

CONFORMED COPY

LOAN NUMBER 3191 HU

Guarantee Agreement

(Financial System Modernization Project)

between

REPUBLIC OF HUNGARY

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 1, 1990

LOAN NUMBER 3191 HU

GUARANTEE AGREEMENT

AGREEMENT, dated June 1, 1990, between REPUBLIC OF HUNGARY (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor and the National Bank of Hungary (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to sixty-six million dollars (\$66,000,000), 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 and to undertake such other

obligations as provided in this Agreement; 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

##### General Conditions; Definitions

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in Section 1.02 of the Loan Agreement have the respective Meanings therein set forth.

#### ARTICLE II

##### Guarantee; Provision of Funds

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, 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 premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

Section 2.02. Without limitation or restriction upon the provisions of Section 2.01 of this Agreement, the Guarantor specifically undertakes, whenever there is reasonable cause to believe that the funds available to the Borrower will be inadequate to meet the estimated expenditures required for the carrying out of the Project, to make arrangements, satisfactory to the Bank, promptly to provide the Borrower or cause the Borrower to be provided with such funds as are needed to meet such expenditures.

#### ARTICLE III

##### Execution of Part A of the Project

Section 3.01. (a) The Guarantor shall carry out or cause to be carried out Part A of the Project with due diligence and efficiency and in conformity with appropriate practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Guarantor and the Bank shall otherwise agree, the Guarantor shall carry out Part A of the Project in

accordance with an implementation program set forth in the Schedule to this Agreement.

Section 3.02. In order to assist the Guarantor in carrying out Part A of the Project, the Guarantor shall employ consultants whose qualifications, experience and terms of reference shall be satisfactory to the Bank.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Section II of Schedule 4 to the Loan Agreement.

Section 3.04. The Guarantor shall carry out the obligations set forth in Sections 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to use of goods and services, plans and schedules, records and reports, and maintenance, respectively) in respect of Part A of the Project.

#### ARTICLE IV

##### Other Covenants

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

(b) The Guarantor shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five months after the end of each such year: (A) certified copies of said accounts for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested.

Section 4.02. The Guarantor shall take all action required on its part to: (i) establish rates for housing bonds, and authorize NSB promptly as required to charge interest on housing loans at rates, both adequate to enable NSB to comply with its obligations set forth in Section 3.02 of the NSB Project Agreement; and (ii) enable NSB to reconstitute itself as a joint stock company in accordance with the provisions of Section 3.03 of the NSB Project Agreement.

#### ARTICLE V

##### Representatives of the Guarantor; Addresses

Section 5.01. The First Deputy President or the General Manager of the Borrower is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

National Bank of Hungary  
Department for International  
Development Institutions  
H-1850 Budapest  
Szabadsag ter 8-9  
Republic of Hungary

Cable address:	Telex:
BANKO Budapest	227267 SMAFU-H, 225755 BANKO-H or 227029 BANKO-H

For the Bank:

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

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

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

REPUBLIC OF HUNGARY

By /s/ Gyorgy Naszvadi  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Eugenio F. Lari  
Acting Regional Vice President  
Europe, Middle East and North Africa

SCHEDULE

Implementation Program for  
Part A of the Project

In carrying out Part A of the Project, the Guarantor shall:

1. prepare, on the basis of guidelines agreed between the Guarantor and the Bank a proposed regulatory framework for banking operations and submit said

framework, not later than December 31, 1990, to its legislative assembly for adoption;

2. (a) carry out, through its State Bank Supervisory Agency, a detailed portfolio audit of each of BB, CCB and HCB, in accordance with appropriate auditing principles, consistently applied and furnish to the Bank upon their completion the results and recommendations of said audits; (b) develop, on the basis of said results and recommendations and guidelines agreed between the Guarantor and the Bank, and furnish to the Bank a proposed action program, including implementation schedule, designed to enable each of BB, CCB and HCB to achieve an adequate capital structure consistent with the regulatory framework prepared in accordance with the provisions of paragraph 1 of this Schedule; and (c) taking into account the Bank's comments on said action program, adopt, not later than December 31, 1990, and thereafter take all action required on its part to implement, said action program in accordance with said implementation schedule; and

3. prepare, on the basis of guidelines satisfactory to the Bank, proposed accounting and auditing standards and a regulatory framework for the application of said standards, and submit said standards and framework not later than September 30, 1990, to its legislative assembly for adoption.

