

CONFORMED COPY

LOAN NUMBER 3940 PH

Loan Agreement

(Second Rural Finance Project  
Floating Rate Single Currency Loan)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

LAND BANK OF THE PHILIPPINES

Dated October 10, 1995

LOAN NUMBER 3940 PH

FLOATING RATE SINGLE CURRENCY LOAN AGREEMENT

AGREEMENT, dated October 10, 1995, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and LAND BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) THE 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 the financing of the Project;

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

(C) by an agreement of even date herewith between the Borrower and the Bank (the Currency Pool Loan Agreement), the Bank has agreed to provide a loan in various currencies that shall have an aggregate principal value equivalent to fifty million dollars (\$50,000,000) (the Currency Pool Loan) to assist in the financing of the Project described in Schedule 2 to this Agreement, on the terms and conditions set forth in the

Currency Pool Loan Agreement;

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

(E) by an agreement of even date herewith between the Borrower and the Bank (the Fixed Rate Single Currency Loan Agreement), the Bank has agreed to provide a loan (the Fixed Rate Single Currency Loan) in an amount equal to \$50,000,000 to assist in the financing of the Project described in Schedule 2 to this Agreement, on the terms and conditions set forth in the Fixed Rate Single Currency Loan Agreement;

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

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the FRSC 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 Single Currency Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (the General Conditions), with the modifications set forth in Schedule 4 to this Agreement, constitute an integral part of this Agreement.

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

(a) "Beneficiary" means an individual or a private sector enterprise established and operating in the Republic of the Philippines which is engaged in production, investment or related services for the rural economy, including fisheries, agro-industries and agricultural services;

(b) "Charter" means the charter of the Borrower dated August 8, 1963, as amended on February 23, 1995;

(c) "CLF II" means the Second Countryside Loan Fund established by the Borrower to finance, on a wholesale basis through selected financial institutions, medium and long term rural investments;

(d) "CLF II Policy Manual" means the Borrower's Policy Manual for the Second Countryside Loan Fund, satisfactory to the Bank, as may be amended from time to time with the prior agreement of the Bank;

(e) "Cofinancing Financial Institution" means any financial institution established and operating in the Republic of the Philippines which cofinances a Sub-project which is being financed in part out of the proceeds of a VSC-RCF Sub-loan pursuant to the provisions of Schedule 5 to this Agreement;

(f) "Cofinancing VSC-RCF Sub-loan" means a loan either in Dollars or Pesos made or proposed to be made by the Borrower and one or more Cofinancing Financial Institutions, from their respective own resources (other than from the proceeds of the FRSC Loan) to a Beneficiary for a Sub-project being funded in part by a VSC-RCF Sub-loan;

(g) "Free-limit VSC-Sub-loan" means a VSC-CLF II Sub-loan or a VSC-RCF Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 1 (b), Part A of Section II of Schedule 5 to this Agreement;

(h) "Institutional Strengthening Action Plan" means the Borrower's action plan, satisfactory to the Bank, aimed at strengthening its financial and institutional capabilities as a financial institution serving the financial needs of the rural areas of the Republic of the Philippines, as such action plan may be amended from time to time with the prior agreement of the Bank;

(i) "inflation rate" means the official consumer price Index published monthly by the National Economic and Development Authority of the Guarantor;

(j) "Participating Financial Institutions" means the financial institutions established and operating in the Republic of the Philippines which are selected by the Borrower in accordance with the eligibility criteria set forth in the CLF II Policy Manual and "Participating Financial Institution" means each of the Participating Financial Institutions;

(k) "Pesos" means the currency of the Borrower;

(l) "RCF" means the Retail Cofinancing Fund established by the Borrower for purposes of financing medium and long term rural investments;

(m) "RCF Policy Manual" means the Borrower's Policy Manual for the Retail Cofinancing Fund, satisfactory to the Bank, as may be amended from time to time with the prior agreement of the Bank;

(n) "VSC-CLF II Sub-loan" means a loan in Dollars or Pesos made or proposed to be made by a Participating Financial Institution to a Beneficiary for a Sub-project out of the proceeds of the FRSC Loan relented to such Participating Financial Institution under the respective Subsidiary Loan Agreement;

(o) "VSC-CLF II Additional Financing" means a loan either in Dollars or Pesos made or proposed to be made by a Participating Financial Institution, from its own resources (other than from the proceeds of the FRSC Loan) to a Beneficiary for a Sub-project being funded in part by a VSC-CLF II Sub-loan;

(p) "VSC-RCF Sub-loan" means a loan in Dollars or Pesos made or proposed to be made by the Borrower to a Beneficiary for a Sub-project out of the proceeds of the FRSC Loan;

(q) "VSC-Sub-loans" means collectively the VSC-CLF II Sub-loans and the VSC-RCF Sub-loans;

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

(s) "Subsidiary Loan Agreements" means the agreements to be entered into between the Borrower and the Participating Financial Institutions pursuant to Section 3.02 (a) of this Agreement and "Subsidiary Loan Agreement" means each of the Subsidiary Loan Agreements;

(t) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a Participating Financial Institution under the provisions of a Subsidiary Loan Agreement; and

(u) "Sub-project" means a specific rural development project, including fisheries, agro-industries and agro-services, to be carried out by a Beneficiary utilizing the proceeds of a VSC-CLF II Sub-loan and a VSC-CLF II Additional Financing or of a VSC-RCF Sub-loan and a Cofinancing VSC-RCF Sub-loan.

## 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 this Agreement, an amount equal to fifty million dollars (\$50,000,000).

Section 2.02. (a) The amount of the FRSC 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 Beneficiary under a VSC-Sub-loan to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank specifically authorized for this purpose by the Bangko Sentral ng Pilipinas on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 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 FRSC Loan not withdrawn from time to time.

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

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value

the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the FRSC Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

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

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

Section 2.06. Interest and other charges shall be payable March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the FRSC 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 carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with the Charter, RCF Policy Manual, the CLF II Policy Manual and the Institutional Strengthening Action Plan.

Section 3.02. (a) For purposes of carrying out Part A of the Project the Borrower shall relend to the Participating Financial Institutions out of the proceeds of the FRSC Loan an amount in US dollars or Pesos not to exceed in the aggregate the equivalent of \$25,000,000, or such other amount as shall be allocated, from time to time, to Category 1 of the table in Schedule 1 to this Agreement by agreement between the Borrower and the Bank, under subsidiary loan agreements to be entered into between the Borrower and each Participating Financial Institution under terms and conditions satisfactory to the Bank, including those set forth in the CLF II Policy Manual and in Schedule 5 to this Agreement.

- (b) If at any given time the Borrower determines that a

Participating Financial Institution ceases to comply with one or more of the eligibility criteria set forth in the CLF II Policy Manual, the Borrower shall, pursuant to the provisions of paragraph 4(b), Section I of Schedule 5 to this Agreement, immediately cancel the uncommitted amounts of the relevant Subsidiary Loan Agreement and onlend in part or in total such uncommitted amounts to other Participating Financial Institutions which meet the above-mentioned eligibility criteria. The uncommitted funds not onlent pursuant to this paragraph may be canceled by the Bank.

Section 3.03. For purposes of financing Sub-projects under Part B of the Project, the Borrower shall make VSC-RCF Sub-loans and Cofinancing VSC-RCF Sub-loans pursuant to the provisions of Section II, Part C of Schedule 5 to this Agreement.

Section 3.04. In order to assist the Borrower in carrying out Part C of the Project, the Borrower shall, unless the Bank otherwise agrees, engage the services of consultants whose qualifications, experience and terms and conditions of engagement shall be satisfactory to the Bank.

Section 3.05. For purposes of carrying out Part C of the Project, the Borrower shall furnish to the Bank, for its review and comments, its proposed training program for each forthcoming calendar year, including the environmental training programs referred to in Section 3.09 of this Agreement, and thereafter, taking into account the Bank's comments, if any, implement such training programs. For this purpose, the Borrower shall furnish to the Bank its proposed training program for calendar year 1996 by not later than December 15, 1995, and for each subsequent calendar year thereafter, by not later than November 30 of each year, commencing on November 30, 1996.

Section 3.06. Except as the Bank shall otherwise agree, the Borrower shall not directly on-lend to a Beneficiary the proceeds of the FRSC Loan allocated under Category 1 of the table in Schedule 1 to this Agreement.

Section 3.07. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, VSC-Sub-loans shall be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights in relation to each VSC-Sub-loan in such manner as to: (i) protect the interests of the Guarantor, the Bank, and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

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

Section 3.08. The Borrower shall:

(a) maintain adequate records to evidence the eligibility of each Participating Financial Institution to participate in the Project;

(b) on January 1, April 1, July 1 and October 1 of each year, commencing on April 1, 1996 and thereafter, furnish to the Bank for its review and comments, a report on the progress of Parts A and B of the Project in such detail as the Bank shall reasonably request; and

(c) on January 1 and July 1 of each year, commencing on

July 1, 1996 and thereafter, furnish to the Bank for its review and comments, a report on the progress of Part C of the Project in such detail as the Bank shall reasonably request.

Section 3.09. The Borrower shall maintain its Environmental Unit headed by a qualified officer and assigned with such funds, facilities and staffing, including consultants whose qualifications, experience and terms and conditions of engagement shall be satisfactory to the Bank, as shall be necessary to undertake its functions and responsibilities, including:

(a) carrying out of environmental training programs for the Borrower's and each Participating Financial Institution's Project related staff;

(b) maintaining a list of qualified environmental consultants to assist in complying with the requirements set forth in paragraph 2(b)(ii) of Parts B and C of Section II of Schedule 5 to this Agreement. For such purposes, on July 1 of each year, commencing on July 1, 1996 and thereafter, the Borrower shall prepare and furnish to the Bank, for its review and comments, a list of proposed environmental consultants, and thereafter, taking into account the Bank's comments, make available such list to the Beneficiaries and each Participating Financial Institution; and

(c) providing environmental technical assistance to the Participating Financial Institutions and the Beneficiaries, inter alia, to:

- (i) review the project description of each Sub-project to determine the environmental effects that the Sub-project may have;
- (ii) assist in reviewing or preparing the environmental impact assessment for Sub-projects, as required. The cost of preparing such assessment to be borne by the Beneficiaries; and
- (iii) assist the Beneficiaries in preparing and furnishing the required applications to the Guarantor's Department of Environment and Natural Resources and Environmental Management Bureau for purposes of obtaining the environmental clearances and permits for the Sub-projects.

Section 3.10. Except as the Bank shall otherwise agree, the Borrower shall use the proceeds accrued from the repayment of the principal of: (a) Subsidiary Loans for further relending to the Participating Financial Institutions; (b) VSC-CLF II Sub-loans for further relending to Beneficiaries VSC-CLF II Sub-loans; and (c) VSC-RCF Sub-loans for further relending to Beneficiaries VSC-RCF Sub-loans, all on the terms and conditions set forth in the CLF Policy Manual and RCF Policy Manual, as the case may be, and Schedule 5 to this Agreement (except for those relating to the Bank's prior approval of VSC-Sub-loans) and with due consideration to the obligations of the Borrower under this Agreement.

#### 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 of each Sub-project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including the records and accounts referred to in Section 4.01 of this Agreement, those for the Special Account and those for the RCF and CLF II, for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
  - (ii) furnish to the Bank, as soon as available but in any case not later than six 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 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 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 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 4.03. 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. The Borrower shall adopt and thereafter implement the RCF Policy Manual, the CLF II Policy Manual and the Institutional Strengthening Action Plan, all in a manner and substance satisfactory to the Bank. The Borrower further undertakes not to amend, suspend, abrogate, repeal or waive the RCF Policy Manual, the CLF II Policy Manual and the Institutional Strengthening Action Plan without the prior approval of the Bank.

Section 4.05. Except as the Bank shall otherwise agree,



the Borrower shall take all such actions as shall be necessary to distribute dividends from its profits, commencing with the Borrower's fiscal year 1995, only after having made adequate provisioning: (a) for loan losses pursuant to the Institutional Strengthening Action Plan; (b) for equity increases at a level equal to at least one eighth of the growth in the Borrower's net agrarian loan portfolio; and (c) to adjust its equity in real terms taking into account the average inflation rate at the beginning and ending of each fiscal year.

Section 4.06. (a) Except as the Bank shall otherwise agree, commencing on the Borrower's fiscal year 1996 and each fiscal year thereafter, the Borrower shall: (i) maintain the following financial indicators: (A) risk assets to net equity of not more than 8 to 1; (B) liquid assets to short-term deposits of not less than 45%; (C) average profitability in real terms during any consecutive three fiscal years; and (ii) take all such actions as may be necessary to ensure that the arrears on reimbursements due by the Agrarian Reform Fund to the Borrower on account of the Borrower's Agrarian Reform Bonds shall not exceed the lesser of Peso one billion or 10% of the Borrower's equity.

(b) For purposes of this Section:

(i) The term "risk assets" means total assets excluding cash, short-term deposits in banks, investment in government securities and fixed assets used in the course of the Borrower's operations. Provided, however, that commencing January 1, 1996 and thereafter, land acquired and redistributed by the Borrower under the Guarantor's Comprehensive Agrarian Reform Program, and land reform mortgages made by the Borrower shall be excluded from the Borrower's risk assets.

(ii) The term "equity" means the sum of total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.

(iii) The term "liquid assets" means cash, short-term deposits in banks and investment in government securities up to one year.

(iv) The term "profitability in real terms" means net profits at the end of the fiscal year minus the equity net of fixed assets at the beginning of the same fiscal year, multiplied by the annual inflation rate.

(v) The term "arrears on reimbursements" means payments due 45 days or more.

Section 4.07. The Borrower shall take all such actions as shall be necessary to operate and maintain the RCF and CLF II, respectively, on sound commercial and banking basis and shall retain within RCF and CLF II their respective net profits.

Section 4.08. The provisions of Section 4.06 of this Agreement supersede the provisions of Sections 4.04 and 4.05 of the Loan Agreement entered into between the Borrower and the Bank for Loan No. 3356-PH (Rural Finance Project) dated July 11, 1991.

Section 4.09. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall

reasonably request, for the future operation of the Project;

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

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

#### ARTICLE V

##### Remedies of the Bank

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

(a) The Charter 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 the ability of the Borrower to carry out the Project or any part thereof, or to perform any of the obligations of the Borrower under this Agreement or to perform any of the obligations of Borrower under the respective Subsidiary Loan Agreements.

(b) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower.

(c) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of one or more of the Participating Financial Institutions or for the suspension of the operations of one or more of the Participating Financial Institutions, and such dissolution, disestablishment or suspension of operations shall materially and adversely affect the operations or the financial condition of the Borrower, or the ability of the Borrower to carry out the Project or any part thereof, or to perform any of the obligations of the Borrower under this Agreement or to perform any of the obligations of Borrower under the respective Subsidiary Loan Agreements.

(d) Any part of the principal amount of any loan to the Borrower having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the related contractual instrument, or any security for any such loan shall become enforceable.

(e) A subsidiary or any other entity shall have been created or acquired or taken over by the Borrower, if such creation, acquisition or taking over would adversely affect the conduct of the Borrower's business or its financial condition or the efficiency of the Borrower's management and personnel in carrying out the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, any event specified in of Section 5.01 shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Floating Rate Single Currency Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Institutional Strengthening Action Plan, the RCF Policy Manual and the CLF II Policy Manual, satisfactory to the Bank, have been adopted by the Borrower's Board; and

(b) all conditions precedent to the effectiveness of the Currency Pool Loan Agreement and the Fixed Rate Single Currency Loan Agreement, other than those related to the effectiveness of this Agreement, have been fulfilled.

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 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 Borrower:

Land Bank of the Philippines  
317-319 Sen. Gil J. Puyat Avenue  
Makati, Metro Manila  
Republic of the Philippines

Fax:

(063-2) 817 2536

Telex:

62279 LBP PH  
64045 LBP PH

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

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

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/ Russell Cheetham  
Regional Vice President  
East Asia and Pacific

LAND BANK OF THE PHILIPPINES

By /s/ Jesli A. Lapus  
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 FRSC Loan, the allocation of the amounts of the FRSC Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the FRSC Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) VSC-Sub-loans under Part A of the Project	25,000,000	100% of amounts disbursed
(2) VSC-Sub-loans under Part B of the Project	25,000,000	100% of amounts disbursed
TOTAL	50,000,000 =====	

2. 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 to exceed \$5,000,000, may be made on account of payments made for expenditures before that date but after January 1, 1995;

(b) a VSC-Sub-loan unless the VSC-Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under free-limit VSC-Sub-loans.

SCHEDULE 2

Description of the Project

The objective of the Project is to enhance the provision of financial services in the rural areas of the Republic of the Philippines through: (i) financing such productive facilities and resources as will contribute to the economic and social development of the rural areas of the country; (ii) strengthening the Borrower's institutional capacity to finance private sector investments; and (iii) upgrading the operational capacity of the Participating Financial Institutions as providers of financial services.

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

Part A: Provision of VSC-CLF II Sub-loans and VSC-CLF II Additional Financing for carrying out the Sub-projects.

Part B: Provision of VSC-RCF Sub-loans and Cofinancing VSC-RCF Sub-loans for carrying out the Sub-projects.

Part C: Carrying out the Institutional Strengthening Action Plan to enhance the Borrower's financial and institutional capabilities as a financial institution serving the financial needs of the private sector in the rural areas of the Republic

of the Philippines, including appropriate training programs and technical assistance.

\* \* \* \* \*

The Project is expected to be completed by September 30, 2001.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 2001 through March 15, 2015	1,665,000
On September 15, 2015	1,715,000

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\* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

### SCHEDULE 4

#### Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

(1) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph 3 (c), Part A, Section II of Schedule 5 to the Floating Rate Single Currency Loan Agreement, the Bank shall, in respect of any portion of the FRSC Loan: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such

applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the FRSC Loan. Upon the giving of such notice, such amount or portion of the FRSC Loan shall be cancelled."

#### SCHEDULE 5

##### Section I. Terms and Conditions of the Subsidiary Loan Agreements

1. Subsidiary Loans shall be made in Dollars or in Pesos out of the proceeds of the FRSC Loan allocated, from time to time, to Category 1 of the table in Schedule 1 to this Agreement in a principal amount equal to the principal amount of the corresponding VSC-CLF II Sub-loans to be made therefrom.

2. Interest on the principal amount of the Subsidiary Loans withdrawn and outstanding from time to time shall be paid at a variable or fixed rate per annum as may be determined by agreement between the Borrower and the Participating Financial Institution.

3. The principal amount of the Subsidiary Loan shall have the same maturity as that of the VSC-Sub-loan being financed therefrom.

4. The Subsidiary Loan Agreements shall include:

(a) the obligation of each Participating Financial Institution to take all such actions as shall be necessary to comply, at all times, with the eligibility criteria set forth in the CLF II Policy Manual.

(b) the right of the Borrower to cancel the uncommitted funds of the relevant Subsidiary Loan in the event that the Participating Financial Institution fails to maintain one or more of the eligibility criteria set forth in the CLF II Policy Manual.

(c) the undertaking of the Participating Financial Institution to:

(i) carry out its respective part of Part A of the Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards and practices, with qualified and experienced management and staff in adequate numbers, and to provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project;

(ii) unless the Bank and the Borrower shall otherwise agree, make VSC-CLF II Sub-loans in accordance with the procedures and on the terms and conditions set forth or referred to in Part A of Section II of this Schedule and the CLF II Policy Manual;

(iii) exercise its rights in relation to each Sub-project being financed in such manner as to: (A) protect the interests of the Borrower, the Bank, the Guarantor and of the relevant Participating Financial Institution; (B) comply with its obligations under the relevant Subsidiary Loan Agreement; and (C) achieve the purposes of the Project;

(iv) duly perform all its obligations under the relevant Subsidiary Loan Agreement. Except as the Borrower and the Bank shall otherwise agree, not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving its

respective Subsidiary Loan Agreement or any provision thereof;

(v) at the request of either the Borrower or the Bank, exchange views with the Borrower and the Bank with regard to the progress of Part A of the Project, the performance of its obligations under the relevant Subsidiary Loan Agreement, and other matters relating to the purposes of the FRSC Loan;

(vi) furnish to the Borrower and the Bank all such information as the Borrower and the Bank shall reasonably request concerning the expenditures of the proceeds of the VSC-CLF II Sub-loans made, and the relevant Beneficiaries and Sub-projects, and its administration, operations and financial condition. For this purpose the Participating Financial Institutions shall:

(A) maintain procedures, records and accounts adequate to reflect in accordance with sound accounting practices: (1) the progress of each Sub-project (including its cost and the benefits to be derived from it); (2) the operations, resources and expenditures of the Participating Financial Institution in respect of Part A of the Project or any part thereof; and (3) the operations and financial conditions of the Participating Financial Institution;

(B) have such records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with sound auditing principles consistently applied by independent auditors acceptable to the Borrower; and

(C) make available to the Borrower and the Bank, as soon as available, but in any case not later than six months after the end of each such fiscal year, the report of such audit by said auditors, of such scope and in such detail as the Borrower and/or the Bank shall have reasonably requested;

(vii) promptly inform the Borrower of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the FRSC Loan, or the performance by the relevant Participating Financial Institution of its respective obligations under the relevant Subsidiary Loan Agreement; and

(viii) provide VSC-CLF II Additional Financing for Sub-projects under terms and conditions satisfactory to the Bank, including:

(A) appraisal of the Sub-project pursuant to paragraph 1 (a), Part B of this Schedule;

(B) provision of a VSC-CLF II Sub-loan to partially finance the total estimated costs of the Sub-project;

(C) the principal amount of the VSC-CLF II Additional Financing shall be in Dollars or Pesos and shall be in an amount not less than 10% of the total estimated Sub-project costs;

(D) repayment of the principal amount of the VSC-CLF II Additional Financing shall have

the same maturity as that of the corresponding VSC-CLF II Sub-loan; and

- (E) pay interest on the principal amount of the VSC-CLF II Additional Financing withdrawn and outstanding from time to time, at a fixed or variable rate per annum as shall be determined by negotiation between the Beneficiary and the Participating Financial Institution.

## Section II. Procedures for and Terms and Conditions of VSC-Sub-loans

### Part A. VSC-Sub-loans

1. Without limitation to the provisions of Parts B and C of Section II of this Schedule and the proviso set forth in paragraph 2 of Schedule 1 to this Agreement, no expenditures for goods, civil works or services required for a Sub-project shall be eligible for financing out of the proceeds of the FRSC Loan unless:

(a) the VSC-Sub-loan shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of Part A of Section II of this Schedule in respect of such VSC-Sub-loan; or

(b) the VSC-Sub-loan shall have been a free-limit VSC-Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Borrower shall have received the request and information required under paragraph 4 (b) of Part A of Section II of this Schedule in respect of such free-limit VSC-Sub-loan. For the purposes of this Agreement, a free-limit VSC-Sub-loan shall be a VSC-Sub-loan for a Sub-project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$3,000,000 equivalent when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the FRSC Loan for such Sub-project, or such other sum as shall be established by the Bank, from time to time, by notice to the Borrower.

2. Except as the Bank shall otherwise agree, a Participating Financial Institution shall not make any VSC-Sub-loan to finance land, services and working capital, except incremental working capital.

3. (a) When presenting a VSC-Sub-loan (other than a free-limit VSC-Sub-loan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in a form satisfactory to the Bank, together with: (i) a description of the Beneficiary and an appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the FRSC Loan; (ii) the proposed terms and conditions of the VSC-Sub-loan, including the schedule of amortization of the VSC-Sub-loan; provided, however, that: (A) for VSC-CLF II Sub-loans, the information to be provided shall include the proposed principal amount of the VSC-CLF II Additional Financing; and (B) for VSC-RCF Sub-loans, the information to be provided shall include the proposed principal amount of the Cofinancing VSC-RCF Sub-loan; (iii) a statement indicating that an environmental impact assessment of the Sub-project or an analysis of the environmental effects of the Sub-project, as the case may be, has been prepared pursuant to paragraphs 2(b)(ii) Part B or 2(b)(ii) Part C of Section II of this Schedule; (iv) a statement indicating that the Sub-project complies with all environmental laws, rules and regulations in force in the Republic of the Philippines; and (v) such other



information as the Bank shall reasonably request, including a copy of the relevant environmental impact assessment or other appropriate environmental document required under the laws of the Guarantor.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit VSC-Sub-loan shall contain: (i) a summary description of the Beneficiary and Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the FRSC Loan; (ii) the terms and conditions of the VSC-Sub-loan; provided, however, that: (A) for VSC-CLF II Sub-loans, the information to be provided shall include the proposed principal amount of the VSC-CLF II Additional Financing; and (B) for VSC-RCF Sub-loans, the information to be provided shall include the proposed principal amount of the Cofinancing VSC-RCF Sub-loan; (iii) a statement indicating that either an environmental impact assessment of the Sub-project or an analysis of the environmental effects of the Sub-project, as the case may be, has been prepared pursuant to paragraphs 2(b)(ii) Part B or 2(b)(ii) Part C of Section II of this Schedule; and (iv) a statement indicating that the Sub-project complies with all environmental laws, rules and regulations in force in the Republic of the Philippines.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before November 30, 2001.

4. VSC-Sub-loans shall be made on terms whereby the Borrower, in the case of VSC-RCF Sub-loans, and the Participating Financial Institutions, in the case of VSC-CLF II Sub-loans, shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the relevant Participating Financial Institution, as the case may be, including, in the case of any VSC-Sub-loan the right to:

(a) require the Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records;

(b) require that goods and works under contracts estimated to cost the equivalent of \$5,000,000 or more per contract 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 January 1995 (the "Guidelines"); provided, however, that:

(i) when contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract covered by this sub-paragraph (b) the Bank's prior approval will be required for: (A) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (B) any subsequent extension of the bid validity period; and

(ii) goods manufactured in the Republic of the Philippines 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. In the procurement of goods and works in accordance with the above-mentioned procedures the Beneficiary shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Sub-Project. Where no relevant standard bidding documents have been issued by the Bank, the Beneficiary shall use bidding documents based on other internationally recognized standard forms acceptable to the Bank.

Provided, further, that goods: (A) required for modernization or expansion projects, standardized equipment or proprietary parts that are needed for compatibility with existing equipment; (B) available only from limited number of suppliers worldwide; and (C) for other technical reasons acceptable to the Bank, may be procured through direct contracting or under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three (3) qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Section I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

With respect to all contracts under this sub-paragraph (b) the procedures set forth in paragraph 2 of Appendix 1 to the Guidelines shall apply;

(c) goods, services and works, other than those set out in paragraph (b) above, shall be purchased at a reasonable price following the established commercial procedures, 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.

With respect to all contracts under this sub-paragraph (c) the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply;

(d) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods, works, plants and constructions and installations, as the case may be, included in the Sub-project, the operation thereof, and any relevant records and documents;

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

(f) obtain all such information as the Bank, the Borrower or the relevant Participating Financial Institution shall reasonably request relating to the foregoing and to the administration, operations and financial conditions of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the FRSC Loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower or the relevant Participating Financial

Institution, as the case may be.

Part B: VSC-CLF II Sub-loans

1. Without limitation to the provisions of Part A of Section II of this Schedule and the proviso set forth in paragraph 2 of Schedule 1 to this Agreement, VSC-CLF II Sub-loans shall be made to the Beneficiaries by the Participating Financial Institutions under the following terms and conditions:

(a) Sub-projects to be financed using the proceeds of a VSC-CLF II Sub-loan shall be appraised by the relevant Participating Financial Institution and financed in accordance with the criteria set forth in the CLF II Policy Manual and the provisions of this Agreement;

(b) VSC-CLF II Sub-loans shall be made pursuant to the terms and conditions set forth in the CLF II Policy Manual, and the provisions of this Schedule, including the following:

(i) the principal amount of a VSC-CLF II Sub-loan shall be in Dollars or Pesos shall not exceed 75% of the total estimated Sub-project costs;

(ii) repayment of the principal amount of the VSC-CLF II Sub-loan shall not exceed the shorter of the period projected for recovery of the Sub-project costs or fifteen years, including a grace period determined upon the Sub-project's cash flow projections and the Beneficiary's repayment capability; and

(iii) pay interest on the principal amount of the VSC-CLF II Sub-loan withdrawn and outstanding from time to time, at a fixed or variable rate per annum as shall be determined by negotiation between the Beneficiary and the Participating Financial Institution.

2. Except as the Bank shall otherwise agree, to qualify for a VSC-CLF II Sub-loan, a Beneficiary shall demonstrate:

(a) that it meets each and all the eligibility criteria set forth in the CLF II Policy Manual including:

(i) be engaged in production, investment or related services for the rural economy, including fisheries, agro-industries and agricultural services; and

(ii) has the managerial and financial capability to service the principal, interest and other charges of the VSC-CLF II Sub-loan; and

(b) that the Sub-project for which the VSC-CLF II Sub-loan is being requested shall meet the following conditions:

(i) the total estimated Sub-project costs shall be covered by: (A) a minimum of 15% from the Beneficiary's own resources; and (B) the balance, by the principal amount of the VSC-CLF II Sub-loan plus the principal amount of a VSC-CLF II Additional Financing in an amount equal to at least 10% of the total estimated Sub-Project costs;

(ii) an environmental impact assessment, or other environmental requirements provided for under the laws of the Guarantor, shall have been undertaken and be designed on the basis of environmental standards acceptable to the Bank. For all other Sub-projects, an analysis of the environmental effects of the Sub-project has been prepared;

(iii) the Sub-project complies with the environmental laws, rules and regulations in force in the Republic of

the Philippines;

(iv) for Sub-projects in the amount of \$200,000 equivalent or more, have a financial rate of return of not less than the annual interest rate to be charged to the Beneficiary on the VSC-CLF II Sub-loan; and

(v) for Sub-projects in the amount of \$1,000,000 equivalent or more, have an economic rate of return of not less than 12%, or such other rate as shall be determined by the Guarantor's National Economic Development Authority with the prior concurrence of the Bank.

Part C. VSC-RCF Sub-loans

1. Without limitation to the provisions of Part A of Section II of this Schedule and the proviso set forth in paragraphs of Schedule 1 to this Agreement, VSC-RCF Sub-loans shall be made by the Borrower under the following terms and conditions:

(a) Sub-projects to be financed using the proceeds of a VSC-RCF Sub-loan shall be:

(i) appraised by the Borrower and financed in accordance with the criteria set forth in the RCF Policy Manual and the provisions of this Agreement; and

(ii) be further financed by a Cofinancing VSC-RCF Sub-loan from a Cofinancing Financial Institution. The principal amount of each said Cofinancing VSC-RCF Sub-loan shall:

(A) be in Dollars or in Pesos in an aggregate amount of not less than 75% of the principal amount of the corresponding VSC-RCF Sub-loan; provided, however, that the funding by the Borrower of the principal amount of the Cofinancing VSC-RCF Sub-loan shall not exceed 25% of the total principal amount of the Cofinancing VSC-RCF Sub-loan;

(B) have the same maturity as that of the corresponding VSC-RCF Sub-loan; and

(C) require the payment of interest on the principal amount thereof withdrawn and outstanding from time to time, at a fixed or variable rate per annum as shall be determined by negotiation amongst the Beneficiary, the Borrower and the Cofinancing Financial Institution.

(b) VSC-RCF Sub-loans shall be made pursuant to the terms and conditions set forth in the RCF Policy Manual and the provisions of this Schedule including:

(i) the principal amount of a VSC-RCF Sub-loan shall be in Pesos and shall not exceed 42.5% of the total estimated Sub-project costs;

(ii) repayment of the principal amount of the VSC-RCF Sub-loan shall not exceed the shorter of the period projected for recovery of the Sub-project costs or fifteen years, including a grace period determined upon the Sub-project's cash flow projections and the Beneficiary's repayment capability; and

(iii) pay interest on the principal amount of the VSC-RCF Sub-loan withdrawn and outstanding from time to time, at a fixed or variable rate per annum as shall be determined by negotiation amongst the Beneficiary, the Borrower and the Cofinancing Financial Institution.

2. Except as the Bank shall otherwise agree, to qualify for obtaining a VSC-RCF Sub-loan, a Beneficiary shall demonstrate:

(a) that it meets each and all the eligibility criteria set forth in the RCF Policy Manual including:

(i) be engaged in production, investment or related services for the rural economy, including fisheries, agro-industries and agricultural services; and

(ii) has the managerial and financial capability to service the principal, interest and other charges of the VSC-CLF II Sub-loan; and

(b) that the Sub-project for which the VSC-RCF Sub-loan is being requested shall meet the following conditions:

(i) the total estimated Sub-project costs shall be covered by: (A) a minimum of 15% from the Beneficiary's own resources; and (B) the balance, by the principal amount of a VSC-RCF Sub-loan plus the principal amount of a Cofinancing VSC-RCF Sub-loan in an amount equal to at least the principal amount of the VSC-RCF Sub-loan;

(ii) an environmental impact assessment or other environmental requirement provided for under the laws of the Guarantor shall have been undertaken and be designed on the basis of environmental standards acceptable to the Bank. For all other Sub-projects, an analysis of the environmental effects of the Sub-project has been prepared;

(iii) the Sub-project complies with the environmental laws, rules and regulations in force in the Republic of the Philippines;

(iv) for Sub-projects in the amount of \$200,000 equivalent or more, have a financial rate of return of not less than the annual interest rate to be charged to the Beneficiary on the VSC-RCF Sub-loan; and

(v) for Sub-projects in the amount of \$1,000,000 equivalent or more, have an economic rate of return of not less than 12%, or such other rate as shall be determined by the Guarantor's National Economic Development Authority with the prior concurrence of the Bank.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 Parts A and B of the Project and to be financed out of the proceeds of the FRSC 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, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of

\$10,000,000.

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;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.02 (a) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated

to the eligible Categories for Part A of the Project, 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 Part A of 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 FRSC Loan allocated to the eligible Categories for Part A of the Project 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.

