

CONFORMED COPY

LOAN NUMBER 3689 KO

CNB PROJECT AGREEMENT

(Financial Intermediation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

CITIZENS NATIONAL BANK

Dated January 19, 1994

LOAN NUMBER 3689 KO

CNB PROJECT AGREEMENT

AGREEMENT, dated January 19, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CITIZENS NATIONAL BANK (CNB).

WHEREAS: (A) by the Loan Agreement of even date herewith between REPUBLIC OF KOREA (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred million dollars (\$100,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CNB agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and CNB, a portion of the proceeds of the loan provided for under the Loan Agreement will be relent to CNB on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS CNB, in consideration of the Bank's entering into the

Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth except that the term "Subsidiary Loan Agreement" in this Agreement means the Subsidiary Loan Agreement to which CNB is or becomes a party; the term "Project Agreement" in this Agreement means the CNB Project Agreement; and the term "Special Account" in this Agreement means the Special Account established with respect to Category (3)(b) of the Table in paragraph 1 of Schedule 1 to the Loan Agreement.

#### ARTICLE II

##### Execution of the Project; Management and Operations of CNB

Section 2.01. CNB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A.2 of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its Charter and its Statement of Policy.

Section 2.02. (a) CNB undertakes that, unless the Bank shall otherwise agree, Sub-loans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) CNB shall exercise its rights in relation to each Investment Project in such manner as to:

- (i) protect the interests of the Bank, of the Borrower and of CNB;
- (ii) comply with its obligations under this Agreement and the Subsidiary Loan Agreement; and
- (iii) achieve the purposes of the Project.

Section 2.03. CNB shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06 and 9.07 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, respectively) in respect of the Project Agreement and Part A.2 of the Project.

Section 2.04. CNB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, CNB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) CNB shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part A.2 of the project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) CNB shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A.2 of the Project, the accomplishment of the purposes of the Loan, or

the performance by CNB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

(c) To better assist CNB in carrying out Part A.2 of the Project, CNB shall promptly employ and at all times maintain on its staff a competent and experienced engineer as a loan officer who shall be responsible for the proper appraisal and supervision of Investment Enterprises to ensure, inter alia, their compliance with appropriate environmental standards and environmental requirements in Korea.

Section 2.06. CNB shall carry out by December 31, 1996 a two-year training program satisfactory to the Bank (as amended from time to time) to continue the institutional development of CNB which includes provision for improving the project appraisal capabilities of CNB's staff.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) CNB shall maintain procedures and records adequate to monitor and record the progress of Part A.2 of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of CNB.

(b) CNB shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Bank shall have reasonably requested, including (without limitation) the opinion of the said auditors on the adequacy of the loan loss provisions made by CNB based on the quality of CNB's loan portfolio rather than on the level of such provision in prior years; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 3.02. CNB shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including the currency of the Borrower) used in its operations.

Section 3.03. CNB shall do all things necessary to ensure that it achieves a Capital Adequacy of not less than eight percent by January 1, 1996.

### ARTICLE IV

Effective Date; Termination;  
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of CNB thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CNB thereof.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

##### Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (RCA),  
82987 (FTCC),  
64145 (WUI) or  
197688 (TRT)

For CNB:

President  
Citizens National Bank  
C.P.O. Box 815  
Seoul, Korea

Cable address

CNBANK

Telex:

K23481

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CNB may be taken or executed by the President of CNB or such other person or persons as the President shall designate in writing, and CNB shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Gautam S. Kaji

Regional Vice President  
East Asia and Pacific

CITIZENS NATIONAL BANK

By /s/ Chung-Gi Kim

Authorized Representative

SCHEDULE 1

Procedures for and Terms and Conditions  
of Sub-loans and Investments

1. Sub-loans shall be denominated in dollars, shall have a maximum repayment period of ten years, including a maximum grace period of three years and shall bear interest at the prevailing market rate in Korea for similar loans in dollars to Investment Projects, and shall not exceed five million dollars (\$5,000,000) for any Sub-loan.

2. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan or Investment for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 4(a) of this Schedule in respect of such Sub-loan or Investment; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 4 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of the Loan Agreement and this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$2,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan for such Investment Project.

3. Except as the Bank shall otherwise agree, to qualify for a Sub-loan, an Investment Enterprise shall:

(a) demonstrate that the Investment Enterprise:

(i) has, or as a result of the Investment Project is likely to have, revenues in dollars or earnings which can be regarded as prospectively in dollars

by virtue of their being generated from the supply of goods or services which will be included in exports sold for dollars; and

- (ii) has a sound financial structure to support the Investment Project and to achieve the internal financial rate of return mentioned in paragraph 3(b)(ii) below;

(b) demonstrate that the Investment Project for which the Sub-loan is being requested:

- (i) shall be for activities in the direct or indirect export manufacturing sector;
- (ii) shall have an internal financial rate of return of not less than 15% for Sub-loans of \$1,000,000 or more; and
- (iii) shall be in compliance with appropriate environmental standards and environmental laws, regulations, rules and guidelines in Korea.

For the purposes of paragraph 3(b)(i) above, an activity will be regarded as in the indirect export manufacturing sector if it comprises the manufacture of intermediate goods for sale to exporters for incorporation in manufactured products for export, or if it comprises the provision of services in connection with such manufactured products for export.

4. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) or an Investment to the Bank for approval, CNB shall furnish to the Bank an application, in form satisfactory to the Bank, together with:

- (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan;
- (ii) the proposed terms and conditions of the Sub-loan or Investment, including the schedule of amortization of the Sub-loan or of repayment to the Bank of the amount of the Loan to be used for the Investment; and
- (iii) such other information as the Bank shall reasonably request.

(b) Each request by CNB for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain:

- (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and
- (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before March 31, 1997.

5. Sub-loans shall be made on terms whereby CNB shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and CNB including the right to:

(a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and

in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records;

(b) require the Investment Enterprise, in carrying out and operating the Investment Project, to comply with all applicable environmental laws, regulations, rules and guidelines applicable in Korea and to minimize any environmental damage sustained in the course of carrying out or operating the Investment Project;

(c) require that:

(i) all goods and services to be financed out of the proceeds of the Loan shall be used exclusively in carrying out the Investment Project; and

(ii) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as, in the case of goods, time of delivery, reliability and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; provided, however:

(A) that contracts estimated to cost the equivalent of \$5,000,000 or more shall be procured in accordance with Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) and so that: (I) for fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when the contract award is delayed beyond the original bid validity period, the successful bidder's price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price (and such an increase shall not be taken into account in the bid evaluation); and (II) in the procurement of goods or services under such contracts under this subparagraph (A), the relevant standard bidding documents issued by the Bank shall be used with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Investment Project or, where no relevant standard bidding documents have been issued by the Bank, bidding documents based on other internationally recognized standard forms agreed with the Bank shall be used; and

(B) that with respect to all contracts estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply (and where payments for such a contract are to be made out of the Special Account, such procedures shall be modified to ensure that two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2(d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract);

(d) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the

operation thereof, and any relevant records and documents;

(e) require that:

- (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and
- (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity there under to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(f) obtain all such information as the Bank or CNB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(g) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with CNB.

