:
- a) Transaction type (i.e., put/call Option);
  - b) The relevant Conversion Period;
  - c) The Commodity;
  - d) The number of units of the underlying Commodity to be hedged;
  - e) The requested Strike Price;
  - f) Option Type (i.e., European, Fixed-strike Arithmetic Asian, Binary);
- 8.1.6. Special instructions, if any one or more pricing transactions: The Bank may price any Conversion in one or more transactions. In such case, the Bank will determine the consolidated rate or premium to be applied to the total amount of the Loan to be converted on the basis of the weighted average of the rates or premiums obtained in all transactions undertaken to price the Conversion. If a smaller amount than the one requested by the Borrower is available at the time of the Conversion, the Bank may execute such amount to avoid having a negative effect on the terms of the Conversion. If no more Conversions were possible during the Execution Period, the Bank will notify the Borrower and the Borrower may submit a new Request Letter at a later date.

## 8.2. Partial Term Conversions

While the Bank assumes that in many cases the Borrower will want a Conversion for the full maturity of the amount of the Loan to which the Conversion will apply, there may be cases when either, (i) the Bank is not able to execute a Market Transaction for the full maturity of the Loan; or (ii) a Borrower would prefer a Conversion for a shorter period (a Partial Term). Partial Term Conversions will be dealt with by the Bank on a case by case basis. The consequences of such Partial Term Conversion are described below.

### 8.2.1. Partial Term Interest Rate Conversions

If, at the Borrower's specific request, the Bank effects a Partial Term Conversion consisting of an Interest Rate Conversion, Interest Rate Cap or Interest Rate Collar, upon the expiry of the Conversion Period, the interest rate payable on the amount of the Loan to which such Conversion applies will revert to the interest rate that would have been applicable to such amount in the absence of such Conversion.

### 8.2.2. Partial Term Currency Conversions

- a) Principal payments: The Borrower should be aware that the principal amount owed to the Bank following the end of a Partial Term Currency Conversion will not be known until the end of the Conversion Period and will depend on the exchange rate determined by the Bank at the expiration date <sup>17</sup> of such Conversion Period. Thus, following the end of the Conversion Period, the remaining outstanding principal amount in the Loan Currency may be greater or less than the amount that was originally scheduled to be remaining.

A Borrower requesting a Partial Term Currency Conversion acknowledges that it is aware of this exchange rate risk and of the fact that in certain currencies it might be able to obtain a Currency Conversion for the full maturity of the Loan amount for which the Conversion applies.

- b) Interest rate: during the Conversion Period of a Partial Term Currency Conversion, the interest rate payable on the amount of the Loan to which such Conversion applies will be the interest rate applicable following such Conversion. Upon the expiry of the Conversion Period, the interest rate payable will revert to the interest rate that would have been applicable to such amount in the absence of such Conversion.
- c) Currency of payment: during the Conversion Period of a Partial Term Currency Conversion, the amount payable by the Borrower in respect of principal and interest will be denominated in the Converted Currency and paid in the Converted Currency or in the Settlement Currency. Upon the expiry of the Conversion Period, the currency of denomination will revert to the Loan Currency in which such amount would have been denominated in the absence of such Conversion.

### 8.2.3. Rollovers for Partial Term Currency Conversions

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<sup>17</sup> The exchange rate applicable at expiration corresponds to the rate determined by the Bank on the Valuation Date as established in the Conversion Notification Letter or as otherwise determined by the Bank.

The risk outlined in paragraph 8.2.2. a) with respect to the principal amount remaining at the end of the Partial Term Currency Conversion may be mitigated if the Borrower enters into a further “roll-over” Conversion until the final maturity of the Loan. In this case, the outstanding Loan balance will remain denominated in the Converted Currency and a new interest rate will apply to reflect market conditions at the time of the rollover. Should the rollover be of interest to the Borrower, the Borrower must submit a new Request Letter no later than 15 business days prior to the expiration of the Partial Term Currency Conversion. Subject to market availability and operational and risk management considerations, the Bank will proceed to execute a rollover Conversion.

#### 8.2.4. Prepayment at expiration of Partial Term Currency Conversion

If the Borrower so chooses, upon termination of a Partial Term Currency Conversion, the Borrower may prepay the outstanding amount corresponding to that Conversion by submitting a written request to the Bank 30 calendar days prior to the termination date of the Partial Term Currency Conversion. The amount to be prepaid by the Borrower on the termination date of the Partial Term Currency Conversion will be determined by the Bank as follows:

- a) For fully convertible currencies, it will be the outstanding balance in the Converted Currency at expiration of the Partial Term Currency Conversion.
- b) For non-deliverable currencies, it will be determined by the Bank by multiplying the remaining principal amount denominated in the Converted Currency by the applicable exchange rate of the Converted Currency into the Settlement Currency as of the expiration date.

#### 8.2.5. Reverting to dollars and IDB’s LIBOR-based interest rate upon termination

If the Bank has not received any new Request Letter from the Borrower, upon termination of a Partial Term Conversion, the remaining converted amount will revert to dollars and the IDB’s LIBOR based interest rate will apply.

#### 8.2.6. Partial Term Conversions – Commodity Conversions

Given cost considerations, Conversion Periods are likely to be shorter than the loan’s maturity. Upon expiration of a Commodity Conversion, the Borrower may request to the Bank the execution of a new Commodity Conversion.

### 8.3. Conditional Requests

#### 8.3.1. The Borrower may submit a Request with certain conditions relating to the terms of the Conversion requested, as follows:

- a) If the Borrower requests a Currency Conversion, it may specify the maximum exchange rate. If no limit for the exchange rate is specified, the Currency Conversion will be effected at the prevailing market exchange rate.
- b) If the Borrower requests a Currency Conversion or an Interest Rate Conversion, it may specify the maximum fixed interest rate or spread over a reference rate it is willing to pay following such Conversion. If no limit for the interest rate is specified, the Currency Conversion will be effected at the prevailing market interest rate.
- c) If the Borrower requests an Interest Rate Cap or Collar, it may specify the maximum premium it is willing to pay given the requested rates for the cap and/or the collar. If no

limit for the premium is specified, the Interest Rate Cap or Collar will be effected at the prevailing premium market price.

- d) If the Borrower requests a Commodity Conversion, it may specify the maximum premium it is willing to pay to enter into the requested hedge given a fixed number of units of the underlying Commodity and Strike Price. If no limit is specified, the requested Commodity Conversion will be effected at the prevailing premium market price. Alternatively, at a given dollar premium amount and a defined Strike Price, the Borrower may instruct the Bank to execute the Commodity Conversion. The resulting number of units hedged will reflect market conditions at the time of execution.

- 8.3.2. The minimum amount of a Loan which may be covered by a conditional request is \$ 3 million equivalent unless, in the case of a fully disbursed Loan, the OLB is less than such amount.
- 8.3.3. Given the volatility of interest, exchange rates, and Commodity prices, the Bank can give no assurance that it will be able to actually obtain the rates(s) or premia specified in the conditional request, even if such rates/premia were to prevail at any given point during the Execution Period.
- 8.3.4. If during the Execution Period the Bank is unable to execute the Conversion on the conditional terms set by the Borrower, the conditional request will expire without execution and the Bank will promptly notify the Borrower.

## 9. NOTIFICATIONS FOLLOWING THE EXECUTION PERIOD

Following the Execution Period, the Bank shall notify the Borrower of the terms and conditions of the Conversion. All such notices will be sent by the Bank to the Borrower at the address for notices specified in the Loan Contract and, if different, any address specified by the Borrower pursuant to the Loan Contract and paragraph 6.6. If the Bank was unable to execute the Conversion within the Execution Period, the Bank and the Borrower will determine if and when a new Request Letter will be submitted.

### 9.1. Notification Letter

Following the Execution Date of any Conversion or option requested by the Borrower, the Bank will promptly send to the Borrower a Conversion Notification Letter or an Amortization Schedule Modification Notification Letter, as applicable, indicating the terms obtained in the Conversion or the requested option, as follows (list is not exhaustive):

- a) Conversion Effective Date;
- b) Amount of the Conversion<sup>18</sup>;
- c) Settlement Currency and Valuation Date, if applicable;
- d) Amortization Schedule associated with the Conversion; if applicable;
- e) Maturity of the Conversion;
- f) New interest rate payable under an Interest Rate Conversion or a Currency Conversion;

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<sup>18</sup> Any disbursement made during the Execution Period of a Conversion cannot be included in the request for Conversion.

- g) Interest rate day count;
- h) Interest rate payment frequency/compounding;
- i) WAL of the Conversion and cumulative WAL of the Loan;
- j) Exchange rate used in effecting a Currency Conversion, if applicable;
- k) Amount of any transaction fees, and, if applicable, the amount of any premium payable by the Borrower in connection with Interest Rate Cap, Interest Rate Collar, or Commodity Conversion, and the due date for payment of such fees and premia;
- l) Revised Amortization Schedule associated with a request for modification of a repayment profile;
- m) WAL of the new Amortization Schedule associated with a request for modification of a repayment profile and cumulative WAL of the Loan;
- n) Commodity Conversion transaction terms such as Strike Price, number of the underlying Commodity units hedged, expiration date, premium, Cash Settlement Amount formula, etc., if applicable;
- o) Other specifications as needed.

## 10. PAYMENTS DURING THE CONVERSION PERIOD

### 10.1. Commencement of Conversion Period

The Conversion Period will always commence on the Conversion Effective Date.

10.1.1. Any interest accrued up to a Conversion Effective Date will be payable at the rate applicable immediately prior to the Conversion.

10.1.2. Any principal payable either:

- a) On a Conversion Effective Date (where a Conversion Effective Date coincides with an interest payment date); or
- b) On an interest payment date falling within a period of fifteen calendar days before the commencement of the Execution Period and up to and including the Conversion Effective Date,

will not form part of the amount converted and will, in the case of a Currency Conversion, be payable in the currency in which the principal was payable immediately prior to such Conversion.

### 10.2. Currency Conversions

The Conversion Period of a Currency Conversion is extended (solely for the purpose of making payments of principal and interest<sup>19</sup>) by one day to include the interest payment

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<sup>19</sup> The Conversion Period runs up to the final day of an interest period. An interest period runs from one interest payment date up to, but does not include, the next interest payment date. To ensure that the Borrower makes the final payments at the end of a Conversion Period in the Converted Currency, it is therefore necessary to extend the Conversion Period by this extra day but only for this purpose. Without this provision, the Conversion Period will terminate one day prior to the final interest payment date, the Loan Currency will revert out of the Converted Currency into the original Loan Currency, and the Borrower will be required to pay amounts due on this date in the original Loan Currency.

date and, if applicable, the principal payment date immediately following the final interest period of the Conversion Period. Thus, on such principal/interest payment date, payment of principal and interest will be made in the Converted Currency and interest will be paid at the interest rate applicable during the Conversion Period.

## 11. TRANSACTION FEES

### 11.1. Transaction in respect of which a fee is payable

Borrower shall pay to the Bank transaction fees in respect of any Conversion executed with the Bank<sup>20</sup>.

### 11.2. Amount of fee payable

Conversion fees charged by the Bank can be found at [www.iadb.org/rates](http://www.iadb.org/rates). These fees may be revised by the Bank from time to time and will apply only to Conversions effected after such revision.

### 11.3. Payment of transaction fees

Transaction fees shall be paid as follows:

- a) In the case of Currency Conversions, transaction fees must be paid in the Converted Currency, are expressed in basis points, are accrued from the Conversion Effective Date, and are added to the interest rate payable on each interest payment date.
- b) In the case of Interest Rate Conversions, transaction fees must be paid in the Loan Currency, are expressed in basis points, are accrued from the Conversion Effective Date, and are added to the interest rate payable on each interest payment date. Transaction fees will be charged for US dollar rate fixings/unfixings and for Interest Rate Conversions of OLB's denominated in MCs/LCs.
- c) Notwithstanding the transaction fees set forth in a) and b), in the case of Interest Rate Caps and Collars, transaction fees must be paid in the Loan Currency, are paid in a lump-sum up-front, and are charged by the Bank on the first interest payment date after the Conversion Effective Date of the cap/collar.
- d) In the case of Commodity Conversions, transaction fees must be paid in USD. Transaction fees payment date/s will be determined and agreed to on a case-by-case basis between the Bank and the Borrower and may be paid in a lump-sum upfront or in instalments as set forth in the Conversion Notification Letter. At no time payment to the Bank of the transaction fees shall exceed the Conversion Period. The transaction fee is calculated based on the number of the underlying Commodity units, (i.e. Commodity notional quantity), times the Commodity spot price on the execution date. Transaction fees also apply to early termination of Commodity Conversions, in which case it must be paid by the Borrower as a lump-sum upfront.

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<sup>20</sup> Although there are always two aspects to a Currency Conversion (i.e., a change of currency and a change in the interest rate calculation), only one fee will be payable for a Currency Conversion: the Currency Conversion fee.

## 12. OTHER FFF ASSOCIATED COSTS

### 12.1. Unwinding Amounts on early termination of Conversions, return of advanced funds (ROFs), prepayments, and repayment acceleration

- 12.1.1. If a Conversion has been effected on any amount: (i) that then reverts to different terms due to early termination of a Conversion; (ii) that is part of an advanced of funds of a Loan that is returned to the Bank, (iii) prepaid, or (iv) accelerated (as provided in the Loan Contract), and the Conversion Period has not been terminated, the Bank will pass on to the Borrower any Unwinding Amounts resulting from the Bank's redeployment of funds, if any.
- 12.1.2. Unwinding Amounts payable by the Borrower shall be concurrently paid on the date of the Conversion termination, relevant ROFs, prepayment or accelerated amount.
- 12.1.3. If upon an early termination of a Conversion, a ROFs, prepayment or acceleration of repayment terms, the aggregate of all Unwinding Amounts represents an amount payable by the Bank to the Borrower, such amount will be subtracted from the amount to be refunded, prepaid or paid by the Borrower.
- 12.1.4. Any ROFs of converted (currency or interest rate) amounts that have been advanced by the Bank ("advance of funds") is treated as a prepayment. The Bank will pass on to the Borrower any Unwinding Amounts resulting from the Bank's redeployment of funds, if any.

### 12.2. Early termination of Interest Rate Caps, Interest Rate Collars, and Commodity Conversions

- 12.2.1. If as a result of an early termination of an Interest Rate Cap, an Interest Rate Collar, or a Commodity Conversion an Unwinding Amount is payable by the Borrower to the Bank, the Borrower will pay such amount not later than thirty calendar days after the effective date of such early termination.
- 12.2.2. If, as a result of an early termination of an Interest Rate Cap, an Interest Rate Collar, or Commodity Conversion an Unwinding Amount is payable by the Bank to the Borrower, the Bank will pay such amount by deducting it against any amounts payable by the Borrower to the Bank as such amounts become due.

## 13. PREMIA ON INTEREST RATE CAPS, INTEREST RATE COLLARS, AND COMMODITY CONVERSIONS

### 13.1. General

- 13.1.1. In addition to Transaction Fees, Borrowers must pay a premium on Interest Rate Caps, Collars, and on Commodity Conversions which corresponds to the premium paid by the Bank in its Market Transaction, i.e., cost pass-through to Borrowers.
- 13.1.2. Upon the establishment of an Interest Rate Cap or Interest Rate Collar, the Borrower shall pay to the Bank a premium on the amount of the OLB to which the Cap or Collar applies, calculated on the basis of the premium, if any, payable by the Bank for an Interest Rate Cap or Collar purchased by the Bank from a Counterparty for the purpose of establishing an Interest Rate Cap or Collar to a Borrower.

- 13.1.3. Upon the execution of a Commodity Conversion, the Borrower shall pay to the Bank a premium, calculated on the basis of the premium payable by the Bank for the Commodity Conversion purchased by the Bank from a Counterparty for the purpose of establishing such Commodity Conversion for the Borrower.

### 13.2. Premium on Interest Rate Collars

- 13.2.1. In order to reduce the premium payable by the Borrower in respect of an Interest Rate Cap, the Borrower may choose an Interest Rate Collar instead. Through an Interest Rate Collar, the Borrower, in addition to establishing an upper limit (cap) on its variable rate for which it pays a premium, also establishes a lower limit (floor) on the same variable rate for which it receives a premium. The premium the Borrower pays is netted against the premium it receives.
- 13.2.2. The Borrower may request the establishment of an Interest Rate Collar by specifying a cap and a floor. The premium payable by the Bank to the Borrower in respect of the floor may not exceed the premium to be paid by the Borrower in respect of the cap (thus the Borrower will never receive a net premium payment). If, as a result of interest rate fluctuations during the Execution Period, the premium on the floor were to exceed the premium on the cap, then the Bank may lower the floor to reduce the premium, so that it will not exceed the premium on the cap. The Borrower may also request that the Bank determine the floor so that the premium in respect of such floor will be equal to the premium in respect of the cap, thereby establishing an Interest Rate Collar at no premium cost (Zero Cost Collar).

### 13.3. Premium on Commodity Conversions

- 13.3.1. For any given set of market conditions, the premium paid by the Borrower per unit of the underlying Commodity being hedged varies depending on:
- a) Conversion period
  - b) Option Type (European, Binary, Fixed-strike Arithmetic Asian)
  - c) Strike Price
- 13.3.2. When requesting a Commodity Conversion to the Bank, these variables are selected by the Borrower. For example, a Borrower may choose a shorter Conversion period, a different Option Type, a lower Strike Price (in the case of a Call Option), or a higher Strike Price (in the case of a Put Option) to affect the desired premium amount to be paid by the Borrower to the Bank.
- 13.3.3. Furthermore, a Borrower may specify the maximum premium it is willing to pay given a fixed number of units of the underlying Commodity Conversion and a Strike Price. If no premium limit is specified, the requested Commodity Conversion will be effected at the prevailing premium market price. Alternatively, at a given dollar premium amount and a defined Strike Price, the Borrower may instruct the Bank to execute the Commodity Conversion. The resulting number of units hedged will reflect market conditions at the time of execution.

### 13.4. Payment of premium

- 13.4.1. Interest Rate Cap or Interest Rate Collar - Payment out of Borrower's own resources. The Borrower is required to pay any premium up-front, in a lump-sum payment, in respect of an

Interest Rate Cap or Interest Rate Collar out of its own resources. Premium payment date will be determined and agreed to on a case by case basis between the Bank and the Borrower and shall in no case be later than 30 calendar days after the Conversion Effective Date. In some cases, it may be possible to annualize the premium (i.e., in basis points), in which case, it would be added to the interest rate payable on each interest payment date, as long as it is operationally possible for the Bank. In such case, the Borrower would have to request such alternative to the Bank. The Bank will evaluate such request and may accept or reject it. Any premium in respect to Interest Rate Caps and Interest Rate Collars will be paid in the Loan Currency or in USD equivalent, as may be determined by the Bank.

- 13.4.2. **Commodity Conversions - Payment out of Borrower's own resources.** The Borrower is required to pay a premium, in respect of a Commodity Conversion, out of its own resources. Premium payment date/s will be determined and agreed to on a case-by-case basis between the Bank and the Borrower and may be paid in a lump-sum or in instalments. In some cases, it may be possible to annualize the premium (i.e., in basis points), in which case, it would be added to the interest rate payable on each interest payment date, as long as it is operationally possible for the Bank. In such case, the Borrower would have to request such alternative to the Bank. The Bank will evaluate such request and may accept or reject it. Any premium in respect to a Commodity Conversion will be paid in USD.

13.5. **Calculation of premium**

The premium payable by the Borrower will be calculated on the amount of the Loan to be converted using the rate obtained in any purchase by the Bank of an Interest Rate Cap, Collar, or Commodity Conversion in the financial markets.

14. **COMMODITY CONVERSION PAYOFF (CASH SETTLEMENT AMOUNT)**

- 14.1.1. The Borrower should be aware that a Commodity Conversion may result in no Cash Settlement Amount payment to the Borrower.
- 14.1.2. If at the end of the Conversion Period, or at the time of an early termination, a Commodity Conversion results in a Cash Settlement Amount to the Borrower by the Bank, based on the Commodity Conversion Cash Settlement Amount formula informed in the Conversion Notification Letter, the Bank will pay such Cash Settlement Amount to the Borrower within five business days after the end of the Conversion Period or early termination as applicable. Cash Settlement Amounts will generally not be set off against regularly scheduled loan payments. Cash Settlement Amounts payable in connection with early termination of Commodity Conversions will be netted from any unpaid Commodity Conversion premium to the Bank.
- 14.1.3. The Cash Settlement Amount will be deposited in the bank account instructed by the Borrower in the Request Letter.
- 14.1.4. If a loan made to the Borrower or guaranteed by the Borrower is in arrears for over 30 days, then the Bank will deduct from any Cash Settlement Amount due to the Borrower under a Commodity Conversion, all amounts owed to the Bank under any loan made to or guaranteed by the Borrower that are in arrears for any length of time (i.e., for more, or for less, than 30 days).

## 15. ROUNDING CONVENTION USED IN CONVERSIONS

- 15.1. The Bank will round all currency amounts to the nearest hundredth of the currency unit of USD, EUR, CHF, and GBP and to the nearest whole currency unit on JPY. For other currencies, the rounding will be determined on a case by case basis. The Bank will round interest rate to five decimal places and foreign exchange rates to five decimal places.
- 15.2. In each case, the Bank will round upwards if the numbers end in a figure of five or above, and downwards if the numbers end in a figure below five.

## ANNEXES

## Annex 1 - Model letter for Interest Rate Conversion from LIBOR to fixed rate

### MODEL FOR REQUEST FOR CONVERSION OF OUTSTANDING LOAN BALANCES FOR LOANS WITH LIBOR-BASED INTEREST RATE TO FIXED INTEREST RATE (FOR CASES IN WHICH THE LOAN CONTRACT HAS LIBOR-BASED INTEREST RATE CLAUSE)

[Borrower's Letterhead]

[Mr.] [Ms.]

\_\_\_\_\_  
Representative  
Inter-American Development Bank  
[Street Address]  
[City], [Country]

Re: [Country] Conversion of outstanding Loan balances with LIBOR-Based Interest Rate to Fixed Interest Rate

Dear Sir [Madame]:

As you are aware, [\_\_name of Borrower\_\_] has several outstanding Loan contracts with the Bank which are subject to a LIBOR-Based Interest Rate, which may be converted to a Fixed Interest Rate in accordance with the provisions of said Loan contracts.

In light of the foregoing, we hereby request that the LIBOR-Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

#### Loan Contracts and Amounts to be Converted

Contract No.	Amount to be converted to Fixed Interest Rate

This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the LIBOR-Based Interest Rate applicable to outstanding Loan balances of the Loan contracts listed above, to a Fixed Interest Rate, subject to the terms and conditions set forth in said Loan contracts.

We acknowledge that the Fixed Interest Rate will be composed of the market swap rate on the effective date of the conversion, plus the applicable transaction fee and the prevailing Ordinary Capital lending spread expressed in basis points (bps). This margin is determined by the Bank periodically and is \_\_ bps for the \_\_ [first][second] semester of \_\_[year]\_\_, according to the information provided by the Bank.

We also acknowledge that our request will be processed in New York City, State of New York, United States of America, in a period not to exceed five (5) business days from the date of receipt by the Bank of the same.

Best regards,

[Name of Borrower's representative]

## Annex 2 Model letter for Conversion from LIBOR to fixed rate of a Loan with guarantor

### MODEL FOR REQUEST FOR CONVERSION OF OUTSTANDING LOAN BALANCES FOR LOANS WITH LIBOR-BASED INTEREST RATE TO FIXED INTEREST RATE (FOR CASES IN WHICH THE LOAN CONTRACT HAS LIBOR-BASED INTEREST RATE CLAUSE, AND WITH GUARANTOR)

[Borrower's Letterhead]

[Mr.] [Ms.]

\_\_\_\_\_  
Representative  
Inter-American Development Bank  
[Street Address]  
[City], [Country]

Re: [Country] Conversion of outstanding Loan balances with LIBOR-Based Interest Rate to Fixed Interest Rate

Dear Sir [Madame]:

As you are aware, [\_\_name of Borrower\_\_], with the Guaranty of [\_\_name of Guarantor\_\_], has several outstanding Loan contracts with the Bank which are subject to a LIBOR-Based Interest Rate, which may be converted to a Fixed Interest Rate in accordance with the provisions of said Loan contracts.

In light of the foregoing, and with the express consent of the Guarantor, [as set forth in the attached communication \_\_\_\_ dated \_\_\_\_]<sup>21</sup>, we hereby request that the LIBOR-Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

#### Loan Contracts and Amounts to be Converted

Contract No.	Amount to be converted to Fixed Interest Rate

This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the LIBOR-Based Interest Rate applicable to outstanding Loan balances of the Loan contracts listed above, to a Fixed Interest Rate, subject to the terms and conditions set forth in said Loan contracts.

We acknowledge that the Fixed Interest Rate will be composed of the market swap rate on the effective date of the conversion, plus the applicable transaction fee and the prevailing Ordinary Capital lending spread expressed in basis points (bps). This margin is determined by the Bank periodically, and is \_\_\_\_ bps for the \_\_\_\_ [first][second] semester of \_\_[year]\_\_, according to the information provided by the Bank.

We also acknowledge that our request will be processed in New York City, State of New York, United States of America, in a period not to exceed five (5) business days from the date of receipt by the Bank of the same.

Best regards,

[Name of Borrower's representative]

<sup>21</sup> The Guarantor's consent can also be expressed by other means, such as jointly signing this request letter with the Borrower (in which case a signature line would be added for the Guarantor under that of the Borrower), or via a separate communication by the Guarantor. In the latter case, the Bank will process the conversion request following receipt of said communication from the Guarantor.

### Annex 3 - Model letter for Conversion from LIBOR to fixed rate of previously converted Loans

#### MODEL FOR REQUEST FOR CONVERSION OF OUTSTANDING LOAN BALANCES FOR LOANS WITH LIBOR-BASED INTEREST RATE TO FIXED INTEREST RATE (FOR CASES IN WHICH THERE HAS BEEN A PREVIOUS CONVERSION OFFER)

[Borrower's Letterhead]

[Mr.] [Ms.]

\_\_\_\_\_  
Representative  
Inter-American Development Bank  
[Street Address]  
[City], [Country]

Re: [Country] Conversion of outstanding Loan balances with LIBOR-Based Interest Rate to Fixed Interest Rate

Dear Sir [Madame]:

As you are aware, in accordance with the provisions of the Amendatory Letter for Offer of Conversion executed with the Bank on [\_\_date\_\_], [\_\_name of Borrower\_\_], in its capacity as Borrower, has the right to request that all or a portion of the outstanding Loan balances of Eligible Loans with LIBOR-Based Interest Rate be converted to a Fixed Interest Rate.

In light of the foregoing, and in accordance with paragraph (d) of said Amendatory Letter, we hereby request that the LIBOR-Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

##### Loan Contracts and Amounts to be Converted

Contract No.	Amount to be converted to Fixed Interest Rate

This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the LIBOR-Based Interest Rate applicable to outstanding Loan balances of the Eligible Loans with LIBOR-Based Interest Rate listed above, to a Fixed Interest Rate, subject to the terms and conditions set forth in the Amendatory Letter for Offer of Conversion.

We acknowledge that the Fixed Interest Rate will be composed of the market swap rate on the effective date of the conversion, plus the applicable transaction fee and the prevailing Ordinary Capital lending spread expressed in basis points (bps). This margin is determined by the Bank periodically, and is \_\_ bps for the \_\_ [first][second] semester of \_\_[year]\_\_, according to the information provided by the Bank.

We also acknowledge that our request will be processed in New York City, State of New York, United States of America, in a period not to exceed five (5) business days from the date of receipt by the Bank of the same.

Best regards,

[Name of Borrower's representative]

## Annex 4 - Model letter for Conversion from LIBOR to fixed rate of previously converted Loans with guarantor

### MODEL FOR REQUEST FOR CONVERSION OF OUTSTANDING LOAN BALANCES FOR LOANS WITH LIBOR-BASED INTEREST RATE TO FIXED INTEREST RATE (FOR CASES IN WHICH THERE HAS BEEN A PREVIOUS CONVERSION OFFER, WITH GUARANTOR)

[Borrower's Letterhead]

[Mr.] [Ms.]

Representative  
Inter-American Development Bank  
[Street Address]  
[City], [Country]

Re: [Country] Conversion of outstanding Loan balances with LIBOR-Based Interest Rate to Fixed Interest Rate

Dear Sir [Madame]:

As you are aware, in accordance with the provisions of the Amendatory Letter for Offer of Conversion executed with the Bank on [\_\_date\_\_], [\_\_name of Borrower\_\_], in its capacity as Borrower, with the consent of [\_\_name of Guarantor\_\_], in its capacity as Guarantor, has the right to request that all or a portion of the outstanding Loan balances of Eligible Loans with LIBOR-Based Interest Rate be converted to a Fixed Interest Rate.

In light of the foregoing, and in accordance with paragraph (d) of said Amendatory Letter, and with the express consent of the Guarantor, [as set forth in the attached communication \_\_dated\_\_]<sup>22</sup> we hereby request that the LIBOR-Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

#### Loan Contracts and Amounts to be Converted

Contract No.	Amount to be converted to Fixed Interest Rate

This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the LIBOR-Based Interest Rate applicable to outstanding Loan balances of the Eligible Loans with LIBOR-Based Interest Rate listed above, to a Fixed Interest Rate, subject to the terms and conditions set forth in the Amendatory Letter for Offer of Conversion.

We acknowledge that the Fixed Interest Rate will be composed of the market swap rate on the effective date of the conversion, plus the applicable transaction fee and the prevailing Ordinary Capital lending spread expressed in basis points (bps). This margin is determined by the Bank periodically, and is \_\_ bps for the \_\_ [first][second] semester of \_\_[year]\_\_, according to the information provided by the Bank.

We also acknowledge that our request will be processed in New York City, State of New York, United States of America, in a period not to exceed five (5) business days from the date of receipt by the Bank of the same.

Best regards,

[Name of Borrower's representative]

<sup>22</sup> The Guarantor's consent can also be expressed by other means, such as jointly signing this request letter with the Borrower (in which case a signature line would be added for the Guarantor under that of the Borrower), or via a separate communication by the Guarantor. In the latter case, the Bank will process the conversion request following receipt of said communication from the Guarantor.