

CONFORMED COPY

LOAN NUMBER 7288-PA

Loan Agreement

(Programmatic Financial Sector Adjustment Loan)

between

REPUBLIC OF PARAGUAY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated June 13, 2005

LOAN NUMBER 7288-PA

LOAN AGREEMENT

AGREEMENT, dated June 13, 2005, between REPUBLIC OF PARAGUAY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated March 3, 2005: (i) describing its macroeconomic framework and a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (the Program), which Program consists of actions (the First Phase of the Program) that have already been taken as described in Schedule 3 to this Agreement, to the satisfaction of the Bank, and other actions and policies that the Borrower intends to take and adopt in the near future; (ii) declaring the Borrower's commitment to the objectives of the Program; and (iii) requesting assistance from the Bank in support of the Program during the execution thereof;

(B) the Borrower has maintained a macroeconomic policy framework satisfactory to the Bank; and

(C) on the basis, *inter alia*, of the foregoing, the Bank has decided in support of the First Phase of the Program to provide such assistance to the Borrower by making the Loan as hereinafter provided;

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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 41, is modified to read:

“ ‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

- (b) Section 3.08 is modified to read:

“Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. If the Loan Currency is not the currency of the deposit account specified in Section 2.02 of the Loan Agreement, the Bank, at the request and acting as an agent of the Borrower, shall purchase with the Loan Currency withdrawn from the Loan Account the currency of such deposit account as shall be required to deposit the withdrawn amount into such deposit account.”

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions.”;

- (d) the last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.”; and

- (f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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

- (a) “Anti-Money Laundering Draft Law” means *Proyecto de Ley que Previene y Reprime los Actos Ilícitos Destinados a la Legitimación de Dinero y Bienes*, the Borrower’s Draft Law of May 13, 2004 for the prevention of laundering of assets and goods which contains provisions for, *inter alia*: (i) the definition of money-laundering as

a crime; (ii) the establishment of a centralized intelligence unit of the Borrower to deal with anti-money laundering issues; and (iii) the definition of terrorism finance as a crime;

(b) “Bank Resolution and Deposit Insurance Law” means *Ley de Garantías de Depósitos y Resolución de Entidades de Intermediación Financiera Sujetos de la Ley General de Bancos, Financieras y Otras Entidades de Crédito*, the Borrower’s Law No. 2334/03 of December 12, 2003;

(c) “Banking Draft Law” means *Proyecto de Ley General de Entidades de Intermediación Financiera*, the Borrower’s Draft Law of December 10, 2004 for Financial Intermediary Entities (which draft law has been previously approved by the Board of Directors of BCP (as defined below) and reviewed by the MoF (as defined below)) which establishes the new legal framework for financial intermediation activities in Paraguay and contains provisions for, *inter alia*: (i) stricter capital adequacy requirements; (ii) loan classification and provisioning standards; (iii) schedule of sanctions for breach of norms; (iv) exposure limits to related borrowers and within financial groups; (v) corporate governance and risk management; and (vi) minimum bank licensing requirements, as well as provides for the derogation of Law No. 861/96 (as defined below);

(d) “BCP” means *Banco Central del Paraguay*, the Borrower’s Central Bank, established pursuant to Decree-Law No.18 of March 25, 1952 as said Decree-Law has been amended to the date of this Agreement;

(e) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(f) “Law No. 861/96” means *Ley General de Bancos, Financieras y Otras Entidades de Crédito*, the Borrower’s Law for Banks, Finance Companies and Other Financial Entities of June 24, 1996;

(g) “MoF” means *Ministerio de Hacienda*, the Borrower’s Ministry of Finance; and

(h) “SB Strategic Plan” means the plan that defines the mission, objectives, strategies and short-, medium- and long-term targets of the *Superintendencia de Bancos* (the Borrower’s Superintendency of Banks (SB) established within BCP), and provides for SB’s institutional commitment to, *inter alia*: (i) upgrade supervision procedures of financial institutions; (ii) undertake risk vulnerability ratings of financial institutions; (iii) enforce corrective actions against imprudent banking practices; and (iv) establish the institutional procedures necessary to implement the Bank Resolution and Deposit Insurance Law (as defined above) and the regulations to said law.

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 this Agreement, an amount equal to fifteen million Dollars (\$15,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the amount of \$14,925,000 from the Loan Account in support of the First Phase of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in BCP, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

Section 2.03. The Closing Date shall be September 30, 2006 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 fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of

the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 2 to this Agreement.

Section 2.09. (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 all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable 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 said Variable 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 Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Particular Covenants

Section 3.01. The Borrower shall, and shall cause the BCP to, exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

- (a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (b) furnish to the Bank as soon as available, but in any case not later than [four] months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Events of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
- (b) The Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program.
- (c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action specified in Schedule 3 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Termination

Section 5.01. The date September 12, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of MoF is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Hacienda
Chile 128 c/Palma
Asunción, Paraguay
Facsimile: (595-21) 448 283

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF PARAGUAY

By /s/ Ernst Bergen

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox

Regional Vice President
Latin America and the Caribbean

HONORARY WITNESS ON BEHALF OF THE
REPUBLIC OF PARAGUAY

By /s/ Nicanor Duarte Frutos
President of the Republic of Paraguay

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups 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:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means 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);

6. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning April 15, 2010 through April 15, 2027	2.78%
On October 15, 2027	2.70 %

2. If the proceeds of the Loan shall not 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 as follows:

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

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (a) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

SCHEDULE 3

Actions Referred to in Recital (A) (i) of the Preamble to this Agreement

A. Modernization of the Bank Resolution and Deposit Insurance System

1. The Board of Directors of BCP has issued resolution No. 6 (duly recorded in its Minutes (*Acta*) No.24 of March 15, 2004) which regulates paragraphs (a), (c), (h) and (j) of Article 6 of the Bank Resolution and Deposit Insurance Law through the establishment of specific technical criteria for subjecting troubled financial institutions in Paraguay (as the term “financial institutions” is defined in Law No. 861/96) to adopt regularization actions to improve their financial condition.

2. The Board of Directors of BCP has issued resolution No. 31 (duly recorded in its Minutes (*Acta*) No.25 of March 18, 2004) which regulates Article 20 of the Bank Resolution and Deposit Insurance Law by explicitly prohibiting all financial institutions in Paraguay (as the term “financial institutions” is defined in Law No. 861/96) to pledge their assets as security for deposits held by individuals and/or legal entities in the pertinent financial institution. This prohibition does not prevent financial institutions from pledging their assets as security for the payment of mortgage notes (*letras hipotecarias*) issued by the same.

3. (a) The Borrower, through MoF, and the association of private banks operating in Paraguay (which signed the “Preliminary Declaration of Intent” between the MoF and said association of banks dated November 6, 2003) have agreed to renegotiate the public internal debt represented in the Borrower’s national treasury bonds (the Old Bonds) issued pursuant to the Borrower’s laws Nos. 1633/00, 1720/01, 1726/01 and 1857/02 (as said laws have been supplemented and amended) through the exchange of the Old Bonds with new bonds (the New Bonds) to be issued by the MoF in accordance with the terms and conditions stipulated in said Preliminary Declaration of Intent; and (b) the Borrower’s legislature has approved law No. 2336/03 dated December 12, 2003 which, *inter alia*, authorizes the Borrower’s executive branch (through the MoF) to issue and circulate the New Bonds, and exchange the same with the Old Bonds in accordance with the terms and conditions stipulated in the Preliminary Declaration of Intent mentioned in (a) herein.

B. Bank Legal, Regulatory and Institutional Framework

4. The Board of Directors of BCP has issued resolution No. 8 (duly recorded in its Minutes (*Acta*) No.92 of November 27, 2003) which establishes norms to be followed by all financial institutions in Paraguay (as the term “financial institutions” is defined in Law No. 861/96) concerning, *inter alia*: (a) the classification of said institutions’ assets

and credit risks; and (b) the definition and recognition of: (i) loan loss reserves; (ii) accrued interest payments; and (iii) refinancing operations, all resulting from said institutions' loans to individuals and/or legal entities.

5. The Borrower's executive branch has furnished to the Borrower's legislature for, approval thereby, the Banking Draft Law.

6. The Borrower's executive branch has furnished to the Borrower's legislature for, approval thereby, the Anti-Money Laundering Draft Law.

7. The SB Strategic Plan has been approved by BCP's Board of Directors.