Execution Version

(Operation Number 55263)

**LOAN AGREEMENT**

**(Serbia Air Quality Improvement Project)**

between

**THE REPUBLIC OF SERBIA**

and

**EUROPEAN BANK**

**FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 11 June 2025

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LOAN AGREEMENT

**AGREEMENT** dated 11 June 2025 between **THE REPUBLIC OF SERBIA** **represented by the Minister of Finance of the Republic of Serbia on behalf of the Government of the Republic of Serbia representing the Republic of Serbia** (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 certain 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 which is designed to assist in decommissioning of environmentally harmful fossil fuel-fired boiler houses (using mainly coal or heavy fuel oil) across the Republic of Serbia.

**WHEREAS,** the Project will be carried out by the Borrower, acting through the Ministry of Environmental Protection (“**MEP**” or the “**Project Entity**”) and the relevant Local Self Governments, namely, Belgrade, Nis, Valjevo, Zajecar, Novi Pazar and Smederevo (each a “**LSG**” and together the “**LSGs**”).

**WHEREAS,** the Borrower has requested assistance from the Bank in financing part of the Project.

**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 50,000,000, subject to the terms and conditions set forth or referred to in this Agreement and in the project agreement between the Republic of Serbia, represented by the Minister of Environmental Protection of the Republic of Serbia, on behalf of the Government of the Republic of Serbia representing the Republic of Serbia and the Bank dated on or around the date of this Agreement (a “**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 5 November 2021 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein (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 of the Borrower.

"Designated Performance

Requirements" means Performance Requirements 1 through 8 and 10 (or, as the context may require, any one of such Performance Requirements) of the Performance Requirements related to the Bank’s Environmental and Social Policy dated April 2019.

“Enforcement Policy and

Procedures” means the Bank’s Enforcement Policy and Procedures dated 4 October 2017.

“Environmental and

Social Action Plan” means the plan of environmental and social mitigation and improvement measures dated 14 February 2025, as such plan may be amended from time to time with the prior written consent of the Bank specifying environmental and social activities, procedures, management systems and standards, capital investments and implementation schedules, including measures to achieve and maintain compliance with EBRD Performance Requirements 1-8 and 10 dated April 2019.

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

“Project Implementation

Unit” or “PIU” means the project implementation unit referred to in Section 3.02.

“Subsidiary Agreement” means each subsidiary agreement, as it relates to a Sub-Project entered into (with the prior written consent of the Bank) between the Project Entity and a public institution located within an LSG.

“Sub-Project” means each investment in the boiler houses located on the territory of the relevant LSG.

## 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 up to EUR 50,000,000.

## Section 2.02. Other Financial Terms of the Loan

(a) The Minimum Drawdown Amount shall be EUR 500,000.

(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 20 April and 20 October of each year.

(e) (1) The Borrower shall repay the Loan in 22 equal (or as nearly equal as possible) semi-annual instalments on 20 April and 20 October of each year, with the first Loan Repayment Date being 20 October 2029 and the last Loan Repayment Date being 20 April 2040.

(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 the date of the fourth anniversary of the date of this Agreement, or such later date requested by the Borrower and approved by the Bank (in its sole discretion). If the Available Amount, or any part thereof, is subject to a Fixed Interest Rate (in case if the Borrower would exercise its right to elect to pay interest at a Fixed Interest rate under Section 2.02(h) below), 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.

(i) The Borrower shall pay to the Bank a front-end commission equal to 1% of the principal amount of the Loan. The Bank shall, on behalf of the Borrower, withdraw such amount from the Available Amount of the Loan on the Effective Date, or within seven (7) days thereafter, as payment of the amount of such front-end commission.

## Section 2.03. Drawdowns

The Available Amount may be drawn down from time to time in accordance with the provisions of Schedule 2 to finance (A) 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 (B) the Front-end Commission.

# 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, acting through the MEP as the Project Entity, shall, unless the Bank, in writing, otherwise agrees:

(a) cause all goods, works and services financed out of the proceeds of the Loan to be used exclusively for the purposes of the Project;

(b) perform all of its obligations under the Project Agreement and each Subsidiary Agreement;

(c) ensure that all of obligations under the Project Agreement and each Subsidiary Agreement are fulfilled;

(d) provide or cause to be provided, when requested, all governmental licenses, approvals or consents required for each Sub-Project, and for carrying out their businesses, including all approvals and licenses necessary to ensure rights of way and other land use rights necessary for carrying out each Sub-Project is granted;

(e) exempt from VAT and custom duties, all goods, works and services (including consultancy services), procured by the Borrower, acting through the MEP as the Project Entity, for the Project and financed from the proceeds of the Loan or any technical cooperation funds made available by the Bank, or provide for their reimbursement;

(f) take all actions necessary to provide adequate funds for the completion of the Project (if required);

(g) ensure satisfactory implementation of the Environmental and Social Action Plan and compliance with the Designated Performance Requirements relating to the project preparation and implementation activities by the Project Entity; and

(h) transfer the assets, if relevant and applicable, to be financed from the proceeds of the Loan for the implementation of each Sub-Project together with the relevant LSG to which the relevant Sub-Project relates.

## Section 3.02. Project Implementation Unit

In order to coordinate, manage, monitor and evaluate all aspects of the implementation of the Project, including the procurement of goods, works and services for the Project, the Borrower, acting through the MEP as the Project Entity, shall, unless otherwise agreed with the Bank (in writing), establish and at all times during execution of the Project operate a project implementation unit with adequate resources and suitably qualified personnel, under terms of reference acceptable to the Bank.

# ARTICLE IV - SUSPENSION; ACCELERATION

## 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 environmental sector in the territory of the Borrower shall have been amended, suspended, abrogated, repealed or waived in a manner other than as approved by the Bank in writing;

(b) the Statutes shall have been amended, suspended, abrogated, repealed or waived; and/or

(c) the Project Entity shall have failed to perform any of its obligations under the Project Agreement.

## Section 4.02. Acceleration of Maturity

The following are specified for purposes of Section 7.06(f) of the Standard Terms and Conditions: if any event specified in Section 4.01 (*Suspension*) shall have occurred and continued without remedy (if capable of remedy) for thirty (30) days after notice thereof has been given by the Bank to the Borrower.

# 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) ratification of the Loan Agreement by the Parliament of the Republic of Serbia;

(b) the Project Agreement, in form and substance satisfactory to the Bank, have been executed and delivered by the respective parties thereto and all conditions precedents to their effectiveness, except only the effectiveness of the Loan Agreement, have been fulfilled;

(c) legal opinion in form and substance acceptable to the Bank from the Ministry of Justice confirming that the Loan Agreement has been duly authorised by the Borrower and constitute valid and legally binding obligations of the Borrower;

(d) legal opinions in form and substance acceptable to the Bank from the Ministry of Justice confirming that the Project Agreement has been duly authorised by the Borrower acting through the MEP and constitute valid and legally binding obligations of the Borrower acting through the MEP; and

(e) provision of each signed Subsidiary Agreement.

## Section 5.02. Conditions Precedent to First Drawdown

The following is specified as a condition to the first Drawdown of the Loan under this Agreement:

(a) the PIU has been established by the Borrower, acting through the MEP as the Project Entity, with adequate resources and suitably qualified personnel, in form and substance satisfactory to the Bank, and is operational;

(b) for each Sub-Project, appointment of an independent engineer by the Borrower, acting through the MEP as the Project Entity, to supervise construction works of each Sub-Project; and

(c) the PIU has prepared a report on the update of the implementation of the Environmental and Social Action Plan, in particular the actions required to be completed prior to the First Draw-Down, in form and substance satisfactory to the Bank.

## Section 5.03. Legal Opinions

(a) For purposes of Section 9.03(a) of the Standard Terms and Conditions, the opinion or opinions of counsel shall be given on behalf of the Borrower by the Minister of Justice.

(b) For purposes of Section 9.03(c) of the Standard Terms and Conditions, the opinions of counsel shall be given on behalf of the Project Entity by the Minister of Justice.

## 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

(a) The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions, except that any notice shall be deemed to be delivered if by hand, mail, or in pdf or similar format by electronic mail:

For the Borrower:

The Republic of Serbia

The Ministry of Finance

Kneza Milosa 20

11000, Belgrade

Serbia

Attention: Minister of Finance

Telephone: +381 11 765 2012

Email: kabinet@mfin.gov.rs

For EBRD:

European Bank for Reconstruction and Development

5 Bank Street

London E14 4BG

United Kingdom

Attention: Banking Services / Operation No. 55263

Telephone: +44 20 7338 6000

Email: bankingservices@ebrd.com

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

**THE REPUBLIC OF SERBIA**

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: Siniša Mali

Title: First Deputy Prime Minister, Minister of Finance

**EUROPEAN BANK**

**FOR RECONSTRUCTION AND DEVELOPMENT**

By: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: Matteo Colangeli

Title: Director, Regional Head of Western Balkans

SCHEDULE 1 - DESCRIPTION OF THE PROJECT

The Project will finance investments into decommissioning of environmentally harmful fossil fuel-fired boiler houses (using mainly coal or heavy fuel oil) across the Republic of Serbia. These boiler houses are mostly located in the inner-city centres in different public entities and represent significant source of greenhouse gases (“GHG”) and pollutant emission, especially during the winter season.

Investments are prioritised as part of the comprehensive feasibility study, with a focus on sustainable heat sources such as heat pumps, industrial and urban waste heat and biomass. In addition, the Project will also finance connection to district heating (“DH”) network where possible as well as preparation of the project documentation for subsequent phases of the Project.

The beneficiaries will be several public entities at the central and local level in charge of operation of polluting boiler houses (ministries, public companies, academic institutions, etc.) located in highly polluted Local Self Governments (“LSGs”), namely, Belgrade, Nis, Valjevo, Zajecar, Novi Pazar and Smederevo covered by the due diligence carried out by the Bank together with MEP as the Project Entity during appraisal of the Project.

The Sub-Projects were assessed and selected through the comprehensive feasibility study which was prepared for this Project.

The Project is expected to be completed by December 2029.

**SCHEDULE 2 - CATEGORIES AND DRAWDOWNS**

1. The table attached to this Schedule sets forth the Categories, the amount of the Loan allocated to each Category and the percentage of expenditures to be financed in 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 in respect of expenditures incurred prior to the date of the Loan Agreement.

**Attachment to Schedule 2**

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan (EUR)** | **% of Expenditures to be financed** |
| 1. Capital expenditures (goods works and services) (including contingency) | 47,000,000 | 100%  (excluding VAT and custom duties) |
| 1. Consultancy services (including design, supervision of works and project implementation support) | 2,500,000 | 100%  (excluding VAT and custom duties) |
| 1. Front-end Fee | 500,000 | 100% |
| **Total** | **50,000,000** |  |