

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7464-YF

Loan Agreement

(Bor Regional Development Project)

between

REPUBLIC OF SERBIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 27, 2007

LOAN NUMBER 7464-YF

LOAN AGREEMENT

Agreement dated July 27, 2007, between REPUBLIC OF SERBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS the Borrower has also requested the Association to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Borrower and the Association (the Financing Agreement), the Association is agreeing to provide such assistance in an aggregate principal amount equal to six million six hundred thousand Special Drawing Rights (SDR 6,600,000) (the Credit).

The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement or the Financing Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty four million three hundred thousand Euro (€24,300,000), as such amount may be converted from time to time through a currency conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to the Financing Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Schedule 2 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions.
- 3.02. (a) Subject to paragraph (b) of this Section, Section 3.02 of the Financing Agreement and Schedules 1 and 2 thereto, except Section IV of Schedule 2, are incorporated into the Loan Agreement, with the following modifications in said Section and Schedules unless the context otherwise requires:
- (i) the term “Association” shall be read as “Bank”;
 - (ii) the term “Recipient” shall be read as “Borrower”;
 - (iii) the term “Credit” shall be read as “Loan”; and
 - (iii) the terms “this Agreement” or “the Financing Agreement” shall be read as “the Loan Agreement”.
- (b) Unless the Borrower has been notified otherwise by the Bank:
- (i) all actions taken, including approvals given, by the Association pursuant to any Sections of, and Schedules to, the Financing Agreement enumerated in paragraph (a) of this Section, as well as pursuant to Section 2.02 of the Financing Agreement, shall be deemed to be taken in the name and on behalf of both the Association and the Bank; and
 - (ii) all information and documentation furnished by the Borrower to the Association pursuant to the provisions of any such Sections of the Financing Agreement or Schedules thereto shall be deemed furnished to both the Association and the Bank.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness, other than those related to the effectiveness of this Agreement, have been fulfilled;

- (b) the Borrower has published a public invitation for the privatization of RTB Core Assets, in a manner satisfactory to the Bank; and
- (c) the Project Operational Manual, satisfactory to the Bank, has been prepared and adopted by the Borrower.

4.02. The Effectiveness Deadline is the date one hundred and fifty (150) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

5.01. The Borrower's Representative is the Minister of Finance.

5.02. The Borrower's Address is:

Ministry of Finance
Government of the Republic of Serbia
Kneza Miloša 20
11000 Belgrade
Republic of Serbia

Facsimile:

+381 11 3618 961

5.03. The Bank's Address is:

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Belgrade, Republic of Serbia, as of the day and year first above written.

REPUBLIC OF SERBIA

By /s/ Mirko Cvetkovic

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Simon Gray

Authorized Representative

SCHEDULE 1**Subsidiary Agreement(s)**

1. To facilitate the carrying out of the Part 2(b)(iii) of the Project, the Borrower shall make available a portion of the proceeds of the Loan, allocated from time to time to Category (4) set forth in the table in paragraph 2 of Part A of Schedule 2 to this Agreement, to the eligible MFI(s) under a subsidiary agreement(s) between the Borrower, or agent thereof, and each MFI, under terms and conditions acceptable to the Bank (Subsidiary Agreement(s)). Except as the Bank shall otherwise agree, such terms and conditions shall include the following:

- (i) each Subsidiary Loan to the MFI(s) shall be denominated and repayable in Euro;
- (ii) the Borrower, or the agent thereof, shall charge the MFI(s) interest on the principal amount withdrawn and outstanding from time to time at the rate equal to Euribor plus up to 1.5 % per annum; and
- (ii) each Subsidiary Loan shall be for a period of five years and shall be repayable in its entirety on the last day of maturity.

2. The Borrower, or agent thereof, shall exercise its rights under the Subsidiary Agreement(s) in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Financing. Except as the Bank shall otherwise agree, the Borrower, or agent thereof, shall not assign, amend, abrogate or waive the Subsidiary Agreement(s) or any of its provisions.

SCHEDULE 2

Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods, Works and Consultants’ Services for Part 1 of the Project	15,354,000	100%
(2) Goods, Consultants’ Services and Training for Part 2(a) of the Project	3,730,170	100%
(3) Goods, Works, Consultants’ Services and Training for Part 2(b)(i) and (ii) of the Project	1,600,000	100%
(4) Microfinance loan under Part 2(b)(iii) of the Project	2,481,000	100%
(5) Incremental Operating Costs, Consultants’ Services and training for Part 3 of the Project	840,000	100%

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(6) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07(b) of the General Conditions
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.08(c) of this Agreement in accordance with Section 4.04(c) of the General Conditions.
(8) Unallocated	294,830	
TOTAL AMOUNT	<u>24,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed €400,000 equivalent may be made for payments made prior to this date but on or after April 27, 2007, for Eligible Expenditures under Categories (1), (2), (3) and (5); and

(b) under Category (4) until the Subsidiary Agreement with a particular MFI has been executed in a manner satisfactory to the Bank.

2. The Closing Date is September 30, 2012.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 beginning August 15, 2012 through August 15, 2023 on February 15, 2024	4.17%
	4.09%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable

on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Definitions

1. “Category” means a category set forth in the table in Schedule 2 to this Agreement.
2. “Financing Agreement” means the agreement between the Borrower and the Association for the Project, of the same date as this Agreement, as such agreement may be amended from time to time. “Financing Agreement” includes all appendices, schedules and agreements supplemental to the Financing Agreement.
3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.