

EXECUTION VERSION

(Operation Number 39960)

LOAN AGREEMENT

(Sarajevo Water and Wastewater Project)

between

BOSNIA AND HERZEGOVINA

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 23 NOVEMBER 2010

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LOAN AGREEMENT

AGREEMENT dated 23 NOVEMBER 2010 between **BOSNIA AND HERZEGOVINA** (the "Borrower") and **EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT** (the "Bank").

PREAMBLE

WHEREAS, the Bank has been established to provide financing for specific projects to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics;

WHEREAS, the Borrower intends to implement the Project as described in Schedule 1;

WHEREAS, the Project will be carried out by the Limited Liability Company "Vodovod i Kanalizacija Sarajevo" wholly owned by the Sarajevo Canton, (the "Project Entity") with financial assistance from the Borrower;

WHEREAS, the Bank was approached by the Sarajevo Canton seeking assistance from the Bank in financing part of the Project in a letter from the Sarajevo Canton to the Bank dated 29 August 2008.

WHEREAS, the Bank has agreed on the basis of, *inter alia*, the foregoing to make a loan to the Borrower in the amount of EUR 30,000,000 (thirty million) subject to the terms and conditions set forth or referred to in this Agreement and in the project agreement dated the date hereof between the Project Entity and the Bank (the "Project Agreement" as defined in the Standard Terms and Conditions).

NOW, THEREFORE, the parties hereby agree as follows:

ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS

Section 1.01. Incorporation of Standard Terms and Conditions

All of the provisions of the Bank's Standard Terms and Conditions dated 1 October 2007 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Definitions

Wherever used in this Agreement (including the Preamble and Schedules), unless stated otherwise or the context otherwise requires, the terms defined in the Preamble

have the respective meanings given to them therein, the terms defined in the Standard Terms and Conditions have the respective meanings given to them therein and the following terms have the following meanings:

"Borrower's Authorised Representative"	means the Ministry of Finance and Treasury of the Borrower.
"Canton"	means the Sarajevo Canton.
"Financing Agreements"	means this Agreement, the Subsidiary Loan Agreement FBiH, the Subsidiary Loan Agreement Canton, the Subsidiary Loan Agreement PE, the Project Support Agreement and the Project Agreement.
"Fiscal Year"	means the Borrower's fiscal year commencing on 1 st January of each year.
"Federation"	means the Federation of Bosnia and Herzegovina.
"Project Steering Committee"	means the team consisting of representatives from each of the Ministry of Finance of Sarajevo Canton, Ministry of Urban Planning and Utilities of Sarajevo Canton and of the Project Entity, to supervise the work of the Project Implementation Unit and monitor the overall implementation of the Project.
"Project Implementation Unit/PIU"	means the unit established within the Project Entity, to coordinate, manage, and monitor all aspects of the Project implementation, including separation between the regulatory and operational functions, according to the terms of reference satisfactory to the Bank.
"Project Support Agreement "	means the project support agreement to be entered into between the Bank, Canton and the Federation, as such agreement may be amended from time to time.
"Project Agreement "	means the project agreement to be entered into between the Bank and the Project Entity, as such agreement may be amended from time to time.
"Subsidiary Loan Agreement FBiH"	means the loan agreement to be entered into between the Federation and the Borrower pursuant to Section 3.01(a), as such loan agreement may be amended from time to time.

"Subsidiary Loan Agreement Canton" means the loan agreement to be entered into between the Canton and the Federation pursuant to Section 3.01(b), as such loan agreement may be amended from time to time.

"Subsidiary Loan Agreement PE" means the loan agreement to be entered into between the Project Entity and the Canton pursuant to Section 3.01(b), as such loan agreement may be amended from time to time.

Section 1.03. Interpretation

In this Agreement, a reference to a specified Article, Section or Schedule shall, except where stated otherwise in this Agreement, be construed as a reference to that specified Article or Section of, or Schedule to, this Agreement.

ARTICLE II - PRINCIPAL TERMS OF THE LOAN

Section 2.01. Amount and Currency

(a) The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of EUR 30,000,000 (thirty million).

(b) The Loan shall consist of two tranches as follows:

Tranche A: EUR 10,000,000 (ten million) and

Tranche B: EUR 20,000,000 (twenty million).

Section 2.02. Other Financial Terms of the Loan

(a) The Minimum Drawdown Amount shall be EUR 100,000 (one hundred thousand).

(b) The Minimum Prepayment Amount shall be EUR 2,000,000 (two million).

(c) The Minimum Cancellation Amount shall be EUR 2,000,000 (two million).

(d) The Interest Payment Dates shall be 30th March and 30th September of each year.

(e) (1) The Borrower shall repay the Loan in 24 equal (or as nearly equal as possible) semi-annual instalments on 30th March and 30th September of each year, with the first Loan Repayment Date being 30th March 2014 and the last Loan Repayment Date being 30th September 2025.

(2) Notwithstanding the foregoing, in the event that (i) the Borrower does not draw down the entire Loan amount prior to the first Loan Repayment Date

specified in this Section 2.02.(e), and (ii) the Bank extends the Last Availability Date specified in Section 2.02.(f) below to a date which falls after such first Loan Repayment Date, then the amount of each drawdown made on or after the first Loan Repayment Date shall be allocated for repayment in equal amounts to the several Loan Repayment Dates which fall after the date of such drawdown (with the Bank adjusting the amounts so allocated as necessary so as to achieve whole numbers in each case). The Bank shall, from time to time, notify the Borrower of such allocations.

(f) The Last Availability Date shall be 31st December 2013, or such later date that the Bank may in its discretion establish and notify to the Borrower. If the Available Loan Amount, or any part thereof, is subject to a Fixed Interest Rate, and the Bank postpones the Last Availability Date, the Borrower shall promptly pay to the Bank such amount of Unwinding Costs as shall, from time to time, be notified by the Bank in writing to the Borrower.

(g) The rate of the Commitment Charge shall be as follows:

Tranche A - 0.5% per annum.

Tranche B - until 31 December 2011, 0.25% per annum and thereafter, 0.50% per annum.

(h) The Loan is subject to a Variable Interest Rate. Notwithstanding the foregoing, the Borrower may, as an alternative to paying interest at a Variable Interest Rate on all or any portion of the Loan then outstanding, elect to pay interest at a Fixed Interest Rate on such portion of the Loan in accordance with Section 3.04(c) of the Standard Terms and Conditions.

Section 2.03. Drawdowns

The Available Amount under the Loan may be drawn down from time to time in accordance with the provisions of Schedule 2 to finance (1) expenditures made (or, if the Bank so agrees, to be made) in respect of the reasonable cost of goods, works and services required for the Project, and (2) the Front-end Commission.

Section 2.04. Authorised Representative for Drawdowns

The Borrower's Authorised Representative shall take (on behalf of the Borrower) all and any action required or permitted to be taken under the provisions of Section 2.03 and under the provisions of Sections 3.01 and 3.02 of the Standard Terms and Conditions.

ARTICLE III - EXECUTION OF THE PROJECT

Section 3.01 Other Affirmative Project Covenants

In addition to the general undertakings set forth in Articles IV and V of the Standard Terms and Conditions, the Borrower shall, unless the Bank otherwise agrees:

- (a) make available to the Federation the proceeds of the Loan for on-lending to the Sarajevo Canton and further to the Project Entity pursuant to the subsidiary loan agreement (the "Subsidiary Loan Agreement FBiH") on terms and conditions acceptable to the Bank;
- (b) cause the Federation to on-lend to the Canton and further cause the Canton to on-lend, to the Project Entity the proceeds of the Loan pursuant to two subsidiary loan agreements (the "Subsidiary Loan Agreement Canton" and "Subsidiary Loan Agreement PE") on terms and conditions acceptable to the Bank;
- (c) exercise its rights under the Subsidiary Loan Agreement FBiH in such manner as to protect the interests of the Borrower and the Bank, to comply with the provisions of this Agreement and to accomplish the purposes for which the Loan is made;
- (d) not, except as the Bank otherwise agrees, assign, amend, abrogate or waive any provision of the Subsidiary Loan Agreement FBiH; and
- (e) cause the Project Entity to perform all of its obligations under the Project Agreement, including without limitation its obligations relating to:
 - (1) establishment and operation of a project implementation unit as provided for in Section 2.03 of the Project Agreement;
 - (2) procurement of goods, works and services for the Project as provided for in Section 2.04 of the Project Agreement;
 - (3) environmental and social matters as provided for in Section 2.05 of the Project Agreement;
 - (4) employment and use of consultants to assist in the implementation of the Project as provided for in Section 2.06 of the Project Agreement;
 - (5) preparation and submission of reports on matters relating to the Project and to the Project Entity's operations as provided for in Section 2.07 of the Project Agreement;
 - (6) maintenance of procedures, records and accounts, preparation, auditing and submission to the Bank of financial statements and furnishing to the Bank any other relevant information relating to the Project or the Project Entity's operations as provided for in Section 3.01 of the Project Agreement; and
 - (7) compliance with all covenants regarding financial and operational aspects of the Project and the Project Entity as provided for in Sections 3.02, 3.03 and 3.04 of the Project Agreement.

ARTICLE IV - SUSPENSION

Section 4.01. Suspension

The following are specified for purposes of Section 7.01(a)(xvii) of the Standard Terms and Conditions:

the legislative and regulatory framework applicable to the waste water sector in the territory of the Borrower shall have been materially amended, suspended, abrogated, repealed or waived in a manner other than as approved by the Bank in writing.

ARTICLE V - EFFECTIVENESS

Section 5.01. Conditions Precedent to Effectiveness

The following are specified for purposes of Section 9.02(c) of the Standard Terms and Conditions as additional conditions to the effectiveness of this Agreement and the Project Agreement:

- (a) The Financing Agreements (other than this Agreement) shall have been duly executed and delivered and all conditions precedent to their effectiveness (other than the effectiveness of this Loan Agreement) have been fulfilled.
- (b) The Bank shall have received certified copies of the Statute of the Project Entity in a form and substance satisfactory to the Bank.
- (c) The Bank shall have received evidence that the Sarajevo Canton has made annual budget provisions for co-financing of the Project (VAT expenses not eligible for Bank financing).
- (d) The PIU and the Project Steering Board shall have been appointed, the Bank shall have been notified of its proposed composition and the Bank shall be satisfied with its composition.
- (e) Consultants with relevant expertise in international open tendering procedures and with terms of reference acceptable to the Bank, to assist the PIU shall have been contracted by the Project Entity.
- (f) The Bank shall have received a copy of the decision from Sarajevo Canton applying a 20% increase in the tariffs for municipal water and waste water services (expressed in BAM per m³, excluding VAT) from the tariffs applicable as of the date of the Agreement.

Section 5.02. Opinions

For purposes of Section 9.03(a) of the Standard Terms and Conditions, the Bank shall have received legal opinions in form and substance satisfactory to the Bank relating to:

- (a) this Loan Agreement and the Subsidiary Loan Agreement FBiH, from the Minister of Justice of Bosnia and Herzegovina;
- (b) the Subsidiary Loan Agreement FBiH, Subsidiary Loan Agreement Canton and the Project Support Agreement, from the Minister of Justice of the Federation of Bosnia and Herzegovina;
- (c) the Subsidiary Loan Agreement Canton, Subsidiary Loan Agreement PE, and Project Support Agreement, from the Minister of Justice of the Canton; and
- (d) the Subsidiary Loan Agreement PE and the Project Agreement, from the legal counsel of the Project Entity.

Section 5.03. Conditions Precedent to Tranches A and B

- (a) The obligation of EBRD to make the first disbursement under Tranche A shall be subject to the prior fulfilment of the conditions to effectiveness as set out in Sections 5.01 and 5.02 above.
- (b) The obligation of EBRD to make the first disbursement under Tranche B shall be subject to the prior fulfilment, in form and substance satisfactory to EBRD, or at the sole discretion of EBRD the waiver, whether in whole or part and whether subject to conditions or unconditional, of the following conditions precedent:
 - (i) consultants shall have prepared the Financial and Operational Improvement Plan (as that term is defined in the Project Agreement) and Canton and Project Entity shall have approved of the same; and
 - (ii) the Service Agreement (as that term is defined in the Project Agreement) between the Canton and the Project Entity shall have been signed and shall have set the Tariff Formula Mechanism (as that term is defined in the Project Agreement) to allow for the full cost recovery by year 2016.

Section 5.04. Termination for Failure to Become Effective

The date 180 days after the date of this Agreement is specified for purposes of Section 9.04 of the Standard Terms and Conditions.

ARTICLE VI - MISCELLANEOUS

Section 6.01. Notices

The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions:

For the Borrower:

Ministry of Finance and Treasury
Bosnia and Herzegovina
Trg BiH 1
Sarajevo 71000

Attention: Minister of Finance and Treasury

Telephone: +387 33 205 345

Telefax: +387 33 202 930

For the Bank:

European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Attention: Operation Administration Unit

Fax: +44-20-7338-6100

Telex: 8812161

Answerback: EBRD L G

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorised representatives, have caused this Agreement to be signed in eight copies and delivered at Sarajevo, Bosnia and Herzegovina as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By: _____

Name:

Dragan Vrankic
DRAGAN VRANKIC

Title:

MINISTER OF FINANCE AND TREASURY

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

By: _____

Name:

Giulio Moreno
GIULIO MORENO

Title:

HEAD OF OFFICE, EBRD SARAJEVO

SCHEDULE 1 - DESCRIPTION OF THE PROJECT

1. The purpose of the Project is to assist the Project Entity in:

Implementation of the short-term investment programme as defined in the 2010 Feasibility Study carried out by D'Appolonia/APRI. The Feasibility Study defined a three-year short term investment programme that will be implemented in two parts reflecting the two tranches and consists of the rehabilitation and reconstruction of priority components of water supply and wastewater collection system in Sarajevo Canton.

2. The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time:

Part A1: Rehabilitation and reconstruction of priority components of water supply and wastewater collection networks (water supply and sewage pipelines, measurement and control facilities, power supply, pumping and chlorination components)

Part A2: Consultancy Services consisting of services relating to the design of and supervision of and the implementation of the Project including procurement.

Part B1: Continued rehabilitation and reconstruction of priority components of water supply and wastewater collection networks (water supply and sewage pipelines, measurement and control facilities, power supply, pumping and chlorination components)

Part B2: Consultancy Services consisting of services relating to the design of and supervision of and the implementation of the Project including procurement.

3. The Project is expected to be completed by 31 December 2014.

SCHEDULE 2 - CATEGORIES AND DRAWDOWNS

1. The table below sets forth the categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each category, and the percentage of expenditures for items to be financed in each category.
2. Notwithstanding the provisions of paragraph 1 above, no drawdown shall be made until the relevant tranche of the Loan becomes effective.
3. The Bank shall be entitled to draw down on behalf of the Borrower and pay to itself, as and when due, the front-end commission.

Category	Amount of the Loan in the Loan Currency excluding VAT and Custom duties EUR	% of Expenditures to be financed
(1) Goods, Works and contingency	26,200,000	100% (excluding land acquisition, taxes & duties)
(2) Consultancy Services	3,500,000	100% (excluding taxes & duties)
(3) Front-end fee	300,000	
Total	30,000,000	