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LOAN NUMBER 3471-UZB(SF)

PROJECT AGREEMENT  
(Horticulture Value Chain Development Project)

between

ASIAN DEVELOPMENT BANK

and

JOINT-STOCK COMMERCIAL MORTGAGE BANK "IPOTEKA BANK"

DATED 07.03. 2017

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UZB 47305

## PROJECT AGREEMENT

PROJECT AGREEMENT dated March 07 2017 between ASIAN DEVELOPMENT BANK ("ADB") and JOINT-STOCK COMMERCIAL MORTGAGE BANK "IPOTEKA BANK" ("Ipoteka 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 in various currencies equivalent to one hundred eleven million five hundred eighty-five thousand Special Drawing Rights (SDR111,585,000) 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 Ipoteka Bank and that Ipoteka Bank agrees to undertake certain obligations towards ADB as set forth herein; and

(B) Ipoteka 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, the term "Project" means of the relevant portion of Part A of the Project, as described in Section 3.01(a) of the Loan Agreement, to the extent of the portion of the proceeds of the loan be made available to Ipoteka Bank.

### ARTICLE II

#### Subloans

Section 2.01. (a) Except as ADB may otherwise agree, the proceeds of the Loan shall be used only 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) Except as ADB may otherwise agree, all Goods, Works and Consulting Services shall be procured in accordance with the provisions of Schedule 3 to the Loan Agreement.

Section 2.02. Ipoteka Bank shall ensure that each Subloan shall fully meet the criteria for Subloans as set out in Schedule 4 to the Loan Agreement and the Schedule to this Agreement.

Section 2.03. Ipoteka Bank shall ensure that the Subloan shall be made on terms whereby Ipoteka 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, Ipoteka Bank and ADB. Without limiting the generality of the foregoing 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 Goods, Works and Consulting Services shall be used exclusively in the carrying out of the Qualified Subproject;
- (c) ADB and Ipoteka Bank shall each have the right to inspect such Goods and Works, the Qualified Subborrower, the Qualified Subproject and any relevant records and documents;
- (d) 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, and without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of Goods to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods;
- (e) ADB and Ipoteka 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
- (f) Ipoteka 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 Ipoteka Bank.

Section 2.04. Ipoteka 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, Ipoteka Bank and ADB.

**ARTICLE III****Particular Covenants**

Section 3.01. (a) Ipoteka 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, Ipoteka 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. Ipoteka 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. Ipoteka 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 Ipoteka Bank.

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

(b) Ipoteka 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 Subsidiary Loan Agreement to which Ipoteka Bank is party, or the accomplishment of the purposes of the Loan.

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

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

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

Section 3.06. (a) Ipoteka Bank shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project and 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 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 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, Ipoteka 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 set out in paragraph 3 of Schedule 4 to the Loan Agreement and the Schedule to this 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) Ipoteka Bank shall enable ADB, upon ADB's request, to discuss the statements of utilization of funds for the Project and the financial statements of Ipoteka Bank and its financial affairs where they relate to the Project with the auditors appointed by Ipoteka 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 Ipoteka Bank, unless Ipoteka Bank shall otherwise agree.

Section 3.07. Ipoteka 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) Ipoteka 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) Ipoteka 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, Ipoteka 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 3.9. Except as ADB may otherwise agree, Ipoteka Bank shall duly perform all its obligation under the Subsidiary Loan Agreement to which it is party 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 such Subsidiary Loan Agreement.

Section 3.10. Ipoteka 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. Ipoteka 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 later of (a) the date of this Project Agreement; and (b) the date on which the Loan Agreement comes into force and effect. ADB shall promptly notify Ipoteka Bank of the date on which the Loan Agreement comes into force and effect.

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 20 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 Ipoteka 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:

(63-2) 636-2444  
(63-2) 636-2017.

#### For Ipoteka Bank

Joint-Stock Commercial Mortgage Bank "Ipoteka Bank"  
30, Shahrizabzskaya Street.  
Yunusabad District, Tashkent, 100000  
Republic of Uzbekistan

#### Facsimile Number:

(998-71) 150-4888.

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 Ipoteka Bank may be taken or executed by its Deputy Chairman of the Management Board or by such other person or persons as he shall so designate in writing notified to ADB.

(b) Ipoteka 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.

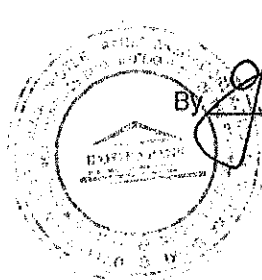

Section 5.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action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

JOINT-STOCK COMMERCIAL  
MORTGAGE BANK "IPOTEKA BANK"

 By   
MUSAEV OMONDJAN  
Chairman



## SCHEDULE

### Execution of Project; Financial Matters

#### Implementation Arrangements

1. Ipoteka 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 Project Executing Agency, Ipoteka Bank and ADB. In the event of any discrepancy between the PAM or this Project Agreement and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

#### Disbursement Procedures

2. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook. Ipoteka Bank shall ensure that (a) ADB's financing shall not exceed 75% of the total costs under each Qualified Subproject and (b) any valuation of a Qualified Subborrower's share of financing by in-kind contribution shall be done in an objective and transparent manner acceptable to ADB.

#### Financial Covenants

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

- (a) prudential ratios as required by the CBU for banks, as applicable from time to time;
- (b) a cost to income ratio of less than 75%. For the purpose of this subparagraph, cost to income ratio means the sum of operating expenses and non-operating expenses divided by the sum of operating and non-operating income;
- (c) a return on average assets ratio of not less than 1%. For the purpose of this subparagraph, return on assets ratio means Ipoteka 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;
- (d) 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, (i) the net amount of non-performing loans minus reserves divided by (ii) the amount of gross loan portfolio. 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;

- (e) a maximum limit on an individual related party exposure of 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;
- (f) a maximum limit on portfolio exposure to one Insider of 25% of Tier 1 capital (as defined by CBU regulations), and to all insiders of 100% of Tier 1 capital (as defined by CBU regulations). For the purpose of this subparagraph, insider means member of the supervisory board or management board of Ipoteka Bank, employee in management position and shareholder with voting rights of more than 10% of Ipoteka Bank; and
- (g) positive net income for the current and two immediately preceding financial years.

#### Eligibility Criteria for PFIs and Financial Management

4. In addition to the financial covenants in relation to Ipoteka Bank, Ipoteka Bank shall satisfy the eligibility criteria for PFIs as set out in the PAM throughout the Project implementation period; and (b) comply with the time-bound financial management actions as set out in the PAM as applicable to Ipoteka Bank, if any.

#### Criteria for Qualified Subborrowers

5. Ipoteka Bank shall ensure that each Qualified Subborrower:
- (a) is an entity of entrepreneurial activities established and registered in accordance with applicable laws of the Borrower, and is in compliance with all laws and regulations of the Borrower;
  - (b) is not a related party with respect to Ipoteka Bank under the laws and regulations of the Borrower and CBU regulations; and
  - (c) is determined to be acceptable based on due diligence undertaken by Ipoteka Bank in accordance with its prevailing credit and risk management policies and procedures that are consistent with appropriate commercial banking criteria.

#### Criteria for Qualified Subprojects

6. Ipoteka Bank shall ensure that each Qualified Subproject shall be for activities that:
- (a) relate to one of the following: (i) manufacture and/or supply of farm technology, machinery and infrastructure, and the supply of farm inputs and services appropriate to the production of horticultural produce; (ii) production of horticultural produce; or (iii) post-harvest handling, storage, processing and marketing of horticultural produce;

- (b) do not involve any involuntary resettlement or indigenous peoples impacts, all within the meaning of the SPS;
- (c) 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 the environment;
- (d) are not included in the list of prohibited investment activities set out in Appendix 5 of the SPS; and
- (e) do not involve mining or genetically modified organisms.

#### Criteria for Subloans

7. Ipoteka Bank shall ensure that each Qualified Subloan:
- (a) does not exceed the maximum Subloan amount of \$5,000,000 equivalent;
  - (b) is used for investment purposes (being purchase of capital assets) only and not for financing of working capital;
  - (c) has a maximum tenor of 10 years;
  - (d) carries interest at a market-based rate as determined by Ipoteka Bank based on its prevailing risk management policies and procedures;
  - (e) is secured or collateralized with realizable and otherwise unencumbered assets with a value of at least 125% of the Subloan; and
  - (f) requires a minimum debt service coverage ratio of 1.2.

#### Environmental and Social Assessment and Planning

8. Ipoteka Bank shall ensure that before any Subloan is approved, the ESMS is used to screen and categorize the significance of potential environmental, involuntary resettlement or indigenous peoples impacts associated with the relevant subproject.

#### Environment

9. Ipoteka Bank shall ensure that the preparation, design construction, implementation, operation and decommissioning of each subproject financed by a Subloan 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. Ipoteka Bank shall ensure that each subproject financed by a Subloan 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, Ipoteka Bank shall take all steps required to ensure that the relevant subproject 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. Ipoteka Bank shall ensure that each subproject financed by a Subloan does not have any indigenous peoples impacts, all within the meaning of the SPS. In the event that the subproject does have any such impact, Ipoteka Bank shall take all steps required to ensure that the subproject 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. Ipoteka Bank shall ensure that necessary financial and human resources are made available to fully implement the ESMS.

Safeguard Monitoring and Reporting

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

Gender and Development

16. Ipoteka Bank shall ensure that (a) to the extent applicable to Ipoteka Bank, the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Governance and Anticorruption

17. Ipoteka 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. Ipoteka 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. Ipoteka 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; and
- (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 the Project Executing Agency or Ipoteka Bank of its concern that there has been such an alleged violation, Ipoteka 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.

