

CONFORMED COPY

LOAN NUMBER 7114 LV

Loan Agreement

(Housing Project)

between

REPUBLIC OF LATVIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 13, 2002

LOAN NUMBER 7114 LV

LOAN AGREEMENT

AGREEMENT, dated June 13, 2002, between REPUBLIC OF LATVIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the

project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

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 Fixed Spread Loans” of the Bank, dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) “Capital Home Improvement” means renovation of structural elements, or carrying out functional or technical improvements, of buildings, or housing units, as further defined in the Operations Manual;

(b) “Committed Guarantee Facility Amounts” means, as at any date, the aggregate amount deposited in the Special Reserve Account (as hereinafter defined) backstopping Guarantees (as hereinafter defined) outstanding and in effect at such date;

(c) “Eligible Homebuyer” means a buyer of a Residential Housing Unit (as hereinafter defined) which meets the eligibility criteria set forth in the Operations Manual (as hereinafter defined) and to which a PFI (as hereinafter defined) has made or proposes to make a Housing Loan (as hereinafter defined) to finance the cost of purchase or Capital Home Improvement of a Residential Housing Unit;

(d) “Eligible HOA” means a homeowners’ association which has been duly established, in accordance with the laws of the Republic of Latvia, in respect of a private residential apartment building and which meets the eligibility criteria set forth in the Operations Manual and to which a PFI has made or proposes to make a Housing Loan to finance the cost of a Capital Home Improvement to the common area of an apartment building under its administration;

(e) “Eligible Elderly Homeowner” means a homeowner which meets the eligibility criteria set forth in the Operations Manual and to which a PFI has made or proposes to make a Housing Loan to finance the cost of a Capital Home Improvement of their home or their share of

the cost of Capital Home Improvements to the common areas of their residential building;

(f) “Guarantee Agreement” means any agreement, between the Borrower and a PFI, for the provision of each Guarantee (as defined hereinafter) to backstop a Housing Loan issued under the Guarantee Facility (as defined hereinafter) to an Eligible Homebuyer, an Eligible Elderly Homeowner or an Eligible HOA, as the case may be, including the terms of the Master Guarantee Agreement (as defined hereinafter) between the Borrower and the PFI;

(g) “Guarantee Facility” and “Guarantee” mean, respectively, the guarantee facility, referred to in Schedule 2 of this Agreement, and guarantees provided through such facility by the Borrower, to backstop Housing Loans to an Eligible Homebuyer, an Eligible Elderly Homeowner and an Eligible HOA, for the purposes as described in Schedule 2 to this Agreement;

(h) “Guarantee Premium” means the fee, as agreed upon by the Borrower and the Bank, paid to the Borrower in consideration for making a Guarantee, by an Eligible Homebuyer, an Eligible Elderly Homeowner or an Eligible HOA, as the case may be, on terms and conditions defined in the Master Guarantee Agreement;

(i) “Guidelines for Issuing Housing Credit Guarantees under the World Bank Housing Project” means the guidelines, adopted by the Borrower and satisfactory to the Bank, which form an integral part of the Operations Manual and Master Guarantee Agreement and describe the mechanism and eligibility requirements, relationship between the Borrower and the PFIs, procedures for issuance of Guarantees, their administration and claim processing;

(j) “Housing Loan” means a loan made or proposed to be made by a PFI to an Eligible Homebuyer, an Eligible Elderly Homeowner or Eligible HOA, as the case may be, for the purposes as defined in Schedule 2 to this Agreement, and in part, as further defined in the Operations Manual, backed up by a Guarantee financed from the proceeds of the Loan;

(k) “Loss” means the amount payable by the Borrower to a PFI pursuant to, and determined in accordance with, the terms and conditions of, the Master Guarantee Agreement (as defined hereinafter) and the relevant Guarantee Agreement;

(l) “Master Guarantee Agreement” means an agreement to be entered into between the Borrower and each PFI pursuant to paragraph 3(b) of Schedule 4 to this Agreement pursuant to which the relevant PFI shall provide Guarantee Agreements;

(m) “Operations Manual” means the manual to be adopted by the Borrower, as referred to in Section 5.01(a) of this Agreement, including the Guidelines for Issuing Housing Credit Guarantees under the World Bank Housing Project, which sets out the administrative, financial, accounting and operating policies, rules and procedures to be applied and observed in connection with the operation of the Guarantee Facility and related matters, as said manual may be amended from time to time with the prior approval of the Bank;

(n) “Payment” means any payment on account of a Loss made to a PFI (as defined

hereinafter) by the Borrower;

(o) “PFI” means any financial institution participating in the Guarantee Facility which has signed a Master Guarantee Agreement, operates on a commercial basis and meets the eligibility criteria set forth in the Operations Manual;

(p) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(q) “Residential Housing Unit” means a house or housing unit which meets the eligibility criteria, set forth in the Operations Manual;

(r) “Revolving Guarantee Facility Amounts” means, as at any date, the Unpaid Guarantee Facility Amounts (as defined hereinafter) at such date that are retained in the Special Reserve Account (as defined hereinafter) following the expiry or termination of the relevant Guarantee Agreement and that, before the Closing Date, are available on a revolving basis pursuant to paragraph 2 of Part B of Schedule 5 to this Agreement;

(s) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(t) “Special Reserve Account” means a Dollar denominated account opened on terms and conditions satisfactory to the Bank, by the Borrower, into which all of the proceeds of the Loan withdrawn by the Borrower, in accordance with the terms and conditions of this Agreement, shall be deposited;

(u) “TU” means the Technical Unit within the Ministry of Finance and such term includes any successor or successors thereto satisfactory to the Bank;

(v) “Unpaid Guarantee Facility Amounts” means, as at any date, the Committed Guarantee Facility Amounts at such date that remain unpaid at the expiry or termination of the relevant Guarantee Agreement; and

(w) “Unwithdrawn Loan Amount” means the amount, if any, of the Loan remaining unwithdrawn from the Loan Account after the Closing Date.

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 two million thirty thousand

Dollars (\$2,030,000).

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 for the purposes and in accordance with the provisions of Part B of Schedule 5 to this Agreement and in respect of the fee referred to in Section 2.04 of this Agreement.

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

(c) For the purposes of the Project, the Borrower shall open a Special Reserve Account on terms and conditions satisfactory to the Bank and provide the Bank with a copy of all account-related documentation. Deposits into and payments out of the Special Reserve Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, 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 fee in an amount equal to twenty thousand, three hundred United States dollars (\$20,300). On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to, but not including, the fourth anniversary of such date; and (ii) seventy five one-hundredths of one percent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions 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, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) 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 4 to this Agreement.

Section 3.02. For the purposes of Section 9.07 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 before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect its operations and financial conditions, and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account and the Special Reserve 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 paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

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

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

(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 evidencing such guarantees;

(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 guarantees submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than September 30, 2002, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately Guarantees financed out of the proceeds of the Loan during the period covered by said report and Guarantees proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report; and

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and

previously forecast implementation targets.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions: (a) the Borrower has adopted an Operations Manual satisfactory to the Bank; and (b) a Master Guarantee Agreement, in form and substance satisfactory to the Bank, has been executed with and delivered by one PFI, and all conditions precedent to the effectiveness thereof, if any, have been fulfilled or waived.

Section 5.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Master Guarantee Agreement, referred to in Section 5.01(b) of this Agreement, has been duly authorized and executed by the parties thereto and is legally binding upon them in accordance within its terms.

Section 5.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
1 Smilsu Street
Riga, LV-1919
Republic of Latvia

Facsimile:

371 7095 503

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF LATVIA

By /s/ Gundars Berzins

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Michael F. Carter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Amount of the Loan Allocated	% of
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<u>Category</u>	<u>(Expressed in Dollars)</u>	<u>Expenditures to be Financed</u>
(1) Guarantee Facility funding	2,009,700	100% of required reserves
(2) Fee	20,300	Amount due under Section 2.04 of this Agreement
TOTAL	2,030,000	

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

SCHEDULE 2

Description of the Project

The objective of the Project is to test new financing mechanisms intended to stimulate the housing market in Latvia.

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 objective:

Part A: (1) Provision of Guarantees to PFIs for Housing Loans made to Eligible Homebuyers to finance the purchase of Residential Housing Units.

(2) Provision of Guarantees to PFIs for Housing Loans made to Eligible Homebuyers to finance Capital Home Improvements to their Residential Housing Units.

Part B: Provision of Guarantees to PFIs for Housing Loans made to Eligible Elderly Homeowners to finance Capital Home Improvements of their homes or their share of the cost of Capital Home Improvements to the common areas of their residential building.

Part C: Provision of Guarantees to PFIs for Housing Loans made to Eligible HOAs to finance Capital Home Improvements to common areas in residential buildings under their administration.

Part D: Carry out a study describing the lessons learned from the implementation of this Project and recommending how the Borrower will proceed with the activities carried out under the Project.

* * *

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

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each April 15 and October 15 Beginning October 15, 2007 through October 15, 2018	4.17%
On April 15, 2019	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date

commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out the Project and manage the Guarantee Facility in accordance with the Operations Manual and shall maintain the Operations Manual until the completion of the Project and, without the Bank's prior consent, not amend, repeal or waive the Operations Manual or any provision thereof.

2. The Borrower shall:

(a) select PFIs in accordance with the eligibility criteria set forth in the Operations Manual to participate in the Guarantee Facility to be established under the Project;

(b) enter into a Master Guarantee Agreement with each PFI, in form and substance acceptable to the Bank;

(c) execute and deliver Guarantee Agreements to the PFIs pursuant to and in accordance with the relevant Master Guarantee Agreement, to be entered into between the Borrower and each PFI, under terms and conditions which shall have been approved by the Bank;

(d) withdraw from the Loan Account and deposit to the Special Reserve Account an amount equal to the amount of the required reserves, as agreed between the Borrower and the Bank and reflected in the Operations Manual, to back stop the relevant Guarantee; and

(e) exercise its rights under each Master Guarantee Agreement in such manner as to protect the interests of the Bank and the Borrower and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Master Guarantee Agreement or any provision thereof or of any Guarantee Agreement executed pursuant thereto.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the 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) review with the Bank, by September 30, 2003, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, 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 the said report and the Bank's views on the matter.

4. The Borrower shall maintain the TU with such staff and resources as shall be required for the TU to perform its duties to coordinate and administer Project activities and carry out financial management and accounting duties, related to the implementation of the Project, in accordance with the Operations Manual and satisfactory to the Bank.

5. The Borrower shall maintain a Steering Committee comprised, inter alia, of representatives of the Ministry of Environmental Protection and Regional Development, Ministry of Finance, State Treasury, the TU and the insurance industry, and as its composition may be modified from time to time, in consultation with the Bank, which shall oversee the implementation of the Project and provide guidance to the TU.

6. The Borrower shall: (a) not later than 6 months after the Closing Date carry out the study under Part D of the Project, in accordance with terms of reference to be agreed upon by the Bank and the Borrower in a timely manner; and (b) within 90 days thereafter, review the findings of the study with the Bank.

SCHEDULE 5

Withdrawals; Special Reserve Account

Part A: General

1. The Special Reserve Account shall be a Dollar denominated account opened by the Borrower on terms and conditions satisfactory to the Bank, for the purposes of the Guarantee Facility and the provision of Guarantee Agreements in the manner contemplated in this

Agreement.

2. Committed Guarantee Facility Amounts shall be used exclusively to make Payments in accordance with the provisions of Part B of this Schedule 5.

3. Guarantee Premiums shall be used to finance incremental operating costs of the TU in relation to the implementation of this Project.

Part B: Guarantee Facility

1. (a) Deposits into the Special Reserve Account shall be made from the Loan Account in accordance with the procedures set forth below, after the Bank has received evidence satisfactory to it that the Special Reserve Account has been duly opened;

(b) Funds in the Special Reserve Account shall be withdrawn only for the purpose of making Payments;

(c) For each withdrawal made from the Special Reserve Account for the purpose of making a Payment, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank copies of such documents and other evidence showing that such Payment was made exclusively on account of a Loss;

(d) If the Bank shall have determined at any time that any withdrawal out of the Special Reserve Account: (i) was made for a purpose other than making a Payment; 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) refund to the Bank an amount equal to the amount of such withdrawal or the portion thereof not so eligible or justified.

(e) Refunds to the Bank made pursuant to sub-paragraph (d)(i)(B) of this paragraph shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of his Agreement, including the General Conditions.

2. Unpaid Guarantee Facility Amounts shall be retained in the Special Reserve Account and shall be used on a revolving basis for the purpose of backstopping new Guarantee Agreements under the Guarantee Facility.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Category” means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the Guarantees Facility Funding to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for 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 Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(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 Category, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; 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.

