

No. 10826

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
and
BRAZIL**

**Guarantee Agreement—*Northeast Industrial Credit Project*
(with annexed General Conditions Applicable to Loan
and Guarantee Agreements and Loan Agreement between
the Bank and the Banco do Nordeste do Brasil, S.A.).
Signed at Washington on 16 February 1970**

Authentic text: English.

*Registered by the International Bank for Reconstruction and Development on
23 November 1970.*

**BANQUE INTERNATIONALE POUR
LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
BRÉSIL**

**Contrat de garantie — *Projet relatif au crédit industriel pour
le Nord-Est* (avec, en annexe, les Conditions générales
applicables aux contrats d'emprunt et de garantie et le
Contrat d'emprunt entre la Banque et la Banco do
Nordeste do Brasil, S.A.). Signé à Washington le 16 février
1970**

Texte authentique: anglais.

*Enregistré par la Banque internationale pour la reconstruction et le développement
le 23 novembre 1970.*

GUARANTEE AGREEMENT¹

AGREEMENT, dated February 16, 1970, between FEDERATIVE REPUBLIC OF BRAZIL (hereinafter called the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by the Loan Agreement of even date herewith² between the Bank and Banco do Nordeste do Brasil, S.A. (hereinafter called the Borrower) the Bank has agreed to make to the Borrower a loan in various currencies equivalent to twenty-five million dollars (\$25,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as hereinafter provided; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

NOW THEREFORE the parties hereto hereby agree as follows :

Article I

Section 1.01. The parties to this Guarantee Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969,³ with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 2 to the Loan Agreement (said General Conditions Applicable to Loan and Guarantee Agreements, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Guarantee Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

¹ Came into force on 31 August 1970, upon notification by the Bank to the Government of Brazil.

² See p. 176 of this volume.

³ See p. 176 of this volume.

Article II

Section 2.01. Without limitation or restriction upon any of its other obligations under this Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan and the Bonds and the premium, if any, on the prepayment of the Loan or the redemption of the Bonds prior to their maturity, all as set forth in the Loan Agreement and in the Bonds.

Article III

Section 3.01. It is the mutual intention of the Guarantor and the Bank that no other external debt shall enjoy any priority over the Loan in the allocation or realization of foreign exchange. To that end, the Guarantor undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Guarantor or of any of its political subdivisions or of any agency of any such political subdivision as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Guarantor" as used in this Section includes assets of the Guarantor or of any agency of the Guarantor, including Banco Central do Brasil and any other institution performing the functions of a central bank for the Guarantor.

Section 3.02. (a) The Guarantor and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Guarantor, such information shall include information with respect to financial and economic conditions in the territories of the Guarantor and the international balance of payments position of the Guarantor. On the part of the Bank, such information shall include such information as shall be available to the Bank regarding the performance of the obligations of the Borrower under the Loan Agreement.

(b) The Guarantor and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof and shall promptly inform each other of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Guarantor shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Guarantor for purposes related to the Loan.

Section 3.03. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes, and free from all restrictions, imposed under the laws of the Guarantor or laws in effect in its territories; provided, however, that the provisions of this Section shall not apply to taxation of payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 3.04. This Agreement, the Loan Agreement and the Bonds shall be free from any taxes that shall be imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof.

Section 3.05. The Guarantor covenants that it will not take, or cause or permit any of its political subdivisions or any of its agencies or any agency of any such political subdivision to take, any action which would prevent or interfere with the performance by the Borrower of its obligations contained in the Loan Agreement and will take or cause to be taken all reasonable action necessary or appropriate to enable the Borrower to perform such obligations.

Section 3.06. Except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall adopt, or cause to be adopted, such measures or procedures as will assure the realization of positive rates of interest which exceed the rate of increase in prices in the economy of the Guarantor for loans to industrial undertakings by the Borrower, Banco Nacional do Desenvolvimento Economico and Banco do Brasil.

Article IV

Section 4.01. The Guarantor shall endorse, in accordance with the provisions of the General Conditions, its guarantee on the Bonds to be executed and delivered by the Borrower. The *Ministro da Fazenda* of the Guarantor and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Guarantor for the purposes of Section 8.10 of the General Conditions.

Article V

Section 5.01. The *Ministro da Fazenda* of the Guarantor is designated as representative of the Guarantor for the purposes of Section 10.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions :

For the Guarantor :

Ministério da Fazenda
Av. Presidente Antonio Carlos 375
Rio de Janeiro, Brazil

Alternative address for cables :

Minifaz
Rio de Janeiro

For the Bank :

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

Alternative address for cables :

Intbafrad
Washington, D.C.

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

Federative Republic of Brazil :

By J. COSTA CAVALCANTI
Authorized Representative

International Bank for Reconstruction and Development :

By ROBERT S. McNAMARA
President

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

GENERAL CONDITIONS, DATED 31 JANUARY 1969

GENERAL CONDITIONS APPLICABLE TO LOAN AND GUARANTEE AGREEMENTS

[*Not published herein. See United Nations, Treaty Series, vol. 691, p. 300.*]

LOAN AGREEMENT

AGREEMENT, dated February 16, 1970, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank) and BANCO DO NORD-ESTE DO BRASIL, S.A. (hereinafter called the Borrower), a limited company established and existing under the laws of Brazil.

Article I

GENERAL CONDITIONS; DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 31, 1969,¹ with the same force and effect as if they were fully set forth herein, subject, however, to the modifications thereof set forth in Schedule 2 to this Agreement (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank, as so modified, being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Loan Agreement, 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) "sub-loan" means a loan or credit made or proposed to be made by the Borrower out of the proceeds of the Loan to an Investment Enterprise for an Investment Project;

(b) "investment" means an investment, other than a sub-loan, made or proposed to be made by the Borrower out of the proceeds of the Loan in an Investment Enterprise for an Investment Project;

(c) "Investment Enterprise" means an enterprise to which the Borrower proposes to make or has made a sub-loan, or in which it proposes to make or has made an investment, in accordance with and as provided in Section 3.01 of this Agreement;

(d) "Investment Project" means a specific project to be carried out by an Investment Enterprise, as approved, or in respect of which withdrawals from the Loan Account shall have been authorized, by the Bank pursuant to Section 2.03 (b) of this Agreement;

¹ See above.

(e) “subsidiary” means any company of which a majority of the outstanding voting stock or other proprietary interest is owned, or which is effectively controlled, by the Borrower or by any one or more subsidiaries of the Borrower or by the Borrower and one or more of its subsidiaries;

(f) “New Cruzeiros” and the letters “NCrS” mean currency of the Guarantor;

(g) “foreign currency” means any currency other than currency of the Guarantor; and

(h) “Statement of Policies on Industrial Lending” means Resolution No. 320 of the Board of Directors of the Borrower approved on June 2, 1960, as amended from time to time with the agreement of the Bank.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Loan Agreement set forth or referred to, an amount in various currencies equivalent to twenty-five million dollars (\$25,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, this Loan Agreement.

Section 2.03. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw from the Loan Account :

- (i) amounts expended for the reasonable cost of goods and services required for carrying out the Investment Project in respect of which the withdrawal is requested; and
- (ii) if the Bank shall so agree, such amounts as shall be required to meet payments to be made for the reasonable cost of such goods and services.

(b) No amount shall be withdrawn from the Loan Account in respect of an Investment Project unless it shall have been approved by the Bank; provided, however, that such withdrawals may be made in respect of sub-loans for Investment Projects described to and authorized by the Bank for financing hereunder in accordance with the provisions of Section 3.02 (b) of this Agreement, but only up to an amount in respect of each such Investment Project which, together with any amount or amounts previously approved or authorized for such Investment Project under the Loan Agreement, shall not exceed the equivalent of \$250,000 and, in respect of all such Investment Projects, the equivalent of \$5,000,000 in the aggregate, or, in each case, of such other limit as shall from time to time be determined by the Bank.

(c) Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made on account of expenditures made by any Investment Enterprise for any

Investment Project subject to the Bank's approval more than ninety days prior to the date on which the Bank shall have first received in respect of such Investment Project the application required under Section 3.02 (a) of this Agreement or, in the case of any other Investment Project, more than ninety days prior to the date on which the Bank shall have received the description thereof pursuant to Section 3.02 (b) of this Agreement.

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

Section 2.05. The Borrower shall pay interest at the rate of seven per cent (7%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on February 15 and August 15 in each year.

Section 2.07. (a) The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 1 to this Agreement as such Schedule shall be amended from time to time as determined by the Bank and as reasonably required to: (i) conform in relevant part substantially to the aggregate of the amortization schedules applicable to the sub-loans and investments in respect of which withdrawals from the Loan Account shall have been approved or authorized pursuant to Section 3.02 of this Agreement and (ii) take into account any cancellation pursuant to Article VI of the General Conditions, and any repayments made by the Borrower under Section 2.08 of this Agreement, except that repayments due hereunder shall be made on February 15 and August 15 in each year. Such amendments of said Schedule 1 shall include amendments to the table of premiums on prepayments and redemption, if required.

(b) The amortization schedule applicable to each Investment Project shall provide for an appropriate period of grace, and, unless the Bank and the Borrower shall otherwise agree, (i) shall not extend beyond fifteen years from the date of approval by the Bank of such Investment Project or of authorization by the Bank to make withdrawals from the Loan Account in respect of such Investment Project and (ii) shall provide for approximately equal semi-annual, or more frequent, aggregate payments of principal and interest or approximately equal, semi-annual, or more frequent, payments of principal.

Section 2.08. Unless the Bank and the Borrower shall otherwise agree:

(a) If a sub-loan or any part thereof shall be repaid to the Borrower in advance of maturity or if a sub-loan or an investment or any part thereof shall be sold, transferred, assigned or otherwise disposed of, the Borrower shall promptly notify the Bank and shall pay to the Bank on the next following interest payment date, together with the premiums specified in Schedule 1 to this Agreement or in any amendment thereof under Section 2.07 (a) of this Agreement, an amount of the Loan equal to: (i) in the case of a sub-loan, the amount withdrawn from the Loan Account in respect of such sub-loan, or the said

part thereof; or (ii) in the case of an investment, the excess, if any, of the amount withdrawn from the Loan Account in respect of such investment, or the said part thereof, over the amount of the Loan theretofore repaid to the Bank in respect of such investment. The policy stated in Section 3.05 (c) of the General Conditions with respect to premiums shall apply to any such repayment.

(b) Any amount so repaid by the Borrower shall be applied by the Bank as follows : (i) in the case of a sub-loan, to payment of the maturity or maturities of the principal amount of the Loan in amounts corresponding to the amounts of the maturity or maturities of the sub-loan so repaid or disposed of, and (ii) in the case of the disposition of an investment, to the *pro rata* payment of the unpaid amounts of the maturity or maturities of the Loan reflecting the amount of such investment.

(c) The first sentence of Section 3.05 (b) of the General Conditions shall not apply to any repayment made under paragraph (a) of this Section.

Article III

DESCRIPTION OF THE PROJECT; USE OF PROCEEDS OF THE LOAN

Section 3.01. The Project for which the Loan is granted is the financing by the Borrower of economic development in the Northeast of Brazil through loans for productive purposes to industrial enterprises in the Northeast of Brazil (as defined in Laws 3995 of December 14, 1961 and 4239 of June 27, 1963 of the Guarantor) which are or will be controlled by private capital, and through other productive investments in such enterprises, all for specific industrial development projects, in accordance with the *Estatutos* and the Statement of Policies on Industrial Lending of the Borrower, as amended from time to time with the agreement of the Bank.

Section 3.02 (a) When submitting an Investment Project to the Bank for approval pursuant to Section 2.03 (b) of this Agreement, the Borrower shall furnish to the Bank an application, in form satisfactory to the Bank, together with a description of such Investment Project (including a brief description of the costs thereof proposed to be met out of the proceeds of the Loan) and the terms and conditions of the sub-loan to or investment in the Investment Enterprise, including the schedule of amortization proposed therefor, a financial and economic analysis thereof and such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of sub-loans for Investment Projects not requiring approval by the Bank shall contain a summary description of the Investment Enterprise and the Investment Project (including a brief description of the costs thereof proposed to be met

out of the proceeds of the Loan), for which such authorization is requested and the terms and conditions of the sub-loan for such Investment Project, including the schedule of amortization therefor.

(c) Except as the Bank and the Borrower shall otherwise agree, applications for approval of Investment Projects pursuant to the provisions of Section 3.02 (a) of this Agreement and requests for authorizations to withdraw from the Loan Account pursuant to the provisions of Section 3.02 (b) of this Agreement shall be submitted on or before June 30, 1972.

Article IV

BONDS

Section 4.01. If and as the Bank shall from time to time request, the Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in Article VIII of the General Conditions.

Section 4.02. The President of the Borrower and such other person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 8.10 of the General Conditions.

Article V

PARTICULAR COVENANTS

Section 5.01. The Borrower shall carry out the Project and conduct its operations and affairs in accordance with sound financial and investment standards and practices, with qualified and experienced management and in accordance with its *Estatutos* and its Statement of Policies on Industrial Lending, as amended from time to time with the agreement of the Bank.

Section 5.02 (a) The Borrower shall furnish to the Bank all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the Investment Enterprises, the Investment Projects, the sub-loans and investments and the administration, operations and financial condition of the Borrower.

(b) The Borrower shall maintain records adequate to record the progress of the Project and of each Investment Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the Borrower, and shall enable the Bank's representatives to examine such records.

(c) The Borrower shall have its financial statements (balance sheet and related statement of earnings and expenses) audited annually by an independent accountant or independent accounting firm acceptable to the Bank in accordance with generally accepted accounting principles consistently applied and shall, promptly after their preparation and not later than four months after the close of the fiscal year to which they apply, transmit to the Bank certified copies of such statements and a signed copy of the accountant's or accounting firm's report.

Section 5.03. (a) The Borrower shall exercise its rights in relation to each Investment Project financed in whole or in part with the proceeds of the Loan in such manner as to protect the interest of the Bank and of the Borrower.

(b) The Borrower undertakes that unless the Bank shall otherwise agree, any sub-loan or investment will be made on terms whereby the Borrower shall obtain, by written agreement or other appropriate legal means, rights adequate to protect the interests of the Bank and the Borrower, including, in the case of any such sub-loan and to the extent that it shall be appropriate in the case of any such investment : (i) the right to 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; (ii) the right to require that the goods to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of the Investment Project; (iii) the right of the Bank and the Borrower to inspect such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents; (iv) the right to require that the Investment Enterprise shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice and that, without any limitation upon the foregoing, such insurance shall cover marine, transit and other hazards incident to acquisition, transportation and delivery of the goods financed out of the proceeds of the Loan to the place of use or installation, and that any indemnity thereunder shall be payable in a currency freely usable by the Investment Enterprise to replace or repair such goods; (v) the right to obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise; (vi) the right of the Borrower to suspend or terminate access by the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its agreement with the Borrower; and (vii) the right of the Borrower to assign and transfer the sub-loan or investment, and all rights, privileges, guarantees and security related thereto, to the Bank in accordance with paragraph (e) of this Section.

(c) The Borrower shall charge interest on each sub-loan at a rate at least two and one-half per cent ($2\frac{1}{2}\%$) per annum above the rate specified in Section 2.05 of this Agreement.

(d) Each sub-loan shall be denominated, and the principal of and interest on such sub-loan shall be payable, in the currencies (or the equivalent thereof at the time of payment) payable by the Borrower to the Bank in respect of such sub-loan.

(e) The Borrower shall, promptly upon request by the Bank from time to time, assign and transfer to the Bank the sub-loans and investments, or any part thereof specified in any such request by the Bank, and all rights, privileges, guarantees and security relating to such sub-loans and investments. Any such assignment and transfer shall not discharge, mitigate, limit or otherwise affect in any way or to any extent any other obligation of the Borrower under this Loan Agreement.

(f) The Borrower shall at all times make provision satisfactory to the Bank to protect itself against losses resulting from changes in the rate of exchange between New Cruzeiros and the currency or currencies in which the Borrower's outstanding money obligations shall have to be met.

Section 5.04 (a) The Bank and the Borrower shall co-operate fully to assure that the purposes of the Loan will be accomplished. To that end, the Bank and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to the progress of the Project, the performance by the Borrower of its obligations under the Loan Agreement, the administration, operations and financial condition of the Borrower and any other matters relating to the purposes of the Loan.

(b) The Borrower shall promptly inform the Bank of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan, the maintenance of the service thereof or the performance by the Borrower of its obligations under the Loan Agreement.

Section 5.05. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur :

- (i) any debt if, after the incurring of any such debt, the total debt of the Borrower would exceed ten times the capital and surplus of the Borrower; or
- (ii) any term debt if, after the incurring of any such term debt, the total term debt of the Borrower would exceed four times the capital and surplus of the Borrower.

(b) For the purposes of this Section :

- (i) The term "debt" means all indebtedness of the Borrower, including deposits.
- (ii) The term "term debt" means any debt incurred by the Borrower maturing more than one year after the date on which it is originally incurred.
- (iii) Debt shall be deemed to be incurred (A) under a loan contract or agreement, on the date and to the extent it is drawn down pursuant to such loan contract or agreement, (B) under a guarantee agreement, on the date the agreement providing for such guarantee shall have been entered into, (C) in the case of deposits, on the date the deposit is made and (D) in the case of accounts payable and other similar current liabilities, on the date the liability arises.
- (iv) Whenever in connection with this Section it shall be necessary to value in terms of New Cruzeiros debt payable in another currency, such valuation shall be made at the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt.
- (v) The term "capital and surplus of the Borrower" means the aggregate of the total unimpaired capital, surplus and reserves of the Borrower, excluding (A) any reserves allocated to cover specific liabilities or provisions against specific assets and (B) any amounts representing dividends paid to the Guarantor but retained by the Borrower for the account of the Guarantor.

Section 5.06. The Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and

interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect; provided, however, that the foregoing provisions of this Section shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for the payment of the purchase price of such property; (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date; or (iii) any lien arising out of Section 5.05 of any of the loan agreements dated June 30, 1967 between the Inter-American Development Bank and the Borrower.

Section 5.07. (a) Except as the Bank shall otherwise agree, the Borrower shall take all action which may be necessary or appropriate so as to produce an annual return on its equity capital exceeding by not less than five percentage points the annual rate of increase (expressed as a percentage) for the respective year in the general price index published by the Getulio Vargas Foundation or other general price index acceptable to the Bank.

(b) For the purposes of this Section:

- (i) The annual return referred to in paragraph (a) above shall be calculated by relating the net income of the Borrower for the year under examination to the equity capital of the Borrower at the beginning of such year. If the equity capital of the Borrower is increased during such year other than by retention of earnings or revaluation of or monetary correction on assets, such increase shall be added to the equity capital at the beginning of the year on a *pro rata* basis (based on the portion of the year such increase is included in the accounts of the Borrower).
- (ii) "Net income" means the gross revenues of the Borrower, augmented by any amounts credited directly to the Borrower's equity capital on account of revaluation of and/or monetary correction on any of its assets during the respective year, less all administrative and operating expenses, including interest and other charges on debt of the Borrower, taxes and appropriate provisions for losses on loans.
- (iii) "Equity capital of the Borrower" means the unimpaired capital, surplus and reserves of the Borrower as shown in the financial statements of the Borrower audited in accordance with Section 5.02 (c) of this Agreement.

Section 5.08. The Borrower shall at all times apply to its operations a formula satisfactory to the Bank for determining the minimum liquidity requirements of the Borrower.

Section 5.09. Except as the Bank shall otherwise agree, the Borrower shall not make any prepayment in advance of maturity in respect of any borrowing by the Borrower having an original term exceeding one year.

Section 5.10. Except as the Bank shall otherwise agree, the Borrower:

- (i) shall not amend its Statement of Policies on Industrial Lending;
- (ii) shall not have or acquire any subsidiaries;

- (iii) shall not sell, lease, transfer or otherwise dispose of its property and assets, except in the ordinary course of business; and
- (iv) shall take all action necessary to maintain its corporate existence and right to carry on operations and to acquire, maintain and renew all rights, powers, privileges and franchises necessary or useful in the conduct of its business.

Section 5.11. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the Guarantor or laws in effect in its territories on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement or the Bonds, or the payment of principal, interest or other charges thereunder; provided, however, that the provisions of this Section shall not apply to taxes upon payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Guarantor.

Section 5.12. The Borrower shall pay or cause to be paid all taxes, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries on or in connection with the execution, issue, delivery or registration of the Loan Agreement, the Guarantee Agreement or the Bonds.

Article VI

REMEDIES OF THE BANK

Section 6.01. If any event specified in Section 7.01 of the General Conditions or in Section 6.02 of this Agreement shall occur and shall continue for the period, if any, therein set forth, then at any subsequent time during the continuance thereof, the Bank, at its option, may by notice to the Borrower and the Guarantor declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately together with the interest and other charges thereon and upon any such declaration such principal, interest and charges shall become due and payable immediately, anything to the contrary in this Loan Agreement or in the Bonds notwithstanding.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified :

- (a) any part of the principal amount of any loan to the Borrower having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity by reason of any default on the part of the Borrower or otherwise as provided in the relative contractual instruments, or any security constituted under any such loan to the Borrower shall have become enforceable;
- (b) an order is made or a resolution passed for the dissolution or liquidation of the Borrower; and
- (c) Law No. 1649 of July 19, 1952 of the Guarantor, Presidential Decree No. 33,643 of August 24, 1953 of the Guarantor or the *Estatutos* of the Borrower shall have been amended or repealed so as to affect, in the judgment of the Bank, materially and adversely the operations or financial condition of the Borrower, and such event shall

continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor.

Section 6.03. For the purposes of Section 6.02 of the General Conditions, the following additional event is specified :

The Borrower shall be unable, for whatever reason, to obtain pursuant to the arrangements referred to in Section 7.01 (b) of this Agreement the New Cruzeiro funds referred to in such Section 7.01 (b).

Article VII

EFFECTIVE DATE; TERMINATION

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Loan Agreement within the meaning of Section 11.01 (c) of the General Conditions :

- (a) The Decision of the National Monetary Council of the Guarantor dated September 16, 1969 concerning permissible charges for industrial financing operations shall have come into effect.
- (b) The Borrower shall have made arrangements satisfactory to the Bank assuring the provision to the Borrower of New Cruzeiro funds in such amounts and on such terms as may be necessary to supplement the Borrower's resources so as to enable the Borrower both to carry out a program of long-term industrial lending involving not less than NCrs 100 million annually in 1970 and 1971 and to comply with the minimum liquidity formula referred to in Section 5.08 of this Agreement.
- (c) (i) The financial statements of the Borrower for the year ending December 31, 1969 shall have been audited in accordance with Section 5.02 (c) of this Agreement; (ii) the Bank shall have received certified copies of such financial statements and a signed copy of the accountant's or accounting firm's report relating to such financial statements; and (iii) the financial condition of the Borrower as disclosed by such financial statements and report shall have been found satisfactory by the Bank.

Section 7.02. The date of May 1, 1970 is hereby specified for the purposes of Section 11.04 of the General Conditions.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1974 or such other date as shall be agreed between the Bank and the Borrower.

Section 8.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions :

For the Bank :

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

Alternative address for cables :

Intbafrad
Washington, D.C.

For the Borrower :

Banco do Nordeste do Brasil, S.A.
Rua Major Facundo 500
Fortaleza Ceara, Brazil

Alternative address for cables :

Poligeral
Fortaleza

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 in the District of Columbia, United States of America, as of the day and year first above written.

International Bank for Reconstruction and Development :

By ROBERT S. MCNAMARA
President

Banco do Nordeste do Brasil, S.A. :

By R. COSTA
Authorized Representative

SCHEDULE I

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
February 15, 1973	215,000	August 15, 1980	842,000
August 15, 1973	430,000	February 15, 1981	666,000
February 15, 1974	904,000	August 15, 1981	491,000
August 15, 1974	1,379,000	February 15, 1982	370,000
February 15, 1975	1,386,000	August 15, 1982	249,000
August 15, 1975	1,709,000	February 15, 1983	249,000
February 15, 1976	2,027,000	August 15, 1983	223,000
August 15, 1976	2,027,000	February 15, 1984	220,000
February 15, 1977	2,027,000	August 15, 1984	210,000
August 15, 1977	1,919,000	February 15, 1985	205,000
February 15, 1978	1,811,000	August 15, 1985	198,000
August 15, 1978	1,570,000	February 15, 1986	139,000
February 15, 1979	1,329,000	August 15, 1986	80,000
August 15, 1979	1,164,000	February 15, 1987	40,000
February 15, 1980	921,000		

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions or on the redemption of any Bond prior to its maturity pursuant to Section 8.15 of the General Conditions :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than three years before maturity	1 ¹ / ₄ %
More than three years but not more than six years before maturity	2 ¹ / ₂ %
More than six years but not more than eleven years before maturity	4 %
More than eleven years but not more than fifteen years before maturity	5 ³ / ₄ %
More than fifteen years before maturity	7 %

SCHEDULE 2

MODIFICATIONS OF THE GENERAL CONDITIONS

For the purposes of the Loan Agreement, the provisions of the General Conditions are modified as follow :

(1) The following subparagraph (d) is added to Section 3.05 :

“(d) The Bank and the Borrower may from time to time agree upon arrangements for prepayment and the application thereof in addition to, or in substitution for, those set forth in paragraph (b) of Section 3.05 and in Section 8.15.”

(2) The words "Investment Projects" are substituted for the words "the Project" at the end of Section 5.03.

(3) Section 6.03 is deleted and replaced by the following new Section :

"SECTION 6.03. *Cancellation by the Bank.* If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days or (b) by the date specified in Section 3.02 (c) of the Loan Agreement no applications for approval or requests for authorization to withdraw from the Loan Account in respect of any portion of the Loan shall have been received by the Bank, or, having been so received, shall have been denied, or (c) after the Closing Date an amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may, by notice to the Borrower, terminate the right of the Borrower to request such approvals and authorizations or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice such amount or portion of the Loan shall be cancelled."

(4) Paragraph (d) of Section 7.01 is amended to read as follows :

"(d) A default shall occur in the performance of any other obligation on the part of the Borrower or the Guarantor under the Loan Agreement, the Guarantee Agreement or the Bonds, or under any other loan agreement between the Borrower and the Bank or any guarantee agreement between the Guarantor and the Bank guaranteeing a loan to the Borrower, or under any bond issued pursuant to any such agreement, and such default shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower and the Guarantor".
