From: The President October 20, 2017

Memorandum

Subject: IBRD Lending Rates and Spreads Applicable on or after October 1, 2017

I. Introduction

IBRD provides regular updates of the lending rates and spreads applicable to its financing products as set out in the terms of each product.

The structure of lending rates and spreads applicable to IBRD loans can be categorized into two groups: (i) variable spreads over a market reference rate ("Reference Rate") and (ii) fixed spreads over the Reference Rate. The spreads correspond to the most prevalent loan product, the IBRD Flexible Loan (IFL), which is offered as either (i) IFL Variable Spread or (ii) IFL Fixed Spread.[1,2] The IFL resulted from consolidating the previously offered loan categories—Variable Spread Loan (VSL) and the Fixed Spread Loan (FSL)—in FY08.

Since April 2017,[3] the frequency of calculating the average funding spread component of the IFL Variable Spread is on a quarterly basis. The calculation frequency does not affect the schedule of loan interest rate resets, which for most loans occurs on loan repayment dates twice a year.

II. IBRD Flexible Loan Rates and Spreads

This note summarizes the lending rates and spreads applicable to IBRD loans outstanding as of October 1, 2017. Interest rates of all loan products are subject to a floor of zero on the overall rate.[4] The rate structure and current pricing of IFLs is provided in sections A and B below.

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[1] In addition, IBRD offers other financial products, including conversions and hedging products, guarantees, and disaster risk financing.

[2] Aside from VSLs and FSLs, there are historic currency pool-based products, which have been discontinued but require rate resetting in IBRD's portfolio. In FY07, IBRD offered the borrowers of currency pool and U.S. dollar pool loans the option to convert their terms to a LIBOR-based loan with a fixed spread of 100 basis points over the remaining life of the converted loan. All currency pool loans that have not been converted to LIBOR-based pricing have matured except for the loans to Zimbabwe, which are currently in non-accrual status.

[3] As per the Memorandum to Board on "Increasing the Frequency of Variable Spread Reset for IBRD IFLs" (R2017-034/1, March 8, 2017), the reset frequency of the average funding spread component of the IFL Variable Spread was increased from semi-annually to quarterly starting from April 1, 2017. The quarterly reset frequency enhances the cost pass-through mechanism due to the frequent and persistent changes in the average funding spread. A delayed realization of a higher (lower) funding spread in the average funding spread component would cause a decrease (increase) of net interest income, which cannot be fully offset at later reset dates due to lost (gained) compounded interest.

[4] "Implicit Lending Rate Floor of Zero on Interest Rate in IBRD's Loans" The World Bank Finance and Risk Committee, dated June 8, 2016. From 2017, the General Conditions for IBRD Financing include an explicit zero floor on the overall interest rate.

A. IFL Variable Spread

The pricing principle of IFL Variable Spread is to pass through changes in IBRD's funding cost to Borrowers. The IFL Variable Spread consists of the following components:

$$Lending\ Rate_{IFL\ Variable\ Spread} = rr + \underbrace{afs + cls + mp}_{spread}$$

where

rr = Reference Rate, which varies by currency choice;

afs = average funding spread relative to the Reference Rate *(rr)*, which is calculated every January 1, April 1, July 1 and October 1, based on the actual average funding cost incurred during the preceding six-month period;

cls = contractual lending spread, approved by the Executive Directors and reviewed annually; and

mp = maturity premium charged on loans with average maturities greater than 8 years, approved by the Executive Directors and reviewed annually.

Among these components, the contractual lending spread *(cls)* and the maturity premium *(mp)* are determined at loan signing and remain constant over the life of the loan; the Reference Rate *(rr)* and the average funding spread *(afs)* are determined on each interest rate reset date and are applicable for the following six months. Table 1 below summarizes the lending rates and spreads as of October 1, 2017.[5] These spreads will be used for the reset dates between October 1, 2017 and December 31, 2017. See Figure A-1 (Annex) for the historical spread analysis of IFL.

Table 1. IFL Variable Spread Applicable as of October 1, 2017 (in basis points)

Average Maturity	8 years and below	Greater than 8 and up to 10 years	Greater than 10 and up to 12 years	Greater than 12 and up to 15 years	Greater than 15 and up to 18 years	Greater than 18 and up to 20 years
Actual Funding Spread	-4	-4	-4	-4	-4	-4
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium	0	10	20	30	40	50
Total Spread – Current Quarter	46	56	66	76	86	96
Total Spread – Prior Quarter	45	55	65	75	85	95
Reference Rate for October 1, 2017*	151	151	151	151	151	151
Indicative Total Lending Rate**	197	207	217	227	237	247

* USD 6-month LIBOR applicable to loan rates. The reference rates for IFLs are the 6 month LIBOR in their loan currencies mostly. All euro-denominated loans for which the invitation to negotiate is issued on or after July 31, 2010 have EURIBOR as the reference rate.

** The total lending rate is only indicative. The lending rate of a loan is determined based on the Reference Rate effective on the reset date subject to an implicit floor of zero on the overall rate.

[5] See Table A-1 (Annex) for the listing of the additional variable spreads applicable to IFLs and discontinued products for rate resetting dates between October 1 and December 31, 2017.

B. IFL Fixed Spread

The pricing principle of IFL Fixed Spread is to insulate Borrowers from changes in IBRD's funding cost in return for the payment of a market risk premium. The IFL Fixed Spread consists of the following components:

$$Lending\ Rate_{IFL\ Fixed\ Spread} = rr + \underbrace{pfs + cls + mp + mrp + bsa}_{spread}$$

where

rr = Reference Rate, which varies by currency choice;

pfs = projected U.S. dollar (USD) funding spread to the Reference Rate *(rr)* over the life of the loan;

cls = contractual lending spread, approved by the Executive Directors and reviewed annually;

mp = maturity premium charged on loans with average maturities greater than 8 years, approved by the Executive Directors and reviewed annually;

mrp = market risk premium reflecting funding and refinancing risks of providing loans with a fixed spread; and

bsa = projected basis swap adjustment (spread) applied to non-USD loans (currently EUR, GBP and JPY) to adjust the projected USD funding spread for other currencies.

IBRD regularly reviews the technical components (i.e., projected funding spread *(pfs)*, the market risk premium *(mrp)*, and the basis swap adjustment *(bsa)*) to ensure that they reflect underlying market conditions. Effective July 27, 2017, the projected funding spread decreased for all maturities of loans signed on or after July 28, 2017.

Table 2 below summarizes the lending rates and spreads applicable to IFL Fixed Spread, which have been in effect since July 27, 2017. The fixed spread for a loan is determined at loan signing and remains constant over the life of the loan. See Figure A-1 (Annex) for the historical spread analysis of IFL.

Table 2. IFL Fixed Spread Currently Available for USD Denominated Loans[a]
(in basis points)

Average Maturity	8 years and below	Greater than 8 and up to 10 years	Greater than 10 and up to 12 years	Greater than 12 and up to 15 years	Greater than 15 and up to 18 years	Greater than 18 and up to 20 years
Projected Funding Spread	10	20	20	30	35	35
Market Risk Premium	10	10	10	10	15	15
Contractual Lending Spread	50	50	50	50	50	50
Maturity Premium	0	10	20	30	40	50
Total Spread – Current[b]	70	90	100	120	140	150
Total Spread – Prior[c]	75	100	110	130	155	165
Reference Rate for October 1, 2017[d]	151	151	151	151	151	151
Indicative Total Lending Rate[e]	221	241	251	271	291	301

a. The current spread is applicable to loans signed on or after July 28, 2017.

b. Total spread for USD denominated loans only. A basis swap adjustment of -0.15% is applicable to EUR fixed spread, -0.35% is applicable to the JPY fixed spread, and -0.05% is applicable to GBP fixed spread.

c. Total spread as of July 1, 2017 for USD denominated loans only. A basis swap adjustment of -0.15% is applicable to EUR fixed spread, -0.35% is applicable to the JPY fixed spread, and -0.05% is applicable to GBP fixed spread.

d. USD 6-month LIBOR applicable to loan rates. The Reference Rates for IFLs are the 6 month LIBOR in the relevant loan-denomination currencies mostly. All EUR-denominated loans for which the invitation to negotiate is issued on or after July 31, 2010 have EURIBOR as the Reference Rate.

e. The total lending rate is only indicative. The lending rate of a loan is determined based on the Reference Rate effective on the reset date subject to a floor of zero on the overall rate.

III. Notification to Borrowers

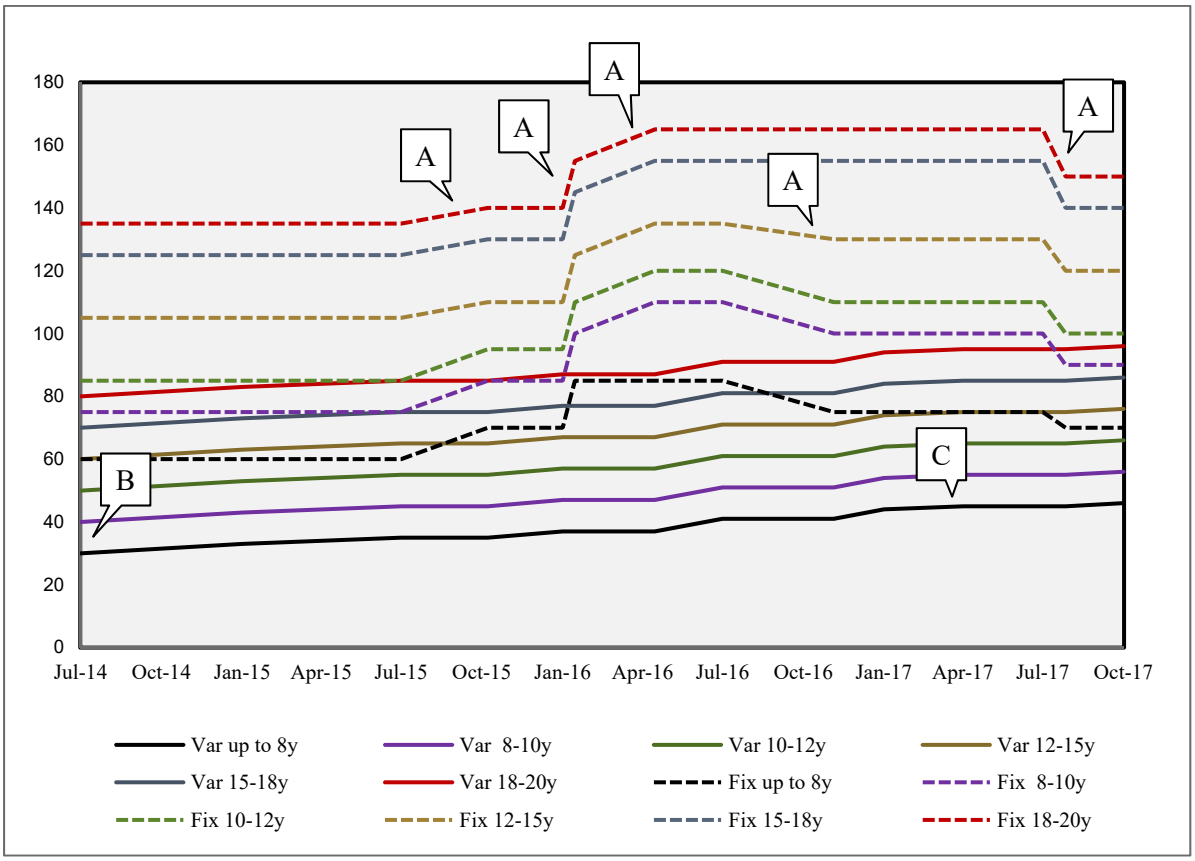
IBRD will notify current Borrowers, as required, of the rates and spreads (both inclusive of waivers for eligible borrowers) applicable for the interest periods beginning on or after October 1, 2017.

Jim Yong Kim
President

by Joaquim Levy
Managing Director & WBG Chief Financial Officer

Annex

Figure A-1. Historical Trend of IFL Spreads



Notes:

(A) Periodically, Management adjusts the technical component of the fixed spread over the Reference Rate to reflect the changes in the projected funding spread.

(B) On February 11, 2014, IBRD's Executive Directors approved the extension of the maximum maturity for loans and guarantees to 35 years (average repayment maturity up to 20 years) with the revision to the maturity premium schedule. The revision of the maturity premium schedule split the existing "up to 12-year" maturity bucket into three separate maturity buckets ("up to 8 years", "8-10 years," and "10-12 years") and introduced a new "18 to 20 years" bucket. This change came into effect on July 1, 2014.

(C) On March 23, 2017, IBRD's Executive Directors approved a change in the calculation frequency of the average funding spread component of the IFL Variable Spread from semi-annually to quarterly starting from April 1, 2017.

Table A-1. Variable spreads applicable to IFLs and discontinued products for rate resetting between October 1, 2017 and December 31, 2017

Loan Product	Eligibility Criteria	Funding cost/cost of borrowing	Contractual Lending Spread	Maturity Premium	Total Spread/Rate
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity of 12 years or less	-4 bps	50 bps	0 bps	46 bps
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 12 years and up to 15 years	-4 bps	50 bps	10 bps	56 bps
IFL VS[a]	Loans approved between June 30, 2010 and June 30, 2014 with average maturity greater than 15 years and up to 18 years	-4 bps	50 bps	20 bps	66 bps
IFL VS	Loans for which Invitation to Negotiate was issued (i) on or after July 23, 2009; or (ii) prior to July 23, 2009, and which were not approved by November 30, 2009	-4 bps	50 bps	N/A	46 bps
IFL VS	Loans for which Invitation to Negotiate was issued Prior to July 23, 2009, and which were approved by November 30, 2009	-4 bps	30 bps	N/A	26 bps
VSL[b]	Loans signed on or after September 28, 2007	-4 bps	30 bps	N/A	26 bps
VSL[b]	Loans for which Invitation to Negotiate was issued: On or after July 31, 1998 and signed before September 28, 2007	-4 bps	74 bps[c]	N/A	70 bps
VSL[b]	Loans for which Invitation to Negotiate was issued: Prior to July 31, 1998	-4 bps	49 bps[c]	N/A	45 bps

Notes:

a. Includes loans for which the invitation to negotiate was issued before December 31, 2014 and that have been approved by Executive Directors on or before September 30, 2014.

b. Rates do not take interest waivers into account for loans signed before September 28, 2007. Interest waivers do not apply on loans signed on or after September 28, 2007.

c. Effective July 1, 2008, as part of the migration into a unified loan product (IFL), all loans under the IFL program, and VSLs signed on or after September 28, 2007, have a contractual lending spread that is not adjusted for day count (see R2008-0007). The total spread for other variable spread loans is adjusted to account for the different day conventions between borrowing transactions and IBRD's loans.