
LOAN NUMBER 2775-UZB

PROJECT AGREEMENT

(Housing for Integrated Rural Development Investment Program – Project 1)

between

ASIAN DEVELOPMENT BANK

and

OPEN JOINT STOCK COMMERCIAL BANK “QISHLOQ QURILISH BANK”

DATED 16 FEBRUARY 2012

UZB 44318

PROJECT AGREEMENT

PROJECT AGREEMENT dated 16 February 2012 between ASIAN DEVELOPMENT BANK (“ADB”) and OPEN JOINT STOCK COMMERCIAL BANK “QISHLOQ QURILISH BANK” (“QQB”).

WHEREAS

(A) by a Loan Agreement between the Republic of Uzbekistan (“Borrower”) and ADB, ADB has agreed to make to the Borrower a loan of two hundred million Dollars (\$200,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that a portion of the proceeds of the Loan (\$199,600,000), in Sum equivalent, be made available to QQB and that QQB agrees to undertake certain obligations towards ADB as hereinafter set forth; and

(B) QQB, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

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 Part 1 of the Project as described in paragraph 2(b) of Schedule 1 to the Loan Agreement.

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 expenditures required to carry out the Qualified Subproject.

(b) In the carrying out of the Project, QQB shall ensure that the eligibility criteria with respect to Qualified Subborrowers, Qualified Subprojects and Subloans as set forth in Schedule 5 to the Loan Agreement are satisfied.

(c) Except as ADB may otherwise agree, all Goods and Works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to the Loan Agreement.

Section 2.02. (a) Each Subloan shall carry interest at the rate of 7% per annum and shall be made on terms whereby QQB shall obtain, by a written agreement with the Qualified Subborrower in a form acceptable to ADB, rights adequate to protect the interests of the Borrower, QQB and ADB.

(b) Except as ADB may otherwise agree, the amortization schedule applicable to each Subloan shall not extend beyond 15 years, including a 6 month grace period, from the date when such Subloan is approved or authorized for withdrawals.

Section 2.03. Without limiting the generality of the foregoing provisions of Section 2.02(a) of this Project Agreement and in addition to any other provisions which a prudent lender would request, each Subloan agreement shall include provisions to the effect that:

(a) the proceeds of the Loan shall be used only for procurement in member countries of ADB, in accordance with procedures acceptable to ADB, of Goods which are produced in and supplied from, and Works and consulting services which are supplied from, such countries;

(b) the expenditures to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of the Qualified Subproject;

(c) ADB and QQB 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 and/or cause contractors to take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound business practice;

(e) ADB and QQB shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods and Works financed out of the proceeds of the Loan, the Qualified Subborrower, the Qualified Subproject and other related matters; and

(f) QQB 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 QQB.

Section 2.04. QQB 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, QQB and ADB.

ARTICLE III

Particular Covenants

Section 3.01. (a) QQB shall carry out the Project with due diligence and efficiency and in conformity with sound banking, financial and business practices.

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

Section 3.02. QQB 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 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. QQB 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 QQB.

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

(b) QQB 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, or the accomplishment of the purposes of the Loan.

(c) ADB and QQB 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, QQB and the Loan.

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

(b) Without limiting the generality of the foregoing, QQB shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of QQB. 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 quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after the closing date for withdrawals from the Loan Account, 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, QQB 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 QQB of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 3.06. (a) QQB shall have its accounts and financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, and shall, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, furnish to ADB: (i) certified copies of such audited accounts and financial statements and (ii) the report of the auditors relating thereto (including the auditors' opinion on the use of Loan proceeds and compliance with the covenants of the Loan Agreement as well as on the use of the procedures for imprest accounts and statement of expenditures), all in the English language. QQB shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) QQB shall enable ADB, upon ADB's request, to discuss QQB's financial statements and its financial affairs from time to time with the auditors appointed by QQB pursuant to subsection (a) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of QQB unless QQB shall otherwise agree.

Section 3.07. QQB shall enable ADB's representatives to inspect any Qualified Subproject, the Goods and Works, and any relevant records and documents.

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

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

Section 3.09. Except as ADB may otherwise agree, QQB shall duly perform all its obligations under the Subsidiary Loan Agreement and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Loan Agreement.

Section 3.10. QQB 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. QQB shall afford ADB an adequate opportunity to comment on such proposal prior to taking any affirmative action thereon.

ARTICLE IV

Effective Date; Termination

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

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

Section 4.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension of the right of the Borrower to make withdrawals from the Loan Account under the Loan Agreement.

ARTICLE V

Miscellaneous

Section 5.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand, mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

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

Facsimile Numbers:

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

For QQB

36, Shahrizabz Street
Tashkent, 100060
Republic of Uzbekistan

Facsimile Number:

(+998 71) 150-76-50.

Section 5.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement, or under Section 7.01 of the Loan Agreement, by or on behalf of QQB may be taken or executed by its [Chairman of the Board of Directors] or by such other person or persons as he shall so designate in writing notified to ADB.

(b) QQB 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 
KAZUHIKO HIGUCHI
Country Director
Uzbekistan Resident Mission

OPEN JOINT STOCK COMMERCIAL
BANK "QISHLOQ QURILISH BANK"

By 
SHUKHRAT ASHMURADOV
Chairman of the Board

SCHEDULE 1

Execution of Project; Financial Matters

Implementation Arrangements

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

Qualified Subborrowers

2. QQB shall ensure that each Qualified Subborrower shall meet and maintain the following eligibility criteria:

- (a) he/she is a citizen, and resident of a rural area, of the Borrower;
- (b) he/she agrees to use the Subloan only for the financing of his/her Qualified Subproject; and
- (c) he/she meets the middle-income, or low-income, threshold of the Rural Housing Scheme (to be defined annually as a multiple of the national minimum wage).

Qualified Subproject

3. QQB shall ensure that each Qualified Subproject meets the following eligibility criteria:

- (a) the Qualified Subproject is for the purchase by the Qualified Subborrower of a house under the Rural Housing Scheme; and
- (b) the Qualified Subproject shall adhere to the safeguards requirements set forth in paragraphs 8 to 12 and 15 of this Schedule.

Subloan

4. QQB shall ensure that each Subloan:

- (a) shall charge interest at the rate of 7% per annum and have a term of 15 years, including a grace period of 6 months; and
- (b) shall not exceed \$50,000 equivalent.

5. QQB shall ensure that for each Qualified Subproject, at least 25% of the subproject costs shall be paid by the Qualified Subborrower. The remainder of such costs shall be financed by way of a Subloan. (For the avoidance of doubt, the Subloan shall not finance any costs relating to QQI activities under the Rural Housing Scheme.) Each such Subloan approved by QQB, for which a loan agreement is entered into between QQB and a Qualified Subborrower, in 2012 shall comprise 35% of its amount from QQB's funds and 65% of the amount from the proceeds of the Loan relented by the Borrower to QQB.

6. In the event that any eligibility criteria for a Qualified Subborrower, Qualified Subproject or Subloan is not complied with, whether at the time of Subloan approval or thereafter, ADB reserves the right to exclude such Subloan from the Project.

Financial Covenants

7. QQB shall remain financially sound throughout the Project implementation period. Specifically, QQB shall:

- (a) maintain a capital adequacy ratio of not less than 12%. For the purpose of this subparagraph, capital adequacy ratio means the ratio of regulatory capital to risk assets, expressed as a percentage. Regulatory capital means the aggregate of equity share capital, general reserves and subordinate debt. Risk assets mean the aggregate of total assets less risk-free assets (i.e. cash in hand, with CBU and other banks, and holdings of securities issued by the Borrower and by governments of countries of the Organisation for Economic Cooperation and Development) plus off-balance sheet contingencies;
- (b) maintain a return on average assets ratio of not less than 0.5% for each of the last two completed fiscal years. For the purpose of this subparagraph, return on assets ratio means the division of net profit by the sum of the total assets at the end of the year in issue and the total assets at the end of the previous year, expressed as a percentage;
- (c) ensure that its non-performing loans (i.e. debts requiring 100% loan-loss provisioning as defined by CBU) is less than 5% of its total loan portfolio;
- (d) maintain corporate, financial and governance practices acceptable to ADB; and
- (e) maintain adequate credit and risk management policies, operating systems and procedures.

Screening, Categorization, and Environmental and Social Assessment and Planning

8. QQB shall, ensure that before any Qualified Subproject is approved for financing:
- (a) the ESMS is used to screen the Qualified Subproject from the environmental, indigenous peoples or involuntary resettlement impacts associated with such Qualified Subproject. QQB shall ensure that each Qualified Subproject is not category A or category B in terms of environmental, involuntary resettlement and/or ethnic minority or indigenous people impacts, within the meaning of the SPS;
 - (b) the environmental clearance from the Nature Protection Committee of the Borrower for the rural housing site for the Qualified Subproject has been obtained; and
 - (c) the rural housing site for the Qualified Subproject has been classified under the local government reserve land for non-agricultural activities since 31 December 2009 and there is no claim from any third party on this rural housing site.

Environment

9. QQB shall ensure that the preparation, design and construction of each Qualified Subproject comply with all applicable laws and regulations of the Borrower relating to environment, health and safety, the SPS, the ESMS and any corrective or preventative actions in the Safeguards Monitoring Reports.

Land Acquisition and Involuntary Resettlement

10. QQB shall ensure that all land used for each Qualified Subproject comply with paragraph 8(c) of this Schedule, all applicable laws and regulations of the Borrower, the SPS, the ESMS and any corrective or preventative actions set forth in the Safeguards Monitoring Reports.

11. QQB shall ensure that no physical or economic displacement takes place in connection with any Qualified Subproject.

Indigenous Peoples

12. QQB shall ensure that the preparation, design and construction of each Qualified Subproject does not generate any adverse impact to the ethnic minority or indigenous people within the meaning of SPS, and comply with the ESMS and any corrective or preventative actions set forth in the Safeguards Monitoring Reports.

Human and Financial Resources to Implement Safeguards Requirements

13. QQB shall ensure that necessary financial and human resources are made available to fully implement the ESMS.

Safeguards Monitoring and Reporting

14. QQB shall:
- (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) promptly report any actual or potential breach of compliance with the measures and requirements set forth in the ESMS after becoming aware of the breach.

Prohibited List of Investments

15. QQB shall ensure that no proceeds of the Loan is used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS and as set forth in the ESMS.

Labor Standards

16. QQB shall include a specific provision in the bidding documents and civil works contracts to ensure that contractors: (a) comply with core labor standards, applicable laws and regulations of the Borrower and incorporate workplace occupational safety norms; (b) do not differentiate pay between men and women for work of equal value; (c) do not employ child labor in the construction and maintenance activities; (d) eliminate forced or compulsory labor; (e) eliminate employment discrimination; (f) allow for freedom of association; and (g) to the extent possible, maximize employment of local people for project construction purposes provided that the requirements for job and efficiency are adequately met. QQB shall include in the quarterly progress reports for the Project the implementation status of such matters.

17. QQB shall ensure that appropriate bodies, particularly nongovernment organizations, disseminate information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of civil works contractors engaged under the Project and to members of the local communities surrounding the Project, particularly females.

Counterpart Support

18. QQB shall make provision for the financing of Subloans in 2012.

Sector Development

19. QQB shall ensure that the standard contracts to be used under the Rural Housing Scheme (i.e. the QQB mortgage agreements with the individual purchasers, the QQI purchase agreements with the individual purchasers and the QQI contracts with the contractors) comply with the laws and regulations of the Borrower and are satisfactory to ADB.

Governance and Anticorruption

20. QQB 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.

21. QQB shall ensure that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

Combating Money Laundering and Financing of Terrorism

22. QQB 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 QQB of its concern that there has been such an alleged violation, QQB 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.

23. QQB shall comply with the requirements of United Nations Security Council Resolutions 1737, 1747, 1803 and 1929 (and any additional related resolution of the United Nations Security Council), which are mandatory requirements for the Borrower, to ensure that QQB does not have any direct or indirect dealing with entities or persons identified in these resolutions.