

Local Currency Financing

This fact sheet introduces AIIB's local currency financing product and its key features. It provides an overview of the basic terms and conditions and aims to assist clients to get a better understanding of AIIB's current and prospective approach to local currency financing.

OBJECTIVE

- **AIIB's mission** is **Financing Infrastructure for Tomorrow**. By investing in sustainable infrastructure, AIIB unlocks new capital, new technologies and new ways in which to address climate change and to connect Asia, and the world.
- **Infrastructure projects** are long-tenor, high-volume and with unpredictable cash-flows.
- By matching the currency denomination of assets and liabilities, AIIB clients can **focus on project implementation** rather than be concerned about exchange rate movements.
- A borrower's ability to borrow in foreign currency may be restricted due to **regulatory** demands or **high credit charges** required by commercial banks offering foreign currency hedges.
- AIIB aims to **provide** local currency financing that may reduce the risk of losses from such currency mismatches and, in turn, **decrease the credit risk and cost of projects**.

LOCAL CURRENCY FUNDING

AIIB will source funding via financial instruments:

- By **cross-currency swaps (CCS)**;
- By issuing **local currency-denominated bonds** via AIIB's **Global Medium Term Note (GMTN) Programme**; or
- By issuing **onshore local currency bonds** in a specific country.

AIIB's decision to source local currency funding through CCS or bond(s) (offshore or onshore) depends on market conditions, regulations, instrument availability and cost considerations. The sourcing method should not impact the ultimate aim, which is to mitigate the foreign currency risk for the client.

AIIB has a proven ability to fund in international capital markets in a range of currencies, having issued global bonds in US Dollar, bonds in Chinese Renminbi in international and domestic markets, and bonds in Pound Sterling, Mexican Peso, Russian Ruble, Hong Kong Dollar, Thai Baht and Turkish Lira; supplemented by an ability to source local and hard currency funding through cross-currency asset-based swaps.

SUPPORTING BORROWERS' FINANCING NEEDS

- AIIB continues to develop its product tool kit **to meet the growing demand** of its clients in infrastructure financing by introducing hard and local currency (LCY) financing products.
- AIIB clients with revenues in local currency should have an opportunity to **borrow in their local currency**, instead of borrowing in USD to minimize currency risk.
- **Eligible borrowers for local currency products** include **private sector** borrowers and certain public sector entities.

CURRENCIES

AIIB currently offers **nonsovereign-backed financings** (loans to private sector and municipal clients and projects, which do not benefit from a sovereign guarantee) in **21 hard and local currencies**. In addition to Australian Dollar, UK Pound, Canadian Dollar, Euro, Hong Kong Dollar, Japanese Yen, Mexican Peso, New Zealand Dollar, Norwegian Krone, Singapore Dollar, Swedish Krona, Swiss Franc, Korean Won and US Dollar, operational currencies for nonsovereign-backed clients of AIIB are:

Indian Rupee	Malaysian Ringgit
Indonesian Rupiah	Philippine Peso
Thai Baht	Turkish Lira
Chinese Renminbi	

AIIB anticipates expanding this list of available currencies, which will include both major non-USD hard currencies and selected local currencies.

AIIB only offers **sovereign-backed financings** (or financings benefiting from a sovereign guarantee) in **currencies of G10 countries or currencies of the SDR basket**. At present, AIIB can offer sovereign-backed loans in Pound Sterling, Canadian Dollar, Chinese Renminbi, Euro, Japanese Yen, Swedish Krona, Swiss Franc and US Dollar.

CONTACT

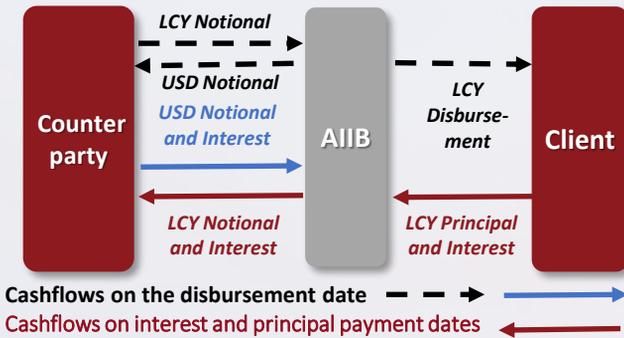
AIIB Headquarters, Tower A, Asia Financial Center, No. 1 Tianchen East Road, Chaoyang District, Beijing 100101, China
Email: treasury.solutions@aiib.org | www.aiib.org/treasury | Twitter: @AIIB_Official





LOCAL CURRENCY FUNDING INSTRUMENTS

SWAPS



BONDS



WHO WE ARE

The Asian Infrastructure Investment Bank (AIIB) is a multilateral development bank with a mission to **finance the Infrastructure for Tomorrow—infrastructure with sustainability at its core**. Headquartered in Beijing, we began operations in January 2016 and have now grown to over 105 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.

DISCLAIMER

This document has been prepared by AIIB for informational purposes only and is not intended to constitute legal, securities, investment or any other type of advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. This document does not constitute an offer to sell, nor a solicitation of an offer to buy, any securities of AIIB by any person in any jurisdiction. AIIB does not make any representation or warranties as to the accuracy, reliability or completeness of the content of this document and accepts no responsibility or liability for such content and undertakes no obligation to update the information contained herein.

LENDING PRODUCT

AIIB's approach is to **price** its local and non-USD hard currency products according to **transparent principles**. Pricing is based on the following parameters:

- cost of funding (via either CCS or bond issuance);
- client spread (negotiated separately for each loan);
- front-end fee; and
- commitment fee.

Cost of Funding depends on prevailing local interest rate benchmarks. **Floating reference rates** are available in some markets but, in the majority of markets, it will be at a **fixed rate**.

Debt repayment may be structured as bullet or amortizing to match a project-specific cashflow profile. Repayment type will be determined at the loan structuring phase, taking into consideration the ability of each local currency market to support size, tenor, repayment profile, and demand from investors or financial intermediaries.

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. They may also need to pay prepayment charges.

Borrowers may be allowed to **cancel** all or part of the undisbursed balance. Cancellation charges may apply in case AIIB incurs costs as a result of the loan cancellation.

Terms and conditions tend to vary from market to market according to local market conditions. Events impacting local currency funding or hedging instruments should be captured in the financing agreement.

Local currency lending structures can be:

- Deliverable** – denominated and disbursed in local currency, and with debt service payments in local currency; or
- Synthetic, or non-deliverable** – denominated in local currency, but all disbursements and debt service payments are done in hard currency at the exchange rate applicable at the time of payment, based on the local currency value of the amount provided.

While deliverable loans are most common, a non-deliverable format may also be considered in countries where market conditions do not permit the direct settlement of funding instruments in the local currency.

