(Industrial Restructuring Project)

between

REPUBLIC OF CYPRUS

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 20, 1991

LOAN AGREEMENT

AGREEMENT, dated June 20, 1991, between REPUBLIC OF CYPRUS (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions
Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Participation Agreement" means the agreement to be entered into between the Borrower and a Participating Bank (defined below) pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to a Participation Agreement;

(b) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower to a Participating Bank pursuant to a Participation Agreement;

(c) "CBC" means the Central Bank of Cyprus established and operating pursuant to the Central Bank of Cyprus Laws 48 of 1963 and 10 of 1979;

(d) "Statement of Policy" means the statement of policy adopted by the Borrower on March 21, 1991;

(e) "CDB" means the Cyprus Development Bank, a limited company registered in 1963 under the Companies Law of Cyprus, CAP 113;

(f) "Participating Bank" means CDB and any other banking institution which satisfies the conditions set forth in Schedule 4 to this Agreement and which shall have entered into a Participation Agreement;

(g) "Sub-loan" means a loan or credit made or proposed to be made by a Participating Bank to an Investment Enterprise for an Investment Project out of the equivalent of the proceeds of a Subsidiary Loan;

(h) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph 6 (b) of Schedule 6 to this Agreement;

(i) "Investment Enterprise" means an enterprise to which a Participating Bank proposes to make or has made a Sub-loan;

(j) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(k) "CYS" means Cyprus Organization for Standards and Control of Quality of the Ministry of Commerce and Industry;

(l) "Consultants Clearing House or CCH" means the consulting clearing house to be established as an independent legal entity;

(m) "CCH Administration Agreement" means the agreement to be entered into between the Borrower and CCH pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the CCH Administration Agreement;

(n) "Environmental Research and Training Institute or ERTI" means the environmental research and training institute to be established within CDB;

(o) "CBD-ERTI Administration Agreement" means the agreement to be entered into between the Borrower and CDB pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the CBD-ERTI
Administration Agreement;

(p) "Competitive Enhancement Fund" means the fund to be administered by CCH for the purposes of financing the studies under Parts C.1, C.2 and C.3 of the Project; and

(q) "Special Account A" and "Special Account B" mean the accounts referred to in Section 2.02 (b) of this Agreement and "Special Accounts" mean such accounts, collectively.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of thirty million dollars ($30,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part B of the Project, open and maintain in dollars a special account in CBC, to be designated Special Account A, and, for the purposes of Part C of the Project, open and maintain in dollars a special account in CBC, to be designated Special Account B, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, Special Account A and Special Account B shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after
June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank’s investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months’ notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) ‘Quarter’ means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end: (i) shall carry out Parts A, B (through the Participating Banks) and C.4 through C.7 of the Project, with due diligence and efficiency and in conformity with appropriate administrative, financial, economic and technical practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and (ii) shall cause (A) CCH to carry out Parts C.1, C.2 and C.3 of the Project and to perform, in accordance with the provisions of the CCH Administration Agreement, all the obligations of CCH therein set forth, and (B) CDB to carry out Part C.8 of the Project and to perform, in accordance with the provisions of the CDB-ERTI Administration Agreement, all the obligations of CDB therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate, to enable CCH and CDB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purpose of carrying out Part B of the Project, the Borrower shall relend the proceeds of the Loan allocated from time to time to Category (1) of paragraph 1 of Schedule 1 to this Agreement to the Participating Banks under participation agreements to be entered into between the Borrower and each Participating Bank, under terms and conditions which shall have been approved by the Bank, which shall include the terms and conditions set forth in
Schedule 5 to this Agreement.

(c) For the purposes of carrying out Parts C.1, C.2 and C.3 of the Project, the Borrower shall make available the proceeds of the Loan allocated from time to time to Category (2) (a) in the table set forth in paragraph 1 of Schedule 1 to this Agreement to CCH under an administration agreement to be entered into between the Borrower and CCH under terms and conditions which shall have been approved by the Bank, including, inter alia, the establishment and operation of the Competitiveness Enhancement Fund.

(d) For the purposes of carrying out Part C.8 of the Project, the Borrower shall make available the proceeds of the Loan allocated from time to time to Category (2) (c) in the table set forth in paragraph 1 of Schedule 1 to this Agreement to CDB under terms and conditions which shall have been approved by the Bank.

(e) The Borrower shall: (i) exercise its rights under the Participation Agreements, the CCH Administration Agreement and the CDB-ERTI Administration Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Participation Agreements or the CCH Administration Agreement or the CDB-ERTI Administration Agreement or any provision thereof; and (ii) coordinate and monitor the overall execution of the Project and supervise the carrying out by the Participating Banks of their obligations under the respective Participation Agreement, the carrying out by CCH of its obligations under the CCH Administration Agreement and the carrying out by CDB-ERTI of its obligations under the CDB-ERTI Administration Agreement, all in accordance with policies and procedures satisfactory to the Bank.

Section 3.02. In order to assist the Borrower, CCH and CDB in carrying out Part C of the Project, the Borrower, CCH and CDB shall employ management, financial and environmental consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

Section 3.03. The Borrower shall, by December 31, 1991 in consultation with the Bank adopt an action plan with respect to the following:

(a) the development of prudential regulations for cooperative credit societies;
(b) the strengthening of the supervisory responsibilities of the Borrower for the cooperative credit societies; and
(c) the study and implementation of mechanisms to improve integration of the network of cooperative credit societies.

Section 3.04. The Borrower shall cause: (a) CDB, by October 15, 1991, to prepare and furnish to the Bank for review and comment a plan on the restructuring of CDB; and
(b) by January 1, 1992, taking into consideration the comments of the Bank, adopt and put into effect the plan on restructuring of CDB.

Section 3.05. The Borrower shall, in accordance with the Statement of Policy and the Customs Union Agreement between the Borrower and the European Community, take all measures necessary for: (a) the elimination of quantitative restrictions on imports; (b) the termination of the import licensing system; and (c) the minimization of differences in tariff rates across product groups.
Section 3.06. The Borrower shall, by December 31, 1991, in consultation with the Bank, adopt an action plan, including a timetable, to strengthen the competitive enhancement and environmental appraisal capabilities of enterprises in Cyprus.

Section 3.07. The Borrower shall, by June 30, 1992, in consultation with the Bank, carry out a study, including the preparation of an action plan and a timetable, on strengthening quality control standards and accreditation and testing facilities in Cyprus.

Section 3.08. The Borrower shall ensure that the staff of the Participating Banks obtain training in project appraisal and supervision in accordance with terms of reference satisfactory to the Bank and the provisions of their respective Participation Agreements.

Section 3.09. The Borrower shall cause CDB: (a) by June 30, 1992, to carry out a study, including the preparation of an action plan, on the prospects for developing a domestic capital market; and (b) promptly thereafter, to consult with the Bank on the results and recommendations of such study.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of CCH, CDB and the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

   (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

   (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) For all expenditures with respect to which withdrawals from the Loan Account for the Project were made on the basis of statements of expenditure, the Borrower shall:

   (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

   (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

   (iii) enable the Bank’s representatives to examine such records; and

   (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of
such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement;

(b) CCH shall have failed to perform any of its obligations under the CCH Administration Agreement so as to affect materially and adversely the execution of the Project; and

(c) CDB shall have failed to perform any of its obligations under the CDB-ERTI Administration Agreement so as to affect materially and adversely the execution of the Project.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that any event specified in paragraphs (a), (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) a Participation Agreement between the Borrower and one Participating Bank has been executed on behalf of the Bank and said Participating Bank pursuant to Section 3.01 (b) (i) of this Agreement; and

(b) the CCH Administration Agreement has been executed on behalf of the Borrower and CCH pursuant to Section 3.01 (c) of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Participation Agreement between the Borrower and a Participating Agreement referred to in Section 6.01 (a) of this Agreement has been duly authorized or ratified by said Participating Bank and is legally binding upon said Participating Bank in accordance with its terms; and

(b) the CCH Administration Agreement has been duly authorized or ratified by CCH and is legally binding upon CCH in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII
Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Nicosia
Cyprus

Cable address:              Telex:
MINFINANCE                3399
Nicosia

For the Bank:

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

Cable address:              Telex:
INTBAFRAD                 248423 (RCA),
Washington, D.C.          64145 (WUI),
197688 (TRT) or          82987 (PTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF CYPRUS

By /s/ Michael Sherifis
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. A. Wapenhans
Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Amount of the Loan Allocated</th>
<th>% of Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category</td>
<td>Dollar Equivalent</td>
</tr>
<tr>
<td>----------</td>
<td>------------------</td>
</tr>
<tr>
<td>(1) Goods and services for Part B of the Project</td>
<td>25,000,000</td>
</tr>
<tr>
<td>(2) Consultants’ services, training and office equipment:</td>
<td></td>
</tr>
<tr>
<td>(a) Parts C.1, C.2 and C.3 of the Project</td>
<td>2,500,000</td>
</tr>
<tr>
<td>(b) Parts C.4 through C.7 of the Project</td>
<td>600,000</td>
</tr>
<tr>
<td>(c) Part C.8 of the Project</td>
<td>300,000</td>
</tr>
<tr>
<td>(3) Unallocated</td>
<td>1,600,000</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>30,000,000</strong></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule the term:
   
   (a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and
   
   (b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) payments made by a Participating Bank under a Sub-loan pursuant to Part B of the Project unless the Participating Bank has been approved by the Bank and the Borrower and the Participation Agreement has been executed on behalf of the Borrower and the respective Participating Bank pursuant to Section 3.01 (b) of this Agreement; and (c) expenditures by CDB pursuant to Part C.8 of the Project unless the CDB-ERTI Administration Agreement has been executed on behalf of the Borrower and CDB pursuant to Section 3.01 (d) of this Agreement.

**SCHEDULE 2**

**Description of the Project**

The objectives of the Project are to: (a) assist the Borrower in restructuring and modernizing its industrial sector in view of a gradual integration into the European Community; (b) assist in the adjustments needed to meet new environmental standards; and (c) support selected reforms needed in the financial sector.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

**Part A: Policy Program**

The carrying out by the Borrower of a program to:

1. restructure and modernize the industrial sector, within
the context of appropriate environmental practices and procedures;

2. strengthen the regulatory and supervisory framework of financial institutions, particularly cooperative credit societies;

3. increase the financial autonomy of CDB and expand its lending and investment activities; and

4. liberalize the interest rate and exchange control policies.

Part B: Credit

The financing, through the provision of Sub-loans by Participating Banks, of Investment Projects to:

1. reorganize and modernize industrial enterprises;

2. modernize the output structure of industrial enterprises;

3. increase the efficient use by industrial enterprises of productive facilities; and

4. enable industrial enterprises to adapt their operations to the environmental requirements of the Borrower.

Part C: Technical Assistance

1. The carrying out of studies for industrial enterprises on the assessment of and methods for enhancing their competitive positions in connection with restructuring programs and the provision of related training.

2. The carrying out of environmental studies for industrial enterprises in connection with restructuring programs and the provision of related training.

3. The carrying out of studies to strengthen the product quality control facilities of CYS.

4. The carrying out of a program to strengthen the cooperative credit society system and to restructure CDB.

5. Enhancement of the audit, control and enforcement capacity of the Borrower’s Ministry of Labor and Social Insurance in the area of industrial pollution.

6. The carrying out of a study, including the preparation of an action program, on the prospects for developing a domestic capital market.

7. Provision of training to the staff of the Participating Banks in project appraisal and supervision.

8. Strengthening of the environmental assessment capabilities in Cyprus, including the development of the domestic consulting industry in the area of environmental analysis, assessment and training.

* * *

The Project is expected to be completed by December 31, 1998.

SCHEDULE 3

Amortization Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (expressed in dollars)*</th>
</tr>
</thead>
</table>
On each January 15 and July 15
beginning January 15, 1997 through July 15, 2006 1,500,000

* The figure in this column represents the dollar equivalent
determined as of the respective dates of withdrawal. See
General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the
premium payable on the principal amount of any maturity of the Loan
to be prepaid shall be the percentage specified for the applicable
time of prepayment below:

<table>
<thead>
<tr>
<th>Time of Prepayment</th>
<th>Premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not more than three years before maturity</td>
<td>0.20</td>
</tr>
<tr>
<td>More than three years but not more than six years before maturity</td>
<td>0.40</td>
</tr>
<tr>
<td>More than six years but not more than 11 years before maturity</td>
<td>0.73</td>
</tr>
<tr>
<td>More than 11 years but not more than 13 years before maturity</td>
<td>0.87</td>
</tr>
<tr>
<td>More than 13 years before maturity</td>
<td>1.00</td>
</tr>
</tbody>
</table>

SCHEDULE 4

Eligibility Criteria for Participating Banks

1. Type of Institution

Participating Banks shall be commercial banks, merchant banks,
development finance institutions, and sectoral credit institutions.

2. Eligibility Criteria

Participating Banks shall be required to meet and maintain the
following requirements of the CBC pertaining to:

(a) liquidity and reserve requirements;
(b) provisions for bad and doubtful accounts; and
(c) capital adequacy ratio requirements.

3. Financial Performance and Solvency

Participating Banks shall be required to meet the following
financial performance and solvency requirements:

(a) adequate net income in real terms to provide a positive
    return on equity, with sufficient provisions for losses,
4. Audit

An audit of financial statements (balance sheets and income statement) for the institution’s latest fiscal year, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank, shall be a condition for eligibility.

When an institution is not deemed eligible due to its financial situation, its participation as a Participating Bank shall be conditioned on the adoption by said institution of a recovery program, detailed in an institutional development plan satisfactory to the Bank. Said plan shall outline remedial measures, such as training, which shall enable the institution to satisfactorily meet the eligibility criteria within a period of not more than three years. Time-bound, monitorable performance criteria shall be set in accordance with said program. The institution’s continued eligibility to make Sub-loans will depend on its meeting said criteria.

5. Statement of Lending Policies and Procedures

Participating Banks shall have lending policies and procedures which are satisfactory to the Bank. The provisions of such lending policies and procedures may not be amended, abrogated or waived without the prior approval of the Bank.

SCHEDULE 5

Principal Terms and Conditions of the Participation Agreements

Except as the Bank shall otherwise agree, the principal terms and conditions set forth in this Schedule shall apply for the purposes of Section 3.01 (b) of this Agreement.

1. The principal amount of each Subsidiary Loan to be made available to a Participating Bank under its respective Participation Agreement shall be:

   (a) the equivalent of the aggregate principal amount of the Sub-loans which are financed out of the proceeds of said Subsidiary Loan; and

   (b) denominated in the currency of the Sub-loans which are financed out of the proceeds of said Subsidiary Loan.

2. Each Subsidiary Loan shall be charged on the principal amount thereof withdrawn and outstanding from time to time interest, during each six-month period commencing January 1 and July 1 of each calendar year, at a rate equivalent to LIBOR, as shall be calculated by the Borrower on the basis of the methodology set forth in the Annex to this Schedule, plus a margin of not more than one percent (1%) to cover its costs. Said margin shall be reviewed from time to time by the Bank and the Borrower and adjusted, as necessary, in a manner satisfactory to the Bank and the Borrower.

3. Each Subsidiary Loan shall be charged on the principal amount thereof not withdrawn and outstanding from time to time a commitment fee at a rate equivalent to the rate set forth in Section 2.04 of this Agreement.

4. Each Subsidiary Loan shall be repaid in accordance with an amortization schedule which conforms in relevant part substantially to the aggregate of the amortization schedules applicable to the Sub-loans which are financed out of the proceeds of said Subsidiary Loan.
5. The right of the Participating Bank to the use of the proceeds of a Subsidiary Loan shall be: (a) suspended upon failure by such Participating Bank to (i) meet any of the requirements set forth in paragraphs 2, 3 or 4 of Schedule 4 to this Agreement, (ii) obtain the prior concurrence of the Bank, pursuant to paragraph 5 of Schedule 4 to this Agreement, to amend, waive and abrogate the Participating Bank’s lending policies and procedures, (iii) perform any of its obligations under a Participation Agreement; and (b) terminated if such right shall have been suspended pursuant to paragraph (a) hereof for a continuous period of sixty days.

6. The Participating Bank shall make arrangements, satisfactory to the Bank and the Borrower, for training its staff in project appraisal and supervision.

ANNEX TO SCHEDULE 5

Definition and Calculation of LIBOR

LIBOR, or London interbank offered rate, for each of the six-month periods specified in paragraph 2 of Schedule 5 to this Agreement shall be the rate for six month deposits in the currency of the principal amount of each Subsidiary Loan which appears on the Reuters Screen ISDA Page, or any successor thereto, as at 11:00 a.m., London time, on the day that is two London Business Days prior to the commencement of each of the specified periods. If, for any reason, the said Reuters Screen ISDA Page, or any successor thereto, is not available to the Borrower, or no such rate for such currency appears on the said Reuters Screen ISDA Page, LIBOR shall be determined for each of the specified periods pursuant to another generally recognized method of calculation of LIBOR acceptable to the Bank.

For the purpose hereof:

(i) "Reuters Screen ISDA Page" means the display designated as page "ISDA" on the Reuter Monitor Money Rates Service (or such other page as may replace the ISDA Page on that service for the purpose of displaying London interbank offered rates for the Deutsche mark, Japanese yen, sterling, Swiss franc and U.S. dollar); and

(ii) "London Business Day" means any day on which banks are not required or authorized by law to close in London.

SCHEDULE 6

Eligibility Criteria of Investment Enterprises and Terms and Conditions of Sub-loans

1. The amount of any Sub-loan shall not exceed $2,000,000 equivalent.

2. The principal amount of each Sub-loan shall be: (a) denominated in the currency (Deutsche mark, Japanese yen, sterling, Swiss franc or U.S. dollar) agreed to by the Participating Bank and the Investment Enterprise; and (b) the equivalent in such currency (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and services financed out of the proceeds of the Loan allocated from time to time to Category (1) for Investment Projects.

3. The Sub-loan shall be charged on the principal amount withdrawn and outstanding from time to time interest at a rate determined in accordance with the lending policies and procedures of the Participating Bank.
4. The Sub-loan shall be made by a Participating Bank for capital investments for a period not exceeding twelve years, including a grace period of three years, and for working capital for a period not exceeding four years, including a grace period of one year. The amortization schedule applicable to each Sub-loan shall not extend beyond the latest repayment date of the Loan set forth in Schedule 3 to this Agreement.

5. The Sub-loan shall be made only to an Investment Enterprise which shall have:

(a) established, to the satisfaction of the Participating Bank making the Sub-loan, on the basis of guidelines satisfactory to the Bank, that: (i) it is creditworthy; (ii) its projected cash generation or equity increases shall be sufficient to enable it to meet the estimated expenditures required for the Investment Project; (iii) it is in a position to continue to maintain a debt to equity ratio of not more than 3:1, a debt service coverage of not less than 1.4, and a ratio of current assets to current liabilities of not less than 1.2; and (iv) it shall provide 20% of the costs required for the Investment Project in the form of equity; and

(b) established that: (i) for an Investment Project with costs in excess of $750,000 equivalent, that the Investment Project shall have a financial rate of return of at least 12% and an economic rate of return of at least 12% (both adjusted for inflation on the basis of the Retail Price Index in Cyprus), as shall be calculated to the satisfaction of the Bank and the Participating Bank on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Bank; and (ii) for an Investment Project with costs of the equivalent of $750,000 or less, that the Investment Project shall be economically viable to the satisfaction of the Bank and the Participating Bank, as determined on the basis of cost-benefit ratio criteria.

6. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 8 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 8 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Agreement, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not exceed the sum of $750,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan.

7. Notwithstanding the provisions of paragraph 6 (b) of this Schedule, the first three proposed Sub-loans for Investment Projects of each Participating Bank shall be furnished to the Bank for review and approval.

8. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, the Participating Bank shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including an environmental appraisal of the Investment Enterprise and an environmental impact of the Investment Project, both prepared in accordance with environmental guidelines satisfactory to the Borrower and the Bank, by independent environmental auditors acceptable to the Bank, and a description of the expenditures proposed to be financed out of the
proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Participating Bank for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1998.

9. The Participating Bank shall:

   (a) open and thereafter maintain a separate account for the Sub-loans on its books in accordance with its normal financial practices and on conditions satisfactory to the Borrower and the Bank; and

   (b) upon receipt of each such payment or repayments under each Sub-loan, credit the same to the said separate account. All amounts to be so credited to the said separate account shall be utilized by the Participating Bank, to the extent they are not yet required to meet the Participating Bank's payment obligations to the Borrower under a Subsidiary Loan Agreement, exclusively to finance projects similar to Investment Projects.

10. Sub-loans shall be made on terms whereby the Participating Bank shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including the right to:

   (a) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

   (b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Investment Project;

   (c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

   (d) require that: (i) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practices; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

   (e) obtain all such information as the Bank or Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project;
require that the Investment Enterprise:

(i) maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices its operations and financial conditions;

(ii) have its financial statements (balance sheets, income statements and cash flow statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank and the Borrower;

(iii) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank or the Borrower, as soon as available, but in any case not later than six months after the end of each such year certified copies of its financial statements for such year as so audited, and the report of such audit by said auditors, of such scope and in such detail as the Bank or the Borrower shall have reasonably requested;

(iv) furnish to the Participating Bank, for forwarding to the Borrower as may be requested by the Bank, such other information concerning said accounts, financial statements and records, as well as the audit thereof, as the Bank shall from time to time reasonably request; and

(g) suspend or terminate the right of the Investment Enterprises to the use of the proceeds of the Sub-loan upon failure by such Investment Enterprises to perform its obligations under its contract with the Participating Bank.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of Special Account A, Category (1) and, in the case of Special Account B, Category (2), set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means, in the case of Special Account A, an amount equivalent to $1,500,000 and, in the case of Special Account B, an amount equivalent to $250,000, to be withdrawn from the Loan Account and deposited in the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a
deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into Special Account A or Special Account B:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Category for the respective part of the Project, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the respective part of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation for the respective Special Account.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Category for the respective part of the Project shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of Special Account A or Special Account B: (i) was made for an expenditure not an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so
eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the respective Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the respective Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the respective Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.