

CONFORMED COPY

LOAN NUMBER 3499 POL

Loan Agreement

(Housing Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 21, 1992

LOAN NUMBER 3499 POL

LOAN AGREEMENT

AGREEMENT, dated December 21, 1992, between REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter, dated March 2, 1992, from the Borrower transmitting the "Housing Finance Policy", describing the objectives, policies and actions designed to achieve the restructuring of its housing finance system;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(C) the Borrower has contracted from other sources of finance grants to assist in financing Part B of the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and such other sources and is in the process of arranging for further financing; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and

conditions set forth in this Agreement;

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 modifications set forth in Schedule 4 to this Agreement (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 the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MOSEC" means the Borrower's Ministry of Spatial Economy and Construction, or any successor thereof;

(b) "HFPO" means the Housing Finance Project Office under the authority of MOSEC, or any successor thereof;

(c) "Bud Bank S.A." means the Bank for Housing Construction Development, a joint stock company, established pursuant to decision No. 26 of the National Bank of Poland of June 18, 1990 and the shareholders resolution on August 6, 1990;

(d) "Mortgage Fund" means the fund, to be established within Bud Bank S.A. pursuant to Section 6.01 (a) of this Agreement for the purpose of providing a stable source of long-term funds for housing investments;

(e) "Shareholders' Resolution" means the resolution taken by the shareholders of Bud Bank S.A. in accordance with the provisions of Section 6.01 (a) of this Agreement;

(f) "Operations Manual" means the operational manual to be adopted by Bud Bank S.A. pursuant to Section 6.01 (a) of this Agreement, specifying the procedures to be followed and the eligibility criteria to be applied for Sub-loans under Part A of the Project, as the same may be amended from time to time with the agreement of the Bank in accordance with paragraph B (c) of Schedule 6 to this Agreement;

(g) "Subsidiary Agreement" means the agreement referred to in Sections 3.01 (b) and 6.01 (b) to be entered into by the Borrower and Bud Bank S.A.;

(h) "Construction Financing Agreement" means any agreement entered into by Bud Bank S.A. and a Participating Bank in accordance with the provisions of paragraph B (d) of Schedule 6 to this Agreement for the purpose of financing construction Sub-loans under Part A.1 of the Project;

(i) "Mortgage Financing Agreement" means any agreement entered into between Bud Bank S.A. and a Participating Bank in accordance with the provisions of paragraph B (d) of Schedule 6 to this Agreement for the purpose of financing Mortgage Sub-loans under Part A.2 of the project;

(j) "Financing Agreement" means, collectively, Construction Financing Agreements and Mortgage Financing Agreements;

(k) "Construction Sub-loan" means a loan made or proposed to be made in part out of the proceeds of the Loan by a Participating Bank to a developer and/or a household for a Construction Sub-project under Part A.1 of the Project;

(l) "Mortgage Sub-loan" means a loan made or proposed to be made in part out of the proceeds of the Loan by a Participating Bank

to a household for a Mortgage Sub-project under Part A.2 of the Project;

(m) "Sub-loan" means, collectively, Construction Sub-loans and Mortgage Sub-loans;

(n) "Construction Sub-project" means a specific project to be carried out by a developer or a household under Part A.1 of the Project utilizing the proceeds of a Construction Sub-loan;

(o) "Mortgage Sub-project" means a specific construction and/or purchase by an individual household under Part A.2 of the Project utilizing the proceeds of a Mortgage Sub-loan;

(p) "Sub-project" means, collectively, Construction Sub-projects and Mortgage Sub-projects;

(q) "Beneficiary" means: (i) a developer and/or a household to whom a Participating Bank proposes to make or has made a Construction Sub-loan under Part A.1 of the Project; or (ii) an individual household to which a Participating Bank proposes to make or has made a Mortgage Sub-loan under Part A.2 of the Project;

(r) "Participating Bank" means any banking institution with which the Mortgage Fund has entered into a Construction Financing Agreement and/or a Mortgage Financing Agreement;

(s) "Zlotys" means Zlotys in the currency of the Borrower; and

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

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, various currencies that shall have an aggregate value equivalent to the amount of two hundred million dollars (\$200,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Mortgage Fund on account of withdrawals made by Beneficiaries under Sub-loans for Sub-projects to meet the reasonable cost of goods and services or of dwellings provided under such Sub-projects and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of Part A of the Project, open and maintain in dollars a special deposit account in the National Bank of Poland on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1998 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 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 2.05. (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 the Cost of

Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

- (i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall (i) carry out Part B of the Project with due diligence and efficiency and in conformity with

appropriate practices; (ii) cause the Mortgage Fund to carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices; and (iii) provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of sub-paragraph (a) (iii) of this Section, the Borrower shall make available to Bud Bank S.A. the proceeds of the Loan under a Subsidiary Agreement to be entered by the Borrower and Bud Bank S.A., whose terms and conditions shall be satisfactory to the Bank.

(c) The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out or cause to be carried out the Project in accordance with the Implementation Program set forth in Schedule 6 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall cause Bud Bank S.A. to maintain procedures and records adequate to monitor and record the progress of Part A of the Project and of each Sub-project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of Bud Bank S.A.

Section 4.02. (a) The Borrower shall cause Bud Bank S.A.:

- (i) to have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts for the Special Account for each fiscal year audited in accordance with sound auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) to furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of said financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail, including a statement on the compliance of Bud Bank S.A. with the provisions of the Shareholders' Resolution, as the Bank shall have reasonably requested; and
- (iii) to furnish to the Bank such other information concerning the said records, accounts and financial statements and the audit thereof as the Bank shall from time to time reasonably request.

(b) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall cause Bud Bank S.A.:

- (i) to maintain, in accordance with Section 4.01 of this Agreement, records and accounts reflecting such expenditures;
- (ii) to retain, until at least one year after the

Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) to enable the Bank's representatives to examine such records; and
- (iv) to ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.03. The Borrower shall take all necessary action to ensure that:

(a) public resources made available to banks to finance new housing starts in Poland would be made available on terms and conditions compatible with the terms set forth in Section I of the Annex to Schedule 6 to this Agreement; and

(b) Bud Bank S.A. shall retain the net operating profit generated through the operation of the Mortgage Fund for the benefit of the Mortgage Fund after servicing and repaying of Bud Bank S.A.'s debt to the Borrower relating to the activities of the Mortgage Fund.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) (i) Subject to subparagraph (ii) of this paragraph:
 - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Bud Bank S.A. or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events specified in paragraph (b) or (a) (i) (B) of Section 5.01 of this Agreement shall

occur, subject to the proviso of paragraph (a) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the shareholders of Bud Bank S.A. have taken a shareholders' resolution (the Shareholders' Resolution) restricting its scope of business to the financing of construction and mortgage loans in accordance with the Operational Manual under terms and conditions acceptable to the Bank, and the Borrower has made an equity contribution equal to the equivalent of \$11 million for the purposes of the Mortgage Fund;

(b) the Subsidiary Agreement has been signed on behalf of the Borrower and Bud Bank S.A. in conformity with the provisions of Section 3.01 (b) of this Agreement; and

(c) at least one Construction Financing Agreement and one Mortgage Financing Agreement has been entered into on behalf of Bud Bank S.A. and a Participating Bank acceptable to the Bank.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Subsidiary Agreement has been duly signed, authorized or ratified by the Borrower and Bud Bank S.A. and is legally binding upon the Borrower and Bud Bank S.A. in accordance with its terms; and

(b) that the Construction Financing Agreement and the Mortgage Financing Agreement referred to in Section 6.01 (c) have been duly signed, authorized or ratified by Bud Bank S.A. and the Participating Bank, and are legally binding upon Bud Bank S.A. and the Participating Bank in accordance with their terms.

Section 6.03. 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 VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Spatial Economy and Construction of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Spatial
Economy and Construction
ulica Wspolna 2
00-926 Warsaw

Telex:

3912 0948

For the Bank:

International Bank for
Reconstruction and Development

1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (RCA),
82987 (FTCC),
64145 (WUI) or
197688 (TRT)

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 POLAND

By /s/ Kazimierz Dziewanowski
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz
Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Construction Sub-loans under Part A(1) of the Project	100,000,000	40% of amounts paid by the Participating Bank
(2) Mortgage Sub-loans under Part A(2) of the Project	100,000,000	40% of amounts paid by the Participating Bank
TOTAL	200,000,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, no

withdrawals shall be made in respect of Sub-loans unless any such Sub-loan has been made in accordance with the criteria of procedures and terms and conditions set forth in Section II of the Annex to Schedule 6 to this Agreement.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the development of an efficient, market-based housing finance system in accordance with the Housing Finance Policy.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objective:

Part A:

Provision of Sub-loans by Participating Banks which satisfy the requirements of Section II.A of the Annex to Schedule 6 to this Agreement for:

(1) Construction Sub-projects consisting of the preparation of construction sites, the construction of single and multi-family dwellings and the upgrading of residential dwellings by developers and the construction of single family dwellings by individual households; and

(2) Mortgage Sub-projects consisting of the construction and/or purchase of dwellings by individual households.

Part B:

Carrying out of a program to upgrade institutional capabilities in order to facilitate the efficient development, financing and management of the housing sector, including the provision of technical assistance, staff training and office equipment to assist, inter alia:

(1) HFPO in the reform of housing finance, the review and design of legal and regulatory instruments to be prepared for Part A of the Project, the monitoring of recent initiatives in the housing sector, and the mobilization of private resources for housing;

(2) MOSEC in the development of the regulatory framework applicable to land and housing development, provision of assistance to local authorities in the formulation and implementation of land use and municipal regulations for housing development;

(3) the Mortgage Fund in: (a) credit control, including loan administration, accounting and reporting; (b) credit appraisal and risk management; (c) design and management of information systems; (d) training of employees of Participating Banks in the matters referred to under (a) through (c) of this sub-component; and

(4) local authorities in the management of public housing stock and urban services, the revision of municipal regulations relating to town planning, land development and construction permits and the preparation of housing projects and credit applications.

* * *

The Project is expected to be completed by June 30, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
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December 15, 1996	4,600,000
June 15, 1997	4,780,000
December 15, 1997	4,965,000
June 15, 1998	5,155,000
December 15, 1998	5,355,000
June 15, 1999	5,560,000
December 15, 1999	5,775,000
June 15, 2000	6,000,000
December 15, 2000	6,230,000
June 15, 2001	6,470,000
December 15, 2001	6,720,000
June 15, 2002	6,980,000
December 15, 2002	7,250,000
June 15, 2003	7,530,000
December 15, 2003	7,820,000
June 15, 2004	8,125,000
December 15, 2004	8,440,000
June 15, 2005	8,765,000
December 15, 2005	9,105,000
June 15, 2006	9,455,000
December 15, 2006	9,820,000
June 15, 2007	10,200,000
December 15, 2007	10,595,000
June 15, 2008	11,005,000
December 15, 2008	11,430,000
June 15, 2009	11,870,000

* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

SCHEDULE 4

Modifications of the General Conditions

For the purposes of this Agreement, the provisions of the General Conditions are modified as follows:

(1) The last sentence of Section 3.02 is deleted.

(2) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

(3) The words "the Bank may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

"or (f) by the date specified in sub-paragraph A.3 of Section II of the Annex to Schedule 6 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under subparagraphs (a) or (b) of said paragraph; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower, terminate the right of the Borrower to submit such applications or requests 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."

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services provided under the Sub-projects and to be financed by Sub-loans out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount of \$11 million to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special

Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 (c) of this Agreement.

A. Overall Project Implementation

Overall responsibility for the coordination and supervision of the carrying out of the Project shall be assigned by the Borrower to HFPO, and for this purpose, the Borrower shall ensure that:

(a) HFPO will be maintained with such staff, functions and responsibilities as is acceptable to the Bank; and

(b) HFPO will carry out its responsibility under the Project in accordance with the requirements and other details set forth in the Operations Manual and will evaluate the impact of the Project in accordance with a program satisfactory to the Bank.

B. Part A of the Project

The Borrower shall take all necessary measures to:

(a) cause Bud Bank S.A. to prepare and submit to the Bank a report setting forth the financial projections for Mortgage Sub-loans and Construction Sub-loans to be supported by the Mortgage Fund during the following year, an estimate of the applicable unit costs and the equity contribution needed from the Borrower by Bud Bank S.A. to support the activities of the Mortgage Fund during the following year by November 30 of each year and, thereafter, review such items with the Bank and Bud Bank S.A.; with respect to the equity contributions, the Borrower shall ensure that, on an annual basis, such contributions match the disbursements of the Bank, unless otherwise agreed between the Borrower and the Bank;

(b) maintain Bud Bank S.A. with such staff, functions and authorities as is acceptable to the Bank, and cause Bud Bank S.A. to implement the Shareholders' Resolution and to carry out its responsibilities regarding the execution of Part A of the Project in accordance with the Operations Manual;

(c) not amend the statutes of Bud Bank S.A., the Operations Manual or the Shareholders' Resolution without the prior approval by the Bank;

(d) cause Bud Bank S.A. to enter into Financing Agreements with Participating Banks, acceptable to the Bank, in accordance with the provisions of Section I of the Annex to this Schedule;

(e) cause Bud Bank S.A. to undertake that, unless the Bank shall otherwise agree, Sub-loans will be made for Sub-projects in accordance with criteria, procedures and terms and conditions set forth in Section II of the Annex to this Schedule; and

(f) cause Bud Bank S.A. to carry on its operations and conduct its affairs in accordance with sound administrative, financial and banking practices.

ANNEX

Section I. Terms and Conditions of Financing Agreements:

A. Construction Financing Agreements:

Currency: Zloty.

Interest rate: Variable, set at the current Basic Interest Rate of the National Bank of Poland plus at least 300 basis points, or such other rate as the Borrower and the Bank shall agree.

Final Maturity: no more than three years.

Repayment terms: At maturity in a single payment, including principal and interest.

Accounts: The Participating Bank to keep separate accounts in respect of the activities to be financed under the Construction Financing Agreement.

Audit: The accounts referred to above to be audited by independent auditors within 6 months after the end of the fiscal year of the Participating Bank and to be furnished to the Mortgage Fund.

Onlending restrictions: Funds made available under Construction Financing Agreements shall finance no more than 80% of Construction Sub-loans.

Procurement Review: The first three awards of contracts following local competitive bidding procedures, referred to in Section II.D.1 (b) are subject to prior review by Bud Bank S.A. and the Bank.

Final Maturity: no more than three years.

B. Mortgage Financing Agreements:

Currency: Zloty.

Interest rates: Variable, set at the current Basic Interest Rate of the National Bank of Poland plus at least 300 basis points, or such other rate as the Borrower and the Bank shall agree.

Repayment terms: To be repaid according to a schedule tied to payments received from the Beneficiary reflecting the cashflow of the underlying indexed mortgage.

Accounts: The Participating Bank to keep separate accounts in respect of the activities to be financed under the Mortgage Financing Agreement.

Audit: The accounts referred to above to be audited by independent auditors within 6 months after the end of the fiscal year of the Participating Bank and to be furnished to Bud Bank S.A..

Collateral: Bud Bank S.A. to have a first lien on the mortgage for its share of the financing.

Onlending Restrictions: Funds made available under Mortgage Financing Agreements shall finance no more than 80% of Mortgage Sub-loans.

Section II. Procedures, Criteria and Principal Terms of Sub-loans

A. Procedures:

1. Each Sub-loan for a Sub-project whose cost is estimated to exceed the equivalent of \$1 million shall be made only after and to the extent the Sub-project shall have been approved by the Bank.

2. Sub-loans other than those referred to in paragraph A.1 above

shall be approved by Bud Bank S.A. on the basis of a summary description of the Beneficiary and the Sub-project, including the amortization schedule therefor.

3. Applications pursuant to the provisions of paragraph A.1 of this Section shall be presented to the Bank and approvals pursuant to paragraph A.2 of this Section shall be given on or before December 31, 1996.

B. Eligibility Criteria for Construction Sub-loans:

1. Construction Sub-loans will be made for Construction Sub-projects:

(a) which are conducive to individual mortgages being issued to households; (b) only if at least sixty percent of the units in each Construction Sub-project are presold to identified, eligible buyers; (c) whose size should not exceed 100 dwelling units; (d) whose construction started not before January 1, 1992 and is expected to be completed within 24 months; (e) whose units shall be built with valid building permits, comply with the building requirements of the local authority, adequate environmental sanitation, water supply and energy conservation standards and provide access to public services and community facilities.

2. Construction Sub-loans shall not exceed 75% of the estimated total investment cost.

3. Beneficiaries of Construction Sub-loans shall not include large publicly owned enterprises whose main activities do not consist in housing construction.

C. Eligibility Criteria for Mortgage Sub-projects.

1. Mortgage Sub-loans shall be made only: (a) if the size of the Mortgage Sub-loans does not exceed 36 times the monthly household income, the monthly payment is not lower than 25 percent of the Beneficiary's household income and it is established that the household can afford such monthly payment; (b) for dwellings whose usable area does not exceed 100 m² in multi story buildings and 150 m² in single family dwellings; and (c) for the dwellings meeting the criteria referred to under B.1 (e) above.

2. Mortgage Sub-loans shall not refinance Construction Sub-loans and their principal amount shall not exceed 75% of the sale price of the dwelling.

3. Mortgage Sub-loans shall not finance Mortgage Sub-projects whose construction started before January 1, 1991.

4. Sub-loans would be secured by mortgages providing for double indexing: (a) annuity payments to be periodically adjusted to reflect changes in the National Wage Index as published by the Borrower's Main Office of Statistics; and (b) the interest rate to be variable, to be set and adjusted to provide a positive spread over the respective rate applicable in accordance with the provisions of Section I of this Annex.

D. Principal Terms of Sub-loans:

1. Each Participating Bank shall obtain, by written contract with the Beneficiary rights adequate to protect the interests of the Bank and the Borrower, including, where applicable: (i) that each Beneficiary shall undertake to: (a) carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial, architectural, engineering, environmental and urban planning standards, to provide promptly, as needed, the funds, facilities and other resources required for the purpose, and to maintain adequate records; (b) contract goods and works on the basis of comparison of price quotations, provided, however, that contracts estimated to cost the equivalent of \$1 million or more shall be procured on the basis of local competitive bidding

procedures acceptable to the Bank; (c) use such goods exclusively in the carrying out of the Sub-project; (d) enable the Bank and the Borrower to inspect the sites, works, and construction included in the Sub-project, the operation thereof, and any relevant records and documents; (e) take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (f) prepare and promptly furnish to the Participating Bank for forwarding to the Bank if so requested by the Bank, 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 Beneficiary and to the benefits to be derived from the Sub-project; and (ii) provisions to ensure the right of the Participating Bank to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower providing for the Sub-loan.

2. Further to the foregoing: (i) Mortgage Sub-loans would be secured by mortgages providing for double indexing: (a) annuity payments to be periodically adjusted to reflect changes in the National Wage Index as published by the Borrower's Main Office of Statistics; and (b) the interest rate to be variable, to be set and adjusted to provide for a positive spread over the respective rate applicable in accordance with the provisions of Section I of this Annex; and (ii) each Mortgage Sub-loan for a Mortgage Sub-project shall be made on additional terms whereby the Participating Bank shall obtain, by written contract with the beneficiary, undertakings that the Beneficiary shall utilize the dwelling to be constructed or purchased under the Mortgage Sub-project as its principal residence.

