

CONFIRMED COPY

LOAN NUMBER 4359 KZ

Loan Agreement

(Pension Reform Adjustment Loan)

between

REPUBLIC OF KAZAKHSTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated June 25, 1998

LOAN NUMBER 4359 KZ

LOAN AGREEMENT

AGREEMENT, dated June 25th, 1998, between REPUBLIC OF KAZAKHSTAN (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated May 27, 1998, from the Borrower describing a program of actions, objectives and policies designed to implement the Borrower's structural pension reform (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), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, 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) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "MOLSP" means the Borrower's Ministry of Labor and Social Protection of Population, or any successor thereto;

(c) "National Bank" means the National Bank of the Republic of Kazakhstan, the central bank of the Borrower and regulator of its banks, established and existing under the laws of the Borrower, and includes any successor thereto;

(d) "National Pension Agency" means the National Pension Agency of the MOLSP, the agency which licenses and regulates the non-state pension funds of the Borrower, established pursuant to the Borrower's Government Resolution No. 1108 (dated July 14, 1997), and includes any successor thereto;

(e) "National Securities Commission" means the National Commission of the Republic of Kazakhstan on Securities, established pursuant to Presidential Order No. 3755 (dated November 13, 1997), entitled "On the Approval of the Statute on the National Commission of the Republic of Kazakhstan on Securities," and includes any successor thereto;

(f) "PAYG" means a pension system under which pension payments are made out of current mandatory pension contributions, and referred to in Part 2 of the Concept of the Pension Reform System in the Republic of Kazakhstan, adopted by the Borrower's Government Resolution No. 819 (dated May 12, 1997);

(g) "SAF" means the State Accumulation Pension Fund of the Borrower, the pension accumulation fund managed by the Borrower, established pursuant to the Borrower's Government Resolution No. 1372 (dated September 24, 1997), and includes any successor thereto; and

(h) "SPPC" means the State Pension Payment Center under the MOLSP, the agency established to: (i) act as a clearinghouse for mandatory pension contributions; and (ii) make payments to pensioners under the state pension system, established pursuant to the Borrower's Government Resolution No. 926 (dated June 4, 1997), and includes any successor thereto.

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) and (d) 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 the National Bank, 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:

(i) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$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: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the actions described in Section I of Schedule 3 to this Agreement have been taken; and (C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program;

(ii) after the aggregate of the proceeds of the Loan withdrawn from the Loan Account shall have reached the equivalent of \$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: (A) with the progress achieved by the Borrower in the carrying out of the Program; (B) that the actions described in Section II of Schedule 3 to this Agreement have been taken; and (C) that the Borrower's macroeconomic policy framework is consistent with the objectives of the Program.

(e) 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 ninety (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 July 31, 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 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 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 2.06 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) one half of one percent (1/2 of 1%); and (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 2.05, 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 2.06. Interest and other charges shall be payable semiannually on June 15 and December 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

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 six (6) 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 (p) 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

Termination

Section 5.01. 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

Representatives of the Borrower; Addresses

Section 6.01. The Minister of Finance or the Deputy 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Republican Avenue, 60
Astana,
Republic of Kazakhstan

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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF KAZAKHSTAN

By /s/ Bolat Nurgaliev

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Kiyoshi Kodera

Acting Regional Vice President
Europe and Central Asia

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, unmanufactured, tobacco refuse
122	--	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	--	Radioactive and associated materials
667	--	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold,

silver or platinum
group metals (except
watches and watch
cases) and
goldsmiths' or
silversmiths'
wares (including
set gems)

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Gold, non-monetary
(excluding gold
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)*
December 15, 2003	6,350,000
June 15, 2004	6,540,000
December 15, 2004	6,735,000
June 15, 2005	6,930,000
December 15, 2005	7,135,000
June 15, 2006	7,345,000
December 15, 2006	7,565,000
June 15, 2007	7,790,000
December 15, 2007	8,020,000
June 15, 2008	8,255,000
December 15, 2008	8,500,000
June 15, 2009	8,750,000
December 15, 2009	9,010,000
June 15, 2010	9,275,000
December 15, 2010	9,275,000
June 15, 2011	9,830,000
December 15, 2011	10,120,000
June 15, 2012	10,420,000
December 15, 2012	10,730,000
June 15, 2013	11,045,000
December 15, 2013	11,370,000
June 15, 2014	11,710,000
December 15, 2014	12,055,000
June 15, 2015	12,410,000
December 15, 2015	12,775,000
June 15, 2016	13,155,000
December 15, 2016	13,545,000

June 15, 2017	13,945,000
December 15, 2017	14,355,000
June 15, 2018	14,785,000

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

SCHEDULE 3

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

I. Actions Referred to in Section 2.02 (d) (i) (B) of this Agreement

1. The Borrower has no pension arrears.
2. An agency of the Borrower satisfactory to the Bank has issued the first annual report discussing, to the satisfaction of the Bank, the long-term fiscal costs of the PAYG system and social allowances.
3. The Borrower has issued a report discussing, to the satisfaction of the Bank, strategic actions to be undertaken by the Borrower to strengthen the insurance industry in the areas of annuities, life and disability insurance in the Republic of Kazakhstan.
4. The Borrower has issued domestic government bonds with maturity of two years or longer in a quantity that satisfies reasonable investment requirements of the Borrower's pension accumulation funds.
5. The Borrower's Government has adopted a resolution providing that annual republican budgets submitted to the parliament shall provide for scheduled increases in the minimum pension level, fully adjusted for inflation.
6. The National Bank, National Pension Agency, and National Securities Commission have instituted a reporting system adequate to ensure that they can issue accurate and timely information regarding the performance and progress of the pension system, based on basic monitoring indicators satisfactory to the Bank.
7. The SPPC has prepared and adopted an information technology plan discussing to the satisfaction of the Bank actions to be undertaken by the SPPC to fully computerize and automate the PAYG pension calculation system.
8. The SPPC and SAF have: (a) instituted a financial management system adequate to ensure that they can issue accurate and timely information regarding their operations; and (b) have received an unqualified six-month auditing report, carried out in accordance with auditing standards acceptable to the Bank consistently applied by independent auditors satisfactory to the Bank.

II. Actions Referred to in Section 2.02 (d) (ii) (B) of this Agreement

1. The Borrower has no pension arrears.
2. An agency of the Borrower satisfactory to the Bank has issued the second annual report discussing, to the satisfaction of the Bank, the long-term fiscal costs of the PAYG system and social allowances.
3. The Borrower has issued a report discussing, to the satisfaction of the Bank, the strategy for the provision of mandatory disability and survivors insurance.
4. The Borrower has issued domestic inflation-indexed government bonds with maturity of three (3) years or longer in a quantity that satisfies reasonable investment requirements of the Borrower's pension accumulation funds.
5. The MOLSP has issued a report discussing, to the satisfaction of the Bank: (a) the adequacy of pensions for different groups of employees; and (b) recommendations for actions necessary to adequately address identified retirement income deficiencies.

6. The National Bank, National Pension Agency, and National Securities Commission have each issued on timely basis periodic operational reports, discussing, to the satisfaction of the Bank, the performance and progress of the pension system, based on monitoring indicators satisfactory to the Bank.

7. The SPPC has installed and is operating the computerized and automated PAYG pension calculation system, in accordance with the information technology plan referred to in Section I, paragraph 7 of this Schedule.

8. The SPPC has assigned a unique identification number (SIC) for the purpose of allocating pension contributions to employed persons, and has notified such persons of their identification numbers.

9. The SPPC and SAF have: (a) maintained a financial management system adequate to ensure that they can issue accurate and timely information regarding their operations; and (b) have received an unqualified annual auditing report satisfactory to the Bank, carried out in accordance with auditing standards acceptable to the Bank consistently applied by independent auditors satisfactory to the Bank.

