
LOAN NUMBER 3405-UZB

PROJECT AGREEMENT
(Small Business Finance Project)

between

ASIAN DEVELOPMENT BANK

and

DAVR BANK

DATED 3 March 2017

UZB 42007

PROJECT AGREEMENT

PROJECT AGREEMENT dated 3 March 2017 between ASIAN DEVELOPMENT BANK ("ADB") and DAVR BANK ("DavR Bank").

WHEREAS

(A) by a Loan Agreement dated 3 March 2017 between the Republic of Uzbekistan ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan of one hundred million Dollars (\$100,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that a portion of the proceeds of the loan be made available to Davr Bank and that Davr Bank agrees to undertake certain obligations towards ADB as set forth herein; and

(B) Davr 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.

ARTICLE II

Subloans

Section 2.01. (a) Except as ADB may otherwise agree, the portion of the proceeds of the Loan made available to Davr Bank shall be used by Davr Bank only for making Subloans to Qualified Subborrowers for Qualified Subprojects and shall be applied exclusively to the cost of Goods and Works and other items of expenditure required to carry out such Qualified Subprojects.

(b) In the carrying out of the Project, Davr 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 4 of the Loan Agreement and the Schedule to this Project Agreement are satisfied.

(c) Except as ADB may otherwise agree, all Goods and Works shall be procured in accordance with the provisions of Schedule 3 to the Loan Agreement.

Section 2.02. Each Subloan shall carry interest at an appropriate rate and shall be made on terms whereby Davr Bank shall obtain, by a written agreement with the Qualified Subborrower in form acceptable to ADB, rights adequate to protect the interests of the Borrower, Davr Bank and ADB.

Section 2.03. Without limiting the generality of the foregoing provisions of Section 2.02 of this Project Agreement and 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 which are supplied from, such countries;
- (c) the Goods and Works shall be used exclusively in the carrying out of the Qualified Subproject;
- (d) ADB and Davr 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 Davr Bank shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods and Works, the Qualified Subproject, the Qualified Subborrower and other related matters; and
- (g) Davr 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 Davr Bank.

Section 2.04. Davr 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, Davr Bank and ADB.

ARTICLE III**Particular Covenants**

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

(b) In the carrying out of the Project and in the conduct of its business, Davr Bank shall perform all the obligations set forth in the Loan Agreement and all the obligations set out in the Schedule to this Project Agreement to the extent that they are applicable to Davr Bank.

Section 3.02. Davr 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 3.03. Davr 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 Davr Bank.

Section 3.04. (a) ADB and Davr Bank shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) Davr 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 Davr Bank Subsidiary Loan Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and Davr 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, Davr Bank and the Loan.

Section 3.05. (a) Davr 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 Davr Bank; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, Davr Bank shall furnish to ADB periodic reports on the execution of the Project and on the operation and management of Davr 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, Davr 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 Davr Bank of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 3.06. (a) Davr Bank shall (i) maintain separate accounts and records for the Project; (ii) prepare annual statements of utilization of funds for the Project in accordance with accounting principles acceptable to ADB; (iii) have such statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the statements and the use of the Loan proceeds, 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 (v) 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 statements of utilization of funds for the Project and the opinion of the auditors on the statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) In addition to the annual audited statements of utilization of funds referred to in subsection (a) hereinabove, Davr Bank shall (i) provide its annual financial statements prepared in accordance with financial 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 auditing standards acceptable to ADB; (iii) as part of each such audit, have the auditors prepare the auditors' opinion(s) on the financial statements and compliance with the financial covenants of the Project Agreement; and (iv) furnish to ADB, no later than 1 month after approval by the relevant authority, copies of such audited financial statements and auditors' opinion(s), 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.

(d) Davr Bank shall enable ADB, upon ADB's request, to discuss the statements of utilization of funds for the Project and the financial statements of Davr Bank and its financial affairs where they relate to the Project with the auditors appointed by Davr Bank pursuant to subsections (a)(iii) and (c)(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 Davr Bank, unless Davr Bank shall otherwise agree.

Section 3.07. Davr 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 3.08. (a) Davr 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) Davr Bank shall at all times conduct its business in accordance with sound applicable technical, financial, and business practices, and under the supervision of competent and experienced management and personnel.

(c) Except as ADB may otherwise agree, Davr Bank shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 3.09. Except as ADB may otherwise agree, Davr Bank shall duly perform all its obligation under the Davr Bank 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 Davr Bank Subsidiary Loan Agreement.

Section 3.10. Davr 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. Davr 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 notified by ADB. ADB shall promptly notify Davr Bank of such date.

Section 4.02. This Project Agreement and all obligations of the parties hereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms.

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:

(63-2) 636-2444
(63-2) 636-2424.

For DAVR BANK

Private Joint Stock Commercial Bank
Block A, Navoi-Zarqaynar Street,
Tashkent City 100011
Republic of Uzbekistan

Facsimile Number:

(998-71) 248-3510.

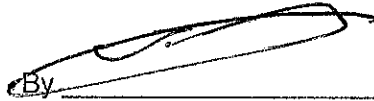
Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement by or on behalf of Davr Bank may be taken or executed by the Chairman of its Management Board or by such other person or persons as he shall so designate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

(b) Davr 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.

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

ASIAN DEVELOPMENT BANK



By _____
TAKEO KONISHI
Country Director
Uzbekistan Resident Mission

DAVR BANK

By _____





AKIMOV SHAHRUH KHANDAMIROVICH
Deputy Chairman

SCHEDULE**Execution of Project; Financial Matters**Implementation Arrangements

1. Davr 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 PFIs and ADB. In the event of any discrepancy between the PAM and this Project Agreement, the provisions of this Project Agreement shall prevail.

Conditions for Withdrawals from Loan Account

2. Notwithstanding any other provision of this Project Agreement, no withdrawal shall be made from the Loan Account for the purposes of any Qualified Subproject until Davr Bank has:

- (a) established the ESMS in a manner satisfactory to ADB, which includes, without limitation, (i) third party monitoring mechanism for Subloans; (ii) guidelines for site visits of Qualified Subprojects; and (iii) a tracking system of Qualified Subprojects;
- (b) appointed designated staff who is capable and adequately trained in fully implementing the ESMS, in particular implementing environmental Category B Qualified Subprojects including identifying and executing any corrective or preventive measures needed to ensure compliance of such Qualified Subprojects with the applicable laws and regulations of the Borrower and the SPS;
- (c) developed training curriculum and trained its staff in implementing the ESMS in accordance with the applicable laws and regulations of the Borrower and the SPS; and
- (d) hired adequate number of qualified accountants with sufficient knowledge of international financial reporting standards to adequately administer its day-to-day financial management operations and to satisfactorily prepare its financial statements in accordance with such international financial reporting standards.

Financial Covenants

3. Davr Bank shall ensure that it remains financially sound throughout the Project implementation period. Specifically Davr Bank shall satisfy and maintain:

- (a) prudential ratios required by the CBU, as amended from time to time;

- (b) a return on average assets ratio of not less than 1%. For the purpose of this subparagraph, return on assets ratio means Davr Bank's net income after tax divided by its average total assets in a financial year as reported in its management accounts in accordance with international financial reporting standards;
- (c) net non-performing loans ratio of not more than 5%. For the purpose of this subparagraph, net non-performing loans ratio means, in relation to any date, the percentage figure calculated as follows: (i) the aggregate amount of non-performing loans minus reserves; (ii) divided by gross loan portfolio; and (iii) multiplied by 100, with per cent added after such figure. For the purpose of this subparagraph, non-performing loan means any loan in respect of which any (principal or interest amount has been outstanding for a period of more than 90 days after the relevant due date provided for under the agreement(s) pursuant to which that loan was made; and
- (d) 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. Davr Bank shall ensure that each Qualified Subborrower:
- (a) is financially viable (as demonstrated by, for example, its capacity to repay the Subloan and having a proper track record);
 - (b) is not a related party with respect to Davr Bank under the Borrower's law and regulations or the CBU's requirements; and
 - (c) has, at any given time, maximum exposure not exceeding \$300,000 equivalent from the Loan proceeds.

Criteria for Qualified Subproject

5. Davr Bank shall ensure that each Qualified Subproject shall be for activities that:
- (a) do not involve any involuntary resettlement or indigenous peoples impacts, all within the meaning of the SPS;
 - (b) do not involve any environmental impacts, which can be categorized as Category A, all within the meaning of the SPS, or class 1 or 2 of all applicable laws and regulations of the Borrower relating to environment;
 - (c) are not included in the list of prohibited investment activities provided in Appendix 5 of the SPS;

- (d) are not included in the Environmental Exclusion Checklist; and
- (e) do not involve mining or genetically modified organisms.

Criteria for Subloans

6. Davr 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 in accordance with its credit policy from time to time) and have a repayment period not exceeding 5 years;
 - (b) subject to paragraph 4(c) above, does not exceed the maximum Subloan amount of \$300,000 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. Davr Bank shall ensure that:
- (a) at least 20% of the aggregate number of all Subloans made by it shall be for Qualified Subborrowers with a minimum of 50% women ownership; and
 - (b) at least 60% 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 Qualified Subborrowers under this subparagraph (b), if the Qualified Subborrowers under subparagraph (a) hereinabove are registered or located outside the City of Tashkent.

Screening, Categorization, and Environmental and Social Assessment and Planning

8. Davr Bank shall ensure that before any Qualified Subproject is approved for financing, the ESMS is used to screen and categorize the significance of potential environmental, involuntary resettlement or indigenous peoples impacts associated with such Qualified Subproject.

Environment

9. Davr 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 Environment Safeguards; and (c) the ESMS, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

10. Davr Bank shall ensure that the Project does not have any involuntary resettlement impacts, all within the meaning of the SPS. In the event that the Project does have any such impact, Davr Bank shall take all steps required to ensure that the Project complies with all the applicable laws and regulations of the Borrower and the SPS. In case of any inconsistency or discrepancy between the SPS and the applicable laws and regulations of the Borrower, the SPS shall prevail.

Indigenous Peoples

11. Davr Bank shall ensure that the Project does not have any indigenous peoples impacts, all within the meaning of the SPS. In the event that the Project does have any such impact, Davr Bank shall take all steps required to ensure that the Project complies with all the applicable laws and regulations of the Borrower and the SPS. In case of any inconsistency or discrepancy between the SPS and the applicable laws and regulations of the Borrower, the SPS shall prevail.

Human and Financial Resources to Implement Safeguards Requirements

12. Davr Bank shall ensure that necessary budgetary and human resources are made available to fully implement the ESMS.

Safeguard Monitoring and Reporting

13. Davr Bank shall do the following:
- (a) submit 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 promptly after becoming aware of the breach.

Labor Standards and Safety

14. Davr Bank shall ensure that the Qualified Subborrowers comply with the core labor standards and the Borrower's applicable laws and regulations during the Project implementation, including, but not limited to, the requirements relating to (a) workplace occupational safety norms; (b) no use of child labor; (c) no discrimination against workers in respect of employment and occupation; and (d) no use of forced labor. Davr Bank shall ensure that the workers engaged by the Qualified Subborrowers for the Qualified Subprojects are not restricted from developing legally permissible means of expressing their grievances and protecting their rights regarding conditions and terms of employment.

15. Davr Bank shall strictly monitor compliance with the requirements set forth in paragraph 14 above and provide ADB with regular reports.

Gender and Development

16. Davr Bank shall ensure that (a) the GAP is implemented in accordance with its terms; (b) adequate resources are allocated for the implementation of the GAP; and (c) progress on implementation of the GAP, including progress towards achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Governance and Anticorruption

17. Davr 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. Davr 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. Davr Bank shall:

- (a) comply with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and 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 Davr Bank of its concern that there has been such an alleged violation, Davr 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 its quarterly progress report to ADB on any change in its management and shareholders.