
LOAN NUMBER 3043-UZB

PROJECT AGREEMENT
(Small Business and Entrepreneurship Development Project)

between

ASIAN DEVELOPMENT BANK

and

IPAK YULI BANK

DATED 3 DECEMBER 2013

UZB 42007

PROJECT AGREEMENT

PROJECT AGREEMENT dated 3 DECEMBER 2013 between ASIAN DEVELOPMENT BANK ("ADB") and IPAK YULI BANK ("Ipak Yuli Bank").

WHEREAS

(A) by a Loan Agreement dated 21 November 2013 between the Republic of Uzbekistan ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of fifty million Dollars (\$50,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the loan be made available to the participating commercial banks ("PCBs") and that the PCBs agree to undertake certain obligations towards ADB as set forth in the Project Agreements between ADB and the PCBs, including the Project Agreement between ADB and Ipak Yuli Bank; and

(B) Ipak Yuli Bank, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth herein;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement.

ARTICLE II

Subloans

Section 2.01. (a) The portion of the proceeds of the Loan made available to Ipak Yuli Bank shall be used by Ipak Yuli Bank for making Subloans to Qualified Subborrowers for Qualified Subprojects and shall be applied exclusively to the cost of Goods, Works and consulting services and other items of expenditure required to carry out such Qualified Subprojects.

(b) In the carrying out of the Project, Ipak Yuli Bank shall ensure that the eligibility criteria with respect to Qualified Subborrowers and Qualified Subprojects, and the criteria with respect to Subloans, as set out in Schedule 3 to the Loan Agreement and the Schedule to this Project Agreement are satisfied.

(c) Except as ADB may otherwise agree, all Goods, Works and consulting services shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

Section 2.02. In addition to any other provisions which a prudent lender would request, each Subloan agreement shall include provisions to the effect that:

- (a) the Qualified Subborrower shall carry out and operate the Qualified Subproject with due diligence and efficiency and in accordance with sound applicable technical, financial, business and development practices, including maintenance of adequate accounts and records;
- (b) the proceeds of the Loan shall be used only for procurement in member countries of ADB, in accordance with procedures acceptable to ADB, of Goods which are produced in and supplied from, and Works and consulting services which are supplied from, such countries;
- (c) the Goods, Works and consulting services shall be used exclusively in the carrying out of the Qualified Subproject;
- (d) ADB and Ipak Yuli Bank shall each have the right to inspect such Goods and Works, the Qualified Subborrower, the Qualified Subproject and any relevant records and documents;
- (e) the Qualified Subborrower shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound business practice;
- (f) ADB and Ipak Yuli Bank shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works and consulting services, the Qualified Subproject, the Qualified Subborrower and other related matters; and
- (g) Ipak Yuli Bank shall be entitled to suspend or terminate further access by the Qualified Subborrower to the use of the proceeds of the Loan upon failure by the Qualified Subborrower to perform its obligations under its agreement with Ipak Yuli Bank.

Section 2.03. Ipak Yuli Bank shall promptly and effectively exercise its rights in relation to each Qualified Subproject in accordance with the standards of a prudent lender and in such manner as to protect the interests of the Borrower, Ipak Yuli Bank and ADB.

ARTICLE III

Particular Covenants

Section 3.01. (a) Ipak Yuli Bank shall carry out the Project with due diligence and efficiency and in conformity with sound applicable financial, business and development practices.

(b) In the carrying out of the Project and in the conduct of its business, Ipak Yuli Bank shall perform all the obligations set forth in the Loan Agreement and all obligations set forth in the Schedule to this Project Agreement.

Section 3.02. Ipak Yuli Bank shall at all times make adequate provision to protect itself against any loss resulting from changes in the rate of exchange between Sum and the currency or currencies in which Ipak Yuli Bank's outstanding money obligations will have to be met.

Section 3.03. Ipak Yuli Bank shall not make a Subloan to any Qualified Subborrower unless such Qualified Subborrower has at its disposal, or has made appropriate arrangements to obtain as and when required, all local currency funds, including adequate working capital, and other resources which are required by such Qualified Subborrower for the carrying out of its Qualified Subproject in respect of which the Subloan is to be made.

Section 3.04. Ipak Yuli Bank shall maintain records and accounts adequate to record the progress of the Project and of each Qualified Subproject (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of Ipak Yuli Bank.

Section 3.05. (a) ADB and Ipak Yuli Bank shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) Ipak Yuli Bank shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Ipak Yuli Bank Subsidiary Loan Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and Ipak Yuli Bank shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, Ipak Yuli Bank and the Loan.

Section 3.06. (a) Ipak Yuli Bank shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Project; (iii) the Qualified Subborrowers, the Qualified Subprojects and the Subloans; (iv) the administration, operations and financial condition of Ipak Yuli Bank; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, Ipak Yuli Bank shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of Ipak Yuli Bank. Such reports shall be submitted in such form and in such

detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following period.

(c) Promptly after the Loan Closing Date, but in any event not later than 3 months after the said closing date or such later date as ADB may agree for this purpose, Ipak Yuli Bank shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the Loan, the execution of the Qualified Subprojects, their costs, the performance by Ipak Yuli Bank of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 3.07. (a) Ipak Yuli Bank shall (i) provide its annual financial statements prepared in accordance with national accrual-based financing reporting standards acceptable to ADB; (ii) have its financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iii) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest fund(s) and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (iv) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for Ipak Yuli Bank and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) Ipak Yuli Bank shall enable ADB, upon ADB's request, to discuss the financial statements for Ipak Yuli Bank and its financial affairs where they relate to the Project with the auditors appointed by Ipak Yuli Bank pursuant to subsection (a)(ii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of Ipak Yuli Bank, unless Ipak Yuli Bank shall otherwise agree.

Section 3.08. Ipak Yuli Bank shall enable ADB's representatives to inspect any Qualified Subborrower, any Qualified Subproject, the Goods and Works, and any relevant records and documents.

Section 3.09. (a) Ipak Yuli Bank shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) Ipak Yuli Bank shall at all times conduct its business in accordance with sound applicable financial, and business practices, and under the supervision of competent and experienced management and personnel.

(c) Except as ADB may otherwise agree, Ipak Yuli Bank shall not sell, lease or otherwise dispose of any of its assets, except in the ordinary course of business.

Section 3.10. Except as ADB may otherwise agree, Ipak Yuli Bank shall duly perform all its obligations under the Subsidiary Loan Agreement and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 3.11. Ipak Yuli Bank shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its constitutional documents, which, if implemented, could adversely affect the carrying out of the Project. Ipak Yuli Bank shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE IV

Effective Date; Termination

Section 4.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify Ipak Yuli Bank of such date.

Section 4.02. (a) This Project Agreement and all obligations of the parties hereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date 7 years after the date of this Project Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in subsection (a)(ii) hereinabove, ADB shall promptly notify Ipak Yuli Bank of this event.

Section 4.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE V

Miscellaneous

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to

have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

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

For Ipak Yuli Bank

Open Joint-Stock Innovation Commercial Bank Ipak Yuli
2 Abdulla Qodiriy Street
Tashkent 100017
Republic of Uzbekistan

Facsimile Number:

(998-71) 140-6905.

Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 6.01 of the Loan Agreement by or on behalf of Ipak Yuli Bank may be taken or executed by the Chairman of its Management Board or by such other person or persons as he shall so designate in writing notified to ADB.

(b) Ipak Yuli Bank shall furnish to ADB sufficient evidence of the authority of each person who will act under subsection (a) hereinabove, together with the authenticated specimen signature of each such person.

Section 5.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

SCHEDULE

Execution of Project; Financial Matters

Implementation Arrangements

1. Ipak Yuli Bank shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower, the PCBs and ADB. In the event of any discrepancy between the PAM and the Loan Agreement and the Project Agreement, the provisions of the Loan Agreement and the Project Agreement shall prevail.

Condition for Withdrawal

2. Notwithstanding any other provision of this Loan Agreement, no withdrawal shall be made from the Loan Account for Ipak Yuli Bank until such time as Ipak Yuli Bank has:

- (a) established an ESMS to the satisfaction of ADB; and
- (b) appointed a designated staff who is trained in implementing the ESMS.

Financial Covenants

3. Ipak Yuli Bank shall ensure that it remain financially sound throughout the Project implementation period. Specifically, Ipak Yuli Bank shall:

- (a) maintain a capital adequacy ratio of not less than 12%. For the purpose of this subparagraph, capital adequacy ratio means the ratio of regulatory capital to risk assets, expressed as a percentage. It is calculated using total regulatory capital as the numerator and risk-weighted assets as the denominator;
- (b) maintain a return on average assets ratio of not less than 1%. For the purpose of this subparagraph, return on average assets ratio means the division of net profit by one half of the sum of the total assets at the end of the year in issue and the total assets at the end of the previous year, expressed as a percentage;
- (c) maintain a loan to deposit ratio of under 100%. For the purpose of this subparagraph, loan to deposit ratio is calculated as the ratio of total gross loans to customers divided by total customer deposits, expressed as a percentage;
- (d) maintain a ratio of operating expenses to operating income (i.e. cost to income ratio) of under 75%. For the purpose of this subparagraph, cost to income ratio is calculated as the total of specified operating expenses plus specified non-operating expenses divided by the total of specified operating income plus specified non-operating income, expressed as a percentage;

- (e) ensure that its loan delinquency does not exceed 5% of its total loan portfolio. For the purpose of this subparagraph, loan delinquency means the aggregate of loans classified as “loss” in the CBU definition of “loss” and loans written-off in a year (even if not classified as “loss” in the particular year’s financial statement); and
- (f) maintain a maximum limit on an individual related party exposure of no more than 25%. For the purpose of this subparagraph, this limit is calculated as an individual exposure to a related party divided by the gross loan portfolio, expressed as a percentage.

Criteria for Qualified Subborrower

4. Ipak Yuli Bank shall ensure that each Qualified Subborrower meet and maintain the following criteria:

- (a) a debt to equity ratio not higher than 75:25 for the subproject which the Subloan is financing;
- (b) a debt service coverage ratio not lower than 1.1 times; and
- (c) a proven track record.

Criteria for Qualified Subproject

5. Ipak Yuli Bank shall ensure that Qualified Subprojects shall be for activities that:

- (a) are not included in the list of prohibited investment activities provided in Appendix 5 of the SPS; and
- (b) do not fall under category A for environment of the SPS or class 1 or 2 of the Borrower’s environmental impact assessment and have no involuntary resettlement or ethnic minority/indigenous peoples impact under the SPS.

Criteria for Subloan

6. Ipak Yuli Bank shall ensure that each Subloan:

- (a) carry interest at an appropriate rate that takes into account the cost of funds, administrative costs and credit and foreign exchange risks (i.e. have a market-based interest rate) and have a repayment period not exceeding 5 years;
- (b) does not exceed the maximum Subloan amount of \$100,000 equivalent; and

- (c) is denominated in Dollar or Sum and such denomination shall be determined at the time the Subloan is made. The Subloan may be withdrawn in any legal form.

7. Ipak Yuli Bank shall ensure that:

- (a) at least 30% of the aggregate number of all Subloans made by it shall be for:
 - (i) Qualified Subborrowers with a minimum of 50% women ownership; or
 - (ii) Qualified Subborrowers with a minimum of 50% women in their senior management; or
 - (iii) Qualified Subborrowers with a minimum of 50% registered women employees; and
- (b) at least 50% of the aggregate number of all Subloans made by it shall be for Qualified Subborrowers registered or located outside the City of Tashkent. For the avoidance of doubt, the Subloans to Qualified Subborrowers under subparagraph (a) hereinabove can also be counted as Subloans to Subborrowers under this subparagraph (b), if the Qualified Subborrowers under subparagraph (a) hereinabove are registered or located outside the City of Tashkent.

8. Ipak Yuli Bank shall ensure that:

- (a) the Subloan for each Qualified Subproject shall cover up to 75% of the subproject costs. The remainder of such costs shall be met by equity contribution from the Qualified Subborrower. Each such Subloan shall comprise 50% of its loan amount from the PCB's funds and 50% of its loan amount from the proceeds of the Loan relented by the Borrower to Ipak Yuli Bank; and
- (b) the aggregate value of all Subloans to a Qualified Subborrower does not exceed \$100,000 equivalent.

Screening, Categorization, and Environmental and Social Assessment and Planning

9. Ipak Yuli Bank shall ensure that before any Qualified Subproject is approved for financing:

- (a) use the ESMS to screen and categorize the significance of potential environmental, ethnic minority/indigenous peoples or involuntary resettlement impacts associated with such Qualified Subproject;
- (b) ensure that all Qualified Subprojects shall not involve (i) any environmental impact which can be categorized as Category A within the meaning of the SPS; and (ii) any involuntary resettlement or ethnic

minority/indigenous peoples impact which can be categorized as Category A or B within the meaning of the SPS; and

- (c) ensure that an IEE and an EMP are prepared for such Qualified Subproject as required pursuant to the ESMS.

Environment

10. Ipak Yuli Bank shall ensure that the preparation, design, construction, implementation, operation and decommissioning of each Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the ESMS; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

11. No land acquisition or resettlement impact under the SPS is expected for the Project. In the event that there is any such impact, Ipak Yuli Bank shall ensure that they adhere to applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.

Ethnic Minority/Indigenous Peoples

12. No ethnic minority/indigenous peoples impact under the SPS is expected for the Project. In the event that there is any such impact, Ipak Yuli Bank shall ensure that they adhere to applicable laws and regulations of the Borrower and the SPS. If there is any discrepancy between the SPS and the Borrower's laws and regulations, the SPS shall prevail.

Human and Financial Resources to Implement Safeguards Requirements

13. Ipak Yuli Bank shall ensure that (a) necessary budgetary and human resources are made available to fully implement the ESMS; and (b) each Qualified Subborrower makes necessary budget and human resources to fully implement the EMP for the Qualified Subproject, where applicable.

Safeguards Monitoring and Reporting

14. Ipak Yuli Bank shall do the following:
- (a) submit semi-annual Safeguards Monitoring Reports to ADB;
 - (b) if any unanticipated environmental and/or social risks and impacts arise during Qualified Subproject implementation promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and

- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the ESMS and any EMP or IPP promptly after becoming aware of the breach.

Labor Standards

15. Ipak Yuli Bank shall ensure that the core labor standards and applicable laws and regulations of the Borrower, including workplace occupational safety norms, are complied with during Project implementation.

Gender and Development

16. Ipak Yuli Bank shall ensure that: (a) the gender action plan is implemented in accordance with its terms; and (b) key gender outcome and output targets (of at least 30% of the aggregate number of all Subloans are for: (i) Qualified Subborrowers with a minimum of 50% women ownership; or (ii) Qualified Subborrowers with a minimum of 50% women in their senior management; or (iii) Qualified Subborrowers with a minimum of 50% registered women employees) are monitored regularly and achieved.

Governance and Anticorruption

17. Ipak Yuli Bank shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

18. Ipak Yuli Bank shall ensure that all contracts in relation to the Project include provisions specifying the right of ADB to audit and examine the records and accounts of the contractors, suppliers, consultants, and other service providers as they relate to the Project.

Combating Money Laundering and Financing of Terrorism

19. Ipak Yuli Bank shall:

- (a) comply with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and ensure that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
- (b) formulate and implement internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove;
- (c) promptly inform the Borrower and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs Ipak Yuli Bank of its concern that there has been such an alleged violation, Ipak Yuli Bank shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable

detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request; and

- (d) provide an update in their quarterly progress reports to ADB on any change in their management and shareholders.