

CONFORMED COPY

LOAN NUMBER 3123 PH

(Industrial Investment Credit Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

DEVELOPMENT BANK OF THE PHILIPPINES

Dated November 9, 1989

LOAN NUMBER 3123 PH

LOAN AGREEMENT

AGREEMENT, dated November 9, 1989, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and DEVELOPMENT BANK OF THE PHILIPPINES (the Borrower).

WHEREAS (A) Republic of the Philippines (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Borrower has received from the Government of Japan (Japan) a grant (the Grant) in an amount of Yen 235,000,000 to assist in financing Part B of the Project on the terms and

conditions set forth in an agreement dated May 8, 1989 (the Japan Grant Agreement) entered into between the Borrower and Japan; 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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Charter" means the charter of the Borrower dated December 3, 1986, as amended to the date of this Agreement;

(b) "Institutional Development Plan" means the Institutional Development Plan dated March 17, 1989, as such plan may be modified by the Borrower with the concurrence of the Bank;

(c) "Investment" means an investment, other than a Sub-loan, made or proposed to be made by a Participating Financial Institution out of the proceeds of a Subsidiary Loan in an Investment Enterprise for an Investment Project;

(d) "Investment Enterprise(s)" means enterprise(s) to which a Participating Financial Institution proposes to make or has made a Sub-loan or in which it proposes to make or has made an Investment;

(e) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan or Investment;

(f) "Participating Financial Institution(s)" means such financial institution(s) as may be accredited by the Borrower for participation in the Project;

(g) "Operating Policy Guidelines" means the guidelines referred to in Section 3.02 (c) of this Agreement;

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

(i) "Statement of Policy" means the policy statement specifying the Borrower's objectives, general operational principles, investment policies, financial prudence limits, financial policy and capital structure, and the statement of lending and investment policy approved by the Board of Directors of the Borrower on April 5, 1989;

(j) "Sub-loan" means a loan made or proposed to be made by a Participating Financial Institution out of the proceeds of a Subsidiary Loan to an Investment Enterprise for an Investment Project; "Free-limit Sub-loan" means a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of a Subsidiary Loan which shall not exceed the sum of \$4,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Subsidiary Loan;

(k) "Subsidiary Loan" means the amount made available by the Borrower to a Participating Financial Institution under the provisions of a Subsidiary Loan Agreement; and

(l) "Subsidiary Loan Agreement(s)" means agreement(s) to be entered into between the Borrower and Participating Financial Institution(s) pursuant to Section 3.02 (a) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of sixty-five million dollars (\$65,000,000) as the sum of withdrawals of the proceeds of the Loan with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by an Investment Enterprise under a Sub-loan or Investment to meet the reasonable cost of goods and services required for the Investment Project in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a bank acceptable to the Bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be January 1, 1996 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

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

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

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

(c) For the purposes of this Section:

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

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof

as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

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

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

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

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

Section 2.06. Interest and other charges shall be payable semi-annually on January 1 and July 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project; Management and Operations of the Borrower

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall, in accordance with the Charter and the Statement of Policy, carry out the Project and cause each Participating Financial Institution to carry out Part A of the Project and conduct its operations and affairs in accordance with sound financial standards and practices, with qualified management and personnel.

Section 3.02. (a) The Borrower shall relend the proceeds of the Loan to the Participating Financial Institutions under separate Subsidiary Loan Agreements, satisfactory to the Bank, to be entered into between the Borrower and each Participating Financial Institution as such agreements may be amended from time to time with the concurrence of the Bank, for the purpose of onlending the proceeds of the Subsidiary Loan to Investment Enterprises in accordance with the provisions hereof. The Borrower shall not in any way pass on the proceeds of the Loan to Investment Enterprises directly and shall ensure that the Participating Financial Institutions do not onlend the proceeds of the Subsidiary Loans for ineligible sub-sectors identified by the Bank.

(b) The Borrower undertakes that, unless the Bank shall otherwise agree, each Subsidiary Loan and Sub-loan and Investment will be made or caused to be made in accordance with the procedures and on the terms and conditions set forth or referred

to in Paragraphs 1 and 2 of Schedule 4 to this Agreement.

(c) The Borrower shall adhere to the Operating Policy Guidelines for the operation of the Project. The Operating Policy Guidelines shall, inter alia, contain those matters as set forth or referred to in Paragraph 3 of Schedule 4 to this Agreement and such other matters as may be mutually agreed upon by the Bank and the Borrower from time to time.

(d) The Borrower shall cause each Participating Financial Institution to exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank, the Borrower and the Participating Financial Institution; (ii) comply with its obligations under the Subsidiary Loan Agreement; and (iii) achieve the purposes of the Project.

Section 3.03. No expenditures for goods, services and works required for an Investment Project and to be financed out of the proceeds of a Subsidiary Loan, Sub-loan or Investment shall be eligible for financing out of the proceeds of the Loan unless the procurement procedures outlined in paragraph 4 of Schedule 4 to this Agreement have been followed to the satisfaction of the Bank.

Section 3.04. The Borrower shall implement the Institutional Development Plan diligently and promptly in accordance with its terms.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall maintain procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower.

Section 4.02. (a) The Borrower shall:

- (i) have its records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by an independent auditor acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditor, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

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

- (i) maintain in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) retain until at least one year after the Bank has received the audit report for the fiscal year in

which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

Section 4.03. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

Section 4.04. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, if after the incurrence of such debt the ratio of debt to equity shall be greater than 5 to 1.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.
- (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, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent that the guaranteed debt is outstanding.
- (iii) The term "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of the Borrower not allocated to cover specific liabilities.
- (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified, namely that:

(a) the Charter or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition

of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement; and

(b) a change shall have been made in the Operating Policy Guidelines without the Bank's consent.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified: the events specified in paragraphs (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) Subsidiary Loan Agreements have been executed between the Borrower and at least two Participating Financial Institutions acceptable to the Bank; and

(b) the Operating Policy Guidelines of the Borrower, satisfactory to the Bank, have been adopted and put into effect.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Chairman 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 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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Development Bank of the Philippines
Sen. Gil Puyat Avenue Corner
Makati Avenue
Makati, Metro Manila
Philippines

Cable address:

PHILDEBANK
Manila

Telex:

22197

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Attila Karaosmanoglu
Regional Vice President
Asia

DEVELOPMENT BANK OF THE PHILIPPINES

By /s/ Vicente R. Jayme
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods, works and services financed by Subsidiary Loans, Sub-loans and Investments under Part A of the Project	65,000,000	100% of foreign expenditures and 60% of local expenditures
TOTAL	65,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of a Sub-loan or Investment unless the Sub-loan or Investment has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 4 to this Agreement; and

(b) in respect of payments made for expenditures prior to

the date of this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve investment credit delivery for industry by assisting the Borrower to carry out its wholesale banking function of channeling term funds to retail financial institutions and to broaden the scope of financial services available to industrial enterprises.

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

Part A:

The financing of Investment Projects through Sub-loans to and Investments in Investment Enterprises:

1. Line of Credit for Equipment and Working Capital. To provide long-term financing to Investment Enterprises, covering plant improvements or construction and acquisition of equipment as well as the working capital requirements associated with investment in plant and equipment; and incremental marketing and worker training and relocation expenses.

2. Lease Financing. To provide finance to Participating Financial Institutions for the purchase of equipment to be leased to Investment Enterprises.

3. Equity and Quasi-Equity Investments. To provide financing for equity and quasi-equity Investments (including common or preferred stock, convertible debentures or subordinated debt, which could be used either alone or packaged in combination with debt) by the Participating Financial Institutions against their financing the purchase of equipment, goods, services and works by the Investment Enterprises.

Part B:

To carry out institutional development and improvements in the technical capabilities of the Borrower and the Department of Trade and Industry of the Guarantor in accordance with an Institutional Development Plan, satisfactory to the Bank; and to undertake subsectoral studies which would (i) provide subsector data, analyses, and strategies, and (ii) develop proposals for subsectoral restructuring, including measures to improve the policy and institutional framework for the subsectors selected with the concurrence of the Bank.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 1, 1995	1,185,000
July 1, 1995	1,230,000
January 1, 1996	1,280,000
July 1, 1996	1,325,000
January 1, 1997	1,380,000
July 1, 1997	1,430,000
January 1, 1998	1,485,000
July 1, 1998	1,545,000
January 1, 1999	1,605,000

July 1, 1999	1,665,000
January 1, 2000	1,730,000
July 1, 2000	1,800,000
January 1, 2001	1,870,000
July 1, 2001	1,940,000
January 1, 2002	2,015,000
July 1, 2002	2,095,000
January 1, 2003	2,175,000
July 1, 2003	2,260,000
January 1, 2004	2,345,000
July 1, 2004	2,435,000
January 1, 2005	2,530,000
July 1, 2005	2,630,000
January 1, 2006	2,730,000
July 1, 2006	2,835,000
January 1, 2007	2,945,000
July 1, 2007	3,060,000
January 1, 2008	3,180,000
July 1, 2008	3,300,000
January 1, 2009	3,430,000
July 1, 2009	3,565,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

SCHEDULE 4

Procedures for and Terms and Conditions of Subsidiary Loans, Sub-loans and Investments; Operating Policy Guidelines; Procurement

1. For Subsidiary Loans from the Borrower to the Participating

Financial Institutions:

(a) Relending interest rates shall be determined by the Borrower as prescribed in the Operating Policy Guidelines.

(b) Subject to the provisions of paragraph 1 (a) above, interest rates shall be reviewed by the Borrower every six months and in the event of any change, the revised rate shall be made applicable on both new and outstanding loans/commitments.

(c) Repayment of Subsidiary Loans shall conform in relevant part substantially to the aggregate of the amortization schedules applicable to Sub-loans and the schedules of repayment in respect of Investments.

(d) The Participating Financial Institutions shall be required to observe the procurement guidelines outlined in paragraph 4 hereinbelow.

(e) Each Participating Financial Institution shall be required to maintain records adequate to monitor and record the progress of each Investment Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Participating Financial Institution.

2. For Sub-loans and Investments from the Participating Financial Institutions to the Investment Enterprises:

(a) Participating Financial Institutions shall be required to observe the guidelines for making Sub-loans, Free-limit Sub-loans, and Investments as prescribed by the Borrower in the Operating Policy Guidelines.

(b) Sub-loans, Free-limit Sub-loans, and Investments shall be based on the terms and conditions prescribed by the Borrower in the Operating Policy Guidelines.

(c) The Investment Enterprises shall be required to observe the procurement guidelines outlined in paragraph 4 hereinbelow.

(d) Investment Enterprises and Investment Projects shall be required to meet the eligibility criteria prescribed by the Borrower in the Operating Policy Guidelines.

(e) Investment Enterprises and Investment Projects shall be required to observe and conform with relevant environmental laws, rules and regulations in force in the Republic of the Philippines.

(f) Each Investment Enterprise shall be required to maintain records adequate to monitor and record the progress of each Investment Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Investment Enterprise.

3. Operating Policy Guidelines

The Operating Policy Guidelines shall, inter alia, prescribe the following:

- (i) the accreditation criteria for Participating Financial Institutions;
- (ii) procedures for relending by the Borrower and terms and conditions of the Subsidiary Loans to the Participating Financial Institutions;
- (iii) the exclusion of the Borrower as a retailer of funds under the Project;
- (iv) the eligibility criteria for Investment Enterprises and Investment Projects;

- (v) procedures for onlending to the Investment Enterprises by the Participating Financial Institutions and terms and conditions of Investments and Sub-loans;
- (vi) Investment Project documentation (financial and legal) requirements for Investments, Sub-loans and Free-limit Sub-loans;
- (vii) required minimum loan financing by Participating Financial Institutions in Investment Projects from their own funds;
- (viii) required minimum equity contribution from Investment Enterprises;
- (ix) minimum and maximum sizes of Sub-loans and Investments; and
- (x) required conformance with environmental laws.

4. Procurement

Goods, services and works to be financed out of the proceeds of the Subsidiary Loans or Sub-loans and Investments shall be purchased at a reasonable price, account being taken also of other relevant factors such as, (i) in the case of goods, timely delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, (ii) in the case of services, of their quality and the competence of the parties rendering them, and (iii) in the case of works, the technical quality and the competitive cost therefor.

5. Disbursement Eligibility

No expenditures for goods, works or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan or Investment for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under the Operating Policy Guidelines in respect of such Sub-loan or Investment; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under the Operating Policy Guidelines in respect of such free-limit Sub-loan.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

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

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Part A of the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement.

(c) the term "Authorized Allocation" means an amount equivalent to four million dollars (\$4,000,000) to be withdrawn

from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

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

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Category less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

