

CONFORMED COPY

LOAN NUMBER 3191 HU

Loan Agreement

(Financial System Modernization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

NATIONAL BANK OF HUNGARY

Dated June 1, 1990

LOAN NUMBER 3191 HU

LOAN AGREEMENT

AGREEMENT, dated June 1, 1990, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and NATIONAL BANK OF HUNGARY (the Borrower).

WHEREAS (A) the Republic of Hungary (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) by agreements (the Project Agreements) of even date herewith between the Bank and each of the Participating Banks, as defined in Section 1.02 (e) of this Agreement, respectively, the Participating Banks have agreed to undertake certain obligations in respect of the carrying out of Part C 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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) "BB" means the Budapest Bank, Ltd. established under Resolution No. 1084/1986 dated December 30, 1986, of the Council of Ministers of the Guarantor and operating pursuant to statutes adopted by a general meeting of BB's shareholders on December 14, 1989;

(b) "CCB" means the Commercial and Credit Bank Ltd., established under Resolution No. 1084/1986 dated December 30, 1986, and operating pursuant to Rules of Association adopted by a general meeting of CCB's shareholders on November 13, 1989;

(c) "HCB" means the Hungarian Credit Bank Ltd., established under Resolution No. 1084/1986 dated December 30, 1986, and operating pursuant to Articles of Association adopted by a general meeting of HCB's shareholders on November 15, 1989;

(d) "NSB" means the National Savings Bank, established by Decree No. 60/1949 dated December 28, 1949, of the Government of the Guarantor and operating pursuant to a Founding Charter approved by the Guarantor's Minister of Finance and effective as of January 1, 1989;

(e) "Participating Bank" means BB, CCB, HCB or NSB;

(f) "BB Project Agreement" means the agreement between the Bank and BB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the BB Project Agreement;

(g) "CCB Project Agreement" means the agreement between the Bank and CCB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the CCB Project Agreement;

(h) "HCB Project Agreement" means the agreement between the Bank and HCB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the HCB Project Agreement;

(i) "NSB project Agreement" means the agreement between the Bank and NSB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the NSB Project Agreement;

(j) "Project Agreements" means the agreements referred to in paragraphs (f) through (i) of this Section;

(k) "CSFO" means the Center for Settlement of Financial Operations Ltd , a joint-stock company established and operating pursuant to statues adopted by a general meeting of its shareholders on December 19, 1988;

(l) "ITCB" means the International Training Center for Bankers Ltd., a joint-stock company established and operating pursuant to Articles of Association adopted by a general meeting of its shareholders on November 15, 1988;

(m) "ITCB Agreement means the agreement to be entered into pursuant to Section 3.01 (c) of this Agreement between the Borrower and ITCB, as the same may be amended from time to time;

(n) "Subsidiary Loan Agreement" means any agreement to be entered into pursuant to Section 3.01 (b) of this Agreement between the Borrower and, respectively, the Guarantor, each of the Participating Banks, each of the Eligible Banks and CSFO, as the same may be amended from time to time;

(o) "Subsidiary Loan" means any loan provided under a Subsidiary Loan Agreement;

(p) "Eligible Bank" means any financial institution other than a Participating Bank with which the Borrower shall have entered into a Subsidiary Loan Agreement;

(q) "Credit Policy Guidelines" means the Monetary and Credit Policy Guidelines regulating the provision of credit by the Borrower, established by Resolution No. 1166/1989 dated December 28, 1989, of the Council of Ministers of the Guarantor;

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

(s) "Category" means any withdrawal Category set forth in the table in paragraph 1 of Schedule 1 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, various currencies that shall have an aggregate value equivalent to the amount of sixty-six million dollars (\$66,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain on its books a special account in dollars on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

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

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

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: (i) carry out Part B of the Project, and take all action required on its part to cause Parts A, C and D of the Project to be carried out, with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and economic practices, and to enable the Guarantor, the Participating Banks, the Eligible Banks and CSFO to perform their respective obligations under their respective Subsidiary Loan Agreements and ITCB to perform its obligations under the ITCB Agreement; (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose; and (iii) conduct its operations and affairs under the Project in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Credit Policy Guidelines.

(b) The Borrower shall make available to the Guarantor, the Participating Banks, the Eligible Banks and CSFO the equivalent of the proceeds of the Loan referred to in Schedule 6 to this Agreement under subsidiary loan agreements to be entered into between the Borrower and, respectively, the Guarantor, each of the Participating Banks, each of the Eligible Banks and CSFO under terms and conditions which shall have been approved by the Bank, and which shall include, without limitation, those set forth in said Schedule 6.

(c) The Borrower shall make available to ITCB the proceeds of the Loan allocated from time to time to Category (5) under an agreement to be entered into between the Borrower and ITCB, under conditions which shall have been approved by the Bank and which shall include, without limitation, those set forth in Schedule 6 to this Agreement.

(d) The Borrower shall exercise its rights under the Subsidiary Loan Agreements and the ITCB Agreement in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the Subsidiary Loan Agreements, the ITCB Agreement or any provision thereof.

Section 3.02. The Borrower shall:

(a) coordinate and monitor the overall execution of the Project and the carrying out by the parties to the Subsidiary Loan Agreements and the parties to the ITCB Agreement of their respective obligations thereunder in accordance with policies and procedures satisfactory to the Bank; and

(b) except as the Bank shall otherwise agree, ensure that the procurement of the goods and consultants' services 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. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to use of goods and services, plans and schedules, records and reports, and maintenance, respectively) in respect of:

(a) Part A of the Project shall be carried out by the Guarantor pursuant to Section 3.04 of the Guarantee Agreement; and (b) Part C of the Project shall be carried out by the Participating Banks pursuant to Section 2.03 of each of the Project Agreements.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures in respect of the Project.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section and the records and accounts 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 five 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; 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.

(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, 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:

(a) open, by the date on which it shall receive the first payment of interest or other charges on, or repayment of principal under, any of the Subsidiary Loan Agreements and thereafter maintain a separate account on its books in accordance with its normal financial practices; and

(b) upon receipt of each such payment or repayment, credit the same to the said separate account. All amounts so credited shall be utilized by the Borrower, to the extent they are not yet required to meet the Borrower's payment obligations under this Agreement, exclusively to finance activities similar to those financed under the Project, in accordance with the Credit Policy Guidelines.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that the Credit Policy Guidelines shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the financial condition of the Borrower or the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Without limitation upon the provisions of Section 5.01 of this Agreement, if any of the following events of suspension shall have occurred and be continuing in respect of a Participating Bank, the Bank may, by notice to the Borrower and the Guarantor, suspend the right of the Borrower to make withdrawals from the Loan Account for expenditures to be financed out of the proceeds of the Loan pursuant to the Subsidiary Loan Agreement between the Borrower and such Participating Bank:

(a) Any of the Participating Banks shall have failed to perform any of its obligations under its respective Project Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that any of the Participating Banks will be able to perform its respective obligations under its respective Project Agreement.

(c) Any of the Resolution, Statutes, Rules, Articles, Decree and Charter referred to in Section 1.02 (a) through (d) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the concerned Participating Bank to perform any of its obligations under its respective Project Agreement.

(d) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of any of the Participating Banks or for the suspension of its operations.

Section 5.03. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in Section 5.01 and Section 5.02 (c) and (d) of this Agreement shall occur; and

(b) the event specified in Section 5.02 (a) of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

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, namely, that Subsidiary Loan Agreements have been executed on behalf of the Borrower and each of the Guarantor, the Participating Banks and CSFO and the ITCB Agreement has been executed on behalf of the Borrower and ITCB.

Section 6.02. The following are specified as additional matters, 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:

(a) that the Subsidiary Loan Agreements referred to in Section 6.01 of this Agreement and the ITCB Agreement have been duly authorized or ratified by the parties

thereto and are legally binding upon the parties thereto in accordance with their terms; and

(b) that the Project Agreements have been duly authorized or ratified by the Participating Banks and are legally binding upon the Participating Banks in accordance with their terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The president 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 Bank:

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

Cable address:

Telex:

(TRT), INTBAFRAD 197688
Washington, D.C.
248423 (RCA), 64145 (WUI)
or 82987 (FTCC)

For the Borrower:

National Bank of Hungary
Department for International
Development Institutions
H-1850 Budapest
Szabadsag ter 8-9
Republic of Hungary

Cable address:

Telex:

BANKO 227267
SMAFV-H, Budapest 225755 BANKO-H or
227029 BANKO-H

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/ Eugenlo F. Lari
Acting Regional Vice

President
North Africa

Europe, Middle East and

NATIONAL BANK OF HUNGARY

By /s/ Laszlo Body
Authorized Representative

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 amounts 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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods, consultants' services and training under Part A of the Project	4,000,000)	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods; 80% of
local		
(2) Goods, consultants' services and training under Part B of the Project	4,000,000)	expenditures for services of consultants within the territory of the Guarant or and 100%
domiciled		
(3) Goods, consultants' services and training under Part C of the Project:)	of foreign expenditures for services of other consultants; and 100% of foreign expenditures for training
(a) for BB	4,600,000)	
(b) for CCB	6,600,000)	
(c) for HCB	6,700,000)	
(d) for NSB	8,600,000)	
(4) Goods, consultants' services and training under Part D (1) of the Project	22,500,000)	100% of foreign expenditures and 100% of local expenditures (ex-factory cost) for goods; 80% of
local		
domiciled		expenditures for services of consultants within the territory of the Guarant or and 100%

			of foreign expenditures for services of other consultants; and 100% of foreign expenditures for training
(5)	Goods and consultants' services under Part D (2) of the Project	1,000,000	100% of foreign expenditures
(6)	Unallocated	8,000,000	
	TOTAL	66,000,000	

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$5,000,000, may be made on account of payments made for expenditures before that date but after June 1, 1989; and

(b) Category (4) on account of expenditures by an Eligible Bank except after the Bank shall have communicated to the Borrower its acceptance of evidence that a Subsidiary Loan Agreement has been executed on behalf of, and is legally binding upon, the Borrower and such Eligible Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to modernize the regulatory framework and institutional capabilities of the financial system and to improve its ability to mobilize and allocate financial resources efficiently.

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

Part A:

The carrying out by the Guarantor of:

- (1) a program to: (a) develop further the regulatory framework for banking operations and the prudential regulations applicable thereto, (b) strengthen the

organization and functions of its State Bank Supervision Agency, including the development and application of appropriate operational policies and procedures, the training of staff and the provision of a suitable management information system; and (c) carry out portfolio audits of BB, CCB and HCB and other banks selected by agreement between the Guarantor and the Bank;

- (2) a program to develop further the securities market, including (a) the formulation and application of an appropriate regulatory framework for securities market trading, (b) the establishment, under appropriate operational policies and procedures, staffing, equipping and operation of a securities market supervisory body and a stock exchange, (c) the provision of training to securities market participants and potential issuers of, and investors in, securities, in the operations of the securities market, and (d) the carrying out of a review of the operations of the securities market to identify and implement a suitable strategy to increase the Participation by institutional and individual investors in the securities market; and
- (3) a two-year program to improve the Guarantor's accounting and auditing standards to bring them in line with internationally accepted accounting and auditing standards and to provide the resources required for the proper application of such standards, including the establishment, under appropriate operational policies and procedures, staffing and equipping of a committee to coordinate the carrying out of such activities and an executive authority to supervise the application of the accounting and auditing standards developed thereunder.

Part B:

The carrying out of: (1) a program to strengthen the operations of the Borrower, including the design and application of a suitable management information system and the provision of equipment and staff training; and (2) a program to provide advisory services to assist financial institutions in the development of their institutional capabilities.

Part C:

The carrying out, by each of BB, CCB, HCB and NSB of a program to strengthen its respective organization, management, operations and financial structure, including the carrying out of external financial audits and the provision of staff training and of a suitable automated management information system.

Part D:

(1) The financing by the Borrower, through the provision of Subsidiary Loans, of

(a) (i) diagnostic studies by Eligible Banks to prepare programs for the strengthening of each such Eligible Bank's organization, management, operations and financial structure; and (ii) programs by Eligible Banks to strengthen each such Eligible Bank's organization, management, operations and financial structure, including the carrying out of external financial audits

and the provision of staff training and of a suitable automated management information system; and

(b) the establishment, staffing and equipping by CSFO of a national payments clearing center for the banking system, including the provision of staff training and of a suitable electronic communications network.

(2) The carrying out of a program by ITCB to strengthen its training programs and enhance its provision of advisory and information services to financial institutions in the development of their training programs, including the provision of training equipment and materials.

* * *

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due dollars)*	Payment of Principal (expressed in dollars)
On each June 15 and December 15 beginning December 15, 1995 through June 15, 2005	3,300,000

* The figure in this column represents the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment
Premium

The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of

	prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the territory of the Guarantor may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Goods and technical licenses which the Bank agrees (a) are of proprietary nature, (b) the timely supply thereof is critical for efficient Project execution, or (c) need to be compatible with other installed equipment, may be procured through direct negotiations with the proprietors thereof, on terms and conditions acceptable to the Bank.

2. Goods estimated to cost less than the equivalent of \$300,000 per contract, up to an aggregate amount not to exceed the equivalent of \$8,000,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the

Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such Procedures shall be modified to ensure that the 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.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

Consultants' services required for the carrying out of the Project shall be procured under contracts awarded to consultants: (A) whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank; and (B) who shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the guidelines for the Use of Consultants by world Bank Borrowers and by in e world Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

ta) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project 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 1 to this Agreement, and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible 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 6

Principal Terms and Conditions of the Subsidiary Loan Agreements
and ITCB Agreement

Except as the Bank and the Borrower shall otherwise agree, the principal terms and conditions set forth or referred to in this Schedule shall apply for the purposes of Section 3.01 (b) and (c) of this Agreement.

A. Subsidiary Loans - General

1. The principal amount of each Subsidiary Loan shall be the equivalent in the currency of the Guarantor (determined as of the respective date or dates of withdrawal from the Loan Account or payment out of the Special Account) of the aggregate value of the currency or currencies so withdrawn or paid out on account of the cost of goods, technical licenses, consultants' services and training (goods and services) financed out of the proceeds of the Loan pursuant to the Subsidiary Loan Agreement providing for such Subsidiary Loan.)

2. Each Subsidiary Loan shall be charged on the principal amount thereof, withdrawn and outstanding from time to time, interest at a rate determined in accordance with the principles applied by the Borrower under the Credit Policy Guidelines for the establishment of its refinancing rate as of the date of this Agreement.

3. Each Subsidiary Loan shall have a maturity of not more than 15 years, inclusive of a grace period of not more than five years.

4. The right of a party to a Subsidiary Loan Agreement to the use of the proceeds of such party's respective Subsidiary Loan shall be: (a) suspended upon failure by such party to perform any of its obligations under its

respective Subsidiary Loan Agreement; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

B. Guarantor

The Subsidiary Loan Agreement to be entered into between the Borrower and the Guarantor shall require the Guarantor to carry out Part A of the Project in accordance with the provisions of Article III of the Guarantee Agreement.

C. Participating Banks

Each Subsidiary Loan Agreement to be entered into between the Borrower and a Participating Bank shall require said Participating Bank to carry out its activities under Part C of the Project in accordance with the provisions of Article II of the Project Agreement.

D. Eligible Banks CSFO and ITCB

1. Each Subsidiary Loan Agreement to be entered into between the Borrower and each of the Eligible Banks and CSFO, and the ITCB Agreement between the Borrower and ITCB (each of said Subsidiary Loan Agreements and the ITCB Agreement referred to as an Agreement and the Eligible Banks, CSFO and ITCB collectively referred to as the parties) shall require each of the parties to:

(a) carry out its activities under Part D of the Project with due diligence and efficiency and in accordance with appropriate practices and provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) employ consultants with qualifications, experience and terms of reference satisfactory to the Bank, to assist it in the carrying out of its activities under Part D of the Project;

(c) procure the goods and services to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Agreement, and use such goods and services exclusively in the carrying out of its activities under Part D of the Project;

(d) exchange views with, and furnish all such information to, the Bank or the Borrower, as shall be requested by the Bank or the Borrower, with regard to the progress of its activities under Part D of the Project, the performance of its obligations under its respective Agreement, and other matters relating to the purposes of Part D of the Project; and

(e) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Agreement.

2. Each Subsidiary Loan Agreement to be entered into between the Borrower and each of the Eligible Banks and CSFO (the parties) shall further require each of the parties to: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition and have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, under terms of reference satisfactory to the Bank and in accordance with appropriate auditing principles consistently applied, by independent auditors

acceptable to the Bank, (ii) furnish to the Bank and the Borrower, as soon as available, but in any case not later than five months after the end of each such year (A) certified copies of said financial statements and accounts for such year as so audited, and (B) the report of such audit by said auditors in such scope and detail as the Bank or the Borrower shall have reasonably requested, and (iii) furnish to the Bank or the Borrower such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank or the Borrower shall from time to time reasonably request.

3. The ITCB Agreement shall further require ITCB to: (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition; and (ii) prepare and furnish to the Bank or the Borrower, all such information as the Bank or the Borrower shall reasonably request relating to the foregoing, to its administration, operations and financial condition.

4. The Subsidiary Loan Agreement to be entered into between the Borrower and CSFO shall further require CSFO to charge fees for services performed by CSFO as national payments clearing center at levels sufficient to enable CSFO to cover its operating costs, capital expenditures and debt-service requirements, all as determined on the basis of guidelines satisfactory to the Bank.

E. Eligible Banks

1. A Subsidiary Loan Agreement for the purposes of Part D (1) (a) of the Project shall be entered into only with a financial institution, duly established and operating under the laws of the Guarantor, which the Borrower shall have determined and the Bank shall have agreed has a sound financial structure.

2. A Subsidiary Loan Agreement for the purposes of Part D (1)

(a) (ii) of the Project providing for a Subsidiary Loan in an amount equivalent to \$300,000 or more shall further:

(a) be entered into only with a financial institution which has (i) completed an institutional diagnostic study, on the basis of guidelines acceptable to the Bank, (ii) based on the results and recommendations of said study, developed and adopted an action program, acceptable to the Bank, to strengthen its organization, management and operations and financial structure, and (iii) established a task force satisfactory to the Bank, to coordinate and monitor the carrying out of said action program; and

(b) require such Eligible Bank to:

(i) carry out the action program referred to in paragraph 2 (a) (ii) of this Part and the action plan referred to in paragraph 2 (b) (ii) of this Part as part of its activities under Part D of the Project to be carried out in accordance with paragraph 1 of Part D of this Schedule; and

(ii) develop and adopt, on the basis of the results of the audit carried out in accordance with the provisions of paragraph 2 of Part D of this Schedule for each of its fiscal years during which it shall be carrying out its activities under Part D of the Project an

action plan, acceptable to the Bank, for the following fiscal year to strengthen its financial structure in accordance with prudent loan classification and provisioning criteria, such action plan for each fiscal year to be prepared not later than six months after the end of the preceding fiscal year.

