
LOAN NUMBER _____ - MON(SF)

LOAN AGREEMENT
(Special Operations)
(Financial Regulation and Governance Program)

between

MONGOLIA

and

ASIAN DEVELOPMENT BANK

DATED _____

LPS: MON 34135

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated _____ between MONGOLIA (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 14 November 2005 (hereinafter called the "Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's financial sector (hereinafter called the "Program");

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program;

(C) the Borrower has applied to ADB for advisory technical assistance on a grant basis for supporting the implementation of the reforms envisaged under the Program and strengthening the Non-bank Financial Regulatory Commission's and Financial Intelligence Unit's regulatory capacity (hereinafter called the "Technical Assistance"), and ADB has agreed to provide a technical assistance grant to the Borrower for this purpose in an aggregate amount equivalent to nine hundred thousand dollars (\$900,000); and

(D) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth for the purposes of the Program;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Banking Law" means Law dated 3 September 1996;

(b) "BOM" means the Bank of Mongolia, and any successor thereto;

(c) "Company Law" means Law dated 2 July 1999;

(d) "Counterpart Funds" means the Togrog accruing to the Borrower and generated from the Loan proceeds under the Program, and referred to in paragraph 7 of Schedule 5 to this Loan Agreement;

(e) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(f) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of three million four hundred fifty-eight thousand five hundred Special Drawing Rights (SDR 3,458,500) to be initially withdrawn and utilized;

(g) "Insurance Law" means Law dated 30 April 2004;

(h) "Law on Cooperatives" means Law dated 8 January 1998;

(i) “Law on Non-bank Financial Activities” means Law dated 12 December 1996;

(j) “Law on the Establishment of Non-bank Financial Regulatory Commission” means the law on the establishment on a non-bank financial regulatory commission submitted by the Borrower to the Parliament of Mongolia on 12 April 2005;

(k) “MOF” means the Ministry of Finance of the Borrower, and any successor thereto;

(l) “MSE” means the Mongolian Stock Exchange, and any successor thereto;

(m) “NBFRC” means the Non-bank Financial Regulatory Commission to be established pursuant to the Law on the Establishment of Non-bank Financial Regulatory Commission, and any successor thereto;

(n) “non-bank financial intermediary” means non-bank financial institutions as defined in the Law on Non-bank Financial Activities, insurance companies and securities markets intermediaries;

(o) “Policy Letter” has the meaning specified in Recital A hereto;

(p) “Policy Matrix” means the policy matrix agreed between the Borrower and ADB which sets forth the actions to be taken by the Borrower under the Program;

(q) “Program Executing Agency” means, for the purposes and within the meaning of the Loan Regulations, MOF, which is responsible for the carrying out of the Program;

(r) “Program Implementing Agency” means BOM or NBFRC, as applicable;

(s) “Program Period” means the period commencing on the Effective Date and ending on 31 December 2009 or such other date as may from time to time be agreed between the Borrower and ADB;

(t) “Second Tranche” means the balance of the proceeds of the Loan remaining after the utilization of the First Tranche, to be withdrawn after 31 December 2007 pursuant to and subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;

(u) “Securities Markets Law” means Law dated 12 December 2002;

(v) “Technical Assistance” has the meaning specified in Recital (C) hereto;
and

(w) “Togrog” means togrog, the lawful currency of the Borrower.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to six million nine hundred seventeen thousand Special Drawing Rights (SDR 6,917,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 June and 15 December in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2010 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

- (a) the Borrower shall have submitted the draft Anti-money Laundering Law prepared with ADB's assistance to the Parliament of Mongolia for approval; and
- (b) the Law on the Establishment of Non-bank Financial Regulatory Commission shall have been approved by the Parliament of Mongolia and shall have entered into force.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Law on the Establishment of Non-bank Financial Regulatory Commission has been approved by the Parliament of Mongolia and has entered into force.

Section 5.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Finance
Government Building - 2
Negdsen Undestnii gudamj – 5/1
Ulaanbaatar – 210646
Mongolia

Facsimile Number:

(976-11-262272)

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2424.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

MONGOLIA

By _____
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to support the development of a sound and broad-based financial sector that effectively channels resources to productive investment for employment generation. The Program scope includes the following components:

- (a) Improve efficiency and stability of the banking system (Banking Sector Component)
 - Improving the collateral framework;
 - Strengthening the corporate governance of the banks; and
 - Improving the supervision of banks' shareholders and groups.
- (b) Enhance the role of the non-bank financial sector in financial intermediation (Non-bank financial Sector Component)
 - Improving the legal and regulatory framework;
 - Strengthening the supervisory capacity;
 - Enhancing governance and transparency; and
 - Removing tax impediments; and
- (c) Establish an effective anti-money laundering regime (Anti-money Laundering Component)
 - Developing legislation and regulations; and
 - Establishing a Financial Intelligence Unit (FIU).

2. The Program is described in more detail in the Policy Letter, including the Policy Matrix. The Program will be implemented during the Program Period.

3. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 7 of Schedule 5 to this Loan Agreement.

4. The proceeds of the Loan are expected to be utilized by 31 December 2009.

SCHEDULE 2

Amortization Schedule (Financial Regulation and Governance Program)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (Expressed in Special Drawing Rights)*
15 December 2013	216,156
15 June 2014	216,156
15 December 2014	216,156
15 June 2015	216,156
15 December 2015	216,156
15 June 2016	216,156
15 December 2016	216,156
15 June 2017	216,156
15 December 2017	216,156
15 June 2018	216,156
15 December 2018	216,156
15 June 2019	216,156
15 December 2019	216,156
15 June 2020	216,156
15 December 2020	216,156
15 June 2021	216,156
15 December 2021	216,156
15 June 2022	216,156
15 December 2022	216,156
15 June 2023	216,156
15 December 2023	216,156
15 June 2024	216,156
15 December 2024	216,156
15 June 2025	216,156
15 December 2025	216,156
15 June 2026	216,156
15 December 2026	216,156
15 June 2027	216,156
15 December 2027	216,156
15 June 2028	216,156
15 December 2028	216,156
15 June 2029	<u>216,164</u>
Total SDR	<u>6,917,000</u>

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Borrower confirming that with respect to each year during which the proceeds of the Loan are expected to be disbursed, the value of the Eligible Imports is expected to be equal to or greater than the amount of the Loan expected to be disbursed during such year.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at BOM into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any

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event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule.

Negative List

1. No withdrawals shall be made in respect of:

(a) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classification, Revision 3, or any successor groups or sub-groups under future revisions as shall be designated by ADB 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 semi-precious stones, unworked or worked
718	718.7	Nuclear reactors and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
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)

(b) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;

(c) payment made for expenditures incurred more than 180 days prior to the Effective Date;

(d) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or agreed to finance, including any contact financed under any loans from ADB;

(e) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; and

(f) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a or 1b, respectively, of the World Bank Organization's Classification of Pesticides by Hazard and Guidelines to classification.

Conditions for Release of the Second Tranche

A. **Banking Sector Component**

1. BOM shall have issued guidelines to banks on the information to be provided by banks to potential borrowers before concluding collateral agreements.

2. The Borrower shall have submitted draft amendments to the Banking Law, acceptable to ADB, to Parliament for approval to:

- (i) Remove the requirement for the members of the board of directors (representative governing board) to have a shareholding in the bank;
- (ii) Establish a threshold equal to 10% triggering the requirement for a bank's shareholder to be approved by BOM;
- (iii) Require any legal entity or individual that controls two or more banks or both bank(s) and non-bank financial intermediary(ies) to take the form of a holding company; and
- (iv) Provide BOM with adequate legal basis for regulating and supervising the holding companies that control bank(s).

3. BOM, in consultation with the NBFRC, shall have issued regulations to implement the amendments to the Banking Law, acceptable to ADB, that include:

- (i) Specific reporting requirements for holding companies that control bank(s), including the relationship of companies within the group, ownership and management structure, and information on capital structure and use of subordinated loan arrangements;
- (ii) Definitions, limitations, and reporting and disclosure of inter-company and related party transactions of banks and holding companies that controls bank(s);
- (iii) Audited consolidated financial statements, financial reporting and disclosure, and consolidated risk assessment of holding companies that controls bank(s); and
- (iv) Consolidated supervision for holding companies that controls bank(s).

B. **Non-bank Financial Sector Component**

4. NBFRC shall have (i) developed a blueprint for Information Technology-Management Information System (IT-MIS) for effective monitoring and managing of financial sector risks, acceptable to ADB; (ii) installed and operationalized the IT-MIS; and (iii) trained its staff on the use of IT-MIS.

5. The Borrower shall have submitted draft amendments to the Law on Cooperatives, acceptable to ADB, to Parliament for approval, to provide for a legal framework for the regulation and supervision of the Saving and Credit Cooperatives, and NBFRC shall have issued regulations implementing such amendments. The draft amendments shall include:

- (i) Licensing requirements for the Saving and Credit Cooperatives and NBFRC's power to suspend or revoke their license;
- (ii) NBFRC's power to establish prudential standards and conduct on-site supervision for the Saving and Credit Cooperatives;
- (iii) NBFRC's power to require from the Saving and Credit Cooperatives, where necessary, further information in addition to regular reporting requirements; and
- (iv) NBFRC's legal power to issue regulations applicable to Saving and Credit Cooperatives for breaching the law in order to provide sufficient deterrent.

6. NBFRC shall have issued regulations implementing the Insurance Law, acceptable to ADB, that include licensing and prudential requirements (solvency, reserving, investment, reinsurance, and portfolio transfers).

7. The Borrower shall have submitted draft amendments to the Securities Markets Law or a draft revised law, acceptable to ADB, to Parliament for approval, and NBFRC shall have issued regulations implementing such amendments/revised law. The draft amendments/revised law shall:

- (i) Clearly distinguish between the provisions that apply to public offers and those that apply to private offers of securities;
- (ii) Clarify that the joint stock companies are not required to be listed, but must comply with the requirements of the Company Law and the Securities Market Law;
- (iii) Introduce "fit and proper" standards for the governing persons of securities issuers and professional participants;
- (iv) Strengthen the protection of investment fund assets and the obligations of the governing persons of investment funds and funds management companies;
- (v) Provide a clear and comprehensive basis for NBFRC to designate self-regulatory organizations and to supervise their conduct; and
- (vi) Grant legal powers to NBFRC to issue regulations on fines and penalties for breaching the law in order to provide sufficient deterrent.

8. NBFRC, in consultation with BOM, shall have issued regulations implementing the provisions of the Law on the Establishment of Non-bank Financial Regulatory Commission related to the holding companies which control non-bank financial intermediaries acceptable to ADB that provide for:

- (i) Specific reporting requirements, including the relationship of companies within the group, ownership and management structure, and information on capital structure and use of subordinated loan arrangements;
- (ii) Definitions, limitations, and reporting and disclosure of inter-company and related party transactions;
- (iii) Audited consolidated financial statements, financial reporting and disclosure requirements, and consolidated risk assessment; and
- (iv) Consolidated supervision.

9. The Borrower shall have made available funds to implement the plan to compensate the stock market investors for the losses incurred in 1996 and 1998 due to the failure of two custodian banks holding clearing funds of investors.

10. The Borrower shall have submitted amendments to the Company Law, acceptable to ADB, to Parliament for approval that:

- (i) Limit the number of shareholders of limited liability companies to 50;
- (ii) Introduce the new category of “public company” which includes (a) joint stock companies, (b) limited liability companies regulated by BOM or NBFRC, and (c) limited liability companies that have made a public offering of debt securities; and
- (iii) Require limited liability companies falling under the category of “public companies” to have a board of directors with well-defined roles and responsibilities.

C. Anti-money Laundering Component

11. Following Parliament’s approval of the Anti-money Laundering Law, BOM shall have issued implementing regulations (including reporting requirements) acceptable to ADB.

12. BOM shall have (i) installed and operationalized the IT-MIS in the FIU for analyzing and reporting suspicious financial transactions; and (ii) trained FIU’s staff on the use of IT-MIS.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Coordination and Administration

1. MOF shall be the Program Executing Agency and will be responsible for the overall implementation of the Program, including the procurement of goods and services financed under the Program, the administration and disbursement of the Loan proceeds, the maintenance of accounts and the reporting to ADB. BOM shall be the Program Implementing Agency for the Banking Sector Component and the Anti-money Laundering Component. NBFRC shall be the Program Implementing Agency for the Non-bank Financial Sector Component.
2. MOF shall set up an inter-agency coordination committee to coordinate and ensure effective implementation of the policy reforms envisaged under the Program (Inter-agency Coordination Committee). The Inter-agency Coordination Committee shall be chaired by the State Secretary of MOF, shall include representatives of BOM, NBFRC, MSE, Ministry of Justice, Property Registration Office under the Ministry of Construction and Urban Development and ADB, and shall meet at least once every quarter.
3. NBFRC shall oversee and coordinate the development and implementation of the IT-MIS for effective monitoring and managing of financial sector risks through delegation to a management team (NBFRC IT Team) comprising two NBFRC staff members (one manager and one IT expert), one MOF staff member and the international financial supervisory information system specialist recruited under the Technical Assistance. The NBFRC IT expert shall be assigned to the development implementation of the IT-MIS on a full-time basis. The NBFRC IT Team shall be located in NBFRC. The international financial supervisory information system specialist recruited under the Technical Assistance shall head the NBFRC IT Team, and shall report to both the MOF State Secretary and the NBFRC Managing Director.
4. BOM shall oversee and coordinate the development and implementation of the IT-MIS for analyzing and reporting suspicious financial transactions through delegation to a management team (FIU IT Team) comprising two BOM staff members (one manager and one IT expert), one NBFRC staff member and the international financial intelligence unit information system specialist recruited under the Technical Assistance. The BOM IT expert shall be assigned to the development implementation of the IT-MIS on a full-time basis. The FIU IT Team shall be located in BOM. The international financial intelligence unit information system specialist recruited under the Technical Assistance shall head the FIU IT Team, and shall report to both the MOF State Secretary and the BOM Deputy Governor. The FIU IT Team shall liaise closely with the Anti-money Laundering National Coordination Committee comprising members from BOM, NBFRC, MOF, Ministry of Justice and Ministry of Foreign Affairs.

Implementation of the Policy Letter

5. The Borrower shall (i) ensure that the policies adopted and actions taken as described in the Policy Letter, including the Policy Matrix, prior to the date of this Loan Agreement continue in effect for the duration of the Program period and subsequently; and (ii) promptly adopt the other policies and take the other actions indicated in the Program as

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specified in the Policy Letter, including the Policy Matrix, and ensure that such policies and actions continue in effect for the duration of the Program period and subsequently.

Policy Dialogue

6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, sector issues, policy reforms and additional reforms during the Program Period that may be considered necessary or desirable, including the progress made in carrying out the Program.

7. The Borrower shall engage in policy dialogue with ADB, in a timely manner, on problems and constraints encountered during Program implementation and on desirable changes to overcome or mitigate such problems and constraints.

8. The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

Counterpart Funds

9. The Borrower shall ensure that the Counterpart Funds shall be used, first, to support the adjustment cost for reforms to be initiated and implemented under the Program, and, second, to finance expenditures for the general development purposes of the Borrower.

Monitoring of the Program

10. The Borrower shall cause MOF to (i) establish, within three months after the Effective Date, and maintain a program performance evaluation system, which will include a data base on the status of policy measures and program indicators based on the Policy Matrix and the design and monitoring framework for the Program, (ii) monitor the implementation of the Program and its impacts, and (iii) submit to ADB quarterly reports on the implementation of the Program, including accomplishment of the measures set forth in the Policy Letter and the Policy Matrix.

11. The Borrower and ADB shall conduct a comprehensive mid-term review at the end of 2007 and a Program performance completion review at the end of the Program Period to evaluate the progress of the reform measures and their impact on the financial sector. ADB will also monitor the implementation of the Program through regular reviews and progress reports throughout the implementation period. Based on these reviews, modifications and improvements will be considered. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

12. Approximately six (6) weeks before the anticipated withdrawal of the Second Tranche, or such other time as the Borrower and ADB may agree, a review shall be carried out concerning the Borrower's progress in implementing the policy reforms under the Program set out in the Policy Letter and the Policy Matrix, including the fulfillment of the conditions listed in Attachment 2 to Schedule 3 to this Loan Agreement.