

ADB's Loan Products

An Overview

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Today's Agenda

- 1) LIBOR-based Loan Product (LBL)
- 2) Risk Management Features of the LBL Product
- 3) Local Currency Loan (LCL) Product

1) LIBOR-Based Loan (LBL) Product

Borrowers requested ADB to offer a loan product that provides:

- Flexibility in interest rates
- Flexibility in currencies
- Flexibility in repayment terms
- Access to risk management tools and derivative markets:
 - Currency and interest rate swaps
 - Interest rate Caps and Collars

ADB responded to these requests and evolved into a full-fledged LIBOR-based lender in 2001

ADB now offers borrowers:

- Flexibility in the terms of original loan
- Flexibility to alter original loan terms as the borrower's needs change
- Access to risk management tools

Structural Features

- Loan Currencies
- Pricing
- Lending Rate
- Rebates/Surcharges
- Other Charges
- Prepayment/
Cancellation
- Waivers

Risk Management Features

- Interest Rate
Conversions
- Currency Conversions
- Caps / Collars

LBL loans can be denominated in either USD, JPY, or Euro

- Borrowers' obligations are denominated in the loan currency
- Procurement requirements for projects can be made in different currencies, with ADB acting as an agent for the borrower

LBL are priced based on a cost pass-through principal:

- Cost Base Rate: ADB's funding cost relative to LIBOR / Euribor of the relevant currency, plus a
- Spread: ADB's basic lending spread designed to enable ADB to cover its operational costs and to meet income objectives (currently 0.60%)

ALL LBL loans initially have a floating lending rate based on 6-month LIBOR/Euribor plus a spread

Indicative Floating Lending Rate

As of 7 September 2006

	Euro	JPY	USD
Cost Base Rate	3.48800	0.46500	5.42000
Spread	0.60000	0.60000	0.60000
Lending Rate*	4.08800	1.06500	6.02000

* Before Board-approved waiver of 20 basis points in effect for public sector loans for the period 1 July 2004 - 30 June 2006

ADB's actual LIBOR funding costs will be returned or charged to borrowers through rebates or surcharges

- On 1 January and 1 July, ADB calculates its actual funding cost margin relative to LIBOR for the past semester. This amount will be credited (for sub-LIBOR funding)/ debited (for above LIBOR-funding) to the borrower in the subsequent interest payment period*

* available only to Public Sector loans (fixed and floating)

LBL Rebates

Applicable Period

Rebates

	LBL-\$	LBL-¥
Jan-Jul 2006	0.31%	0.34%
Jul-Dec 2005	0.31%	0.39%
Jan-Jun 2005	0.32%	0.39%
Jul-Dec2004	0.35%	0.39%
Jan-Jun 2004	0.35%	0.39%
Jul-Dec2003	0.35%	0.39%
Jan-Jun 2003	0.33%	0.39%
Jul-Dec2002	0.39%	0.39%
Jan-Jun 2002	0.36%	0.16%
Jul-Dec 2001	0.41%	0.17%



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Front-end fee: 1%, but currently waived for all loans signed until 30 June 2007

Commitment Charge: 75 basis points on progressive amounts of undisbursed loan balances (currently under review)

Borrowers may prepay/cancel, in part or in full, the disbursed and outstanding or undisbursed loan balance at any time during the life of the loan.

Prepayment of floating rate loans:

- No fee if pre-paid on interest payment due date
- Fee possible if pre-paid on non-interest payment date

Prepayment of loans with conversions (currency and/or interest rate) will be charged unwinding costs of related currency and/or interest rate hedge transactions.

- A waiver is an upfront reduction in charges to the borrower.
- It is in effect at time of billing.

Example:

ADB's Board approves a waiver of 0.20% of the basic lending spread effective 1 July 2004 – 30 June 2007.

The 1% front-end fee is also waived for this time period.

2)The Risk Management Features of the LBL Product

- ADB accomplishes its risk management activities through the use of interest rate and cross currency swaps and other derivatives

What are Swaps?

Swaps are private agreements between two parties to exchange cash flows in the future according to a pre arranged formula.

- Initial floating lending rate may be changed at any time to a fixed rate
- Fixing may be done:
 - Automatically, based on standing instructions to ADB, known as Specified Rate Fixing (SRF) for future disbursements or;
 - At the discretion of the borrower (for disbursed amounts)

- ADB will cover the rate fixing request by undertaking a corresponding hedge in the swap market
- Fixed lending rate to the borrower will be based on:
 - The fixed rate equivalent of 6-month LIBOR / Euribor for the maturity that corresponds to the life of the disbursed amounts (Swap Rate) plus a
 - Spread

Lending Rate – Fixed

Indicative Fixed Lending Rates for 10-year Maturity As of 7 September 2006

	Euro	JPY	USD
Swap Rate	4.08000	1.88000	5.36000
Spread	0.60000	0.60000	0.60000
Fixed Lending Rate*	4.68000	2.48000	5.96000

*Before 20 bp Board-approved waiver valid until
30 June 2006

Currency Conversions

Based on external debt management considerations or project requirements, borrowers may want to alter the currency of their liabilities

With LBL,

- Borrowers may change the denomination of their original loan to Euro, JPY, or USD
 - Available for:
 - Un-disbursed and/or disbursed balances
 - Full or partial maturity

Currency Conversions

Borrowers may change the loan currency of all or part of the un-disbursed balances at any time during the life of their loan

- Screen rate (prevailing rate) is used in conversion
- Converted amounts initially have floating lending rate (LIBOR plus spread) of the converted currency
- Partial amount conversions will be applied pro-rata across all maturities

Interest Rate Caps

Explanation:

- Caps can be used by borrowers to reduce volatility in their interest rates, and limit their exposure to rising interest rates. Caps require a premium to be paid. Caps are “call options” on floating interest rates
- Caps create a ceiling (“cap rate”) on the Borrower’s interest rate exposure
- Caps are activated when floating rate exceeds strike price
- Cap premium price based on volatility, time to expiration, floating rate, cap rate

Explanation:

Collars

- Buying cap while selling a floor is called a collar, with the upper and lower bands of the interest rate profile defined.
- Collars are used to reduce the amount of premium paid.

Floors

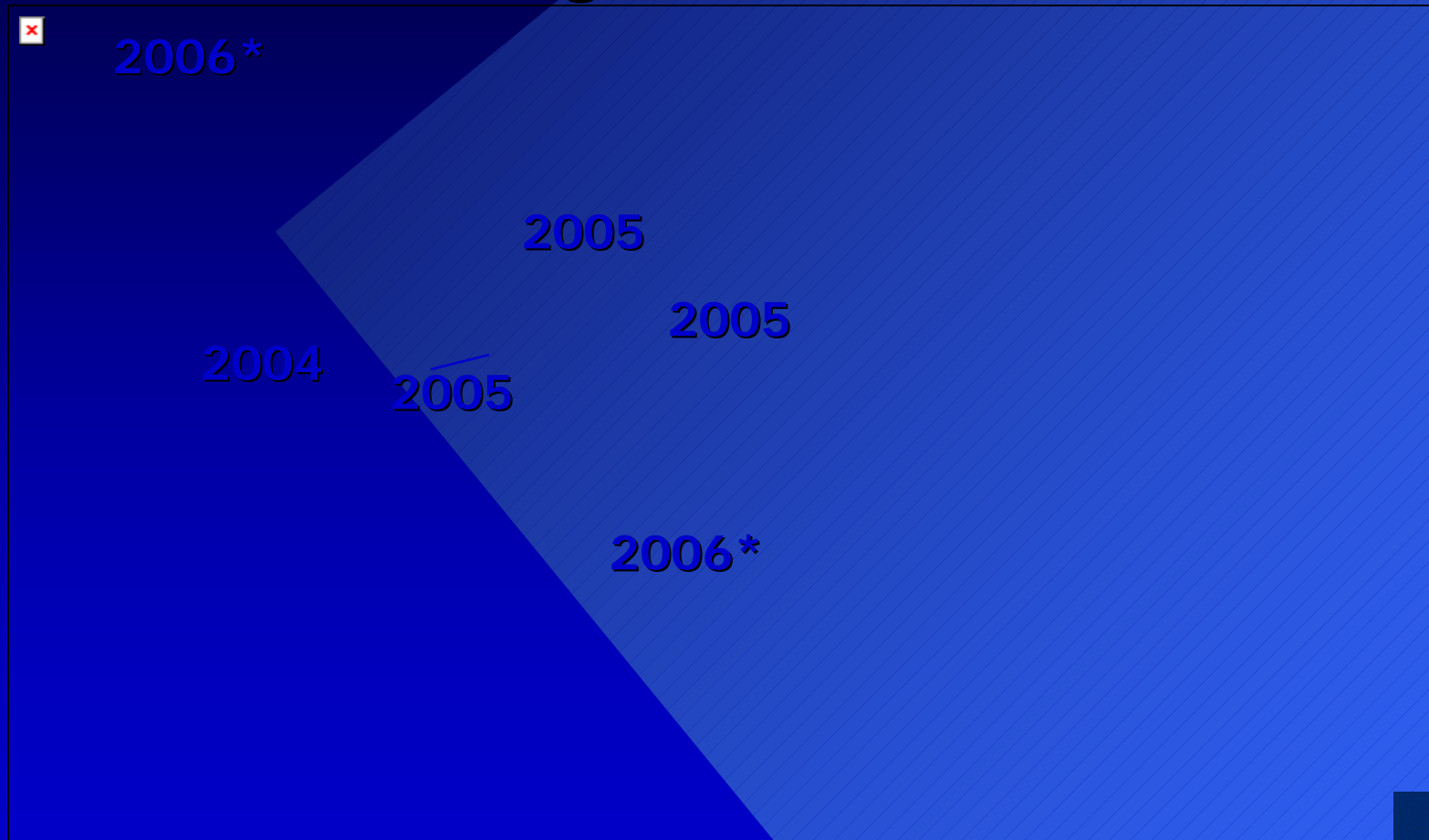
- Floors are 'put options' that provide downside interest rate protection to the buyer
 - Floors are activated when floating rate drops below strike price
- Floor premium (price) based on volatility, time to expiration, floating rate, floor rate

3) Introducing ADB's Local Currency Loan Product

Availability of the LCL Product

- Both public and private sector borrowers are eligible for the LCL product
- The LCL product is currently offered only in selected DMCs

Availability of LCL Product



* Expected

Rationale for Introducing the LCL

- Increased choice and flexibility for Borrowers
- Reducing currency mismatches
- Catalyzing local currency financing, cooperating closely with local financial institutions
- Furthering capital market development through ADB local currency funding activities

1. Funding Policy

- ADB has two options for LC funding:
 - Pool funding:
 - Back-to-back funding:
- ADB's Local Currency Policy allows to establish an LC pool only if 3 conditions are met:
 - Sufficient expected volume of lending in DMC
 - No significant negative carry
 - Regulatory approvals in place for ADB to fund on a regular and cost-efficient basis
- If ADB has not established an LC pool then all LC loans will automatically be on a back-to-back basis

2. Main Funding Options

- ADB has two main funding options to source LC, subject to approvals by the DMC:
 - ADB LC bond issues: ADB typically issues fixed-rate bonds and swaps into floating-rate until disbursement
 - Commercial cross-currency swaps (CCS): Where available, CCS provide a flexible and potentially cost-efficient funding tool
- ADB will work with the borrower and the DMC government to determine the most cost-efficient funding option

3. Pricing: Sovereign/Sovereign-guaranteed Loans

- Lending rate: Cost base rate + Lending spread
- Lending spread: 60 basis points, before Board-approved waivers (waiver is currently 20 basis points)
- Front-end fee: 1% before Board-approved waivers (currently full waiver of front-end fee)
- Commitment charge: 75 basis points on progressive amounts of total loan (less cumulative disbursements):
- Rebates/surcharges

4. Pricing: Non-Sovereign Guaranteed and Private Sector Loans

- Lending spread: Cost base rate + Lending spread
- Lending spread: Risk-based pricing
- Front-end fee: 1.0-1.5 %
- Commitment charge: 50-75 basis points on undisbursed loan balances

5. Prepayments and Cancellation

- Prepayments:
 - Borrowers are allowed to prepay all or part of the disbursed and outstanding balance
 - No prepayment charge applies to prepayments of floating rate loans on interest rate payment dates under the pool-based funding approach
- Cancellations:
 - Borrowers are allowed to cancel all or part of the undisbursed loan balance at any time
 - No cancellation charge applies if ADB follows pool-based funding approach
 - Cancellation charges apply to loans funded under back-to-back funding approach if ADB has agreed with the borrower to pre-fund

6. Rebates and Surcharges

- Rebates and surcharges may apply for sovereign-guaranteed loans funded under pool-based approach
- These are calculated based on ADB's funding cost relative to local floating-rate benchmark
- Rebates and surcharges are calculated twice annually, on 1 January and 1 July for the funding pool covering the preceding 6-month period

7. Interest Rate Conversion Options

- All loans initially have a floating-rate until borrowers request for a fixing
- Borrowers have the option to fix or unfix the interest rate during life of loan, subject to appropriate hedging opportunities available to ADB
- Transaction fee of 0.0625% for conversions, except for first fixing

Case Study 1: ADB INR Bond Issue

- In Feb 2004, debut ADB INR5 billion 10-year issue
- Spread of 17 basis points over Indian Government
- First issue by foreign issuer, supra, rated AAA
- Swapped into floating-rate and disbursing to 2 projects

Case Study 2: PHP Bond Issue

- In Oct 2005, ADB provided a PHP1.6 billion loan to NHMFC for an NPL project
- ADB issued debut PHP bond, 5-year zero-coupon

Case Study 3: PRC Bond Issue

- In October 2005, ADB issued debut RMB1 billion bond issue
- Proceeds to be used for private sector projects

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