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CONFORMED COPY

LOAN NUMBER 4827-UA

Loan Agreement

(Access to Financial Services Project)

between

UKRAINE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 23, 2006

LOAN NUMBER 4827-UA

LOAN AGREEMENT

AGREEMENT, dated June 23, 2006 between UKRAINE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter from the Borrower, dated February 28, 2006, describing a program designed to support the Borrower's efforts to increase the contribution of the financial markets to economic growth through the strengthening of the legal and regulatory framework, infrastructure and financial intermediaries (the Program) and declaring the Borrower's commitment to the execution of such Program;

(B) the Borrower has requested that the Bank support the Borrower's execution of the Program through a series of loans to be implemented over a period of approximately seven (7) years to be utilized by the Borrower in the implementation of the Program;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the first phase (Access to Financial Services Project) of the Program as described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; 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 May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”;

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Paragraph (c) of Section 9.07 is modified to read as follows:

“(c) 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, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”

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) “Access to Financial Services Lease” or “Financial Leases” means a lease made or proposed to be made by a Participating Bank (as defined hereinafter), out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in Part A.1 of Schedule 1 to this Agreement, for purposes of financing all or a portion of the expenditures incurred by a Beneficiary or SNG (as defined hereinafter) for goods, works, and services under a Sub-Project (as defined hereinafter)

(b) “Access to Financial Services Sub-loan” or “Sub-loan” means a loan made or proposed to be made by a Participating Bank (as defined hereinafter), out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in

Part A.1 of Schedule 1 to this Agreement, for purposes of financing all or a portion of the expenditures incurred by a Beneficiary or SNG (as defined hereinafter) for goods, works, and services under a Sub-Project (as defined hereinafter);

(c) “Access to Financial Services Sub-Project” or “Sub-project” means a specific project, selected in accordance with paragraph 5 of the Attachment to the Annex to Schedule 5 to this Agreement, which is proposed to be carried out by a Beneficiary or SNG (as defined hereinafter), in whole or in part through the utilization of the proceeds of a Sub-loan or Financial Lease;

(d) “Agricultural enterprise” means a legal entity whose main activity is growing and processing agricultural products and is defined as such in accordance with the national legislation of the Borrower for this type of enterprise;

(e) “Bank Selection and Monitoring Commission” or “BSMC” means the steering commission for the selection of PBs (as defined hereinafter) for this Project established pursuant to the Order of the MOF (as defined hereinafter) No. 659 dated September 26, 2005 referred to in paragraph 2 of Section A to Schedule 5 to this Agreement, or its successor thereof;

(f) “Beneficiary” means an RSME (as defined hereinafter) and agricultural enterprise or entrepreneur satisfying the appropriate criteria, as set forth in paragraph 4 of the Attachment to the Annex to Schedule 5 to this Agreement, to which the PB (as defined hereinafter) proposes to make or has made a Sub-loan;

(g) “Credit Line” means the credit line for the provision of investment and working capital loans or financial leases at commercial terms to Beneficiaries through eligible PBs (as defined hereinafter), in accordance with the requirements set forth or referred to in the Operations Manual (as defined hereinafter);

(h) “Eligible Categories” means Category (1) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(i) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services and training and incremental operating costs referred to in Section 2.02 of this Agreement;

(j) “Environmental Assessment Requirements and Identification of Impacts and Mitigation” means the environmental review chapter in the Operational Manual (as defined hereinafter) describing the environmental, mitigation, monitoring and institutional measures to be undertaken under the Project to ensure that all environmental concerns are adequately taken into account in the carrying out of the Project;

(k) “Environmental Impact Assessments” or “EIAs” means the assessment to be carried out for Sub-projects requiring such assessment in accordance with the requirements of the Operations Manual (as defined hereinafter);

(l) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(m) “Free-limit Financial Lease” means a Financial Lease proposed to be made in an amount less than the threshold specified for prior Bank review under paragraph 2 (b) (ii) of the Attachment to the Annex to Schedule 5 to this Agreement, for a Sub-project which qualifies to be approved by the PB (as defined hereinafter) in the absence of such prior review pursuant to the provisions of such paragraph;

(n) “Free-limit Sub-loan” means a Sub-loan proposed to be made in an amount less than the threshold specified for prior Bank review under paragraph 2 (b) (i) of Attachment to the Annex to Schedule 5 to this Agreement, for a Sub-project which qualifies to be approved by the PB (as defined hereinafter) in the absence of such prior review pursuant to the provisions of such paragraph;

(o) “Institutional Development loan” or “ID loan” means a loan made or proposed to be made by the Borrower to a Participating Bank, out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in Part A.1 of Schedule 1 to this Agreement, for purposes of providing technical assistance and capacity building under Part A.2 of the Project;

(p) “International Financial Reporting Standards” or “IFRS” mean the accounting standards issued or endorsed by the International Accounting Standards Board;

(q) “MOF” means the Borrower’s Ministry of Finance, or its successor thereof;

(r) “Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved;

(s) “National Bank of Ukraine” or “NBU” means the Borrower’s Central Bank, or its successor thereof;

(t) “Operations Manual” means the manual to be developed and agreed by the MOF and setting forth the detailed Project institutional, implementation, environmental, administrative and monitoring arrangements thereunder, including the operational and administrative procedures for PBs (as defined hereinafter), in respect of

the preparation, approval, processing, financing, implementation and supervision of Sub-loans;

(u) “PMU” means the project implementation unit of the Borrower established pursuant to the MOF’s Decree No. 672 dated December 12, 2003 or any successor to such unit;

(v) “Participating Bank” or “PB” means a private commercial bank registered according to the applicable laws and regulations of the Borrower and selected by the Borrower pursuant to criteria set forth in paragraph A.1 (a) of the Annex to Schedule 5 to this Agreement;

(w) “Procurement Plan” means the Borrower’s procurement plan, dated May 22, 2006 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 (b) to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(x) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on July 15, 2003 and on behalf of the Borrower on September 27, 2003, as amended;

(y) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(z) “Rural small and medium enterprise” or “RSME” means a private enterprise (where more than 50% of the shares or other equity interest thereof is held by persons or companies other than the Borrower, any agency, or subdivision thereof, or any local governmental authority, or entities controlled by the Borrower or such agencies or subdivisions); registered in accordance with the Borrower’s legislation; with less than 50 employees and annual gross income not exceeding ₴500,000 for small enterprises and maximum 1000 employees and annual gross income of ₴500,000 to ₴1,000,000 for medium enterprises; and located in rural areas with a population not exceeding 400,000 people;

(aa) “Sub-national government” or “SNG” means representative and executive bodies of territorial communities, villages, settlements and cities in Ukraine, and for the purpose of this Project includes enterprises, institutions and organizations set up under communal ownership and owned by the respective territorial communities, villages, settlements and cities in accordance with the national legislation of the Borrower;

(bb) “Subsidiary Loan” means any loan made pursuant to a Subsidiary Loan Agreement;

(cc) “Subsidiary Loan Agreement” means an agreement entered or to be entered into between the MOF and a PB pursuant to Section D.1 (a) of Schedule 5 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreement; and

(dd) “Special Account” means the account referred to in Part B of Schedule 1 to 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, 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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of: the reasonable cost of goods, works, consultants’ services and training and incremental operating costs required for Parts B and C of the Project and to be financed out of the proceeds of the Loan; (ii) amounts paid (or, if the Bank shall so agree, to be paid) by a PB on account of withdrawals made by a Beneficiary under a Sub-loan or Financial Lease to meet the reasonable cost of goods, works and consultant services required for the Sub-project under Part A.1 of the Project in respect of which the withdrawal from the Loan Account is requested; (iii) amounts paid (or, if the Bank shall so agree, to be paid) on account of withdrawals made by a PB under an ID loan to meet the reasonable cost of consultant services and goods required for Part A.2 of the Project in respect of which the withdrawal from the Loan Account is requested; and (iv) and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2010 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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 such fee.

Section 2.05. 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 2.06. (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 2.07 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) three-fourths of one percent ($3/4$ of 1%); and (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 Borrower of the LIBOR Base Rate and the 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 2.06, 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 Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

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

Section 2.08. 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 and, to this end, shall carry out the Project through the MOF, with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial and technical 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, through the MOF, 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, works, consultants' services and training and incremental operating costs 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through the MOF, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the MOF, 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, through the MOF, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the MOF, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank) commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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 the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower, through the MOF, shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Bank) referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 1 of Section C of Schedule 5 to this Agreement, the Borrower, through the MOF, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall objectively adversely and materially affect the carrying out of the Program, or a significant part thereof.

ARTICLE VI

Effectiveness and Termination

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

(a) the Borrower has provided evidence that at least two Subsidiary Loan Agreements have been executed on behalf of the Borrower and the selected PBs on terms and conditions satisfactory to the Bank; and

(b) the Borrower has provided evidence that the Operations Manual has been approved by the Borrower, through the MOF, under terms satisfactory to the Bank.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (a) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that, the Subsidiary Loan Agreements referred to in Section 6.01 have been duly authorized or ratified by and are legally binding upon the Borrower and the PBs in accordance with its terms.

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

ARTICLE VII

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:

Minister of Finance
12/2 Hrushevsky St.
Kyiv, 01008
Ukraine

Telex:

131450

Facsimile:

(380-44) 201-56-85
(380-44) 201-56-84

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)

Facsimile:

(1-202) 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 Kyiv, Ukraine, as of the day and year first above written.

UKRAINE

By /s/ Volodymyr Matviychuk

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Bermingham

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods, Works Consultant Services, Sub-loans Financial Leases, ID loans, Training and Incremental Operating Costs	147,803,000	100%
(2) Project Preparation Advance	1,822,000	Amount due under Section 2.02(b) of this Agreement
(3) Front-end fee	<u>375,000</u>	Amount due under Section 2.04 of this Agreement
TOTAL	<u>150,000,000</u>	

2. For the purposes of this Schedule, the terms:

(a) “Incremental Operating Costs” means expenditures incurred by the Borrower to finance reasonable and necessary operating expenses of the PMU in respect of its operations and administration of activities under the Project, and which are payable on account of cost of rent and utilities, office equipment and supplies, maintenance, communication and transportation and all other expenses as may be agreed with the Bank.

(b) “Training” means expenditures incurred by the Borrower in connection with the carrying out of training activities under the Project, including reasonable costs of

transportation, accommodation, per diem and interpretation services and cost of study tours, workshops, and any other training related costs agreed upon with the Bank.

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

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (i) goods costing less than \$500,000 equivalent per contract; (ii) works costing less than \$5,000,000 equivalent per contract; (iii) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; (iv) services of individual consultants costing less than \$100,000 equivalent per contract; (v) Sub-loans, Financial Leases and ID loans; and (vi) Training and Incremental Operating Costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower, through the MOF, may open and maintain in Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, which can not be the subject of set off, seizure or attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount not exceeding \$15,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan 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 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase access to financial services in Ukraine, for, among others, rural small and medium-enterprises.

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: Access to Finance

1. Credit Line

Increase in total volume of long term financing by PBs to Beneficiaries and SNGs through the provision of Sub-loans or provision of Financial Leases to:

(a) enable such Beneficiaries to finance on a cost-shared basis the costs related to the carrying out of Sub-projects in accordance with the criteria and principles agreed between the Borrower, through the MOF, and the Bank and set forth or referred to in the Operations Manual; and

(b) enable such SNGs to finance the costs related to the carrying out of Sub-projects in accordance with the criteria and principles agreed between the Borrower, through the MOF, and the Bank and set forth or referred to in the Operations Manual.

2. Institutional Development for PBs

Provision of ID loans to PBs, for their institutional development investments, on a cost-shared basis, in accordance with the criteria and principles set forth or referred to in the Operations Manual, including support for the introduction of new technologies and procedures, strengthening risk management systems, development and marketing of new financial products, enhancement of financial institutions' presence at the regional level and staff training.

Part B: Enabling Environment for Financial Intermediation

Provision of support to strengthen the Borrower's institutional, legal and regulatory framework in the financial sector and improve borrowing opportunities for rural small and medium enterprises and SNGs among others by improving mortgage financing; developing credit information systems; improving regulatory and supervisory functions on the non-banking financial services market; improving mechanisms for risk mitigation in the agricultural sector; and developing municipal credit market.

Part C: Project Management

Provision of technical assistance, including auditing services, and incremental operating costs and monitoring and evaluation for purposes of Project management.

* * *

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On November 15, 2011	3,355,000
May 15, 2012	3,445,000
November 15, 2012	3,535,000
May 15, 2013	3,625,000
November 15, 2013	3,720,000
May 15, 2014	3,820,000
November 15, 2014	3,920,000
May 15, 2015	4,020,000
November 15, 2015	4,125,000
May 15, 2016	4,235,000
November 15, 2016	4,345,000
May 15, 2017	4,455,000
November 15, 2017	4,575,000
May 15, 2018	4,695,000
November 15, 2018	4,815,000
May 15, 2019	4,940,000
November 15, 2019	5,070,000
May 15, 2020	5,200,000
November 15, 2020	5,340,000
May 15, 2021	5,475,000
November 15, 2021	5,620,000
May 15, 2022	5,765,000
November 15, 2022	5,920,000
May 15, 2023	6,070,000
November 15, 2023	6,230,000
May 15, 2024	6,395,000
November 15, 2024	6,560,000
May 15, 2025	6,730,000
November 15, 2025	6,905,000
May 15, 2026	7,095,000
Total	<u>150,000,000</u>

* 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

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. (i) Goods under Parts A.1 (b), A.2, B and C of the Project estimated to cost less than \$500,000 equivalent per contract; and (ii) works for Part A.1 of the Project estimated to cost less than \$5,000,000 may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

(a) Eligibility

Bidding shall not be restricted to domestic firms. Foreign firms shall not be excluded from the national competitive bidding process irrespective of the contract value.

(b) Procedures

- (i) “Open tender procedures” shall be followed in all cases.
- (ii) Invitations to bid shall be advertised in the at least one (1) widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.
- (iii) Bids shall not be invited on the basis of percentage premium or discount over the estimated cost.

(c) Pre-qualification

- (i) Prequalification, where used, shall be based on a “pass/fail” system.
- (ii) Minimum experience, technical, and financial requirements shall be explicitly stated in the pre-qualification documents.

(d) Participation by Government-owned Enterprises

- (i) Government-owned enterprises in the Borrower’s territory shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Government.
- (ii) Government-owned enterprises will be subject to the same bid and performance security requirements as other bidders.

(e) Bidding Documents

- (i) Procuring entities shall use the appropriate Bank’s sample bidding documents, including pre-qualification documents, for the procurement of goods, works, or technical services (other than consultants’ services), all acceptable to the Bank.
- (ii) Bidding documents shall be made available to all those companies that have paid the required fee.

(f) Bid Opening and Bid Evaluation

- (i) Bids shall be opened in public, immediately after the deadline for submission of bids.

- (ii) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents.
- (iii) No domestic preference shall be allowed in evaluating bids.
- (iv) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid and no negotiations shall be carried out prior to contract award.

(g) Rejection of Bids

- (i) No bid shall be rejected purely on the basis that the bid price is higher than the estimated budget for that procurement.
- (ii) All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.

(h) Securities

Bid security shall not exceed two percent (2%) of the estimated cost of the contract. Performance security shall not exceed ten percent (10%) of the contract price. No advance payments shall be made to contractors without a suitable advance payment security. The format of all such securities shall be included into the bidding documents and shall be acceptable to the Bank.

3. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

.4 Commercial Practices. Contracts under Part A.1(a) of the Project for: (a) goods estimated to cost the equivalent of less than \$2,000,000 per contract; and (b) works estimated to cost the equivalent of less than \$2,000,000 per contract, may be awarded in accordance with the established commercial practices of the Beneficiary, due account being taken also of other relevant factors such as time of delivery and efficiency and reliability thereof and availability of maintenance and spare parts.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank. All Terms of Reference and technical specifications shall be subject to Prior Review.

SCHEDULE 5

Implementation Program

Section A. Institutional Arrangements

1. PMU

Except as the Bank shall otherwise agree, the Borrower shall maintain, until the completion of the Project, the PMU under terms of reference and with resources and composition satisfactory to the Bank for the purposes, among others, of the day-to-day management of the Project, including financial and procurement management and other Project-related tasks, all in accordance with the Operation Manual.

2. BSMC

The Borrower shall maintain, throughout the Project, the BSMC which shall act as a body responsible for the continued verification of compliance of the PBs with the eligibility criteria under Part A of the Project under terms of reference and with resources and a composition satisfactory to the Bank.

Section B. Implementation Modalities

1. Operations Manual

(a) The Borrower, through the MOF, shall take all action required to ensure that the Operations Manual is applied and followed at all times in the implementation, monitoring and evaluation of the Project.

(b) Except as the Bank shall otherwise agree or as the Bank may otherwise judge it necessary to update the Operations Manual to reflect and support a sustainable evolution of the Project, the Borrower shall ensure that the MOF does not assign, amend, abrogate or waive the Operations Manual or any provision thereof.

Section C. Progress and Evaluation and Monitoring Reporting

1. Progress Reports

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the MOF, shall, commencing at the end of the first quarter following effectiveness, and thereafter, on or about the end of each quarter in each calendar year and until Project completion, prepare and furnish to the Bank a progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the Monitoring and Evaluation Indicators, the progress

achieved in the implementation of the Program and the Project during the preceding quarter of the calendar year.

2. Monitoring and Evaluation and Mid-Term Review

The Borrower, through the MOF, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators, the carrying out of the Program and 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 March 31, 2008, 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 Program and 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 Program and the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by June 30, 2008, 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 Program and 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.

Section D Part A of the Project

1. For the purposes of carrying out Part A of the Project, the Borrower shall:

(a) relend to the selected PBs the equivalent of part of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement for Sub-Loans, Financial Leases and ID loans, under Subsidiary Loan Agreements to be entered into between the Borrower and each such PB, under terms and conditions which shall have been approved by the Bank, and which shall include without limitation, those set forth in the Annex to this Schedule;

(b) ensure that, except as the Bank shall otherwise agree, the aggregate amount of all Sub-loans or Financial Leases made to any one Beneficiary, or group of connected Beneficiaries, from all PBs shall not exceed the equivalent of \$4,000,000;

(c) ensure that, except as the Bank shall otherwise agree, the amount of the ID loan made to the PB for its institutional development under Part A.2 of the Project shall not exceed 15% of the amount of the Subsidiary Loan Agreement and shall not be

disbursed until at least 5% of the amounts allocated to Sub-loans and Financial Leases under the Subsidiary Loan Agreement has been disbursed;

(d) monitor the overall execution of the Project and the carrying out by the PBs of their obligations under their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Bank;

(e) take or cause to be taken all action necessary or appropriate on its part to enable the PBs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the PBs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

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

**Annex
to
SCHEDULE 5**

**Principal Terms and Conditions of the
Subsidiary Loan Agreements**

The principal terms and conditions set forth in this Schedule shall apply for the purposes of Section D of Schedule 5 to this Agreement.

Part A. Eligibility Criteria

A Subsidiary Loan Agreement may be entered into with a Participating Bank, duly established and operating in the territory of the Borrower, in respect of which the Borrower shall have determined, and the Bank shall have agreed, that:

- (a) the Participating Bank:
 - (i) must be a commercial bank registered and licensed in Ukraine with regional representation in at least 10 oblasts;
 - (ii) is in compliance with applicable legislation and prudential regulations of the Borrower as duly certified by the National Bank of Ukraine every six months, including *inter alia*, capital adequacy ratios, foreign currency exposure, large exposure to single and connected clients and insider lending exposure;
 - (iii) is in compliance with the following criteria as duly certified by the PB's management every six months and by the PB's external auditors at least annually: risk weighted capital adequacy ratio of more than 10%; exposure to any single insider lending not exceeding 5% of the PB's IAS based capital and aggregate insider lending not exceeding 25% of the PB's IAS based capital; total exposure to any borrower or group of related borrowers not exceeding 25% of the PB's IAS based capital; exposure to any single non-financial depositor not exceeding 30% in total liquid assets; total deposits of the 5 largest non-financial depositors not exceeding 35% of the PB's assets with a maturity of less than one month; total share of non-performing assets not exceeding 8% of the PB's assets;
 - (iv) is operating pursuant to investment and lending policies and procedures acceptable to the Bank and the Borrower, and has undertaken to maintain said policies and procedures;

- (v) has agreed to submit to the Borrower, during the duration of its Subsidiary Loan Agreement with the Borrower and not later than six (6) months after the end of each fiscal year, beginning with fiscal year 2006, an audit report which: (i) covers two (2) full years of its operations; (ii) is prepared by an independent and internationally recognized audit firm acceptable to the Bank in accordance with International Auditing Standards and International Financial Reporting Standards; and (iii) except as the Bank shall otherwise agree, contains an unqualified audit opinion. For the purposes of this paragraph, the PBs will also submit the terms of references of the audits and pertinent management letters;
- (vi) has adequate organization, management, staff and other resources necessary for its efficient operation and is sufficiently represented in rural areas;
- (vii) applies appropriate procedures for appraisal, supervision, and monitoring of Sub-projects, including for the efficient evaluation and supervision of the procurement and environmental elements of Sub-projects.

Part B. Terms

1. The principal amount to be relented out of the proceeds of the Loan to a PB under its respective Subsidiary Loan Agreement shall: (a) be denominated in Dollars; and (b) be the equivalent of the aggregate amount of the principal of all Sub-loans, Financial Leases and ID loans to be made out of the proceeds of the Loan pursuant to the Subsidiary Loan Agreement providing for such Subsidiary Loan.

2. Each Subsidiary Loan shall: (a) be charged semi-annually, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal to the rate payable under Section 2.06 of this Agreement plus the administrative costs of the Borrower and a margin acceptable to the Bank; (b) be charged a front-end fee of one percent (1%) and such other fee that might be charged by the Bank to the Borrower; (c) be charged a commitment charge at a rate equal to the rate payable under Section 2.05 of this Agreement, on the principal amount of the Subsidiary Loan not withdrawn from time to time; and (d) be repaid in accordance with an amortization schedule calculated to have a maturity of not more than twelve (12) years, including a grace period of not more than two (2) years.

3. The right of a PB to use the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PB to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with any of the

eligibility criteria set forth in paragraph 1 of Section A of this Annex; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty (60) days.

Part C. Conditions

1. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PB shall undertake to:

(a) carry out activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures in line with general prudent commercial banking practices, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

- (b) (i) make Sub-loans or Financial Leases to Beneficiaries and SNGs on the terms and conditions set forth in the Operations Manual, including, without limitation, the terms and conditions set forth in the Attachment to this Annex;
- (ii) ensure that, except as the Bank shall otherwise agree, the amount of each Sub-loan or Financial Lease made to: (aa) any one Beneficiary or group of Beneficiaries, shall not exceed the equivalent of \$1,500,000 for investments and \$300,000 for working capital; and (bb) any SNG or group of SNGs shall not exceed UHA 40,000,000;
- (iii) ensure that, except as the Bank shall otherwise agree, the aggregate amount of all Sub-loans made to: (aa) any one Beneficiary or group of Beneficiaries, shall not exceed the equivalent of \$4,000,000; and (bb) any SNG or group of SNGs shall not exceed UHA 40,000,000;
- (iv) ensure that, except as the Bank shall otherwise agree, the amount of the ID loan made to the PB for its institutional development under Part A.2 of the Project shall not exceed 15% of the amount of the Subsidiary Loan Agreement and shall not be disbursed until at least 5% of the amounts allocated to Sub-loans and Financial leases under the Subsidiary Loan Agreement has been disbursed;
- (v) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the

Borrower and the Bank, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of the Project;

- (vi) not assign, amend, abrogate or waive agreements priorly reviewed by the Bank, providing for Sub-loans or Financial Leases, or any provision thereof, without the prior approval of the Borrower; and report on amendment on such agreements in the framework of the regular progress reports;
 - (vii) appraise Sub-projects and supervise, monitor and report on the carrying out by the Beneficiary or SNGs of Sub-projects, in accordance with general appropriate commercial banking practices;
 - (viii) ensure that each Sub-project shall comply with environmental review procedures set forth in the Operations Manual. To that end, PBs shall require each Beneficiary and SNG applying for a Sub-loan or Financial Lease to furnish evidence satisfactory to the Bank showing that the Sub-project in respect of which the application has been prepared in accordance with such procedures;
 - (ix) ensure that for Sub-projects which require an environmental mitigation plan, the Beneficiary or SNG shall carry out such environmental mitigation plan in a timely manner, requiring such environmental mitigation plan to be in compliance with: (aa) environmental standards satisfactory to the Bank; and (bb) the applicable laws and regulations of the Borrower relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such environmental management plans in the progress reports referred to in subparagraph (c) (ii) of this paragraph; and
 - (x) ensure that: (aa) goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (bb) such goods and works shall be used exclusively in the carrying out of the Sub-project;
- (c) (i) authorize in writing NBU to meet with the Bank's representatives and provide the Bank any reasonable information regarding the PB's overall performance and compliance with Project eligibility criteria, based on information available to

NBU as a result of on-site examination and off-site supervision of PBs;

- (ii) authorize in writing the external auditors of the PB to meet with the Bank representatives and provide the Bank any reasonable information regarding the PB's overall performance and compliance with Project eligibility criteria, based on information available to external auditors;
 - (iii) exchange views with and furnish all such information to the Bank and/or the Borrower, as may be reasonably requested by the Bank and the Borrower, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of the Project;
 - (iv) prepare and submit to the Borrower quarterly reports on all disbursements and repayments, and semi-annual reports on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-loan applications; and
 - (v) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;
- (d)
- (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and
 - (ii) furnish to the Bank such information concerning said records and accounts as the Bank shall from time to time reasonably request;

(e) except as the Bank and the Borrower may otherwise agree: (i) open and thereafter maintain on its books, in accordance with its normal financial practices and on conditions satisfactory to the Bank and the Borrower, a separate account to which it shall credit, as the case may be, each payment of interest or other charges on, or repayment of principal payments under, any Sub-loan or Financial Lease; and (ii) utilize all amounts so credited to said separate account, to the extent they are not yet required to meet said PB's payment or repayment obligations to the Borrower under its respective Subsidiary Loan Agreement, exclusively to finance additional development projects to further the development of the Borrower's financial sector; and

- (f) assume the credit risk of each Sub-loan or Financial Lease.

**Attachment to
the Annex to
SCHEDULE 5**

Terms and Conditions of Sub-loans and Financial Leases

Part A: General

The provisions of this Attachment shall be for the purposes of paragraph 1 (b) (i) of Part C of the Annex to this Schedule 5.

1. (a) Each Sub-loan shall be made on terms and conditions, including those relating to the maturity, foreign currency denomination, interest rate and other charges determined in accordance with the PB's investment and lending policies and practices referred to in subparagraph 1 (a) (iii) of Part A of the Annex to Schedule 5 to this Agreement, provided, however, that the interest rate to be charged on the principal amount thereof withdrawn and outstanding from time to time, shall equal to at least to the rate of interest applicable from time to time to the Subsidiary Loan pursuant to the provisions of paragraph 3 of Section B of Annex to Schedule 5 to this Agreement plus the administrative costs and an appropriate credit risk margin.

(b) Each Financial Lease shall be made on terms and conditions, including those relating to the maturity, foreign currency denomination, interest rate and other charges determined in accordance with the PB's investment and lending policies and practices referred to in subparagraph 1 (a) (iii) of Part A of the Annex to Schedule 5 to this Agreement, provided, however, that the interest rate to be charged on the principal amount thereof withdrawn and outstanding from time to time, shall equal to at least to the rate of interest applicable from time to time to the Subsidiary Loan pursuant to the provisions of paragraph 3 of Section B of Annex to Schedule 5 to this Agreement plus the administrative costs and an appropriate credit risk margin.

2. No expenditures for a Sub-project by a PB shall be eligible for financing out of the proceeds of the Loan unless:

(a) the first two Sub-loans, for an amount above \$50,000 each, and the first two Financial Leases for a Beneficiary by the said PB for such Sub-projects shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred and eighty (180) days prior to the date on which the Borrower shall have received the application and information required under paragraph 3 (a) of this Section in respect of such Sub-loans and Financial Leases; or

(b) the Sub-loan or Financial Lease by the said PB for such Sub-project shall have been, respectively, a free-limit Sub-loan or free-limit Financial Lease for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall

have been made not earlier than one hundred and eighty (180) days prior to the date on which the Borrower shall have received the request and information required under paragraph 3 (a) of this Section in respect of such free-limit Sub-loan or free-limit Financial Lease. For the purposes of this Agreement: (i) a “free-limit Sub-loan” shall be a Sub-loan, other than the first two Sub-loans for a Beneficiary by each PB, and other than any Sub-loan to a Beneficiary in an amount exceeding the sum of \$1,000,000, the foregoing amount being subject to change from time to time as determined by the Bank; and (ii) a “free-limit financial lease” shall be a Financial Lease, other than the first two Financial Leases by each PB, and other than any Financial Lease to a Beneficiary in an amount exceeding the sum of \$1,000,000 equivalent, the foregoing amount being subject to change from time to time as determined by the Bank; or

(c) each Sub-loan or Financial Lease for a SNG by the said PB for such Sub-projects shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred and eighty (180) days prior to the date on which the Borrower shall have received the application and information required under paragraph 3 (a) of this Section in respect of such Sub-loan or Financial Lease.

3. (a) When presenting a Sub-loan or Financial Lease (other than a free-limit Sub-loan or free-limit Financial Lease) 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 Beneficiary or SNG and an appraisal of the Sub-project, 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 Sub-loan or Financial Lease including the schedule of amortization of the Sub-loan or Financial Lease;
- (iii) evidence of compliance with the Operations Manual and specifically with the environmental review procedures set forth in the Operations Manual; and
- (iv) such other information as the Bank shall reasonably request and/or such other information as the Borrower shall reasonably request under terms acceptable to the Bank.

(b) Each Sub-loan or Financial Lease shall be approved on the basis of evaluation guidelines adopted by the PB satisfactory to the Bank.

4. (a) Sub-loans or Financial Leases shall be made to the Beneficiary which each shall have established and maintained during the duration of its respective Sub-loan or Financial Lease to the satisfaction of the PB that:

- (i) except as the Bank and the Borrower shall otherwise agree, it will have a ratio of debt to equity (after receipt of the Sub-loan) no greater than 70:30;
 - (ii) except as the Bank and the Borrower shall otherwise agree, it will not incur any debt unless a reasonable forecast of its revenues and expenditures shows that its estimated cash flow for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times its estimated debt service requirements in such year on all its debt, including the debt to be incurred; and
 - (iii) it has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.
- (b) Sub-loans or Financial Leases shall be made to the SNGs provided that:
- (i) it is authorized under the law of the Borrower to borrow from PBs; and
 - (ii) it has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project and all other criteria to be set forth in the Operations Manual and to be agreed by the Borrower and the Bank.
- (c) For purposes of this paragraph:
- (i) the term “debt” means any indebtedness of the Beneficiary;
 - (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
 - (iii) the term “equity” means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Beneficiary not allocated to cover specific liabilities; and

- (iv) the term "debt service requirements" means the aggregate amount of repayments of, and interest and other charges on, debt.

5. The Sub-loans or Financial Leases shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with procedures acceptable to the Bank, to:

- (a) be technically feasible and financially and commercially viable;
- (b) be targeted towards expanding, modernizing and rehabilitating existing production or services capacities consistent with the Beneficiary's or SNG's rural growth projections; and
- (c) be in compliance with the requirements pertaining to environmental protection applicable under the laws and regulations of the Borrower and the environmental review procedures set forth in the Operational Manual.

6. Sub-loans and Financial Leases shall be made on terms whereby the PB shall obtain, by written contract with the Beneficiary or SNG, rights adequate to protect its interests and those of the Bank and the Borrower, including the right to:

- (a) require the Beneficiary or SNG to carry out and operate the facilities financed under the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;
- (b) without limitation to the generality of the provisions of the preceding paragraph (a), require the Beneficiary or SNG to carry out and operate the Sub-project with due regard to applicable social impact, ecological, environmental and pollution control standards and in accordance with the provisions of the Operational Manual;
- (c) for Sub-projects which need an environmental mitigation plan, require the Beneficiary or SNG to carry out such environmental mitigation plan in a timely manner;
- (d) require: (i) that the goods and works to be financed out of the proceeds of the Sub-loans or Financial Leases shall be procured in accordance with the provisions of Schedule 4 to this Agreement; and (ii) that such goods and works shall be used exclusively in the carrying out of the Sub-project;
- (e) inspect, by itself or jointly with representatives of the Borrower and the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(f) require that: (i) the Beneficiary or SNG 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 Sub-loan or Financial Lease to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(g) 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 Beneficiary or SNG and to the benefits to be derived from the Sub-project; and

(h) suspend or terminate the right of the Beneficiary or SNG to the use of the proceeds of the Sub-loan or Financial Lease upon failure by such Beneficiary or SNG to perform its obligations under its contract with the PB.

Part B: Principal Terms and Conditions of the Sub-loans not exceeding \$50,000 equivalent

1. Without limitation upon the Borrower's obligations set out Part A of this Attachment, the provisions of this Attachment shall apply for the purposes of Sub-loans pursuant to paragraph 1 (b) (i) of Part C of the Annex to this Schedule 5 not exceeding the amount of \$50,000 equivalent and provided to Beneficiaries with less than 20 employees with the ability to service and repay the Sub-loan in accordance with the criteria set forth in the Operations Manual:

- (a) the Sub-loan will be denominated in UAH;
- (b) the principal amount of the Sub-loan shall be repaid by Beneficiary over a period of seven (7) years, inclusive of a grace period not exceeding one (1) year; and
- (c) unless the Bank agrees otherwise, the Sub-loans shall eligible for disbursement upon the signature of the related Sub-loan Agreement and shall not be considered for the purposes of Part A.2 of this Attachment.