HB2616

LOAN NUMBER 2118-VIE(SF)

LOAN AGREEMENT
(Special Operations)

(Second Financial Sector Program -Subprogram II)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 20 DECEMBER 2004

LPS: VIE 30295

LOAN AGREEMENT
(Special Operations)

LOAN AGREEMENT dated 20 December 2004 between SOCIALIST REPUBLIC OF VIET NAM (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 24 October 2002 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions designed to develop the Borrower's financial sector (hereinafter called the Program Cluster), which are described in Schedule 1 to this Loan Agreement and which are to be implemented under the second of two subprograms forming the Program Cluster (hereinafter called Subprogram II);

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Subprogram II; and

(C) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject however to the following modifications:

Section 2.01(24) is deleted and the following is substituted therefor:

> 24. The term "Program" means Subprogram II of the Program Cluster for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(a) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(b) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(c) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(d) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Association of Vietnamese Insurers" means the Association of Vietnamese Insurers in Viet Nam and any successor thereto;

(b) "Counterpart Funds" means the Dong proceeds generated from the Loan proceeds under the Program;

(c) "Decree 16" means Decree 16/2001/ND-CP, on the organization and operation of financial leasing companies, as amended from time to time;

(d) "Decree 48" means Decree 48/1998/ND-CP, on securities and securities markets, as amended from time to time;

(e) "Decree 64" means Decree 64 on transferring state-owned enterprises to joint stock companies, as amended from time to time;

(f) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(g) "DIV" means the Deposit Insurance of Viet Nam of the Borrower and any successor thereto;

(h) "Dong" or the sign "D" means dong in the currency of the Borrower;

(i) "Early Warning System" means a system that provides indications to the MOF of pending or potential financial exposures for the Borrower, arising from the insurance sector;

(j) "Eligible Items" means the goods imported under Subprogram II (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(k) "Finance Institute" means the finance academy of the Borrower, and any successor thereto;

(l) "First Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of SDR6,790,000 to be initially withdrawn and utilized subject to the provisions of paragraph 5 of Schedule 3 to this Loan Agreement;

(m) "Government" means the government of the Borrower and any successor thereto;

(n) "Leasing Industry Association" means the Leasing Industry Association to be established in Viet Nam and any successor thereto;

(o) "MOF" means the Ministry of Finance of the Borrower, and any successor thereto;

(p) "MOJ" means the Ministry of Justice of the Borrower, and any successor thereto;

(q) "MPI" means the Ministry of Planning and Investment of the Borrower, and any successor thereto;

(r) "National Assembly" means the National Assembly of the Borrower and any successor thereto;

(s) "National Reinsurer of Viet Nam" means the National Reinsurer of the Borrower and any successor thereto;

(t) "Policy Matrix" means the revised policy matrix as agreed between the Borrower and ADB and attached to the Minutes of loan negotiations dated 21 October 2004which sets forth the actions to be taken by the Borrower under the Program;

(u) "Program" means Subprogram II;

(v) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, SBV, which is responsible for carrying out Subprogram II;

(w) "SBV" means the State Bank of Viet Nam, and any successor thereto;

(x) "Second Tranche" means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of SDR10,185,000 to be withdrawn and utilized subject to the provisions of paragraph 6 of Schedule 3 to this Loan Agreement;

(y) "SMEs" means small-and-medium sized enterprises;

(z) "SOEs" means state-owned enterprises;

(aa) "Solvency Council" means the Solvency Council for the insurance sector of the Borrower, and any successor thereto;

(bb) "SRO" means self-regulatory organization;

(cc) "SSC" means the State Securities Commission of the Borrower, and any successor thereto;

(dd) "Subprogram I" means the first of two subprograms which together form the Program Cluster;

(ee) "Standing Committee" means the standing committee of the National Assembly, and any successor thereto;

(ff) "Third Tranche" means the balance of the proceeds of the Loan remaining in the Loan Account after the utilization of the First and Second Tranches, to be withdrawn subject to the provisions of paragraph 7 of Schedule 3 to this Loan Agreement; and

(gg) "VAA" means the Viet Nam Accounting and Auditing Association and any successor thereto.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twenty three million seven hundred sixty-six thousand Special Drawing Rights (SDR23,766,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

(a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and

(b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 1 April 2007 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and the Policy Matrix.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB semi-annual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and the Policy Matrix.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Governor of SBV of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

State Bank of Viet Nam
47-49 Ly Thai To
Hanoi, Viet Nam

Facsimile Number:

(84-4) 8250-612
(84-4) 8258-385

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2330.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIET NAM

By _____
LE DUC THUY
Governor
State Bank of Viet Nam

ASIAN DEVELOPMENT BANK

By _____
BRADFORD PHILIPS
Country Director
Viet Nam Resident Mission

SCHEDULE 1

Description of the Program

1. The principal objective of the Program Cluster is to build an enabling environment for developing alternative channels of market based financial intermediation. The scope is to develop: (i) economic policies conducive to sound and vibrant development of the financial sector; (ii) legal and regulatory frameworks to promote innovation and competition while simultaneously monitoring and reducing systemic risks; (iii) efficient regulators with the authority, budget, skills, and established procedures to monitor and enforce regulations; and (iv) supporting financial infrastructure. The Program Cluster is described in more detail in the Policy Letter and the Policy Matrix. Subprogram II represents the second phase of the Program Cluster and will be implemented under this Loan Agreement.

2. In support of the Subprogram II:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 1 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 1 April 2007.

SCHEDULE 2

Amortization Schedule

(Second Financial Sector Program - Subprogram II)

Date Payment Due			Payment of Principal (expressed in Special Drawing Rights)*
15	May	2013	742,687
15	November	2013	742,687
15	May	2014	742,687
15	November	2014	742,687
15	May	2015	742,687
15	November	2015	742,687
15	May	2016	742,687
15	November	2016	742,687
15	May	2017	742,687
15	November	2017	742,687
15	May	2018	742,687
15	November	2018	742,687
15	May	2019	742,687
15	November	2019	742,687
15	May	2020	742,687
15	November	2020	742,687
15	May	2021	742,687
15	November	2021	742,687
15	May	2022	742,687
15	November	2022	742,687
15	May	2023	742,687
15	November	2023	742,687
15	May	2024	742,687
15	November	2024	742,687
15	May	2025	742,687
15	November	2025	742,687
15	May	2026	742,687
15	November	2026	742,687

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

Schedule 2

Date Payment Due			Payment of Principal (expressed in Special Drawing Rights)*
15	May	2027	742,687
15	November	2027	742,687
15	May	2028	742,687
15	November	2028	742,703
			SDR 23,766,000

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

(i) imports from countries which are not members of ADB;

(ii) imports for ineligible items specified in the Attachment 1 to this Schedule; and

(iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at a commercial bank acceptable to ADB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the First Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the First Tranche specified in Attachment 2 to this Schedule, in a manner acceptable to ADB.

6. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 3 to this Schedule.

7. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Third Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Third Tranche specified in Attachment 4 to this Schedule, in a manner acceptable to ADB.

Attachment 1 to Schedule 3

INELIGIBLE ITEMS

1. The proceeds of the Loan shall be utilized to finance the foreign currency expenditures for the reasonable cost of imported goods (exclusive of taxes and duties) required during the implementation of the Program. All imported goods financed from the proposed loan must be produced in, and procured from, member countries of ADB.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made for the following items:

(i) expenditures for goods included in the following groups or subgroups of the United Nations Standards International Trade Classification, Revision 3, or further revisions as designated by ADB by notice to the Borrower:

Group	Subgroup	Description of items
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
718	718.7	Nuclear reactors and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
897	897.3	Jewelry of gold, silver, or platinum group metals (except watches and watch cases); goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, nonmonetary (excluding gold ores and concentrates)

(ii) expenditures for goods intended for military and paramilitary purposes or for luxury consumption; and

(iii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a or 1b, respectively, of the World Health Organization's Classification of Pesticides by Hazard and Guidelines to Classification.

(iv) expenditures for goods supplied or to be supplied under any contract that a national or international financing institution or any other financial agency has financed or agreed to finance, including any contract financed or to be financed under any loan from ADB, and

(v) expenditures incurred more than 180 days prior to loan effectiveness.

Outstanding Conditions for Release of the First Tranche

The conditions to be fulfilled by the Borrower for the release of the First Tranche include: achievement, satisfactory to ADB, of the conditions specified below.

Insurance Sector

1. MOF shall have provided detailed guidelines for the insurance sector, with a view to providing simple procedures and short lead time for new product approval.

2. MOF shall have required insurance companies to have the annual accounts co-signed by an auditor authorized by MOF.

3. MOF shall have developed and implemented an Early Warning System.

4. MOF shall have introduced a procedure for internal use to supervise and deal with problem insurance companies, including provisions outlining the functions and duties of the board of directors of the Solvency Council.

5. MOF shall have established an insurance department in the Finance Institute.

Leasing Sector

6. MOJ in cooperation with SBV and relevant agencies, shall have drafted and submitted to the Government a decree covering the registration of leasing contracts.

Interbank/Money Markets

7. MOF shall have regularized the issuance of treasury bills by publishing quarterly issuance schedules.

Capital Markets

8. SSC shall have approved a trading board for the trading of shares in SMEs, in Hanoi.

9. An incentive system to induce unlisted equitized SOEs (joint stock companies) to list on a stock trading center or the trading board for SMEs shall have been issued after SSC shall have requested and consulted with MOF.

10. The Government shall have issued the amended Decree 48 including the regulations on establishing securities investment funds.

11. SSC shall have licensed securities investment funds.

Financial Market Infrastructure

12. MOF shall have supported the establishment and development of an accounting assistance center for SMEs under VAA.

13. MOF shall have privatized/equitized a number of state-owned auditing firms.

Secured Transactions System

14. MOJ shall have undertaken a comprehensive review of the experience of operating secured transactions registries and determined specific measures for increasing the use of the secured transactions registration system.

Anti-Money-Laundering Activity

15. The Government shall have issued a decree on anti-money-laundering regulation.

16. The Government shall have delegated a relevant agency to establish a financial intelligence unit to coordinate the relevant activities as provided for by the decree on anti-money-laundering regulation.

17. SBV shall have cooperated with relevant ministries and submitted a proposal to the Government on joining an international (at least regionally based) organization on anti-money-laundering.

Conditions for Release of the Second Tranche

The conditions to be fulfilled by the Borrower for the release of the Second Tranche include: (i) maintaining the conditions satisfied under the First Tranche; and (ii) achievement, satisfactory to ADB, of the conditions specified below.

Insurance Sector

1. MOF shall have issued minimum terms and conditions for insurance for each type of compulsory insurance class.

2. MOF's Insurance Department shall have submitted a capacity building plan to MOF, including human resources' and training programs, to effectively exercise state management functions over insurance businesses which include planning, policy formulation, prudential principles, supervision and implementation.

3. MOF shall have introduced regulations which require signoff of reserves in the annual accounts of insurance companies by an appointed actuary approved by MOF.

4. MOF shall have supported the Association of Vietnamese Insurers to adopt a code of conduct for insurance brokers and agents.

Leasing Sector

5. SBV shall have revised Decree 16 to (i) allow leasing companies to provide both finance and operating leasing, and (ii) stipulate procedures and methods to deal with leased assets in cases where a lessee violates lease contract.

6. SBV shall have supported the establishment of, and recognized a leasing industry association when it is established by the leasing companies.

Interbank/Money Markets

7. SBV shall have submitted a draft negotiable instruments law to the Government.

Capital Markets

8. The Government shall have amended Decree 64 to provide incentives for equitizing SOEs to list, including tax measures.

9. SSC shall have supported a securities dealers and brokers association (or securities industry association) as an SRO which shall have issued a code of conduct for securities brokers and dealers.

Accounting and Auditing System

10. MOF shall have strengthened VAA to assume the SRO function—i.e., MOF and VAA shall have developed a plan in order for VAA to assume responsibilities as an SRO (the VAA SRO Plan).

11. MOF shall have adopted a set of ethical rules for the accounting and auditing profession consistent with international best practice.

Secured Transactions System

12. MOJ shall have submitted a draft ordinance on registration of secured transactions containing all procedural requirements for registration and adopting measures listed under the comprehensive review, to the Standing Committee of the National Assembly.

Deposit Insurance Scheme

13. SBV in cooperation with DIV, shall have submitted to the Government the amendment of the Decree on Deposit Insurance to allow DIV to:

(i) charge differential premiums depending on types of covered institutions,

(ii) (a) borrow from the Government, (b) issue bonds in accordance with the prevailing regulations on the issuance of bonds, and (c) borrow from commercial banks, and

(iii) specify strict conditions under which DIV provides financial support to problem banks.

14. SBV and DIV, shall have completed a feasibility study to determine the appropriate model for protecting depositors in people's credit funds.

Anti-Money-Laundering Activity

15. The Government shall have:

(i) established the financial intelligence unit with: (a) adequate staffing, and (b) internal procedures; and

(ii) ensured the development of a compliance program in consultation with the financial sector.

Conditions for Release of the Third Tranche

The conditions to be fulfilled by the Borrower for the release of the Third Tranche include: (i) maintaining the conditions satisfied under the First and Second Tranches; and (ii) achievement, satisfactory to ADB, of the conditions specified below.

Insurance Sector

1. MOF shall have commenced gradual phasing out the compulsory reinsurance concession to the National Reinsurer of Viet Nam.

2. MOF shall have recommended that insurance companies adopt compliance manuals and establish compliance committees, audit committees and risk management committees, including holding seminars and workshops, and publishing reference materials on the MOF website.

3. MOF or the insurance supervisory body under MOF shall have introduced key elements of risk-based capital regulation for insurance companies.

4. At least 50% of MOF's Insurance Department staff shall have completed insurance related courses at recognized institutions, including the Finance Institute.

Leasing Sector

5. SBV and MOJ shall have cooperated with related ministries and issued a circular detailing procedures and methods to deal with leased assets in cases where a lessee violates the lease contract.

6. SBV shall have encouraged the Leasing Industry Association to: (i) form a committee for public awareness activities, and (ii) establish an SME assistance center and training program.

Interbank/ Money Markets

7. The Government shall have submitted a draft negotiable instruments law to the National Assembly.

8. SBV shall have developed the interbank market by introducing money brokerage.

9. SBV shall have issued a regulation with provisions that require all state-owned commercial banks to (i) identify and report, on a daily basis, their liquidity position; and (ii) limit the number of nostro accounts to a manageable level.

Capital Markets

10. MOF, in conjunction with SSC shall have drafted and submitted a securities and exchange law to the Government which includes:

(i) corporate disclosure requirements; and

(ii) supervisory, investigation, surveillance and enforcement mechanisms.

11. SSC shall have included a circuit breaker system based on a market index in the design of the automated trading system.

Accounts & Auditing Systems

12. MOF shall have drafted, and submitted to the Government for issuance, a legal document (a decision) enabling VAA to assume responsibilities as an SRO.

13. MOF and VAA shall have begun implementation of the VAA SRO Plan for VAA to assume responsibilities as an SRO.

Deposit Insurance Systems

14. The Government shall have approved a funded system for protecting depositors in people's credit funds.

Anti-Money-Laundering Activities

15. The Government shall have:

(i) operationalized the financial intelligence unit with: (a) adequate staffing, and (b) functioning internal procedures; and

(ii) ensured there is a functioning compliance program.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items [(other than consulting services)] to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

3. (a) The Borrower shall ensure that all Bank-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all Bank-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

SCHEDULE 5

Program Implementation and Other Matters

I. Counterpart Funds

1. The Borrower shall ensure that the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of the Program Cluster, and in particular, Subprogram II and other activities consistent with the objectives of the Program Cluster, as more fully described under paragraph 1 of Schedule 1 to this Loan Agreement, the Policy Letter and the Policy Matrix, and shall, in particular, provide necessary budget appropriations to finance the structural adjustment costs relating to the implementation of the reforms under Subprogram II in particular, and the Program Cluster in general.

II. Implementation and Coordination

2. SBV, as Program Executing Agency, shall bear overall responsibility for the implementation of Subprogram II and shall coordinate with MOF, MOJ, SSC, MPI, and DIV which shall be the implementing agencies.

3. The Program Steering Committee (PSC), established under Subprogram I, shall continue overseeing the progress of the Program Cluster and in particular, progress of Subprogram II, review pending issues, propose concrete actions for their resolution, provide guidance where appropriate, to the ministries and agencies involved and shall be responsible for the ministerial coordination and implementation of the policy actions under Subprogram II. The PSC shall meet on a semiannual and ad hoc basis to review the Subprogram II implementation progress. The PSC shall ensure that the reforms are undertaken in line with the agreed timetable.

4. The Program Implementation and Coordination Unit (PICU) established within SBV under Subprogram I, shall be headed by a senior officer of SBV, and staffed by SBV officials with expertise acceptable to ADB. The Borrower shall ensure that the PICU shall have the responsibility for the day-to-day implementation of Subprogram II and shall have the following functions: (a) to prepare the semi-annual reports to ADB and the PSC, on the progress and issues relating to Subprogram II implementation; (b) to coordinate, monitor, and supervise Subprogram II implementation; and (c) to assess the impact of Subprogram II.

III. Policy Reform

5. The Borrower shall: (a) ensure that the policies adopted and actions taken as described in the Policy Letter prior to the date of this Loan Agreement continue to be in effect; (b) timely adopt the other policies and take other actions included in Subprogram II as specified in the Policy Letter, the Policy Matrix, and this Loan Agreement and ensure that such policies and actions continue to be in effect for the duration of Subprogram II implementation period.

Schedule 5

IV. Policy and Sector Dialogue

6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall, from time to time, engage in active policy dialogue on sector issues, policy reforms, and other measures during the Program Cluster and on additional reforms that may be considered necessary or desirable, and exchange views on, the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.

7. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of Subprogram II and adopt appropriate measures to overcome or mitigate such problems and constraints in a timely manner.

8. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of Subprogram II, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

V. Program Performance Management and Reviews

9. SBV shall continue to carry out monitoring and evaluation of the Program Cluster in accordance with agreements reached with ADB, and shall continually assess its impact. Specific performance indicators for Subprogram II, as agreed with ADB, shall be used to assist with monitoring. The Borrower shall actively assist and support ongoing program monitoring and evaluation including facilitating consultations with central and provincial agencies, financial sector participants, civil society, and other key stakeholders as appropriate.

10. Semiannually, or at such time or times as the Borrower and ADB may agree, a review shall be carried out concerning the Borrower's progress in implementing the policy reforms set out in the Policy Letter and Policy Matrix including, in particular, the fulfillment of the conditions listed in Attachments 2, 3, and 4 to Schedule 3 to this Loan Agreement and assess the impact of Subprogram II on the structure and development of the financial sector. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request. The review shall form the basis for discussions between the Borrower and ADB on further reforms and measures that may be considered necessary or desirable to promote the continued development of the financial sector.

11. PICU shall be responsible for maintaining all monitoring data and evaluating benefits of the Program Cluster. This monitoring shall continue to be undertaken every six months until 12 months after the Program Cluster is completed.