

# Local Currency Financing

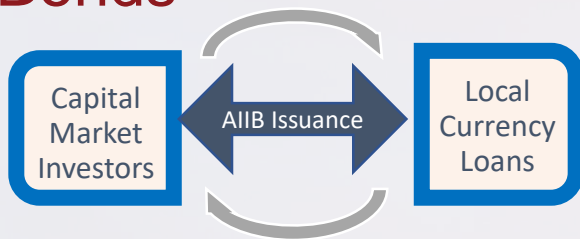
## Overview and Key Features

### Overview

- **Infrastructure projects** – are long tenor, high volume, unpredictable cashflows
- Matching the currency denomination of assets to liabilities, AIIB's clients can **focus on projects' implementation** rather than be concerned about exchange rate movements
- AIIB targets to **provide** local currency financing that may reduce the risk of losses from such currency mismatches and, in turn, **decrease the credit risks of projects**.

### Main Sources for Back-to-Back Local Currency Funding

#### Bonds



#### Swaps



### Pricing Components (Market based pricing)

- AIIB's cost of local currency (if funding through bonds)
  1. Cost based on local market-based benchmark (government bond yield or a relevant reference rate)
  2. Issuance or execution costs (underwriting fees, execution costs)
  3. Recurring costs (listing, custody, payment fees)
- AIIB's cost of local currency (if funding through swaps)
  1. Swap rate
- Client or project spread (negotiated separately for each loan)
- Front-end fee
- Commitment fee
- ✓ Borrowers may be allowed **to prepay** all or part of the disbursed and outstanding amount during the life of the loan, by notifying AIIB according to the relevant provisions in the loan documentation.
- ✓ Borrowers will be allowed **to cancel** all or part of the undisbursed balance. Prepayment or cancellation charges may apply in case AIIB incurs costs as a result of the loan prepayment or cancellation by a client.

### Benefits to Clients

- Reduction in earnings' volatility due to FX movements
- Decrease of debt burden in case of LCY depreciation
- Better credit rating of a borrower / project
- Reduced possibility of financial distress
- Possibility of borrowing LCY in longer tenor

### Benefits to AIIB

- Flexibility to offer client's currency of choice
- Stronger credit for loan book
- Lower possibility of defaults
- Access to loan markets that operate in LCY only
- Opportunity to direct LCY funds towards project finance and corporates





# Local Currency Financing Framework

## Local Currency Framework

AIIB will use the following approaches for its local currency funding:

- (i) **back-to-back funding through swaps** to finance a specific project;
- (ii) **pool funding, where** AIIB maintains a pool of liquidity through swaps and off-shore bonds in a certain local currency to finance various projects;
- (iii) **funding through** on-shore bond issuance.

## Eligibility

Local Currency financing is available to **private sector clients** and certain public sector entities.

## Cashflows

### Initial Cashflows



### Ongoing Cashflows



## Available Currencies (as of September 2019)

- Indian Rupee
- Indonesian Rupiah
- Thai Baht
- Turkish Lira
- Russian Ruble



AIIB will continue to add **available currencies** based on business needs.

## Who we are

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to **improve social and economic outcomes** in Asia. Headquartered in Beijing, we began operations in January 2016 and have now grown to 100 approved members worldwide. By investing in **sustainable infrastructure** and other productive sectors in Asia and beyond, we will better connect people, services and markets that over time will impact the lives of billions and build a better future.

