

The logo for TCX (The Currency Exchange Fund) features the letters 'TCX' in a bold, black, sans-serif font. The letter 'C' is stylized with a metallic, circular texture.

THE CURRENCY EXCHANGE FUND



Nederlandse Financierings-
Maatschappij voor
Ontwikkelingslanden N.V.

FMO

Finance for development

TCX – The Currency Exchange Fund

*The local capital markets
development partnership*

EFSE Annual Meeting 2007

Budva, Montenegro

1. Background

- Local productive sector in emerging markets requires long term local currency funding. However:
 - Local (bank) markets offer only short term funding
 - International (DFI) markets offer USD/EUR only
- Result: either way a financial mismatch
- DFI's have sought ways to support local currency alternatives through local currency guarantees
- Direct local currency funding still an unacceptable and unmanageable risk for international investors on a stand alone, unhedged basis

2. The concept

- FMO's 20 years of experience in local currency debt shows strength of portfolio diversification effect.
 - Spread portfolio (44 currencies, 210 clients, 20 years)
 - Large size (EUR 243m aggregate disbursements)
 - Portfolio EUR aggregate IRR = 5% (ex. management fee)
- FMO commissioned a historical analysis of local currency FX rates and interest rates to validate the diversification effect and provide a quantified risk model.
- A micro-economic tool was also developed to analyse the effect of matched funding on a company's risk profile.

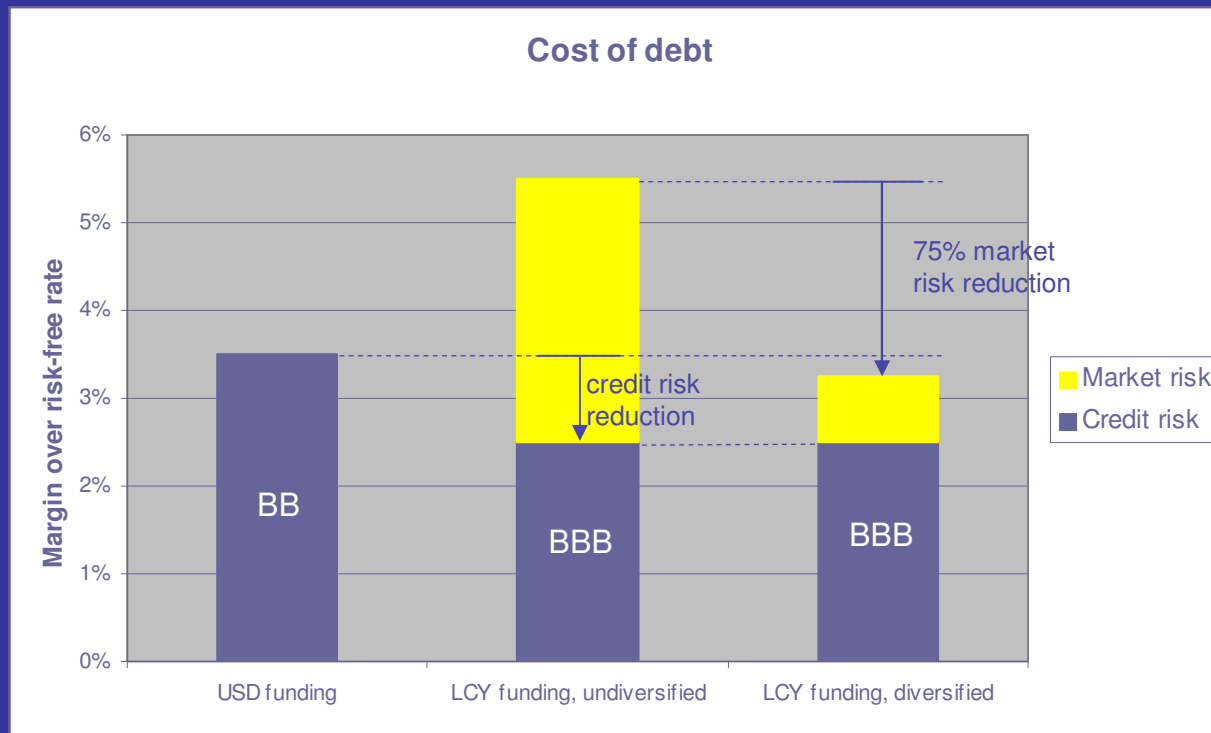
3. Market analysis



3. Fundamental conclusions

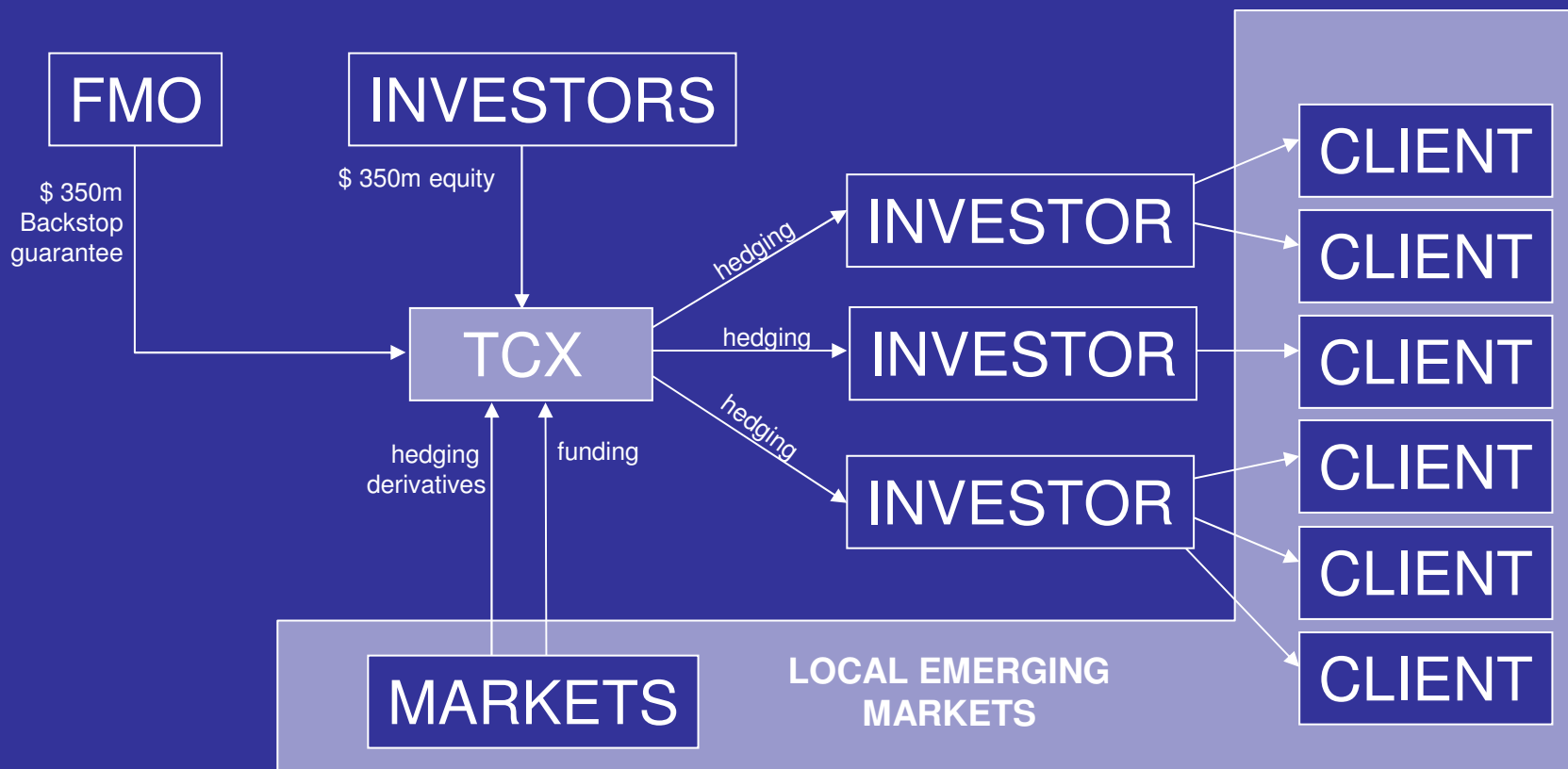
- A globally diversified portfolio of currency exposures has a 75% lower risk than the individual currency risks.
- Reducing currency/maturity mismatches has a material positive impact on the credit rating of local currency earning companies.
- Thus, local currency lending has a lower credit risk but higher market risk. TCX reduces the market risk to a competitive level, so that total transaction risk is reduced compared to mismatched lending.

3. Fundamental conclusions (cont'd)



TCX's risk reduction results in a lower cost for LCY debt!

5. The business concept



6. Commercial focus

- Geography: all developing countries (active bias to Sub Sahara Africa)
- Sector focus: all (active bias to microfinance)
- Market restriction: currency must have a basically functioning interest rate market.
- Maturity restriction: Floating rate: none; Fixed rates limited to 1.5 times available market term.
- Products: plain vanilla currency and interest rate derivatives such as swaps/forwards, deliverable and non deliverable
- Pricing with reference to market levels – no distortion
- Additionality: TCX product must be longer term than available in the market

10. Contact details

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