

CONFORMED COPY

LOAN NUMBER 3804 POL

Loan Agreement

(Debt and Debt Service Reduction Loan)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated October 28, 1994

LOAN NUMBER 3804 POL

LOAN AGREEMENT

AGREEMENT, dated October 28, 1994, between the REPUBLIC OF POLAND (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the international banking community has responded favorably to the Borrower's request, dated May 23, 1994 and denominated "1994 Financing Proposals" (the 1994 Financing Plan), for participation in a debt and debt service reduction program of the Borrower;

(B) the Borrower has requested the assistance of the Bank in financing of a portion of the cost, under the above debt and debt service reduction program, of the Purchase (as hereinafter defined) of the Eligible Debt (as hereinafter defined) and associated interest;

(C) the Borrower has also requested the assistance of the International Monetary Fund for financing a portion of the cost of the debt and debt service reduction program; 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) "Closing Agent" means the closing agent or similar agent appointed by the Borrower for the purposes of concluding the Debt Purchase Agreements (as hereinafter defined);

(b) "Debt Purchase Agreements" mean final legal documentation evidencing the acceptance by the Borrower of the tenders received in response to the Debt Purchase Offer (as hereinafter defined);

(c) "Debt Purchase Offer" means the debt purchase offer made by the Borrower under the agreements entered into pursuant to the 1994 Financing Plan;

(d) "Eligible Debt" has the same meaning ascribed thereto in the 1994 Financing Plan;

(e) "Fiscal Year" means the fiscal year of the Borrower, which begins on January 1 and ends on December 31 of each year;

(f) "Implementation Agreement" means the agreement entered into or to be entered into between the Borrower and the Bank, relating to the use of Set-aside Funds (as hereinafter defined);

(g) "Participating Lenders" mean the commercial banks and other financial institutions with Eligible Debt that have executed the Debt Purchase Agreements;

(h) "Purchase" means the aggregate of cash payments made by the Borrower to Participating Lenders under the Debt Purchase Agreements and to be partially financed out of the proceeds of the Loan; and "Specific Purchase" means the specific portions of the Purchase to be financed out of the proceeds of the Loan under Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement; and

(i) "Set-aside Funds" mean the funds allocated under any other loan made by the Bank to the Borrower for the purposes of financing the carrying out of the 1994 Financing Plan.

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 this Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred and seventy million dollars (\$170,000,000), 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. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made in respect of the reasonable cost of Part A of the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be June 30, 1995 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 January 15 and July 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.

Section 2.08. (a) The Bank may, by notice to the Borrower, require the Borrower to repay, in advance of maturity, such portion of the principal amount of the Loan then outstanding as specified below together with all accrued interest and other charges thereon, if the Bank shall have determined at any time that any amount of the Loan has not been used for the purpose of the Project as set forth in Schedule 2 to this Agreement. In

this case the amount of the Loan subject to prepayment shall be such amount as shall have been so determined.

(b) The Borrower shall inform the Bank of the occurrence of the event listed in paragraph (a) of this Section within five (5) working days of the occurrence thereof.

(c) The Bank hereby waives the payment of any premium payable under Schedule 3 to this Agreement on prepayment of any portion of the Loan pursuant to paragraph (a) of this Section.

(d) Prepayment of all or any portion of the Loan in accordance with paragraph (a) of this Section shall be made on a date and in the currency specified by the Bank and the amount so prepaid shall be deleted from the Central Disbursement Account on such date.

Section 2.09. The Borrower's officers appointed by the representative of the Borrower stipulated in Section 7.01 of this Agreement are hereby designated as representatives of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions including, without limitation, preparing withdrawal applications under the Loan and collecting the documents and other evidence to be furnished to the Bank in support of such applications.

ARTICLE III

Financial Covenants

Section 3.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the payments made in respect of the Project and financed out of the proceeds of the Loan.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section 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 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
- (iii) 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.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) 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 (certificates, contracts, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) 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.

ARTICLE IV

Other Covenants

Section 4.01. (a) The Borrower and the Bank shall, from time to time, at the request of either party, exchange views on the 1994 Financing Plan.

(b) Prior to each such exchange of views in respect of the 1994 Financing Plan, the Borrower shall furnish to the Bank for its review and comment a report on the 1994 Financing Plan in such detail as the Bank shall reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable, in the opinion of the Bank, that the 1994 Financing Plan, or any significant part thereof, will be carried out.

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) that the Borrower has confirmed, in form and substance satisfactory to the Bank, the availability of adequate resources to implement the 1994 Financing Plan;

(b) that the Implementation Agreement has become effective, in accordance with its terms; and

(c) that the Borrower has entered, pursuant to the 1994 Financing Plan, into Debt Purchase Agreements with Participating Lenders for the Purchase of Eligible Debt and associated interest of an amount equivalent to approximately \$1,324,551,405.96, and for the exchange of Eligible Debt (i) for Par Bonds due October 27, 2024 of an amount equivalent to approximately \$929,945,000; (ii) for Discount Bonds due October 27, 2024 of an amount equivalent to approximately \$2,970,214,000; (iii) for RSTA Bonds due October 27, 2024 of an amount equivalent to approximately \$899,841,000; (iv) for PDI Bonds due October 27, 2014 of an amount equivalent to approximately \$2,651,237,000; (v) for Debt Conversion Bonds due October 27, 2019 of an amount equivalent to approximately \$393,017,000; and (vi) for New Money Bonds due October 27, 2009 of an amount equivalent to approximately \$137,556,000.

Section 6.02. The date sixty (60) days from 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 Finance 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 Finance
ul. Swietokrzyska 12
Warsaw, Poland

Telex:

825592 (MINFIN PL)
814386 (MINFIN PL)

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 197688 (TRT),
Washington, D.C. 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 POLAND

By /s/ Jacek Tomorowicz

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kemal Dervis

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Category of expenditures made by the Borrower in respect of the Specific Purchases to be financed out of the proceeds of the Loan and the percentage of expenditures for items so to be financed in such Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Specific Purchases	170,000,000	100% of foreign expenditures
TOTAL	170,000,000 =====	

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for the Specific Purchases.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made (a) in respect of the Specific Purchases unless the Bank shall have approved the procedures for such withdrawals; (b) in respect of any Specific Purchase, unless the Borrower has furnished to the Bank a certificate in form and substance satisfactory to the Bank showing that the corresponding agreement(s) referred to in Part A of the Project, providing for the Specific Purchase, remain in full force and effect; and (c) except as the Bank shall otherwise agree, the Set-Aside Funds are being disbursed concurrently with the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the Borrower's 1994 Financing Plan.

The Project consists of the following parts which are subject to such modifications thereto as the Borrower and the Bank may agree upon from time to time to achieve such objective.

Part A:

Purchase of Eligible Debt and associated interest by the Borrower under the agreement(s) entered into pursuant to the 1994 Financing Plan.

Part B:

Provision of Collateral for the purpose of securing the payment of principal on certain of the debt instruments to be issued pursuant to the 1994 Financing Plan.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15	
beginning July 15, 2000	
through July 15, 2011	7,085,000
And on January 15, 2012	7,045,000

* 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 4

Modifications of General Conditions

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

1. The following provisions of the General Conditions are deleted:
 - (a) The last sentence of Section 3.02.
 - (b) Section 5.02.
 - (c) Section 5.04.
 - (d) Section 5.08.
 - (e) The phrase ", except that the Borrower may not so cancel any amount of the Loan in respect of which the Bank shall have entered into a special commitment pursuant to Section 5.02" in Section 6.01.
 - (f) Clause (c) of Section 6.03.
 - (g) Section 6.04.
 - (h) The phrase "and not subject to any special commitment entered into by the Bank pursuant to Section 5.02" in Section 6.07.
 - (i) Section 9.04.
 - (j) Section 9.05.
 - (k) Section 9.06.
 - (l) Section 9.08.
 - (m) Section 9.09.
2. Section 4.01 shall be modified to read:

"Section 4.01. Currencies in which Withdrawals are to be Made. Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the respective currencies in which the payments to be financed out of the proceeds of the Loan have been made or are to be made."
3. The last sentence of Section 4.02 (a) shall be modified to read:

"Each such amount shall be deleted from the Central Disbursement Account on the date it becomes due or such earlier date as may be accepted by the Bank for prepayment or as may be specified for prepayment pursuant to the Loan Agreement."
4. The second sentence of Section 4.02 (c) shall be modified to read:

"Each such amount shall be deleted from such sub-account on the date it becomes due or such earlier date as may be accepted for

prepayment or as may be specified for prepayment pursuant to the Loan Agreement."

5. Section 5.01 shall be modified to read:

"Section 5.01. Withdrawal from the Loan Account. The Borrower shall be entitled to withdraw from the Loan Account amounts paid for the purposes of the Project in accordance with the provisions of the Loan Agreement and of these General Conditions."

6. Section 5.03 shall be modified to read:

"Section 5.03. Applications for Withdrawal. When the Borrower shall desire to withdraw any amount from the Loan Account, the Borrower shall deliver to the Bank a written application in such form, and containing such statements and agreements, as the Bank shall reasonably request."

7. In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (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."

8. Section 9.07 shall be modified to read:

"Section 9.07. Records and Reports. (a) The Borrower shall: (i) maintain records and procedures adequate to record and monitor the progress of the 1994 Financing Plan (including its cost and the benefits to be derived from it), to identify the payments financed out of the proceeds of the Loan, and to disclose their use in the 1994 Financing Plan; (ii) enable the Bank's representatives to examine the records and documents relevant to the performance of the obligations of the Borrower under the Loan Agreement; and (iii) furnish to the Bank at regular intervals all such information as the Bank shall reasonably request concerning the 1994 Financing Plan, its cost and, where appropriate, the benefits to be derived from it, and the payments financed out of the proceeds of the Loan.

(b) 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 carrying out of the 1994 Financing Plan, its cost and the benefits derived and to be derived from it, 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."

