

## **Conversion Offer for Currency Pooling System and Single Currency Facility Adjustable Rate Loans**

### **Description of the Conversion Offer**

The IDB is committed to developing and providing flexible, market-based products that enable borrowing member countries to customize financial requirements from the IDB and complement individual asset/liability management strategies.

In line with this strategy, for the first time ever, the IDB is offering borrowers the ability to convert disbursed and undisbursed loan balances under the Single Currency Facility (SCF) and Currency Pooling System (CPS) Adjustable (ADJ) rate to dollar LIBOR-based or fixed-rate loans or a combination thereof selected by borrowers (“Conversion Offer” or “Offer”). The Conversion Offer will have two execution dates: August 1, 2009 and August 1, 2010 with the respective sign-up periods ending on June 30, 2009 and June 30, 2010.

### **Rationale for the Conversion Offer**

The core focus of the Conversion Offer is borrower customization of its debt with the IDB. The Offer:

1. Enables borrowers to better and more flexibly manage IDB debt. In new loans with the IDB, borrowers can create their own mix of floating/fixed-rate exposures via the SCF-LIBOR and SCF-FIXED products. With this Offer, borrowers will have the option to manage interest rate exposures in old loans with the IDB and execute desired asset/liability operations to better manage IDB debt.
2. Underscores the high value attributed by borrowers to hedge able, market-standard financial products. The growth in capital markets and resulting development in new financial instruments enables borrowers to access the funding they need with the currency and/or interest rate exposures they want. With this Offer, IDB can provide this same flexibility.
3. Allows borrowers to achieve the benefits derived from overarching portfolio management strategies that blend all funding sources to meet specific debt management objectives. By converting IDB’s CPS-ADJ and SCF-ADJ loans to market-based loans, this offer enables borrowers to rip the benefits of blending IDB funding with market sources to hedge undesired debt exposures.
4. Provides price transparency and ability to forecast lending rates in converted rate loans with the IDB. Embedded in the pricing of adjustable rate loans is a weighted average cost of fixed and floating rate borrowings by the IDB, a cost not replicable by borrowers. With the Conversion Offer, loans with the IDB will be Libor-based providing the price transparency sought by borrowers.

### **Implementation of the Conversion Offer**

Extensive dissemination efforts are key to facilitating borrower understanding of the Conversion Offer. First, the IDB’s website dedicated to the Offer provides borrowers with an array of information to facilitate borrower decision making: detailed list of loans eligible to the Conversion Offer, model loan contracts to execute the Offer, loan cash flows’, semi-monthly indicative quotes on pricing, and other required information. Second, the IDB is committed to broad dissemination efforts of the Offer via videoconferences, bilateral presentations, and conference calls to address specific questions in connection with the Offer. Third, the IDB is committed to facilitating the execution of the Offer via intranet implementation.

## Conversion Offer Terms and Conditions

Feature	Term and Conditions
Eligible Loans	Currency Pool System Adjustable Rate (CPS-ADJ) loans and Single Currency Facility Adjustable Rate (SCF-AJD) loans in any USD, CHF, EUR, and JPY. Conversion is offered at the loan level.
Execution Dates	First sign-up deadline is June 30, 2009; second, is June 30, 2010. Execution dates are August 1, 2009 and August 1, 2010, respectively. Borrowers can opt out by sign-up period deadline.
Currency after Conversion	USD
Interest Rate after Conversion	LIBOR-based or fixed rate or any combination selected by borrower. Undisbursed balances carry new LIBOR-based rate and are available for rate fixings (see Rate Fixings).
Loan Repayment Schedule after Conversion	No change.
LIBOR-based Rate after Conversion	3-month LIBOR rate plus fixed spread (corresponds to IDB's funding cost for conversion) plus OC Lending Spread.
Fix Rate after Conversion	Fixed-rate equivalent of LIBOR-based rate plus OC Lending Spread.
IDB's Funding Cost (to LIBOR-based rate)	IDB's weighted average funding cost.
OC Lending Spread	IDB's variable lending spread approved semi-annually by Board of Executive Directors.
Conversion Fee	None
Rate Fixing of Undisbursed Loan Balances	After disbursement, either automated or discrete rate fixing, subject to the larger of \$3mn or 25% of net loan approval amount (approved minus cancelled loan amount).
Prepayment	Pass-through to borrowers of IDB's cost/gain from redeployment of funds.
Loan Contract Amendment	Required
Minimum Conversions Amount	None
Non-execution Conversion Provision	Conversion will not be executed if price exceeds 50bps of last quote provided by IDB to borrowers.

### Timetable

<b>January 14, 2009</b>	Launching of the Conversion Offer
<b>January 14 - June 30, 2009</b>	Conversion Offer sign-up period
<b>January 31 – June 30, 2009</b>	Semi-monthly indicative quotes on Conversion Offer pricing
<b>June 30, 2009</b>	Conversion Offer sign-up deadline Cease approval of new loans in SCF-ADJ product Change interest rate applicable to Ordinary Capital portion of “blended” loans to SCF LIBOR-based lending rate with an automated fixed rate (SCF fixed loan)
<b>August 1, 2009</b>	Conversion Offer first execution date

**A second Conversion Offer date is available to borrowers in 2010. Timetable for such Offer follows same dates.**

For further information regarding the Conversion Offer, please contact IDB's Country Office and/or Claudia Franco (202) 623-2863 or Carlos Herrera (202) 623-2238, IDB's Finance Department, Washington, DC.