

LOAN NUMBER 3995 LT

Loan Agreement

(Private Agriculture Development Project)

between

REPUBLIC OF LITHUANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 20, 1996

LOAN NUMBER 3995 LT

LOAN AGREEMENT

AGREEMENT, dated June 20, 1996, between REPUBLIC OF LITHUANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having, satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

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 Single Currency Loans" of the Bank, dated May 30, 1995, with the following modification set forth below (the General Conditions) constitute an integral part of this Agreement: the words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (e) by the date specified in sub-paragraph 5 (c) of Section II of the Annex to Schedule 5 to this Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests permitted under said paragraph; or (ii) have denied any such applications or requests, the Bank may,

by notice to the Borrower, terminate the right to submit such applications or approvals or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

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

(a) "ABL" means the Agricultural Bank of Lithuania, established and operating in accordance with its statutes and license issued by the Bank of Lithuania, dated September 13, 1993, and pursuant to the Borrower's Commercial Banking Law dated July 2, 1992, as the same may be amended from time to time;

(b) "ABL Recapitalization Plan" means a plan adopted by ABL for purposes of improving its financial position and to be implemented by ABL with the assistance of the Borrower in accordance with the objectives of the Borrower, as referred to in paragraph 2 of Schedule 7 to this Agreement;

(c) "Apex" means the Apex Unit established by the Bank of Lithuania for the purposes of carrying out certain responsibilities and functions undertaken by the Bank of Lithuania as the Fiscal Agent of the Borrower in connection with Part A of the Project, and maintained in accordance with the provisions of the Fiscal Agency Agreement referred to in paragraph 1 (e) of Schedule 5 to this Agreement;

(d) "Bank of Lithuania" or "BOL" means the central bank of the Borrower, established and operating pursuant to the Borrower's Law on the Bank of Lithuania dated December 23, 1994, as the same may be amended from time to time;

(e) "Beneficiary" means a private farmer or a farming, processing or rural enterprise in which more than 51% of the interest in such entity is held by persons or entities other than the Borrower, the local authorities or any subdivision thereof, or entities controlled by the Borrower, to which a Participating Financial Institution proposes to make or has made a Sub-Loan;

(f) "Capitalization Finance Agreement" means the agreement to be entered into between the Borrower and ABL, referred to in paragraph 2 (a) of Schedule 7 to this Agreement;

(g) "Fiscal Agency Agreement" means an agreement entered into by the Borrower, through its Ministry of Finance, and the Bank of Lithuania, pursuant to which the Bank of Lithuania, through the Apex, shall act as a fiscal agent of the Borrower for the purposes of carrying out Part A of the Project;

(h) "Fiscal Agent" means the Bank of Lithuania, acting as the fiscal agent of the Borrower in accordance with the terms of the Fiscal Agency Agreement;

(i) "Free-limit Sub-loan" means a sub-loan not exceeding the ceiling amount specified in paragraph 4 (a) of Section II of the Annex to Schedule 5 to this Agreement, and conforming to the conditions set forth or referred to therein;

(j) "Government Bonds" means any bonds or other instruments issued by the Government of the Borrower for purposes of recapitalizing ABL in accordance with the ABL Recapitalization Plan, which are held by ABL and reflected, pursuant to the accounting rules of the Borrower, as assets of ABL in its balance sheet;

(k) "Participating Financial Institution" or "PFI" means a bank or other financial institution, duly established and operating under the laws of the Borrower, and having statutes duly registered with the Bank of Lithuania, and having an independent board elected in accordance with its statutes, which shall have been selected by the Borrower for participation in the Project pursuant to paragraph (a) of Section 1 of

Schedule 5 to this Agreement, and approved by the Bank for participation in the Project;

(l) "PMU" means the Project Management Unit established by the Borrower to coordinate and oversee activities under the Project in accordance with the terms of this Agreement;

(m) "Qualifying Expenditures" means the reasonable cost of goods, services, working, capital and other specific expenditures required for the carrying out of a Sub-project approved in accordance with the procedures referred to in paragraph 4 (b) of Section II of the Annex to Schedule 5 to this Agreement, provided that such expenditures are actually made or incurred by the Beneficiary and are for items qualifying according to the eligibility criteria referred to in such paragraph;

(n) "RBC" means the Rural Business Development Center, a closed joint-stock company established and existing pursuant to the Borrower's Law I-96 on Enterprise dated May 8, 1990, as amended, and operating in accordance with its statutes registered on January 26, 1996, defining its activities and objectives, including inter alia, carrying out Part B of the Project;

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

(p) "Sub-loan" means a loan made or proposed to be made by a Participating Financial Institution to a Beneficiary for the purposes of financing all or a portion of the costs required for the carrying out of a Sub-project;

(q) "Sub-project" means a specific project or investment under Part A (1) of the Project and qualifying under the applicable criteria therefor, which is proposed to be carried out by a Beneficiary utilizing, in whole or in part, the proceeds of a Sub-loan;

(r) "Subsidiary Loan" means any loan made pursuant to a Subsidiary Loan Agreement; and

(s) "Subsidiary Loan Agreement" means any agreement entered into between the Bank of Lithuania, acting as the fiscal agent of the Borrower in accordance with the terms of the Fiscal Agency Agreement, and a Participating Financial Institution referred to in paragraph 1 (b) of Schedule 5 to 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 the Loan Agreement, an amount equal to thirty million dollars (\$30,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, amounts to be paid) by a Participating Financial Institution on account of withdrawals made by a Beneficiary under a Sub-loan to meet the costs of Qualifying Expenditures under a Sub-project.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account, in a commercial bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing, Date shall be June 30, 2001, 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 commitment

charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each interest period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ($1/2$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable in arrears on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, banking, accounting and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Borrower shall maintain the PMU in accordance with a staffing, plan and terms of reference satisfactory to the Bank.

Section 3.05. The Borrower shall maintain the RBC as a separate legal entity with statutes, operational guidelines and staff acceptable to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including, those for the Special Account, 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 six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Except as the Bank shall otherwise agree, the Borrower shall, in respect of repayments of Subsidiary Loans under Part A of the Project:

- (a) open, by the date on which it shall receive the first such repayment, and thereafter maintain in a bank acceptable to the Bank, a separate account on terms and conditions satisfactory to the Bank; and
- (b) upon receipt of each such repayment, credit such repayment to the account established in paragraph (a) above. All amounts so credited shall be utilized, to the extent not required to meet any repayment obligation under this Agreement, exclusively to support the provision by the PFIs (or by other similarly-situated financial institutions) of rural credit finance for the benefit of similar beneficiaries, and on similar terms and conditions, as those applicable to the Sub-loans in respect of which such repayment was made.

Section 4.03. For each fiscal year during the execution of the Project, the Borrower shall ensure that the total amount of subsidies granted by the Borrower to the agricultural sector for that fiscal year shall be maintained at a level no higher than the amount which would, in real terms, be equivalent to the amount of such subsidies for the previous fiscal year less four percent.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The charter or similar document for any PFI shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of such PFI or its respective ability to carry out its activities under the Project or to perform any of its obligations under its respective Subsidiary Loan Agreement.

(b) The Borrower or any other authority having, jurisdiction shall have taken any action for the dissolution or disestablishment of a PFI or for the suspension of its respective operations.

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part pursuant to the terms of the agreement providing therefor; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any event specified in Section 5.01 (a), (b), or subject to the proviso of paragraph (ii) thereof, Section 5.01 (c) of this Agreement shall have occurred.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Fiscal Agency Agreement satisfactory to the Bank has been duly signed on behalf of the parties thereto and has entered into force; and

(b) at least one Subsidiary Loan Agreement satisfactory to the Bank has been signed on behalf of the parties thereto and has entered into force.

Section 6.02. 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: each of the Fiscal Agency Agreement and the Subsidiary Loan Agreement referred to in paragraphs (a) and (b) of Section 6.01 of this Agreement, respectively, has been duly authorized or ratified by the respective parties thereto and is legally binding upon the respective parties thereto in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby if specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sertnuksniu 6
2696 Vilnius
Republic of Lithuania

Telex:

261252 FIMA SU

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

Telex:

248423 (RCA)

Washington, D.C.

82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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.

REPUBLIC OF LITHUANIA

By /s/ Alfonsas Eidintas
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil Kavalsky
Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amount of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in in Dollars)	% of Expenditures to be Financed
(1) Sub-loans under Part A (1)(i) of the Project	15,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost)
(2) Sub-loans under Part A (1)(ii) of the Project	15,000,000	and 80% of local expenditures for other items pro- cured locally
 TOTAL	 30,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or works supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or works supplied from the territory of the Borrower.

3. Notwithstanding, the provisions of paragraph I above, no withdrawals shall be made:

(a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Section II of the Annex to Schedule 5 to this Agreement;

(b) in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not to exceed the equivalent of \$2,500,000, may be made on account of payments made for expenditures before that date but after October 1, 1995; and

(c) in respect of any payments made, unless the Bank shall have received evidence satisfactory to it that a Subsidiary Loan Agreement satisfactory to the Bank, has been executed on behalf of the Borrower and the PFI in respect of which the Borrower has requested a withdrawal.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures not exceeding \$200,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to facilitate the development of a viable private agriculture sector in the Borrower's economy and to foster economic growth in rural areas on the territory of the Borrower.

The Project consists of the following parts, subject to such modification thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A:

(1) Rural Credit

Establishment and operation of a rural credit facility, enabling Participating Financial Institutions to make loans to Beneficiaries in support of: (i) on-farm investments for development of agricultural production; and (ii) investments in agricultural processing industries and rural enterprises.

(2) Institutional Development

Provision of technical assistance for improvement of rural credit management in PFIs and a comprehensive institutional development program for PFIS.

Part B: Institutional and Human Resources Development

Provision of technical assistance to improve the efficiency of the rural institutional framework and to create an environment conducive to private sector development through land reform, strengthening of farm extension services, improving marketing, providing business skills training, developing a rural employment generation program and maintenance of the Rural Business Development Center.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in Dollars)
July 15, 2001	635,000
January 15, 2002	655,000
July 15, 2002	675,000
January 13, 2003	695,000

July 15, 2003	715,000
January 15, 2004	735,000
July 15, 2004	760,000
January 15, 2005	780,000
July 15, 2005	805,000
January 15, 2006	825,000
July 15, 2006	850,000
January 15, 2007	875,000
July 15, 2007	900,000
January 15, 2008	930,000
July 15, 2008	955,000
January 15, 2009	985,000
July 15, 2009	1,010,000
January 15, 2010	1,040,000
July 15, 2010	1,075,000
January 15, 2011	1,105,000
July 15, 2011	1,135,000
January 15, 2012	1,170,000
July 15, 2012	1,205,000
January 15, 2013	1,240,000
July 15, 2013	1,275,000
January 15, 2014	1,315,000
July 15, 2014	1,350,000
January 15, 2015	1,390,000
July 15, 2015	1,430,000
January 15, 2016	1,485,000

SCHEDULE 4

Procurement

Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph I of this Part B.

Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. International Shopping

Goods and works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Commercial Practices

Goods and works estimated to cost the equivalent of less than \$100,000 per contract may be procured at competitive prices in accordance with normal commercial practices of the respective Beneficiaries,

acceptable to the Bank, due account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts therefor.

3. Direct Contracting

Goods which are of a proprietary nature or otherwise are available only from a single supplier estimated to cost less than the equivalent of \$50,000 per contract may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts to be awarded in accordance with the provisions of Part B of this Schedule, the proposed procurement plan pertaining to the relevant parts of the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) the first two contracts for goods or works to be financed by each PFI and awarded in accordance with the provisions of Part C.1 of this Schedule; (ii) each contract for goods or works to be awarded in accordance with the provisions of Part B of this Schedule; and (iii) each contract for goods to be awarded in accordance with the provisions of Part C.3 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 5

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement:

For the purpose of carrying out Part A of the Project, the Borrower shall:

(a) select the financial institutions to participate in financial intermediation of the credit facilities to be established under Part A of the Project in accordance with the eligibility criteria and procedures set forth or referred to in Schedule 7 to this Agreement;

(b) in the case of each such financial institution, cause an agreement to be entered into between the Apex, acting as fiscal agent of the Borrower, and the financial institution (the Subsidiary Loan Agreement), providing for the inclusion of such financial institution as a Participating Financial Institution (PFI) for purposes of undertaking the financial intermediation of the credit facility established under Part A of the Project and setting forth the terms and conditions under which the corresponding amounts of credit shall be made available to such PFI for the purpose of financing Sub-projects thereunder;

(c) except as provided in Section I.A.1 of the Annex to this Schedule 5 with respect to ABL, relend to each such PFI, out of the proceeds of the Loan allocated from time to time to Categories (1) and (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, up to the maximum financing share which such PFI may be eligible to draw under its Subsidiary Loan Agreement (in accordance with the terms and conditions thereof and as shall be determined pursuant to the formula

referred to in paragraph B.1 of Section I of the Annex to this Agreement), the amount required to finance the costs of the Qualifying Expenditures incurred by the Beneficiaries in the carrying out of the approved Sub-projects in respect of which such PFI shall have made Sub-loans in accordance with the eligibility criteria, approval procedures and other terms and conditions applicable to such credit facility, including without limitation, the criteria, procedures, terms and conditions referred to in Section II of the Annex to this Schedule 5;

(d) exercise its rights under the Fiscal Agency Agreement and Subsidiary Loan Agreements in such manner as to protect the interests of the Bank and the Borrower and to achieve the purposes of the Project, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive the Fiscal Agency Agreement or any Subsidiary Loan Agreement or any respective provision thereof;

(e) cause the Fiscal Agent to maintain, in accordance with the provisions of the Fiscal Agency Agreement, the Apex with staff, functions, and responsibilities satisfactory to the Bank;

(f) through the PMU, coordinate the overall execution of Part A of the Project and monitor the carrying out by the PFIs of their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Bank, including the continued compliance by the PFIs with conditions set forth in Schedule 7 to this Agreement; and

(g) take or cause to be taken all action necessary or appropriate to enable the PFIs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance.

2. One year from the date of effectiveness of this Agreement and annually thereafter:

(a) the Borrower shall ensure that each PFI shall review, with the Bank and the Borrower, the amount of each Sub-loan made and the types and nature of the Beneficiary, and the PFI shall agree to implement any changes to the appraisal Guidelines referred to in paragraph 7 of Section II of the Annex to this Schedule 5 proposed by the Bank and the Borrower; and

(b) the Bank and the Borrower shall review: (i) the implementation of the Project; and (ii) the performance of the PMU, the Apex, the RBC and the PFIs in implementing the Project and the Borrower shall agree to implement any changes to the implementation arrangements required to ensure the efficient completion of the Project and the achievement of the objectives thereof.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on a continuous basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project and the achievement of the objectives thereof,

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, no later than March 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project, the performance of the PMU in implementing the Project and the amount of disbursements made during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank the report referred to in paragraph (b) of this Section and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and taking into account the Bank's views on the matter.

ANNEX TO SCHEDULE 5

Section I. Principal Terms and Conditions of Subsidiary Loan Agreements

The terms and conditions set forth herein shall apply for the purposes of paragraph I (b) of Schedule 5 to this Agreement.

A. Terms

I . Principal Amount

The principal amount of a Subsidiary Loan which shall be due and repayable by a Participating Financial Institution shall be the equivalent, in dollars or Litas, as the case may be, of the aggregate outstanding amount of the principal of all Sub-loans made by the PFI pursuant to the credit facility established under Part A of the Project; provided, however, that, in the case of ABL, and subject to ABL continuing to be in compliance with the conditions set forth or referred to in Section I.B of this Annex, the amount of its Subsidiary Loan shall be reduced by any amount which the Borrower shall have agreed to extend to ABL in accordance with the provisions of the Capitalization Finance Agreement.

2. Interest Rate

The Subsidiary Loan shall be: (a) charged, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate acceptable to the Bank. The interest rate for Subsidiary Loans denominated in dollars shall represent the prevailing interest rate as determined in accordance with Section 2.05 of this Loan Agreement, plus a spread set by the Borrower from time to time, and agreed to by the Bank, to (i) compensate the Borrower for the commitment fee payable under the Bank Loan and the administrative costs associated with Part A of the Project (ii) compensate the Borrower for the credit risk associated with Part A of the Project, and (iii) compensate the Bank of Lithuania for administrative costs associated with acting as the Fiscal Agent, including the maintenance of the Apex; and (b) repaid over a period not exceeding 15 years, inclusive of a grace period not exceeding 3 years. The interest rate for subsidiary loans denominated in Litas shall be as determined by a methodology acceptable to the Bank on the basis of similar considerations as applicable for the Subsidiary Loans denominated in dollars.

B. Conditions

1. Maximum Financing Share (Declining, Percentages)

(a) The maximum amount to be made available by the Borrower to the Participating Financial Institutions out of the proceeds of the Loan shall, for any period of time, be limited to an amount corresponding to such specific percentage of the PFIs' aggregate qualifying Sub-loan disbursements for such period, as shall have been provided for under the terms of the Subsidiary Loan Agreements and in accordance with policies of the Borrower satisfactory to the Bank; provided, however, that in the case of any particular PFI, the percentage of aggregate qualifying Sub-loan disbursements so specified may not, in any event, be in excess of 100% for the first eighteen months; 85% for the next twelve months; and 75% thereafter.

(b) For purposes of this paragraph:

- (i) "qualifying Sub-loan disbursements" means amounts under a Subloan which have been disbursed by a PFI to a Beneficiary for any Qualifying, Expenditures on account of which the PFI is entitled to draw (or has drawn) upon the credit facility established pursuant to the Project;
- (ii) "aggregate qualifying Sub-loan disbursements" with respect to any particular PFI in a given period of time, means the aggregate amounts of qualifying, Sub-loan disbursements made by such PFI under all Sub-loans to all Beneficiaries in such period of time;
- (iii) "first eighteen months" means, for any particular PFI, the

period of eighteen months following the date the first Sub-Loan Agreement was entered into by such PFI; and

- (iv) "next twelve months" means the twelve months following the first eighteen months.

2. Other Principal Terms and Conditions of Subsidiary Loan Agreements

Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective Participating Financial Institution shall undertake to:

(a) carry out its activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers and to provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in Section II of this Annex; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part A of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Borrower and the Bank; and (iv) select the Beneficiaries and appraise Sub-project proposals and supervise, monitor and report on the carrying out by Beneficiaries of Subprojects, in accordance with guidelines and procedures satisfactory to the Bank, including without limitation the guidelines and procedures set forth or referred to in paragraph 4 (b) of Section II of this Annex to this Schedule 5;

(c) (i) exchange views with, and furnish all such information to the Bank, the Borrower, the PMU, and the Apex, as may be reasonably requested by the Bank, the Borrower, the PMU or the Apex, with regard to the progress of the PFI's activities under the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, including its continued compliance with the eligibility criteria and other conditions set forth in Section I of Schedule 7 to this Agreement, and other matters relating to the purposes of the Project; (ii) promptly inform the Bank, the Borrower, the PMU and the Apex of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement; and (iii) review, at least semiannually with the Borrower and the Bank, the terms and conditions of the Subsidiary Loan Agreements and the Sub-loan Agreements including margins and interest rate structure;

(d) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its 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; (iii) furnish to the PMU as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Bank shall have reasonably requested, including an opinion on the PFI's compliance during the year subject to the audit with conditions set forth in Section I of Schedule 7 to this Agreement; and (iv) furnish to the Bank, the PMU and the Apex such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Bank or the Apex shall from time to time reasonably request; and

(e) ensure that appraisal of Sub-projects is undertaken in accordance with the applicable environmental laws and standards of the Borrower and the Bank's policy on environmental assessment.

4. Each respective Subsidiary Loan Agreement shall also provide that, unless the Bank agrees otherwise, the right of the Participating Financial Institution to commit further Sub-loans shall be:

(a) suspended upon its failure to: (1) meet any of the requirements set forth in Section I of Schedule 7; or (ii) perform any of its obligations under a Subsidiary Loan Agreement; and

(b) terminated if such right shall have been suspended pursuant to paragraph (a) hereof for a continuing period of 120 days.

Section II. Eligibility, Approval Procedures and Principal Terms and Conditions of Sub-loans

The provisions of this Section shall apply for the purposes of sub-paragraph 2(b)(i) of Part B of Section I of this Annex.

1. Principal Amount

The principal amount of each Sub-loan made out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement shall: (a) be denominated in the currency (dollars or litas) agreed to by the PFI and the Beneficiary; and (b) be the equivalent in such currency (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the Qualifying Expenditures financed out of the proceeds of the Sub-loan.

2. Interest

Each Sub-loan shall be: (a) charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at the prevailing interest rate under the Subsidiary Loan Agreement as determined in accordance with paragraph A.2 of Section 1 of this Annex to Schedule 5 to this Agreement plus a market-based spread determined by the PFI making such Sub-loan; and (b) made for a period not exceeding 12 years inclusive of a grace period of not more than 3 years.

3. Maximum Sub-loan Amount

(a) The maximum amount which shall be eligible for financing out of the credit facility provided for under the Project for any particular Sub-loan shall be the equivalent of \$250,000.

(b) No application by any Beneficiary for a Sub-loan shall be eligible for financing out of the credit facility provided for under the Project if the proposed Sub-loan would cause the aggregate amounts which are outstanding and repayable by such Beneficiary to any PFI under the Project to exceed the amount referred to in sub-paragraph (a) of this paragraph 3 of this Section 11 of this Annex to this Schedule 5.

4. Sub-loan Eligibility Criteria

(a) No expenditures for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the Sub-loan for such Sub-project:

- (i) shall have been approved by the Bank and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the application and information required under paragraph 5 (a) of this Section in respect of such Sub-loan; or
- (ii) the Sub-loan for such Sub-project shall be a free-limit Sub-loan (as hereinafter defined) for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than 120 days prior to the date on which the Bank shall have received the request and information required under paragraph 5 (b) below in respect of such free-limit Sub-loan. For the purposes of this Agreement, a "free-limit Subloan" shall be a Sub-loan made by a PFI for a Sub-project other than the first three Sub-loans to be made by each PFI and other than any Sub-loan in an amount exceeding \$200,000 equivalent.

(b) Any Sub-loan proposed to be made for the financing of a Sub-project shall be eligible for financing out of the credit facility established pursuant to Part A of the Project only upon selection, appraisal, and credit application processing of the proposed Sub-project in accordance with such specific criteria and procedures applicable to such credit facility, as shall have been established by the Borrower for such purposes, satisfactory to the Bank, which shall include without limitation, the selection and appraisal criteria set forth or referred to in paragraph 7 of this Section 11 of this Annex to this Schedule 5.

5. Approval Procedures

(a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the PFI shall furnish to the Bank, through the PMU, an application, in form satisfactory to the Bank, which shall include (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (iii) the proposed terms and conditions of the Sub-loan including the schedule of amortization for the Sub-loan; and (iv) any such other information as the Bank shall reasonably request.

(b) For authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan, the PFI shall furnish to the Bank, through the PMU: (i) a summary description of the Sub-Project and Beneficiary, 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 subparagraphs (a) and (b) of this paragraph shall be presented to the Bank on or before June 30, 1999 or such later date as the Bank may agree.

6. Financial Condition of Beneficiaries

Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the Borrower, the Bank and the PFI making the Sub-loan that the debt service coverage ratio of each such Beneficiary shall not be less than 1.3 at any time.

7. Criteria for Selection and Appraisal of Sub-projects:

Sub-loans shall be made for Sub-projects which are each determined by the PFI making, the Sub-loan, on the basis of an appraisal carried out in accordance with Guidelines satisfactory to the Bank, to be:

(a) technically feasible and economically, financially and commercially viable, and designed with appropriate health, safety and environmental standards, applicable to the territory of the Borrower; and

(b) in compliance with all environmental laws and standards of the Borrower and the Bank's policy on environmental assessment as certified by the relevant local or national authority of the Borrower.

8. Required Provisions of Agreements Providing for Sub loans Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interests and those of the Borrower and the Bank, including:

(a) the right to require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economical, financial, environmental and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) the right to require that the goods and works to be financed out of the proceeds of the Loan be procured in accordance with the provisions of Schedule 4 to this Loan Agreement, and use such goods and works exclusively in the carrying out of the Sub-project;

(c) the right to inspect by itself or jointly with representatives of the Bank or the Borrower if the Bank or the Borrower shall so request, the goods and the sites, works, plans and construction included in the

Sub-project, the operation thereof, and any relevant records and documents;

(d) the right to require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practices, including such insurance to 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 thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) the right to obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing, and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Subproject; and

(f) the right to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-loan upon failure by such Beneficiary to perform its obligations under its Sub-loan agreement with the Participating Financial Institution.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of amounts paid under Sub-loans and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule I to this Agreement, provided, however, that notwithstanding the provisions of paragraph 4 (b) of Section II of the Annex to Schedule 5 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall have subsequently authorized such withdrawals; and

(c) the term "Authorized Allocation" means an amount to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, equivalent to two million dollars (\$2,000,000), provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to one million five hundred thousand dollars (\$1,500,000), until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of four million dollars (\$4,000,000).

2. Payments out of the Special Account shall be made exclusively for sellable expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

- (b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

- (b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

- (c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

- (d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Eligibility Criteria and Procedures for Selection of

Participating Financial Institutions

1. Except as provided in paragraph 2 of this Schedule with respect to ABL, a Subsidiary Loan Agreement may be entered into with a bank or other financial institution, duly established and operating under the laws of the Borrower, which, as the Borrower shall have determined, and the Bank shall have agreed:

(a) has an acceptable audit report which (i) covers one full year of operations; (ii) incorporates a portfolio review; and (iii) is prepared by an internationally recognized audit firm in accordance with International Accounting Standards ("IAS");

(b) has been in existence and has produced operating results for a minimum of two years;

(c) has agreed to engage in an institutional development program, designed in conjunction with the Bank to (i) address identified deficiencies; and (ii) be implemented with the assistance of a foreign bank or other acceptable experts;

(d) has provided a certificate of compliance from BOL stating that (i) it has a valid banking license, and specifying type and date of license; (ii) BOL is not aware of any criminal proceedings ongoing against the PFI or any of its major shareholders with voting rights in excess of 10 percent; and (iii) the PFI is in general compliance with all relevant banking laws and regulations;

(e) has minimum assets (as defined under IAS) equivalent to US\$25,000,000;

(f) has minimum equity capital equivalent to US\$2,000,000 and has undertaken to increase its capital as necessary to comply with future increases required by BOL;

(g) has a minimum risk-weighted equity capital adequacy ratio (as defined by the Basel Committee on banking regulations and supervisory practices) of 5 percent by year-end 1995, 6 percent by year-end 1996, 7 percent by year-end 1997 and 8 percent by year-end 1998;

(h) has exposure to any one borrower as a percent of its equity capital of no more than 40 percent by year-end 1995, 35 percent by year-end 1996, 30 percent by year-end 1997, 25 percent by year-end 1998; and

(i) has aggregate exposure to insiders (defined as council members, members of the Management Board of such PFI, employees in a management position and shareholders with voting rights in excess of 10 percent) of no more than 90 percent of equity capital as of year-end 1995, 80 percent as of year-end 1996, 70 percent as of year-end 1997 and 60 percent as of year-end 1998.

2. For the purpose of enabling ABL to qualify as a Participating Financial Institution under the Project the Borrower shall:

(a) enter into a Capitalization Finance Agreement with ABL on terms and conditions satisfactory to the Bank including, without limitation, the following:

(i) assurances, satisfactory to the Bank and adequate to protect the interests of the Borrower, that the amount to be extended to ABL under the Capitalization Finance Agreement shall be so applied by ABL in such a manner as to discharge the obligations of the Government of the Borrower represented by the Government Bonds, while at the same time permitting ABL to protect or improve its financial position in accordance with the ABL Recapitalization Plan; and

(ii) an undertaking by the Borrower to include ABL as a PFI for purposes of the agriculture credit facility provided for under the Project, conditional on ABL's otherwise satisfying, the eligibility criteria for PFIs as set

forth in paragraph 1 of this Schedule and duly entering into a Subsidiary Loan Agreement as provided for under paragraph 1 (b) of Schedule 5 to this Agreement; and

(b) ensure that ABL has (1) adopted rural credit lending Guidelines and procedures for ABL's entire lending operations acceptable to the Bank; (ii) prepared and adopted a rural credit manual acceptable to the Bank; and (iii) instituted an initial program of staff training acceptable to the Bank.

3. For the purposes of paragraph I (a) of this Schedule, the term "International Accounting Standards" or "IAS" means the accounting standards issued or endorsed by the International Accounting Standards Committee and the term "equity capital" or "capital" or "net worth" means assets minus liabilities, as defined under IAS.

