

CONFORMED COPY

LOAN NUMBER 3346 TU

(Private Investment Credit Project)

between

REPUBLIC OF TURKEY

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 28, 1991

LOAN NUMBER 3346 TU

LOAN AGREEMENT

AGREEMENT, dated June 28, 1991, between REPUBLIC OF TURKEY (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) Part A of the Project will be carried out by the Participating Commercial Banks (PCBs, as hereinafter defined), Turkiye Sinai Kalkinma Bankasi (TSKB) and Sinai Yatirim Ve Kredi Bankasi (SYKB) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to PCBs, TSKB and SYKB the proceeds of the Loan as provided in this Agreement; and

(C) Part B of the Project will be carried out by PCBs, TSKB and SYKB with their own resources; 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 and in the Project Agreement of even date herewith among the Bank and TSKB and SYKB;

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 7 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) "PFIs" mean collectively the Participating Financial Institutions, being PCBs, TSKB and SYKB; and "PFI" means each and any of the Participating Financial Institutions individually;

(b) "PCBs" mean collectively the Participating Commercial Banks, being commercial banks which shall have satisfied the eligibility criteria for participating in the Project set forth in paragraph A.1 of Schedule 4 to this Agreement; and "PCB" means each and any of the Participating Commercial Banks individually;

(c) "Project Agreement" means the agreement among the Bank and TSKB and SYKB of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(d) "Subsidiary Loan Agreements" mean collectively the agreements to be entered into between the Borrower and each of PCBs, TSKB and SYKB pursuant to Section 3.01 (b) (i), (ii) and (iii) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreements;

(e) "Sub-loan" means a loan made or proposed to be made by a PFI out of the proceeds of the Loan to an Investment Enterprise for an Investment Project;

(f) "free-limit Sub-loan" means a Sub-loan, as so defined, which qualifies as a free-limit Sub-loan pursuant to the provisions of paragraph C.1 (b) of Schedule 4 to this Agreement or paragraph B.4 (b) of Schedule 5 to this Agreement, as the case may be;

(g) "Investment Enterprise" means an enterprise in the private sector to which a PFI has made or proposes to make a Sub-loan;

(h) "Investment Project" means a specific development project to be carried out by an Investment Enterprise utilizing the proceeds of a Sub-loan;

(i) "PCBs Special Account" means the account for PCBs referred to in Section 2.02 (c) of this Agreement;

(j) "TSKB Special Account" means the account for TSKB referred to in Section 2.02 (c) of this Agreement and Section 2.01 (b) of the Project Agreement;

(k) "SYKB Special Account" means the account for SYKB referred to in Section 2.02 (c) of this Agreement and Section 2.01 (b) of the Project Agreement;

(l) "Special Accounts" mean collectively the PCBs Special Account, the TSKB Special Account and the SYKB Special Account; and "Special Account" means each and any such account individually;

(m) "Subsidiary" means any company of which the majority of the outstanding voting stock or other proprietary interest is owned

or effectively controlled by a PFI or by one or more subsidiaries of a PFI or by a PFI and one or more of its Subsidiaries;

(n) "TL" or "Turkish Lira" means the currency of the Borrower;

(o) "Central Bank" means the Central Bank of Turkey;

(p) "Banking Law" means Law No. 3182 of the Borrower dated May 2, 1985, as amended from time to time;

(q) "LIBOR" means the London Inter-Bank Offered Rate;

(r) "WPI" means the Borrower's Wholesale Price Index; and

(s) "FY" or "fiscal year" means the period January 1 through December 31.

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 under Part A of the Project for amounts paid (or, if the Bank shall so agree, to be paid) by a PFI on account of withdrawals made by an Investment Enterprise under a Sub-loan to meet 100% of foreign expenditures, 50% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally for equipment and materials required for the Investment Project in respect of which the withdrawal from the Loan Account is requested; provided, however, that no withdrawal shall be made: (i) in respect of a Sub-loan not made in accordance with the provisions of Schedule 4 or Schedule 5 to this Agreement; and (ii) in respect of payments made for expenditures prior to the date of this Agreement.

(b) For the purposes of paragraph (a) of this Section: (i) the term "foreign expenditures" means expenditures in any currency other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and (ii) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

(c) The Borrower shall, for the purposes of Sub-loans to be made by PCBs under Part A of the Project, open and maintain, and for the purposes of Sub-loans to be made by TSKB and SYKB, respectively, under Part A of the Project, cause TSKB and SYKB to open and maintain, all in dollars, special deposit accounts in a commercial bank or in the Central Bank or, in the case of TSKB and SYKB, in TSKB or SYKB itself, as the case may be, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement in the case of PCBs, and of the Schedule to the Project Agreement in the case of TSKB and SYKB.

Section 2.03. The Closing Date shall be December 31, 1996 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 April 15 and October 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 2 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 1 to this

Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall:

- (i) carry out Part A of the Project, to the extent related to Sub-loans to be made by PCBs, through PCBs, under administration arrangements satisfactory to the Bank, which shall include those set forth in Schedule 4 to this Agreement;
- (ii) carry out Part B of the Project through PFIs with due diligence and efficiency and in conformity with appropriate administrative, financial and training practices, causing PFIs to provide, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project; and
- (iii) cause TSKB and SYKB to perform in accordance with the provisions of the Project Agreement all the obligations of TSKB and SYKB therein set forth, shall take or cause to be taken all action necessary or appropriate to enable TSKB and SYKB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall, for the purposes of Part A of the Project, relend out of the proceeds of the Loan:

- (i) to PCBs, an aggregate amount equivalent to \$110,000,000, to be utilized by PCBs on a first-come first-serve basis, under subsidiary loan agreements to be entered into between the Borrower and PCBs, under terms and conditions satisfactory to the Bank, which shall include the terms and conditions set forth in Schedule 3 to this Agreement;
- (ii) to TSKB, an amount equivalent to \$50,000,000, under a subsidiary loan agreement to be entered into between the Borrower and TSKB, under terms and conditions satisfactory to the Bank, which shall include the terms and conditions set forth in Schedule 3 to this Agreement; and
- (iii) to SYKB, an amount equivalent to \$40,000,000, under a subsidiary loan agreement to be entered into between the Borrower and SYKB, under terms and conditions satisfactory to the Bank, which shall include the terms and conditions set forth in Schedule 3 to this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements 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 Loan Agreements or any provisions thereof.

Section 3.02. The Borrower undertakes that, unless the Bank shall otherwise agree, PCBs will make Sub-loans in accordance with the procedures and on terms and conditions set forth or referred to in Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. The Borrower shall cause PCBs to maintain with respect to PCBs' activities under Part A of the Project procedures and records adequate to monitor and record the progress of the Project and of each Investment Project (including its cost and the

benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices their resources and operations with respect to the Project.

Section 4.02. The Borrower shall:

(a) cause the records referred to in Section 4.01 of this Agreement, and records and accounts for the PCBs Special Account for each fiscal year audited, in accordance with sound 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 five (5) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether or not PCBs have complied with the prudential regulations and maintained the ratios referred to in paragraph A.1 (c), (d) and (e) of Schedule 4 to this Agreement; and

(c) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

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

(a) TSKB or SYKB shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that TSKB or SYKB will be able to perform its obligations under the Project Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of TSKB or SYKB or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreements have been executed on behalf of the Borrower and TSKB or SYKB and one PCB.

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 Project Agreement has been duly authorized or ratified by TSKB and SYKB, and is legally binding upon TSKB and SYKB

in accordance with its terms; and

(b) that the Subsidiary Loan Agreements referred to in Section 6.01 of this Agreement have been duly authorized or ratified by the Borrower and TSKB or SYKB, as the case may be, and the PCB concerned and are legally binding upon the Borrower and TSKB or SYKB, as the case may be, and such PCB 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 Undersecretary of the Treasury and Foreign Trade 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:

Basbakanlik
Hazine Ve Dis Ticaret
Mustesarligi
Bakanliklar - Ankara

Cable address:

MALIYE HAZINE

Telex:

821-42285 (MLYE-TR) or
821-42689 (ANK-TR)

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:

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 TURKEY

By /s/ F. Selekler

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ M. H. Wiehen

Acting Regional Vice President
Europe, Middle East and North Africa

SCHEDULE 1

Description of the Project

The objectives of the Project are: (a) to assist the Borrower in its efforts to increase the capacity to produce tradeable goods and services through activities in which the Borrower is economically efficient, especially export-oriented activities, but excluding agriculture; and to that end, (b) to provide financing through PFIs for financially and economically viable private investments in such activities; (c) to continue to assist TSKB and SYKB in their efforts to diversify their business and resources; and (d) to ensure PCBs' continued operation as financially sound and efficient institutions.

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 objectives:

Part A: Investment Projects

Financing of specific development projects through Sub-loans to private enterprises.

Part B: Technical Assistance and Training

Provision of technical advisory services, training and equipment to assist PFIs in improving their project appraisal and supervision capabilities.

* * * *

The Project is expected to be completed by June 30, 1996.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 15 and October 15	
beginning October 15, 1996 through October 15, 2007	8,335,000
On April 15, 2008	8,295,000

* 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 eleven years before maturity	0.65
More than eleven years but not more than fifteen years before maturity	0.88
More than fifteen years before maturity	1.00

SCHEDULE 3
Terms and Conditions for Relending
of Loan Proceeds to PFIs referred
to in Section 3.01 (b) of this Agreement

Except as the Borrower and the Bank shall otherwise agree:

(a) each PCB shall pay a front-end fee of 3/4% (three-fourths of one percent) of the amount of each Sub-loan made by the PCB;

(b) TSKB and SYKB shall each pay a commitment fee on the unwithdrawn amounts of the proceeds of the Loan relented to it at the rate specified in Section 2.04 of this Agreement;

(c) each PFI shall pay interest on the amount of the Loan withdrawn by it and outstanding at a floating annual rate adjusted every three months so as to be equal to the prevailing lending rate for loans made by the Bank plus an onlending fee at an effective rate of 7/20% (seven-twentieths of one percent) per annum;

(d) each PFI shall repay the proceeds of the Loan relented to it over a period of seventeen years including a grace period of 5 years, the principal amount to be repaid being the sum of withdrawals made by the PFI, with each withdrawal valued by the Bank in the currency or currencies of such withdrawal as of the date of such withdrawal; and

(e) the right of each PFI to present new Sub-loan applications or requests to the Bank for approval or authorization of withdrawals from the Loan Account under Part A of the Project shall be liable to be: (i) suspended, upon failure by the PFI, in the case of TSKB or SYKB, to: (aa) obtain the prior concurrence of the Bank to an amendment of the PFI's strategy and policy statements; or (bb) meet the loan loss provisioning and loan concentration standards specified pursuant to the Banking Law, to the extent applicable to the PFI, or other such standards satisfactory to the Bank; or (cc) perform the PFI's obligations under Sections 3.01, 3.02, 3.05, 3.06 and 3.08 of the Project Agreement; or upon failure by the PFI, in the case of a PCB, to: (dd) obtain the prior concurrence of the Bank to an amendment of the PFI's strategy and policy statements; or (ee) comply with the prudential regulations on loan loss provisioning, loan concentration and capital adequacy in accordance with the Banking Law; or (ff) achieve in any year the return on equity ratio referred to in paragraph A.1 (d) of Schedule 4 to this Agreement; or (gg) maintain in any year the minimum collection ratio referred to in paragraph A.1 (e) of Schedule 4 to this Agreement, such suspension to continue until the PFI shall have taken remedial action satisfactory to the Borrower and the Bank; and (ii) cancelled, if said suspension continues for a period of 180 days after notice thereof shall have been served by the Borrower on the PFI.

SCHEDULE 4

Administration of Credit Component carried out,
and Procedures for and Terms and Conditions of
Sub-loans made, by PCBs under Part A of the Project

A. Administration of Credit Component

1. Sub-loans shall be provided only through PCBs which shall have:

(a) adopted satisfactory policy and strategy statements approved by their respective boards of directors;

(b) prepared an unqualified financial statement audited by external auditors satisfactory to the Bank;

(c) complied with the prudential regulations on loan loss provisioning, loan concentration and capital adequacy in accordance with the Banking Law;

(d) achieved a positive real return on equity in each year, defined as the ratio of net profits after tax at the end of the year to total equity at the beginning of the year less the change in WPI for the same year;

(e) maintained, during each fiscal year, a minimum collection ratio of 85% of all amounts of receivables for such year with original maturity of more than one year, but excluding amounts which are the subject of pending legal action or write-offs; and

(f) the capacity to appraise and supervise Investment Projects, or, alternatively, the willingness to contract adequate technical services to assist in the appraisal and supervision of Investment Projects proposed for financing under Part A of the Project.

2. Except as the Borrower and the Bank shall otherwise agree, each PCB shall be entitled to provide Sub-loans in an aggregate amount not exceeding the lesser of the equivalent of \$30,000,000 or 100% of the net worth of the PCB concerned which shall mean, for this purpose, the unimpaired paid-in capital of such PCB plus its accumulated reserves.

3. PCBs shall be required to apply in the provision and administration of Sub-loans the rules and procedures set forth in the Loan Agreement.

4. Applications and requests for withdrawal of the proceeds of the Loan on account of Sub-loans shall be prepared by PCBs and presented directly to the Bank.

B. Terms and Conditions of Sub-loans

1. Except as the Bank shall otherwise agree, Sub-loans shall be provided only to Investment Enterprises in the private sector of the Borrower, which shall be defined for the purpose to mean any enterprise the majority share capital of which is not held, individually or collectively, by the Borrower, including its political or administrative divisions, or by economic enterprises the majority share capital of which is held by the Borrower.

2. Except as the Bank shall otherwise agree: (a) no Sub-loan shall be provided in an amount less than \$500,000 equivalent nor more than \$8,000,000 equivalent; (b) no Sub-loan shall be provided by a PCB to an Investment Enterprise if, after the provision of such Sub-loan, (i) the aggregate amount provided by such PCB out of the proceeds of the Loan to such Investment Enterprise shall exceed 10% of the net worth of such PCB, or (ii) the aggregate amount provided by such PCB out of the proceeds of the Loan to such Investment Enterprise and other Investment Enterprises, each of which has a shareholding of 25% or more in such Investment Enterprise, shall exceed 50% of the net worth of such PCB, the net worth of a PCB, for this purpose, being the unimpaired paid-in capital of such PCB plus

its surplus and free reserves (including the revaluation fund, if any) and subordinated loans to it; and (c) no Sub-loan shall be provided for the financing of a single Investment Project if, after the provision of such Sub-loan, the aggregate amount provided from the proceeds of the Loan for the financing of such Investment Project shall exceed the equivalent of \$20,000,000.

3. Except as the Bank shall otherwise agree, the Borrower shall require each PCB with respect to each Sub-loan to: (a) denominate the Sub-loan in one or more foreign currencies chosen by the borrowing Investment Enterprise from among the five major currencies, namely, the Deutsche Mark, the Swiss Franc, the Pound Sterling, the United States Dollar and the Japanese Yen; (b) charge interest on the principal amount of the Sub-loan withdrawn and outstanding at a floating annual rate adjusted every six months so as to be equal to the prevailing 6-month LIBOR plus a spread to be fixed by agreement between the PCB concerned and the borrowing Investment Enterprise; and (c) allow prepayment by the borrowing Investment Enterprise without penalty after the third year of the Sub-loan.

4. In addition to the charges referred to in paragraph 3 above, the Borrower shall require PCBs to charge on each Sub-loan a fee representing 3/4% of the principal amount of the Sub-loan, to be collected at the time of signing the contract therefor. The amounts collected on account of such fees shall be immediately transferred by PCBs to the Borrower.

C. Procedures for Sub-loans

1. Except as the Bank shall otherwise agree, no expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the application and information required under paragraph 2 (a) below in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the request and information required under paragraph 2 (b) below in respect of such free-limit Sub-loan. For the purposes of this Schedule, a free-limit Sub-loan shall be a Sub-Loan made by a PCB for an Investment Project in an amount to be financed out of the proceeds of the Loan, which shall not exceed a certain sum, to be determined by the Bank for such PCB upon its achieving standards of appraisal and supervision of Investment Projects satisfactory to the Bank, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Borrower and the Bank or between the Bank and such PCB entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project.

2. (a) When presenting a Sub-loan to the Bank for approval, a PCB shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iii) whenever relevant, a statement as to the environmental impact of the Investment Project, and when necessary, the remedial action to be taken in this respect; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by a PCB for authorization to make

withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and, when necessary, the remedial action proposed to be taken in this respect.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1994.

3. PCBs shall make the Sub-loans on terms whereby PCBs shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank, the Borrower and PCBs, including the right to:

(a) 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;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; (ii) the procurement of goods or works under contracts estimated to cost the equivalent of more than \$5,000,000 each shall be undertaken under international competitive bidding (ICB) procedures satisfactory to the Bank, except in the case of equipment and machinery which is standardized or proprietary in nature and is needed for modernization and expansion of plant, or for which there are a limited number of suppliers, or for which owing to technical reasons a different method of procurement is more appropriate; (iii) the procurement of goods or works under contracts estimated to cost the equivalent of up to \$5,000,000 each shall be undertaken under limited international bidding (LIB) or international shopping (IS) procedures satisfactory to the Bank; (iv) records shall be kept in satisfactory form of the methods of procurement used, the summaries of quotations received and awards made in procuring goods and services to be financed out of the proceeds of the Loan; and (v) such goods and services shall be used exclusively in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall 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 (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) require, as a condition for providing the Sub-loan, that: (i) the Investment Project shall have an economic rate of return and a financial rate of return, each of not less than 15%, measured after adjustment for inflation in accordance with WPI, throughout the useful life of the Investment Project; and (ii) the Investment Enterprise, if it is export-oriented, shall have a maximum debt/equity ratio of 50:50 and a minimum debt service coverage ratio of 1.5:1, and, if it is not export-oriented, shall

have a maximum debt/equity ratio of 40:60 and a minimum debt service coverage ratio of 2:1;

(f) obtain all such information as the Borrower, the Bank or the PCB concerned shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(g) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with the PCB concerned.

SCHEDULE 5
Procedures for, and Terms and Conditions
of, Sub-Loans made by TSKB and SYKB

A. Terms and Conditions

1. Except as the Bank shall otherwise agree, Sub-loans shall be provided only to Investment Enterprises the majority share capital of each is not held, individually or collectively, by the Borrower, including its political or administrative divisions, or by economic enterprises the majority of shares of which is held by the Borrower.

2. Except as the Bank shall otherwise agree: (a) no Sub-loan shall be provided in an amount less than \$500,000 equivalent nor more than \$8,000,000 equivalent; and (b) neither TSKB nor SYKB shall provide a Sub-loan or Sub-loans for an Investment Project which when added to any other Sub-loan or Sub-loans provided by itself or by any other PFI for the same Investment Project would exceed in the aggregate the equivalent of \$20,000,000.

3. Except as the Bank shall otherwise agree, each Sub-loan provided by TSKB or SYKB shall: (a) be denominated in one or more foreign currencies chosen by the borrowing Investment Enterprise from among the five major currencies, namely, the Deutsche Mark, the Swiss Franc, the Pound Sterling, the United States Dollar and the Japanese Yen; (b) carry interest on the principal amount of the Sub-loan withdrawn and outstanding at a floating annual rate which shall be adjusted very six months so as to be equal to the prevailing 6-month LIBOR plus a spread to be fixed by agreement between TSKB or SYKB, as the case may be, and the borrowing Investment Enterprise; (c) be subject to payment of a commitment fee on the unwithdrawn amount of the Sub-loan at the rate specified in Section 2.04 of this Agreement; and (d) be subject to prepayment by the borrowing Investment Enterprise without penalty after the third year of the Sub-loan.

B. Procedures

4. No expenditures for goods or services required for an Investment Project shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Sub-loan for such Investment Project shall have been approved by the Bank and, except as the Bank shall otherwise agree, such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the application and information required under paragraph 5 (a) of this Schedule in respect of such Sub-loan; or

(b) the Sub-loan for such Investment Project shall have been a free-limit Sub-loan for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than one hundred eighty (180) days prior to the date on which the Bank shall have received the request and information required under paragraph 5 (b) of this Schedule in respect of such free-limit Sub-loan. For the purposes of this Schedule, a free-limit Sub-loan shall be a Sub-loan for an Investment Project in an amount to be financed out of the proceeds of the Loan which shall not

exceed the sum of \$6,000,000 equivalent, in the case of a Sub-loan made by TSKB, or \$3,000,000 equivalent, in the case of a Sub-loan made by SYKB, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Loan or of any other loan, provided for in any outstanding loan agreement between the Borrower and the Bank or between the Bank and TSKB or SYKB, as the case maybe, entered into before the date of this Agreement, the proceeds of which have been or are being used for financing goods and services directly and materially related to such Investment Project.

5. (a) When presenting a Sub-loan (other than a free-limit Sub-loan) to the Bank for approval, TSKB or SYKB, as the case may be, shall furnish to the Bank an application, in form satisfactory to the Bank, together with: (i) a description of the Investment Enterprise and an appraisal of the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization of the Sub-loan; (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and, when necessary, the remedial action to be taken in this respect; and (iv) such other information as the Bank shall reasonably request.

(b) Each request by TSKB or SYKB, as the case may be, for authorization to make withdrawals from the Loan Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Investment Enterprise and the Investment Project, including a description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iii) whenever relevant, a statement as to the environmental impact of the Investment Project and, when necessary, the remedial action to be taken in this respect.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1994.

6. Sub-loans shall be made on terms whereby TSKB or SYKB, as the case may be, shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Bank and TSKB or SYKB, as the case may be, including the right to:

(a) 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;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them; (ii) the procurement of goods or works under contracts estimated to cost the equivalent of more than \$5,000,000 each shall be undertaken under international competitive bidding (ICB) procedures satisfactory to the Bank, except in the case of equipment and machinery which is standardized or proprietary in nature and is needed for modernization and expansion of plant, or for which there are a limited number of suppliers, or for which owing to technical reasons a different method of procurement is more appropriate; (iii) the procurement of goods or works under contracts estimated to cost the equivalent of up to \$5,000,000 each shall be undertaken under limited international bidding (LIB) or international shopping (IS) procedures satisfactory to the Bank; (iv) records shall be kept in satisfactory form of the methods of procurement used, the summaries of quotations received and awards made in procuring goods and services to be financed out of the proceeds of the Loan; and (v) such goods and services shall be used exclusively

in the carrying out of the Investment Project;

(c) inspect, by itself or jointly with representatives of TSKB or SYKB, as the case may be, and the Bank if TSKB or SYKB and the Bank shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Investment Enterprise shall 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 (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods;

(e) require, as a condition for providing the Sub-loan, that: (i) the Investment Project shall have an economic rate of return and a financial rate of return, each of not less than 15%, measured after adjustment for inflation in accordance with WPI, throughout the useful life of the Investment Project; and (ii) the Investment Enterprise, if it is export-oriented, shall have a maximum debt/equity ratio of 50:50 and a minimum debt service coverage ratio of 1.5:1, and, if it is not export-oriented, shall have a maximum debt/equity ratio of 40:60 and a minimum debt service coverage ratio of 2:1;

(f) obtain all such information as the Bank and TSKB or SYKB, as the case may be, shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and

(g) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Loan upon failure by such Investment Enterprise to perform its obligations under its contract with TSKB or SYKB, as the case may be.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Investment Projects and to be financed by PCBs out of the proceeds of the Loan in accordance with the provisions of Section 2.02 (a) of this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 to be withdrawn from the Loan Account and deposited into 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, 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 Investment Projects to be financed by PCBs, 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 such Investment Projects 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 such Investment Projects 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 7

Modifications of 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) The words "the Bank may, by notice to the Borrower and the Guarantor, 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 (c) of paragraph C.2 of Schedule 4 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) and (b) of said paragraph; or (ii) have denied any such applications or requests, or (g) by the date specified in sub-paragraph (c) of paragraph B.5 of Schedule 5 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests under sub-paragraphs (a) and (b) of said paragraph; or (ii) have denied any such applications or requests, the Bank may, by notice to the Borrower and the Guarantor, 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."

