

CONFORMED COPY

LOAN NUMBER 3312 PH

(Cottage Enterprise Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated April 4, 1991

LOAN NUMBER 3312 PH

LOAN AGREEMENT

AGREEMENT, dated April 4, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DEVELOPMENT BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) Republic of the Philippines (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 financing of the Project;

(B) the Borrower intends to contract from Kreditanstalt fur Wiederaufbau (KfW) a loan (the KfW Loan) in an amount equivalent to DM 20,000,000 to assist in financing of the Project on the terms and conditions set forth in an agreement (the KfW Loan Agreement) to be entered into between the Borrower and KfW.

(C) 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; 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 and in the Preamble to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Charter" means the charter of the Borrower dated December 3, 1986, as amended to the date of this Agreement;

(b) "Cottage Enterprise(s)" means enterprise(s) to which a Participating Financial Institution proposes to make or has made a Sub-loan;

(c) "Sub-project" means a commercial activity to be carried out by a Cottage Enterprise utilizing the proceeds of a Sub-loan;

(d) "Participating Financial Institution(s)" means such financial institution(s) as may be accredited by the Borrower for participation in the Project;

(e) "Operating Policy Guidelines" means the guidelines referred to in Section 3.02 (c) of this Agreement;

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

(g) "Statement of Policy" means the policy statement specifying the Borrower's objectives, general operational principles, investment policies, financial prudence limits, financial policy and capital structure, and the statement of lending and investment policy approved by the Board of Directors of the Borrower on April 5, 1989;

(h) "Sub-loan" means a loan made or proposed to be made by a Participating Financial Institution out of the proceeds of a Subsidiary Loan to a Cottage Enterprise for a Sub-project;

(i) "Subsidiary Loan" means the amount made available by the Borrower to a Participating Financial Institution under the provisions of a Subsidiary Loan Agreement;

(j) "Subsidiary Loan Agreement(s)" means agreement(s) to be entered into between the Borrower and Participating Financial Institution(s) pursuant to Section 3.02 (a) of this Agreement;

(k) "Matching Loan" means a loan made by the Borrower to an MGA pursuant to Schedule 4 paragraph 3 of this Agreement;

(l) "MGA" means a Mutual Guarantee Association licensed by the Review Committee through the MGA Management Unit, to be eligible to receive a Matching Loan and whose members are eligible to borrow under the Project;

(m) "MGA Management Unit" means the unit established under

the authority of the Review Committee with responsibility for the implementation and supervision of Part B (1) of the Project;

(n) "Review Committee" means the interagency committee established to oversee the implementation of the Project with powers, membership and functions acceptable to the Bank; and

(o) "Policy Manual" means the guidelines for carrying out of the Project.

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 fifteen million dollars (\$15,000,000) as 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 amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Cottage Enterprise under a Sub-loan to meet the reasonable cost of goods and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank acceptable to the Bank 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, 1996 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 semi-annually on May 15, and November 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. 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, in accordance with the Charter and the Statement of Policy, carry out Parts A, B (2) and C of the Project and cause each Participating Financial Institution to carry out Part A of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel.

Section 3.02. (a) The Borrower shall relend the proceeds of the Loan to the Participating Financial Institutions under separate Subsidiary Loan Agreements, satisfactory to the Bank, to be entered into between the Borrower and each Participating Financial Institution as such agreements may be amended from time to time with the concurrence of the Bank, for the purpose of onlending the proceeds of the Subsidiary Loan to Cottage Enterprises in accordance with the provisions hereof. The Borrower shall not, in any way, pass on the proceeds of the Loan to Cottage Enterprises directly.

(b) The Borrower undertakes that, unless the Bank shall otherwise agree, each Subsidiary Loan and Sub-loan will be made or caused to be made in accordance with the procedures and on the terms and conditions set forth or referred to in Paragraphs 1 and 2 of Schedule 4 to this Agreement.

(c) The Borrower shall adhere to the Operating Policy Guidelines for the operation of the Project as agreed with the Bank. The Operating Policy Guidelines shall, inter alia, contain those matters as set forth or referred to in Paragraph 3 of Schedule 4 to

this Agreement and such other matters as may be mutually agreed upon by the Bank and the Borrower from time to time.

(d) The Borrower shall cause each Participating Financial Institution to exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Bank, the Borrower and the Participating Financial Institution; (ii) comply with its obligations under the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. No expenditures for goods, services and works required for a Sub-project and to be financed out of the proceeds of a Sub-loan shall be eligible for financing out of the proceeds of the Loan unless the procurement procedures outlined in paragraph 4 of Schedule 4 to this Agreement have been followed to the satisfaction of the Bank.

Section 3.04. The Borrower shall ensure that the repayment of principal in respect of Sub-loans made under the Project shall be used exclusively to finance such further Sub-projects as would have been eligible to receive financing out of the proceeds of the Loan.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have its records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by an independent auditor acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditor, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) 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 Section 4.01 of this Agreement, 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 (a) of this Section and that the report of such audit contains a separate opinion by said auditor 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 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 5 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE V

Remedies of the Bank

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

(a) the Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement;

(b) a change shall have been made in the Operating Policy Guidelines without the Bank's consent;

(c) The KfW Loan Agreement shall have failed to become effective by September 1, 1991, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that 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; and

- (d) (i) Subject to subparagraph (ii) of this paragraph:
- (A) the right of the Borrower to withdraw the proceeds of KfW loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
 - (B) the KfW 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 events are specified:

(a) the events specified in paragraphs (a) or (b) of Section 5.01 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; and

(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

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) Subsidiary Loan Agreements have been executed between the Borrower and at least five Participating Financial Institutions acceptable to the Bank;

(b) the Operating Policy Guidelines of the Borrower, satisfactory to the Bank, have been adopted and put into effect; and

(c) the Policy Manual, satisfactory to the Bank, has been approved by the Review Committee established by the Guarantor.

Section 6.02. 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 Chairman 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:

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

For the Borrower:

Development Bank of the Philippines
Sen. Gil Puyat Avenue Corner
Makati Avenue
Makati, Metro Manila
Philippines

Cable address:

Telex:

PHILDEBANK	22197
Manila	

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/ Attila Karaosmanoglu
Regional Vice President
Asia

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Emmanuel Pelaez
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:

Amount of the Loan Allocated	% of
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Category	(Expressed in Dollar Equivalent)	Expenditures To be Financed
(1) Sub-loans under Part A of the Project	15,000,000	90%
	<hr/>	
TOTAL	15,000,000	=====

2. Notwithstanding the provisions of paragraph 1 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 Schedule 4 to this Agreement; and

(b) in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregated amount not to exceed \$1,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1991.

SCHEDULE 2

Description of the Project

The objective of the Project is to implement the MGA scheme to facilitate the extension of credit to cottage enterprises through formal banking channels.

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 financing of Sub-projects through Sub-loans to Cottage Enterprises through Participating Financial Institutions.

Part B:

1. Promotion, establishment, training, monitoring and supervision of MGA.
2. Provision of supplemental Matching Loans.

Part C:

1. The carrying out of technical assistance program to assist the MGA Management Unit to: (i) set-up, monitor and supervise MGA's; (ii) train key staff of MGA's; (iii) provide advice and financial assistance on waste minimization and treatment; and (iv) oversee the implementation of the Project.

2. The carrying out of technical assistance to assist the Borrower in training personnel in the Participating Financial Institution and within the Borrower in order to facilitate dealing with the MGA to further the objective of the Project.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
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November 15, 1996	275,000.00
May 15, 1997	285,000.00
November 15, 1997	295,000.00
May 15, 1998	305,000.00
November 15, 1998	320,000.00
May 15, 1999	330,000.00
November 15, 1999	345,000.00
May 15, 2000	355,000.00
November 15, 2000	370,000.00
May 15, 2001	385,000.00
November 15, 2001	400,000.00
May 15, 2002	415,000.00
November 15, 2002	430,000.00
May 15, 2003	450,000.00
November 15, 2003	465,000.00
May 15, 2004	485,000.00
November 15, 2004	500,000.00
May 15, 2005	520,000.00
November 15, 2005	540,000.00
May 15, 2006	560,000.00
November 15, 2006	585,000.00
May 15, 2007	605,000.00
November 15, 2007	630,000.00
May 15, 2008	655,000.00
November 15, 2008	680,000.00
May 15, 2009	705,000.00
November 15, 2009	735,000.00
May 15, 2010	760,000.00
November 15, 2010	790,000.00
May 15, 2011	825,000.00

* The figures in this column represent 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	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90

More than 18 years before
maturity

1.00

SCHEDULE 4

Procedures for Terms and Conditions of Subsidiary Loans, Sub-loans; Subsidiary Loans, Sub-loans; Operating Policy Guidelines; Procurement

1. For Subsidiary Loans from the Borrower to the Participating Financial Institutions:

(a) Relending interest rates, either fixed or floating, shall be determined by the Borrower as prescribed in the Operating Policy Guidelines.

(b) Subject to the provisions of paragraph 1 (a) above, floating interest rates shall be reviewed by the Borrower every six months and in the event of any change, the revised rate shall be made applicable on both new and outstanding loans/commitments.

(c) The Participating Financial Institutions shall be required to observe the procurement guidelines outlined in paragraph 4 hereinbelow.

(d) Each Participating Financial Institution shall be required to maintain records adequate to monitor and record the progress of each Sub-project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Participating Financial Institution.

2. For Sub-loans from the Participating Financial Institutions to the Cottage Enterprises:

(a) Participating Financial Institutions shall be required to observe the guidelines for making Sub-loans as prescribed by the Borrower in the Operating Policy Guidelines.

(b) Sub-loans shall be based on the terms and conditions prescribed by the Borrower in the Operating Policy Guidelines.

(c) The Cottage Enterprises shall be required to observe the procurement guidelines outlined in paragraph 4 hereinbelow.

(d) Cottage Enterprises and Sub-projects shall be required to meet the eligibility criteria prescribed by the Borrower in the Operating Policy Guidelines.

(e) Cottage Enterprises and Sub-projects shall be required to observe and conform with relevant environmental laws, rules and regulations in force in the Republic of the Philippines.

(f) Each Cottage Enterprise shall be required to maintain records adequate to monitor and record the progress of each Sub-project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Cottage Enterprise.

3. Operating Policy Guidelines

The Operating Policy Guidelines shall, inter alia, prescribe the following:

(i) the accreditation criteria for Participating Financial Institutions;

(ii) procedures for relending by the Borrower and terms and conditions of the Subsidiary Loans to the Participating Financial Institutions;

- (iii) the exclusion of the Borrower as a retailer of funds under the Project;
- (iv) the eligibility criteria for Cottage Enterprises and Sub-projects;
- (v) procedures for onlending to the Cottage Enterprises by the Participating Financial Institutions and terms and conditions of Sub-loans;
- (vi) required minimum loan financing by Participating Financial Institutions in Sub-loans from their own funds;
- (vii) required minimum equity contribution from Cottage Enterprises for investment Sub-projects;
- (viii) minimum and maximum sizes of Sub-loans;
- (ix) required conformance with environmental laws;
- (x) the establishment of a trust account by the Borrower for Matching Loans;
- (xi) terms and conditions of Matching Loans;
- (xii) the ratios of Matching Loans to MGA member initial subscriptions from 1991 through 1994;
- (xiii) the procedures for calculating and accumulating the interest differential on the KfW Loan;
- (xiv) the use of the KfW interest differential income; and
- (xv) the eligibility criteria for obtaining Matching Loans.

4. Procurement

Goods, services and works, to be financed out of the proceeds of the Subsidiary Loans or Sub-loans, shall be purchased at a reasonable price, account being taken also of other relevant factors such as, (i) in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, (ii) in the case of services, of their quality and the competence of the parties rendering them, and (iii) in the case of works, the technical quality and the competitive cost therefor.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Category" means Category (1) 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, works and services required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement.
 - (c) the term "Authorized Allocation" means an amount equivalent to one million five hundred thousand dollars (\$1,500,000) 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 into 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 made 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 Category, 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 Category 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 Category 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; (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.

