Loan Agreement

Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT-DDO)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 23, 2011
LOAN AGREEMENT

AGREEMENT dated September 23, 2011, entered into between the REPUBLIC OF THE PHILIPPINES ("the Borrower") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("the Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five hundred million dollars ($500,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one half of one percent (0.50%) of the Loan amount.

2.04. If, at the Borrower’s request and on such terms and conditions as the Bank may agree, the Closing Date is extended, the fee payable by the Borrower for each extension of the Closing Date shall be at the rate of one quarter of one percent
(0.25%) of the amount of the Loan available for withdrawal upon such extension. If the Borrower elects to capitalize the fee from the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself such amounts required to pay such fee. If the Borrower elects to pay the fee from its own resources, the Borrower shall pay such fee not later than sixty (60) days after the date of the notice given by the Bank to the Borrower confirming the extension of the Closing Date.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are April 15 and October 15 in each year.

2.07. (a) Except as otherwise provided in paragraph (b) of this Section, the principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.

(b) The Borrower may at the time of requesting a Withdrawal also request repayment provisions different from those set out in Schedule 2 to this Agreement for such Withdrawal, provided that: (i) the average maturity of such Withdrawal does not exceed eighteen (18) years from the Withdrawal Date and the final maturity of such Withdrawal does not exceed thirty (30) years from the Withdrawal Date (or such other average maturity and/or final maturity as may be generally applicable to loans made by the Bank to the Borrower at the time of such agreement); and (ii) such repayment provisions have been agreed between the Borrower and the Bank prior to the Withdrawal Date of such Withdrawal.

2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable
Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05(c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.

2.09. At any time prior to the Closing Date, the Borrower may, by notice to the Bank, refund any amount of the Withdrawn Balance for the purpose of re-crediting such amount to the Loan Account for further withdrawals. Upon such refund, the repayment schedule shall be adjusted on a pro rata basis, on terms and conditions acceptable to the Bank.

2.10. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Secretary of the Department of Finance.
6.02. The Borrower’s Address is:

Department of Finance
Department of Finance Building
Bangko Sentral Complex
Roxas Blvd.
Manila, Philippines

Cable address: Facsimile:

SECFIN (63-2) 526-9990
Manila (63-2) 523-9216

6.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America
AGREED at Washington, District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF THE PHILIPPINES

By /s/ Cesar V. Purisima
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Bert Hofman
Authorized Representative
Section I. Actions taken under the Program

The actions taken by the Borrower under the Program to enhance its capacity to implement a disaster risk management program for adverse natural events include the following:

1. The Borrower has enacted the Disaster Risk Reduction and Management Act (Republic Act No. 10121) of May 2010 which seeks to mainstream disaster risk reduction into development policies and processes; and which has expanded the focus of disaster management from ex-post actions and funding for emergency response, relief and recovery to include ex-ante actions and funding for risk reduction, preparedness and prevention.

2. The Borrower has adopted the Strategic National Action Plan for Disaster Risk Reduction (Executive Order No. 888) of June 2010, a ten-year plan to achieve the commitments made under the Hyogo Framework of Action.

Section II. Availability of Loan Proceeds

A. General. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The Borrower shall be entitled to withdraw the Single Tranche from the Loan Account in support of the Program in various Withdrawals. The allocation of the amounts of the Loan to this end is set out in the table below:
### Allocations

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>497,500,000</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>2,500,000</td>
</tr>
<tr>
<td>(3) Fee payable pursuant to Section 2.04 of this Agreement</td>
<td>0[^1]</td>
</tr>
<tr>
<td>(4) Amount due pursuant to Section 2.08(c) of this Agreement for Interest Rate Cap or Interest Rate Collar premium</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>500,000,000</td>
</tr>
</tbody>
</table>

C. **Payment of Fee Pursuant to Section 2.04 of Agreement.** If the Closing Date is extended pursuant to Section 2.04 of this Agreement and the Borrower elects to finance from its own resources the fee set forth in said Section, no withdrawal shall be made from the Loan Account until the Bank has received payment in full of such fee.

D. **Withdrawal of Loan Proceeds**

1. No withdrawal shall be made of the Single Withdrawal Tranche unless a State of Calamity exists in the Borrower’s territory as a result of a natural disaster which has been declared by the Borrower’s President through a Proclamation of Calamity duly published in the Official Gazette in accordance with the Borrower’s legislation.

2. Notwithstanding the foregoing, if, at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Loan, the Bank determines that a situation has arisen that has or would have the effect of materially reversing the objectives of the Program or any action taken under the Program, the Bank shall give notice to the Borrower to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Loan Balance unless and until the Bank has notified the Borrower of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of said Section 3.01, with the measures taken by the Borrower to rectify such situation.

E. **Deposits of Loan Amounts**

[^1]: The amount allocated to this category will be zero until the borrower decides to renew the DPL.
1. The Borrower shall open, prior to furnishing to the Bank the request for withdrawal from the Loan Account, and shall thereafter maintain a deposit account in Dollars in Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank (“Deposit Account”).

2. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

3. Upon the deposit of the amount of the Loan into the Deposit Account, the Borrower shall ensure that an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

F. Audit

Upon the Bank’s request, the Borrower shall:

1. have the Deposit Account audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;

2. furnish to the Bank as soon as available, but in any case not later than six (6) months after the date of the Bank’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request and make such report publicly available in a timely fashion and in a manner acceptable to the Bank; and

3. furnish to the Bank such other information concerning the Deposit Account and its audit as the Bank shall reasonably request.

G. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

H. Closing Date. The Closing Date is October 31, 2014.
SCHEDULE 2

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first installment to be payable on the 20th Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the 50th Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-thirty one (1/31) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.

2. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.

3. Notwithstanding the provisions of paragraphs 1 through 2 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

4. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency.
APPENDIX

Section I. Definitions

1. “Deposit Account” has the meaning given to such expression in paragraph 1 of Part E of Section II of Schedule 1 to this Agreement.

2. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing</td>
</tr>
</tbody>
</table>
897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)

971 | | Gold, non-monetary (excluding gold ores and concentrates)

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

4. “Hyogo Framework for Action” means the international plan of action endorsed by the Borrower at the world conference for disaster reduction held in Hyogo, Japan in 2005, which provides a framework by which disaster reduction policy is approached globally, and includes guidelines for comprehensive disaster risk management actions.

5. “Program” means the program of actions, objectives and policies designed to enhance the Borrower's capacity to implement a disaster risk management program for adverse natural events and set forth or referred to in the letter dated July 1, 2011 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
6. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.


Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (Project Execution Generally), and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

… (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

…
6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:
Section 5.07. Program Monitoring and Evaluation

… (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition are deleted in their entirety.

(c) The term “Fixed Spread” is modified to read as follows:

“Fixed Spread” means, for each Withdrawal, the Bank’s fixed spread for the Loan Currency of the Withdrawal in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date, and expressed as a percentage per annum; provided, that: (a) for purposes of determining the Default Interest Rate, pursuant to Section 3.02(e), that is applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount; (b) for purposes of a Conversion of the Variable Rate based on a Variable Spread to a Variable Rate based on the Fixed Spread, and for purposes of fixing the Variable Spread pursuant to Section 4.02, “Fixed Spread” means the Bank’s fixed spread for the Loan Currency in effect at 12:01 a.m. Washington, D.C. time on the Conversion Date; and (c) upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, the Fixed
Spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.

(d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

(e) The term “Variable Spread” is modified to read as follows:

“Variable Spread” means, for each Withdrawal and each Interest Period:
(1) the Bank’s standard lending spread for Loans in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; (2) minus (or plus) the weighted average margin, for the Interest Period, below (or above) the Reference Rate, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by it to fund loans that carry interest at a rate based on the Variable Spread; as reasonably determined by the Bank and expressed as a percentage per annum. In the case of a Loan denominated in more than one Currency, “Variable Spread” applies separately to each of such Currencies.

(f) A new term “Withdrawal” is added to read as follows:

“Withdrawal” means each amount of the Loan withdrawn by the Borrower from the Loan Account pursuant to Section 2.01.

(g) A new term “Withdrawal Date” is added to read as follows:

“Withdrawal Date” means, for each Withdrawal, the date on which the Bank pays the Withdrawal.