

CONFORMED COPY

LOAN NUMBER 3803 EE

Loan Agreement

(Financial Institutions Development Project)

between

REPUBLIC OF ESTONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 15, 1994

LOAN NUMBER 3803 EE

LOAN AGREEMENT

AGREEMENT, dated November 15, 1994, between REPUBLIC OF ESTONIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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 Bank to assist in the financing of the Project;

(B) the Kingdom of Sweden (Sweden) intends to establish a capital fund in an amount equivalent to one hundred million Swedish kroner (SKr 100,000,000) to assist in financing the Project (the Swedish Capital Fund);

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

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

(a) "Beneficiary" means the private enterprise to which a PFI proposes to make or has made a Sub-loan;

(b) "Participating Financial Institution" or "PFI" means a commercial bank acceptable to the Bank which is the recipient of a Subsidiary Loan;

(c) "PIU" means the Project Implementation Unit within the Borrower's Ministry of Finance;

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

(e) "Sub-loan" means a medium-term or long-term loan made or to be made by a PFI financed in whole or in part out of the proceeds of the Loan to a Beneficiary for a Sub-project;

(f) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing, in whole or in part, the proceeds of a Sub-loan;

(g) "Subsidiary Loan" means a loan to be made pursuant to a Subsidiary Loan Agreement; and

(h) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and a Participating Financial Institution pursuant to Section 3.01 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of ten million dollars (\$10,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

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

Section 2.03. The Closing Date shall be June 30, 1998 or such later

date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 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

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 with due diligence and efficiency and in conformity with appropriate accounting, administrative, banking, environmental and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) For the purposes of carrying out the Project, the Borrower shall make available the equivalent of the proceeds of the Loan under Subsidiary Loan Agreements to be entered into between the Borrower and each PFI, respectively, under terms and conditions satisfactory to the Bank, which shall include, without limitations, those set forth in Schedule 7 of this Agreement.

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

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank 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. (a) Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

(b) Services required under the Project shall be carried out by consultants under terms of reference discussed with the Bank.

Section 3.03. The Borrower shall establish and maintain a PIU and a Core Advisors Group, in accordance with staffing plans and terms of reference satisfactory to the Bank.

Section 3.04. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

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

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

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

Section 3.05. On or before June 30, 1996, the Borrower shall carry out, on the basis of guidelines satisfactory to the Bank, a detailed review of the progress of the Project, which review will include without limitation, information concerning (i) training activities in the Bank Supervision Department of the Bank of Estonia including on- and off-site examinations, identification of problem banks and steps taken to remedy such problems, and (ii) on-site bank supervision being conducted by said Bank Supervision Department; and shall furnish a copy of such review to the Bank for discussion, and, thereafter, carry out all such actions, based on the results of such review and taking the Bank's view thereon into consideration, as shall be required to ensure the achievement of the objectives of the Project.

ARTICLE IV

Financial 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 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 Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

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

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that:

(a) subject to paragraph (b) of this Section:

- (i) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
- (ii) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii)

adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (a) (ii) of this Agreement shall occur, subject to the proviso of Section 5.01 (b) of this Agreement.

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 the Core Advisors Group has been established in accordance with the provisions of Section 3.03.

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 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
1 Suur-Ameerika
EE00100 Tallinn
Estonia

Telex:

173106 PLAAN

For the Bank:

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

Cable address:

Telex:

INTBAFRAD	248423 (RCA)
Washington, D.C.	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.

REPUBLIC OF ESTONIA

By /s/ Toomas H. Ilves

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Basil Kavalsky
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
Goods, Works and Services under Subloans		
(1) PFIs eligible to receive funds from Swedish Capital Fund	8,000,000	50%
(2) Other PFIs	2,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
TOTAL	10,000,000 =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the 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: (a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement; and (b) in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under Sub-loans not exceeding \$500,000 equivalent, 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 support and help accelerate the Borrower's implementation of reforms in the financial and enterprise sectors, and work towards stabilizing the financial sector.

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

Part A: Commercial Bank Development

1. Provision of Sub-loans by Participating Financial Institutions to Beneficiaries.
2. Strengthening the Participating Financial Institutions by the provision of audits of an international standard for such PFI's, and assistance for the PFI's in credit analysis, project finance, bank operations, treasury management and management information systems.

Part B: Restructuring of North Estonian Bank

Restructuring of North Estonia Bank, including a program for privatization, and institutional development, and, as needed, recapitalization.

Part C: Project Implementation

Strengthening the Borrower's capacity to implement the Project by establishing a Core Advisors Group and by providing training in environmental screening.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15	
beginning July 15, 2000 through July 15, 2009	500,000
And on January 15, 2010	500,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works 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), and in accordance with the following additional procedures:

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

(b) In the procurement of goods and works in accordance with this Part

A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Estonia 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 which the Bank agrees are available from limited sources of supply may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Works estimated to cost the equivalent of \$1,000,000 or less per contract may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Goods estimated to cost the equivalent of \$1,000,000 or less per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

4. Goods estimated to cost the equivalent of \$50,000 or less per contract and works estimated to cost the equivalent of \$100,000 or less per contract may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

5. Contracts for goods which the Bank agrees are proprietary or are available from a single source of supply may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

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

(a) With respect to: (i) each contract estimated to cost the equivalent of \$500,000 or more; (ii) each contract procured in accordance with Parts A.1 and C.1 and 5 of this Schedule; and (iii) the first two contracts from a Participating Financial Institution procured in accordance with Part C.2, 3 and 4 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply

to contracts on account of which withdrawals 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.

SCHEDULE 5

Implementation Program

1. The PIU will be responsible for ensuring that the accounting, reporting and procedural implementation of the disbursement, procurement, repayments and Sub-project eligibility under the credit line are in order. The PIU will: (i) select in consultation with the Bank PFIs based on eligibility criteria satisfactory to the Bank, including those set out in Schedule 7 hereto; (ii) make decisions on accepting additional PFIs into the Project or disqualifying existing PFIs; (iii) review the first two Sub-projects submitted by each PFI and each additional Sub-loan over \$2 million; and (iv) review other Sub-projects on an ex-post basis.

2. A Core Advisors Group shall be formed, consisting of three qualified and experienced commercial bankers.

(a) This Group shall assist the PIU and be responsible for (i) preparing recommendations for the PIU on the eligibility of various PFIs; (ii) monitoring the performance of PFIs and their respective loan portfolios; and (iii) assisting the PIU in reviewing the Sub-projects.

(b) This Group shall also assist Estonian commercial banks, including assistance in (i) developing credit policies and procedures with proper controls; (ii) adopting internationally acceptable accounting standards and applications with proper operational procedures matching their automation strategies; and (iii) structuring and evaluating term-lending, including pre- and post-lending risk assessment and project finance analysis methodologies and preparing project finance loan packages.

3. By June 30, 1996, the North Estonian Bank shall have completed the process of restructuring and shall have prepared a time-bound action plan for its privatization.

4. By June 30, 1996, the Borrower shall have established and agreed with the PFIs a timetable, satisfactory to the Bank, for compliance of accounting and reporting formats with guidelines of the Bank for International Settlements.

5. By June 30, 1996, aggregate loans with a maturity of one year or longer will account for at least 20 percent of total loans held by the PFIs, provided that such lending is consistent with prudential regulations.

SCHEDULE 6

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 Sub-loans required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited in 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 \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$1,000,000.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits into the Special Account of an amount or amounts determined by the Bank to be required to pay for eligible expenditures during the four months following the date of each such request which amount shall not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Bank shall have determined to be so required.

(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, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further

withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

SCHEDULE 7

Terms and Conditions and On-lending Arrangements

A. Terms and Conditions of Subsidiary Loans to PFIs

Loan Amount: not to exceed net worth of PFI at any point in time; any loan \$2 million equivalent or more shall be approved by the Bank.

Terms: minimum loan maturity two years with a maximum of ten years including grace period.

Currency: various

Interest Rate: 100 basis points over rate on the Bank Loan.

Interest Period: six months.

Commitment Fee: equal to commitment fee paid by Borrower to the Bank.

Prepayment: negotiable with PIU.

Other: obligation of PFI to make Sub-loans to Beneficiaries for Sub-projects, in accordance with criteria satisfactory to the Bank.

B. Eligibility Criteria for PFIs

1. Only such PFIs which (a) initially satisfy and subsequently continue to satisfy the criteria set forth in this Part; and (b) make Sub-loans in accordance with the criteria for Beneficiaries and Sub-projects, shall be eligible to receive Subsidiary Loans.
2. Minimum of 20 million Estonian Kroon equity and 8% capital adequacy after full loan loss provisioning under international standards.
3. Compliance with prudential rules and regulations of Bank of Estonia.
4. Audit of financial statements for the most recent financial year under internationally acceptable account standard and applications. Defined and documented credit policies and procedures with proper controls, risk asset

classification standards and loan loss provisioning practices in place, or a time bound action plan, approved by the Core Advisors Group to implement such policies and procedures.

5. Maintenance of a minimum collection ratio of principal and interest of ninety percent.

C. Eligibility Criteria for Beneficiaries

1. Legal entities that are majority privately owned and privately managed.

2. Proven management and at least one year of profitable operations, or for new enterprises/projects proven management with extensive experience in relevant fields and a positive credit history verified through proper channels.

3. Independent audits in accordance with Estonian standards within six months of initial receipt of funds.

D. Eligibility Criteria for Sub-projects

1. Minimum equity contribution by the Beneficiary of thirty percent of project costs.

2. Minimum loan maturity of two years with a maximum of ten years, including grace period. Sub-projects must be in compliance with Estonian environmental rules and regulations.

3. The onlending rate loans will be no less than 200 basis points above the prevailing yield on the corresponding Government bonds of the same currency and similar maturities, with 6-month variable interest rates.

4. Debt service coverage ratio for the life of the Sub-project at least 1.5 for the project alone and for the project incorporated into the cash flow of the on-going concern.

5. Sub-projects shall not include: (a) refinancing of existing obligations of a Beneficiary; (b) equity investments; and (c) short-term trade financing.

