Loan Agreement

(First Programmatic Financial Sector Development Policy Loan)

between

UKRAINE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 8, 2014
LOAN AGREEMENT

Agreement dated August 8, 2014, entered into between UKRAINE ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Any amendment to this Agreement shall be executed by agreement of the parties hereto in accordance with the provisions of Section 10.02 of the General Conditions. Such amendment shall become effective as set forth in the amending agreement.

1.03. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of five hundred million Dollars ($500,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan").

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.

2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or of any single action taken under the Program including any action specified in Section I of Schedule I to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower’s macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Finance.

6.02. The Borrower’s Address is:

Ministry of Finance
12/2 Hrushevsky St.
Kyiv, 01008
Ukraine

Facsimile:

(380-44) 425-90-26
(380-44) 277-54-82
6.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

AGREED at Kiev, Ukraine, as of the day and year first above written.

UKRAINE

By

[Signature]
Authorised Representative
Name: Pavlo Sheremeta
Title: Minister of Economic Development and Trade of Ukraine

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

[Signature]
Authorised Representative
Name: Qimiao Yan
Title: Country Director
Belarus, Moldova and Ukraine
SCHEDULE 1
Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program


2. The Borrower has expanded the range of bank resolution instruments and streamlined the resolution process through enactment of the Law “On Amendments to the Legislation on Minimization of Negative Effect on Stability of the Banking System”, 1586-VII dated 04.07.2014, Official Gazette #129 (5879), dated July 10, 2014, amending the Law “On Individual Deposit Guarantee System”, Official Gazette 4452-VI (23 February 2012), to introduce improved provisions on, inter alia: (a) the use of bridge banks by the DGF without an identified investor; (b) the operation of bad asset entities to consolidate bad assets from multiple banks; and (c) state participation in the bank resolution process.

3. DGF’s administrative council has approved (a) a revised operational budget, through Administrative Council Decision #12, dated April 2, 2014; and (b) a staffing plan for 2014, through DGF Executive Directorate decision 066/14, dated April 7, 2014.

4. The NBU and DGF have signed the “Agreement on Amendment to the Agreement on cooperation and coordination of activities”, dated May 8, 2014, to improve the sharing of information on Problem Banks between the two institutions.

5. The Borrower’s respective authorities have established the key principles of the bank recapitalization and restructuring process through: (a) adoption of NBU Board Decision #326, dated May 30, 2014, on a corrective action plan for dealing with undercapitalized banks; and (b) adoption of the Decision by the high-level GOU/NBU/DGF Steering Committee, dated July 3, 2014, on the criteria for state participation in the bank recapitalization process.

6. NBU has issued Resolution #272, dated May 12, 2014, on launching independent diagnostic studies for the thirty-five (35) Largest Banks, based on acceptable terms of reference, and the fifteen (15) Largest Banks have each signed a contract with a qualified audit firm.

7. The Borrower and NBU have introduced additional criteria for the timely identification of Problem Banks through: (a) enactment of the Law “On Amendments to the Legislation on Minimization of Negative Effect on Stability of Banking System”, 1586-VII dated 04.07.2014, Official Gazette #129 (5879), dated July 10, 2014, amending the Law on Banks; and (b) adoption of NBU Regulation #332, issued June 3, 2014.
8. The Borrower has strengthened the corporate governance requirements of commercial banks through enactment of the Law "On Amendments to the Law on Banks and Banking on defining the Peculiarities on Corporate Governance in Banks", 1587-VII dated 04.07.2014, Official Gazette #129 (5879), dated July 10, 2014, amending the Law on Banks.

9. NBU has commenced disclosure of banks' ultimate beneficiary owners as evidenced by up-to-date and accurate ownership information about the thirty-five (35) Largest Banks published on the NBU website.

Section II. Availability of Loan Proceeds

A. General. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

B. Allocation of Loan Amounts. The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>498,750,000</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>1,250,000</td>
</tr>
<tr>
<td>(3) Amount due pursuant to Section 2.07(c) of this Agreement</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>500,000,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied (1) with the Program being carried out by the Borrower, and (2) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an
amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is November 30, 2014.
SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15 Beginning August 15, 2021 through August, 2029</td>
<td>5.56%</td>
</tr>
<tr>
<td>On February 15, 2030</td>
<td>5.48%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (a) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
APPENDIX

Section I. Definitions


2. “Excluded Expenditure” means any expenditure:

   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;

   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
</tbody>
</table>
Gold, non-monetary (excluding gold ores and concentrates)

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.

3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012 with the modifications set forth in Section II of this Appendix.

4. “GOU/ NBU/ DGF Steering Committee” means the Borrower’s committee on the issue of state participation in the bank recapitalization process, established by Cabinet of Ministers Decision No. 105, dated April 1, 2014.

5. “Largest Banks” means the largest banks as assessed by NBU based on banks’ assets.


7. “NBU” means the National Bank of Ukraine, the Borrower’s national bank.


9. “Program” means the program of actions, objectives and policies designed to (a) strengthen the operational, financial and regulatory capacity of DGF for the resolution of insolvent banks; (b) improve the solvency of the banking system through implementation of bank recapitalization/restructuring plans and timely enforcement action; and (c) strengthen the legal and institutional framework to improve the resiliency and efficiency of the banking system, and set forth or referred to in the letter dated July 8, 2014 from the
Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.

10. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule I to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.

2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

3. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

4. Sections 5.01 (Project Execution Generally), and 5.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.06. Plans; Documents; Records

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

7. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their..."
respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

8. In the Appendix, Definitions, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.

9. In paragraph 36 of the Appendix, the definition of the term “Eligible Expenditure” is modified to read as follows:

“36. “Eligible Expenditure” means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

10. Paragraph 43 of the Appendix (“Financial Statements”) is deleted in its entirety and the subsequent paragraphs are renumbered accordingly.

11. In the renumbered paragraph 66 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“66. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

12. In the renumbered paragraph 74 (originally paragraph 75) of the Appendix, the defined term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“74. “Program” means the program referred to in the Loan Agreement in support of which the Loan is made.”