

CONFORMED COPY

LOAN NUMBER 7657-AM

Loan Agreement

(Access to Finance for Small and Medium Enterprises Project)

between

CENTRAL BANK OF THE REPUBLIC OF ARMENIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated February 26, 2009

LOAN NUMBER 7657-AM

LOAN AGREEMENT

Agreement dated February 26, 2009, between CENTRAL BANK OF THE REPUBLIC OF ARMENIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions and in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are January 15 and July 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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 withdrawn and outstanding 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 the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the PIU in accordance with the provisions of the Operational Manual and Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - TERMINATION

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Borrower's Representative is its Chairman.

5.02. The Borrower's Address is:

Central Bank of the Republic of Armenia
6 Vazgen Sargsyan Street
Yerevan
Republic of Armenia

Facsimile:

+ (374-10) 523 852

5.03. The Bank's Address is:

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)

1-202-477-6391

AGREED at Yerevan, Republic of Armenia, as of the day and year first above written.

CENTRAL BANK OF THE REPUBLIC OF ARMENIA

By: /s/ Arthur Javadyan

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Aristome Varoudakis

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to maintain or increase Armenian small and medium enterprises' access to medium term finance.

The Project consists of the following activity: the establishment and operation of a credit facility within the Borrower's PIU for SME financing, through the provision of Sub-loans to PFI's, enabling such PFI's to finance the costs related to the Sub-projects.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Implementation

1. Except as the Bank shall otherwise agree, the Borrower shall maintain, until the completion of the Project, the PIU, and ensure that the PIU functions at all times in a manner and with staffing and financial resources necessary and appropriate for Project implementation, and satisfactory to the Bank.
2. The Borrower shall maintain the Operational Manual in form and content satisfactory to the Bank, shall duly perform all its obligations under the Operational Manual and shall not assign, amend, abrogate or waive the Operational Manual without obtaining the prior approval of the Bank.
3. The Borrower shall, throughout the implementation of the Project, comply with the applicable prudential regulations of the Guarantor.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Subsidiary Loan Agreements

1. To facilitate the carrying out of the Project, the Borrower shall make a part of the proceeds of the Loan available to PFIs under subsidiary agreements to be entered into between the Borrower and each PFI under terms and conditions approved by the Bank, including those set forth in Section C.4 below (“Subsidiary Loan Agreement”).
2. The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any of its provisions without prior approval of the Bank.
3. The Borrower shall, in close cooperation with the Bank, select PFIs for the Project in accordance with the eligibility criteria set forth in the Operational Manual.
4. The Borrower shall ensure that each Subsidiary Loan Agreement with PFIs shall comply with, but not be limited to, the following terms and conditions:

(a) the amount of Subsidiary Loan to each PFI shall be made available in Dollars and/or Drams;

(b) the principal amount of the Subsidiary Loan shall be repaid by the concerned PFI in Dollars or in Drams to the Borrower in semi-annual installments over five (5) years, including a grace period up to five (5) years;

(c) interest shall be charged on the outstanding balances of the Subsidiary Loans at a rate acceptable to the Bank and to be determined as follows: (i) the interest rate for Subsidiary Loans denominated in Dollars shall represent the prevailing interest rate as determined in accordance with Section 2.04 of this Agreement plus the administrative costs and other costs of the Borrower and a credit risk margin acceptable to the Bank; and (ii) the interest rate for Subsidiary Loans denominated in Drams shall be determined by a methodology acceptable to the Bank;

(d) ensure that no expenditures for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless the first five Sub-loans from each PFI shall have been approved by the Bank;

(e) each PFI shall carry out the Project activities in accordance with the Anti-corruption Guidelines;

(f) ensure that each Sub-project shall comply with environmental framework, including environmental review and screening procedures set forth in the Operational Manual. To that end, it shall require each SME applying for a Sub-loan to furnish evidence satisfactory to the Borrower and the Bank showing that the Sub-project in respect of which the application has been prepared is in accordance with such procedures;

(g) ensure that for Sub-projects which require an environmental mitigation plan, the SME shall carry out such environmental mitigation plan in a timely manner, requiring such environmental mitigation plan to be in compliance with: (i) environmental standards satisfactory to the Bank; and (ii) the applicable laws and regulations of the Guarantor relating to health, safety and environmental protection, and shall include adequate information on the carrying out of such environmental management plans in the Project Reports referred to in Section II.A of this Schedule 2;

(h) ensure that: (i) goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of this Schedule 2; and (ii) such goods and works shall be used exclusively in the carrying out of the Sub-project;

(i) ensure that, except as the Bank shall otherwise agree, the aggregate amount of all outstanding sub-loans to any one SME from all PFIs shall not exceed an amount set forth in the Operational Manual; and

(j) ensure that Sub-loans are provided to the SMEs registered within the territory of the Guarantor.

D. Sub-loans

1. The Borrower shall ensure that PFIs make Sub-loan to SMEs in accordance with terms and conditions, eligibility criteria and procedures set forth in the Operational Manual.

2. The Borrower shall ensure that PFIs make each Sub-loan under a Sub-loan Agreement with each SME on terms and conditions set forth in the Operational Manual, which shall, *inter alia*, include the following:

(a) the Sub-loan shall be made to each SME in Dollars and/or Drams;

(b) interest shall be charged by a PFI on the principal amount of each Sub-loan withdrawn and outstanding from time to time, at the prevailing interest rate under the concerned Subsidiary Loan Agreement of said PFI as determined in accordance with Section C.4 (c) above plus a market-based spread determined by the PFI making such Sub-loan;

(c) each Sub-loan shall be made by the PFI to the SME on terms and conditions, including those relating to the maturity, currency denomination, and other charges determined in accordance with the PFI's lending policies and practices, and the provisions of the Operational Manual;

(d) each Sub-loan shall be made by the PFI to the SME on terms and conditions, including rights adequate to protect the interests of the Bank and the Borrower, namely, the right to:

(i) suspend or terminate the right of the SME to use the proceeds of the Sub-financing, or declare to be immediately due and payable all or any part of the amount of the Sub-financing then withdrawn, upon the SME's failure to perform any of its obligations under the Sub-loan Agreement;

(ii) require each SME to:

(A) carry out its Sub-project: (aa) with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental, health and social standards and practices, satisfactory to the Bank; and (bb) in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;

- (B) procure the goods and works and to be financed out of the Sub-loan in accordance with the provisions of Section III of Schedule 2 to this Agreement;
- (C) enable the Borrower and the Bank to inspect the Sub-project, its operation and any relevant records and documents;
- (D) prepare and furnish to the Borrower and the Bank all such information as the Borrower shall reasonably request relating to the foregoing.

E. Safeguards

The Borrower shall implement the Project in accordance with the provisions of the environmental framework which is an integral part of the Operational Manual.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than forty-five (45) after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines.

B. Particular Methods of Procurement of Goods and Works

Established Private or Commercial Practices. Contracts for goods and works may be awarded in accordance with the established private or commercial practices which have been found acceptable to the Bank.

C. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the first three (3) contracts procured on the basis of commercial practice, as financed by the Sub-loan agreement signed by each PFI shall be subject to the Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (Expressed in USD)	Percentage of Expenditures to be Financed
(1) Sub-loans	49,875,000	100%
(2) Front-end Fee	125,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>50,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$10,000,000 equivalent may be made for payments made prior to this date but on or after December 1, 2008, for Eligible Expenditures under Category (1).

2. The Closing Date is September 28, 2011.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
July 15, 2014	1.320%
January 15, 2015	1.350%
July 15, 2015	1.390%
January 15, 2016	1.420%
July 15, 2016	1.460%
January 15, 2017	1.490%
July 15, 2017	1.530%
January 15, 2018	1.570%
July 15, 2018	1.610%
January 15, 2019	1.650%
July 15, 2019	1.69.0%
January 15, 2020	1.730%
July 15, 2020	1.780%
January 15, 2021	1.820%
July 15, 2021	1.870%
January 15, 2022	1.910%
July 15, 2022	1.960%
January 15, 2023	2.010%
July 15, 2023	2.060%
January 15, 2024	2.110%
July 15, 2024	2.160%
January 15, 2025	2.220%
July 15, 2025	2.270%
January 15, 2026	2.33.0%
July 15, 2026	2.390%
January 15, 2027	2.450%
July 15, 2027	2.510%
January 15, 2028	2.570%

Principal Payment Date	Installment Share (Expressed as a Percentage)
July 15, 2028	2.640%
January 15, 2029	2.700%
July 15, 2029	2.770%
January 15, 2030	2.840%
July 15, 2030	2.910%
January 15, 2031	2.980%
July 15, 2031	3.060%
January 15, 2032	3.130%
July 15, 2032	3.210%
January 15, 2033	3.290%
July 15, 2033	3.370%
January 15, 2034	3.460%
July 15, 2034	3.540%
January 15, 2035	3.630%
July 15, 2035	3.840%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Disbursement Letter” means the letter dated as of the same date of this Agreement, including the additional instructions as referred to in Section IV A.1 of Schedule 2 to this Agreement, as may be revised from time to time.
5. “Dram” means a lawful currency of the Guarantor.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
7. “Operational Manual” means the manual approved by the Borrower on January 23, 2009, setting out the operational and administrative procedures, including the environmental framework, in respect of the preparation, selection, environmental screening, approval, financial management, disbursement and implementation and supervision of Sub-loans.
8. “PFI” means a financial institution, selected by the Borrower and the Bank, to participate in the Project in accordance with the eligibility criteria and selection procedures set forth in the Operational Manual.
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
10. “PIU” means the project implementation unit of the Borrower which shall be responsible for day to day implementation, management and coordination of all Project activities.

11. “SME” means an enterprise registered and operating within the territory of the Guarantor satisfying the appropriate criteria and selection procedures set forth in the Operational Manual.
12. “Subsidiary Loan” means any loan made by the Borrower to the PFI for the purposes of on lending to the SME pursuant to the Subsidiary Loan Agreement.
13. “Sub-loan” means a loan made or proposed to be made by the PFI to SME, out of the proceeds of the Loan, for purposes of financing all or a portion of the expenditures incurred by an SME for goods and works under a Sub-project.
14. “Sub-loan Agreement” means the agreement to be entered into between the PFI and each SME for provision of a Sub-loan pursuant to the Operational Manual and referred to in Section I.D.2 of Schedule 2 to this Agreement
15. “Sub-project” means a specific investment or working capital project, selected in accordance with the Operational Manual, which is proposed to be carried out by an SME, in whole or in part through the utilization of the proceeds of a Sub-loan.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. Suspension by the Bank

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing

Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

- (c) The definition of the term “Variable Rate” is modified, in relevant part, to read as follows:

“(c) upon a Currency Conversion to an Approved Currency of an amount of the Withdrawn Loan Balance that accrues interest at a variable rate during the Conversion Period, the variable rate of interest applicable to such amount shall be equal to either: (i) the sum of: (A) LIBOR, or such other base rate as may be agreed by the Borrower and the Bank, for the Approved Currency; plus (B) the spread to LIBOR or to such other base rate, if any, payable by the Bank under the Currency Hedge Transaction relating to said Currency Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the interest rate component of the Screen Rate.”

