

CONFORMED COPY

LOAN NUMBER 7150-JM

Loan Agreement

(Second Bank Restructuring and Debt Management Program Adjustment Loan)

between

JAMAICA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated October 31, 2002

LOAN NUMBER 7150-JM

LOAN AGREEMENT

AGREEMENT, dated October 31, 2002, between JAMAICA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) by providing a loan to the Borrower under the Loan Agreement dated December 6, 2000 (Loan No. 7036-JM), the Bank has assisted the Borrower in support of the first phase of the Borrower's actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (the First Phase of the Program), as such First Phase of the Program was described in the letter, dated October 19, 2000, from the Borrower to the Bank;

(B) the Bank has received a letter, dated September 10, 2002, from the Borrower (the Letter of Sector Development Policy): (i) describing the Borrower's macroeconomic framework and actions, objectives and policies (the Program) as revised since the letter referred to in (A) above, which Program consists of actions taken under the First Phase of the Program, actions taken as described in Schedule 3 to this Agreement (the Second Phase of the Program) and actions and policies that the Borrower intends to pursue in the future; (ii) declaring the Borrower's commitment to the objectives of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof;

(C) the Borrower has maintained a macroeconomic policy framework satisfactory to the Bank; and

(D) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the loan provided for in Article II of this Agreement (the Loan) as hereinafter provided;

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, with the

modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 2.01, paragraph 41, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

- (b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after 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 of the program referred to in the Preamble to the Loan Agreement, 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.”; and

- (f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) “Bank of Jamaica” means the Borrower’s central bank;
- (b) “Basle Core Principles” means international standards for banking supervision and regulation as adopted by the Bank of International Settlements in Basle, Switzerland;
- (c) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (d) “FINSAC” means Financial Sector Adjustment Company Limited, the Borrower’s financial crisis management agency, established in 1997;
- (e) “FIS” means Financial Institutions Services Limited, the Borrower’s institution that preceded FINSAC, originally established to wind down the operations of certain failed financial groups;
- (f) “FSC” means the Financial Services Commission of the Borrower, created pursuant to the FSC Act;
- (g) “FSC Act” means the Financial Services Commission Act of the Borrower, No. 9-2001, duly published in the Borrower’s official gazette on July 30, 2001, which established the FSC, as said Act has been amended to the date of this Agreement;
- (h) “Insurance Act” means the Insurance Act of the Borrower, duly published in the Borrower’s official gazette on December 21, 2001, as said Act has been amended to the date of this Agreement;
- (i) “J\$” means Jamaican Dollars, the lawful currency of the Borrower;
- (j) “Life of Jamaica” means Life of Jamaica Limited, an insurance company duly incorporated under the laws of Jamaica;
- (k) “NCB” means National Commercial Bank Jamaica Limited;

(l) “NPLs” means defaulted loans from Jamaican financial institutions acquired by FINSAC;

(m) “SMP” means the Staff Monitored Program agreed between the Borrower and the International Monetary Fund in July 2000, and amended in December 2001; and

(n) “Supervisory Ladder of Enforcement” means the set of guidelines that the Bank of Jamaica follows in its banking intervention activities, as set forth in the “Guide to Intervention by Bank of Jamaica in Conduct of Supervised Financial Institutions”, issued by Bank of Jamaica in October 2000.

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 this Agreement, an amount equal to seventy-five million Dollars (\$75,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the amount of \$74,250,000 from the Loan Account in support of the Second Phase of the Program, minus any amounts withdrawn by the Bank to pay itself pursuant to Section 2.09 (c) below.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain, in the Bank of Jamaica, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account (except as set forth in Section 2.04 and 2.09 (c) of this Agreement) shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank:

- (i) with the progress achieved by the Borrower in the carrying out of the Program; and
- (ii) that the macroeconomic policy framework of the Borrower is consistent with the objectives of the Program.

If, after said exchange of views, the Bank is not so satisfied, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice the Borrower shall not have taken steps satisfactory to the Bank in respect of (i) and (ii) above, as the case may be, the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2002 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. 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 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 per cent (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 per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on February 15 and August 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than three months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date November 4, 2002 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 and Planning 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:

Minister of Finance and Planning
Attention: The Financial Secretary
30 National Heroes Circle
Kingston 4, Jamaica

Facsimile:

876-924-9291

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 the District of Columbia, United States of America, as of the day and year first above written.

JAMAICA

By /s/ Seymour Mullings

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Mauricio Carrizosa

Acting Authorized Representative
Latin America and the Caribbean

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

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, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share</u> <u>(Expressed as a %)</u>
On each February 15 and August 15	
Beginning February 15, 2009 through August 15, 2018	5.00 %

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, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

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. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. 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 3

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Borrower has been undertaking periodic scheduled reviews of performance as agreed under the SMP.
2. The Borrower: (a) has explicitly assumed, as part of its domestic public debt, all FINSAC liabilities outstanding as of March 31, 2001; and (b) has been making full interest payments in cash on all such assumed liabilities to private financial institutions.
3. FINSAC has not incurred any additional liabilities over and beyond those identified in the SMP.
4. The Borrower has used all funds from Loan No. 7036-JM, and has committed to use all funds from the Loan, to reduce Borrower debt held by private financial institutions.
5. In addition to the restructuring of FINSAC's debt held by the Bank of Jamaica (supported by Loan No. 7036-JM), the Borrower has taken the steps set forth in the Memorandum of Understanding dated September 9, 2002, regarding the "Resolution of the Bank of Jamaica Losses".
6. FINSAC has provided all proceeds from its recoveries of NPLs and non-core assets, net of operating expenses, to the Borrower. The Borrower has used these funds to service its bonds replacing FINSAC liabilities.
7. The Borrower has sold its entire equity in NCB to a private party.
8. The Borrower: (a) has sold 75% of FIS's commercial real estate assets administered by FINSAC, and 98% of FIS's residential real estate assets administered by FINSAC; (b) has closed FINSAC operations as of June 30, 2002; (c) has transferred FINSAC's remaining asset administration and legal responsibilities to FIS; and (d) has provided the Bank with a satisfactory strategy for management, disposal, and winding down of the assets referred to in (c) above.
9. The Borrower has sold to a private party FINSAC's entire NPL portfolio.
10. The Borrower has sold its entire equity in Life of Jamaica to a private party.

11. Legislation has been passed by the Borrower's legislature providing to the Bank of Jamaica greater independence and broader intervention powers by: (a) granting the Bank of Jamaica powers of temporary management of deposit-taking financial institutions; (b) granting the Bank of Jamaica the legal and administrative powers to impose penalties in cases of certain technical breaches of statute by financial institutions; (c) upgrading the schedule of fines and penalties for non-compliance by financial institutions; (d) transferring all the supervisory powers of the Minister of Finance and Planning to the Bank of Jamaica, except the power to grant and revoke bank licenses and the power to vest shares of institutions; and (e) granting to the Bank of Jamaica: (i) extended jurisdiction over non-banking institutions that are part of a banking group, and (ii) the power to require the restructuring of a financial group.

12. The Bank of Jamaica has undertaken an independent assessment of the Basle Core Principles. Subsequently, it has adopted a plan and begun undertaking specific training initiatives and capacity building measures thereunder in supervision and regulation of market risk exposure of supervised entities towards achieving full compliance with the Basle Core Principles.

13. A Financial Regulatory Council, consisting of representatives of the Bank of Jamaica, the FSC, the Ministry of Finance and Planning and the Jamaica Deposit Insurance Corporation: (a) has been established and is functioning satisfactorily, for the purpose of coordinating the supervision of financial institutions; and (b) has provided reports to the Minister of Finance and Planning on technical guidance provided to the respective regulatory bodies.

14. The Borrower's legislature has enacted the Bank of Jamaica (Amendment) Act, 2002 (No. 17-2002), the Banking (Amendment) Act, 2002 (No. 11-2002) and the Financial Institutions (Amendment) Act (No. 10-2002) to include provisions dealing with consolidated supervision and market risk. Guidelines in respect of risk management, inclusive of market risks, have been drafted by the Bank of Jamaica.

15. The Bank of Jamaica, by amendments thereto in 2001 and 2002, has updated its Supervisory Ladder of Enforcement.

16. A bill of law for the creation of credit bureaus has been drafted by the Borrower's executive and submitted for public consultation prior to its presentation to the Borrower's legislature.

17. The FSC has been established and is functioning satisfactorily.

18. The new Insurance Act has been enacted and is in line with international best practices, as determined by the Bank.

19. The FSC has issued regulations, acceptable to the Bank, governing FSC activities, and has continued strengthening its supervisory capacity through training under a plan satisfactory to the Bank.

20. The FSC has taken the following steps to strengthen supervision of non-bank financial institutions: (a) hired consultants for the design of software for financial solvency analysis; and (b) designed two risk-based modules (one for general insurance supervision and the other for life insurance supervision) and began undertaking on-site supervision.

21. The Borrower has committed to take the following actions to further strengthen the insurance sector's regulatory framework: (a) issue regulations to harmonize the rules regarding changes in control (acquisitions, transfer and amalgamation) of insurance providers with the licensing requirements therefor; (b) issue regulations to monitor market conduct principles and protection of policy holders' interests (fair treatment); (c) introduce non-binding consultation with other boards or agencies and representatives of the insurance industry in the appointment of at least one member of the FSC's Board; and (d) revise regulations to better define standards (i.e., international ratings) for selection of foreign re-insurers, including the creation of a registry of admitted re-insurers that comply with said standards.

22. The FSC has provided the Bank with a time-bound plan, satisfactory to the Bank, to complete training of its supervisory staff.