FRIENDSHIP BRIDGE MANAGES FOREIGN EXCHANGE RISK

Friendship Bridge (FB) (Guatemala) provides loans to self-employed women. FB's funding sources include both local currency (the Guatemalan Quetzal, or GTQ) and US dollars. Though the Quetzal has been a relatively stable currency, FB knows that an unexpected currency devaluation poses a risk to their ability to repay their USD notes. FB engages in multiple ways of mitigating this FX risk, without using derivative hedging instruments.

FB monitors its Foreign Exchange Risk Ratio, calculated as: (Total USD Assets – Total USD Liabilities) / Total Net Assets (USD & GTQ). If the Ratio exceeds FB's target limits, FB's finance committee reviews the situation.

FB also uses several other strategies, including:

- Keeping reserves and as much idle cash as possible in USD;
- Utilizing local lines of credit in GTQ for short-term needs;
- Borrowing in GTQ instead of USD when possible, even though rates are typically 5% higher than borrowing in USD;
- Keeping a minimum of 10% in reserves for future obligations, and increasing the percentage as maturity dates approach;
- Back-to-back borrowing;
- Stress testing of exchange rate risk fluctuations;82 and
- Conducting a quarterly "Economic Risk Assessment," evaluating key indicators to measure supply and demand for the GTQ. These metrics include:
    - Trade deficits
    - Budget deficits
    - Price level/inflation (for Guatemala and FB's own "basket of goods")
    - Monetary policy (interest rates and monetary base for Guatemala and US)
    - Country risk rating
    - Informal economic activity
    - Bank ratings
    - Domestic and foreign income
    - Significant economic or political events

This Economic Risk Assessment is formally reviewed by the finance committee semi-annually, and it is followed by a report to the board of FB. Depending on the longer-term trends in the value of the GTQ, FB may in the future also consider use of derivative strategies to hedge against potentially harmful currency fluctuations.