

CONFORMED COPY

LOAN NUMBER 7180-ME

Loan Agreement

(Rural Finance Development Structural Adjustment Loan)

between

UNITED MEXICAN STATES

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 23, 2003

LOAN AGREEMENT

AGREEMENT, dated September 23, 2003, between the UNITED MEXICAN STATES (the Borrower) represented by its signatory on page 12 of this Agreement and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated May 9, 2003, describing a program of actions, objectives and policies designed to support the liquidation of the Banrural System (as hereinafter defined) and the creation of *Financiera* (as hereinafter defined) (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

“ ‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is

not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Auditor” means the external financial auditor to be appointed by the Borrower’s Secretariat of Public Administration (*Secretaría de la Función Pública*) previously denominated SECODAM (*Secretaría de la Controlaría y Desarrollo Administrativo*);

(b) “Banrural System” means the Borrower’s rural banking system conformed by *Banco Nacional de Crédito Rural, S.N.C., Banco de Crédito Rural del Centro, S.N.C., Banco de Crédito Rural del Centro Norte, S.N.C., Banco de Crédito Rural del Centro Sur, S.N.C., Banco de Crédito Rural del Golfo, S.N.C., Banco de*

Crédito Rural del Istmo, S.N.C., Banco de Crédito Rural del Noreste, S.N.C., Banco de Crédito Rural del Noroeste, S.N.C., Banco de Crédito Rural del Norte, S.N.C., Banco de Crédito Rural de Occidente, S.N.C., Banco de Crédito Rural del Pacífico Norte, S.N.C., Banco de Crédito Rural del Pacífico Sur, S.N.C. and Banco de Crédito Rural Pensinsular, S.N.C., as regulated by the Borrower's law (*Ley Orgánica del Sistema Banrural*) published in the Borrower's Official Gazette on January 13, 1986 and in effect until June 30, 2003 (abrogated by *Financiera* Law);

(c) "CETES" means *Certificados de la Federación*, the Borrower's bonds with a maturity of 28 days;

(d) "CNBV" means *Comisión Nacional Bancaria y de Valores*, the Borrower's banking regulatory and supervisory agency established and operating pursuant to the provisions of the Borrower's law (*Ley de la Comisión Nacional Bancaria y de Valores*), published in the Borrower's Official Gazette on April 28, 1995, as amended to the date of this Agreement, and any successor or successors thereto satisfactory to the Bank;

(e) "CPI" means the Borrower's consumer price index as determined by the Borrower's central bank;

(f) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(g) "*Financiera*" means *Financiera Rural*, the Borrower's rural finance decentralized entity, with separate legal personality, as created and regulated by the *Financiera* Law, and any successor or successors thereto satisfactory to the Bank;

(h) "*Financiera* Law" means the Borrower's law (*Ley Orgánica de la Financiera Rural*) passed by the Borrower's Congress on December 13, 2002 and published in the Borrower's Official Gazette on December 26, 2002;

(i) "NAFIN" means *Nacional Financiera, S.N.C.*, a Mexican development bank serving as the Borrower's financial agent for purposes of the Loan;

(j) "NAFIN Contract" means the contract referred to in Section 3.03 (a) of this Agreement;

(k) "Net Income" means the interest revenue on *Financiera*'s loan portfolio minus the interest expenses of funding that portfolio (which expenses should be at least equal to CPI), minus *Financiera*'s operating expenses, minus provisions on *Financiera*'s loan portfolio (which provisions should be consistent with CNBV regulations) plus the net interest income (CETES less CPI) on *Financiera*'s investment account plus transfers and subsidies received under any concept by *Financiera*;

(l) “Second Tranche Release Date” means the date on which the Bank notifies the Borrower that withdrawals may be made from the Loan Account by the Borrower pursuant to Section 2.02 (e) of this Agreement;

(m) “SHCP” means the Borrower’s *Secretaría de Hacienda y Crédito Público* (Secretariat of Finance and Public Credit); and

(n) “Third Tranche Release Date” means the date on which the Bank notifies the Borrower that withdrawals may be made from the Loan Account by the Borrower pursuant to Section 2.02 (f) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to five hundred five million sixty thousand Dollars (\$505,060,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c), (d) and (e) of this Section, the Borrower shall be entitled to withdraw the amount of \$500,009,400 from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain a deposit account in Dollars in the Borrower’s Central Bank on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence in form and substance satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program; and
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within ninety (90) days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i) and (ii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$205,050,600, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence in form and substance satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Part A of Schedule 2 to this Agreement have been taken.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within ninety (90) days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii) and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(f) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the amount of \$355,050,600, unless the Bank shall be satisfied, after an exchange of views as

described in Section 3.01 of this Agreement based on evidence in form and substance satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory; and
- (iii) that the actions described in Part B of Schedule 2 to this Agreement have been taken.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within ninety (90) days after such notice, the Borrower shall not have taken steps satisfactory to the Bank, in respect of (i), (ii) and (iii) above, as the case may be, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in full on May 15, 2013.

Section 2.09. (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 from a Variable Rate to a Fixed Rate, or vice versa; 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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. The *Director de Financiamientos Internacionales* of NAFIN, and any person whom he or she shall designate in writing, are designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program (including any action specified in Schedule 2 to this Agreement).

Section 3.02. Upon the Bank's request, the Borrower shall cause NAFIN to:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

Section 3.03. (a) The Borrower, through SHCP, shall enter into a contract (*Contrato de Mandato*) with NAFIN, satisfactory to the Bank, whereby:

(i) NAFIN agrees to act as financial agent of the Borrower with regard to the Loan, meaning that, *inter alia*, NAFIN agrees to represent the Borrower vis-à-vis the Bank for purposes of submitting Loan withdrawal applications to the Bank in form and substance sufficient to justify disbursement by the Bank to the Borrower of Loan proceeds, agrees to maintain and operate the Deposit Account in compliance with the terms of this Agreement and agrees to ensure that the obligations set forth in Section 3.02 of this Agreement are complied with; and

(ii) the Borrower agrees that, through SHCP, the Borrower shall cooperate fully with NAFIN to ensure that NAFIN is able to comply with all of NAFIN's obligations referred to in paragraph (a) of this Section.

(b) The Borrower shall exercise its rights and carry out its obligations under the NAFIN Contract in such a manner as to protect the interests of the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall not amend or fail to enforce any provision of the NAFIN Contract. In case of any conflict between the terms of the NAFIN Contract and those of this Agreement, the terms of this Agreement shall prevail.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

(b) the *Financiera* Law or any provision thereof shall be amended, suspended, abrogated (in an expressed or implied fashion), waived or not enforced in such a manner so as to affect adversely, in the opinion of the Bank, the carrying out of the Program.

Section 4.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any of the events specified in Section 4.01 (b) of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions: (a) the NAFIN Contract has been entered into by the Borrower and NAFIN; and (b) *Financiera* has provided a policy document, satisfactory to the Bank, establishing interest rate guidelines approved by *Financiera*'s board that will: (i) lead to financial sustainability (i.e. Net Income equal to, or above, zero); and (ii) encourage the development of private financial intermediaries.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or

opinions to be furnished to the Bank, namely, that the Borrower (in its legal opinion) and NAFIN (in a separate legal opinion satisfactory to the Bank, issued by NAFIN counsel acceptable to the Bank), indicate that the NAFIN Contract has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NAFIN and is legally binding upon the Borrower and NAFIN in accordance with the NAFIN Contract's terms.

Section 5.03. The date December 22, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.11 of this Agreement, the *Titular de la Unidad de Crédito Público* of the Borrower's Secretariat of Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaría de Hacienda y Crédito Público
Unidad de Crédito Público
Palacio Nacional (piso 3), oficina 3010
Colonia Centro
06000 México, D.F.
México

Telex:

1777313-SHOCME

Facsimile:

011-52-559-158-1156

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Dubai, United Arab Emirates, as of the day and year first above written.

UNITED MEXICAN STATES

By /s/ James D. Wolfensohn
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/José Francisco Gil Díaz
Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups 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:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means 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);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Part A Actions Referred to in Section 2.02 (e) of this Agreement

1. (a) The institutions conforming the Banrural System have ceased to operate as banking institutions; (b) the licenses to operate as banking institutions of the institutions conforming the Banrural System have been revoked by SHCP; (c) the remaining assets of the institutions conforming the Banrural System have been transferred to *Financiera* or, directly or indirectly, to a liquidating agency; and (d) the deposit accounts opened in the institutions conforming the Banrural System have been closed or transferred to one or more institutions authorized by CNBV and/or SHCP to operate as financial institutions.
2. *Financiera* has provided to the Bank a strategic plan approved by *Financiera*'s board which: (a) provides an empirical analysis identifying *Financiera*'s target markets, clients (including their risk profile) and distribution systems and products to reach said clients; (b) directs *Financiera*'s second-tier lending activities, including: (i) a time frame for building a second-tier lending business; (ii) the organizational structure for conducting second-tier operations (including procedures to reduce conflict of interest between first and second-tier activities); (iii) the eligibility criteria for potential financial intermediaries; and (iv) the basis for a technical assistance program to strengthen new rural financial intermediaries; and (c) provides for the establishment of a management information system and financial control system to monitor the activities of *Financiera*.
3. *Financiera*: (a) has submitted to the Bank manuals, approved by *Financiera*'s board, including: (i) norms, policies, and procedures to provide loans; and (ii) recovery procedures for non-performing loans; and (b) has tested and implemented credit scoring models to determine the eligibility to receive loans from *Financiera*.
4. The Auditor has certified that *Financiera*, as of six weeks before the Second Tranche Release Date, complies with CNBV's prudential regulations, including norms for risk classification and provisioning of loan portfolio.
5. The subsidies and transfers received by *Financiera* under any concept have been clearly declared and identified in each report submitted to the Borrower's Congress (up to six weeks before the Second Tranche Release) under Article 48 paragraphs I, II and II of the *Financiera* Law.

Part B Actions Referred to in Section 2.02 (f) of this Agreement

1. The Auditor has certified that, for any consecutive six month period within nine months preceding the Third Tranche Release, *Financiera* has had a Net Income equal to, or above, zero.
2. The subsidies and transfers received by *Financiera* under any concept have been clearly declared and identified in each report submitted to the Borrower's Congress (up to six weeks before the Third Tranche Release) under Article 48 paragraphs I, II and II of the *Financiera* Law.
3. *Financiera* has submitted to the Bank detailed cost accounting figures, including the actual cost of *Financiera*'s lending and non-lending operations as of six weeks before the Third Tranche Release Date.
4. The Auditor has certified that, as of six weeks before the Third Tranche Release Date, the manuals referred under paragraph 3 of Part A above are being applied on a consistent basis in accordance with their terms.
5. The Auditor has certified that, as of six weeks before the Third Tranche Release Date, *Financiera* complies with CNBV's prudential regulations, including norms for risk classification and provisioning of loan portfolio.
6. The management information system referred under Part A.2 (c) above is being implemented in accordance with the Strategic Plan referred under said Part A.2 above.