



S1008779
03/04/12

EXECUTION COPY

(Operation Number 42557)

LOAN AGREEMENT

(Capljina Water Supply Project)

between

BOSNIA AND HERZEGOVINA

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 3 April 2012

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LOAN AGREEMENT

AGREEMENT dated 3 April 2012 between BOSNIA AND HERZEGOVINA (the "Borrower") and EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

PREAMBLE

(A) 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;

(B) WHEREAS, the Borrower intends to implement the Project as described in Schedule 1 which is designed to assist in the expansion of the potable water supply network and improvement of the quality and reliability of the existing water supply system in the Municipality of Capljina;

(C) WHEREAS, the Project will be carried out by JP Komunalno Capljina d.o.o. (the "Project Entity") with financial assistance from the Borrower;

(D) WHEREAS, the Borrower has requested assistance from the Bank in financing part of the Project;

(E) WHEREAS, the Bank intends to make available technical cooperation funds on a grant basis, in an amount of up to EUR 300,000, to assist with the Project implementation;

(F) WHEREAS, the Bank intends to make available technical cooperation funds on a grant basis, in an amount of up to EUR 200,000, to assist with the financial and operational performance improvements in the Project Entity and the preparation of a service agreement to be signed between the Municipality of Capljina and the Project Entity;

(G) WHEREAS, to assist in financing of the Project, the Bank intends to make available a grant in an amount of up to EUR 4,500,000 (the "Grant") financed by the European Union under its national IPA (Instrument of Pre-Accession) Programme for 2010, subject to the terms and conditions to be set forth in a grant agreement to be entered into between the Borrower, the Project Entity and the Bank (the "Grant Agreement");

(H) 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 5,000,000, subject to the terms and conditions set forth or referred to in this Agreement, the project support agreement among the Federation of Bosnia and Herzegovina, the Municipality of Capljina and the Bank (the "Project Support Agreement") and in the project agreement 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 (such provisions are hereinafter called the "Standard Terms and Conditions").

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 Minister of Finance and Treasury of the Borrower.

"Capljina Subsidiary Loan Agreement" means a loan agreement, in form and substance satisfactory to the Bank, to be entered into between the Federation of Bosnia and Herzegovina and the Municipality of Capljina, as such loan agreement may be amended from time to time.

"FBH Subsidiary Agreement" means an agreement, in form and substance satisfactory to the Bank, to be entered into between the Borrower and the Federation of Bosnia and Herzegovina pursuant to Section 3.01(a), as such agreement may be amended from time to time.

"Financing Agreements" means (i) this Loan Agreement, (ii) the FBH Subsidiary Agreement, (iii) the Capljina Subsidiary Loan Agreement, (iv) the PE Subsidiary Loan Agreement, (v) the Project Support Agreement, (vi) the Project Agreement, (vii) the Grant Agreement, and (viii) the TC Grant Agreements.

"Fiscal Year" means the Borrower's fiscal year commencing on 1 January of each year.

"PE Subsidiary Loan Agreement"

means a loan agreement, in form and substance satisfactory to the Bank, to be entered into between the Municipality of Capljina and the Project Entity, as such loan agreement may be amended from time to time.

"TC Grant Agreements"

means the agreements between the Bank and, as applicable, the Project Entity and/or Municipality of Capljina, whereby the Bank undertakes to provide grants financed by donors to fund technical co-operation for the purposes set out in Recitals (E) and (F).

"TC Grants"

means the grants provided pursuant to the TC Grant Agreements.

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

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 5,000,000.

Section 2.02. Other Financial Terms of the Loan

- (a) The Minimum Drawdown Amount shall be EUR 100,000.
- (b) The Minimum Prepayment Amount shall be EUR 1,000,000.
- (c) The Minimum Cancellation Amount shall be EUR 1,000,000.
- (d) The Interest Payment Dates shall be 15 February and 15 August of each year.
- (e)
 - (1) The Borrower shall repay the Loan in 24 equal (or as nearly equal as possible) semi-annual instalments on 15 February and 15 August of each year, with the first Loan Repayment Date being 15 August 2015 and the last Loan Repayment Date being 15 February 2027.
 - (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 30 June 2015, 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 0.5% 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

(a) The Available Amount 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.

(b) The Borrower hereby authorises the Bank to draw down from the Available Amount an amount equal to the Front-end Commission and to pay itself the Front-end Commission on behalf of the Borrower.

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 in writing:

(a) Make available to the Federation of Bosnia and Herzegovina, pursuant to an agreement in form and substance satisfactory to the Bank, the proceeds of the Loan on terms and conditions acceptable to the Bank;

(b) Exercise its rights under the FBH Subsidiary Agreement 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;

(c) Not assign, amend, abrogate or waive any provision of the FBH Subsidiary Agreement;

(d) Cause the Federation of Bosnia and Herzegovina to perform all of its obligations under the Financing Agreements to which it is a party;

(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 from 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;

(f) Take, or cause to be taken, all additional action necessary to provide adequate funds for the completion of the Project.

ARTICLE IV - SUSPENSION; ACCELERATION; CANCELLATION

Section 4.01. Suspension

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

- (a) The legislative and regulatory framework applicable to the water and wastewater sector in the territory of the Borrower shall have been amended, suspended, abrogated, repealed or waived in a manner which in the opinion of the Bank, acting in its sole discretion, makes it impossible for the Project Entity to implement the Project or for the parties to the Financing Agreements to perform their respective obligations thereunder;
- (b) The Statutes shall have been amended, suspended, abrogated, repealed or waived in a manner which in the opinion of the Bank, acting in its sole discretion, materially and adversely affects the operations of the Project Entity or its ability to carry out the Project;
- (c) Control of the Project Entity shall have been transferred to party other than the Municipality of Capljina;
- (d) The Federation of Bosnia and Herzegovina or the Municipality of Capljina shall have failed to perform any of their respective obligations under the Project Support Agreement;
- (e) The Federation of Bosnia and Herzegovina, the Municipality of Capljina or the Project Entity shall have failed to perform any of their respective obligations under the FBH Subsidiary Agreement, the Capljina Subsidiary Loan Agreement or PE Subsidiary Loan Agreement; and
- (f) Any party to the Grant Agreement other than the Bank shall have failed to perform any of its obligations under the Grant Agreement or any of the events described in Section 7.01 (a)(x) of the Standard Terms and Conditions has occurred with respect to the Grant Agreement or any TC Grant Agreement, *mutatis mutandis*.

Section 4.02. Acceleration of Maturity

The following are specified for purposes of Section 7.06(f) of the Standard Terms and Conditions:

- (a) Any of the events specified under Sections 4.01 (a), 4.01(b), 4.01(c), 4.01(d) or 4.01(f) shall have occurred and continued without remedy for thirty (30) days after notice thereof shall have been given by the Bank to the respective party.

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, the Project Support Agreement and the Project Agreement:

- (a) The Project Support Agreement has been executed and delivered, and the execution and delivery of the Project Support Agreement on behalf of each of the

