



Derivative-Based Products

Risk Management Products *Peso / Dollar Currency Swap*

HIGHLIGHTS

- Company borrows dollars offshore
- Hedges foreign exchange risk through currency swap
- Net effect is long-term Mexican peso financing

THE COMPANY

Copamex S.A de C.V. is one of the leading producers and distributors of paper-based consumer products and value-added industrial paper products in Mexico and Central America. It sells most of its products locally, therefore earning Mexican peso-denominated revenues.

FINANCING OBJECTIVES

Copamex embarked on a financial restructuring to reduce overall debt, extend the maturity of its loans and reduce its foreign exchange exposure. As part of this strategy, Copamex requested IFC's assistance to refinance its short and long term dollar debt into long term pesos.

THE STRUCTURE

IFC's financing package included an US\$50 million 8-year loan for its own account and a US\$46 million 6-year loan for the account of participants (international banks in the syndication). To hedge the foreign exchange risk on these dollar loans, IFC provided Copamex with overlay US dollar/Mexican peso currency swaps.

OUTCOME

The combination of the dollar loans and currency swaps was financially the same as Mexican peso debt. Under the currency swaps, Copamex would receive over time the exact amount of dollars needed to repay principal and interest (at USD LIBOR) for the dollar loans. In exchange, Copamex would pay principal and interest (at MXN Tite) in Mexican pesos. The amount of Mexican pesos was fixed based on the exchange rate at the time of swap execution. The dollar loans represented an alternative long-term funding source for Copamex. The currency swaps effectively converted these dollar loans into local currency loans.



**INTERNATIONAL
FINANCE CORPORATION**
THE WORLD BANK GROUP

TERMS AND CONDITIONS

LOANS

Amount	US\$96 million (MXN 1,100 million equivalent)
Currency	US dollars
Maturity	6 and 8 years
Interest rate	Based on USD LIBOR
Interest payment	Quarterly

CURRENCY SWAPS

Amount	MXN 1,100 million / US\$96 million equivalent
Currency	Mexican pesos / US dollars
Maturity	6 and 8 years
Interest rate	IFC pays to Copamex USD LIBOR cash flows; Copamex pays to IFC MXN Tie cash flows
Interest payment	Quarterly

ARROWS INDICATE INTEREST AND PRINCIPAL REPAYMENTS OVER TIME

