

Major Terms and Conditions of the IBRD Flexible Loan

Loans from the International Bank for Reconstruction and Development (IBRD) in major currencies are more competitive and flexible for most public sector borrowers than other financing options available in international financial markets.

Flexible Repayment Terms

The IBRD Flexible Loan allows borrowers to customize the repayment terms (i.e. grace period, repayment period and amortization profile) to meet debt management or project needs. Final maturity can be up to 30 years including grace period, as long as the weighted average maturity does not exceed 18 years. Repayment terms should be considered during project preparation, and are fixed at loan signing.

For example, if the objective is to reduce the overall refinancing risk of the debt portfolio, borrowers may choose repayment terms that are more appropriate to smooth out debt service profiles. This flexibility could also be used in investment operations to match the project's expected cash flow.

Pricing

The Flexible Loan translates IBRD's AAA credit rating into cost savings to all of its borrowers. In addition, the Flexible Loan offers pricing predictability and transparency by using standard market benchmarks.

The Flexible Loan interest rate in major currencies is reset semiannually based on six month LIBOR plus a variable or a fixed spread (see adjacent table for sample pricing). In addition, a one-time front-end fee (FEF) of 0.25% of the loan amount is charged at the beginning of the project. The FEF can be financed out of the loan proceeds.

IBRD conducts an annual review of loan charges—the contractual lending spread, the maturity premium, and the front-end fee—to ensure that pricing is aligned with the prevailing needs of the institution and its shareholders. The Bank also regularly reviews the technical components of the fixed spread—the projected funding cost and the risk premium—to ensure that these reflect underlying market conditions.

At a Glance

The IBRD Flexible Loan offers:

- Long maturities up to 30 years
- Market-based pricing
- Flexibility to tailor repayment terms
- Embedded tools to manage the currency or interest rate risk over the life of the loan

Risk Management Tools

The Flexible Loan includes options to manage currency and/or interest rate risks over the life of the loan. These options are embedded in the loan agreement and can be executed at the borrowers' request at anytime.

To mitigate currency risk, the Flexible Loan offers a currency conversion option to change the currency of undisbursed and/or disbursed balances (see page 2 for details). Subject to the existence of a liquid swap market, borrowers can also choose to repay the IBRD loan in a growing number of local currencies.

To manage interest rate risk, the Flexible Loan offers the option of changing from a floating to a fixed interest rate or vice versa. Similarly, IBRD offers the possibility of establishing interest rate caps or collars to manage interest rate volatility.

USD Lending Rates for the IBRD Flexible Loan

for Loans Approved after June 30, 2010

Average Maturity (years)	Variable Spread over LIBOR ¹	Fixed Spread over LIBOR ²
12 and less	0.24%	0.60%
Greater than 12 to 15	0.34%	0.80%
Greater than 15 to 18	0.44%	1.25%

1. The variable spread is recalculated every January 1 and July 1. Variable spreads provided above are for illustrative purposes only. The spreads as shown are based on a spread of 0.24% applicable to interest periods between January 1, 2010 and June 30, 2010 to illustrate the impact of maturity premiums on IFLs with a variable spread approved after June 30, 2010.

2. Fixed spreads as shown apply to loans in US dollars and Euros. For loans in Japanese yen, fixed spreads are 0.10% lower for all maturities.

Pricing may be different depending on date of invitation to negotiate and date of Board approval of the loan. For latest pricing information, please visit the Treasury website at <http://treasury.worldbank.org>.

Lending Rate	<p>The lending rate consists of a variable base rate plus a spread. The lending rate is reset semi-annually, on each interest payment date, and applies to interest periods beginning on those dates. The base rate is the value of the 6-Month LIBOR at the start of an interest period for most currencies, or a recognized commercial bank floating rate reference for others. Borrowers have a choice of spread:</p> <ul style="list-style-type: none"> • Fixed for the life of the loan: Consists of IBRD's projected funding cost margin relative to LIBOR, plus IBRD's contractual spread of 0.50%, a risk premium, a maturity premium for loans with average maturities greater than 12 years, and a basis swap adjustment for non-USD loans. • Variable, resets semi-annually: Consists of IBRD's average cost margin on related funding relative to LIBOR plus IBRD's contractual spread of 0.50% and a maturity premium for loans with average maturities greater than 12 years. The variable spread is recalculated on January 1 and July 1 of each year.
Front-end Fee	A front-end fee of 0.25% of the loan amount is due within 60 days of effectiveness date of the project and may be financed out of the loan proceeds.
Maturity Limits and Repayment Schedules	<p>Policy Limits: Final maturity is 30 years including grace period (during which only interest is paid), while maximum weighted average maturity is 18 years.</p> <p>Borrowers have the flexibility to tailor the repayment schedule during loan preparation and, once the loan is signed, the repayment schedule cannot be changed for the life of the loan. In addition, borrowers have a choice of two types of repayment schedules:</p> <p>Commitment-linked Repayment Schedule: The loan repayment schedule begins at loan commitment. Principal repayments are calculated as a share of the total loan amount disbursed and outstanding.</p> <p>Disbursement-linked Repayment Schedule: The loan repayment schedule is linked to actual disbursements. Each semester's group of disbursements is similar to a tranche with its own repayment terms (i.e. grace period, final maturity, and repayment pattern).</p>
Loan Currencies	<p>Currency of Commitment: Loans are offered in most major currencies like EUR, JPY and USD. Other currencies may be available if the IBRD can fund itself efficiently in the market. Borrowers may contract loans in more than one currency.</p> <p>Currency of Disbursement: Disbursements may take place in any currency, as requested by the client. Currencies are acquired by IBRD and passed on to the client at market terms. The loan obligation, however, remains in the currency of commitment.</p> <p>Currency of Repayment: The loan principal, interest and any other fees must be repaid in the currency(ies) of commitment. However, currency conversion options may be available as specified below.</p>
Currency Conversion	<p>Undisbursed Amounts: All or part of the undisbursed balance may be converted into another currency which the IBRD can efficiently intermediate (see "Currency of Commitment" above).</p> <p>Disbursed Amounts: All or part of the disbursed balance may be converted into another currency, including the borrower's local currency, subject to the availability of a swap market for that currency.</p>
Interest Rate Conversion	The variable lending rate on the disbursed balance may be converted to a fixed rate, and later may even be reverted to a variable rate. This option may be exercised by the borrower at any time during the life of the loan for all or part of the disbursed and outstanding balance. Alternatively, a cap or collar on the variable base interest rate may be established for up to the entire disbursed amount.
Conversion Fees	Transaction fee(s) for currency and/or interest rate conversions will apply, except for the first interest rate fixing. For the latest conversion fees, please visit the World Bank Treasury website at http://treasury.worldbank.org . In order to access the conversion options described above, loans with variable spreads must first be converted into the fixed spread which includes the prevailing projected funding cost and market risk premium plus the original maturity premium and contractual spread. A spread fixing fee of 0.03% per annum will apply in these cases.
Payment Dates	Debt service payment dates will be on the 1st or 15th day of a month and semi-annually thereafter, as decided by the borrower during loan negotiation.
Prepayment	Borrowers may prepay, at any time, all or part of the outstanding loan balance. Prepayment charges apply based on (i) IBRD's redeployment cost of the prepaid loan amount and (ii) the cost of unwinding any outstanding interest or currency conversions plus any transaction fees applicable to amounts that were previously converted.

Please consult the General Conditions for more details: <http://go.worldbank.org/WECHW5CT30>