The Currency Exchange Fund

May 2008

the currency exchange fund

Why TCX?

TCX the currency exchange fund

The Local Currency Challenge

Often, the market status quo does not allow for long-term local-currency financing

- International long-term emerging-market debt financiers are unwilling to assume market risks (currency risk and interest rate risk), and appropriate hedging products are not available
- Local financiers are unable to provide long-term debt due to lack of appropriate funding options

Result:

- Borrowers with assets generating long-term local-currency revenues must choose between two “second-best” options: long-term hard-currency liabilities (currency mismatch) or short-term local-currency liabilities (maturity mismatch)

The TCX Solution

- Global partnership of international long-term investors in emerging markets, such as:

AFD / Proparco	EFSE
COFIDES	FMO
DEG / KfW	Norfund
EBRD	Oikocredit

- EUR 50m first-loss tranche provided by the Dutch Government
- Based on the concept of broad market risk diversification
  – up to 75% risk reduction from individual currency exposure due to portfolio effect.
- Structured to obtain a high-quality rating (AA- or better), TCX acts as a swap counterparty to investors who, in turn, provide their products in local currency rather than USD/EUR
- TCX aims to maximize local capital markets participation

TCX Investors

ABN·AMRO

afd
Agence Française de Développement

bio
Development through Investment

COFIDES

DBSA
Development Bank of Southern Africa

DEG
KFW BANKENGRUPPE

EFSE
European Fund for Southeast Europe

European Bank for Reconstruction and Development

FMO
Finance for Development

ifu

kfw
BANKENGRUPPE

NORFUND

Oikocredit
investing in people

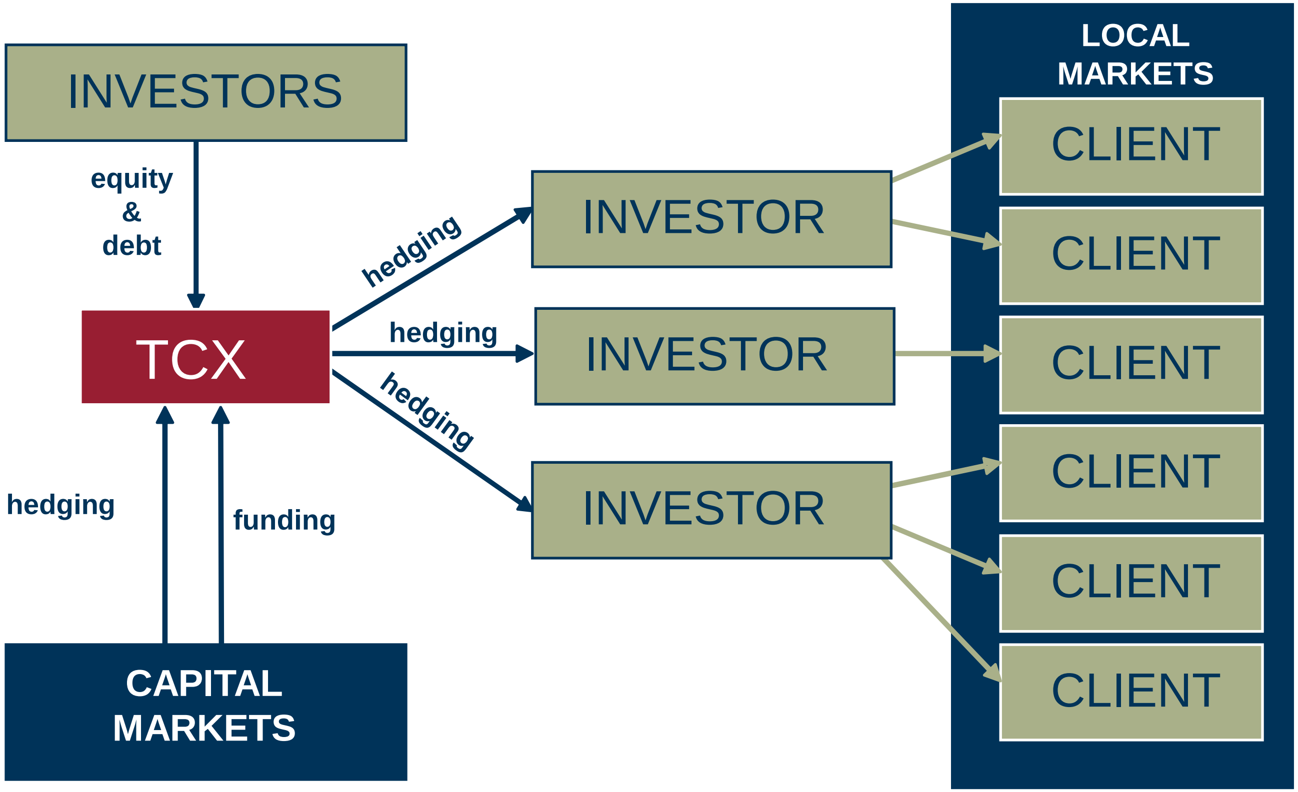
Ontwikkelings samenwerking

PROPARCO

The TCX Model

TCX the currency exchange fund

TCX Business Concept



TCX Capital and Risk Structure

Current capitalization

- Share capital: USD 394 million
- Subordinated loan: USD 100 million
- Subordinated convertible loan: EUR 50 million

Conservative risk management

- Tier 1 capital ratio minimum of 15%
- Tier 1 + Tier 2 capital ratio minimum of 21%
- Tight risk concentration limits
- Independent risk manager
- Liquidation trigger event to ensure orderly liquidation process at capital ration below 14%

TCX Commercial Concept

Coverage

- All DAC 2006 countries
- For floating-rate products, maturity is unlimited
- For fixed-rate products, maturity is limited to 150% of the longest-maturity liquid benchmark available in the market
- At present, the single-currency limit is about USD 230 million
- Transactions limited to hedging real exposures – no speculation

Pricing

- Pricing is market-based and referenced to local benchmarks

  –No distortion of markets
- Additionality

  –No competition with commercial banks

TCX Products

Offshore Products

- Non-Deliverable Cross-Currency Swaps and Forwards

Onshore Products

- Agency Cash Management Services
- Deliverable Cross-Currency Swaps and Forwards

Approved Southeast European Benchmarks		
ALL	Albanian Lek	3-month, 6-month, and 1-year T-bills
BAM	Bosnia-Herzegovina Mark	EUR swap curve with risk premium
MDL	Moldova Leu	1-month, 3-month, 6-month, and 12-month CHIBID and CHIBOR averages
MKD	Macedonia Denar	3-month and 6-month T-bills
RSD	Serbian Dinar	1-month, 3-month, and 6-month BELIBOR

Development Impact

Removal of currency and interest-rate mismatches

- Reduced market risk leads to lower business risk, which leads to lower credit risk, which leads to a lower cost of funds
- Local currency funding for key sectors, such as manufacturing, finance, and infrastructure
- Reduced impact of currency shocks on the local economy

Active development of the local capital market and financial sector

- Development of high-quality long-term asset classes, such as fixed-term loans, mortgages, and leasing
- Extension of local yield curves

Conclusion

Principles and Success Factors

TCX Principles

- Additionality
- Partnership
- Commercial pricing

TCX Success Factors

- TCX investors
- Geographical diversification effect
- Robust financial structure
- Management capability

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