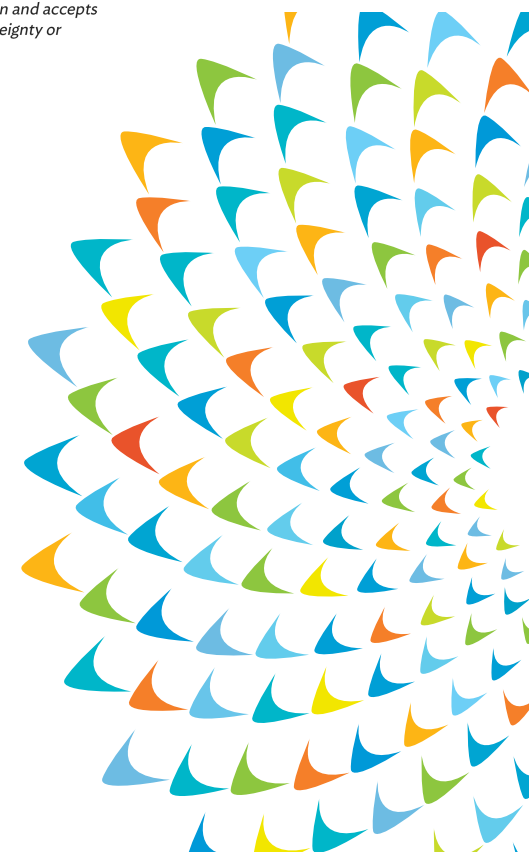


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Webinar on Loan Financing Options for Sovereign and Sovereign-Guaranteed borrowers

Treasury Department
Oct 2023



Outline

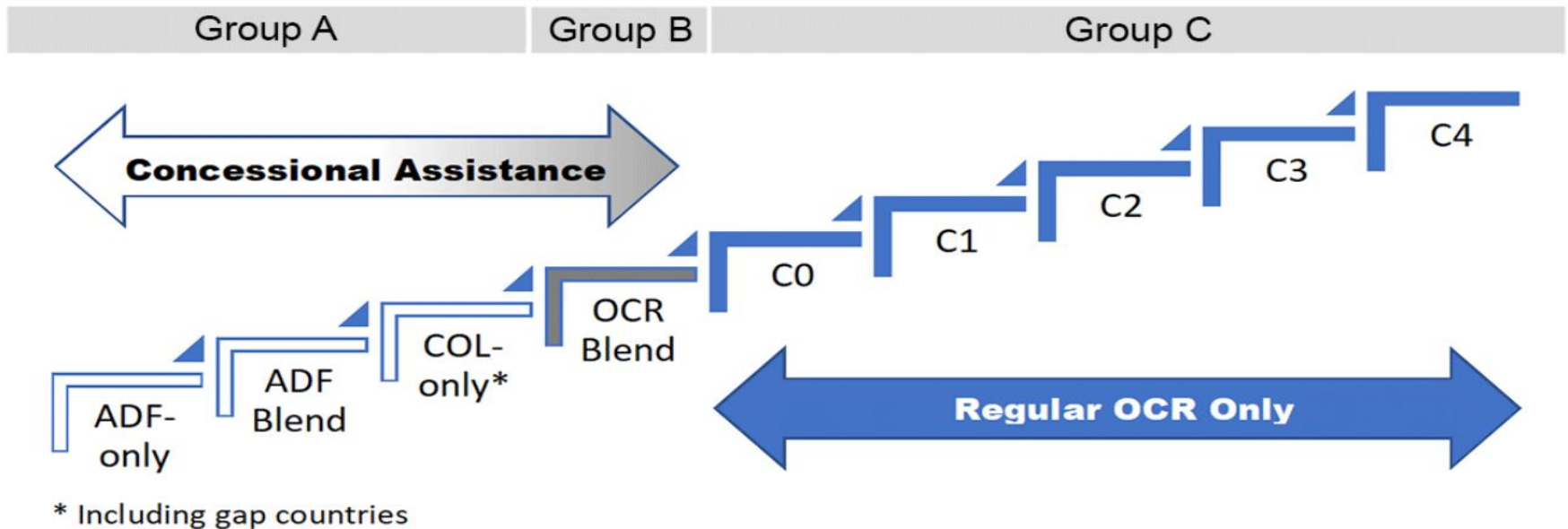
- Overview of Concessional OCR Loan (COL)
- Overview of Flexible Loan Product (FLP) – *Sovereign and Sovereign-guaranteed borrowers*
 - Main Features
 - LIBOR vs SOFR
 - Loan Charges
 - Interest Calculations
 - Historical Interest and foreign exchange rate
- Conversion Options
 - Interest rate conversion
 - Currency conversion of unwithdrawn balance
 - Currency conversion of withdrawn balance
 - Transaction Fees
- Procedures for exercising loan conversion options





ADB's Classification of DMCs

Lending Policies



ADB's *Classification and Graduation Policy* determines the eligibility of developing member countries (DMCs) to borrow based on two main criteria, (i) per capita income and (ii) creditworthiness. DMCs are classified into:

- Group A (Concessional assistance-only): those in need of greatest concessionality and eligible for Asian Development Fund (ADF) grants
- Group B (OCR blend): those that need some concessionality, and
- Group C (Regular OCR only): those in need of least concessionality.

DMCs within these groups are further differentiated to determine the mix of funds and lending terms they can access, based on ADB's (i) concessional assistance policy and (ii) policy on diversified financing terms.



ADB Products and Financing Modalities for Sovereign and Sovereign Guaranteed Loans and Grants

Lending Terms of Concessional Assistance Countries

Item	Group A (Concessional Assistance-only Countries)		Group B (OCR Blend Countries)	Emergency Assistance
	Project	Program		
Maturity (years)	32	24	25	40
Grace Period (years)	8	8	5	10
Principal Repayment	Equal	Equal	Equal	2.0% : Year 11–20 4.0% : Year 21–40
Interest Rate	1.0% : Year 1–8 1.5% : Year 9–32	1.0% : Year 1–8 1.5% : Year 9–24	2.0%	1.0%
Currency *	SDR/USD/EUR JPY/GBP	SDR/USD/EUR JPY/GBP	SDR/USD/EUR JPY/GBP	SDR/USD/EUR JPY/GBP
Commitment Fee	None	None	None	None

* From 1 Jan 2017, in addition to SDR as liability currency, ADF borrowers may also choose any of the SDR constituent currencies as liability currency, subject to ADB's confirmation of the availability of such currency. Presently, the currencies that ADB can efficiently intermediate are: United States dollar (\$), Japanese yen (¥), euro (€), and British pound (£).

Note: Information as of January 2023

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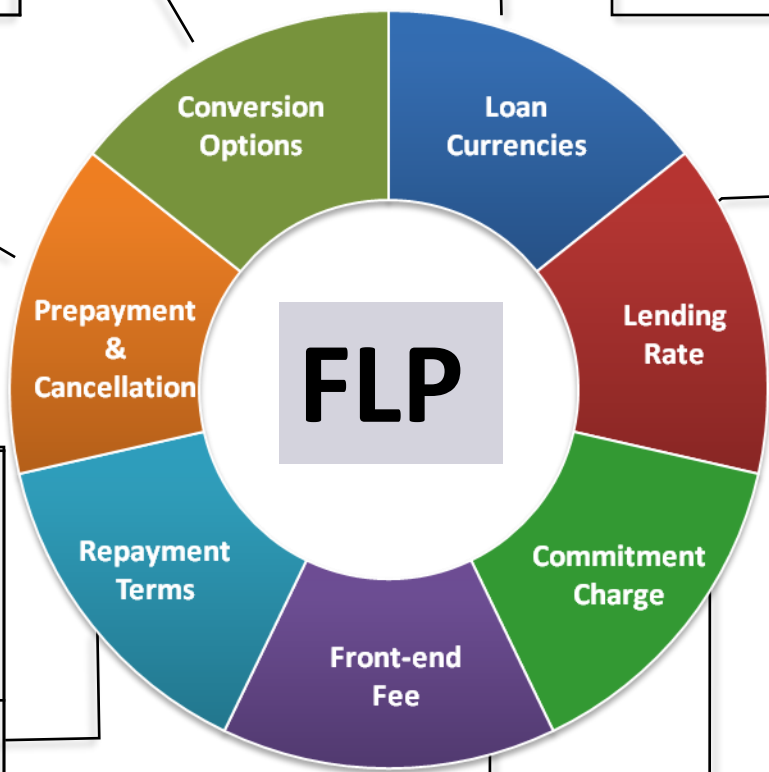


FLP Main Features – Sovereign Borrowers

- Interest Rate Conversion
- Currency Conversion

- USD, JPY, Euro
- Other currencies in which ADB can efficiently intermedate

- Full or Partial



• Cost-base Rate	USD: 6-month SOFR compounded in arrears JPY: 6-month TONA compounded in arrears Euro: 6-month Euribor Other currencies in which ADB can efficiently intermedate: Recognized floating rate benchmark for other currencies
• Effective Contractual Spread	0.50% for loans negotiated on or after 1 January 2014
• Maturity Premium	Sovereign and sovereign-guaranteed borrowers (for loans approved on or after 1 Jan 2021)
• (Rebates) or Surcharges on Funding Cost Margin	(US Dollar 0.22% for 1 Jul- 31 Dec 2023)

- | | |
|------------------------------|-------------------|
| • Commitment-linked | • Annuity |
| | • Straight-Line |
| | • Custom-tailored |
| | • Bullet |
| • Disbursement-linked | • Straight-Line |

FLP= Flexible Loan Product

Eliminated for loans negotiated on or after 1 Oct 2007

0.15% based on the undisbursed balance of loan

Information as of Jan 2023





LIBOR vs SOFR

LIBOR

LIBOR measures the average rates at which those banks submitting to LIBOR could obtain wholesale unsecured funding for set periods. (expert judgement)

LIBOR is a term rate consisting of a risk-free interest rate plus credit risk, term and liquidity premium.

Forward looking term rate –for periods of different maturities

LIBOR is published around 11.55 am London time prior to the period to which it relates (e.g. 2 business days prior for USD)

LIBOR has a single administrator
-ICE Benchmark Administration Limited.

SOFR

SOFR measures the broad cost of borrowing USD overnight collateralised by US Government securities. (transaction based)

SOFR does not incorporate bank and term credit risk in the same way as LIBOR. Over an equivalent period, SOFR is likely to be lower than LIBOR.

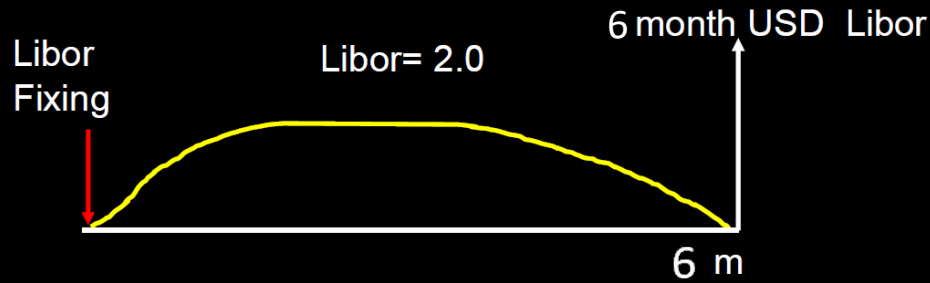
Backward looking –measures interest charged the previous day

SOFR is published at 8am (EST) on following New York business day

SOFR administered by the Federal Reserve Bank of New York

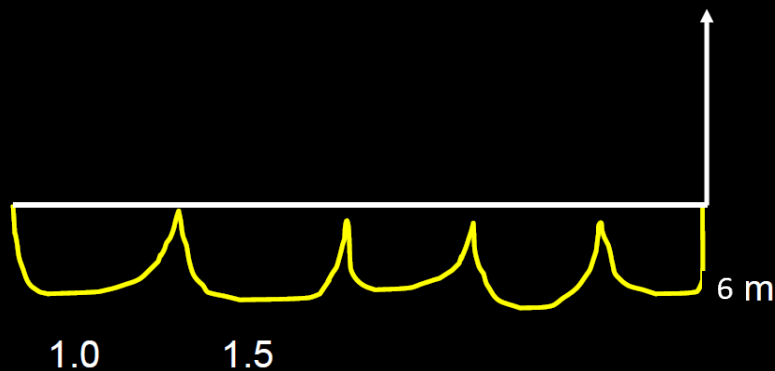


LIBOR vs SOFR



6 months Libor is fixed in the beginning and Cash flow paid/receive in 6 months time is known with **CERTAINTY**
Accrued Interest is easily obtained by using simple Math.

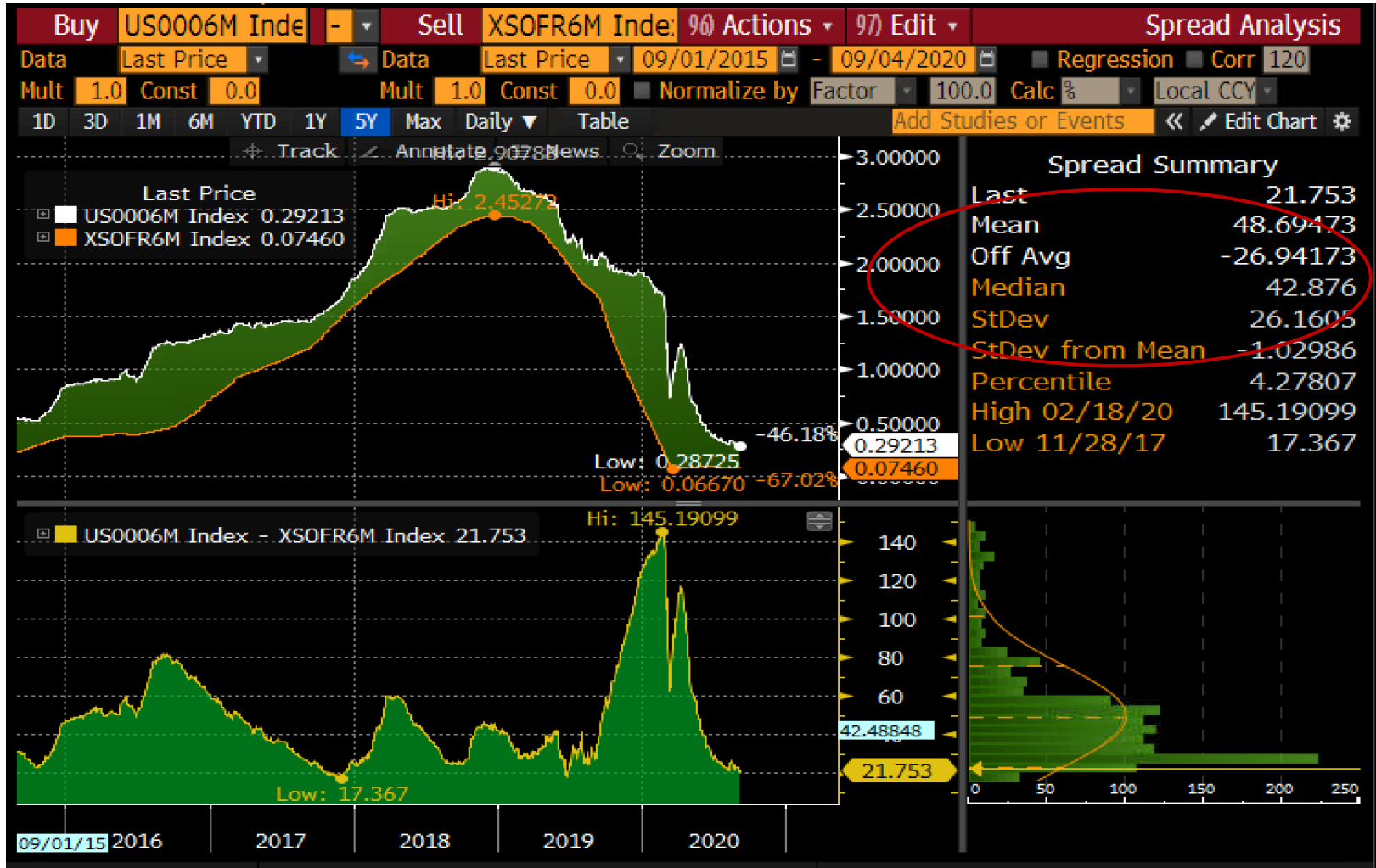
O/N SOFR compounded over 6 m



6 months cash flow is only known at the END (**UNCERTAIN**) after we have 6 months of daily RFR data

Systems required to handle daily compounded in arrears calculations and Accrued Interest Calculation.

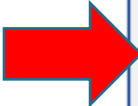
Spread summary of 6m \$LIBOR vs 6m SOFR compounded in arrears : Sep 2015- Sep 2020



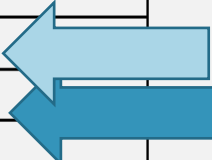


Credit Adjustment Spread: ISDA Protocol

In accordance with its consultations and its protocol, following the March 5, 2021 announcement by the UK Financial Conduct Authority that USD LIBOR would end, Bloomberg, as the vendor for the fallbacks in ISDA documentation, [published](#) the following values as the long-term spread adjustments, based on historical 5-year median spreads for between USD LIBOR and compounded averages of SOFR:



LIBOR tenor being replaced	Spread applied to SOFR based rate (bps)
1-week USD LIBOR	3.839
1-month USD LIBOR	11.448
2-month USD LIBOR	18.456
3-month USD LIBOR	26.161
6-month USD LIBOR	42.826
1-year USD LIBOR	71.513





Federal Funds Rate

- The term federal funds rate refers to the target interest rate set by the Federal Open Market Committee (FOMC). This target is the rate at which the Fed suggests commercial banks borrow and lend their excess reserves to each other overnight.
- The FOMC, which is the policymaking body of the Federal Reserve System, meets eight times a year to set the target federal funds rate, which is part of its monetary policy.
- Note that while the Fed sets the target rate, the rate itself is determined in the overnight lending market based on the supply and demand of short-term reserves held by commercial banks. The central bank may intervene in the open market to influence this rate if the market strays too much.
- As an overnight rate for (effectively risk free) lending in US dollars, **the dynamics of SOFR are closely linked to the dynamics of the Fed Funds overnight rate**, which in turn is the interest rate most directly impacted by US monetary policy decisions





Loan Charges (USD, JPY & EUR) – Sovereign FLP

Loan Charges	Basis	USD	JPY	EUR																									
A. Lending Rate																													
Cost Base Rate	Adjusted every 6 months for floating rate loans	6-month SOFR compounded in arrears	6-month TONA compounded in arrears	6-month EURIBOR																									
Effective Contractual Spread	Fixed for the life of the loan (<i>Formal Loan Negotiation Date</i>)	0.50%																											
Maturity Premium <i>(for loans approved on or after 1 Jan 2021)</i>	Fixed for the life of the loan (<i>Average Loan Maturity</i>)	≤ 9 years > 9 years and up to 13 years >13 years and up to 16 years > 16 years and up to 19 years <i>(with limit of 19 years average loan maturity)</i>	<table border="1"> <thead> <tr> <th>C0</th> <th>B and C1</th> <th>C2</th> <th>C3</th> <th>C4</th> </tr> </thead> <tbody> <tr> <td>NIL</td> <td>NIL</td> <td>NIL</td> <td>NIL</td> <td>NIL</td> </tr> <tr> <td>NIL</td> <td>NIL</td> <td>0.10%</td> <td>0.20%</td> <td>0.40%</td> </tr> <tr> <td>NIL</td> <td>0.10%</td> <td>0.20%</td> <td>0.30%</td> <td>0.50%</td> </tr> <tr> <td>NIL</td> <td>0.20%</td> <td>0.30%</td> <td>0.50%</td> <td>0.75%</td> </tr> </tbody> </table>	C0	B and C1	C2	C3	C4	NIL	NIL	NIL	NIL	NIL	NIL	NIL	0.10%	0.20%	0.40%	NIL	0.10%	0.20%	0.30%	0.50%	NIL	0.20%	0.30%	0.50%	0.75%	
C0	B and C1	C2	C3	C4																									
NIL	NIL	NIL	NIL	NIL																									
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NIL	0.10%	0.20%	0.30%	0.50%																									
NIL	0.20%	0.30%	0.50%	0.75%																									
Rebate/Surcharge on Funding Cost Margin	Adjusted every 6 months <i>(ADB calculation)</i>	+ 0.22% <i>(Applicable for 1 Jul – 31 Dec 2023)</i>	- 0.35% <i>(Applicable for 1 Jul – 31 Dec 2023)</i>	+ 0.04% <i>(Applicable for 1 Jul – 31 Dec 2023)</i>																									
B. Commitment Charge	Based on undisbursed balance	0.15%																											
C. Front-End Fee	Not applicable*	-	-	-																									

* In general, front-end fee is not applicable for most lending modalities
Information as of Jul 2023





Rebate/Surcharge on Funding Cost Margin

I. FUNDING COST MARGINS FOR THE FLEXIBLE LOAN PRODUCTS TO SOVEREIGN AND SOVEREIGN-GUARANTEED BORROWERS

1. In July 2021, the Asian Development Bank Board of Directors approved the change from the London interbank offered rate to the Secured Overnight Financing Rate for United States dollar-denominated loans and to the Tokyo Overnight Average Rate for yen-denominated loans.¹

2. The rebates or surcharges for the Flexible Loan Products to sovereign and fully sovereign-guaranteed borrowers, loans under the Countercyclical Support Facility, and loans under the COVID-19 Pandemic Response Option are shown in Table 1. The funding costs are determined semi-annually by calculating the average funding cost margin below or above the relevant benchmark² in each currency for all borrowings funding the loan pool of the same currency during the previous semester.

Table 1: Funding Cost Margins
Applicable 1 July–31 December 2023
(basis point)

Flexible Loan Product	(Rebate) or Surcharge
US dollar	22
Yen	(35)
Euro	4
New Zealand dollar ^a	52
US dollar—Countercyclical Support Facility ^b	37
US dollar—COVID-19 Pandemic Response Option	29
Euro—COVID-19 Pandemic Response Option	1

() = rebate, COVID-19 = coronavirus disease, US = United States.

^a Also applies to New Zealand dollar—COVID-19 Pandemic Response Option loans.

^b Also applies to special policy-based loans.

Source: Asian Development Bank.





Example: Lending Rates (USD, JPY & EUR _ Floating Rate) for Sovereign FLP

(Lending rate for Loan No. XXXX-DMC; Average Loan Maturity = 12.75 years)

Item	USD	JPY	EUR
Cost Base Rate <i>(Adjusted every 6 months)</i>	SOFR compounded over 6-month interest periods determined in arrears	TONA compounded over 6-month interest periods determined in arrears	6-month EURIBOR
Effective Contractual Spread <i>(Fixed)</i>	0.50%	0.50%	0.50%
Maturity Premium <i>(Fixed)</i>	0.00%	0.00%	0.00%
Rebate/Surcharge on Funding Cost Margin <i>(Adjusted every 6 months - ADB calculation)</i>	0.22%	-0.35%	0.04%
Net Lending Rate *	6-month SOFR compounded in arrear+ 0.72 %	6-month TONA compounded in arrears+ 0.15 %	6-month EURIBOR + 0.54%
Net Lending Rate as of 29 Sep 2023** <i>(varies)</i>	a** + 0.72% 5.47% (estimated) + 0.72% = 6.19%	b** +0.15 % - 0.02% (estimated) + 0.15% = 0.13%	4.136+0.54 % = 4.676%

* Floor rate of zero will apply if the net lending rate is negative.

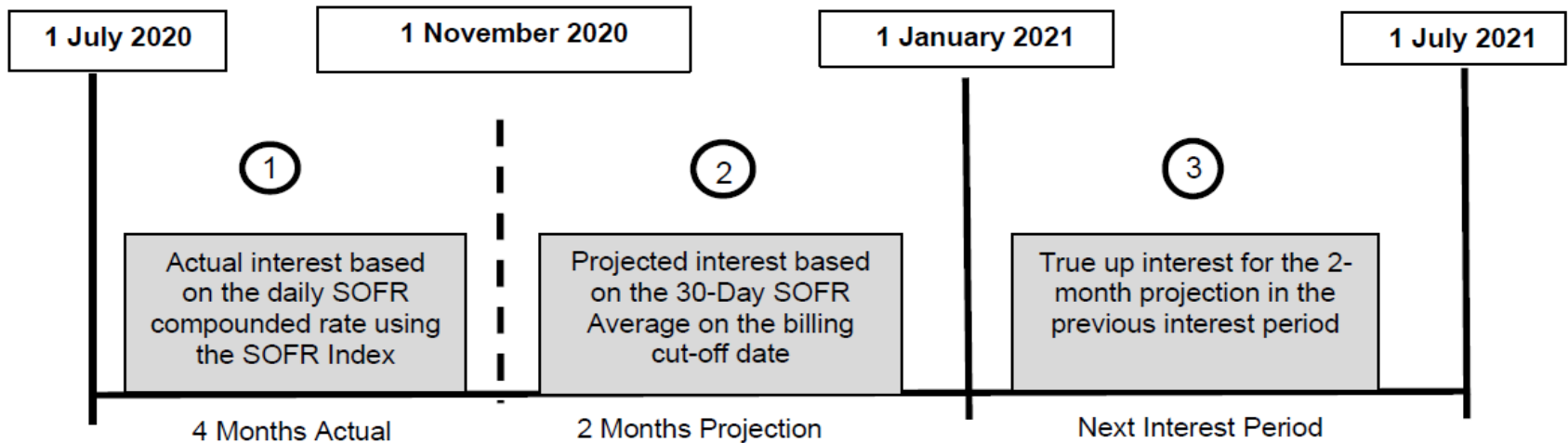
**6-month SOFR / TONA compounded in arrear will only be determined after the end of interest period

Note: The net lending rate varies over the life of the fixed rate loan since rebate/surcharge is adjusted every 6 months.





Sovereign Loans: Interest Calculation-1



A numerical example is provided as follows:

Principal outstanding: \$100,000,000

6-month interest period: 1 July to 31 December 2020

Interest payment date: 1 January 2021

Billing cut-off date: 1 November 2020

- (i) The daily interest calculation using the SOFR Index for 1 July 2020 is:

$$\text{Daily SOFR compounded rate} = \frac{\text{SOFR Index}_{2 \text{ July } 2020} - \text{SOFR Index}_{1 \text{ July } 2020}}{\text{SOFR Index}_{1 \text{ July } 2020}}$$

$$= \frac{1.04149838 - 1.04149520}{1.04149520}$$

$$= 0.00000305$$

$$\text{Daily interest (1 July 2020)} = \$100,000,000 \times 0.00000305 = \$305$$



Sovereign Loans: Interest Calculation-2

- (ii) If the principal balance during 1 July–31 October 2020 is constant, the total interest for the 4 months will be calculated as follows:

$$\begin{aligned} & \text{Compounded Rate (1 July–31 October 2020)} \\ &= \frac{\text{SOFR Index}_{1 \text{ November 2020}} - \text{SOFR Index}_{1 \text{ July 2020}}}{\text{SOFR Index}_{1 \text{ July 2020}}} \\ &= \frac{1.04182332 - 1.04149520}{1.04149520} \\ &= 0.00031505 \end{aligned}$$

$$\begin{aligned} \text{Interest (1 July–31 October 2020)} &= \$100,000,000 \times 0.00031505 \\ &= \$31,505 \end{aligned}$$

- (iii) The projected interest for 1 November–31 December 2020 is:

$$\begin{aligned} & 30\text{-Day Average SOFR (2 November 2020)}^{16} = 0.08800\% \\ \text{Projected Interest (1 November–31 December 2020)} &= \$100,000,000 \times 0.08800\% \times \left(\frac{61}{360}\right) \\ &= \$14,911 \end{aligned}$$

- (iv) The true-up of interest is:

$$\begin{aligned} & \text{Compounded Rate (1 November–31 December 2020)} \\ &= \frac{\text{SOFR Index}_{1 \text{ January 2021}} - \text{SOFR Index}_{1 \text{ November 2020}}}{\text{SOFR Index}_{1 \text{ July 2020}}} \\ &= \frac{1.04197497 - 1.04182332}{1.04149520} \\ &= 0.00014561 \\ \text{Actual interest (1 November–31 December 2020)} &= \$100,000,000 \times 0.00014561 = \$14,561 \\ \text{True – Up Interest} &= \text{Actual Interest} - \text{Projected Interest} \\ &= \$14,561 - \$14,911 \\ &= (\$350) \end{aligned}$$



SOFR, 6-month EURIBOR, TONA, Aug 2018- Aug 2023





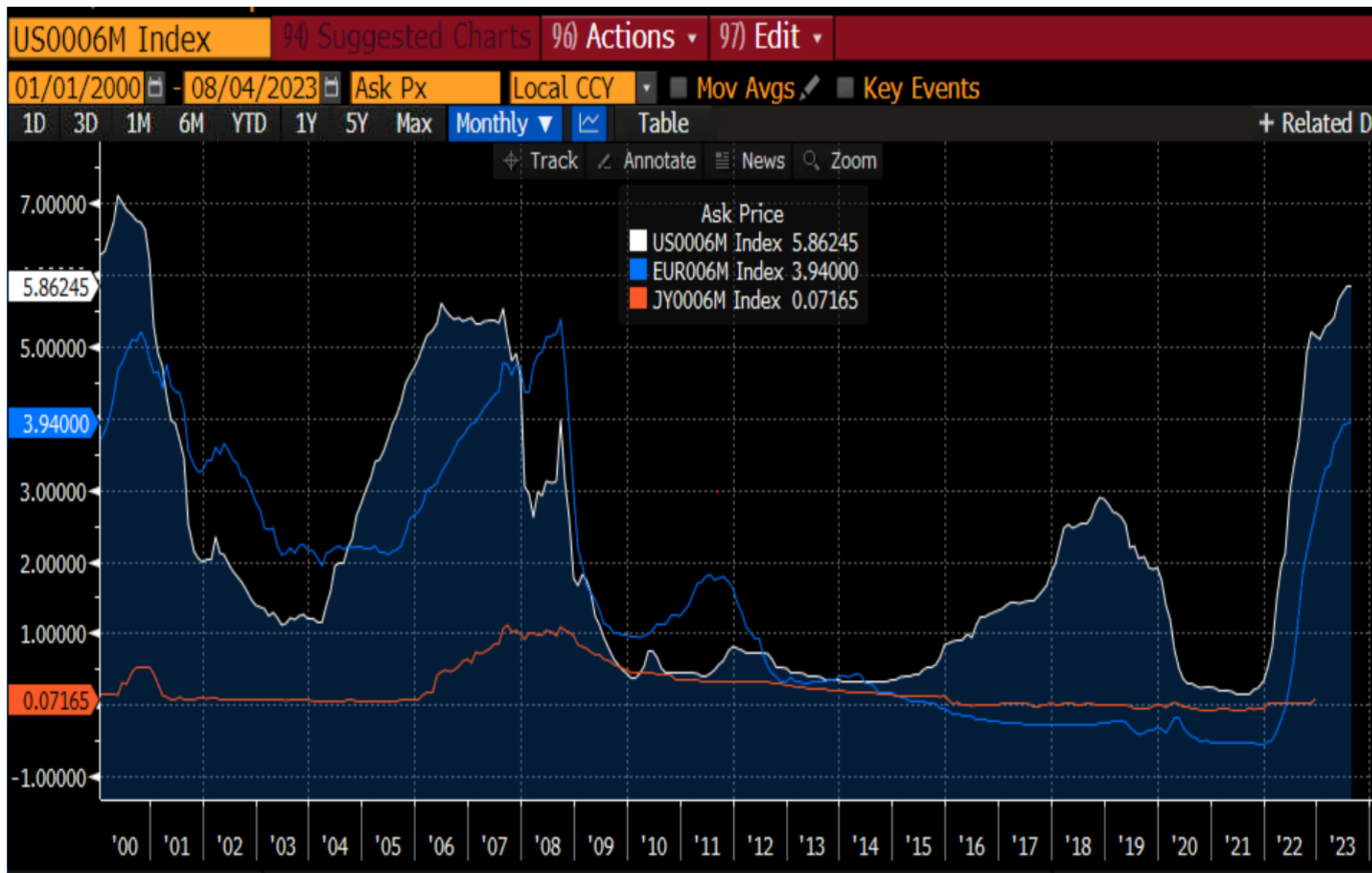
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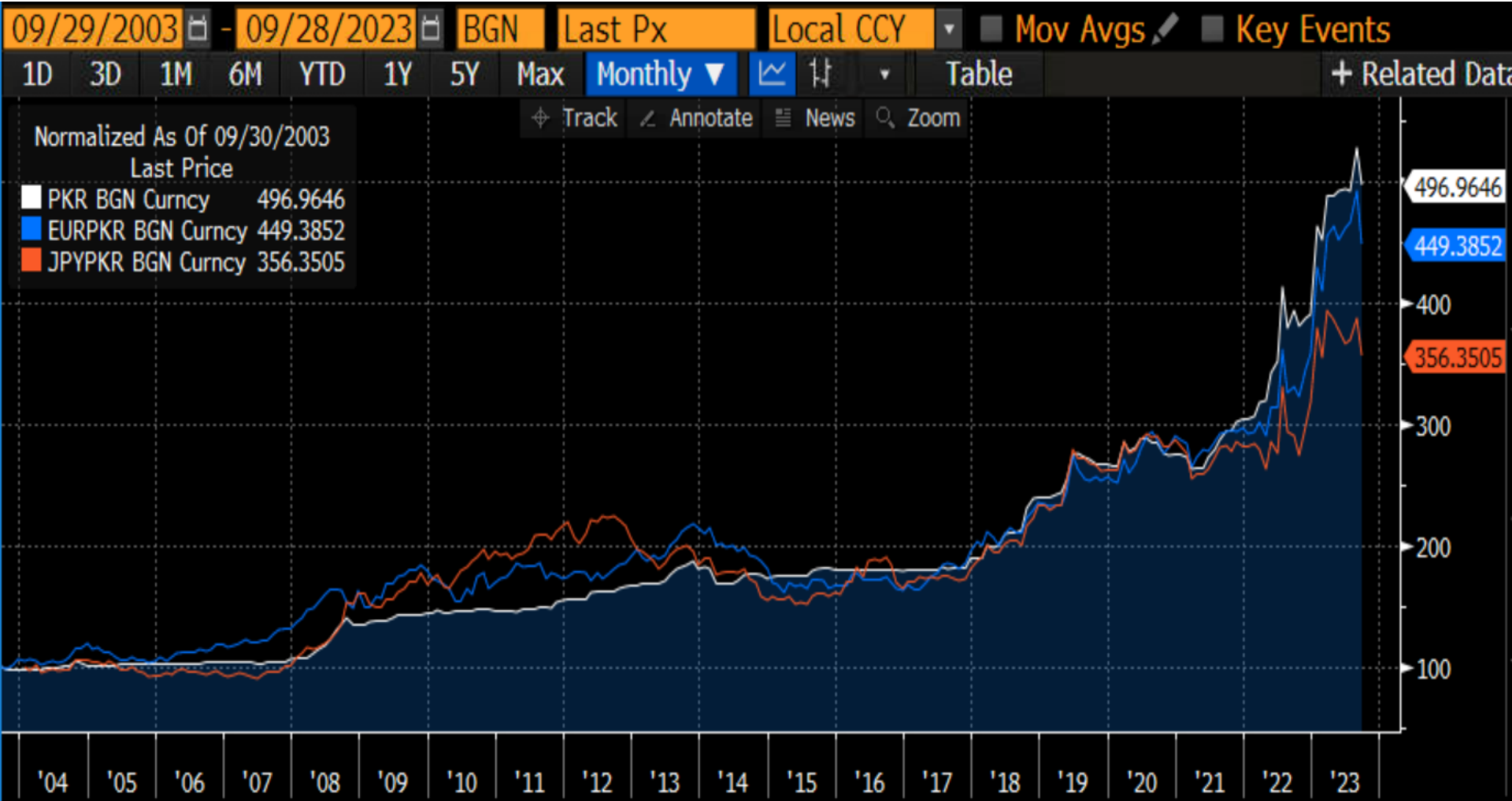


6-month USD LIBOR, 6-month EURIBOR, 6-month JPY LIBOR, Jan 2000- Aug 2023





Normalized USD-PKR, EUR-PKR & JPY-PKR Exchange rates: Sep 2003- Sep 2023



USD-PKR (white line), EUR-PKR (blue line), JPY-PKR (red line)

Note: Over the past 20 years, USD has appreciated against PKR by 496%, EUR has appreciated by 449% and JPY has appreciated by 356 %





Conversion Options

- Borrowers may change the original selection of currency choice and interest basis of their loan
- Borrowers can use the conversion provisions in the Loan Agreement, subject to relevant provisions of;
 - Ordinary Operations Loan Regulations
 - Conversion Guidelines





Conversion : Assumptions

- The outstanding loan balances are as of 26 Sep 2023
- The applicable Rebate/Surcharge on funding cost margin for loans for the period 1 Jul-31 Dec 2023 have been used as illustration for this analysis. It will be calculated every 6 months by ADB and will vary over the life of the loan.
- The indicative Fixed rate, exchange rate, conversion spread and conversion rate have been provided for analysis purposes based on current prevailing market rates. The actual rates and spread will only be determined when the related transactions will be executed for loan conversions.





Loan Information : LN 2971-PAK

LOAN NO	LN2971	PROJECT NAME	PUNJAB IRR TRANCHE3
FUND	Ordinary Capital Resources	PORTFOLIO	OCR Sovereign
SECTOR	Agriculture Natural Resource Rural Devt	SUB-SECTOR	Irrigation
FACILITY TYPE	FLEXIBLE LOAN PRODUCT	LOAN TYPE	PROJECT
APPROVED LOAN AMOUNT	USD 73,000,000.00	MFF APPROVAL NO	M0009-PAK
NET LOAN AMOUNT	USD 42,175,246.80	MFF APPROVAL DATE	13 Dec 2006
LOAN STATUS	EFFECTIVE	PROJECT NUMBER	37231

MILESTONE DATES			
Approval Date:	13 Dec 2012	Loan Negotiation date (End Date):	27 Nov 2012
Signing Date:	30 Apr 2013	Commitment Charge Commencement Date:	29 Jun 2013
Effectivity Date:	06 Jun 2013	Closing Date:	26 Dec 2017
Loan Service Payment Dates:	01 Dec, 01 Jun	ARR Transition Date:	01 Jun 2022

LOAN BORROWER	
Borrower:	Pakistan
Borrower's Representative:	Economic Affairs Division

Facility Type	Facility Currency	Approved Loan Amount	Cancellation	Net Loan Amount	Cumulative Disbursements ^a	Undisbursed Loan Balance	Accrued Commitment Charges ^b
FLEXIBLE LOAN PRODUCT	USD	73,000,000.00	30,824,753.20	42,175,246.80	42,175,246.80	0.00	0.00

Product Type	Loan Currency	Cumulative Disbursements ^a	Cumulative Repayments ^c	Principal Loan Outstanding	Accrued Interest ^d
TRANSITIONED LBL TO FLP	USD	42,175,246.80	4,960,064.65	37,215,182.15	758,389.68



Loan Information : LN 2971-PAK

Sequence No.	Payment Date	Percentage	Disbursed Amount	Undisbursed Amount	Aggregate
1	01 Jun 2018	0.827816	349,133.42	0.00	349,133.42
2	01 Dec 2018	0.869207	366,590.18	0.00	366,590.18
3	01 Jun 2019	0.912667	384,919.57	0.00	384,919.57
4	01 Dec 2019	0.958301	404,165.81	0.00	404,165.81
5	01 Jun 2020	1.006216	424,374.09	0.00	424,374.09
6	01 Dec 2020	1.056526	445,592.49	0.00	445,592.49
7	01 Jun 2021	1.109353	467,872.38	0.00	467,872.38
8	01 Dec 2021	1.164820	491,265.74	0.00	491,265.74
9	01 Jun 2022	1.223061	515,829.01	0.00	515,829.01
10	01 Dec 2022	1.284214	541,620.39	0.00	541,620.39
11	01 Jun 2023	1.348425	568,701.57	0.00	568,701.57
12	01 Dec 2023	1.415846	597,136.54	0.00	597,136.54
13	01 Jun 2024	1.486639	626,993.67	0.00	626,993.67
14	01 Dec 2024	1.560971	658,343.39	0.00	658,343.39
15	01 Jun 2025	1.639019	691,260.28	0.00	691,260.28
16	01 Dec 2025	1.720970	725,823.35	0.00	725,823.35
17	01 Jun 2026	1.807019	762,114.72	0.00	762,114.72
18	01 Dec 2026	1.897369	800,220.06	0.00	800,220.06
19	01 Jun 2027	1.992238	840,231.34	0.00	840,231.34
20	01 Dec 2027	2.091850	882,242.89	0.00	882,242.89
21	01 Jun 2028	2.196442	926,354.81	0.00	926,354.81
22	01 Dec 2028	2.306264	972,672.52	0.00	972,672.52
23	01 Jun 2029	2.421578	1,021,306.52	0.00	1,021,306.52
24	01 Dec 2029	2.542657	1,072,371.86	0.00	1,072,371.86
25	01 Jun 2030	2.669789	1,125,990.09	0.00	1,125,990.09
26	01 Dec 2030	2.803279	1,182,289.83	0.00	1,182,289.83
27	01 Jun 2031	2.943443	1,241,404.33	0.00	1,241,404.33
28	01 Dec 2031	3.090615	1,303,474.53	0.00	1,303,474.53
29	01 Jun 2032	3.245146	1,368,648.36	0.00	1,368,648.36
30	01 Dec 2032	3.407403	1,437,080.63	0.00	1,437,080.63
31	01 Jun 2033	3.577773	1,508,934.58	0.00	1,508,934.58
32	01 Dec 2033	3.756662	1,584,381.46	0.00	1,584,381.46
33	01 Jun 2034	3.944495	1,663,600.51	0.00	1,663,600.51
34	01 Dec 2034	4.141720	1,746,780.63	0.00	1,746,780.63
35	01 Jun 2035	4.348806	1,834,119.63	0.00	1,834,119.63
36	01 Dec 2035	4.566246	1,925,825.53	0.00	1,925,825.53
37	01 Jun 2036	4.794558	2,022,116.68	0.00	2,022,116.68
38	01 Dec 2036	5.034286	2,123,222.54	0.00	2,123,222.54
39	01 Jun 2037	5.286000	2,229,383.54	0.00	2,229,383.54
40	01 Dec 2037	5.550311	2,340,857.33	0.00	2,340,857.33
TOTAL			42,175,246.80	0.00	42,175,246.80



Interest Rate Conversion

With FLP, borrowers may change the interest rate basis of their loan:

- For all or part of disbursed balance, and
- For all or part of the remaining life

Borrowers may request a conversion:

- At disbursement
- Anytime after disbursement
- Through a Specified Rate Fixing schedule
 - At regular time intervals (Specified Rate Fixing by Period)
 - When disbursement reaches a threshold amount (Specified Rate Fixing by Amount)

After conversion new lending rates would reflect cost of corresponding hedge transaction





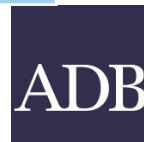
Interest Rate Conversion: LN 2971-PAK

(Indicative lending rate for Loan 2971-PAK from 1 Dec 2023 till maturity)

Item	US Dollar	US Dollar
Cost Base Rate	6-month SOFR compounded in arrears	Fixed Swap Rate
Effective Contractual Spread <i>(Fixed)</i>	0.50%	0.50%
Maturity Premium <i>(Fixed)</i>	0.00%	0.00%
Rebate/Surcharge on Funding Cost Margin <i>(Adjusted every 6 months -ADB calculation)</i>	0.22%	0.22%
Net Lending Rate ** <i>(varies)</i>	6-month SOFR compounded in arrears + 0.72%	Fixed Swap Rate + 0.72 %
Net Lending Rate as of 29 Sep 2023** <i>(varies)</i>	5.47 (estimated) + 0.72%= 6.19%	4.27 + 0.72%= 4.99 %

**Floor rate of zero will apply if the net lending rate is negative.

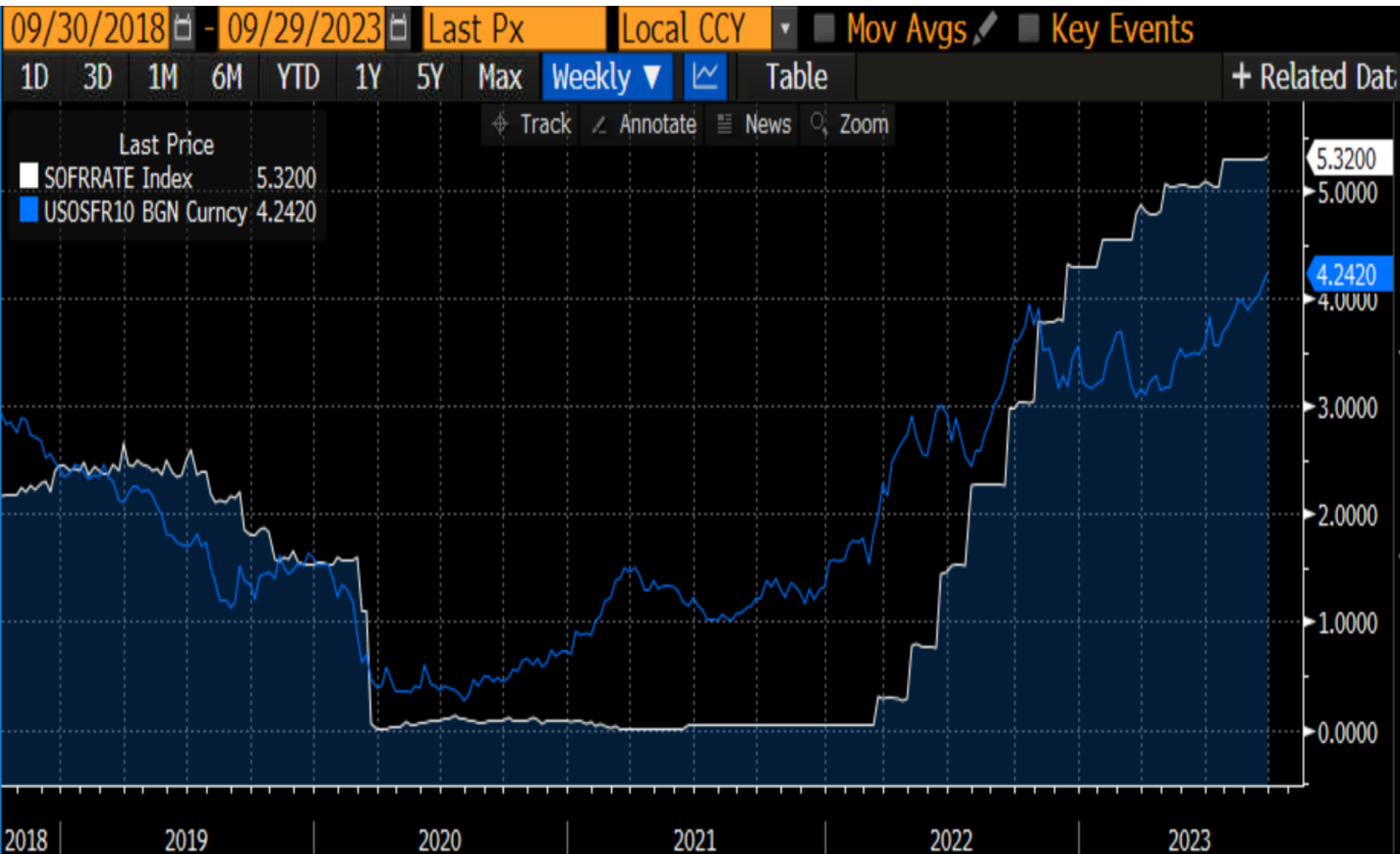
*** 6-month SOFR compounded arrear will only be determined at the end of the interest period.





SOFR vs 10-year USD fixed swap rate

Sep 2018- Sep 2023





Indicative Fixed Rate Disbursement / Conversion: SOFR Loans

28-Sep-2023

Asian Development Bank Treasury Department

Indicative Lending Rates under the Flexible Loan Product

Floating Rate ^{a,b}				
(% per annum)				
6 month		From		
			(yyyyymmdd)	To (yyyyymmdd)
USD SOFR ^{c,e}	5.14853	Compounded in arrears basis	20230324	20230925
JPY TONA ^{c,e}	(0.04800)	Compounded in arrears basis	20230323	20230925
EURIBOR ^{d,e}	4.09000	Reset in advance basis	20230926	20240326

Foreign Exchange Rates		
1 USD =	149.490	JPY
1 EURO =	1.051	USD
1 EURO =	157.180	JPY

For Reference ^c	
SOFR	5.31000
6 month Term SOFR	5.46749

Fixed Swap Rate ^{a,b}								
(% per annum)								
	1 year	3 year	5 year	7 year	10 year	15 year	20 year	30 year
USD	5.486	4.719	4.434	4.338	4.294	4.285	4.234	4.015
JPY	0.058	0.348	0.540	0.714	0.927	1.219	1.416	1.524
EURO	4.160	3.598	3.405	3.354	3.369	3.405	3.322	3.093

➤ <https://www.adb.org/what-we-do/public-sector-financing/lending-policies-rates>

Indicative Lending Rates for Flexible Loan Product

ADB provides indicative lending rates as a service to borrowers for loans under the Flexible Loan Product (FLP) and foreign exchange rates. The rates are as of 21 March 2022.

DOWNLOAD

Indicative Lending Rates





Currency Conversion

Borrowers may change the denomination of their original loan to Euro, JPY, USD, GBP, AUD, NZD or any currency that ADB can successfully intermediate.

Available for:

- Undisbursed and/or disbursed balances
- Full or partial maturity





Currency Conversion

Borrowers may change the loan currency of all or part of the undisbursed 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 (Reference Rate plus spread) of the converted currency
- Partial amount conversions will be applied pro-rata across all maturities





Currency Conversion of the Undisbursed / Unwithdrawn Balance :LN XXXX-DMC

(Indicative lending rate for Loan XXXX-DMC till maturity)

- Undisbursed/unwithdrawn balance for USD loans will be converted to JPY using an exchange rate of 143.09

Execution Date	Conversion Rate (Screen Rate)
2 Aug 2023	143.09

- Floating rate applicable to the subsequent disbursements of the converted “undisbursed/unwithdrawn” amount:

Interest Period	TONA compounded over 6 months	Contractual Spread	Maturity Premium	Rebate/ Surcharge	Net Interest Rate
2 Aug 2023 to 1 Dec 2023	(0.02%) estimated	0.50%	0.00%	(0.35)%	0.13% (estimated)





Currency Conversion of the Disbursed / Withdrawn Balance

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

- Exchange rate will reflect terms of ADB's hedge transaction
- Converted amounts may carry a floating or fixed rate
- Subject to maturity limitation up to the final maturity of the loan subject to market availability
- Subject to a minimum amount of US\$3 million or equivalent
- Unless ADB otherwise agrees, maximum amount of US\$300 million or equivalent
- Partial maturity currency conversions will involve exchange rate risk





Currency Conversion of the Disbursed / Withdrawn Balance

Advance Account (Imprest account)

E. Imprest Account

3.6 In case the Borrower intends to request for Currency Conversion of the disbursed Loan amount including outstanding advances in the Imprest Account, the Borrower must fully liquidate or refund the outstanding advances to ADB before it requests for such Currency Conversion. If, as a result of a Currency Conversion of an unwithdrawn amount of the Loan, the Borrower wishes to open one or more new imprest accounts in the Approved Currency, it must specify so in the Request certifying that there are no outstanding balances in the Imprest Account(s) under the converted currency. The matter will be handled separately from the Conversion following normal procedures for operations of imprest account.





Currency Conversion of the Disbursed / Withdrawn Balance : LN 2971-PAK

(Indicative lending rate for Loan No. 2971-PAK from 1 Dec 2023 till final maturity)

Item	Before conversion		After conversion	
	US Dollar	EUR –Fixed Rate	JPY –Fixed Rate	
Cost Base Rate	6-month SOFR compounded in arrears	Fixed cost base Rate	Fixed cost base Rate	
Effective Contractual Spread <i>(Fixed)</i>	0.50%	0.50%	0.50%	
Maturity Premium <i>(Fixed)</i>	0.00%	0.00%	0.00%	
Rebate/Surcharge on Funding Cost Margin <i>(Adjusted every 6 months -ADB calculation)</i>	0.22 %	0.22%*	0.22%*	
Conversion Spread	N.A.	N.A.	N.A.	
Net Lending Rate **	6-month SOFR compounded in arrears + 0.72%	Fixed cost base rate+ 0.72%	Fixed cost base rate+ 0.72%	
Net Lending Rate as of 29 Sep 2023**	5.47 (estimated) + 0.72 % = 6.19%	2.95+ 0.72 = 3.67%	0.16+ 0.72 = 0.88%	

* Estimated Applicable USD and JPY equivalent rebate/surcharge for withdrawn balances of the converted loan

** Floor rate of zero will apply if the net lending rate is negative.

*** Exchange rate : EUR/USD = 1.06 ; USD/JPY=148.5,

Note: The net lending rate varies over the life of the loan since rebate/surcharge is adjusted every 6 months

INTERNAL. This information is accessible to ADB Management and staff. It may be shared outside ADB with appropriate permission.





Conversion Transaction Fees

Interest Rate Conversions

- | | |
|--|-----------|
| ➤ Initial rate fixings for up to the full maturity of the loan for amounts up to the outstanding loan amount | No charge |
| ➤ Additional rate fixing/unfixing | 0.0625% |

Currency Conversions

- | | |
|-----------------------------|------------|
| ➤ Un-disbursed loan amounts | 0.0625% |
| ➤ Disbursed loan amount | 0.125% |
| ➤ Local Currency conversion | 0.02% p.a. |

Interest Rate Caps and Collars

0.0625%

- Conversion fees are expressed as percentage of the principal amount involved and it is a one-time fee payable at the time of conversion except for local currency conversions.
- For Local currency conversion, an annual fee of 0.02% of the outstanding principal hedged amount will be charged to the borrower.
- Transaction fees will be payable in the applicable Loan Currency and, in the case of a Currency Conversion, in the Loan Currency applicable immediately prior to the Currency Conversion.





Procedures for Exercising Loan Conversion Options

- A. Formal Request
- B. Representation and contents of requests
- C. Authorized Representative
- D. Communication of request
- E. Acknowledgement of request
- F. Review and acceptance of request
- G. Communication during execution period
- H. Withdrawal of request
- I. Notification following conversion





Currency Conversion of the Disbursed / Withdrawn Balance Form - 1

Request for Conversion of ADB FLP Loan Currency Conversion of Withdrawn Amounts

Borrower's Explanatory Statement for the Conversion Request:

The borrower's conversion selection, as requested, and the reasons for this selection, are as follows:

We represent that:

- (a) we have made our own independent decision to request this conversion;
- (b) we are not relying on any communication or confirmation from ADB as a recommendation to request this conversion;
- (c) unless expressly agreed with ADB by separate agreement, ADB is not acting as a fiduciary for, or an advisor to, us in respect of this conversion.

Information on the Existing FLP Loan to be Converted:

Loan Number
Loan/Project Name
Loan Signing Date
Loan Closing Date
Loan Final Maturity Date
Next Interest Payment Date
Loan Currency





Currency Conversion of the Disbursed / Withdrawn Balance Form - 2

Information on the Requested Conversion:

Loan amount to be converted:

Choose one:

- Convert the full outstanding loan balance (excluding any outstanding advance financing)
- Convert outstanding loan balance amounting to (excluding any outstanding advance financing) (*Borrower to specify the amount to be converted*)

Conversion Date

Date that conversion will take effect

(For assistance in completing this date, please refer to Section 4.1 of the Guidelines for Conversion of Loan Terms for ADB's Flexible Loan Product)

Final maturity of the conversion:

Choose one:

- Convert to the final maturity date of the loan or tranches, if market permits
- Convert up to and excluding this date: Final maturity date of conversion*

*Please see paragraph 4.21 of the Guidelines for Conversion of Loan Terms for ADB's Flexible Loan Product. Such final maturity date of conversion must coincide with a loan payment date.

Currency and Interest Rate to be Paid Following Conversion

Change the currency from to

Choose one:

- Fixed rate of interest
- Floating rate of interest

Optional: Conditional Requests—limited to transactions greater than US\$25 million equivalent excluding components of lending rate such as lending spread, maturity premium, and rebate/surcharge on funding cost margin.

Execute transactions related to this conversion request only if:

- The fixed interest rate to be paid is less than or equal to
- The spread over the Reference Rate to be paid in a floating interest rate is less than or equal to basis points.





Currency Conversion of the Disbursed / Withdrawn Balance Form - 3

Authorizations:

Specimen signatures of the authorized representatives of the Borrower below must be on file at ADB before processing of this request may begin.

Name of Borrower			
By			
Signature of Authorized Representative			
Name		Tel	
Title		Fax	
Date		Email	

Contact Information for Transaction Confirmation:

Name			
Title		Tel	
Address1		Fax	
Address2		Email	

This completed form and any related correspondence should be addressed to:

Attn: Loan Accounting Section
Loan Accounting Division
Controller's Department
Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Tel +63 2 8632 4444
Fax +63 2 8632 2586
Email ctac-la1@adb.org





Conclusion

- Borrowers can focus on three key loan terms that are central to external debt management strategy:
 - Currency
 - Interest rate basis
 - Repayment Method
- Borrowers may change the original selection of currency choice and interest basis of their loan
- While ADB staff are not permitted to recommend loan options or make decisions for borrowers, they are available to explain alternatives within the FLP package, as well as assist in the evaluation of the possible risks these entail.





Useful Information on ADB's Website

ADB's Flexible Loan Product (FLP) brochure

<https://www.adb.org/sites/default/files/adb-flexible-loan-product.pdf>

FLP at a Glance – Sovereign Borrowers

<https://www.adb.org/sites/default/files/flp-overview.pdf>

Information on LIBOR Transition

<https://www.adb.org/what-we-do/public-sector-financing/libor-transition>

Guidelines for conversion of loan terms for ADB's FLP

<https://www.adb.org/documents/guidelines-conversion-loan-terms-adb-flexible-loan-product>





Thank you.

