Loan Agreement

(Deposit Insurance Strengthening Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 10, 2014
LOAN AGREEMENT

Agreement dated July 10, 2014, between REPUBLIC OF SERBIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). 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.

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 one hundred forty five million three hundred thousand Euros (EUR 145,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

2.05. The Payment Dates are April 15 and October 15 in each year.
2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (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: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 or the Reference 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.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

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ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) that the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to (i) perform any of its obligations under the Project Agreement; or (ii) carry out its deposit insurance and bank resolution obligations; or

(b) that, the DIF Assets are less than the cumulative amount of the Transfers to DIF, except when the difference can be justified by (i) payments in an equivalent amount made by the Project Implementing Entity to fulfill its deposit insurance and bank resolution obligations, in accordance with the Borrower’s applicable laws and regulations, which payments shall not include repayment of funds borrowed for the above purposes, from entities other than the Borrower; or (ii) an investment loss, when the investment of DIF Assets was made in accordance with the Law on Deposit Insurance.

4.02. The Additional Event of Acceleration consist of, namely, that an event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following:

(a) The Subsidiary Agreement has been executed on behalf of the Borrower and the Project Implementing Entity; and

(b) The Project Operations Manual, satisfactory to the Bank, has been adopted by the Project Implementing Entity.

5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Project Implementing Entity and is legally binding upon the Borrower and the Project Implementing Entity in accordance with its terms.

5.03. The Effectiveness Deadline is the date one hundred and eighty days (180) days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. For the purposes of Section 10.02 of the General Conditions, the Borrower’s Representative who, *inter alia*, may agree to modification of the provisions of this Agreement on behalf of the Borrower, through exchange of letters (unless otherwise determined by the Borrower and the Bank), is its Minister of Finance.

6.02. The Borrower’s Address is:

Ministry of Finance  
20 Kneza Milosa St.  
11000 Belgrade  
Republic of Serbia

Facsimile:  
(381-11) 3618-961

6.03. 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: INTBAFRAD  
Telex: 248423(MCI) or 64145(MCI)  
Facsimile: 1-202-477-6391
AGREED at Belgrade, Republic of Serbia, this of the day and year first above written.

REPUBLIC OF SERBIA

By

Authorized Representative

Name: Lazar Kastić
Title: Minister of Finance

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: A. Verheij
Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to strengthen the financial and institutional capacity of the Project Implementing Entity, so as to enable it to meet its deposit insurance and bank resolution obligations and serve as a core part of financial sector safety net.

The Project consists of the following parts:

**Part 1. Strengthen the Financial Capacity of the Project Implementing Entity**

Provision of financing to the Project Implementing Entity through Transfers to DIF.

**Part 2. Strengthen the Institutional Capacity of the Project Implementing Entity**

Provision of technical assistance for: (A)(i) the improvement of the Project Implementing Entity’s governance bodies’ independence; (ii) the promotion of information-sharing between the Borrower’s financial safety net providers to ensure that the Project Implementing Entity has access to relevant information; (iii) the improvement of the Project Implementing Entity’s capacity to recover assets from bankrupt and liquidated banks; and (iv) the strengthening of the Project Implementing Entity’s information base for early detection and intervention of institutions in the banking sector, including the Borrower’s state-owned banks; and (B)(i) Project management, supervision, monitoring and evaluation activities; (ii) Project management support and capacity building of the Project Implementing Entity in areas such as procurement, financial management; and (iii) Project audits, including the Independent Performance Audit.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall maintain the Project Implementing Entity with the necessary resources to carry out the Project, and with a composition and terms of reference satisfactory to the Bank.

2. The Borrower shall cause the Project Implementing Entity to maintain the PIT at all times during Project implementation with resources and responsibilities satisfactory to the World Bank, including procurement and financial management, and with competent staff in adequate numbers.

3. The Borrower shall cause the Project Implementing Entity to carry out the Project in accordance with the Project Operations Manual, and shall not, and shall cause the Project Implementing Entity to not amend or waive any provision thereto without the Bank’s prior written approval. In case of any conflict between the terms of the Project Operations Manual and the Agreement, the Agreement shall prevail.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity under a subsidiary agreement between the Borrower and the Project Implementing Entity, under terms and conditions approved by the Bank, which shall include the following: (a) the principal amount of the Loan made available to the Project Implementing Entity shall be made available to it as a non-reimbursable grant, or as a loan, or partly as a non-reimbursable grant and partly as a loan; (b) if the principal amount of the Loan, or any part thereof, shall be made available to the Project Implementing Entity as a loan, such loan shall be made in no less favorable terms than the terms of the Loan; and (c) no repayment shall be due to the Borrower for a given period, if, when the payment is due for the given period, or if as a result of the payment being made for said given period, the DIF Assets shall be equivalent to less than 3% of the insured deposits, based on average of the calendar quarter prior to the period for which payment is due (“Subsidiary Agreement”).

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

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Project Operations Manual

1. The Borrower shall cause the Project Implementing Entity to carry out the Project in accordance with the provisions and requirements of an operational manual, in form and substance satisfactory to the Bank (“Project Operations Manual” or “POM”), which shall include, inter alia, the following:

(a) institutional coordination and implementation arrangements and procedures for the Project;
(b) financial management and procurement procedures for the Project;
(c) arrangements for monitoring, evaluation, and reporting of Project implementation, including the necessary protocols to confirm DLI achievement; and
(d) such other administrative, financial, technical and organizational arrangements, requirements and procedures as shall be required for the Project.

2. The Borrower shall cause the Project Implementing Entity to not assign, amend, abrogate or waive the POM, or any of provisions thereof, without the Bank’s prior agreement. In case of any conflict between the terms of the POM and those of this Agreement, the terms of this Agreement shall prevail.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and shall cause the Project Implementing Entity to prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

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2. Without limitation to the provisions of paragraph A.1 of this Section, the Borrower shall cause the Project Implementing Entity to include in each Project Report, a reference to the Borrower’s level of compliance with the DLIs.

B. **Financial Management, Financial Reports and Audits**

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause the Project Implementing Entity to prepare and furnish to the Bank not later than 45 days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

3. The Borrower shall cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one calendar year of the Project Implementing Entity. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

4. In the event that in any given calendar year the DIF Assets become less than the sum of Transfers to DIF made pursuant to this Agreement, the Borrower shall ensure that each audit report referred to in paragraph 3 of this Section shall confirm that the difference is justified by: (i) payments in an equivalent amount made by the Project Implementing Entity to fulfill its deposit insurance and bank resolution obligations, in accordance with the Borrower’s applicable laws and regulations, which payments shall not include repayment of funds borrowed for the above purposes, from entities other than the Borrower; or (ii) an investment loss, when the investment of DIF Assets was made in accordance with the Law on Deposit Insurance.

C. **Independent Performance Audit**

1. No later than three months prior to the end of each calendar year during Project implementation, the Borrower shall cause the Project Implementing Entity to engage, under terms of reference and with qualifications satisfactory to the Bank, a Project Audit Consultant, for purposes of carrying out the Independent Performance Audit.
2. The Borrower shall cause the Project Implementing Entity to ensure independent monitoring and evaluation of the Project, through the carrying out of an Independent Performance Audit certifying the extent to which: (a) Eligible Expenditures under the Project have been incurred in compliance with the arrangements provided for in this Agreement, and in the Operations Manual; (b) the Disbursement-Linked Indicators have been met; and (c) the Additional Instructions have been adhered to by the Borrower.

3. No later than forty-five days after the end of each calendar year during Project implementation, the Borrower shall cause the Project Implementing Entity to furnish to the Bank a complete Independent Performance Audit Report including all the findings and results from the Independent Performance Audit, as well as the certifications from the Project Audit Consultant of the degree of achievement of the Disbursement Linked Indicators.

Section III. **Procurement**

A. **General**

1. **Consultants’ Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

B. **Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Single-source Selection of consulting firms; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.
C. **Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. 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)(the “Additional 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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Transfers to DIF under Part 1 of the Project</td>
<td>144,230,000</td>
<td>100% up to 50,870,000 EUR under DL1 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% up to 10,900,000 EUR under DL12 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% up to 17,800,000 EUR under DL13 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% up to 17,440,000 EUR under DL14 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (expressed in EUR)</td>
<td>Percentage of Expenditures to be financed</td>
</tr>
<tr>
<td>--------------------------------------------------------------</td>
<td>-------------------------------------------------</td>
<td>------------------------------------------</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% up to 10,890,000 EUR under DLI5 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100% up to 36,330,000 EUR under DLI6 as set out in Schedule 4 to this Agreement.</td>
</tr>
<tr>
<td>(2) Consultants’ services and Operating Costs for Part 2 of the Project</td>
<td>706,750</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Front-end Fee</td>
<td>363,250</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>145,300,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. With respect to withdrawals under Category (1), withdrawals from the Loan Account shall be made for a respective DLI upon submission by the Borrower, through the Project Implementing Entity, and pursuant to the Additional Instructions of: (a) evidence satisfactory to the Bank that Transfers to DIF have been made; and (b) supporting documentation confirming the achievement of the respective DLI or DLIs, as set forth in the Project Operations Manual.

3. Notwithstanding the provisions of paragraph 2 above, the Borrower may withdraw an amount not to exceed the equivalent of EUR 54,490,000 as an advance under Category (1); provided, however, that if the DLIs for said Category, in the opinion of the Bank, are not achieved (or are only partially achieved) by the Closing Date, the Borrower shall refund such advance (or proportion of such advance as determined by the Bank in accordance with the formula set forth in the Project Operations Manual) to the Bank upon notice thereof by the Bank. Except as otherwise agreed with the Borrower, the Bank shall cancel the amount so refunded.
4. For the purposes of withdrawals under Category (1):

(a) If the Bank shall determine, based on the evidence referred to in Section IV. B.2 above, as applicable, that the Scalable DLIs (DLI 1.1, 1.2, 1.3 or DLI 2.1 or 2.2) have not been met, or have been only partially met by the target date specified in the table in Schedule 4 of this Agreement, the withdrawn amount of the Loan shall be reduced proportionately on a percentage-basis corresponding to the degree of achievement for the respective DLI in accordance with a formula set forth in the Project Operations Manual.

(b) The Bank may, after consultation with, and by notice to, the Borrower, cancel any amount of the Loan, in whole or in part, withheld pursuant to paragraph B.4 (a) above under Category (1), or reallocate it to another DLI.

(c) The Bank and the Borrower may agree from time to time, by exchange of letters, to adjust the DLIs, corresponding amounts or respective dates for DLIs set forth in Schedule 4 of this Agreement.

5. Notwithstanding the provisions of paragraphs 2, 3 and 4 above, the Bank shall not be required to make further deposits into the Designated Account (as such term is defined in the “World Bank Disbursement Guidelines for Projects” dated May 2006), for Category (1):

(a) if the Bank, at any time, is not satisfied that evidence and supporting documentation referred to in Section B.2 above provide satisfactory information as specified in the Additional Instructions and Project Operations Manual; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section II.C of Schedule 2 to this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section.

6. If the Bank determines at any time that any payment out of the Designated Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Designated Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the
Designated Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

7. Refunds to the Bank made pursuant to paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

8. The Closing Date, after which the Bank may terminate the right of the Borrower to withdraw from the Loan Account in accordance with the General Conditions, is June 30, 2016. Notwithstanding the foregoing, and in accordance with the General Conditions, the Bank may establish a later date for the purpose, by notice to the Borrower.

Section V. Other Undertakings

A. Monitoring Arrangements for the Project Implementing Entity

1. The Borrower shall, at all times, ensure that, the Project Implementing Entity maintains governance arrangements and a financial management system adequate to reflect the operations, resources and expenditures of the Project Implementing Entity, acceptable to the Bank.

2. The Borrower shall ensure that the Project Implementing Entity: (a) prepares and maintains annual financial statements in accordance with consistently applied accounting standards acceptable to the Bank; (b) has such financial statements annually audited by independent auditors in accordance with consistently applied auditing standards; and (c) makes such audited financial statements publicly available and furnishes to the Bank copies of such audited financial statements not later than six (6) months after the end of the financial year.
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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15</td>
<td></td>
</tr>
<tr>
<td>Beginning April 15, 2019 through April 15, 2031</td>
<td></td>
</tr>
<tr>
<td>On October 15, 2031</td>
<td>3.85%</td>
</tr>
<tr>
<td></td>
<td>3.75%</td>
</tr>
</tbody>
</table>

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.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.
SCHEDULE 4

Disbursement Linked Indicators

The DLIs and corresponding amounts may be adjusted from time to time by the Bank and the Borrower, based on the review pursuant to Section IV.B.3 of Schedule 2 to this Agreement.

<table>
<thead>
<tr>
<th>Disbursement Linked Indicator Description</th>
<th>Disbursement Linked Indicator</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
</tr>
</thead>
</table>
| DLI 1. Increase the capital base of the Project Implementing Entity through increased premium-related revenue from banks | DLI#1.1: Premiums equal to 0.15% of insured deposits for each of the first two quarters of 2014 are collected for all banks that are licensed in the Republic of Serbia at the time of collection (insured deposit level is based on average of previous quarter) by November 30, 2014  
DLI#1.2: Premiums equal to 0.15% of insured deposits for each quarter of the calendar year of 2014 are collected for all banks that are licensed in the Republic of Serbia at the time of collection (insured deposit level is based on average of previous quarter) by May 31, 2015  
DLI#1.3: Premiums equal to 0.15% of insured deposits for each quarter of calendar years 2014 and 2015 are collected for all banks that are licensed in the Republic of Serbia at the time of collection (insured deposit level is based on average of previous quarter) by May 31, 2016 | DLI#1.1: 21,800,000  
DLI#1.2: 21,800,000  
DLI#1.3: 7,270,000 |
<p>| DLI 2. Ensure back-up funding for the DIF | DLI#2.1: the Borrower has back-up funding in the budget for financial stability (which includes the DIF) of at least EUR 200,000,000 for 2014, by November 30, 2014 | DLI#2.1: 7,270,000 |</p>
<table>
<thead>
<tr>
<th>Disbursement Linked Indicator Description</th>
<th>Disbursement Linked Indicator</th>
<th>Amount of the Loan Allocated (expressed in EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI#2.2: the Borrower has back-up funding in the budget for financial stability (which includes the DIF) of at least EUR 50,000,000 for 2015, by May 31, 2015</td>
<td>DLI#2.2: 3,630,000</td>
<td></td>
</tr>
<tr>
<td>DLI 3. Improve the Project Implementing Entity’s governance bodies’ independence.</td>
<td>DLI#3.1: One independent board member (as independence criteria is defined in the Project Operations Manual) is appointed and serving as a member of the Project Implementing Entity’s managing board</td>
<td>DLI#3.1: 7,270,000</td>
</tr>
<tr>
<td></td>
<td>DLI#3.2: The Project Implementing Entity’s managing board is constituted by at least three serving independent board members (as independence criteria is defined in the Project Operations Manual) that make up a majority of the board and no Borrower’s ministers</td>
<td>DLI#3.2: 10,530,000</td>
</tr>
<tr>
<td>DLI 4. Improve the Project Implementing Entity’s ability to anticipate and respond to problematic banks</td>
<td>DLI#4.1.: The Borrower’s Financial Stability Committee meets on a quarterly basis for at least two calendar quarters starting on January 1, 2014</td>
<td>DLI#4.1: 3,630,000</td>
</tr>
<tr>
<td></td>
<td>DLI#4.2: The NBS has shared with the Project Implementing Entity the following data for at least one calendar quarter starting on January 1, 2014: (i) the risk profile of all the problematic banks in the Borrower’s territory as computed by the NBS; (ii) conclusion of supervision reports for banks which are considered problematic based on the current legal framework; and (iii) details on all enforcement actions and compliance related to problematic banks</td>
<td>DLI#4.2: 7,270,000</td>
</tr>
<tr>
<td>Disbursement Linked Indicator Description</td>
<td>Disbursement Linked Indicator</td>
<td>Amount of the Loan Allocated (expressed in EUR)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>DL1#4.3.: The NBS has shared with the</td>
<td>DLI#4.3.: The NBS has shared with the Project Implementing Entity the following data for at least five calendar quarters starting on January 1, 2014: (i) the risk profile of all the problematic banks in the Borrower’s territory as computed by the NBS; (ii) conclusion of supervision reports for banks which are considered problematic based on the current legal framework; and (iii) details on all enforcement actions and compliance related to problematic banks</td>
<td>DLI#4.3: 3,630,000</td>
</tr>
<tr>
<td>DL1#4.4.: The Borrower’s Financial</td>
<td>DLI#4.4.: The Borrower’s Financial Stability Committee meets on a quarterly basis for at least eight calendar quarters between 2014 and 2016</td>
<td>DLI#4.4: 2,910,000</td>
</tr>
<tr>
<td>DL1 5. Improve the Project Implementing</td>
<td>DLI#5.1: EUR 20,000,000 recovered from bank bankruptcies and deposited into a Systemically Important Bank (cumulatively since February 1, 2014)</td>
<td>DLI#5.1: 3,630,000</td>
</tr>
<tr>
<td>Entity’s asset recovery process.</td>
<td>DLI #5.2: EUR 50,000,000 Euros recovered from bank bankruptcies and deposited into a Systemically Important Bank (cumulative since February 1, 2014)</td>
<td>DLI#5.2: 3,630,000</td>
</tr>
<tr>
<td></td>
<td>DLI#5.3: EUR 110,000,000 Euros recovered from bank bankruptcies and deposited into a Systemically Important Bank (cumulative since February 1, 2014)</td>
<td>DLI#5.3: 3,630,000</td>
</tr>
<tr>
<td>DL1 6. Ensure that the Borrower and the</td>
<td>DLI#6.1: All banks with at least 20% state ownership (and not in the privatization process) conduct an audit and provide the information to the Borrower’s Ministry of Finance</td>
<td>DLI#6.1: 18,160,000</td>
</tr>
<tr>
<td>Disbursement Linked Indicator Description</td>
<td>Disbursement Linked Indicator</td>
<td>Amount of the Loan Allocated (expressed in EUR)</td>
</tr>
<tr>
<td>------------------------------------------</td>
<td>-------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>DL1 #6.2: The Borrower has collected information on each bank with at least 20% state ownership for at least one calendar year since January 1, 2014, including at least: (i) detailed financial information; (ii) information on asset quality; and (iii) actions needed to meet supervision standards</td>
<td>DL1#6.2: 10,900,000</td>
<td></td>
</tr>
<tr>
<td>DL1#6.3: The Borrower has collected information on each bank with at least 20% state ownership for at least two calendar years since January 1, 2014 including at least: (i) detailed financial information; (ii) information on asset quality; and (iii) actions needed to meet supervision standards</td>
<td>DL1#6.3: 7,270,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>€ 144,230,000</td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX

Section I. Definitions

1. "Additional Instructions" means the additional instructions referred to in Section IV.A.1 of Schedule 2 to this Agreement, dated as of even date herewith, as such Additional Instructions may be revised from time to time by the Bank and delivered to the Borrower.


3. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


6. "DIF Assets" means the assets of the DIF (as such term is used in the Deposit Insurance Law).

7. "Disbursement-Linked Indicator" or "DLI" means an indicator, set forth in Schedule 4 of this Agreement, the achievement of which is a condition for disbursement of Loan Proceeds, pursuant to Section IV.B.3 of Schedule 2 to this Agreement.

8. "Financial Stability Committee" is the Borrower’s committee in charge of discussing financial stability issues, pursuant to Article 12 of Agreement on Financial Stability Committee, between the National Bank of Serbia, the Deposit Insurance Agency, the Government of Serbia (represented by the Ministry of Finance), and the Securities Commission dated, December 6, 2013, or any successor thereto.


10. "Independent Performance Audit" means the annual audit carried out by the Project Audit Consultant, referred to in Section II.C.1 of Schedule 2 to this Agreement.
11. “Independent Performance Audit Report” means the report by the Project Audit Consultant integrating the results of the Independent Performance Audit, to be prepared and furnished to the Bank pursuant to Section II.C.3 of Schedule 2 to this Agreement.


14. “Operating Costs” means the reasonable expenditures incurred by the Project Implementing Entity, through the PIT, for the implementation of the Project on account of translation, interpretation, equipment maintenance and operation, travel costs (transportation, lodging and per diem). Such costs will be financed out of the Loan proceeds pursuant to an annual budget approved by the Bank, and according to the Project Implementing Entity administrative procedures acceptable to the Bank. Operating Costs shall not include salaries of officials of the Borrower’s civil service or of staff of the Project Implementing Entity.

15. “PIT” means the Project implementation team under the Project Implementing Entity, in charge of carrying out the day to day activities under the Project.

16. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated January 23, 2014 and referred to in paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraph.


20. “Project Operations Manual” means the manual referred in Section I.D.1 of Schedule 2 to this Agreement, setting forth the operational and administrative responsibilities, procedures and rules for the implementation of the Project.

21. “Scalable DLIs” means DLI 1.1, 1.2, or 1.3, or DLI 2.1, or DLI 2.2, the degree of achievement of which by a certain date specified in Schedule 4 to this Agreement shall determine the disbursement of the amount individually allocated to such DLIs, on a proportional basis, pursuant to a formula set forth in the Project Operations Manual.

22. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement, pursuant to which the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity.

23. “Systemically Important Bank” means a Systemically Important Bank, as defined pursuant to an agreement between the NBS and the Ministry of Finance, in accordance with the provisions of the Borrower’s Banking Law, and any amendments thereto (Official Gazette 107/2005 and 91/2010).

24. “Transfers to DIF” means periodic transfers of funds to the foreign currency account of the DIF out of the proceeds of the Loan through the designated account (as defined in the Additional Instructions) for the purposes of the Project Implementing Entity providing deposit insurance services and carrying out any bank resolution obligations, in accordance with the Borrower’s applicable laws and regulations; as such transfers shall be made in accordance with the provisions of this Agreement, the Additional Instructions, and on the basis of the criteria and calculations set forth in the Project Operations Manual.