

ANNEX

**MANUAL
FOR THE USE OF
RISK MANAGEMENT PRODUCTS**

January 2002

A. General comments

1. This Manual is designed to help clients apply for risk management products and inform them on how the Bank manages their request. The latest version of the “*Guidelines for the Use of Risk Management Products*” and the “*Manual for Risk Management Products*” are available on the Bank’s web-site (www.afdb.org)

2. Definitions

“**Approval date**” means the date when the client is informed by telephone that its request is approved.

“**Business day**” means any day where the African Development Bank (ADB) is opened for business in Abidjan, Côte d’Ivoire.

“**Confirmation date**” means the date when the Bank confirms the reception of a request with an authorized person.

“**Ending date**” means the date when the risk management product transaction ceases to be effective. This date must coincide with a payment date on the underlying loan and be beyond the Starting date.

“**Execution period**” means the period between the approval date and the end of the processing period.

“**Mark-to-market**” means adjustment of the book value of a security to reflect current market value.

“**Over-the-counter**” or “**OTC**” means a decentralized market (as opposed to an exchange market) where geographically dispersed dealers are linked by telephones and computers. For example, the NASDAQ market is an OTC market for U.S. stocks.

“**Processing period**” means a period of fifteen (15) business days starting the business day following the Confirmation date.

“**Starting date**” means the date when the risk management product transaction enters into effect, this date must coincide with a payment date on the underlying loan. If a request is received less than fifteen (15) business days before the next payment date on the underlying loan that payment date cannot be the starting date.

3. A client who intends to request a RMP transaction from the Bank must negotiate and enter into a Master Derivative Agreement (MDA) or a stand-alone agreement with the Bank. The MDA will be used if the client intends to have several RMP transactions with the Bank. After one (1) RMP transaction documented by a stand-alone agreement, the client will have to sign a MDA with the Bank to request a new RMP transaction.
4. A client who intends to request a RMP transaction from the Bank must provide the Bank with a list of signatures of officers authorized to sign such request. The list can be updated at any time by an authorized person as stated in section 7.
5. The client must send the RMP transaction request and all related documents to its usual contact point in the Bank or to following address:

African Development Bank
B.P. 323
Tunis Tunisia
Attention: **Treasurer**
Telephone: (216) 71 102 028
Facsimile: (216) 71 330 632

The client should use the request form provided by the Bank. This form is available from the Bank's Treasury Department or from the Bank's web site at the following address www.afdb.org The request can be sent to the Bank by hand, courier, certified mail or facsimile¹ at the address mentioned above.

6. Centralization of requests

Requests that are sent to departments other than Treasury must immediately upon receipt be transmitted to Treasury.

7. Authorized signature on a request

The authorized signature for a request shall be the representative indicated in the MDA or similar agreement.

B. Description of a request

8. Statement of independence of decision

A request must open with the following written statement (**disclaimer**): “ *[the client]* represents that: (i) it is entering into this transaction as principal; (and not as agent or in any other capacity); (ii) the Bank is not acting as a fiduciary for it; (iii) it is not relying upon any representations except those expressly set forth in the documentation for this transaction; (iv) it has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary, and it has made its own investment, hedging and trading decisions based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Bank; and (v) it is entering into this transaction with a full understanding of the terms, conditions and risks thereof and is capable of and willing to assume those risks.”

9. Required information and documents provided with a request

- The project name, loan number, loan currency;
- The portion of the loan subject to the RMP;
- The type and description of risk management transaction requested;
- The starting date;
- The maturity of the transaction;
- The rationale for the requested transaction;
- The confirmation of authorized signature;
- All relevant legal documents allowing the client to carry out the requested RMP transaction and a legal opinion of counsel acceptable to the Bank confirming the validity and enforceability of the relevant documentation.

10. Type of RMP used to hedge Bank loans and parts of the loan that are affected

¹ Request received by facsimile will be confirmed upon receipt of the original.

	Interest rate swap	Currency swap	Interest rate cap & collar	Commodity swap
Floating interest rate	Interest	Principal and/or interest	Interest	Principal and/or interest
Fixed interest rate	Interest	Principal and/or interest	Not available	Principal and/or interest
Variable interest rate	Not available	Principal only	Not available	Principal only

11. Terms and conditions of the requested transaction

The terms and conditions of the requested RMP transaction must be compatible with the terms and conditions of the underlying loan and, the existing RMP transaction, if any.

C. From the receipt to the execution of a request

12. Confirmation of receipt of the request

The Treasury Department (FTRY) will confirm by telephone and facsimile its receipt of the request, no later than two (2) business days following the date of receipt of the request, and also request for confirmation from the client of the validity of the request including the signature. If the client does not receive such acknowledgment three (3) business days after sending the request, it should contact the Bank.

Note: The acknowledgment of a request does not, however, constitute or signify the approval or intention to approve the proposed transaction.

13. The Bank's review of the request

The FPWG will review the request and determine within three (3) business days from the date of confirmation of receipt of the request whether the request is accepted or rejected. The review shall evaluate the form and substance of the request against the approved eligibility criteria and make a decision whether it is acceptable to the Bank. If the request is not acceptable to the Bank, the Bank will inform the client of its reasons for declining. The client can submit a new request taking into account such reasons.

14. An approved and irrevocable request

A request becomes approved upon the Bank's communication to the client, by telephone and facsimile, of its acceptance. When so informed, if the client does not have any objection, the approved request becomes an irrevocable order from the client to the Bank to execute the transaction before the end of the processing period.

15. Suspension of the Processing period

During the Processing period, if events of any nature impact the market in such a way that the Bank's capacity to execute the request is adversely affected the Bank may suspend the execution and notify the client of the suspension and the reasons for the suspension. The Bank and the client will then decide whether the request should be executed or cancelled. If

the Bank and the client decide to proceed with the request, the duration of the Processing period will be extended to account for the suspension.

16. RMP transaction execution

Unless otherwise agreed between the Bank and the client, the Bank has the remainder of the Processing period from the date of approval of the request, to execute the transaction. The value date of the transaction will be fixed according to market practice. The Bank will use its best efforts to execute the request within the processing period. However the Bank may not be held liable for any failure to execute the transaction within such period. The Processing period shall end upon the execution of the proposed transaction.

17. Execution procedures

The Bank will apply the same procedures for its proprietary transactions.

18. Communication during the Processing Period

If necessary, the Bank and the client may communicate by telephone and/or facsimile during the Processing period. However, these communications may not result in a modification of an approved request. If there is a need to change the request, the Bank will suspend the processing of the request and immediately notify the client of such suspension. To resume the processing, the client would have to submit a new request, incorporating the modifications. Quotation from the Bank's counterparts communicated to the client for information purposes, during the processing period, shall not be considered as the final terms of the transaction.

19. Cancellation of request

At any time during the Processing period, the client can cancel the request by telephone and a facsimile to the Bank. The cancellation notice shall be signed and confirmed by the authorized signatory. If the cancellation notice reaches the Bank after the execution, the client will bear the cost of early termination of the transaction.

20. Notification of the transaction's terms to the client

The Bank does not guarantee the final terms on a RMP transaction. The terms of the transaction depend on market conditions at the time of the execution. Immediately after the execution of the transaction, the Bank will inform the client, by telephone, of the final terms of the transaction. Within two (2) business days of the date of execution, the Bank will send a notification, by facsimile, to the client providing the following information:

- The date and the time of the transaction;
- The amount of the transaction;
- The terms and conditions of the transaction;
- The amount of the premium, if applicable, transaction fee and the payment date;
- The converted terms and conditions of the underlying loan.

D. Administration of a RMP transaction**21. Recording of A RMP transaction**

RMP transactions will be recorded in the Bank's treasury and asset and liability management systems as client swaps/cap/collar at the same time as the market counterparts off-setting swaps/cap/collar.

22. Settlement of a RMP transaction

RMP transactions will be settled according to relevant market practices. The settlement of a RMP transaction between the Bank and its client will be automatically transferred from treasury systems to the loan billing system.

23. Billing of the underlying loan and RMP transaction

The billing of a RMP transaction will be done concomitantly with the billing on the underlying loan, so that netting could take place leaving the net obligation to the client. The calculation of the payment on the underlying loan and/or an existing RMP transaction will, for information purposes, be specified on the bill.

24. Rounding conventions used for RMP transactions

Rounding will be done according to each relevant market convention.

E. RMP Request forms**25. Forms provided**

The forms displayed must be used to request a RMP from the Bank. There are three forms:

- An information form
- A transaction sheet for swaps
- A transaction sheet for caps and collars

A request must comprise the information form and at least one transaction sheet.