

CONFORMED COPY

LOAN NUMBER 4412 PH

Loan Agreement

(Banking System Reform Loan)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 11, 1998

LOAN NUMBER 4412 PH

LOAN AGREEMENT

AGREEMENT, dated December 11, 1998, between REPUBLIC OF THE PHILIPPINES (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank):

WHEREAS (A) the Bank has received a letter dated October 29, 1998, from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's banking system (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) and with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, is modified to read:

"'Project' means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.";

(b) Section 4.01 is modified to read:

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

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Bangko Sentral ng Pilipinas" and the acronym "BSP" mean the central bank of the Borrower;

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

(c) "DOF" means the Borrower's Department of Finance, and any successor thereto;

(d) "Monetary Board" means the policy making body of BSP as

defined in Article II of Republic Act No. 7653 otherwise known as the New Central Bank Act;

(e) "PDIC" means the Philippine Deposit Insurance Corporation created under Republic Act 3591, as amended;

(f) "Peso" means the currency of the Borrower; and

(g) "PNB" means Philippines National Bank, a banking institution created and operating pursuant to Executive Order No. 80 dated December 3, 1986 otherwise known as the 1986 revised Charter of the Philippine National Bank.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to three hundred million dollars (\$300,000,000).

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

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in Bangko Sentral ng Pilipinas, a deposit account in dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

(d) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached an amount equal to \$100,000,000 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in paragraph 1 of Schedule 3 to this Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

(e) No withdrawals shall be made from the Loan Account after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached an amount equal to \$200,000,000 unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program; and (ii) that the actions described in paragraph 2 of Schedule 3 to this

Agreement have been taken. If, after said exchange of views, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

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

(b) For the purposes of this Section:

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

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

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

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

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

(d) Whenever, in light of changes in market practice affecting

the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

ARTICLE III

Particular Covenants

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

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

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General

Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 Borrower, through DOF, shall have retained the services of a financial advisory firm, with qualifications, experience, terms of reference and selection procedures satisfactory to the Bank, to assist in the process of strengthening and transferring management and control of PNB to a strategic private investor.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Department of Finance
Department of Finance Building
Roxas Boulevard
Manila
Republic of the Philippines

Telex:

40268 CB-CONF

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Manila, Republic of the Philippines, as of the

day and year first above written.

REPUBLIC OF THE PHILIPPINES

Finance

By /s/ Edgardo B. Espiritu, Secretary of
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava
Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121 tobacco	-	Tobacco, unmanufactured, refuse
122 (whether or not substitutes)	-	Tobacco, manufactured containing tobacco
525 materials	-	Radioactive and associated
667 semiprecious stones,	-	Pearls, precious and unworked or worked

718 thereof; fuel non-irradiated, for	718.7	Nuclear reactors, and parts elements (cartridges), nuclear reactors
728.43 machinery	-	Tobacco processing
897 platinum watches and watch silversmiths'	897.3	Jewelry of gold, silver or group metals (except cases) and goldsmiths' or wares (including set gems)
971 (excluding gold)	-	Gold, non-monetary ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Dollars)*
March 15, 2004	6,310,000
September 15, 2004	6,500,000
March 15, 2005	6,695,000
September 15, 2005	6,895,000
March 15, 2006	7,100,000
September 15, 2006	7,315,000
March 15, 2007	7,535,000
September 15, 2007	7,760,000
March 15, 2008	7,990,000
September 15, 2008	8,230,000
March 15, 2009	8,475,000

September 15, 2009	8,730,000
March 15, 2010	8,995,000
September 15, 2010	9,260,000
March 15, 2011	9,540,000
September 15, 2011	9,825,000
March 15, 2012	10,120,000
September 15, 2012	10,420,000
March 15, 2013	10,735,000
September 15, 2013	11,055,000
March 15, 2014	11,385,000
September 15, 2014	11,730,000
March 15, 2015	12,080,000
September 15, 2015	12,440,000
March 15, 2016	12,815,000
September 15, 2016	13,200,000
March 15, 2017	13,595,000
September 15, 2017	14,000,000
March 15, 2018	14,420,000
September 15, 2018	14,850,000

* The figures in this column represent the amount in Dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 3

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

1. (a) Maintenance of a sound macroeconomic framework, consistent with the objectives of the Program, as determined on the basis of indicators agreed to by the Borrower and the Bank.

(b) BSP shall have put into effect rules satisfactory to the Bank requiring: (i) external auditors to be placed under affirmative obligation to inform BSP of factors that materially affect the soundness of a financial institution; and (ii) the accreditation of external auditors engaged by banks.

(c) BSP shall have, in a manner satisfactory to the Bank, supervised seven banking organizations on a consolidated basis and shall have evaluated prudential norms on the risks of the entire banking organization.

(d) BSP shall have: (i) completed supplementary on-site examinations for 51 banks in accordance with its program of intensified monitoring of institutions at risk; and (ii) imposed appropriate corrective actions.

(e) BSP shall have developed and put into effect, satisfactory to the Bank: (i) guidelines for corrective actions by banks corresponding to their degree of capital deficiency; (ii) guidelines for intervening and resolving insolvent and near-insolvent banks; and (iii) a contingency plan to handle systemic crises.

(f) The Borrower shall have adopted an action plan satisfactory to the Bank to promote strategic private investment in PNB, including: (i) an in-depth audit of PNB by external auditors, with qualifications, experience, terms of reference and selection procedures acceptable to the Bank; and (ii) development and implementation of a course of actions for the strengthening of PNB's financial performance consistent with the

findings of the above-mentioned audit.

(g) The Borrower shall have adopted an action plan satisfactory to the Bank to protect BSP and PDIC staff from lawsuits brought against them in connection with actions taken in their official capacities.

2. (a) Maintenance of a sound macroeconomic framework, consistent with the objectives of the Program, as determined on the basis of indicators agreed to by the Borrower and the Bank.

(b) BSP shall have put into effect disclosure requirements, satisfactory to the Bank, for listed and non-listed banks.

(c) BSP shall have, in a manner satisfactory to the Bank, supervised an additional 10 of banking organizations on a consolidated basis and shall have evaluated prudential norms on the risks of the entire banking organization.

(d) The Borrower shall have adopted bidding rules satisfactory to the Bank for the selection of a strategic private investor to transfer management and control of PNB.

(e) The Borrower shall have carried out the action plan referred to in paragraph 1(g) above in a manner satisfactory to the Bank.

(f) The Borrower shall have adopted a regulatory framework for the banking system, satisfactory to the Bank that shall, inter alia: (i) limit legal challenges to bank closings ordered by the Monetary Board and provide that only money damages will be available in such cases; (ii) authorize BSP to suspend and remove bank directors, officers and employees who have violated banking laws from any further involvement in any bank; (iii) increase monetary penalties imposed by BSP and PDIC for banking law violations by a factor of at least 10; (iv) allow bank examinations at the discretion of the BSP Governor, Deputy Governor (SES) or Managing Director (SES); (v) give PDIC the authority to dispose of a bank's assets immediately upon its closing by the Monetary Board; (vi) put a bank under receivership if its capital to risk assets ratio falls below 2%; and (vii) allow up to 100 percent foreign ownership of distressed domestic banks.

