

CONFORMED COPY

LOAN NUMBER 3067 TU

(Second Small and Medium Scale Industry Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SINAI YATIRIM VE KREDI BANKASI

and

TURKIYE HALK BANKASI

and

TURKIYE VAKIFLAR BANKASI

and

TURKIYE EMLAK BANKASI

Dated June 28, 1989

PROJECT AGREEMENT

AGREEMENT, dated June 28, 1989 among the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), and SINAI YATIRIM VE KREDI BANKASI, TURKIYE HALK BANKASI, TURKIYE VAKIFLAR BANKASI and TURKIYE EMLAK BANKASI (collectively, the Participating Credit Institutions or PCIs).

WHEREAS (A) by the Loan Agreement of even date herewith between the Republic of Turkey (the Borrower) and the Bank, the Bank has agreed to lend to the Borrower an amount in various currencies equivalent to two hundred four million five hundred thousand dollars (\$204,500,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that PCIs agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

(B) by subsidiary loan agreements to be entered into between the Borrower and PCIs, a portion of the proceeds of the loan

provided for under the Loan Agreement will be made available to PCIs on terms and conditions set forth in said Subsidiary Loan Agreements; and

WHEREAS PCIs, in consideration of the Bank's entering into the Loan Agreement with the Borrower, have agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part A of the Project; Management and Operations of PCIs

Section 2.01. PCIs declare their commitment to the objectives of the Project as set forth in Schedule 1 to the Loan Agreement, and, to this end, shall carry out Part A of the Project and conduct their operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with their Charters and Statements of Policy and Corporate Strategy.

Section 2.02. PCIs undertake that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to the Loan Agreement.

(b) PCIs shall exercise their rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Bank and of PCIs; (ii) comply with their obligations under this Agreement and the Subsidiary Loan Agreements; and (iii) achieve the purposes of Part A of the Project.

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 6 to the Loan Agreement.

Section 2.04. PCIs shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and Part A of the Project.

Section 2.05. PCIs shall duly perform all their obligations under the Subsidiary Loan Agreements. Except as the Bank shall otherwise agree, PCIs shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreements or any provision thereof.

Section 2.06. (a) PCIs shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part A of the Project, the performance of their obligations under this Agreement and under the Subsidiary Loan Agreements, and other matters relating to the purposes of the Loan.

(b) PCIs shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Loan, or the performance by PCIs of their obligations under this Agreement and under the Subsidiary Loan Agreements.

Article III

Financial Covenants

Section 3.01. (a) Each PCI shall maintain procedures and records adequate to monitor and record the progress of its lending operations under Part A of the Project and of each Investment Project financed by it (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the PCI.

(b) Each PCI shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of its 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 as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the PCI is in satisfactory compliance with the legal requirements referred to in Sections 3.05 and 3.06 of this Agreement; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

Section 3.02. PCIs shall take such steps satisfactory to the Bank as shall be necessary to protect themselves against risk of loss resulting from changes in the rates of exchange between the various currencies used in their operations.

Section 3.03. (a) Except as the Bank shall otherwise agree, SYKB shall not incur or permit any Subsidiary to incur any debt if, after the incurring of such debt, the consolidated debt of SYKB and all its Subsidiaries then incurred and outstanding would exceed ten times the consolidated capital and surplus of SYKB and all its Subsidiaries.

(b) For the purposes of this Section:

- (i) the term "debt" means any debt incurred by SYKB or any Subsidiary maturing more than one year after the date on which it is originally incurred, including debt assumed or guaranteed by SYKB or by a Subsidiary;
- (ii) debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment, on the date, and to the extent, the amount of such debt has become outstanding pursuant to such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent the guaranteed debt is outstanding;
- (iii) the term "consolidated debt of SYKB and all its

Subsidiaries" means the total amount of debt of SYKB and all its Subsidiaries, including any debt owed by SYKB to its shareholders, but excluding any debt owed by SYKB to any Subsidiary or by any Subsidiary to SYKB or to any other Subsidiary;

- (iv) the term "consolidated capital and surplus of SYKB and all its Subsidiaries" means the aggregate of the total unimpaired paid-in-capital, surplus and free reserves (including the revaluation fund, if any) of and subordinated loans to SYKB and all its Subsidiaries after excluding therefrom such amounts as shall represent equity interests of SYKB in any Subsidiary, or any such Subsidiary in SYKB or in any other Subsidiary;
- (v) the term "subordinated loan" means any debt to mature after the maturity of any debt outstanding from time to time from creditors other than shareholders of SYKB and its Subsidiaries, such debt to be repaid in accordance with its terms only after all claims from such creditors have been satisfied;
- (vi) whenever for purposes of this Section it shall be necessary to value in terms of Turkish Lira debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank; and
- (vii) amounts payable to SYKB under any foreign exchange risk coverage scheme of the Borrower or under currency swap arrangements shall be deducted in calculating the amount of SYKB's debt.

Section 3.04. Except as the Bank shall otherwise agree: (a) THB, TVB and EB shall each maintain a debt service coverage ratio of not less than 1.20; and (b) SYKB shall maintain a debt service coverage ratio of not less than 1.10. Each such ratio shall be calculated by dividing the sum of the PCI's net income after tax, interest payments adjusted for taxes, provisions for losses and loan collections by the sum of the PCI's repayments of debt and payments of interest, adjusted for taxes.

Section 3.05. Except as the Bank shall otherwise agree, THB, TVB and EB shall each take measures satisfactory to the Bank so as to achieve, at the end of each fiscal year beginning FY 1989, the capital adequacy ratios as prescribed from time to time pursuant to the Borrower's Banking Law.

Section 3.06. Except as the Bank shall otherwise agree, each PCI shall make, at the end of each fiscal year beginning FY 1989, adequate provision for bad loans as prescribed under Decree No. 88-12937, dated May 23, 1988, issued under the Borrower's Banking Law.

Section 3.07. (a) Except as the Bank shall otherwise agree, each PCI shall, by the end of FY 1989, achieve and thereafter maintain a minimum cash collection ratio of 75% of the medium- and long-term loans made by it.

(b) For the purposes of this Section:

- (i) the term "medium-term loans" means loans maturing more than one year but not more than five years after the date on which they were originally incurred; and
- (ii) the term "long-term loans" means loans maturing

more than five years after the date on which they were originally incurred.

Section 3.08. Except as the Bank shall otherwise agree, each PCI shall: (a) conduct its operations and affairs in such manner as shall be necessary to maintain at all times the financial ratios referred to in Sections 3.03., 3.04, 3.05, 3.06 and 3.07 of this Agreement to the extent applicable to such PCI; and (b) if any such financial ratio shall, for reasons beyond such PCI's control, not be achieved or maintained, promptly take all reasonable action as shall be necessary or advisable to achieve and/or maintain such financial ratio.

Section 3.09. Except as the Bank shall otherwise agree, a PCI shall not make any repayment in advance of maturity in respect of any of its debt which, in the judgment of the Bank, would materially affect such PCI's ability to meet its financial obligations.

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Bank and of PCIs thereunder shall terminate on the date on which the Loan Agreement shall terminate.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For SYKB:

Sinai Yatirim Ve Kredi Bankasi
Barbaros Bulvari, Akdogan Sokak 41-43
Besiktas, Istanbul, 80690
Turkey

Cable address

Telex:

YATIRIMBANK
Istanbul

SYKB 26263 TR

For THB:

Turkiye Halk Bankasi A.S
Genel Mudurlugu
Ilkiz Sokak No. 1
Sihhiye, Ankara
Turkey

Cable address

HALKBANKUM
ANKARA

Telex:

44223 HBTk TR

For TVB:

Turkiye Vakiflar Bankasi T.A.O.
Ataturk Bulvari 207
TR-06683 Ankara
Turkey

Cable address

VAKIFBANK
ANKARA

Telex:

46136 VABG TR

For EB:

Turkiye Emlak Bankasi A.S.
Buyukdere, Cad. 45
80670 Levent, Istanbul
Turkey

Cable address

EMLAKBANK
MASLAK, ISTANBUL

Telex:

27780 ABTK TR

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of a PCI or by a PCI on behalf of the Borrower under the Loan Agreement, may be taken or executed by its General Manager, or by such other person or persons as the General Manager shall designate in writing, and the General Manager shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ W. Thalwitz
Regional Vice President
Europe, Middle East and North Africa

SINAI YATIRIM VE KREDI BANKASI

By /s/ N. K. Kilic
Authorized Representative

TURKIYE HALK BANKASI

By /s/ N. K. Kilic
Authorized Representative

TURKIYE VAKIFLAR BANKASI

By /s/ N. K. Kilic
Authorized Representative

TURKIYE EMLAK BANKASI

By /s/ N. K. Kilic
Authorized Representative

