

CONFORMED COPY

LOAN NUMBER 4413 PH

Loan Agreement

(Third Rural Finance Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

LAND BANK OF THE PHILIPPINES

Dated December 11, 1998

LOAN NUMBER 4413 PH

LOAN AGREEMENT

AGREEMENT, dated December 11, 1998, 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 (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modifications set forth in Schedule 4 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

- (a) "Bangko Sentral ng Pilipinas" means the Guarantor's central bank and any successor thereto;
- (b) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (c) "CLF III Policy Manual" means the policy manual referred to in paragraph I.1 of Schedule 5 to this Agreement;
- (d) "CLF III Subborrower" means an individual or a legal entity to whom (i) the Borrower, or (ii) a PFI utilizing the proceeds of a CLF III Subsidiary Loan, proposes to make or has made a CLF III Subloan;
- (e) "CLF III Subloan" means a loan made or proposed to be made by a PFI or by the Borrower, as the case may be, to a CLF III Subborrower for a CLF III Subproject;
- (f) "CLF III Subproject" means a specific investment subproject under Part A of the Project to be carried out by a CLF III Subborrower utilizing the proceeds of a CLF III Subloan;
- (g) "CLF III Subsidiary Loan" means a loan made or proposed to be made to a PFI by the Borrower under Part A of the Project and subject to a CLF III Subsidiary Loan Agreement;
- (h) "LBP Charter" means the charter of the Borrower dated August 8, 1963 as amended to the date of this Agreement;
- (i) "LBP Institutional Development Plan" means the plan referred to in paragraph III.1 of Schedule 5 to this Agreement;
- (j) "Micro-finance Loan Fund" and "MLF " mean the fund to be established by PCFC, pursuant to paragraph II.1(a)(i) of Schedule 5 to this Agreement, with the proceeds of the PCFC Loan, to provide, on a wholesale basis through MFIs, loans to MLF Subborrowers, in accordance with the provisions of paragraph II.1 (a) of Schedule 5 to this Agreement;
- (k) "Micro-finance Institution" and "MFI" mean a retail financial institution including, inter alia, a rural bank, cooperative rural bank, thrift bank, non-government organization, or cooperative which provides loans to MLF Subborrowers utilizing the proceeds of an MLF Subsidiary Loan from PCFC, under Part B of the Project;
- (l) "MLF Policy Manual" means the policy manual to be adopted by PCFC in accordance with the provisions of paragraph II.1 (a) of Schedule 5 to this Agreement;
- (m) "MLF Subborrower" means an individual or a micro-enterprise to whom an MFI proposes to make or has made an MLF Subloan;
- (n) "MLF Subloan" means a loan made or proposed to be made to a MLF Subborrower by an MFI, out of the proceeds of a MLF Subsidiary Loan, for the carrying out of an MLF Subproject;
- (o) "MLF Subproject" means a specific investment project under Part B of the Project to be carried out by an MLF Subborrower utilizing the proceeds of an MLF Subloan;
- (p) "MLF Subsidiary Loan" means a loan made or proposed to be made by PCFC to

an MFI utilizing the proceeds of the PCFC Loan, under an MLF Subsidiary Loan Agreement, in accordance with the provisions of paragraph II.1 (d) of Schedule 5 to this Agreement;

(q) "Participating Financial Institution" and "PFI" mean a financial institution including, inter alia, a commercial bank, rural bank, thrift bank, investment house, finance and leasing company, or credit cooperative which provides CLF III Subloans to CLF III Subborrowers under Part A of the Project, utilizing the proceeds of a CLF III Subsidiary Loan from the Borrower;

(r) "PCFC" means the People's Credit and Finance Corporation, a financial institution wholly-owned by the Guarantor, incorporated on September 14, 1995 for the purpose of providing financial services to support the livelihood and income-generating activities of the poorer population in the Philippines;

(s) "PCFC Loan" means the loan to be made by the Borrower to PCFC for purposes of Part B of the Project, pursuant to the provisions of Section 3.02 (b) of this Agreement;

(t) "PCFC Institutional Development Plan" means the plan to be adopted by PCFC in accordance with the provisions of paragraph II.2 of Schedule 5 to this Agreement;

(u) "PCFC Statutes" means, collectively: (i) Memorandum Order No. 261, dated February 9, 1995 and Memorandum Order No. 11, dated August 13, 1998, of the President of the Philippines; (ii) the Articles of Incorporation and By-laws of People's Credit and Finance Corporation, registered with the Security and Exchange Commission of the Philippines on September 14, 1995; and (iii) Republic Act No. 8425 of July 28, 1997, each as amended to the date hereof;

(v) "Peso" and "P" mean the lawful currency of the Guarantor;

(w) "Third Countryside Loan Fund" and "CLF III" mean the fund established by the Borrower pursuant to the provisions of Section 3.02 (a) of this Agreement to provide, directly or through PFIs, short-, medium- and long-term credit to CLF III Subborrowers under Part A of the Project;

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

(y) "Subborrower" means either a CLF III Subborrower or an MLF Subborrower, as the case may be;

(z) "Subloan" means either a CLF III Subloan or an MLF Subloan as the case may be;

(aa) "Subproject" means either a CLF III Subproject or an MLF Subproject, as the case may be, to be carried out by a Subborrower utilizing the proceeds of a Subloan; and

(bb) "Subsidiary Loan" means either a CLF III Subsidiary Loan or an MLF Subsidiary Loan, as the case may be.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to one hundred fifty million dollars (\$150,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Subborrower under a Subloan to meet the reasonable cost of goods and services required for a Subproject 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 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to 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 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 the Loan upon not less than six (6) months' notice to the Guarantor and the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Guarantor or the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

Section 2.07. The Borrower shall repay the principal amount of the Loan in

accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall 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 LBP Charter, the CLF III Policy Manual and the LBP Institutional Development Plan.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. The Borrower shall:

(a) for purposes of Part A of the Project, out of the proceeds of the Loan allocated from time to time to Category (1), establish a Third Countryside Loan Fund on terms and conditions satisfactory to the Bank, to provide:

(i) subsidiary loans to eligible Participating Financial Institutions for further on-lending to CLF III Subborrowers; and

(ii) subloans directly to CLF III Subborrowers; under terms and conditions satisfactory to the Bank, which shall include the terms and conditions set forth in Section I of Schedule 6 to this Agreement; provided that, except as the Bank shall otherwise agree, the aggregate amount of all CLF III Subloans extended by the Borrower directly to said Subborrowers shall not exceed fifteen million dollars (\$15,000,000); and

(b) for purposes of Part B of the Project, make available to PCFC the proceeds of the Loan allocated from time to time to Category 2, under a loan agreement satisfactory to the Bank.

Section 3.03. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, the PCFC Loan, Subsidiary Loans and Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedules 5 and 6 to this Agreement.

(b) The Borrower shall duly perform all its obligations under the PCFC Loan, the CLF III Subsidiary Loans and, in the event of CLF III Subloans made by the Borrower directly to Subborrowers, the CLF III Subloans. Except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the PCFC Loan, the CLF III Subsidiary Loans or said CLF III Subloans, or any provisions thereof.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, 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 Bank and the Borrower, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of the Project.

Section 4.02. (a) The Borrower shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with auditing standards acceptable to the Bank, 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 the financial statements referred to in sub-paragraph (i) above for such year as so audited, and (B) an opinion on such statements and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit thereof as the Bank may 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, 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 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 take all actions within its powers to distribute annual dividends on its common shares only after adequate provisions have been made in accordance with the LBP Institutional Development Plan for: (a) taxes; (b) dividends on its preferred shares; (c) possible loan losses, determined on the basis of its audited accounts; (d) adjustment to its equity caused by within-year inflation; and (e) retained earnings in an amount equal to at least one-seventh of the growth in its net agrarian and CLF III loan portfolios.

Section 4.05. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain the average profitability in real terms during any consecutive three fiscal years and maintain the following financial ratios for each fiscal year commencing,

unless otherwise specified, in fiscal year 1999: (i) ratio of risk assets to equity of not more than 10:1; (ii) ratio of net past due loans to equity of not more than 33% commencing on January 1, 1999, not more than 30% commencing on July 1, 1999 and not more than 25% commencing on January 1, 2000; and (iii) ratio of liquid assets to short term liabilities of not less than 45%, provided that of these 45%: (x) at least 36% or more shall consist of liquid assets in category (AA) as defined below, and (y) not more than 2.25% shall consist of liquid assets in category (CC) as defined below.

(b) For purposes of this Section 4.05:

(i) the term "fiscal year" means the period of twelve consecutive months starting on January 1 and ending on December 31 of each year;

(ii) the term "risk assets" means total assets excluding cash, short-term deposits and fixed assets used in the operations; in banks, investment in government securities course of the Borrower's

(iii) the term "equity" means the sum of total unimpaired paid-up capital, retained earnings and reserves not allocated to cover specific liabilities such as dividends on preferred shares and/or common shares;

(iv) the term "net past due loans" means (A) loans deemed past due under regulations issued by Bangko Sentral ng Pilipinas from time to time or which are more than three (3) months in arrears, whichever have a shorter period of arrears, minus (B) total provisions for loan losses;

(v) the term "liquid assets" means assets in the following categories: category (AA) consisting of cash, short term deposits in banks, interbank call loans, and government securities with a term of less than one year; category (BB) consisting of government securities with a term of one year or more; and category (CC) consisting of tradable non-government securities and commercial papers;

(vi) the term "short term liabilities" means deposits and bills payable, in each case maturing in less than one year.

Section 4.06. The provisions of:

(a) Section 4.04 of this Agreement supersede the provisions of Section 4.05 of the three Loan Agreements entered into between the Borrower and the Bank for Loan Nos. 3938-PH, 3939-PH and 3940-PH, all dated October 10, 1995 (Second Rural Finance Project Loan Agreements);

(b) Section 4.05 of this Agreement supersede the provisions of Section 4.06 of the Second Rural Finance Project Loan Agreements and 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; and

(c) this Section 4.06 supersede the provisions of Section 4.08 of the Second Rural Finance Project Loan Agreements.

ARTICLE V

Remedies of the Bank

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

(a) the LBP 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 its ability to carry out the Project or to perform any of its obligations under this Agreement.

(b) The Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment, or for the suspension of the operations of PCFC or any PFI or MFI, and such dissolution, disestablishment or suspension of operations of PCFC or such PFI or MFI, shall materially and adversely affect the Borrower's operations or financial condition, or its ability to perform any of its obligations under this Agreement, or to carry out the Project or any part thereof.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely any of the events specified in paragraphs (a) or (b) of Section 5.01 shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Board of Directors of the Borrower shall have adopted the LBP Institutional Development Plan and the CLF III Policy Manual in accordance with the provisions of, respectively, paragraph III.1 and paragraph I.1 of Schedule 5 to this Agreement.

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 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:

248423 (MCI) or
64145 (MCI)

For the Borrower:

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

Telex:

62806 LBP PH
64045 LBP PH

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bharagava

Authorized Representative

LAND BANK OF THE PHILIPPINES

By /s/ Florido P. Casuela

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) CLF III Subloans under Part A of the Project	145,000,000	100% of amounts disbursed
(2) MLF Subloans under Part B of the Project	5,000,000	100% of amounts disbursed
TOTAL	150,000,000	

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

(a) payments made of expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding \$15,000,000 may be made on account of payments made for expenditures before that date but after July 1, 1998;

(b) a Subloan unless said Subloan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement; and

(c) an MLF Subloan made under Part B of the Project, unless: (i) the Board of Directors of PCFC shall have approved the PCFC Institutional Development Plan and the MLF Policy Manual in accordance with the provisions of paragraphs II.2 and II.1 (b), respectively, of Schedule 5 to this Agreement; and (ii) the Borrower and PCFC shall have executed the PCFC Loan Agreement pursuant to the provisions of Section 3.02 (b) of this Agreement.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) Subloans under Part A of the Project under the free limit CLF III Subloans; and

(b) Subloans under Part B of the Project; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) assist the Republic of the Philippines in financing the development of productive resources and facilities in the rural areas of the Philippines; and (ii) strengthen the institutional capacity of Land Bank of the Philippines and the People's Credit and Finance Corporation as wholesale providers of financial services in said rural areas.

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

Part A: Third Countryside Loan Fund

Financing of specific investment projects through the provision of short-, medium- and long-term loans to individuals and private enterprises in the rural sector.

Part B: Micro-finance Loan Fund

Financing of specific small scale investment projects through the provision of small loans to individuals and micro-enterprises.

Part C: Institutional Development

1. Carrying out of a program of institutional development to enhance the capacity of Land Bank of the Philippines to sustain its wholesale activities and to expand its lending outreach in the rural areas, including improving its portfolio quality, upgrading the knowledge and skills of its staff, continuing the mobilization of funding resources, and building up its capital.

2. Carrying out of a program of institutional development to enhance the capacity of People's Credit and Finance Corporation to provide, through micro-finance institutions, financial services to the poorer population in the Philippines, including building up its equity base, upgrading its staff through recruitment and training, and improving its operating efficiency.

The Project is expected to be completed by December 31, 2004.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars) *
June 15, 2004	3,180,000
December 15, 2004	3,275,000
June 15, 2005	3,370,000
December 15, 2005	3,470,000
June 15, 2006	3,575,000
December 15, 2006	3,680,000
June 15, 2007	3,785,000
December 15, 2007	3,900,000
June 15, 2008	4,015,000
December 15, 2008	4,130,000
June 15, 2009	4,250,000
December 15, 2009	4,380,000
June 15, 2010	4,505,000
December 15, 2010	4,640,000
June 15, 2011	4,775,000
December 15, 2011	4,915,000
June 15, 2012	5,060,000
December 15, 2012	5,210,000

June 15, 2013	5,365,000
December 15, 2013	5,520,000
June 15, 2014	5,685,000
December 15, 2014	5,850,000
June 15, 2015	6,025,000
December 15, 2015	6,200,000
June 15, 2016	6,385,000
December 15, 2016	6,570,000
June 15, 2017	6,765,000
December 15, 2017	6,965,000
June 15, 2018	7,170,000
December 15, 2018	7,385,000

* 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 General Conditions

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

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 canceled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (g) by the date specified in paragraph I.3 (c) of Schedule 6 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) or (b) of said paragraph I.3; 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 Loan. Upon the giving of such notice, such amount or portion of the Loan shall be canceled."

SCHEDULE 5

Implementation Program

I. Third Countryside Loan Fund

For purposes of Section 3.02 (a) of the Loan Agreement:

1. The Borrower shall establish, maintain and operate the Third Countryside Loan Fund on a sound commercial and financial basis, and in accordance with a CLF III Policy Manual, satisfactory to the Bank, which manual shall set forth, inter alia: (i) accreditation criteria for Participating Financial Institutions; (ii) eligibility criteria for CLF III Subloans, including the minimum contribution from the PFI's own resources and the minimum equity required from the CLF III Subborrower in regard to each CLF III Subproject; (iii) terms and conditions of CLF III Subloans, including, inter alia those set forth in Part I of Schedule 6 to this Agreement; (iv) standards for appraising CLF III Subprojects, their economic, technical and financial viability and sustainability; (v) principles and guidelines for environmental protection and compliance with Philippine environmental laws and regulations; and (vi) principles and guidelines regarding the acquisition of land and compensation therefor, including evidence of negotiated purchase agreements.

2. The Borrower shall: (a) use the proceeds from the repayment of the principal of CLF III Subsidiary Loans and of CLF III Subloans made directly to CLF III Subborrowers, for further relending to PFIs through the Third Countryside Loan Fund; and (b) retain as part of said Fund net profits accruing from such Subsidiary Loans and Subloans, all in accordance with the provisions of the CLF III Policy Manual.

3. The Borrower shall not modify any provision of the CLF III Policy Manual without

the prior concurrence of the Bank.

4. The Borrower shall enter into CLF III Subsidiary Loan Agreements on terms and conditions satisfactory to the Bank with the accredited PFIs. Said CLF III Subsidiary Loan Agreements shall provide, inter alia, that:

(a) each PFI shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its respective charter, and shall carry out its activities under Part A of the Project in accordance with the provisions of the CLF III Policy Manual;

(b) each PFI shall use the proceeds of its CLF III Subsidiary Loan to make CLF III Subloans to CLF III Subborrowers under terms and conditions satisfactory to the Borrower and the Bank, which shall include the terms and conditions set forth in Section I of Schedule 6 to this Agreement;

(c) each PFI shall exercise its rights under the CLF III Subloans and in relation to the CLF III Subprojects in such manner as to: (i) protect the interests of the Bank, the Borrower, and the PFI; (ii) comply with its respective obligations under its CLF III Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project;

(d) each PFI shall duly perform its obligations under (i) its Subsidiary Loan Agreement with the Borrower and (ii) its respective CLF III Subloan Agreements with the CLF III Subborrowers and, except as the Bank and the Borrower shall otherwise agree, shall not assign, amend, abrogate or waive said Subsidiary Loan Agreement or said CLF III Subloan Agreements, or any provisions thereof;

(e) each PFI shall furnish to the Bank and the Borrower all such information that the Bank and the Borrower shall reasonably request concerning the expenditures under its CLF III Subsidiary Loan and the CLF III Subborrowers and Subprojects; to this end, the PFI shall (i) maintain procedures and records adequate to monitor and record the progress of the CLF III Subprojects, including their costs and the benefits to be derived therefrom; and (ii) establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank and the Borrower, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of its activities under Part A of the Project;

(f) each PFI shall have the records referred to in paragraph I.4 (e) above and its respective 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 Bank and the Borrower, and shall furnish to the Borrower and to the Bank, if the Bank shall so request, as soon as available certified copies of such financial statements for such year as so audited in a format acceptable to the Borrower and the Bank; and

(g) each PFI shall 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 its CLF III Subsidiary Loan and CLF III Subloans, or the performance of said PFI of its respective obligations under the CLF III Subsidiary Loan Agreement.

5. The Borrower shall exercise its rights in relation to each CLF III Subproject so as to protect the interests of the Bank, the Guarantor, the Borrower and the relevant PFI.

6. If at any time the Borrower determines that a PFI ceases to meet the accreditation criteria set forth in the CLF III Policy Manual, the Borrower shall: (a) promptly cancel the uncommitted portion of the relevant CLF III Subsidiary Loan; (b) take all actions necessary to protect the interests of the Borrower and the Bank in relation to the committed portion of said Subsidiary Loan; and (c) notify the Bank of all actions taken pursuant to sub-paragraphs (a) and (b) of this paragraph I.6.

7. In the event the Borrower elects to make CLF III Subloans directly to CLF III Subborrowers in accordance with the provisions of Section 3.02 (a)(ii) of the Loan

Agreement, the Borrower shall enter into a loan agreement with each such Subborrower, on terms and conditions satisfactory to the Bank, including inter alia, the terms and conditions set forth in Section I of Schedule 6 to this Agreement.

8. The Borrower shall maintain its Environmental Unit managed and staffed with competent and experienced personnel, in adequate number, and with sufficient resources to assist Participating Financial Institutions and CLF III Subborrowers under Part A of the Project, and PCFC, the MFIs and MLF Subborrowers under Part B of the Project, in: (i) reviewing the environmental effects, if any, of each CLF III Subproject or MLF Subproject, as the case may be; (ii) reviewing, or preparing as the case may be, the environmental impact assessments as may be required; and (iii) preparing and submitting applications for the necessary environmental clearances from the Guarantor's environmental agencies.

II. Micro-finance Loan Fund; PCFC Institutional Development

For purposes of Section 3.02 (b) of the Loan Agreement:

1. The Borrower shall enter into a loan agreement with PCFC on terms and conditions satisfactory to the Bank which shall include, inter alia, the following:

(a) PCFC shall: (i) establish out of the proceeds of the PCFC Loan a Micro-finance Loan Fund on terms and conditions acceptable to the Bank and the Borrower, to provide subsidiary loans to participating micro-finance institutions for further on-lending to MLF Subborrowers; and (ii) maintain and operate the MLF on a sound commercial and financial basis, and in accordance with an MLF Policy Manual satisfactory to the Bank and the Borrower, which manual shall set forth, inter alia: (A) accreditation criteria for Micro-finance Institutions; (B) eligibility criteria for MLF Subloans, including the minimum contribution from the MFI's own resources and the minimum equity required from the MLF Subborrower in regard to each MLF Subproject; (C) terms and conditions of MLF Subloans, including, inter alia, those set forth in Section II of Schedule 6 to this Agreement; (D) standards for appraising MLF Subprojects, their economic, technical and financial viability and sustainability; and (E) guidelines for environmental protection and compliance with Philippine environmental laws and regulations.

(b) PCFC shall not modify any provision of the MLF Policy Manual without the prior concurrence of the Bank and the Borrower.

(c) PCFC shall: (i) use the proceeds from the repayment of the principal of MLF Subsidiary Loans for further relending to MFIs under the MLF; and (ii) retain as part of the MLF net profits accruing from such Subsidiary Loans, in accordance with the provisions of the MLF Policy Manual.

(d) PCFC shall enter into MLF Subsidiary Loan Agreements satisfactory to the Borrower and the Bank with the accredited MFIs. Said MLF Subsidiary Loan Agreements shall provide, inter alia, that:

(i) each MFI shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel, and in accordance with its respective charter, and shall carry out its activities under Part B of the Project in accordance with the provisions of the MLF Policy Manual;

(ii) each MFI shall use the proceeds of its MLF Subsidiary Loan to make MLF Subloans to MLF Subborrowers under terms and conditions satisfactory to PCFC, the Borrower and the Bank, which shall include the terms and conditions set forth in Section II of Schedule 6 to this Agreement;

(iii) each MFI shall exercise its rights under the MLF Subloans and in relation to the MLF Subprojects in such manner as to protect the interests of the Bank, the Borrower, PCFC, and the MFI; comply with its respective obligations under the MLF Subsidiary Loan Agreement; and achieve the purposes of the Project;

(iv) each MFI shall duly perform its obligations under (A) its

Subsidiary Loan Agreement with PCFC and (B) its respective MLF
Subloan Agreements with the MLF Subborrowers and, except as the Borrower
and PCFC shall otherwise agree, shall not assign, amend, abrogate or
waive said Subsidiary Loan Agreement or said MLF Subloan Agreements, or
any provisions thereof;

(v) each MFI shall furnish to PCFC, and to the Borrower and the Bank
if the Borrower or the Bank shall so request, all such
information that PCFC, or the Borrower or the Bank, as the case may
be, shall reasonably request concerning the expenditures under the
MLF Subsidiary Loan and the MLF Subborrowers and Subprojects; to this
end, the MFI shall: (A) maintain procedures and records adequate to
monitor and record the progress of the MLF Subprojects, including their
costs and the benefits to be derived therefrom; and (B) establish and
maintain a financial management system, including records and accounts, and
prepare financial statements, all in accordance with accounting standards
acceptable to PCFC and the Borrower, consistently applied,
adequate to reflect its operations and financial condition and to
register separately the operations, resources and expenditures
for and in connection with the carrying out of its activities
under Part B of the Project;

(vi) each MFI shall have the records referred to in clause (v) above
and its respective 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 PCFC and the Borrower, and shall furnish to PCFC and to the Borrower,
if the Borrower shall so request, as soon as available certified copies
of such financial statements for such year as so audited in a format
acceptable to PCFC and the Borrower; and

(vii) each MFI shall promptly inform PCFC and the Borrower, if the
Borrower shall so request, of any condition which interferes or
threatens to interfere with the progress of Part B of the Project, the
accomplishment of the purposes of the MLF Subsidiary Loan and MLF
Subloans, or the performance of said MFI of its respective
obligations under the MLF Subsidiary Loan Agreement.

(e) PCFC shall exercise its rights in relation to each MLF Subproject so as
to protect the interests of the Bank, the Guarantor, the Borrower and PCFC.

(f) PCFC shall duly perform its obligations under the PCFC Loan and each MLF
Subsidiary Loan and, except as the Borrower and the Bank shall otherwise agree, shall
not take or concur in any action which would have the effect of assigning, amending,
abrogating or waiving the PCFC Loan or any MLF Subsidiary Loans, or any provisions
thereof.

(g) If at any time PCFC determines that an MFI no longer meets the
accreditation criteria set forth in the MLF Policy Manual, PCFC shall: (i) promptly
cancel the uncommitted portion of the relevant MLF Subsidiary Loan; (ii) take all
actions necessary to protect the interests of PCFC and the Borrower in relation to the
committed portion of said Subsidiary Loan; and (iii) notify the Borrower and the Bank
of all actions taken pursuant to clauses (i) and (ii) of this paragraph I.1 (g).

(h) PCFC shall not use the proceeds of the MLF to extend Subloans directly to
MLF Subborrowers.

(i) PCFC shall:

(i) maintain a financial management system, including records and
accounts, and prepare financial statements, all in accordance with
accounting standards acceptable to the Borrower and the Bank,
consistently applied, adequate to reflect its operations and
financial condition and to register separately the operations,
resources and expenditures for and in connection with the carrying
out of Part B of the Project;

(ii) have the records referred to in clause (i) of this paragraph II.1 (i), its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited in accordance with auditing standards acceptable to the Borrower and the Bank, consistently applied, by independent auditors acceptable to the Borrower and the Bank;

(iii) furnish to the Borrower and to the Bank, if the Bank shall so request, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in clause (ii) of this paragraph II.1 (i) for such year as so audited, and (B) an opinion on such statements and a report of such audit by said auditors, of such scope and in such detail as the Borrower and the Bank shall have reasonably requested; and

(iv) furnish to the Borrower and to the Bank, if the Bank shall so request, such other information concerning said records, accounts and financial statements and the audit thereof as the Borrower and the Bank may from time to time request.

(j) PCFC undertakes, with the assistance of LBP's Environment Unit, to ensure that MLF Subprojects eligible for financing from the proceeds of the MLF shall have obtained all environmental clearances and permits as may be required under Philippine environmental laws and regulations.

2. The Borrower shall ensure that PCFC shall:

(a) carry out Part C.2 of the Project in accordance with an institutional development plan satisfactory to the Bank and the Borrower;

(b) distribute annual dividends on PCFC's common shares only after adequate provisions have been made in accordance with the PCFC Institutional Development Plan for: (i) taxes; (ii) dividends on its preferred shares; (iii) possible loan losses determined on the basis of PCFC's audited accounts; (iv) adjustment to PCFC's equity caused by within-year inflation; and (v) in the event that its ratio of risk assets to equity is higher than 6:1, retained earnings in an amount equal to at least fifteen percent (15%) of the growth of its loan portfolio;

(c) except as the Bank and the Borrower shall otherwise agree, maintain the following financial ratios for each fiscal year commencing in fiscal year 1999: (i) ratio of risk assets to equity of not more than 7:1; (ii) ratio of net past due loans to equity of not more than 15%; and (iii) ratio of liquid assets to short term liabilities of not less than 25%. For purposes of this paragraph II.2 (c): (A) the term "fiscal year" means the period of twelve consecutive calendar months starting on April 1 and ending on March 31 of each year; (B) 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 PCFC's operations; (C) the term "equity" means the sum of total unimpaired paid-up capital, retained earnings and reserves not allocated to cover specific liabilities, including dividends on preferred and common shares; (D) the term "net past due loans" means (AA) loans deemed past due under regulations issued by Bangko Sentral ng Pilipinas from time to time or which are more than three (3) months in arrears, whichever have a shorter period of arrears, minus (BB) total provisions for loan losses; (E) the term "liquid assets" means cash, short term deposits in banks, interbank call loans and government securities; and (F) the term "short term liabilities" means deposits and bills payable, in each case maturing in less than one year; and (d) (i) carry out the training under Part C.2 of the Project in accordance with a program satisfactory to the Borrower and the Bank; to that end (ii) furnish an annual training program to the Borrower and the Bank for review and comments by November 30 of each year commencing in 1999 for the immediately succeeding year; and (iii) thereafter implement such training programs in a manner satisfactory to the Borrower and the Bank, taking into consideration the views of the Borrower and the Bank thereon.

3. The Borrower shall cause PCFC to:

(a) maintain policies and procedures adequate to enable PCFC to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Borrower and the Bank, the carrying out of Parts B and C.2 of the Project and the achievement of the objectives thereof;

(b) prepare under terms of reference satisfactory to the Borrower and the Bank quarterly reports integrating the results of the monitoring and evaluation activities performed pursuant to the provisions of sub-paragraph (a) above and provide such reports to the Borrower and the Bank on February 28, May 31, August 31, and November 30 of each year, for the preceding calendar quarter, commencing on May 31, 1999; provided that reports on Part C.2 of the Project shall be furnished on a semi-annual basis on February 28 and August 31 of each year, for the preceding calendar semester, commencing on August 31, 1999; and

(c) prepare on the basis of guidelines acceptable to the Borrower and the Bank and furnish to the Borrower and the Bank not later than six (6) months after the Closing Date or such later date as may be agreed by the Bank, a plan for the continued achievement of the objectives of Parts B and C.2 of the Project, and exchange views with the Borrower and the Bank on said plan.

III. LBP Institutional Development

1. The Borrower shall carry out Part C.1 of the Project in accordance with an institutional development plan satisfactory to the Bank.

2. The Borrower shall:

(a) carry out the training under Part C.1 of the Project in accordance with a program satisfactory to the Bank; and to that end

(b) furnish an annual training program to the Bank for its review and comments, by November 30 of each year commencing in 1998 for the immediately succeeding year; and

(c) thereafter, implement such training programs in a manner satisfactory to the Bank, taking into consideration the views of the Bank thereon.

IV. Monitoring and Reporting

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of the Project in general, and of Parts A and C.1 of the Project in particular, and the achievement of the objectives thereof;

(b) prepare under terms of reference satisfactory to the Bank, and furnish to the Bank a quarterly report on February 28, May 31, August 31 and November 30 of each year, commencing on May 31, 1999, provided that reports in respect Part C.1 of the Project shall be furnished on a semi-annual basis on March 15 and September 15 of each year, commencing on September 15, 1999, integrating the results of the monitoring and evaluation activities performed pursuant to the provisions of paragraph IV.1 (a) above, on the progress achieved in the carrying out of the Project, or part thereof as the case may be, during the preceding calendar quarter or semester, and setting out measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by March 31, 2001 a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to the provisions of paragraph III.1 (a) above, on the progress achieved in the carrying out of the Project during the period preceding such date and setting out measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Bank on such date as the Bank shall request each report

referred to in paragraphs IV.1 (b) and (c) above, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

SCHEDULE 6

Procedures for and Terms and Conditions of CLF III Subloans and MLF Subloans

I. Procedures, Terms and conditions of CLF III Subloans

1. Except as the Bank shall otherwise agree, CLF III Subloans shall be made in accordance with the procedures and on the terms and conditions set forth in the CLF III Policy Manual which shall include the following:

(a) subprojects in agricultural and rural industries, including fisheries, agro-industries and agricultural service enterprises are eligible for financing under the CLF III, provided that they are deemed technically feasible, financially viable, environmentally sound and, in the case of subprojects costing more than \$1,000,000 equivalent, meeting a minimum economic rate of return established from time to time by the Borrower and satisfactory to the Bank.

(b) the aggregate of all subloans to any single Subborrower under CLF III and the countryside loan funds established by the Borrower under the Rural Finance Project and the Second Rural Finance Project with the Bank, shall not exceed five percent (5%) of the Borrower's equity.

(c) the principal amount of a CLF III Subloan may be in Pesos or Dollars, provided that Subloans in Dollars shall only be made available to Subborrowers who: (i) have revenues earned in or tied to foreign exchange, and (ii) are deemed to have the capability to manage foreign exchange risks.

(d) the principal amount of a CLF III Subloan shall not exceed seventy-five percent (75%) of the total costs of the Subproject.

(e) the interest rate on a CLF III Subloan shall be freely negotiated between the PFI and the Subborrower and shall take into consideration the PFI's cost of funds, operating costs and credit risk.

(f) the term of a CLF III Subloan shall be based on the Subproject cash flow and the Subborrower's overall repayment capability, but in no event shall exceed fifteen (15) years.

2. No expenditures for goods or services required for a CLF III Subproject shall be eligible for financing out of the proceeds of the Loan unless:

(a) the CLF III Subloan for such Subproject shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred twenty (120) days prior to the date on which the Bank shall have received the application and information required under paragraph I.3 (a) of this Schedule in respect of such Subloan; or

(b) the CLF III Subloan for such Subproject shall have been a free-limit Subloan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred twenty (120) days prior to the date on which the Bank shall have received the request and information required under paragraph I.3 (b) of this Schedule in respect of such free-limit Subloan. For the purposes of this Agreement, a free-limit CLF III Subloan shall be a Subloan for a CLF III Subproject in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of \$5,000,000 equivalent, when added to all other free-limit Subloans to the same Subborrower financed or proposed to be financed out of the proceeds of the Loan, the foregoing amounts being subject to change from time to time as determined by the Bank.

3. (a) When presenting a Subloan (other than a free-limit Subloan) to the Bank for approval, the Borrower shall furnish to the Bank an application, in form

satisfactory to the Bank, together with: (i) a description of the Subborrower and an appraisal of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Subloan, including the schedule of amortization of the Subloan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Subloan shall contain (i) a summary description of the Subborrower and the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the terms and conditions of the Subloan.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph I.3 shall be presented to the Bank on or before June 30, 2004.

4. CLF III Subloans shall be made on terms whereby the PFI shall obtain, by written contract with the Subborrower or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and the PFI including the right to:

(a) require the CLF III Subborrower to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods and works to be financed out of the proceeds of the CLF III Subloan shall be used exclusively in the carrying out of the Subproject; and (ii) shall be procured in accordance with the provisions of Schedule 8 to this Agreement.

(c) require that the Subproject comply with the environmental laws, rules and regulations in force in the Republic of the Philippines, including the preparation and submission of environmental impact statements where required and obtaining all necessary environmental clearances from the Guarantor's environmental agencies.

(d) inspect, by itself or jointly with representatives of the Borrower or of the Bank if the Borrower or the Bank shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(e) require that: (i) the Subborrower 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 CLF III Subloan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Subborrower to replace or repair such goods;

(f) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subborrower and to the benefits to be derived from the Subproject; and

(g) suspend or terminate the right of the Subborrower to the use of the proceeds of the CLF III Subloan upon failure by such Subborrower to perform its obligations under its contract with the PFI.

II. Procedures, Terms and Conditions for MLF Subloans

1. Except as the Bank shall otherwise agree, MLF Subloans shall be made in accordance with the procedures and on the terms and conditions set forth in the MLF Policy Manual which shall include the following:

(a) micro-enterprise activities such as trading, handicraft, small manufacturing, backyard animal production, food processing and production of vegetables and fruits, excluding production of rice and corn, are eligible for

financing under the MLF, provided that they are deemed technically feasible, financially viable and environmentally sound.

(b) the principal amount of an MLF Subloan shall be in Pesos and shall not exceed seventy-five percent (75%) of the total costs of the Subproject.

(c) the interest rate on an MLF Subloan shall be freely negotiated between the MFI and the Subborrower and shall take into consideration the MFI's cost of funds, operating costs and credit risk.

(d) the term of an MLF Subloan shall be based on the Subproject cash flow and the Subborrower's overall repayment capability, but in no event shall exceed three (3) years.

2. MLF Subloans shall be made on terms whereby the MFI shall obtain, by written contract with the Subborrower or by other appropriate legal means, rights adequate to protect the interests of PCFC and the MFI including the right to:

(a) require the MLF Subborrower to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial and environmental standards and practices, and to maintain adequate records;

(b) require that: (i) the goods and works to be financed out of the proceeds of the MLF Subloan shall be used exclusively in the carrying out of the Subproject; and (ii) shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor;

(c) require that the Subproject comply with applicable environmental laws, rules and regulations in force in the Republic of the Philippines;

(d) inspect, by itself or jointly with representatives of PCFC or the Bank, if PCFC or the Bank shall so request, such goods and the sites and construction included in the Subproject, the operation thereof, and any relevant records and documents;

(e) obtain all such information as the Bank or PCFC shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subborrower and to the benefits to be derived from the Subproject; and

(f) suspend or terminate the right of the Subborrower to the use of the proceeds of the MLF Subloan upon failure by such Subborrower to perform its obligations under its contract with the MFI.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) 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 SubProjects and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph I.2 (b) of Schedule 6 to this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Subloans may be made out of the Special Account before the Bank shall have authorized withdrawals from the Loan Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Bank shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to

\$10,000,000 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 \$7,000,000 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 \$30,000,000.

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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been 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 4.01 (b) (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, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of

the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

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

SCHEDULE 8

Procurement

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and in September 1997 (the Guidelines) and the following provisions of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Schedule, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B: Preference for domestically manufactured goods: the provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Philippines.

Part C: Other procurement procedures:

1. Limited International Bidding Goods which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines

2. Direct Contracting Goods needed for modernization or expansion Subprojects which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Goods and works estimated to cost less than \$5,000,000 equivalent per contract, shall be procured at a reasonable price, account being taken also of other relevant

factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor;

Part D: Review by the Bank of Procurement Decisions

1. Prior Review

With respect to each contract estimated to cost the equivalent of \$5,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

With respect to each contract not governed by paragraph 2 of this Part D, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

