

CONFORMED COPY

CREDIT NUMBER 2423-CHA

(Financial Sector Technical Assistance Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 30, 1992

CREDIT NUMBER 2423-CHA

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 30, 1992, between PEOPLE'S REPUBLIC OF CHINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) by agreement dated March 4, 1991 between the Borrower and the International Bank for Reconstruction and Development (the Bank) as Administrator of Grant Funds provided by Japan (the Japanese Grant Agreement), grant funds have been made available to the Borrower to assist in financing the Project on the terms and conditions set forth in the Japanese Grant Agreement; and

(C) Part A of the Project will be carried out by People's Bank of China (PBC) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PBC a portion of the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and PBC;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "AAPRC" means the Audit Administration of the People's Republic of China, and any successor thereto.

(b) "Bank Management Regulations" means the Provisional Bank Management Regulations of the People's Republic of China, promulgated by the State Council on January 7, 1986.

(c) "MOF" means the Borrower's Ministry of Finance, and any successor thereto.

(d) "MOF Special Account" means the account referred to in Section 2.02 (b) (i) of this Agreement.

(e) "PBC" means People's Bank of China, the Borrower's central bank, organized and operating under the Bank Management Regulations.

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

(g) "Project Agreement" means the agreement between the Association and People's Bank of China (PBC), of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(h) "Special Accounts" means the PBC Special Account and the MOF Special Account, and "Special Account" means any one of the Special Accounts.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to forty-two million one hundred thousand Special Drawing Rights (SDR 42,100,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall: (i) for the purposes of Part B of the Project; and (ii) for the purposes of Part A of the Project, open and maintain in dollars two separate special deposit accounts, to be known as the MOF Special Account and the PBC Special Account, respectively, both in a bank and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or

attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1999 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 15 and September 15 commencing March 15, 2003 and ending September 15, 2027. Each installment to and including the installment payable on September 15, 2012 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(i) shall carry out Parts B and C of the Project through MOF and AAPRC, respectively, all with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and

(ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause PBC to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PBC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts B and C of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit allocated to Part A of the Project available to PBC and the proceeds of the Credit allocated to Part B of the Project available to MOF, both on terms and conditions satisfactory to the Association.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts B and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by PBC pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial and Other Covenants

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

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

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

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

Section 4.02. The Borrower shall take all steps necessary to increase, by December 31, 1992, the ceiling on the permissible level of loan loss provisions which may be established by a financial institution to at least 0.5 percent of an institution's loan portfolio.

Section 4.03. The Borrower and the Association shall, jointly with PBC, review annually the progress made in financial sector reform with reference to selected areas agreed among the Borrower, the Association and PBC, the first such review to take place in 1993.

ARTICLE V

Remedies of the Association

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

(a) PBC shall have failed to perform any of its obligations under the Project Agreement.

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

(c) The Bank Management Regulations shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of PBC to perform any of its obligations under the Project Agreement.

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

(e) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds under the Japanese Grant Agreement shall have been suspended, cancelled or terminated in whole or in part.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower

establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform and of its obligations under the Japanese Grant 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 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) 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 Association to the Borrower; and

(b) any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower's State Council has approved the Development Credit Agreement; and

(b) contracts for consultants' services under Parts A.1 and A.3 (a), and B.1 of the Project, satisfactory to the Association, have been concluded in accordance with Section II of Schedule 1 to the Project Agreement and of Schedule 3 to this Agreement, respectively.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association namely, that the Project Agreement has been duly authorized or ratified by PBC, and is legally binding upon PBC in accordance with its terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

Bu /s/ Zhu Qizhen

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shahid Javed Burki

Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
Part A of the Project:		
(1) Goods	26,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Consultants' services and training	11,100,000	100%

(3) Unallocated 2,300,000

Part B of the Project

(4) Goods 400,000 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally

(5) Consultants' services and training 1,100,000 100%

(6) Unallocated 500,000

TOTAL 42,100,000

2. For the purposes of this Schedule:

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

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in the development of an efficient and stable financial sector in China and in laying the foundation for financial sector reform, by strengthening key elements of financial sector infrastructure.

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

Part A: People's Bank of China

Strengthening PBC and its role in the financial sector, through a program of technical assistance, providing consultants' services, staff training and equipment in the following areas:

1. Regulation and supervision of the banking system, including improved bank examination and supervision processes and procedures, design and implementation of prudential regulations, and asset reviews of specialized banks.

2. Development of a national payments and clearing system, including system development and implementation after the design stage.

3. Modernization of: (a) the accounting framework for the financial sector,

including revision and implementation, with MOF approval, of accounting standards and practices; and (b) PBC's internal accounting and audit function.

4. Enhancing PBC's capabilities to carry out its fiscal agent and monetary policy functions.

5. Supporting the development of PBC's research and statistics function, graduate school and legal functions.

6. Undertaking studies on directed credit and on PBC's automation strategy.

Part B: Ministry of Finance

Strengthening selected MOF functions related to the financial sector, through a program of technical assistance, providing consultants' services, staff training and equipment in the following areas:

1. Modernization of the accounting framework, including development and implementation of general and sector-specific accounting standards.

2. Enhancing MOF's capabilities to carry out its government domestic and external debt management functions.

3. Undertaking a feasibility study for a program of continuing professional education for certified public accountants.

Part C: Audit Administration

Strengthening AAPRC's audit functions, through modernization of audit standards.

* * *

The Project is expected to be completed by March 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

2. To the extent practicable, contracts shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$600,000, may be procured with the prior agreement of the Association on the basis of the procurement plan referred to in paragraph 5 of Schedule 4 to this Agreement under contracts awarded on the basis of: (a) competitive bidding, advertised locally; or (b) comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines; or (c)

comparison of price quotations obtained from at least three suppliers eligible under the Guidelines; all in accordance with procedures acceptable to the Association.

2. Contracts for proprietary items may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract to be awarded in accordance with the procedures described in Part A.1 hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the MOF Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the MOF Special Account in respect of such contract.

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

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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

Section II. Employment of Consultants

In order to assist MOF in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

1. In implementing Parts B and C of the Project, the Borrower shall ensure that MOF and AAPRC comply with the following requirements:

(a) all training shall be carried out in accordance with a training program agreed with the Association;

(b) all studies shall be carried out in accordance with terms of reference and timing agreed with the Association, and the study results shall be reviewed with the Association promptly upon completion of the study

2. The Borrower shall ensure that MOF, in developing accounting standards under Part B.1 of the Project, shall:

(a) prepare a work program for developing general accounting standards and practices within a three-year period, in harmony with international generally accepted accounting principles, including at least 25 standards to be developed in the first two years;

(b) promptly upon completion, furnish the work program to the Association for

comment and thereafter, implement the work program as agreed with the Association; and

(c) promptly upon completion, furnish to the Association for comment a draft strategy for the implementation of such standards and practices, as well as any subsequent material modifications to the strategy.

3. The Borrower shall ensure that AAPRC shall:

(a) furnish to the Association for comment the auditing standards developed under Part C of the Project within four months of the completion of the related consultants' services; and

(b) thereafter, introduce these standards as agreed with the Association, in the following year.

4. For the purposes of effective project implementation, the Borrower shall ensure that:

(a) MOF shall maintain its Project Office, with functions and responsibilities agreed with the Association, with competent staff in adequate numbers; and

(b) MOF and AAPRC shall maintain staffing arrangements to provide adequate numbers of counterpart staff with appropriate qualifications to work with the consultants employed for the purposes of Parts B and C of the Project, respectively.

5. The Borrower shall cause MOF to furnish to the Association a procurement plan (specifying packaging and procurement procedures) to be agreed with the Association prior to any purchases of goods under Part B of the Project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) for the PBC Special Account, Categories (1) and (2); and (ii) for the MOF Special Account, Categories (4) and (5), all 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 Part A of the Project, in respect of the PBC Special Account, and for Part B of the Project, in respect of the MOF Special Account, and to be financed out of the proceeds of the Credit 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: (i) for the PBC Special Account, \$3,000,000; and (ii) for the MOF Special Account, \$100,000, all to be withdrawn from the Credit Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into said Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into said 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 said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit 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 a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals in respect of the respective Parts of the Project should be made by the Borrower directly from the Credit 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 Credit allocated to the eligible Categories for said Special Account, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the respective Part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of a 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into said 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 Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the

Association all or any portion of the funds on deposit into a Special Account.

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

