Operational Procedures

FLEXIBLE FINANCING FACILITY

2023
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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 SOFR Interest Rate plus the IDB’s funding margin; for LC denominated or for LC/MC converted Loans, corresponds to the selected currency equivalent of (i) SOFR 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. **Cash Settlement Amount**:
   - For Commodity Conversions: the corresponding conversion payoff, if any, as specified in Sections 4.3.4.5, 6.7.9 and 14.1.2 of these guidelines.
   - For Catastrophe Protection Conversions: an amount in US dollars owed by the IDB to the Borrower upon the determination of occurrence of a Cash Settlement Event, to be calculated by the Event Calculation Agent in accordance with the Cash Settlement Event Determination Instructions.

6. **Cash Settlement Event**: an event that, upon occurrence, causes a Cash Settlement Amount to be due by the IDB to the Borrower under a Catastrophe Protection Conversion, as determined by the Event Calculation Agent in accordance with the Cash Settlement Event Determination Instructions.

7. **Cash Settlement Event Determination Instructions**: a detailed, reproducible, and transparent set of conditions and instructions included in a Catastrophe Conversion Notification Letter that:
   - Specifies how the Event Calculation Agent will determine whether the occurrence of an Event constitutes a Cash Settlement Event and, in that case, how the Cash Settlement Amount will be calculated;
   - Provides the IDB with the necessary parameters to secure the protection in the market via a Market Transaction (for example, among others, the probability of attachment, expected loss and exhaustion probability); and
   - Specifies other information in relation to the procedures and roles of each of the Parties in the determination of occurrence of a Cash Settlement Event and the calculation of a Cash Settlement Amount, if any.

8. **Catastrophe**: a serious disruption of the functioning of a society, a community, or a project that occurs as a result of a hazard and causes widespread or serious human, material, economic or environmental losses.

9. **Catastrophe Conversion Notification Letter**: a letter sent by the Bank to the Borrower specifying the terms and conditions of the Catastrophe Protection Conversion including,
among others, the identification of one or more Events protected against and the Cash Settlement Event Determination Instructions.

10. **Catastrophe Protection Conversion**: an agreement embedded in FFF loans between the Bank and the Borrower, formalized on the Conversion Effective Date by means of a Catastrophe Conversion Notification Letter, where the Bank undertakes to pay to the Borrower a Cash Settlement Amount upon the occurrence of a Cash Settlement Event, subject to the fulfillment of the conditions specified in the Catastrophe Conversion Notification Letter and the Cash Settlement Event Determination Instructions.

11. **Catastrophe Protection Engagement Letter**: an agreement entered into between the Borrower and the Bank in the initial stages of the structuring of a Catastrophe Protection Conversion whereby, among other agreements, the parties agree to: (i) the main terms and conditions of the structuring of a potential Catastrophe Protection Conversion and (ii) the pass-through to the Borrower of all costs incurred by the IDB (including fees charged by any third party, such as the Modeling Agent, external legal counsel, distributors, among others) in relation to such potential Catastrophe Protection Conversion and its corresponding Market Transaction.

12. **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.

13. **Commodity Conversion**: Options linked to Commodity prices embedded in FFF loans.

14. **Commodity Hedge**: one or more Option contracts entered into by the Bank with a Counterparty as of the Conversion Execution Date.

15. **Contingent Credit Facility (CCF)**: a Contingent Credit Facility for Natural Disaster Emergencies or the Contingent Credit Facility for Natural Disaster and Public Health Emergencies, as the case may be, approved by the Bank, and as may be amended from time to time.

16. **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; (iv) the establishment of a Commodity Conversion; or (v) the establishment of a Catastrophe Protection Conversion.

17. **Converted Currency**: a Loan’s currency denomination during a Conversion or the disbursed LC for Loans approved in LC (see Currency Conversion).

18. **Conversion Notification Letter**: letter sent by the Bank to the Borrower detailing the financial terms and conditions upon which a Conversion was effected. For Catastrophe Protection Conversion see Catastrophe Conversion Notification Letter.

19. **Conversion Period**: 
   - For Conversions other than Commodity Conversions and Catastrophe Protection 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 Conversions and Catastrophe Protection Conversions: the period from the Conversion Effective Date through the date set forth in the Conversion Notification Letter or the Catastrophe Conversion Notification Letter, as applicable.

20. **Counterparty:** the party with which the Bank enters into a derivatives transaction in order to effect a Conversion.

21. **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.

22. **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.

23. **Effective Date:** the Effective Date or such other date as the Bank determines on which a Conversion or other options enters into effect.

24. **Eligible Natural Disaster:** an (i) earthquake; (ii) tropical cyclone; and/or (iii) other natural disaster for which the Bank can offer the PPO, subject to operational and risk management considerations, in either of the three cases of catastrophic proportions, that meets the parametric and non-parametric conditions established by the Bank in the PPO Parametric and Non-Parametric Terms and Conditions.

25. **Event:** a phenomenon occurrence identified in the Catastrophe Conversion Notification Letter that has the potential to cause a Catastrophe, the risk of which the Borrower is requesting the protection against and for which the IDB can execute a Catastrophe Protection Conversion subject to market availability and IDB’s operational and risk management considerations.

26. **Event Calculation Agent:** a third party engaged by the IDB who, based on the Reporting Agent’s data concerning an Event, and following the Cash Settlement Event Determination Instructions, determines whether the occurrence of an Event constitutes a Cash Settlement Event and, in that case, calculates the Cash Settlement Amount.

27. **Event Calculation Notice:** a letter submitted by the Borrower to the Event Calculation Agent, with a copy to the IDB, requesting (i) the determination of whether a Cash Settlement Event has occurred and, (ii) if a Cash Settlement Event is determined to have occurred, the calculation of the corresponding Cash Settlement Amount.

28. **Event Report:** a report released by the Event Calculation Agent after receipt of an Event Calculation Notice, determining whether the occurrence of an Event constitutes a Cash Settlement Event and specifying the corresponding Cash Settlement Amount due, if any. All determinations and calculations made by the Event Calculation Agent in an Event Report shall be final and binding on the Borrower.

29. **Execution Date:** the date on which the Bank has undertaken all actions to execute a Conversion or other options, as reasonably determined by the Bank.

30. **Execution Period:** is the period during which the Bank can execute either Market Transaction and/or price a transaction via Screen Rates or a combination of both, as the case may be, 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.

31. **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.

32. **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.

33. **Grace Period:** period between signature date and the originally scheduled first principal repayment date.

34. **Interest Rate Cap:** establishing an upper limit on the cost base of a variable rate, as requested by a Borrower.

35. **Interest Rate Collar:** establishing an upper and lower limit on the cost base of a variable rate, as requested by a Borrower.

36. **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.

37. **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.

38. **Investment Loan:** a Loan that finances goods, works and services for promoting social and economic development.

39. **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).

40. **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.

41. **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.

42. **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.

43. **Local Currency (LC)**: the currency of borrowing member country of the Bank that the Bank can efficiently source in accordance with its risk management policies and its operational considerations.

44. **Major Currency (MC)**: the currency of non-borrowing member country of the Bank that the Bank can efficiently source in accordance with its risk management policies and its operational considerations.

45. **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.

46. **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 or a Catastrophe protection transaction by the Bank in the financial markets.

47. **Modeling Agent**: an independent third party engaged by the IDB to calculate the relevant pricing metrics in a Catastrophe Protection Conversion, including but not limited to the probability of attachment, expected loss, and exhaustion probability as defined in the Cash Settlement Event Determination Instructions.

48. **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.

49. **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.

50. **Original Disbursement Expiration Date**: the originally scheduled last date stipulated for disbursement, as per the Loan Contract.

51. **Original Disbursement Period**: the period between the effective date and the Original Disbursement Expiration Date of the Loan as determined in the Loan Contract.
52. **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.

53. **Policy-Based Loan (PBL)**: a Loan that supports the Bank’s borrowing member countries in their macroeconomic and sector policy reforms and institutional changes.

54. **Principal Payment Option (PPO)**: a one-time option the Bank may offer at its discretion in Investment or Policy-Based Loans to borrowing member countries, which may be activated\(^1\) by said Borrowers to gain flexibility with respect to a Loan’s principal payments for a two-year period following the occurrence of an Eligible Natural Disaster.

55. **PPO Activation Notification Letter**: a communication by which the Bank responds to a Principal Payment Option Activation Request Letter.

56. **PPO Activation Request Letter**: a communication from the Borrower to the Bank requesting that a Loan be eligible for the Principal Payment Option to enable a modification to the Amortization Schedule following the occurrence of an Eligible Natural Disaster during the period in which the Transaction Fee Applicable to the Principal Payment Option is in effect as defined in paragraph 4.2.25.

57. **PPO Exercise Notification Letter**: a communication by which the Bank responds to a Principal Payment Option Exercise Request Letter and informs the Borrower of the adjusted Amortization Schedule resulting from the exercise of the Principal Payment Option.

58. **PPO Exercise Request Letter**: a communication from the Borrower to the Bank requesting a modification to the Amortization Schedule under the PPO.

59. **PPO Parametric and Non-Parametric Terms and Conditions**: the terms and conditions of the parametric and non-parametric conditions established by the Bank and applicable for the verification of an Eligible Natural Disaster.

60. **Protection Amount**: the maximum amount of the aggregate Cash Settlement Amount under a Catastrophe Protection Conversion, in US dollars, that would be due by the IDB upon the determination of the occurrence of one or more Cash Settlement Events.

61. **Reporting Agent**: an independent third-party that provides the relevant data and information for the Cash Settlement Event calculation under a Catastrophe Protection Conversion in accordance with the Cash Settlement Event Determination Instructions.

62. **Request Letter**: an irrevocable request from the Borrower to the Bank to execute a Conversion, a modification of Amortization Schedule, or request the activation of the Principal Payment Option in a Loan, under the terms there specified.

63. **Required OLB**: will have the meaning set forth in Section 4.3.4.4.

64. **Screen Rate**: a market rate displayed by established information vendors such as, but not limited to, Bloomberg or Reuters.

\(^1\) Activation refers to the inclusion of the PPO in a specific Loan.
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.

65. **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.

66. **SOFR**: means with respect to any day the secured overnight financing rate published for such day by the SOFR Administrator on the SOFR Administrator’s website, currently at http://www.newyorkfed.org, or any successor source.

67. **SOFR Administrator**: means the Federal Reserve Bank of New York as administrator of SOFR, or any successor administrator of SOFR.

68. **SOFR Interest Rate**: for any calculation period, the daily compounded SOFR determined by the Bank in accordance with the following formula):

\[
\left[ \left( \frac{\text{SOFR Index}_{\text{End}}}{\text{SOFR Index}_{\text{Start}}} \right) - 1 \right] \times \frac{360}{d_c}
\]

Where:

i) “dc” means the number of days in the relevant calculation period.
ii) “SOFR Index Start” means the SOFR Index value on the first date of the relevant calculation period.

iii) “SOFR Index End” means the SOFR Index value on the day after the end of the relevant calculation period.

iv) “SOFR Index” means, with respect to (1) any U.S. Government Securities Business Day, the value published by the SOFR Administrator on its website on or about 3:00 p.m. (New York Time) on such U.S. Government Securities Business Day, or any corrected value published by the SOFR Administrator on its website on the same U.S. Government Securities Business Day and (2) any non-U.S. Government Securities Business Day, the Projected SOFR Index.

If a SOFR Index value is not publicly available by 5:00 p.m. (New York Time) on such U.S. Government Securities Business Day, then the Bank will use the Projected SOFR Index or if such value is not publicly available for two or more consecutive U.S. Government Securities Business Days, such other value determined by the Bank in accordance with Article 3.07(e) of these General Conditions.

v) “Projected SOFR Index” means, with respect to any non-U.S. Government Securities Business Day, the SOFR Index calculated by the Bank using a methodology substantially similar to the SOFR Administrator based on the last published SOFR Index and the last published SOFR rate.

vi) “U.S. Government Securities Business Day” means any day except for a Saturday, a Sunday or a day on which the Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day of trading in U.S. government securities.

69. **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.

70. **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.

71. **Valuation Date**: a date that is a number of business days prior to any amortization, interest payment or both, as determined by the Bank.

72. **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_{ij}, 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 1st, 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 1st, 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. 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 1st, 2017. The FFF does not apply to Guarantees, to the Regular-OC portion of the Bank’s “blended” Loans approved until December 31st, 2016, 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 1st, 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.
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\(^4\) 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 Currency 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) SOFR Interest Rate, plus (ii) the Bank’s funding margin, plus (iii) the Bank’s variable lending spread. The lending rate of FFF LC Loans is the LC equivalent of (i) SOFR 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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\(^2\) This would require Loan Contract modifications to incorporate options offered under the FFF.

\(^3\) The Regular-OC portion of blended Loans approved until December 31, 2016 was approved under the SCF-LIBOR product.

\(^4\) 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.
3.2. Prepayments

3.2.1. FFF Loans denominated in US dollars with SOFR 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- SOFR rates, Loans denominated in all other currencies, and Loans that may or may not have Conversions (other than Catastrophe Protection 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 with section 14, subject to section 4.3.4.6.

3.2.3. Prepayment of Loans with embedded Catastrophe Protection Conversions will be evaluated on a case-by-case basis subject to IDB’s operational and risk management considerations.

3.2.4. 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 | - The Bank suspends disbursements on the Loan in arrears and all other Loans to the Borrower.  
- The Bank informs the guarantor, if applicable, of the arrears by the Borrower, and requests prompt payment of the amount in arrears.  
- No Loan Contract with any Borrower in the country in question is signed by the Bank.  
- No Loan proposals for a borrowing member country are approved. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>120 days after Loan due date</td>
<td>- 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.</td>
</tr>
</tbody>
</table>
| 180 days after Loan due date | - 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.  
- 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.  
- All Bank missions to the country intended for programming, preparing or processing of Loans are suspended. |

- 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 and Catastrophe Protection Conversions, with regards to unpaid premiums, additional charges will be assessed consistent with a full cost pass-through approach.  
- Options and features under the FFF cannot be exercised for Borrowers with Loans in arrears for more than 30 days.

### 4. Description of the Options/Conversions Available under the FFF

The FFF offers Borrowers Flexible Repayment options, Currency Conversions, Interest rate Conversions, Commodity Hedging Options and Catastrophe Protection Conversions as summarized in the table below and further described in the following sections.
<table>
<thead>
<tr>
<th>Flexible Repayment options</th>
<th>Loans are approved in US dollars or Local Currency.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Loans can be converted to other Major Currencies or to regional Local Currencies.</td>
</tr>
<tr>
<td></td>
<td>Currency Conversions are available throughout the life of a Loan and can apply to individual disbursements, and/or to partial or total outstanding Loan balances.</td>
</tr>
<tr>
<td></td>
<td>Currency Conversions are available for Partial or Full-Term Conversions.</td>
</tr>
<tr>
<td></td>
<td>Currency Conversions are subject to minimum Conversion amounts and transaction fees.</td>
</tr>
<tr>
<td></td>
<td>Currency Conversions are subject to market availability and cost is on a pass-through basis plus applicable lending spread and fees.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Currency Conversions</th>
<th>Flexibility to manage interest rate exposures by fixing or floating the interest rate basis and/or by limiting interest rate volatility.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Interest Rate Conversions are available throughout the life of a Loan and can apply to individual disbursements, and/or to partial or total outstanding Loan balances.</td>
</tr>
<tr>
<td></td>
<td>Interest Rate Conversions are available for Partial or Full-Term Conversions.</td>
</tr>
<tr>
<td></td>
<td>Interest Rate Conversions are subject to minimum Conversion amounts and transaction fees.</td>
</tr>
<tr>
<td></td>
<td>Interest Rate Conversions are subject to market availability and cost is on a pass-through basis plus applicable lending spread and fees.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commodity Hedging Options</th>
<th>Borrowers can manage exposures to Commodity prices by requesting Commodity Conversions embedded in FFF Loans.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Commodity Conversions can only be embedded in USD denominated OLB of FFF loans.</td>
</tr>
<tr>
<td></td>
<td>Commodity Conversions are available throughout the life of a Loan and can apply to partial or total outstanding Loan balances subject to Required OLB.</td>
</tr>
<tr>
<td></td>
<td>Commodity Conversions are subject to minimum Conversion amounts and transaction fees.</td>
</tr>
<tr>
<td></td>
<td>Commodity Conversions will be structured on a case-by-case basis subject to operational and risk management considerations.</td>
</tr>
<tr>
<td></td>
<td>Cash settlement: Commodity Conversions will settle in cash only (i.e., no physical delivery).</td>
</tr>
</tbody>
</table>
Catastrophe Protection Conversions

- Borrowers can manage exposures to Catastrophe risk by requesting to the Bank Catastrophe Protection Conversions embedded in FFF Loans.
- Catastrophe Protection Conversions can only be embedded in FFF loans up to the outstanding Loan balance.
- Catastrophe Protection Conversions are available throughout the life of a Loan and can apply to partial or total outstanding Loan balances.
- Catastrophe Protection Conversions are subject to minimum Conversion amounts and transaction fees.
- Catastrophe Protection Conversions are subject to market availability and cost is on a pass-through basis.
- Catastrophe Protection Conversions will be structured on a case-by-case basis subject to IDB’s operational and risk management considerations. In consultation with the Borrower, the Bank will structure this protection and the corresponding Market Transaction, along with any relevant third party, after the Borrower and the Bank have signed a Catastrophe Protection Engagement Letter.

- 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 and Conversions 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. 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 Repayment 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.

5 Borrowers that want to take advantage of FFF options must seek Guarantor consent, if applicable.
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. Repayment profiles available under the FFF include bullet repayments, extended Grace Periods, uneven Amortization Schedules, and shorter repayment periods and, for eligible borrowing member countries, the Principal Payment Option flexibility.

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.

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, 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. 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, 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.

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

7  Given operational complexities and uncertainty to Borrowers regarding the Amortization Schedule (given WAL parameters), during Loan negotiations the Bank will only consider Loans with Original Disbursement Periods of at least 6 months shorter than the Grace Period for standard amortizing Loans (i.e., 5.5 years Grace Period and 25 years and 20 years tenors for Investment and PBL Loans, respectively, with equal, consecutive, and semiannual amortizations). For non-standard amortizing loans, the Bank will only consider Loans with Original Disbursement Periods of at least 1-year shorter than the Grace Period.

8  In this case, final maturity dates of prior disbursements associated with Conversions would not be affected.
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, in a PPO Exercise 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 15th of a specific month.

4.2.8. For more information on Flexible Repayment Options, please refer to www.iadb.org/flexiblefinancing.

4.2.9. **Flexible Repayment options for Loans approved in US dollars**

The Flexible repayment options described in this section apply to Loans approved in US dollars with a SOFR 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\(^9\) 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 or the total amount of the loan (approved minus cancelled).

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.

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

4.2.11. Principal Payment Option

Borrowing member countries\(^{10}\) that have a CCF with the Bank for which the corresponding coverage for at least one Eligible Natural Disaster is active, are eligible to request a PPO in eligible Investment and Policy-Based Loans with the Bank. Following the occurrence of an Eligible Natural Disaster and as part of the Bank’s integrated risk management product offering, borrowing member countries would be able to exercise the PPO, which would allow for the modification of the Amortization Schedule in eligible Loans by redistributing the cumulative amount of the principal payments due during the two years following the occurrence of the Eligible Natural Disaster over the remaining life of the Loan, provided that such exercise does not increase the original WAL and final maturity of the Loan, and subject to operational and risk management considerations of the Bank.

4.2.12. Without prejudice to paragraph 4.2.14, the Eligible Natural Disaster for which a Borrower can exercise the PPO is the same as the natural disaster(s) regarding which the Borrower has an active CCF coverage with the Bank at the time of activation of the PPO (i.e., for earthquakes, and/or tropical cyclones, and/or other natural disaster for which the Bank can offer the PPO, subject to operational and risk management considerations).

4.2.13. The Borrower would need to meet two requirements to the Bank’s satisfaction to be able to exercise the PPO in eligible Loans with the Bank: i) the non-parametric condition consisting of the issuance, by the respective competent authority, of a national declaration of emergency or an equivalent legal instrument in accordance with the applicable laws, for an Eligible Natural Disaster, which will be verified by the Bank. The Bank may, at its own discretion, consult with any third parties; and ii) the parametric conditions for said Eligible Natural Disaster, which are verified by the Bank using data provided by independent third parties determined by the Bank. The parametric and non-parametric conditions applicable for the verification of the Eligible Natural Disaster will be established by the Bank at its own discretion in the PPO Parametric and Non-Parametric Terms and Conditions, which the Bank will communicate to the Borrower following the activation of the PPO. The PPO Parametric and Non-Parametric Terms and Conditions will be binding on the Borrower and may be amended by the Bank from time to time by written notification to the Borrower.

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\(^{10}\) PPO is only available for borrowing member countries; that is, political subdivisions or government organizations of the borrowing member country are not eligible for this option.
4.2.14. If the Borrower expands the natural disaster coverage of its CCF with the Bank to include natural disasters said CCF did not cover at the time of activation of the PPO (i.e., tropical cyclone, earthquake and/or other natural disaster for which the Bank can offer the PPO, subject to operational and risk management considerations), the Borrower may request to the Bank to update the PPO Parametric and Non-Parametric Terms and Conditions to match the expanded natural disaster coverage by the CCF. The Bank reserves its right to approve or reject such request. If approved by the Bank, the updated PPO Parametric and Non-Parametric Terms and Conditions will be communicated by the Bank to the Borrower.

4.2.15. Subject to operational and risk management considerations and as needs arise, the Bank may consider the eligibility of additional natural disasters (i.e., other than tropical cyclones and/or earthquakes) for the purposes of the PPO.

4.2.16. Investment and PBL Loan Contracts with borrowing member countries will contain provisions related to the PPO in the Loan Contracts.¹¹

4.2.17. The PPO applies to FFF Loans denominated in US dollars with a SOFR based rate. FFF loans with a USD fixed rate base cost (resulting from prior Interest Rate Conversions with the Bank) are also eligible for this option. In this case, the Bank will pass on to the Borrower any costs resulting from the modification of the cash flows underlying prior Interest Rate Conversions executed with the Bank to comply with the limitations described below. Additionally, Borrowers will be able to request Interest Rate and Currency Conversions in Loan’s in which the PPO has been exercised. In this case, the Loan’s cash flow used for purposes of a Conversion will correspond to the revised Loan’s Amortization Schedule agreed to with the Bank under the PPO.

4.2.18. As with the Flexible Repayment option offered in FFF Loans, the PPO is subject to: (i) the Loan’s Original WAL, and (ii) the Loan’s original final maturity date, neither of which can be exceeded. Both limitations are established in Loan Contracts.

4.2.19. Since the exercise of the PPO will have an impact on the Loan’s WAL, the Bank will need to modify the Loan’s original Amortization Schedule to ensure that the cumulative WAL remains the same as or below the Loan’s Original WAL¹². Such modification would consist in shortening the final maturity date of the Loan (i.e., the Loan would amortize faster), resulting in an increase in the amounts paid by the Borrower to the Bank in the remaining amortization payments. 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.

4.2.20. Given the impact that the exercise of the PPO has on a Loan’s WAL, the PPO will automatically expire five years prior to a Loan’s last amortization payment date as Loans will run out of time to reestablish the key parameters described in 4.2.18.¹³

4.2.21. Activation of the PPO. The PPO may be activated upon Loan signature¹⁴ for eligible Loans or during the Original Disbursement Period provided the Bank has approved, in both cases respectively, such request. This means that Borrowers would need to explicitly indicate to the Bank, Loan by Loan, which Loans they would like to activate this option for. In this case, the fee associated with the PPO will accrue as described in 11.3 below.
a) **Activation of the PPO by Loan signature.** If a Borrower wishes to activate the PPO by Loan signature, the Borrower would inform the Bank prior to or during the Loan negotiation. In this case, the Loan Contract will reflect the activation of the PPO by the Borrower in the respective Loan.

b) **Activation of the PPO during the Original Disbursement Period.**

   i. For Loan Contracts that enter into effect contemplating the PPO but for which the PPO has not been activated, the Borrower may request the activation of the PPO, through a PPO Activation Request Letter, at any time up to 60 days prior to the Loan’s Original Disbursement Period expiration date. In these cases, the Bank, at its discretion, may approve or reject the activation of the PPO under the specific Loan. The activation of the PPO will be formalized between the parties with the Bank’s acceptance of the Borrower’s request through a PPO Activation Notification Letter.

   ii. For Loan Contracts that enter into effect without contemplating the PPO, at any time up to 60 days prior to a Loan’s Original Disbursement Period expiration date, the Borrower may request to the Bank the modification of the Loan Contract to contemplate and activate the PPO. The Bank reserves its right to approve or reject such request. Once requested and accepted by the Bank, the PPO will be activated in such Loan once the corresponding Loan Contract amendment has entered into effect.

4.2.22. Upon the occurrence of an Eligible Natural Disaster that meets the requirements described in 4.2.13, an eligible borrowing member country may exercise the PPO by sending to the Bank a PPO Exercise Request Letter, whereby it requests the modification of the Amortization Schedules in eligible Loans selected by the Borrower to stop making principal payments to the Bank for two years. The revised Amortization Schedules will need to reflect semiannual amortization payments, adjusted to comply with the limits described in 4.2.18. The Bank may accept the Borrowers request through a PPO Exercise Notification Letter. The Bank reserves its right to approve or reject revised Amortization Schedules proposed by the Borrower to the Bank. To exercise the PPO, the Borrower cannot be in arrears in any Loan with the Bank. Once the PPO is exercised in a Loan, it cannot be exercised again with regards to that Loan.

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11 Special Development Loans (SDLs) are not eligible for the PPO.

12 Given operational complexities and uncertainty to Borrowers regarding the Amortization Schedule (given WAL parameters), during Loan negotiations the Bank will only consider Loans with Original Disbursement Periods of at least 6 months shorter than the Grace Period for standard amortizing Loan (i.e., 5.5 years Grace Period and 25 years and 20 years tenors for Investment and PBL Loans, respectively, with equal, consecutive, and semiannual amortizations). For non-standard amortizing loans, the Bank will only consider Loans with Original Disbursement Periods of at least 1-year shorter than the Grace Period.

13 For this reason, Loans with bullet repayment profiles, or tailored repayment profiles that contain amortization quotas in the last 5-years of the life of the Loan, shall not be eligible for the PPO.

14 It is understood that this determination would be made by the Borrower during Loan negotiations.
4.2.23. If a Borrower chooses not to activate the PPO in a Loan, PPO fees would not apply. This means that if an Eligible Natural Disaster occurs, such Loan would not be eligible for the Borrower to exercise the PPO, even if the Loan Contract included the respective clauses.

4.2.24. PPO operational aspects. If the PPO is exercised with more than 60 days in advance of the following principal payment date in a Loan, then the modified Amortization Schedule shall consider principal payments due to the Bank during the two years immediately following the exercise of the PPO. If the PPO is exercised within 60 days of an upcoming principal payment date, then the modified Amortization Schedule shall consider principal payments that would be due to the Bank within the two-year period after said upcoming principal payment.

4.2.25. Fees. Borrowers shall pay an annual fee to the Bank to have the PPO available to be exercised in a Loan as applicable. Such fee will start accruing 12 months prior to the first amortization installment date or the date that is 60 days prior to the expiration of the Original Disbursement Period, whichever occurs later, and will be paid by the Borrower until such time when an Eligible Natural Disaster occurs, and the Borrower chooses to exercise the PPO in that Loan, or up to five years prior to the Loan’s last amortization payment date as stipulated in the Loan Contract, whichever comes first. Please refer to www.iadb.org/rates for applicable fees.

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 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\(^{15}\). 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 SOFR +/- 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.\(^{16}\) 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 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

\(^{15}\) Other Loan charges refer to the Credit Fee and the Inspection and Supervision fee (FIV).

\(^{16}\) 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.
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 of execution. Pricing of Currency Conversions corresponds to the LC equivalent of SOFR +/- 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 SOFR base cost applicable to a Loan for the desired maturity (i.e., fixing the SOFR Interest Rate plus the IDB’s estimated USD funding margin);
   
   b) Fix the SOFR Interest Rate 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 SOFR base rate at a predetermined level on a future date (forward starting swap) for a desired maturity;
   
   g) Convert to an inflation-linked rate\(^{17}\);
   
   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 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, it may mean Conversion to an inflation-linked principal (and not an Interest Rate Conversion per se).

\(^{17}\) 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).
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 SOFR base cost, pricing corresponds to the Fixed Rate equivalent of SOFR +/- 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\(^\text{18}\) to execute such a Commodity Conversion with the Bank is calculated as follows:

\[
\text{Required OLB} = \text{Number of Units of the Underlying Commodity} \times (Z - \text{Strike Price})
\]

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:

\[
\text{Required OLB} = \text{Number of Units of the Underlying Commodity} \times (\text{Strike Price} - Y)
\]

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.

### 4.3.5. Catastrophe Protection Conversions

4.3.5.1. Borrower’s options to manage Catastrophe risk exposures are those agreed to between the Borrower and the Bank and structured in accordance to and after the signature of a Catastrophe Protection Engagement Letter, including:

a) Selecting a Catastrophe type for which the Bank can execute a Market Transaction, the financial terms and costs of which will be passed-through to the Borrower.

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\(^\text{18}\) 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.
b) Developing the necessary financial terms, conditions, parameters, and other terms of the Cash Settlement Event Determination Instructions to align the Catastrophe Protection Conversion’s risk protection with the Borrower’s catastrophe risk protection strategy.

4.3.5.2. Partial or Full-Term Catastrophe Protection Conversions. A Borrower may request a Partial or a Full-Term Catastrophe Protection Conversion. A Borrower may request one or more new Catastrophe Protection Conversions to the extent the outstanding Loan balance is available, and subject to market availability.

4.3.5.3. Partial or Full-Term Catastrophe Protection Conversions operational requirements include:
   a) Catastrophe Protection Conversions can only be embedded in FFF Loans up to the outstanding Loan balance during the life of the Catastrophe Protection Conversion.
   b) There is no limit to the number of Catastrophe Protection Conversions that can be executed during the life of a Loan.

4.3.5.4. Termination of Catastrophe Protection Conversions will be subject to IDB’s operational and risk management considerations and will be evaluated on a case-by-case basis.

4.3.5.5. Premium, costs and fees. All premiums and costs associated with Catastrophe Protection Conversions are based on a pass-through approach to the Borrower. In addition, the execution, the Cash Settlement Event, and the early termination of Catastrophe Protection Conversions are subject to fees charged by the Bank. Premium, costs and fees will be payable by the Borrower to the Bank as provided in Sections 13.5.3, 12.3 and 11.3(f), respectively. Please also refer to www.iadb.org/rates for applicable fees.

5. Documentation

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

5.2. Catastrophe Protection Engagement Letter
   Taking into consideration that Catastrophe Protection Conversions are highly customizable, the IDB and the Borrower must sign a Catastrophe Protection Engagement Letter prior to the structuring of a Catastrophe Protection Conversion and its corresponding Market Transaction. If applicable, the Catastrophe Protection Engagement Letter must also have the consent of the Guarantor.

5.3. 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.
5.4. Notification Letter

Following the execution of a Conversion or other options requested by the Borrower, the Bank will provide the Borrower with a Conversion Notification Letter, an Amortization Schedule Modification Notification Letter, a Catastrophe Conversion Notification Letter, a PPO Activation Notification Letter, or a PPO Exercise Notification Letter, as the case may be, in the terms detailed in sections 4.2.11, 6 and 9, 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\(^{19}\), submit a Request Letter to the Bank\(^{20}\), the Request needs to be in writing and delivered to the Bank as described in the Loan Contract and described in detail in Section 6.6 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, or months in the case of Catastrophe Protection conversions, 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 SOFR base cost.

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

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\(^{19}\) For Catastrophe Protection Conversions, at any time after (i) entering into a Catastrophe Protection Engagement Letter and (ii) signing-off to the final form of the transaction documents of the transaction in the financial markets that, in the determination of the Bank, are relevant to the Catastrophe Protection Conversion.

\(^{20}\) Unless otherwise agreed to with the Bank, Request Letters will be accepted for execution not later than December 15\(^{th}\) of a calendar year.
b) Principal Payment Option

c) Currency Conversions

d) Interest Rate Conversions

e) Interest Rate Caps or Collars

f) Commodity Conversions

g) Catastrophe Protection Conversions

6.2.2. For Loans negotiated or approved prior to January 1st, 2012 whose Loan Contracts do not include the FFF options or Conversions, 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.

Maximo Silberberg, Head Treasury Client Solutions: maximos@iadb.org

Treasury Client Solutions: 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 Catastrophe Protection Engagement Letters and/or 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 Catastrophe Protection Engagement Letter and/or 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 Catastrophe Protection Engagement Letters and/or 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\(^{21}\);
   c) Type of option or Conversion 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 the activation of the Principal Payment Option
   a) Loan number(s) for which the Borrower wishes to activate the PPO.

6.7.4. Additional information for the exercise of the Principal Payment Option
   a) Notification that an Eligible Natural Disaster has occurred;
   b) Supporting documentation related to the requirements to exercise the PPO;
   c) Copy of the issued national declaration of emergency or equivalent legal instrument;
   d) Loan number(s) for which the Borrower chooses to exercise the PPO;
   e) New proposed Amortization Schedule(s) applicable to the Loan(s).

6.7.5. 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\(^{22}\);
   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.

\(^{21}\) 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.

\(^{22}\) If the Conversion request refers to the last disbursement, such request must be made in units of the Loan Currency.
6.7.6. **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 SOFR base cost, of SOFR 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.

6.7.7. **Additional information for Interest Rate Cap**
   a) Upper limit applicable to the variable rate;
   b) Portion of the Loan’s outstanding or disbursement(s) to which the Conversion will apply.

6.7.8. **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.

6.7.9. **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.

6.7.10. **Additional information for Catastrophe Protection Conversions**
   a) The Catastrophe type for which the Borrower is requesting protection for.
   b) The Cash Settlement Event Determination Instructions.
   c) The Protection Amount being sought.
   d) The term of the Catastrophe Protection Conversion.
   e) Whether the Conversion is a Full-Term Catastrophe Conversion or a Partial-Term Catastrophe Conversion.
   f) the outstanding Loan balance.
   g) The Catastrophe Protection Engagement Letter.
   h) A specification of the bank account information where the Bank would transfer the Cash Settlement Amount, if any
   i) At the option of the Borrower, the maximum amount of premium it is willing to pay to enter into a Catastrophe Protection Conversion given a certain Protection Amount, as contemplated in 13.4 below
j) Borrower’s sign-off to the final form of the transaction documents of the Market Transaction that are relevant to the Catastrophe Protection Conversion, which will be attached to the request letter;

k) Other terms, conditions, or special instructions regarding the Catastrophe Protection Conversion request.

6.7.11. Annexes 1-4 present model Request Letters for interest rate fixings of IDB’s SOFR base cost in USD. For other types of Conversions or other options offered under the FFF, the Bank may 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, in a PPO Activation Notification Letter, in a PPO Exercise Notification Letter, in a Conversion Notification Letter or in a Catastrophe Conversion Notification Letter, as applicable, 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, commodity prices and other variables 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, or Catastrophe protection requested, and (ii) risk management and operational considerations.

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Without limiting and as determined on a case by case basis, it is expected that these will include: the offering document or prospectus (or the pricing supplement, if the Market Transaction is a bond issuance under the IDB Global Debt Program) and the calculation agent agreement.
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 or the requested option. Considering that the Execution Period of Catastrophe Protection Conversions is longer than for other Conversions, the Bank reserves the right but not the obligation to seek the Borrower’s written confirmation of the terms of the transaction in the financial markets regarding such Catastrophe Protection Conversion prior to executing it.

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) The SOFR Interest Rate plus 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) The SOFR Interest Rate plus 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);

g) Special instructions, if any.

8.1.6. Catastrophe Protection Conversions: In the case of Catastrophe Protection Conversions, pricing (i.e., premium) reflects:

a) The risk metrics (e.g. probability of attachment, expected loss, and exhaustion probability) when relevant.

b) The relevant Conversion Period;

c) The Event and geography being protected;

d) The Protection Amount;

e) Market conditions;

f) counterparty fees;

g) Other terms and conditions;

h) Special instructions, if any.

8.1.7. 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 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

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24 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.
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
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 SOFR -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 SOFR based interest rate will apply.

8.2.6. Partial Term Conversions – Commodity Conversions and Catastrophe Protection Conversions
Given cost and other considerations, Conversion Periods are likely to be shorter than the
loan’s maturity for Commodity Conversions and Catastrophe Protection Conversions. Upon
expiration of a Commodity Conversion or Catastrophe Protection Conversion, the Borrower
may request to the Bank the execution of a new Commodity Conversion or Catastrophe
Protection 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.

e) If the Borrower requests a Catastrophe Protection Conversion, the Borrower may indicate in the Request Letter the maximum amount of premium it is willing to pay to enter into a Catastrophe Protection Conversion given a certain Protection Amount and risk metrics (e.g. probability of attachment, expected loss, and exhaustion probability). If no limit is specified, the Bank may execute the related Market Transaction at the prevailing premium market price. Alternatively, at a given US dollar premium amount and defined risk metrics (e.g. probability of attachment, expected loss and exhaustion probability), the Borrower may instruct the Bank to execute the related Market Transaction. The resulting Protection Amount 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, Commodity and Catastrophe protection 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 for Conversions or for the implementation of other options available under the FFF**

Following the Execution Period for Conversions or for the implementation of an option, the Bank shall notify the Borrower of the terms and conditions of any requested Conversion and/or option. 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.

9.1. Notification Letter for Conversions
Following the Execution Date of any Conversion, the Bank will promptly send to the Borrower a Conversion Notification Letter indicating the terms obtained in the Conversion, as follows (list is not exhaustive):

a) Conversion Effective Date;
b) Amount of the Conversion;
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;
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) 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;
m) Catastrophe Protection Conversion transaction terms and conditions such as the Protection Amount, premium, Event protected, Cash Settlement Event Determination Instructions, including the risk metrics (e.g. probability of attachment, expected loss, exhaustion probability), among others that might be applicable.

n) Other specifications as needed.

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.

9.2. Notification Letters for the Flexible Repayment Option and for the PPO
Following a Borrower’s request in case of a modification of Amortization Schedule, an activation of the PPO or an exercise of the PPO, the Bank will promptly send to the Borrower an Amortization Schedule Modification Notification Letter, a PPO Activation Notification Letter or a PPO Exercise Notification Letter, as the case may be, indicating the terms of the requested option, as follows (list is not exhaustive):

a) Effective date of the option;
b) Revised Amortization Schedule associated with a request for modification of a repayment profile;

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25 Any disbursement made during the Execution Period of a Conversion cannot be included in the request for Conversion.
c) WAL of the new Amortization Schedule associated with a request for modification of a repayment profile and cumulative WAL of the Loan;
d) Transaction fees to be paid, if applicable;
e) 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 a 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 interest26) by one day to include the interest payment 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.

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26 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.
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 or as a result of contracting other options, as applicable.

11.2. Amount of fee payable
Conversion and other option fees charged by the Bank can be found at www.iadb.org/rates. These fees may be revised by the Bank from time to time and will apply only to Conversions/other debt management options effected after such revision.

11.3. Payment of transaction fees
Transaction fees shall be paid as follows:

a) In the case of the PPO, transaction fees must be paid in USD, are expressed in basis points, are accrued from 12 months prior to the first amortization installment date or the date that is 60 days prior to the expiration of the Original Disbursement Period, whichever occurs later, on the outstanding Loan balance until such time when the PPO is exercised with respect to the Loan or up to five years prior to the Loan’s last amortization payment date as stipulated in the Amortization Schedule, whichever comes first, and are paid on each interest payment date. If a Borrower chooses to cancel the PPO prior to its expiration date (i.e., five years prior to a Loan’s last amortization payment date), it must provide to the Bank a written request at least 30 days in advance. The PPO fee will continue to accrue until such time when the cancellation takes effect, which shall be 30 days after the receipt by the Bank of the written communication from the Borrower expressly indicating its intention to cancel the PPO in respect of the specific Loan(s). Any amount paid by the Borrower in connection with the PPO fee between the date of receipt of the notice of cancellation by the Bank and the effective date of the cancellation will not be reimbursed by the Bank to the Borrower.

b) 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.

c) 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.

d) Notwithstanding the transaction fees set forth in b) and c), 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.

e) 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.

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27 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.
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. Another fee will also apply to early termination of Commodity Conversions, in which case it must be paid by the Borrower as a lump-sum upfront.

f) In the case of Catastrophe Protection Conversions, the Bank will charge the Borrower the transaction fees applicable to this conversion and may also charge administrative fees due to a Cash Settlement Event. These fees must be paid in USD. The payment date/s of these fees 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 specified in the Catastrophe Conversion Notification Letter. At no time payment to the Bank of these fees shall exceed the Conversion Period or, if the case may be, the date on which a Catastrophe Protection Conversion is terminated early. These fees are calculated on the basis of the Catastrophe and Protection Amount. The payment of these fees may be deducted from the corresponding Cash Settlement Amount as provided in Section 14.1.4. Another fee will also apply to early termination of Catastrophe Protection Conversions, which shall be expressed in the form of basis points and calculated on the basis of the Catastrophe and Protection Amount. The early termination fee shall be paid by the Borrower in USD, as a lump-sum amount, promptly upon termination.

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 (other than a Catastrophe Protection 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. The conditions, and the application of this Section 12.1, for early-termination, prepayment, or acceleration of a Catastrophe Protection Conversion will be evaluated by the IDB on a case-by-case basis subject to IDB’s operational and risk management considerations.

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, Commodity Conversions and Catastrophe Protection 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.

12.2.3. Termination of Catastrophe Protection Conversions will be subject to IDB’s operational and risk management considerations and will be evaluated on a case-by-case basis. All costs associated with the early termination of a Catastrophe Protection Conversion shall be paid to the Bank by the Borrower in USD, as a lump-sum amount, promptly upon termination.

12.3. Catastrophe Protection Conversions costs

12.3.1. The Borrower shall reimburse the Bank for all costs that the Bank may incur associated with the structuring of the Catastrophe Protection Conversion and the corresponding Market Transaction (as set forth in the Catastrophe Protection Engagement Letter), and costs related to the occurrence of a Cash Settlement and the Cash Settlement Event calculation, among other costs. Cost 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 specified in the Catastrophe Conversion Notification Letter. Any costs owed to the Bank shall be paid by the Borrower within the Conversion Period or, if the case may be, until the date on which a Catastrophe Protection Conversion is terminated early. The payment of these costs may be deducted from the corresponding Cash Settlement Amount as provided in Section 14.1.4. In some cases, it may be possible to annualize these costs (i.e., in basis points), in which case, it will be paid together with interest 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.

12.3.2. The costs related to Catastrophe Protection Conversions will also include administration costs and the costs of all third parties the Bank may need to retain, including but not limited to external legal counsel, Modeling Agent, or Event Calculation Agent.
13. **Premia on Interest Rate Caps, Interest Rate Collars, Commodity Conversions, and Catastrophe Protection Conversions**

### 13.1. General

13.1.1. In addition to Transaction Fees, Borrowers must pay a premium on Interest Rate Caps, Collars, Commodity Conversions, and on Catastrophe Protection 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. **Premium on Catastrophe Protection Conversions.**
For any given set of market conditions, the premium paid by the Borrower would depend on:

a) The Catastrophe protected  
b) The geographical area protected  
c) The duration of the Protection Conversion Period  
d) The Protection Amount  
e) The risk metrics (e.g., probability of attachment, expected loss and exhaustion probability as defined in the Cash Settlement Event Determination Instructions).  
f) Other parameters specified in the Catastrophe Conversion Notification Letter.

The Borrower will select these variables when submitting to the Bank a Request Letter for a Catastrophe Protection Conversion, based on the Catastrophe Protection Engagement Letter (i.e., Borrower may choose a shorter Conversion Period, different Cash Settlement Event Determination Instructions, a lower or higher expected loss, for example, to affect the desired premium amount to be paid by the Borrower to the Bank).

In the Request Letter the Borrower may specify the maximum amount of premium it is willing to pay to enter into a Catastrophe Protection Conversion given a certain Protection Amount, probability of attachment, expected loss, and exhaustion probability. If no limit is specified, the Bank may execute the related Market Transaction at the prevailing premium market price. Alternatively, at a given US dollar premium amount and a defined probability of attachment, expected loss and exhaustion probability, the Borrower may instruct the Bank to execute the related Catastrophe Protection Conversion hedge. The resulting Protection Amount will reflect market conditions at the time of execution.

13.5. **Payment of premium**

13.5.1. **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.

13.5.2. 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.

13.5.3. Catastrophe Protection Conversions - Payment out of Borrower’s own resources. The Borrower is required to pay a premium, in respect of a Catastrophe Protection 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 upfront or in instalments as specified in the Catastrophe Conversion Notification Letter. Any premium owed to the Bank shall be paid by the Borrower over an agreed upon timeline or, if the case may be, until the date on which a Catastrophe Protection Conversion is terminated early. The payment of the premium may be deducted from the corresponding Cash Settlement Amount as provided in Section 14.1.4. In some cases, it may be possible to annualize the premium (i.e., in basis points), over an agreed upon timeline in which case, it will be paid together with interest 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 Catastrophe Protection Conversion will be paid in US dollars.

13.6. 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, Commodity Conversion, or Catastrophe Protection Conversion in the financial markets.

14. CONVERSION PAYOFF OR CASH SETTLEMENT AMOUNT

14.1.1. The Borrower should be aware that a Commodity Conversion or Catastrophe Protection Conversion may result in no Cash Settlement Amount payment to the Borrower.

14.1.2. Commodity Conversions - 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. Catastrophe Protection Conversion – If at the time of occurrence of a Cash Settlement Event, as determined in an Event Report by the Event Calculation Agent, there is a Cash Settlement Amount to be paid to the Borrower by the Bank, the Bank will pay such Cash Settlement Amount to the Borrower within five business days, unless otherwise agreed between the Bank and the Borrower.

14.1.4. Deductions from the Cash Settlement Amount under a Catastrophe Protection Conversion – Other than in the case of arrears as provided for in Section 14.1.6 below, Cash Settlement Amounts will generally not be set off against regularly scheduled loan payments. However, in addition to arrears, the following deductions may apply in relation to premiums, fees and costs (other than fees and costs related to an early termination):

- In the occurrence of a Cash Settlement Event the Bank will deduct from the corresponding Cash Settlement Amount any outstanding unpaid costs associated with the Catastrophe Protection Conversion.
- If the Bank and the Borrower have agreed that the fees, costs, and/or premium will be paid by the Borrower in instalments or annualized, as provided in Sections 11.3(f), 12.3, and 13.5.3 above, respectively, then the following additional rules will apply in relation to deductions from the Cash Settlement Amount:
  - The Bank may deduct the entirety of the outstanding fees, including amounts owed but not yet due under the relevant instalments schedule agreed to between the Borrower and the Bank.
  - The Bank may deduct the entirety of the outstanding costs, including amounts owed but not yet due under the relevant instalments schedule agreed to between the Borrower and the Bank.
  - If the Cash Settlement Amount does not exhaust the Protection Amount under the Catastrophe Protection Conversion, the Bank may deduct the outstanding premium, including amounts owed but not yet due under the relevant instalments schedule agreed to between the Borrower and the Bank, up to a maximum of fifty percent (50%) of the Cash Settlement Amount.
  - If the Cash Settlement Amount is such that it exhausts the Protection Amount under the Catastrophe Protection Conversion, the Bank may deduct the entirety of the outstanding premium, including amounts owed but not yet due under the relevant instalments schedule agreed to between the Borrower and the Bank.
  - If the Cash Settlement Event exhausts the Protection Amount and, after deducting the applicable fees, costs, and premium described above the Borrower still owes the Bank any such amounts, then the Borrower will promptly make those payments to the Bank in accordance with the terms and in the manner indicated by the Bank.
14.1.5. The Cash Settlement Amount from a Commodity Conversion or Catastrophe Protection Conversion will be deposited in the bank account instructed by the Borrower in the Request Letter.

14.1.6. 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 or Catastrophe Protection 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**

   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.

15.1.1. 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
[Mr.] [Ms.]

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

Re: [Country] Conversion of outstanding Loan balances with SOFR-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 SOFR-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 SOFR-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

<table>
<thead>
<tr>
<th>Contract No.</th>
<th>Amount to be converted to Fixed Interest Rate</th>
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This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the SOFR-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 SOFR to fixed rate of a Loan with guarantor

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

[Mr.] [Ms.]

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

Re:  [Country] Conversion of outstanding Loan balances with SOFR -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 SOFR -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 ___]28, we hereby request that the SOFR -Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

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<tr>
<th>Contract No.</th>
<th>Amount to be converted to Fixed Interest Rate</th>
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This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the SOFR -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.

28 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.
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 3 - Model letter for Conversion from SOFR to fixed rate of previously converted Loans

MODEL FOR REQUEST FOR CONVERSION OF OUTSTANDING LOAN BALANCES FOR LOANS WITH SOFR-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 SOFR-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 SOFR-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 SOFR-Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

<table>
<thead>
<tr>
<th>Loan Contracts and Amounts to be Converted</th>
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<td>Contract No.</td>
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This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the SOFR-Based Interest Rate applicable to outstanding Loan balances of the Eligible Loans with SOFR-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 SOFR to fixed rate of previously converted Loans with guarantor

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

[Mr.] [Ms.]

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

Re: [Country] Conversion of outstanding Loan balances with SOFR -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 SOFR -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 ___]29we hereby request that the SOFR -Based Interest Rate currently applicable to the outstanding Loan balances of the Loan contracts listed below be converted to a Fixed Interest Rate.

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<th>Contract No.</th>
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This interest rate conversion request shall be considered irrevocable, and authorizes the Bank to carry out, at its sole discretion, the conversion of the SOFR -Based Interest Rate applicable to outstanding Loan balances of the Eligible Loans with SOFR -Based Interest Rate.

29 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.
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]