

Flexible Loan Product at a Glance



From 1 January 2022 onwards, the Asian Development Bank (ADB) offers its sovereign and sovereign-guaranteed borrowers a loan product—the Flexible Loan Product (FLP)—based on specified standard 6-month floating reference rates. The FLP also includes an effective contractual spread and a maturity premium (where applicable) that are fixed over the life of the loan.

The FLP is a market-based loan product that allows ADB's efficient intermediation on financially advantageous terms. The FLP also provides transparent and market-based pricing, and enables borrowers to tailor currencies and interest rate basis to suit project needs and external risk management strategies.

Loan Pricing

The lending rate¹ is the reference rate plus an effective contractual spread, a maturity premium (where applicable), and a rebate/surcharge on funding cost margin. Borrowers may choose to denominate their FLP loans in United States dollar, Japanese yen, euro, or in a currency in which ADB can efficiently intermediate. Reference Rate is Secured Overnight Financing Rate compounded over 6-month interest periods determined in arrears for United States dollar or Tokyo Overnight Average Rate compounded over 6-month interest periods in arrears for Japanese yen — the new standard reference rates used in the market for pricing of floating-rate loans for both currencies. The 6-month Euro Interbank Offered Rate is the standard reference rate for euro floating-rate loans. Other recognized commercial bank reference rates would be used in other markets.

Both the effective contractual spread and the maturity premium are fixed for the entire life of the loan. The maturity premium, depending on the average

loan maturity,² is applied for the entire life of the loan.

In November 2019, ADB approved the introduction of diversified financing terms for its developing member countries (DMCs) that borrow only market-based loans from the institution. The new pricing structure was effective on 1 January 2021.

Recipients of ADB funds are divided into three groups according to their per capita income levels and creditworthiness. Group A countries are eligible for Asian Development Fund grants and concessional loans, Group B countries have access to both concessional and market-based loans, and Group C countries have access only to market-based loans. Figure 1 illustrates ADB's lending policies to DMCs under the diversified financing framework.

The financing terms offered to countries in Groups A and B are already diversified with a combination of grants, concessional loans, and market-based loans. Group C countries have a wider

ADB's Flexible Loan Product provides a high degree of flexibility for borrowers in terms of:

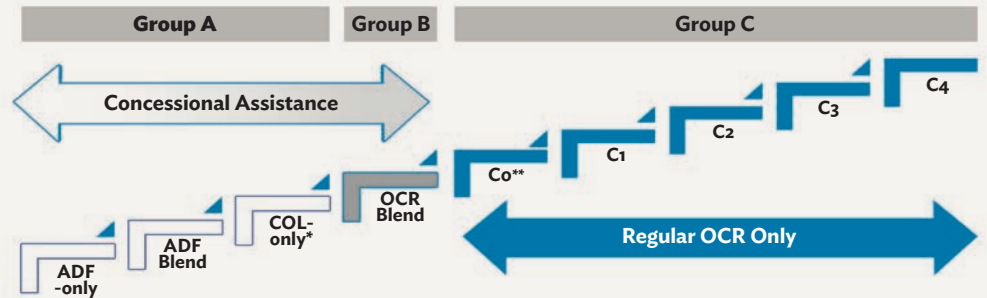
- choice of currency;
- choice of interest rate basis;
- a wide selection of repayment terms;
- option to change the currency and interest rate basis during the life of the loan; and
- option to cap or collar the floating rate during the life of the loan.

spread of per capita incomes but are all offered the same financing terms.

In the new pricing framework, Group C countries will be divided into several subgroups according to their gross national income—lower middle-income, upper middle-income, and high-income. Higher income subgroups will pay higher maturity premiums for longer term loans.

Table 1 summarizes the maturity premium for sovereign and sovereign-guaranteed loans approved on or after

Figure 1: ADB Lending Policies



* including gap countries ineligible for ADB grants
 ** SIDS below the IBRD income cutoff and new Group C

ADF = Asian Development Fund, COL = concessional OCR lending, IBRD = International Bank for Reconstruction and Development. OCR = ordinary capital resources, SIDS = small island developing states.
 Source: ADB. 2019. *Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030*. Manila

¹ Floor rate of zero will apply if the lending rate is negative.

² Average loan maturity means the weighted average time to repay a loan, which is calculated as the average of the number of years until each principal repayment amount of the loan is due, weighted by the principal repayment amounts. The method for calculating the average loan maturity is: $\text{Average loan maturity} = \frac{\text{Sum of weighted repayments}}{\text{Sum of total repayments}}$

1 January 2021, and Table 2 shows the classification of DMCs and summarizes the application of the new pricing framework according to their respective groupings.

A surcharge on funding cost margin will apply if ADB's funding cost is above the applicable reference rate for 6 months. Similarly, a rebate on funding cost margin will apply if ADB's funding cost margin is below the applicable reference rate for 6 months. Maintaining the principle of automatic cost pass-through pricing, the actual funding cost margin will be charged to the borrower through either a rebate or surcharge. For this purpose, ADB will calculate twice a year (on 1 January and 1 July) its actual average funding cost margin relative to the applicable reference rate, and this will form the basis for determining the amount of rebate or surcharge due to each individual FLP borrower.

ADB could also vary its fixed spread. Any change in the fixed spread with respect to new FLP loans will be applied to the outstanding balances of all FLP loans through a rebate or surcharge.

A commitment charge is levied on undisbursed loan balances.

Repayment Terms

ADB provides repayment options that allow borrowers to choose the optimum structure that matches the cash flow projections of their projects. Borrowers have the choice of either a commitment-linked repayment schedule or a disbursement-linked repayment schedule. Loans will have specified repayment schedules taking into consideration the grace period, the repayment method selected by the borrower and the loan term. Average loan maturity is subject to a limit of 19 years.

Conversion Options

At any time during the life of the loan, the currency or interest rate characteristic of an FLP loan may be changed. Borrowers may use the conversion provisions in the FLP agreement to convert the original currency of a loan to another currency or the interest rate from floating to a fixed rate (or vice-versa). To mitigate exposure to interest rate volatility, but not eliminate it altogether, an interest cap or collar may be purchased. ADB will pass through to borrowers the rates or cost of the corresponding hedge transaction prevailing at the time of execution of the conversion.

Table 1: Maturity Premium for Sovereign and Sovereign-Guaranteed Loans

Average Loan Maturity	Maturity Premium (in basis points)				
	Co	B and C1	C2	C3	C4
Less than or equal to 9 years	0	0	0	0	0
Greater than 9 years and up to 13 years	0	0	10	20	40
Greater than 13 years and up to 16 years	0	10	20	30	50
Greater than 16 years and up to 19 years	0	20	30	50	75

OCR = ordinary capital resources, SIDS = small island developing states.

Notes:

1. Group Co countries are SIDS below the International Bank for Reconstruction and Development (IBRD) income cutoff and new Group C.
2. Group B countries are blend countries or countries that have access to both regular OCR and concessional OCR lending.
3. Group C1 countries are SIDS above the IBRD income cutoff and lower-middle income countries.
4. Group C2 countries are upper-middle income countries below the IBRD income cutoff.
5. Group C3 upper-middle income countries above the IBRD income cutoff.
6. Group C4 countries are high income countries.
7. Transitional support for new group C countries that lost access to concessional OCR lending.

Sources:

ADB. 2019. *Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030*. Manila
 ADB. 2021. *Review of the Asian Development Bank's Loan Charges and Allocation of 2021 Net Income*. Manila

Table 2: Classification of Borrowers

Concessional Assistance Countries

Group A: Concessional Assistance-only			Group B: OCR Blend	
ADF-eligible				
ADF-only (100% grant)	ADF Blend (50% grant)	COL-only (0% grant)	COL-only Gap ^a	
Afghanistan ^{*fb}	Kyrgyz	Nepal [*]	Bhutan [*]	Bangladesh [*]
Federated States of Micronesia ^{fs}	Republic		Cambodia [*]	Fiji ^s
Kiribati ^{*fs}	Solomon Islands ^{*fs}		Lao People's Democratic Republic [*]	Mongolia
Maldives ^s	Vanuatu ^s		Myanmar ^{*fc}	Niue ^s
Marshall Islands ^{fs}				Pakistan
Nauru ^{fs}				Palau ^s
Samoa ^s				Papua New Guinea ^{fs}
Tajikistan				Timor-Leste ^{*fs}
Tonga ^s				Uzbekistan
Tuvalu ^{*fs}				

Regular OCR only Countries

Co	C1	C2	C3	C4
SIDS below the IBRD income cutoff and new group C	SIDS above the IBRD income cutoff and LMICs	UMICs below the IBRD income cutoff	UMICs above the IBRD income cutoff	High-income Countries
	Cook Islands ^s	Armenia	Kazakhstan	
	India ^b	Azerbaijan	Malaysia	
	Indonesia	Georgia	People's Republic of China	
	Philippines	Thailand		
	Sri Lanka	Turkmenistan		
	Viet Nam			

^{*} = least developed, ^f = fragile and conflict affected situation, ^s = small island developing states, ADF = Asian Development Fund, COL = concessional OCR lending, IBRD = International Bank for Reconstruction and Development, LMICs = lower middle-income countries, OCR = ordinary capital resources, UMICs = upper middle-income countries.

^a COL-only gap countries, as designated by the International Development Association (IDA).

^b ADB placed on hold its assistance in Afghanistan effective 15 August 2021.

^c ADB placed on hold its assistance in Myanmar effective 1 February 2021.

Sources:

ADB. 2019. *Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030*. Manila
 ADB. 2021. *Review of the Asian Development Bank's Loan Charges and Allocation of 2021 Net Income*. Manila

Table 3: Key Features and Basic Terms and Conditions of ADB's Flexible Loan Product

FEATURE	SOVEREIGN																																		
Currencies	USD, EUR, JPY, plus other currencies in which ADB can efficiently intermedieate																																		
Lending Rate																																			
a. Cost Base Rate	SOFR compounded over 6-month interest periods determined in arrears for USD TONA compounded over 6-month interest periods in arrears for JPY 6-month EURIBOR for EUR A recognized floating rate benchmark for other currencies																																		
b. Effective Contractual Spread	Applicable to loans for which formal loan negotiations are completed on or after 1 January 2014:			0.50% p.a.																															
c. Maturity Premium	<table border="1"> <thead> <tr> <th>Average Loan Maturity^a</th> <th>C0</th> <th>B and C1</th> <th>C2</th> <th>C3</th> <th>C4</th> </tr> </thead> <tbody> <tr> <td><9 years</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>9 years <13 years</td> <td>0</td> <td>0</td> <td>0.10%</td> <td>0.20%</td> <td>0.40%</td> </tr> <tr> <td>13 years <16 years</td> <td>0</td> <td>0.10%</td> <td>0.20%</td> <td>0.30%</td> <td>0.50%</td> </tr> <tr> <td>16 years to 19 years</td> <td>0</td> <td>0.20%</td> <td>0.30%</td> <td>0.50%</td> <td>0.75%</td> </tr> </tbody> </table>					Average Loan Maturity ^a	C0	B and C1	C2	C3	C4	<9 years	0	0	0	0	0	9 years <13 years	0	0	0.10%	0.20%	0.40%	13 years <16 years	0	0.10%	0.20%	0.30%	0.50%	16 years to 19 years	0	0.20%	0.30%	0.50%	0.75%
Average Loan Maturity ^a	C0	B and C1	C2	C3	C4																														
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16 years to 19 years	0	0.20%	0.30%	0.50%	0.75%																														
d. Rebate or Surcharge on Funding Cost Margin	Calculated by ADB twice a year, based on the actual funding cost margin for the preceding 6 months, for the periods 1 January to 30 June and 1 July to 31 December																																		
e. Rebate or Surcharge on Fixed Spread	ADB may grant rebate or impose surcharge if there are future changes in the fixed spread with respect to FLP loans																																		
Interest Payment Dates	1st or 15th day of the month and semiannually thereafter																																		
Commitment Charge	Based on the undisbursed balance of loan			0.15%																															
Front-End Fee	Not Applicable																																		
Repayment Terms	Commitment-linked Repayment Schedule - annuity-type repayment - straight-line repayment - bullet repayment - custom-tailored repayment Disbursement-linked Repayment Schedule																																		
Prepayment and Cancellation	All or part of the outstanding balance may be prepaid during the life of the loan. Partial prepayments are applied to the repayment schedule in inverse order of maturity, with the most distant maturity being repaid first. Partial prepayment should be at least equal to the entire principal amount of any one or more maturities of the loan. No prepayment premium is charged on floating rate FLP loans if prepayment is made on an interest payment date. If prepayment is made on a non-interest payment date, prepayment charges may apply based on ADB's redeployment cost of the prepaid amount. For fixed rate or floating rate loans that involve conversions and the corresponding hedge transactions have to be terminated, unwinding costs will be charged, if any. All or part of the unwithdrawn balance may be canceled without a fee at any time during the life of the loan																																		
Loan Conversion Options																																			
a. Currency Conversions	Conversion to an approve currency of all or any portion of the principal amount of the loan whether (i) unwithdrawn and/or (ii) withdrawn and outstanding																																		
b. Interest Rate Conversions	Conversion to fixed rate, or vice-versa, of all or any portion of the loan withdrawn and outstanding																																		
c. Interest Rate Caps and Collars	Establishment of a cap of collar on the floating lending rate applicable to all or any portion of the principal amount of the loan withdrawn and outstanding																																		
Transaction Fees for Conversions and for Caps and Collars^b																																			
a. Currency Conversions	Disbursed amounts:			0.125%																															
	Undisbursed amounts:			0.0625%																															
	Local currency conversion:			0.02% ^c																															
b. Interest Rate Conversions	Initial interest rate fixing:			Nil																															
	Additional rate fixing/unfixing:			0.0625%																															
c. Interest Rate Caps and Collars				0.0625%																															

EUR = euro, EURIBOR = Euro Interbank Offered Rate, JPY = Japanese yen, SOFR = Secured Overnight Financing Rate, TONA = Tokyo Overnight Average Rate, USD = United States dollar.

^a The weighted average time to repay a loan, calculated as the average number of years until each principal repayment amount is due, weighted by the principal repayment amounts.

^b Loan Conversion Fees are expressed as percentage of the transacted amount and it is a one-time fee payable at the time of conversion except for Local Currency Conversion.

^c For Local Currency Conversion, an annual fee of 0.02% of the outstanding principal hedged amount will be charged to the borrower.

Sources:
ADB. 2019. Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030. Manila
ADB. 2021. Review of the Asian Development Bank's Loan Charges and Allocation of 2021 Net Income. Manila

Note: For the purpose of this document, the words "withdrawn" and "disbursed" and "unwithdrawn" and "undisbursed" are used interchangeably.

ANNEX

Table A1: Sample Computation for Flexible Loan Product Loans

Flexible Loan Product to Co Category Members

ITEM	USD (in basis points)				JPY (in basis points)				EUR (in basis points)			
	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years
Average Loan Maturity												
A. Interest Spread												
1. Effective Contractual Spread	50	50	50	50	50	50	50	50	50	50	50	50
2. (Rebate) / Surcharge on Funding Cost Margin*	16	16	16	16	(36)	(36)	(36)	(36)	2	2	2	2
3. Maturity Premium	0	0	0	0	0	0	0	0	0	0	0	0
4. Net Spread Over Reference Rate (1+2+3)*	66	66	66	66	14	14	14	14	52	52	52	52
B. Commitment Charge (based on undisbursed balance of the loan)	15	15	15	15	15	15	15	15	15	15	15	15

Flexible Loan Product to B and C1 Category Members

ITEM	USD (in basis points)				JPY (in basis points)				EUR (in basis points)			
	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years
Average Loan Maturity												
A. Interest Spread												
1. Effective Contractual Spread	50	50	50	50	50	50	50	50	50	50	50	50
2. (Rebate) / Surcharge on Funding Cost Margin*	16	16	16	16	(36)	(36)	(36)	(36)	2	2	2	2
3. Maturity Premium	0	0	10	20	0	0	10	20	0	0	10	20
4. Net Spread Over Reference Rate (1+2+3)*	66	66	76	86	14	14	24	34	52	52	62	72
B. Commitment Charge (based on undisbursed balance of the loan)	15	15	15	15	15	15	15	15	15	15	15	15

Flexible Loan Product to C2 Category Members

ITEM	USD (in basis points)				JPY (in basis points)				EUR (in basis points)			
	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years
Average Loan Maturity												
A. Interest Spread												
1. Effective Contractual Spread	50	50	50	50	50	50	50	50	50	50	50	50
2. (Rebate) / Surcharge on Funding Cost Margin*	16	16	16	16	(36)	(36)	(36)	(36)	2	2	2	2
3. Maturity Premium	0	10	20	30	0	10	20	30	0	10	20	30
4. Net Spread Over Reference Rate (1+2+3)*	66	76	86	96	14	24	34	44	52	62	72	82
B. Commitment Charge (based on undisbursed balance of the loan)	15	15	15	15	15	15	15	15	15	15	15	15

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Flexible Loan Product to C3 Category Members

ITEM	USD (in basis points)				JPY (in basis points)				EUR (in basis points)			
	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years
Average Loan Maturity												
A. Interest Spread												
1. Effective Contractual Spread	50	50	50	50	50	50	50	50	50	50	50	50
2. (Rebate) / Surcharge on Funding Cost Margin*	16	16	16	16	(36)	(36)	(36)	(36)	2	2	2	2
3. Maturity Premium	0	20	30	50	0	20	30	50	0	20	30	50
4. Net Spread Over Reference Rate (1+2+3)*	66	86	96	116	14	34	44	64	52	72	82	102
B. Commitment Charge (based on undisbursed balance of the loan)	15	15	15	15	15	15	15	15	15	15	15	15

Flexible Loan Product to C4 Category Members

ITEM	USD (in basis points)				JPY (in basis points)				EUR (in basis points)			
	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years	Less than or equal to 9 years	Greater than 9 years up to 13 years	Greater than 13 years up to 16 years	Greater than 16 years up to 19 years
Average Loan Maturity												
A. Interest Spread												
1. Effective Contractual Spread	50	50	50	50	50	50	50	50	50	50	50	50
2. (Rebate) / Surcharge on Funding Cost Margin*	16	16	16	16	(36)	(36)	(36)	(36)	2	2	2	2
3. Maturity Premium	0	40	50	75	0	40	50	75	0	40	50	75
4. Net Spread Over Reference Rate (1+2+3)*	66	106	116	141	14	54	64	89	52	92	102	127
B. Commitment Charge (based on undisbursed balance of the loan)	15	15	15	15	15	15	15	15	15	15	15	15

EUR = euro, JPY = Japanese yen, USD = United States dollar.

*Determined semi-annually. The Rebate / Surcharge on Funding Cost Margin is applicable for the period 1 July to 31 December 2022.

Sources:

ADB. 2019. *Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030*. Manila

ADB. 2021. *Review of the Asian Development Bank's Loan Charges and Allocation of 2021 Net Income*. Manila