ANNEX 4

IBRD Loan Prepayment Premium

IBRD Flexible Loans (IFLs), Fixed Spread Loans (FSLs) and Variable Spread Loans (VSLs)

1. IBRD may charge a prepayment premium to cover the cost to IBRD of redeploying prepaid funds. The calculation of the redeployment cost for all or any portion of a loan that has not been converted is carried out in accordance with para.1 (a) below and, for all or any portion of a loan that has been converted, in accordance with para.1 (b) below.

   a. For prepayments of unconverted portions of a loan, loans with conversions of unwithdrawn amounts and no additional conversions, and loans with a conversion to fix the spread and no additional conversions, the prepayment premium is calculated as follows:

   i. The amount of the prepayment premium is based on the difference between: (i) the fixed or variable spread net of waivers\(^1\), if any, payable, on the prepaid loan and (ii) the fixed or variable spread net of waivers\(^1\), respectively, in effect for the relevant loan currency with an average repayment maturity equivalent to the remaining average repayment maturity of the prepaid cash flows of the loan at the date of prepayment.

   ii. The prepayment premium is equal to the present value of the prepaid cash flows multiplied by the difference in the spread computed in sub-paragraph (i), with an assumed floor value of zero.

   iii. The present value computed in (ii) is the premium the Borrower is charged by the Bank.

   b. Prepayment of converted portions of loans

   If all or any portion of a loan has been converted, the prepayment premium is calculated based on the following components:

   iv. The prepayment premium as outlined in paragraph (a) above;

   v. An "Unwinding Amount\(^2\) in connection with the early termination of any conversion. The "Unwinding Amount" is the cost or gain to the Bank in relation to the termination of

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\(^1\) The redeployment cost of unconverted portions of loans with fixed spread accounts for differences in the contractual spread, projected funding cost, market risk premium, basis swap adjustment and maturity premium, if applicable. The calculation of the redeployment premium uses the fixed spread in effect at loan prepayment based on average remaining maturity of the prepaying loan, assuming redeployment into a loan with the same maturity/country classification/risk characteristics as the prepaid loan at the time of prepayment. The redeployment cost of unconverted portions of loans with variable spread accounts for differences in the contractual spread and maturity premium, if applicable.

\(^2\) "Unwinding Amount" has the meaning given to it in the applicable IBRD General Conditions.

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any swap effected for the relevant conversion. Any such cost results in an additional amount payable by the Borrower to the Bank, and any such gain is subtracted from the amount to be prepaid by the Borrower or is paid to the Borrower in the absence of any redeployment cost.  

vi. A transaction fee, which is applied to the amount of the principal that is being prepaid on a per annum basis, and discounted to the date of prepayment (see TRE website for transaction fee information: http://treasury.worldbank.org).

2. In the case of IFLs or FSLs, partial prepaid amounts are applied as directed by the Borrower. In the case of VSLs, partial prepaid amounts are applied first to the latest maturities due on the loan.

Pre-Pool Loans, Currency Pool Loans (CPLs), and Single Currency Pool Loans (SCPs)

3. Assessment of the prepayment premium waiver on Currency Pool Loans (CPLs), Single Currency Pool Loans (SCPs), and pre-pool loans is based on the following procedure:

a. The latest available carrying values and estimated values for loans in various categories, as reported annually in IBRD’s audited financial statements, are the basis for assessing whether to grant a waiver of the contractual prepayment premium.

b. The prepayment premium on the loan is waived in its entirety if the estimated value of all loans in a particular category is less than or equal to the carrying value. However, the premium is applied if the estimated value is greater than the carrying value – with the added proviso that it is the smaller of the computed contractual premium on the loan and the premium over the carrying value as determined by the estimated value. If interest rates rise, the "off-marketness" of the lending rates are narrowed, and the contractual prepayment premium on these loans may be higher than the premium of the estimated value over the carrying value. In that case, the Borrower pays the latter as the premium, thus receiving a partial prepayment premium waiver.

c. For financial intermediary loans with flexible amortization schedules, IBRD waives the premium if the financial intermediaries make the prepayments after receiving the prepayments from the sub-Borrowers.

3 The Bank may have effected the relevant conversion by entering into a hedge transaction with a market counterparty or, by applying a screen rate (in the circumstances described in the Conversion Guidelines). In both cases an Unwinding Amount may be payable either by the Bank or the borrower as the Bank would have taken a position in order to effect the conversion that would have to be reversed or undone because of a loan prepayment.

4 The Bank effects a market transaction or use a screen rate calculation on the prepayment date or shortly thereafter, and it generally takes two business days to settle a swap.

5 “Unwinding Amount” is calculated based on the assumption that the Bank swapped 100% of the converted portion of the prepaid loan.

6 The transaction fee is not applicable for prepayments of portions of loans whose currency was converted prior to withdrawal, provided no subsequent conversions of withdrawn amounts took place.

7 "Carrying" value and "estimated" value are terms used in IBRD's financial statements. The "carrying" value of an IBRD loan is synonymous with the book value of the loan and is expressed in USD equivalent terms. It is usually defined as the historical value of currencies in USD equivalents outstanding on the loan, plus the translation adjustment on the loan. IBRD loans do not have a secondary market. "Estimated" values of IBRD loans published in IBRD's financial statements are used as a proxy for the market-to-market value of IBRD loans.
4. Prepayment premium schedules for pre-pool loans, CPLs, and SCPs are included in the Loan Agreements for those loans. Premia are calculated in accordance with these schedules as illustrated below.

**Variable-Rate CPL and Variable-Rate SCPs**

5. For a variable rate CPL or SCP, for each of the maturities being prepaid, the premium rate is calculated by multiplying the current interest rate on the loan with the appropriate factor from the "Premiums on Prepayment" schedule in the Loan Agreement. The premium rate so computed is then applied to the appropriate maturity to arrive at the prepayment premium for that maturity. Premia computed for all maturities being prepaid are added together to arrive at the prepayment premium for the loan.

6. As an illustration, assume a Category III country prepays any variable-rate pool loan with four remaining maturities. Each maturity is US$1 million and the total prepayment is US$4 million. Assume further that the current interest rate on the loan is 6.5 percent and the factor from the "Premiums on Prepayment" schedule in the Loan Agreement is 0.18. The premium rate for the maturities being prepaid is (0.65*.18), which is 0.117, or 1.17 percent. Multiplying US$4 million by the premium rate of 1.17 percent, produces the total premium of US$46,800 for the loan.

**Converted Variable-Rate CPL and Variable-Rate SCPs**

7. For CPLs and SCPs with an interest rate of LIBOR plus 1% or a swap rate-based fixed rate, the prepayment premium payable is an amount reasonably determined by Management to represent any cost to it of redeploying the amount to be prepaid at the London interbank offered rate for six month deposits in United States Dollars from the date of its prepayment to its maturity date.

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8 From May 2006 to June 30, 2009, the Bank offered borrowers of variable-rate CPLs and SCPs the option to convert the interest rate to either a LIBOR-based rate or a swap rate-based fixed rate. The prepayment policy for these converted loans is set forth in paragraph 7.

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