

CONFORMED COPY

LOAN NUMBER 4414 PH

Guarantee Agreement

(Private Enterprise Credit Support Project)

between

REPUBLIC OF THE PHILIPPINES

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated December 11, 1998

LOAN NUMBER 4414 PH

GUARANTEE AGREEMENT

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

WHEREAS (A) the Guarantor and Development Bank of the Philippines (the Borrower), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement of even date herewith, have requested the Bank to assist in the financing of the Project; and

(B) by the Loan Agreement of even date herewith between the Bank and the Borrower, the Bank has agreed to extend to the Borrower a loan equal to one hundred fifty million dollars (\$150,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to so guarantee such obligations of the Borrower;

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), with the modification set forth in Schedule 4 to the Loan 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 and in the Preamble to and Section 1.02 of the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, the Guarantor hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, and the punctual performance of all the other obligations of the Borrower, all as set forth in the Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor hereby assumes the foreign exchange risk in respect of the Loan to the Borrower and agrees to charge the Borrower a fee therefore based on arrangements acceptable to the Borrower and the Bank.

Section 3.02. The Guarantor shall take all actions necessary to cause the Borrower to distribute annual dividends on its common shares in accordance with Section 4.04 of the Loan Agreement, including, but not limited to: (a) adjusting the percentage of the annual net earnings required to be paid as dividends under the relevant law; and (b) proposing legislation by August 1, 1999, for enactment by its Congress to permit the Borrower to distribute dividends consistent with its obligations under Section 4.04 of the Loan Agreement.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Secretary of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Department of Finance
Department of Finance Building
Roxas Blvd.
Manila
Republic of the Philippines

Cable address:

SECFIN
Manila

Telex:

40268 CBCONF

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 (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

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Vinay Bhargava, Country Director
Authorized Representative

