

CONFORMED COPY

LOAN NUMBER 4588 TU

Loan Agreement

(Financial Sector Adjustment Loan)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 21, 2000

LOAN NUMBER 4588 TU

LOAN AGREEMENT

AGREEMENT, dated December 21, 2000, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower a letter, dated November 23, 2000, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial sector (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support 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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, 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 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.";

(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) shall be 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) "Banking Law" means Banking Law of the Borrower No. 4389, dated June 18, 1999, as amended by Law No. 4491 which was published in the Official Gazette on December 19, 1999;

(b) "BRSA" means the Bank Regulatory and Supervisory Agency of the Borrower, or any successor thereto acceptable to the Bank;

(c) "Central Bank" means the Central Bank of the Borrower;

(d) "Decree No. 99/13761" means the Decree of the Council of Ministers of the Borrower on the loan classification and provisioning rule dated December 20, 1999, which was published in the Official Gazette on December 21, 1999;

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

(f) "International Accounting Standards" or "IAS" mean the accounting standards issued or endorsed by the International Accounting Standards Committee;

(g) "SDIF" means the Savings and Deposit Insurance Fund of the Borrower, or any successor thereto acceptable to the Bank; and

(h) "Treasury" means the Undersecretariat of Treasury of the Borrower.

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 the Loan Agreement, an amount equal to seven hundred seventy seven million seven hundred eighty thousand Dollars (\$777,780,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support 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 its central bank, 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.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$392,778,900 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Bank; and (C) that the actions described in Schedule 3 to this Agreement have been taken.

If, after said exchange of views, the progress achieved by the Borrower in respect of sub-paragraphs (A), (B) and (C) above is not acceptable to the Bank, the Bank may give notice to the Borrower to that effect and, if within 90 days after such notice, the Borrower shall not have taken steps acceptable to the Bank, in respect of said sub-paragraphs (A), (B), and (C) above, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be March 31, 2002, 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. 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 at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, thereafter, and excluding Date. the first Interest Payment Date occurring and after the initial period, each period from including an Interest Payment Date to, but the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period, for (or, in the case of the initial Interest Period, for the value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) three-fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such interbank Interest Period, below (or above) the London offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other 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 amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall 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 Event 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 Banking Law has been amended, suspended, abrogated, repealed, waived or failed to be enforced so as to affect, in the opinion of the Bank, the ability of the Borrower to achieve the objectives of the Program.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement 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 Undersecretary of Treasury of the Borrower 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:

Basbakanlik
Hazine Mustesarligi
Inonu Bulvari
Emek - Ankara
Republic of Turkey
06510

	Cable address:	Telex:	Facsimile:
212-8550	MALIYE Hazine, Ankara	821-42285 (MLYE-TR)	(312)

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

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 TURKEY

By /s/ A. Umit Gonulal

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ajay Chhibber

Acting Regional Vice President
Europe and Central Asia

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:

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), 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 (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) 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

Date Payment Due	Payment of Principal (Expressed in Dollars)*
On each April 15 and October 15	
beginning April 15, 2006	32,410,000
through April 15, 2017	32,410,000
on October 15, 2017	32,350,000

SCHEDULE 3

Actions Referred to in Section 2.02 (d)(C) of this Agreement

A. Institutional Framework

1. Satisfactory measures have been taken to fully operationalize BRSA with adequate organizational structure, budget, staffing and salaries, including the issuance of BRSA's operational policies and procedures satisfactory to the Bank.

2. Execution of a memorandum of understanding, satisfactory to the Bank, between BRSA, the Central Bank and other relevant agencies, as necessary, to ensure adequate information exchange and policy coordination in the financial sector.

B. Prudential and Accounting/Disclosure Rules

3. Satisfactory measures have been taken to:

(a) allow full tax deductibility of specific loan loss provisions for commercial banks with a phase-in period starting from January 1, 2001;

(b) further revise Decree No. 99/13761 on the loan loss provisioning rule, with a phase-in period not extending beyond December 31, 2002, to: (i) introduce a satisfactory specific provisioning requirement for watch loans, taking into account an assessment by BRSA of the credit risks associated with such loans; (ii) lift the exemption from specific provisioning requirements for all agricultural support loans except for which the Borrower has explicitly guaranteed the loans and assumed the credit risk; (iii) include a specific provisioning requirement for equity exposures; and (iv) introduce more prudent collateral classification; and

(c) ensure the satisfactory compliance of commercial banks with the requirement to build up provisioning balances in line with the timetable specified in Decree No. 99/13761 on the loan loss provisioning rule.

4. Satisfactory implementation of exposure limits in the Banking Law including:

(a) issuance of regulations by BRSA or Treasury, satisfactory to the Bank, to clarify the exposure limits and define relevant terms; and

(b) the monitoring of the commercial banks compliance with the seventy-five percent (75%) maximum exposure limit, applicable as of January 1, 2001, as set forth in the Banking Law, and initiation of corrective actions in case of non-compliance.

5. Announcement by BRSA of its intention to undertake unscheduled on-site examinations, in coordination with foreign supervisors where necessary, such as for foreign branches or subsidiaries, to verify compliance with consolidated foreign exchange open position limits between reporting dates.

6. Revision by BRSA or Treasury of the related consolidated financial reporting requirement to: (a) allow quarterly verification of compliance by commercial banks with the consolidated capital adequacy requirement; and (b) extend coverage of consolidated reporting requirement to horizontal conglomerates.

7. Issuance of a regulation by BRSA or Treasury, satisfactory to the Bank, to amend the existing solo capital adequacy rule to introduce market risk charges, including for securities price fluctuations, and foreign exchange and interest rate risk.

8. Issuance of a risk management regulation by BRSA, satisfactory to the Bank, to require commercial banks to build comprehensive risk management systems for the management of liquidity, credit, market, legal and operational risks.

9. Issuance of regulations by BRSA or Treasury, satisfactory to the Bank, to introduce revised securities valuation rules, pension accounting rules and disclosure standards for commercial banks in accordance with applicable IAS.

C. Problem Bank/Bank Failure Resolution

10. Satisfactory measures have been taken to resolve the status of problem and failed commercial banks including:

(a) establishment of a special unit to deal with problem banks, with adequate resources and staff and under terms of reference, satisfactory to the Bank, within BRSA;

(b) adoption by BRSA of a pre-failure prompt corrective action manual to define mandatory pre-failure intervention triggers; and

(c) resolution by Treasury, BRSA and SDIF, of all problem banks in a manner satisfactory to the Bank.

D. State Bank Commercialization and Privatization

11. Progress satisfactory to the Bank has been made for the commercialization and privatization of state banks encompassing:

(a) privatization of Vakif Bank. For the purposes of this paragraph "privatization" means that a contract for the sale of the bank has been entered into with private owners and all of the shares have been irrevocably transferred to the private owners;

(b) development of a time bound action plan, to resolve the stock of duty losses on the books of Emlak Bank and Halk Bank and issuance of government bonds and provision of interest payments in cash on such bonds in accordance with the said action plan;

(c) development of a comprehensive strategic plan and detailed corporate action plans for the commercialization and restructuring of the operations of Halk Bank;

(d) appointment of an investment bank or an equivalent professional entity, satisfactory to the Bank, with a mandate to privatize Emlak Bank and Halk Bank;

(e) development of a time bound action plan, to resolve the

stock of duty losses on the books of Ziraat Bank, and issuance of government bonds and provision of interest payments in cash on such bonds in accordance with the said action plan; and

(f) development of a comprehensive strategic plan and detailed corporate action plans for the commercialization, operational restructuring and financial restructuring of the operations of Ziraat Bank.

