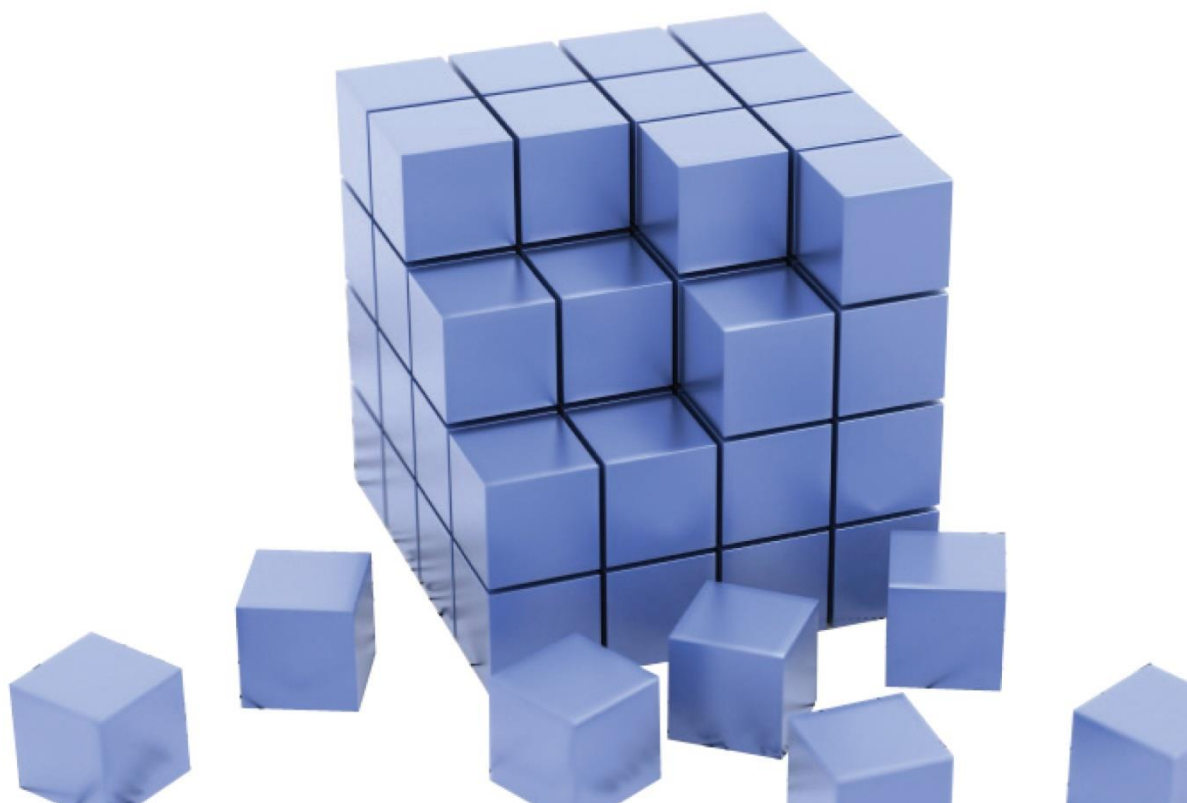


Flexible Financing Facility (FFF)

DELIVERING COST-EFFECTIVE FINANCIAL SOLUTIONS
THAT ENHANCE BORROWERS' RISK MANAGEMENT
CAPABILITIES IN PROJECTS AND DEBT MANAGEMENT PROGRAMS



The Inter-American Development Bank is committed to providing flexible, market-based products that enable borrowing member countries to meet their asset/liability management needs.

Introducing a flexible financial product

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

The FFF also offers loan tranching –creating sub loans within a single loan– to facilitate project cash flow management. Each tranche can carry different financial structures, such as currency, repayment schedule, and interest rate basis.

Supporting borrower's changing needs

Broader access to international capital markets combined with the increased sophistication of countries' debt management capabilities underscore the need for innovative financial solutions. The FFF provides reliable and stable resources to IDB borrowers for their development goals at attractive pricing and with embedded as well as stand alone risk management features.

Loans under the FFF can be divided into *tranches*, allowing the creation of sub loans within a single loan. Each tranche can carry different financial structures, such as currency, repayment schedule, and interest rate basis.

Offering competitive, low cost-financing

Transferring the benefits of the IDB's triple-A rating to borrowers is at the core of the IDB's development financing role in Latin America and the Caribbean. The IDB's triple-A rating translates into lower financing costs for borrowers. Furthermore, FFF loans are priced using standard market benchmarks that result in more transparent and predictable pricing.

Financing in Local Currency (LC)

Financing in borrowing member countries' currencies enhances sovereigns and sub national entities' ability to manage currency exposures and better match project cash

flows. LC financing is available at loan approval or via the conversion of disbursements or outstanding loan balances of dollar denominated loans. Delivery of LC financing is subject to market availability.

Managing interest rate and currency risks

The FFF includes built-in options to offer borrowers the ability to manage interest rate and currency exposures to better meet debt management and project needs.

To manage interest rate exposures, borrowers can choose options such as fixing or floating the base rate, contracting an option to fix the rate in the future, and purchasing interest rates caps or floors. These options are available throughout the life of a loan on a partial or full outstanding loan balance.

To manage currency exposures, borrowers can convert from the original loan denomination in US dollar or local currency into other major currencies or into other regional local currencies. Borrowers can also execute partial currency conversions to match desired exposures, or fix exchange rates at predetermined levels on future dates. Currency options are subject to market availability.

Tailoring repayment terms

FFF loans carry semiannual straight line amortization schedules. Borrowers can choose different structures that can better match project cash flows. Repayment schedules include bullet repayments, extended grace periods, uneven amortization schedules, and shorter repayment periods. These options are available provided that the Weighted Average Life (WAL) of all tranches and the loan's original maturity are not exceeded.

Hedging IDB debt

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

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

Flexible Financing Facility (FFF) | Terms and Conditions

Currency of loan approval	- US dollars or regional local currencies (LCs) that the IDB can efficiently intermediate.
Maturity, amortization, and WAL	- Investment loans: typically, 25 years final maturity, 5.5 year grace period and semiannual straight line amortization thereafter, corresponding to a Weighted Average Life (WAL) of 15.25 years. - Policy Based Loans (PBLs): 20 years final maturity, 5.5 year grace period and semiannual straight line amortization thereafter, corresponding to a WAL of 12.75 years.
Lending rate	- For US denominated financing, lending rate is SOFR base rate plus IDB lending spread: (i) SOFR base rate is USD SOFR daily overnight compounded rate in arrears +/- IDB's funding margin; plus (ii) IDB's Ordinary Capital (OC) lending spread, periodically determined by the Bank. - For Major Currencies (MC)/LC financing, lending rate is (i) the MC/LC equivalent of SOFR +/- estimated funding margin in USD or actual funding cost at the time of execution, plus (ii) IDB lending spread. - For applicable loan charges and conversion option fees, please refer to www.iadb.org/rates .
Loan tranching	- Refers to sub loans within a single loan, each with different financial structures, such as currency, repayment schedule, and interest rate basis. - For financing in MCs, up to four tranches each of at least \$3 million. For financing in LCs, flexible number of tranches to accommodate for market constraints. - Each tranche can be denominated in a different currency.
Currency conversion options	- Conversion options available during the life of the loan for disbursements or outstanding loan balances include: (i) conversion to other MCs; (ii) conversion to regional LCs subject to market availability; and (iii) fixing the exchange rate at a predetermined level on a future date (forward starting swap). - Loan obligation remains in the converted currency. - For non-US dollar conversions, arrears accrue interest at a floating rate of the overdue currency plus 1%. Additional charges assessed, if necessary, consistent with a full cost pass through. This applies for currency in which the IDB does not have treasury operations. - Please consult with us for these and other currency options.
Flexible repayment options	- Standard FFF loans carry a semiannual straight line amortization schedule. Other repayment options include bullet repayment structures, extended grace periods, uneven amortization schedules, and shorter repayment periods subject to: (i) the cumulative WAL of all tranches cannot exceed the loan's original WAL, and (ii) the loan's original final maturity date, which cannot be exceeded.
Interest rate conversion options	- Options available during the life of the loan for partial or full loan conversions include: (i) fixing both or either one of the SOFR base rate components (SOFR daily overnight compounded rate in arrears and/or funding margin); (ii) floating the fixed rate; (iii) converting to an inflation-linked rate; (iv) contracting an option to fix the SOFR base rate at a predetermined level on a future date (forward starting swap); (v) purchasing an interest rate cap and/or collar. - Minimum amounts apply based on operational and market considerations.
Commodity conversions	- Commodity conversion options are embedded in FFF loans and are linked to outstanding loan balances. - Conversion options available during the life of the loan include: (i) buying a call option to protect from commodity price increases; and (ii) buying a put option to protect from commodity price decreases.
Catastrophe Protection Conversions (CPC)	- Through the built-in Catastrophe Protection Conversion clause in the FFF, borrowers have the ability to manage exposure to catastrophe risk (such as, tropical cyclones and earthquakes). - CPC offers cash payouts from the IDB to the borrower if a pre-defined Catastrophe event occurs during the term of the protection.
Principal Payment Option (PPO)	- The PPO allows for a one-time deferral of principal repayments for 2 years given the occurrence of an eligible natural disaster event (currently tropical cyclones and earthquakes). - Available for member countries with a current Contingent Credit Facility for Natural Disaster Emergencies (CCF)
Prepayment	- Full or partial loan prepayments are subject to IDBs ability to unwind its funding operations with the market. - Converted loan amounts under any of the options offered by the FFF are subject to pass through of IDB's cost/gain from redeployment of funds.
Conversion fees	- Fees for currency, interest rate, and/or conversions apply. - For a complete list of transaction fees, please refer to www.iadb.org/rates .

For further information, please refer to www.iadb.org/flexiblefinancing or the Treasury Client Solutions Group at the IDB. Finance Department (FIN-TCS@iadb.org).

