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CREDIT NUMBER 4745-UZ

Project Agreement

(Energy Efficiency Facility for Industrial Enterprises Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

**“UZBEK INDUSTRIAL AND CONSTRUCTION BANK”
OPEN JOINT-STOCK COMMERCIAL BANK**

Dated August 18, 2011

PROJECT AGREEMENT

Agreement dated _____, 2011, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and “UZBEK INDUSTRIAL AND CONSTRUCTION BANK” OPEN JOINT-STOCK COMMERCIAL BANK (“Participating Bank”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the REPUBLIC OF UZBEKISTAN (“Recipient) and the Association. The Association and the Participating Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.
- 1.03. Each reference in the General Conditions to the Project Implementing Entity shall be deemed as a reference to the Participating Bank.

ARTICLE II - PROJECT

- 2.01. The Participating Bank declares its commitment to the objectives of the Project. To this end, the Participating Bank shall carry out Part B of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Participating Bank shall otherwise agree, the Participating Bank shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

4.01. The Participating Bank's Representative is Chairman of the Management Board.

4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. The Participating Bank's Address is:

“Uzbek Industrial and Construction Bank”
Open Joint-Stock Commercial Bank
3, Shahrisabzkaya str.
Tashkent 100000
Republic of Uzbekistan

Facsimile:

(998 71) 233 34 26

AGREED at Tashkent, Republic of Uzbekistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Takuya Kamata

Authorized Representative

“UZBEK INDUSTRIAL AND CONSTRUCTION
BANK” OPEN JOINT-STOCK COMMERCIAL BANK

By /s/ Abdurasul Abdullaev

Authorized Representative

SCHEDULE

Execution of the Participating Bank's Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Participating Bank shall, until the completion of the Project, maintain at all times the PIU, with adequate staffing, terms of reference and budgetary resources satisfactory to the Association.

2. The Participating Bank shall carry out Part B of the Project in accordance with the Operations Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision of the Operations Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

3. The Participating Bank shall fully comply with all the applicable prudential norms and regulations of the Central Bank of the Recipient set forth in the "Regulation on Capital Adequacy of Commercial Banks" registered by the Ministry of Justice under No. 949 on 25.07.2000; the "Procedures for Categorization of Asset Quality, Formation and Use of Provisions Established by the Commercial Banks to Cover Possible Related Losses" registered by the Ministry of Justice under No. 632 on 11.02.1999; the "Regulation on Requirements to Commercial Banks' Liquidity Management" registered by the Ministry of Justice under No. 412 on 02.11.1998; the "Regulation on Maximum Exposure to One Borrower or a Group of Interconnected Borrowers" registered by the Ministry of Justice under No. 422 on 02.11.1998; and the "Regulation on Transactions Between Banks and Related Persons" registered by the Ministry of Justice under No. 423 on 02.11.1998; and in particular as regards to: (1) capital adequacy; (2) asset quality; (3) management and governance; (4) liquidity; and (5) profitability and efficiency.

4. (a) Unless otherwise agreed with the Association, the Participating Bank shall maintain compliance with the following criteria: (i) the net loans-to-total deposits shall be below 200%; (ii) maintaining a positive return on the assets; (iii) the non-performing loans shall be below 10 percent of gross loans excluding state guaranteed loans; and (iv) the non-performing Sub-loans under the Project shall be below 10 percent or less than 3 Sub-loans.

(b) For purposes of this paragraph 4 (a):

(i) the term "net loans" means total volume of loan exposure minus provisions to cover possible losses;

- (ii) the term “total deposits” means total volume of all deposits of the customers, including the state organizations, social organizations, legal entities and individuals;
- (iii) the term “return on assets” means ratio of net profit to average weighted balance of assets;
- (iv) the term “non-performing loans” means impaired loans according to IFRS minus loan impairment provisions; and
- (v) the term “state guaranteed loans” means loans provided under the guarantee of the Republic of Uzbekistan.

B. Anti-Corruption

The Participating Bank shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Sub-projects

1. The Participating Bank shall make Sub-loans to Beneficiaries and appraise, review, approve, and supervise Sub-projects in accordance with the criteria, conditions and procedures set forth in the Operations Manual, including, inter alia, the following eligibility criteria:

(a) (i) the proposed Sub-project is in compliance with the environmental standards set out in the Environmental Assessment Framework, and with all applicable laws and regulations of the Recipient relating to environmental protection; (ii) an environmental screening has been carried out for the proposed Sub-project in accordance with principles set forth in the Environmental Assessment Framework; and (iii) if said environmental screening concludes that an EMP is required, said EMP has been prepared by the Beneficiary and approved by the Recipient and the Association for implementing the proposed Sub-project;

(b) the proposed Sub-project is technically feasible, and economically, financially and commercially viable; and

(c) the proposed Sub-project is in support of energy efficiency investments in industrial enterprises with the objective of achieving energy savings and shall include, inter alia, the following categories of energy efficiency investments:

- (i) investments in energy systems related to boiler upgrading and fuel switching, use of co-generation facilities, electric driven systems, including compressed air systems, electric chillers,

machinery and lighting; as well as heat piping (steam, water) and associated equipment;

- (ii) investments in process technology related to upgrading and replacement of equipment, machinery and facilities; and/or
- (iii) investments in waste heat and waste use related to the utilization of waste heat (of hot/warm gases, liquids and solids) and burning of combustible waste (gases, liquids, solids) when harmful pollution can be effectively controlled.

2. No Sub-project shall be eligible for financing under the Project if such Sub-project: (a) is qualified as per the Environmental Assessment Framework as a Category A; or (b) will include activities deemed ineligible in accordance with the exclusion list set forth and defined in the Operations Manual.

3. The Participating Bank shall make Sub-loans to Beneficiaries in accordance with eligibility criteria and procedures acceptable to the Association as set out in the Operations Manual, and shall only make the proceeds of the Sub-loan available to such Beneficiary after the Participating Bank has entered into a Sub-loan Agreement with the Beneficiary on terms and conditions acceptable to the Association, which shall include the following:

(a) The Sub-loan shall be: (i) in an amount not exceeding three million US Dollars (US\$3,000,000) equivalent to any individual Beneficiary or group of connected Beneficiaries, unless otherwise agreed by the Association; (ii) denominated and repayable in US Dollars, Soum linked to US Dollars or in Soum, depending on the assessment of the Beneficiaries' capacity to repay in foreign currency and the need to purchase imported goods and services; (iii) repaid with a maturity and grace period as set forth in the Operations Manual for various types of Beneficiaries and Sub-projects; (iv) charged interest on the principal amount withdrawn and outstanding from time to time at a rate sufficient to cover the cost of borrowing of the Participating Bank concerned plus a reasonable risk-adjusted spread and profit margin; (v) co-financed by the Beneficiary in an amount equivalent to 20% of the cost of each Sub-project.

(b) The Participating Bank shall obtain rights adequate to protect its interests and those of the Recipient and the Association through a Sub-loan Agreement between the Participating Bank and a Beneficiary, including the right to:

- (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-loan, or declare to be immediately due and payable, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Sub-loan Agreement; and

- (ii) require each Beneficiary to:
 - (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental standards and practices satisfactory to the Association and in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of financing proceeds other than the Recipient as well as the requirements set out in the Environmental Assessment Framework;
 - (B) contribute to the Sub-project an amount equivalent to at least 20% of the said Sub-project's cost, and thereafter provide promptly as needed, the resources required for carrying out the Sub-project;
 - (C) procure the goods, works and services to be financed out of the Sub-loan in accordance with the provisions of this Agreement and use such goods, works, and services exclusively for the Sub-project;
 - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives;
 - (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards as set forth in the Operations Manual, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) have such financial statements audited by independent auditors as set forth in the Operations Manual, in accordance with consistently applied auditing standards as set forth in the Operations Manual, and promptly furnish the statements as so audited to the Recipient and the Participating Bank;
 - (F) enable the Recipient, the Association and the Participating Bank to inspect the Sub-project, its operation and any relevant records and documents; and

- (G) prepare and furnish to the Recipient, the Association and the Participating Bank all such information as the Recipient or the Association or the Participating Bank shall reasonably request relating to the foregoing.

4. Unless the Association shall otherwise agree, each of the Participating Bank shall select and approve Beneficiaries in accordance with the criteria and procedures set forth in the Operations Manual, including that a Beneficiary may be selected only if:

- (a) said Beneficiary has been established and is operating pursuant to the Recipient's relevant laws and regulations;

- (b) said Beneficiary: (i) owns less than 1% in the shares of the Participating Bank; and (ii) has none of its shares owned by the Participating Bank or any subsidiary or affiliate thereof;

- (c) said Beneficiary has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project, including without limitation: (A) a maximum debt-equity ratio of 75:25 (after receipt and for the first three years for each Sub-loan), unless otherwise agreed with the Association; (B) after receipt of the sub-loan, it generates enough cash during the pay-back period of the Sub-loan to maintain a minimum debt service coverage ratio of at least 1.1:1 (after receipt), unless otherwise agreed with the Association;

- (d) said Beneficiary has a demonstrated record of profitability in the preceding two business years; and

- (e) said Beneficiary has demonstrated that the annual energy efficiency savings of the proposed Sub-project shall be at least equal to 20%.

5. For the purpose of Section 4(c) above:

- (a) the term "debt-equity ratio" means the proportion of total liabilities and equity the Beneficiary uses to finance its assets; and

- (b) the term "debt service coverage ratio" means the coverage of interest expense with earnings before interest and taxes.

6. The Participating Bank shall furnish Sub-project proposals and appraisal documents for the first two (2) Sub-projects under its respective Part of the Project to the Association for review and approval, prior to signing of Sub-loan Agreements for carrying out said Sub-projects.

7. The Participating Bank shall exercise its rights under each Sub-loan Agreement in such manner as to protect the interests of the Recipient, the Association and the Participating Bank and to accomplish the purposes of the Financing. Except as the Recipient and the Association shall otherwise agree, the Participating Bank shall not assign, amend, abrogate or waive any Sub-loan Agreement or any of its provisions.

D. Safeguards

1. The Participating Bank shall: (i) take all necessary measures to implement the Project in accordance with the Operations Manual, the Environmental Assessment Framework and the EMPs, and shall not amend, suspend, abrogate, repeal or waive any provisions of the Operations Manual, the Environmental Assessment Framework and the EMPs, without prior approval of the Association; (ii) ensure that no Sub-project shall involve any involuntary resettlement or land acquisition; and (iii) ensure that adequate information on the implementation of the Environmental Assessment Framework and the EMPs is suitably included in the Project Reports referred to in Section II.A of this Schedule.

2. The Participating Bank shall not finance any Sub-project with a Sub-loan unless: (i) the Sub-project has been screened and approved by the Participating Bank in accordance with the provisions of the Operations Manual and the Environmental Assessment Framework; and (ii) as the case may be, the Sub-project has been subjected to an environmental analysis and its environmental impacts have been addressed in a manner satisfactory to the Association in accordance with the provisions of the Operations Manual and the Environmental Assessment Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Participating Bank shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

B. Financial Management, Financial Reports and Audits

1. The Participating Bank shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Participating Bank, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Participating Bank shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one fiscal year of the Participating Bank. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

Section III. Procurement

All goods, works and services required for the Participating Bank's Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.