AKA Trade Finance Dialog 2019
Supporting German Africa-Portfolios via local currency hedging
Structure of Presentation

Part 1
a) Why Development Policy Should Focus on FX-Risk Management
b) TCX: Mission, Business Model, and Services

Coffee Break

Part 2
a) How can TCX and German banks support investment in Africa?
b) Technical aspects: onboarding, pricing and valuation, ISDA/CSA.
Rising debt distress in Africa

FIGURE 2.15: Evolution of the Risk of Debt Distress: LIC DSF Countries in Sub-Saharan Africa

Increased dependence of foreign currency debt increases external vulnerabilities.

Currency Composition of the Low-Income Countries’ Debt

Source: IMF *World Economic Outlook.*

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Local Currency Financing....

- **Is fair.** It protects borrowers who often lack understanding and capacity to manage FX risk.

- **Is transparent:** It makes the real price of money visible, debt service predictable and financial planning possible.

- **Is crucial to grow local capital markets,** the ultimate solution for long term local financing.

- **Supports macro stability:** Large capital in- and outflows boost risk of banking and currency crisis.

- **Is simply the right product for local currency earners.**
Sovereign First Loss Investors
A broadly diversified portfolio
... sustainably absorbs global risk.
TCX’s main product: Non-deliverable Cross-Currency Swap

Hedging the Lender

off-shore lender

Synthetic
Local Currency Loan

on-shore borrower
Coffee Break
### TCX trading relation – Key conditions

<table>
<thead>
<tr>
<th>Products</th>
<th>• Non-Deliverable Cross Currency Swap or Forward (TCX receives fixed or floating LCY rate and pays USD fixed or floating)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenor</td>
<td>• Min. 2 years</td>
</tr>
<tr>
<td>Regulation</td>
<td>• ISDA/CSA -&gt; no credit risk</td>
</tr>
<tr>
<td>Additionality</td>
<td>• Only frontier currencies where there is no market/liquidity</td>
</tr>
<tr>
<td>Non-Speculation</td>
<td>• TCX only hedges positions connected to real economy</td>
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TCX Coverage

• TCX offers hedges in **90+** countries from the OECD DAC list

• Current exposure in **50+** countries
TCX Production Volumes (Number of trades)

USD millions

- **Fresh Exposure**
- **Rollover Exposures**
- **Number of Trades**

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<td>27</td>
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<td>241</td>
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<td>252</td>
<td>242</td>
<td>409</td>
<td>480</td>
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TCX Production – Sectoral Overview
(as of 31/03/19)

- Microfinance: 59%
- SME finance: 16%
- Other FIs: 13%
- Infrastructure: 4%
- Sustainable Energy: 4%
- Other sectors: 2%

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TCX Performance

TCX Net Asset Value per A-Share

USD per share

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TCX Pricing

- Market and risk-reflective pricing
- Pricing reference is the Non-Deliverable Forward (NDF) curve
- If no NDF curve available, TCX adjusts the domestic benchmark to achieve NDF-type pricing
- TCX only has Shareholder and Non-Shareholder pricing
- Verification by Independent Pricing Committee (PC)
TCX Price list – SSA currencies (5y tenor)

<table>
<thead>
<tr>
<th>Currency</th>
<th>TCX Pricing vs. LIBOR flat</th>
<th>Local Government Bond Rate</th>
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</thead>
<tbody>
<tr>
<td>RWF</td>
<td>8%</td>
<td>11.3%</td>
</tr>
<tr>
<td>NGN</td>
<td>11%</td>
<td>14.5%</td>
</tr>
<tr>
<td>UGX</td>
<td>11.5%</td>
<td>15.0%</td>
</tr>
<tr>
<td>ZMW</td>
<td>22%</td>
<td>30.5%</td>
</tr>
<tr>
<td>GHS</td>
<td>19%</td>
<td>20.0%</td>
</tr>
<tr>
<td>XOF</td>
<td>4%</td>
<td>5.8% - 6.5% (depending on country)</td>
</tr>
<tr>
<td>...</td>
<td>_%</td>
<td>_%</td>
</tr>
</tbody>
</table>
TCX Valuation

- Parameters are set by the Pricing Committee (PC)
  - Approved benchmarks (floating rate, FX rate reference)
  - Longer term onshore interest rate references
  - Offshore rate references
  - Non deliverable/liquidity adjustments
  - Established per transaction and monthly revised for portfolio

- Within the parameters set by the PC BO TCX value the portfolio by producing on- and off-shore curve
- Plausibility check for all transactions
- All source data has maintained (hard copy/ electronically)
- Deal unwind commitment only in case of counterparty default
- TCX uses same valuation curve (same for all of its shareholders)
Relevant Questions

1. Can LCY trades be booked?

2. Can LCY trades be valued?

3. Feel free to ask any other questions ... !
The Currency Exchange Fund N.V. ("TCX" or "the Fund") is an Alternative Investment Fund within the meaning of article 4:1 of the European Alternative Investment Fund Managers Directive. It is based in Amsterdam, The Netherlands, and is open to Professional Investors only.

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