ASIAN INFRASTRUCTURE INVESTMENT BANK

Sovereign-Backed Loan

Information Note

July 2019 *(with pricing update as of January 2020)*

Overview

The AIIB ("the Bank") has been offering Fixed Spread Loan (FSL) to its borrowers of sovereign-backed loans (including its borrowers of loans backed by a sovereign guarantee) ("Borrowers") during the initial stage of its operations since January 2016[1]. To meet tailored Borrower needs, the introduction of the Variable Spread Loan (VSL) product was proposed by the President and subsequently approved by the Board of Directors in December 2018[2]. The Bank only offers floating interest rate loans to date.

Conversion

From July 1, 2019, the Bank has introduced the VSL as a new product available to Borrowers. To accommodate the needs of existing Borrowers, the Bank is providing a one-time option to convert an existing FSL into a VSL[3]. The cost of the conversion will be entirely borne by the Bank, with no additional fee charged to the Borrower. Borrowers may apply for the conversion for a period between July 1, 2019 and July 31, 2020 by returning a completed Conversion Request Form which will be sent to all existing Borrowers.

Repayment terms

The maximum final maturity of any AIIB sovereign-backed loan can be up to 35 years including grace period. The maximum weighted average maturity can be up to 20 years. The Bank allows Borrowers to customize repayment terms (i.e. grace period, repayment period and amortization profile) to meet debt management or project needs. For example, if the objective is to reduce the overall refinancing risk of the debt portfolio, a Borrower may choose repayment terms that smooth out the debt service profile. This flexibility can also be used in investment operations to match repayment terms to a project's expected cash flows.

Pricing

AIIB's sovereign-backed loan pricing reflects the Bank's AAA credit rating and is stable and transparent. Components of the pricing include the lending rate (table 1 and 2) and loan charges (table 3).

The lending rate consists of a *reference rate* and a *lending spread.* The lending rate is calculated as the sum of the six-month LIBOR[4] reference rate based on US dollar, and a spread that is either fixed or variable

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[1] As described in the Bank's *Sovereign-Backed Loan and Guarantee Pricing* in January 2016

[2] Paragraph 8 on Review of Loan Pricing and Pricing Policy, *Minutes of the Meeting of the Board of Directors of the Asian Infrastructure Investment Bank held on December 5-7, 2018*

[3] The Bank does not accommodate for conversion from VSL to FSL at present.

[4] London Interbank Offered Rate (LIBOR)

over the life of the loan, based on the Borrower's choice.

As of July 1, 2019, the Bank offers both FSL and VSL to its Borrowers. The key difference between FSL and VSL is that the pricing of FSL encompasses the market risk assumed by the Bank over the lifetime of the loan, while in the case of VSL, the Bank's actual funding cost is passed on to the Borrower. The pricing methodologies are further elaborated below.

Fixed Spread Loan (FSL)

The pricing principle of FSL is to insulate the Borrower from changes in the Bank's funding cost in return for the payment of a projected funding spread and a risk premium. To this end, the fixed spread that is effective when the loan is signed remains constant over the lifetime of the loan.

AIIB's FSL lending rate is derived as the reference rate plus a fixed spread. The fixed spread has four components: *projected funding spread, risk premium, contractual lending spread* and *maturity premium*. Table 1. summarizes the FSL lending rates by average maturity of the loan, effective as of *December 2019 (following revision of Sovereign-Backed Loan and Guarantee Pricing Decision during the meeting of the Board of Directors held in December 2019).*

Table 1.

FSL Lending Rate As of December 2019						
Average Maturity	**Up to 8 years**	**Greater than 8 through 10 years**	**Greater than 10 through 12 years**	**Greater than 12 through 15 years**	**Greater than 15 through 18 years**	**Greater than 18 through 20 years**
Reference Rate	6-Month LIBOR					
Projected Funding Spread	0.05%	0.15%	0.15%	0.20%	0.25%	0.25%
Risk Premium	0.10%	0.10%	0.10%	0.10%	0.15%	0.15%
Contractual Lending Spread	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Maturity Premium	0%	0.10%	0.20%	0.30%	0.40%	0.50%
Fixed Spread	**0.65%**	**0.85%**	**0.95%**	**1.10%**	**1.30%**	**1.40%**
FSL Lending Rate	6-Month LIBOR + 0.65%	6-Month LIBOR + 0.85%	6-Month LIBOR + 0.95%	6-Month LIBOR + 1.10%	6-Month LIBOR + 1.30%	6-Month LIBOR + 1.40%

Variable Spread Loan (VSL)

The pricing principle of VSL is to pass changes in the Bank's funding cost to the Borrower wherein the benefits and risks of changes in the Bank's cost of borrowing are borne by the Borrower. The variable spread changes over the lifetime of the loan.

AIIB's VSL lending rate is derived as the reference rate plus a variable spread prevailing on the interest rate reset date and applicable for the following interest period. The variable spread has three components*: borrowing cost margin, contractual lending spread* and *maturity premium.*

Table 2. summarises the VSL lending rate by average maturity of the loan. IIB publishes recalculated Borrowing Cost Margin applicable from every January 1 and July 1 for a period of six months.

Table 2.

VSL Lending Rate As of January 1, 2020						
Average Maturity	**Up to 8 years**	**Greater than 8 through 10 years**	**Greater than 10 through 12 years**	**Greater than 12 through 15 years**	**Greater than 15 through 18 years**	**Greater than 18 through 20 years**
Reference Rate	6-Month LIBOR					
Borrowing Cost Margin	0%	0%	0%	0%	0%	0%
Contractual Lending Spread	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Maturity Premium	0%	0.10%	0.20%	0.30%	0.40%	0.50%
Variable Spread	**0.50%**	**0.60%**	**0.70%**	**0.80%**	**0.90%**	**1.00%**
VSL Lending Rate	6-Month LIBOR + 0.50%	6-Month LIBOR + 0.60%	6-Month LIBOR + 0.70%	6-Month LIBOR + 0.80%	6-Month LIBOR + 0.90%	6-Month LIBOR + 1.00%

Loan Charges

A front-end fee on the loan principal and a commitment fee on undisbursed loan balances are applicable to the Bank's sovereign-backed loans, as summarised in Table 3.

Table 3.

Loan Charges As of December 2019			
	Rate	**Charged on**	**One time / Recurring**
Front-end Fee	0.25%	Loan principal	One time
Commitment Fee	0.25%	Undisbursed loan balances	Recurring

This Information Note serves as marketing material and does not provide the complete terms and conditions of AIIB loans. Borrowers should refer to the General Conditions for Sovereign-backed Loans as well as their Loan Agreement with respect to individual loans.

For further information, please contact Treasury Client Solutions at treasury.solutions@aiib.org.