

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 9 September 2026¹

MONTENEGRO

GOLUBOVCI – BAR RAIL RECONSTRUCTION PROJECT

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

¹ As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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ABBREVIATIONS

ABBREVIATION	DEFINITION
BMP	Biodiversity Management Plan
CGAP	Corporate Governance Action Plan
CHA	Critical Habitat Assessment
CIS	Centre for Internet Security
CRP	Cybersecurity Resilience Programme
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
ESIA	Environmental and Social Impact Assessment
EU	European Union
GDP	Gross Domestic Product
GET	Green Economy Transition
GIP	Green Investment Principles
GPMP	Green Project Monitoring Plan
GoM	Government of Montenegro
IFI	International Financial Institution
MoF	Ministry of Finance
MoT	Ministry of Transport
MR	Mutual Reliance
NTS	Non-Technical Summary
OHS	Occupational Health and Safety
OPSCOM	Operations Committee
PA	Paris Agreement
PCR	Project Consultation Report
PIA	Project Implementation Agreement
PIU	Project Implementation Unit
PPR	Procurement Policies and Rules
PSD	Policy Strategy and Delivery
RAM	Railways Administration of Montenegro
RF	Resettlement Framework
RP	Resettlement Plan
SEP	Stakeholder Engagement Plan
SOE	Stated-Owned Enterprise
TA	Technical Assistance
TI	Transition Impact
TC	Technical Cooperation
WBIF	Western Balkans Investment Framework
ZICG	Railways Infrastructure of Montenegro

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Montenegro (the “**Borrower**”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan of up to EUR 50 million for the benefit of Railways Infrastructure Company (“**ZICG**”, the “**Company**” or the “**Client**”), the state-owned railway infrastructure company of Montenegro.

The operation will enable the rehabilitation of approximately 39 km of the existing railway line, including reconstruction of the existing rail stations and stops, between Bar and Golubovci (the “**Project**”). The Bar - Golubovci railway line is a key section of rail Route 4 in Montenegro which is part of the Orient/East Mediterranean Corridor of the Trans-European Transport Network (“**TEN-T**”) indicative extension in the Western Balkans. The Project is a high priority for Montenegro and is included as a flagship investment under the European Union’s (“**EU**”) Economic and Investment Plan for the Western Balkans since it connects Port of Bar on the Adriatic Sea in Montenegro with Serbia, contributing to the improvement of connectivity between these two countries and with the EU markets.

The Project will be co-financed by the European Investment Bank (“**EIB**”) with a sovereign loan of up to EUR 63 million, and the EU through the Western Balkans Investment Framework (“**WBIF**”), with an investment grant of up to EUR 105.8 million and technical assistance (“**TA**”) grants of EUR 11 million for project preparation and implementation support.

The expected transition impact of the Project is derived from the *Well-Governed* quality as the primary quality and the *Green* quality as the secondary quality. The *Well-Governed* quality is supported by sector reforms in Montenegro’s rail industry, including capacity building for the newly established independent Railways Agency which is responsible for overseeing the economic governance of the sector and introduction of cybersecurity measures aligned with ISO 27001 for ZICG. The *Green* quality is supported by financing eligible investments that promote a modal shift to lower-carbon transport. The Project’s Green Economy Transition (“**GET**”) share is 89 per cent.

Technical Cooperation (“**TC**”) support for cybersecurity resilience and for railway sector reform and regulatory capacity building is provided by the Digital Hub Cybersecurity Resilience Programme and the EU Montenegro Reform Facility, respectively.

I am satisfied that the operation is consistent with the Bank’s Strategy for Montenegro 2021-2026, the Infrastructure Sector Strategy 2025-2029, GET 2030 Strategy, the Digital Approach 2026-2030, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

MONTENEGRO - GOLUBOVCI - BAR RAIL RECONSTRUCTION PROJECT - DTM 55166	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to EUR 50 million to Montenegro (the “ Borrower ”) for the benefit of Railways Infrastructure of Montenegro (“ ZICG ”, “ Company ”, the “ Client ”) to finance the rehabilitation of approximately 39 km of the existing railway line, including reconstruction of the existing rail stations and stops, between Bar and Golubovci (the “ Project ”). The Project will be co-financed by the European Investment Bank (“ EIB ”) with a sovereign loan of EUR 63 million and the European Union (“ EU ”) through the Western Balkans Investment Framework (“ WBIF ”), with an investment grant of up to EUR 105.8 million and technical assistance (“ TA ”) grants of EUR 11 million.
Client	The Borrower is Montenegro, represented by the Ministry of Finance (“ MoF ”). The Client and beneficiary is ZICG , a majority state-owned (72%) joint-stock company registered in Montenegro, responsible for the railways infrastructure. Other shareholders include local investment funds (20%) and individual investors (8%) (refer to Annex 3). [REDACTED]
Main Elements of the Proposal	Transition impact: Primary Quality – <i>Well-Governed</i> from the establishment and long-term development of an independent Railway Agency, as well as introduction of cybersecurity measures to align the Client with the CIS18 framework³, (Implementation Group 1) related to cybersecurity controls. Secondary Quality – <i>Green</i> as the investment will enable modal shift to a more efficient and climate friendly mode of transportation. GET share is 89 per cent. Additionality: <i>Financing Structure</i> - the Bank offers long-term financing that is not available in Montenegro from commercial sources on reasonable terms and conditions. EBRD investment is needed to close the funding gap. EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them. <i>Standard setting</i> - EBRD’s involvement in the Project will help the Client achieve higher digital and cybersecurity standards. <i>Sound banking</i> - The transaction is a sovereign loan.
Key Risks	The key risks identified are related to the implementation of the Project within time and budget. This risk is mitigated by the appointment of a project implementation unit (“ PIU ”) established within the Company, supported by an independent project implementation and works supervision consultant financed by the WBIF to ensure smooth implementation. The Project’s procurement will be carried out in accordance with the EIB’s Guide to Procurement (“ GtP ”) based on the EBRD-EIB Procedural framework on Mutual Reliance for Procurement in joint co-financed public sector operations outside the EU (“ MR ”), with the EIB undertaking the role of the lead financier as per the Joint Project Selection Letter between the Bank and the EIB signed in January 2026, followed by a Project Implementation Agreement (“ PIA ”) between the Bank and the EIB signed in July 2026.
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Montenegro 2021-2026, the Infrastructure Sector Strategy 2025-2029, GET 2030 Strategy, the Digital Approach 2026-2030, and with the Agreement Establishing the Bank.

² Article 27 of the AEB provides the basis for this decision.

³ The Center for Internet Controls (CIS18) framework is the best-practice framework of 18 cybersecurity categories designed to mitigate common threats, helping organisations strengthen security through practical safeguards and core cyber hygiene measures such as asset inventory, secure configuration, and incident response.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to EUR 50 million to Montenegro, for the benefit of ZICG. The EBRD financing will be complemented by a sovereign loan of up to EUR 63 million from the EIB signed in December 2025, as well as a WBIF investment grant of up to EUR 105.8 million and WBIF TA grants of EUR 11 million, both administered by the EIB.			
Mutual Reliance	Yes. - EBRD-EIB Procedural framework on Mutual Reliance for Procurement in joint co-financed public sector operations outside the EU – EIB is the lead IFI for procurement; - EBRD-EIB Mutual Reliance and Cooperation Agreement in respect of projects outside the EU dated 23 April 2025 – common appraisal areas include (i) technical and economic assessment, and (ii) procurement, where the EIB undertakes the role of the lead financier as per the Joint Project Selection Letter between the Bank and the EIB signed in January 2026.			
Existing Exposure	Total EBRD sovereign portfolio (sovereign and sovereign guaranteed loans) in Montenegro as of 31 May 2026 stood at EUR 306.6 million, out of which operating assets were EUR 90.2 million. Sovereign loans include eight projects for a total of EUR 190.7 million, out of which five projects are in the transport sector for a total portfolio of EUR 158.7 million and operating assets of EUR 58.2 million, whereas three projects are in the municipal infrastructure with a total portfolio of EUR 32.0 million and operating assets of EUR 0.3 million. The remaining part of EUR 115.9 million are sovereign guaranteed loans related to rail infrastructure, electric bulk power transmission and water and sewage systems.			
Repayment	Tenor of 15 years [REDACTED]			
Potential AMI eligible financing	None.			
Use of Proceeds - Description	The proceeds of the Bank's loan will be used to co-finance the works for the rehabilitation of the Bar-Golubovci rail section, approximately 39 km in length, and reconstruction of the existing rail stations and stops along that rail line (excluding Sozina tunnel as well as three minor tunnels and Tanki Rt bridge, which will be co-financed by the EIB and WBIF). The front-end fee ("FEF") will also be paid from the Bank's loan proceeds.			
Investment Plan	[REDACTED]			
Financing Plan	[REDACTED]			
Key Parties Involved	- Montenegro represented by the MoF – the Borrower. - Ministry of Transport ("MoT") - the line ministry responsible for the Project and sector policy. - ZICG - the Client or Project Entity - EIB and EU/WBIF – the Project co-financiers			
Conditions to disbursement	[REDACTED]			
Key Covenants	[REDACTED]			
Other material agreements	- Project Agreement between the Bank and ZICG - PIA between the Bank and EIB - Loan agreement between Montenegro and EIB - Grant Agreement between EIB and Montenegro for the WBIF grants			
Security /guarantees provided by the client/sponsor and Donor guarantees for the benefit of the EBRD, client or co-financier	Sovereign loan.			
Other donor-supported instruments other than guarantees	Donor instrument	Short description of instrument	CCY & amount	Fund and Donor Name(s)*
	Technical Assistance	Support the Client in aligning with the CIS18 cybersecurity framework, Implementation Group 1 and ISO 27001 (the basic level of industry-accepted cybersecurity controls).	€50,000	Digital Hub Cybersecurity Resilience Programme ("CRP") Donor Funding.

	Technical Assistance	Support to the MoT for capacity building of the recently established Railways Agency.	€300,000	EU Montenegro Reform Facility
	No cost-sharing or other financial contributions will be sought from the Client to the technical assistance.			
[REDACTED]				

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

In recent years, Montenegro has increased investments in its rail sector [REDACTED] ZICG has been a key focus of this effort, undertaking substantial rehabilitation and modernisation of its rail network with support from the EBRD, the EIB and the EU.

Since 2007, the EBRD has supported Montenegro's rail infrastructure sector through reforms and investments, including three loans totalling EUR 51 million for rail infrastructure rehabilitation and emergency works, followed by financing rail maintenance equipment. These investments aimed to improve operational efficiency and safety, align contractual arrangements with international practice, strengthen corporate governance, and develop an internship programme for train drivers in cooperation with vocational schools.

The proposed Project will support the development of a key rail infrastructure in Montenegro between Bar and Golubovci which forms part of the strategic Bar-Vrbnica route (SEETO Rail Route 4/Orient/East Mediterranean Corridor), linking the Port of Bar with Serbia and the wider EU markets. This rail section is essential for regional trade, intermodal connectivity, and improved safety, and is part of the flagship priorities under the EU's Economic and Investment Plan for the Western Balkans.

The Project supports the Bank's green agenda as it will promote modal shift from road to a greener and more sustainable rail transport mode. It will also advance reforms as part of Montenegro's commitment under the Transport Community Treaty and new railway legislation, including the establishment of an independent rail regulator. In addition, through technical assistance, the Project will help enhance ZICG's cyber resilience by aligning with the CIS18 cybersecurity framework (Implementation Group 1). [REDACTED]

The Project's direct impacts include reduced travel time, vehicle operating and maintenance costs, road accidents, and emissions; improved infrastructure condition; better local access; and stronger climate and seismic resilience. Indirect impacts include enhanced connectivity and integration, modal shift from road to rail, improved financial sustainability, greater tourism access, stronger trade and Port of Bar competitiveness, multimodal opportunities, job creation, and capacity building. The Project will also directly support the economic governance of the sector through supporting the formation of an independent regulator in the form of the Railways Agency via technical cooperation assignment.

The Project represents another good example of successful cooperation between the Bank, the EU and the EIB in the Western Balkans. The Project is selected as a "Joint Project" under the Framework Cooperation Agreement signed between EBRD and EIB, which aims to simplify the appraisal process and create synergies between the IFIs for co-financed projects. The cooperation extends further into the implementation phase with the PIA signed between the EBRD and EIB.

The Project is consistent with the Bank's Strategy for Montenegro 2021-2026, as it supports improved connectivity with focus on cross-border transport and encourages cooperation with other IFIs and donors to enhance regional linkages, the Infrastructure Sector Strategy 2025-2029 by supporting rail corridors that are critical to trade development, GET 2030 Strategy, the Digital Approach 2026-2030, and with the Agreement Establishing the Bank.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Primary Quality: Well-Governed

Obj. No.	Objective	Details
1.1	<i>The project and associated TC activities will introduce an autonomous new economic/sector wide regulator (i.e. not just applicable to the project client/stakeholder).</i>	The Project includes TC support for the recently established independent Railways Agency through a) review of its Articles of Association, b) development of guidance on oversight of track access charge; c) preparation of a ‘target model’ for the long-term development of the Agency, and d) training for employees and management of the Railways Agency in key areas of economic regulation.
1.2	<i>The project helps the client achieve industry accepted standards for cyber resiliency and/or higher cybersecurity/data protection regulatory compliance (e.g., ISO 27001, NIS and/or GDPR compliance or equivalent)</i>	The Project supports the Client in aligning with the CIS18 cybersecurity framework (Implementation Group 1) and ISO 27001 standard, strengthening cyber resilience to industry standards by developing cybersecurity governance documents, defining a roadmap for control implementation, and preparing for an external audit. Completed activities include a risk and gap assessment of digital assets, a risk mitigation work plan, staff awareness training, development of key Information Security Management System (“ISMS”) policies and procedures, and identification of CIS18 IG1 / ISO 27001 non-conformities with recommended mitigation measures.

Secondary Quality: Green

Obj. No.	Objective	Details
1.2	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as Green finance share exceeds 60%</i>	The Project promotes a modal shift to lower-carbon transport. The Project is expected to avoid approximately 3,513 tonnes of CO ₂ e emissions annually. The percentage of EBRD proceeds qualifying as Green finance is 89%.

Delivery risks: [REDACTED] These risks are mitigated by the government’s strong commitment to advance the connectivity agenda and the rail sector development through reforms and capacity building with support from EBRD, EU, and EIB. PIU support and supervision TC support will assist with implementation, supervision, and capacity development, led by the EIB as the coordinating IFI.

Digital Approach: The Project supports the Company in aligning with the CIS18 cybersecurity framework (Implementation Group 1), strengthening cyber resilience to industry-accepted standards. This includes developing the necessary documents and processes, supported by an action plan to implement controls and mitigate the identified risks. Risk assessment and gap analysis identified progress in information security but also significant gaps, including outdated IT infrastructure, limited digital tools, and reliance on manual train operations, exposing ZICG to potential cyber threats affecting critical systems such as signalling. The Project aligns with the Adaptation area of EBRD Digital Approach 2026-2030 and contributes to the Well-governed Transition Quality.

1.3 ADDITIONALITY

Identified triggers	Description
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country.	This would be the fourth subsequent transaction with ZICG. The first three transactions (Montenegro Rail Infrastructure Emergency Project –, Montenegro Rail Infrastructure Emergency Project II –and Railways Maintenance Equipment Renewal –) were related to railways infrastructure reconstruction and maintenance equipment purchase.

Additionality sources	Evidence of additionality sources
Financing Structure: EBRD offers a tenor, which is above the market average and is necessary to structure the project. Public Sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	The Bank provides long-term financing, which is not readily available in Montenegro from local or international commercial banks. The proposed tenor and grace period are above the market average and are necessary to structure the Project given its use of proceeds. The Bank's loan is co-financing the Project together with an EIB loan and WBIF grant.
Standard-setting: helping projects and clients achieve higher standards Clients seek EBRD expertise on digital standards and international best practice via the provision of technical assessments, digital strategies and policies, integration of solutions and skills training.	The Bank's experience in financing similar projects, existing long-term relationship with the Government and on-going policy dialogue on sector reform process is highly appreciated by Montenegrin side. Procurement of consultants and works will be carried out through open international tendering and in accordance with the EIB's GtP as per the MR between the Bank and the EIB, whereby EIB will act as the lead IFI. This will ensure application of international best practice in relation to procurement of works. The Project includes a TC to assist the Company with cybersecurity improvement through aligning with the CIS18 cybersecurity framework, Implementation Group 1.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Implementation risk	Medium / High	While the Company has experience with implementation of EBRD and EIB projects, support from international consultants is essential for the Project's effective implementation. The Project's implementation will be supported by international consultants, which will provide procurement, implementation, monitoring, and works supervision support. All contracts will be procured in accordance with the provisions of EIB's GtP. The works will be supervised by an experienced international supervision engineer and the PIU will be staffed with adequate resources assisted by international consultants. The Bank's Project implementation adviser will work closely with the EIB during the Project implementation, as per the MR between the Bank and the EIB.
Cost over-run risk	Medium / Medium	The Project costs are based on the detail design prepared by WBIF-funded consultants and reviewed by the Borrower. The Project's budget includes adequate contingencies (8.5%) to cover any potential cost overruns during implementation. International consultants will support the procurement and implementation of the Project to avoid implementation delays, which could lead to further cost increases.
Sovereign and macroeconomic risk	Low / High	After three years of solid growth, moderation to 2.7 per cent was recorded in 2025, and similar trend continued in Q1 2026, with growth of 2.6 per cent year on year. Growth was driven by services and pick up in electricity production after last year's Pljevlja power plant reconstruction. From expenditure side, private consumption continues to be the main driver, with growing contribution from investments, while net exports continue to weight on growth due to decline in exports. Inflation slowed slightly in the beginning of 2026, after a year of persistent inflationary pressures fuelled by expansionary fiscal policy but increased again to 3.6 per cent in May 2026 on account of higher oil and transport prices. The government reduced fuel excise duties and adjusted pricing mechanisms to mitigate pressures. Following several years of declining general government debt, it rose slightly to 59.8 per cent of GDP in 2024 and further to 63.5 percent in 2025. Available data for central government debt for Q1 2026 show mild decline to around 60 per cent of GDP. The budget deficit increased to 4 per cent of GDP in 2025 due to sharper rise in

Risks	Probability / Effect	Comments
		expenditures, particularly social transfers, transfers to other governments, interest expenses and CAPEX. Further increase was recorded in Q1 2026, when the central government deficit nearly doubled year on year, reaching 1.4 per cent of projected annual GDP. In March 2026, S&P affirmed the B+ rating whereas Moody's confirmed its Ba3 rating and both upgraded the outlook to positive. Growth is projected at 2.9 per cent in 2026, rising to 3.0 per cent in 2027, supported by the EU-accession progress and infrastructure investment. Limited fiscal buffers and lack of diversification leave the economy vulnerable to external shocks. Risks related to the conflict in the Middle East are partly mitigated by potential tourism diversion from countries closer to the conflict.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

TI indicator(s), primary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Legal, institutional or regulatory frameworks in target areas improved	Development of Target Model for long term development and reform of the Railway Agency	No	Yes	[REDACTED]
1.2	Legal, institutional or regulatory frameworks in target areas improved	Implementation of measures defined within the Target Model (regarding corporate governance and workload, staffing, budget and funding, governance arrangements and broader capacity building)	No	Yes	[REDACTED]
1.3	Legal, institutional or regulatory frameworks in target areas improved	Review and update of the Track Access Charging Methodology	No	Yes	[REDACTED]
1.4	Improved Cybersecurity Standards	The Company will demonstrate substantial alignment with one or more aspects of a recognised cybersecurity standards (CIS18 IG1/ISO 27001)	No	Yes	[REDACTED]
1.5	Demonstrated quantitative evidence of client's improved cyber resilience	- Reduction in number of known vulnerabilities facing the internet (12) - Reduction in number of system misconfigurations facing the internet and posing a security risk (4)	16	0	[REDACTED]

TI indicator(s), secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	CO ₂ e emissions reduced (tonnes/year)	The Project is expected to contribute to reduction of approximately 3,513 tonnes of CO ₂ e emissions annually on average. This can be assessed by reviewing actual passenger and freight t/kms vs the modelled Project scenario (86 million p.km and 225 million p.km by 2032).	0	3,513 tCO ₂ /year average	[REDACTED]
2.2	Expected modal shift	The Project will support a faster increase in rail passenger and freight utilisation, reducing road passenger and freight utilisation, compared with the no-project scenario.	69,863,765 passenger km and 160,728,701 ton-km (2025)	86,517,279 passenger km and 225,771,545 ton-km (2032)	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (system reliability)	Quality of the reconstructed Bar-Golubovci rail section will be raised to a higher standard and improved system reliability.	No	Yes	[REDACTED]

3. KEY PARTIES**3.1 BORROWER**

The Borrower is Montenegro, represented by the MoF. The MoT is responsible for the overall management and development of transport sector policies.

In March 2026, S&P affirmed the B+ rating whereas Moody's confirmed Ba3, both upgrading outlooks to positive due to stable fundamentals, manageable debt, and EU accession progress. More details about Montenegro's macroeconomic situation are provided in Section 1.4.

3.2 CLIENT

The Client and the implementing entity is ZICG, Montenegro's railway infrastructure management company. In 2025, the Company reported EUR 17.7 million revenues [REDACTED]. The loan is structured as sovereign financing based on three key determinants: i) strategic prioritization of the Project by the Government of Montenegro, ii) financial dependency of ZICG as a loss-making entity requiring state budget allocations, and iii) substantial grant co-financing secured from the WBIF.

As Montenegro's railway infrastructure manager, ZICG is responsible for construction, modernisation, maintenance, capacity allocation, track access, timetables and traffic regulation. ZICG submits investment plans to the MoT, and once approved, the MoF allocates necessary state budget funding.

ZICG has demonstrated institutional capacity to manage railways infrastructure rehabilitation projects financed by the EBRD and the EIB. [REDACTED] The Company was among the first in Montenegro to adopt the national Code of Corporate Governance.

4. MARKET CONTEXT

Montenegro's main railway network consists of a 167 km line linking the Port of Bar on the Adriatic Sea with Belgrade, via Podgorica, the country's main rail hub. Two additional lines run from Podgorica: a 57 km line northwest to Nikšić and a 25 km line east to the Albanian border. Opened in 1976, the Bar-Belgrade line features 106 tunnels, 107 bridges, steep gradients (2-2.5%), and sections prone to landslides and drainage issues. The Nikšić branch also has steep grades, 9 bridges, and 12 tunnels.

Until 2026, the sector has been regulated by the Rail Administration ("RAM") within the MoT, covering safety, route allocation, timetables, and licensing. The lack of independence between RAM and the MoT was seen a key barrier to the development of an open and competitive market. To address this issue a new regulator – the Railways Agency – was established in January 2026 to take over RAMs' role, although still at an early stage.

Traffic has been stable since 2011, averaging 15 trains per day, including 3-4 freight trains moving about 1.1 million tonnes annually. Freight was unaffected by Covid-19, while passenger volumes, after a sharp decline, recovered to above 2019 levels in 2023.

Infrastructure charges are around EUR 3/train-km on the mainline, with branch line discounts and weight-based adjustments for freight. Passenger trains pay a heavily discounted rate of EUR 0.15/train-km. Given the low traffic density and high maintenance costs, ZICG relies heavily on Government support, which covers annual infrastructure maintenance, loan repayments, and operating subsidies. Maintenance funding began at EUR 6-7 million annually in 2018. On 21 April 2026, ZICG and the Government signed a five-year contract on public infrastructure management. According to the contract the Government undertakes to make monthly payments of EUR 1.25 million to ZICG for maintenance, rehabilitation and network management.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 ECONOMIC ANALYSIS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised A (2019 ESP). The Project consists of the reconstruction of approximately 39 km of existing single-track electrified rail line between the Port of Bar and Golubovci that is crossing Skadar Lake, a sensitive protected area of international, regional and national importance. The Project aims to improve rail safety, energy performance and passenger service quality, while ensuring inclusive access, especially for people with reduced mobility. Reconstruction and modernization work includes track, substructure and slope stabilization, modernization of several railway stations, level crossings safety enhancements along the route, and power supply modernization. Several tunnels, including the 6 km-long Sozina Tunnel and Tanki Rt bridge, are financed by the EIB and are associated facilities for the Project that would be managed in line with the objectives of the EBRD Performance Requirements (“PRs”) and good international practice. Modernization take is almost entirely within the existing railway corridor minimizing the need for new land acquisition and related footprint environmental impacts.

The Project required an international ESIA commenced by independent WBIF consultants in 2024 in line with the EBRD PRs and EIB Environment and Social (“E&S”) Standards. The ESIA is supplementing the national environmental impact assessment (“EIA”) that was prepared during the period 2023-2024 and approved by the competent authorities in May 2025, following public consultations. Critical habitat assessment (“CHA”) has been undertaken in 2025 by an EBRD independent biodiversity consultant. A comprehensive ESIA package includes the ESIA report, an environmental and social management plan (“ESMP”), safety risk assessment, critical habitat and priority biodiversity features assessment, biodiversity management plan (“BMP”), resettlement

framework (“**RF**”), ESAP, stakeholder engagement plan (“**SEP**”), and non-technical summary (“**NTS**”). The package has been prepared in English and Montenegrin and disclosed on 23 March 2026 on the Company's and the Bank's websites for 120 days for public review and comment prior to the Board. Additionally, in line with SEP, the hard copies of SEP and NTS in Montenegrin language have been made available for residents and stakeholders at the local municipalities in Zeta/Golubovci and Bar. ESIA consultation meetings took place at Project locations during the disclosure period, and a project consultation report (“**PCR**”) has been prepared at the end of the 120 days period and disclosed publicly. Stakeholders raised a few concerns related to noise, vibration, and groundwater conditions, which were addressed during the consultation process and have already been considered in the Project's design and technical assessments. It is the aim of the Project to reduce noise and vibration levels compared to existing conditions through upgraded track infrastructure and associated mitigation measures. Groundwater and pore water pressure considerations have been incorporated into the geotechnical design based on detailed site investigations and engineering analyses, and the design has been independently reviewed and approved. Based on the consultation outcomes, no further updates to the ESIA are required. The Project maintains a feedback and grievance mechanism accessible to all stakeholders, as described in the PCR and the SEP.

ESIA studies included review of previous technical studies by KfW, scoping, socio-economic impact assessment in the Project area and region, analysis of alternatives, baseline and assessment of air, noise and vibration impacts, preliminary safety risk assessment, biodiversity impact assessment, and climate change impact assessment, as well as assessment of the cumulative impacts. The Client's E&S capacity is limited and requires strengthening and development of its E&S management systems in line with PR1 to support implementation of the agreed Project commitments. Labour and working conditions requirements, including contractor management and worker grievance mechanisms, are aligned with EBRD PR2 and managed through contractor obligations embedded in procurement documents. Occupational health and safety (“**OHS**”) is a key focus due to the nature of railway works, with risks managed through OHS plans, training and supervision. This is further mitigated via the implementation of the ESAP and ESMP commitments and the PIU support and works supervision.

Crossing of the sensitive protected area of international, regional and national importance Skadar Lake will require careful management of impacts to critical habitat species and priority biodiversity features (“**PBFs**”). Biodiversity assessment concluded that the risks are unlikely to be significant if the construction impacts are well managed. A CHA and BMP have been prepared for the Project and will need to be updated and implemented in line with ESAP by the Client and their contractor 6 months prior to the start of construction, including pre-construction biodiversity surveys, seasonal restrictions on works. Construction phase risks are expected to be managed in line with good industry practice (“**GIP**”) and timing of works. Operational risks are not material, as the speed of the train will not be increased over Skadar Lake causeway minimizing the collision risk for wintering birds. Overall, after the implementation of the mitigation hierarchy, impacts to all species and habitats are managed. The opportunities for net gain have been identified and included in the final revision of the BMP. Relevant measures have been included in the ESAP and ESMP for the Project to align with PR6 requirements. For Sozina Tunnel as associated facility, biodiversity aspects will be managed in line with GIP and objectives of PRs (e.g. bat surveys).

Broader environmental impacts will be mainly construction-related including air emissions, dust, noise, waste generation, fuels and chemicals for equipment, pollution risks to surface and groundwater, impact from works near the embankments – all assessed and addressed through mitigation measures. Construction E&S management plans to be implemented by the contractors, including spill prevention and water protection measures, waste management procedures and hazardous materials management procedures, and emergency response procedures. ESAP includes relevant measures for both construction and operation phases.

E&S due diligence (“**ESDD**”) confirmed that the Project does not trigger any physical resettlement. However, restrictions on the land use along the railway corridor due to safety buffer zones and closure of several informal crossings would potentially cause economic displacement and access restrictions. Detailed design can still be subject to some modifications by the engineering and construction contractor with the micro sitings of the crossings location and temporary construction areas defined at the later stage. Therefore, the ESIA disclosure package includes an umbrella RF outlining Project commitments on the Client side related to land acquisition process and establishes EBRD PR5 requirements. Once the detailed design is completed, the Client with the support of the PIU consultant will need to develop a dedicated resettlement plan (“**RP**”) considering all land use restrictions and impacts derived from safety measures. The RP is required by ESAP prior to construction with EBRD review and no objection.

The construction phase is expected to take place during 2027-2030, and all procurement under the Project will be managed by EIB. The E&S management provisions and final ESMP/BMP requirements will be integrated into tenders and the works’ contract conditions. The Client is required to carry out pre-construction follow-up with the local municipalities and stakeholders to ensure elimination of unauthorized level crossings and further reduce risks from unauthorized access to the rail track by the public. Given spatial constraints around the causeway, design solutions will be closely coordinated by the Client and the contractor with local authorities and stakeholders. ESAP requires design alignment with EU and Montenegrin law prior to construction. In line with the rail and road Safety Risk Assessment conducted as part of ESIA, the ESAP requires: (i) establishing safe pedestrian crossings/walkways, (ii) community education and improved warning signs, and (iii) enforcing compliance in coordination with local authorities/stakeholders. An additional TC for further safety review of pedestrian interaction with access roads and railway by Lake Skadar bridge has been commissioned, and its recommendations will be included during procurement in the contracting for civil works.

The ESIA package includes information on the public consultation undertaken during the national EIA process as well as scoping and targeted stakeholder engagement carried out by ESIA consultants in 2024-2025. Overall, the local community supports the Project, viewing it as a solution to their concerns, such as operational safety, incident prevention and level crossings safety. Additionally, ESIA covers the following issues: limited extent of land acquisition along the railway corridor; temporary or permanent access restrictions after the railway reconstruction due to the closure of multiple unauthorized crossings, and especially in those sections where there are residential and tourist areas (Virpazar, Bistrica, Vranjina, Sutomore, Šušanj, and Bar); protection of cultural-historical sites such as Lesendro fortress and continuity of access; need for consistent and transparent Project disclosure and engagement including overall benefits for the local communities and quality of railway services. To ensure that Project-affected people and broader Project stakeholders are engaged into a meaningful consultation and receive timely Project updates, a dedicated SEP has been developed covering all Project phases to be implemented by the Client.

The Project’s implementation support consultant will provide oversight of ZICG PIU and their contractors on implementation of ESAP and ESMP commitments, and an independent engineer will carry out the works supervision. The Bank will monitor the Project's E&S performance and compliance with EBRD PRs through annual reports from the Client and implementation of the ESAP. The Bank will also undertake monitoring site visits.

6.2 INTEGRITY

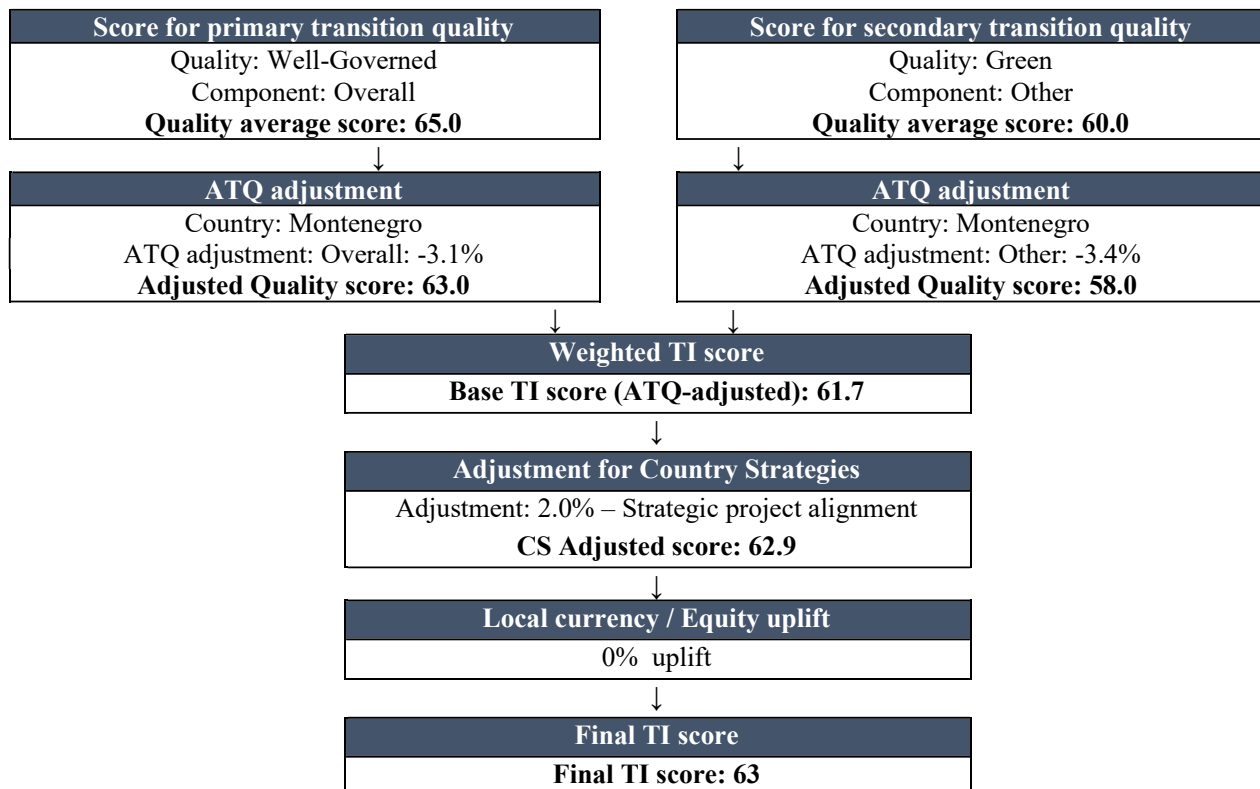
Integrity due diligence, in conjunction with OCCO, was conducted on the Borrower, ZICG, its key principals, and other relevant parties. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Green Assessment
ANNEX 3	ZICG Shareholding Structure
ANNEX 4	Project Implementation

ANNEX 1 - TRANSITION IMPACT SCORING CHART



ANNEX 2 - GREEN ASSESSMENT SUMMARY

SUMMARY

- The Project consists of rehabilitation and reconstruction of existing rail infrastructure.
- The Project is assessed for Paris Agreement (PA) alignment and GET.
- As a sovereign transaction, Climate-related Financial Risk analysis is not undertaken.
- The Project is assessed as positively aligned for both mitigation and adaptation goals of the Paris Agreement.
- The Project is attributed as 89% GET.

PARIS ALIGNMENT ASSESSMENT

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project/economic activity is **included** in the 'aligned list'. The Project is included in the 'aligned list' under the category 'rail infrastructure'.
- Regarding Project/economic activity(ies), there are **no** activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

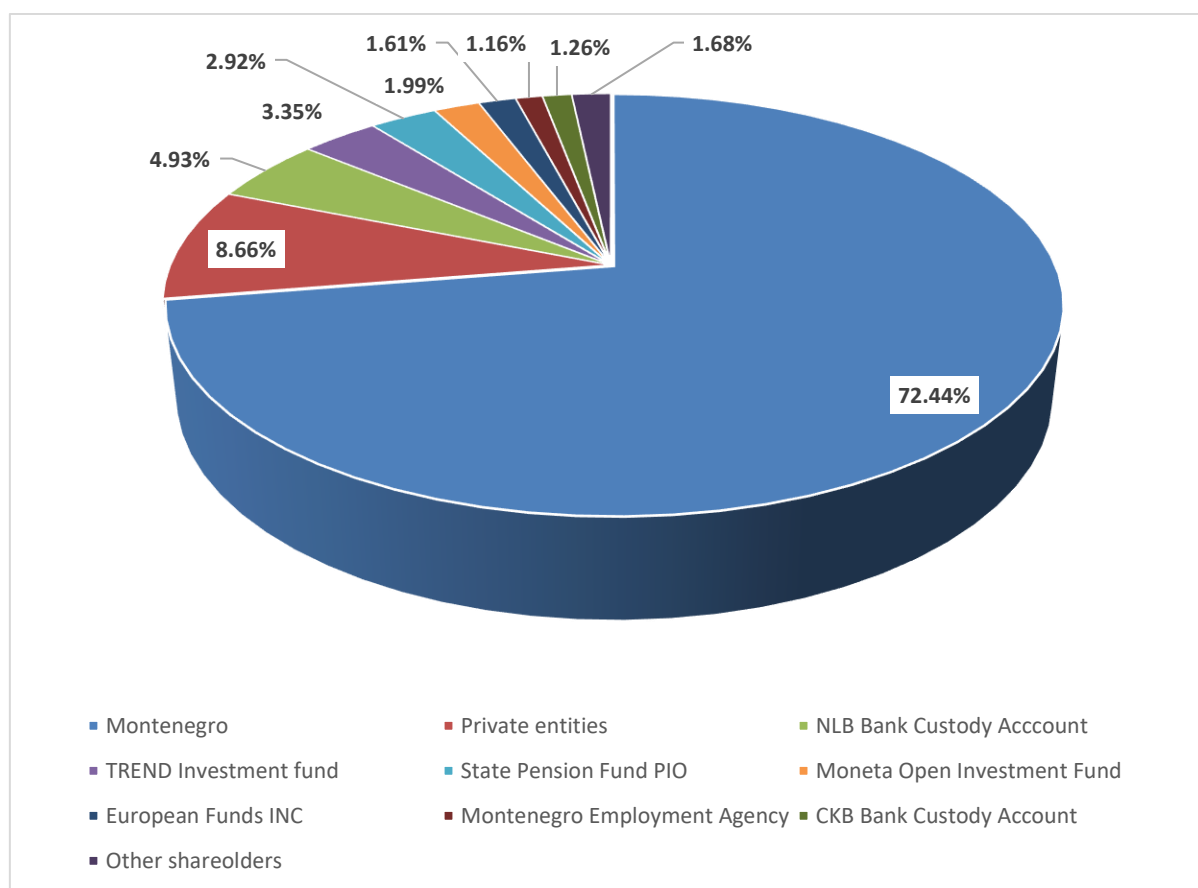
As the Project satisfies all three steps of the BB2 assessment, the Project is considered as aligned with the adaptation goals of the Paris Agreement.

GREEN FINANCE ATTRIBUTION

The Project use of proceeds is dedicated to reconstruction and rehabilitation of rail infrastructure. The Project results in emissions savings of 3,513 tCO₂/year average, due to modal shift from road to rail. Fossil fuel transit by volume is estimated at 11% of total volume on the infrastructure (noting that there is a decreasing trend). In line with the Green Finance handbook, the Project is attributed as 89% GET.

[REDACTED]

ANNEX 3 - ZICG SHAREHOLDING STRUCTURE



ZICG Shareholding Structure as of 26 July 2026

ANNEX 4 - PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

Project risk assessment:

Overall risk rating - High, based on Country and Client's risk assessment

The Client's capacity assessment related risk - High

Contracts risk assessment - High

[REDACTED]

The Client's capacity assessment related risk – High

The Project will be implemented by the PIU, to be created by the Company. It has to be noted, that the Client has some previous experience with IFIs procurement procedures.

[REDACTED]

In order to mitigate implementation related risks, the Project envisages the engagement of the Project implementation support consultant and supervision services, to be managed by the EIB. The responsibilities and tasks of the Project implementation support consultant will be agreed between the Bank, the EIB and the Client.

Contracts risk assessment – High

[REDACTED] The Bank's loan will be used to finance rail rehabilitation works of the Bar-Golubovci section of 39 km of open railway line (excluding 6.54 km long railroad superstructure in Sozina, other three minor tunnels and Tanki Rt bridge, which will be financed by EIB loan and WBIF investment grant), 17 km of station tracks and 6 km of shunting tracks, including reconstruction of three rail stations, 11 bridges, as well as signalling and telecommunication optical hard limiter ("OHL") and electric train service ("ETS") on the line between Bar and Podgorica.

In general, the works contracts are considered complex and require high dedication from experienced staff. Management of a procurement process and implementation of works based on EIB's GtP could prove challenging for the Client with limited familiarity with international procurement standards and limited in-house capacity.

The support of an experienced Project Implementation Unit (PIU) support consultant will ensure that technical specifications, employer's requirements and tender documents are suitable for open tendering and aligned with EIB's GtP. Moreover, it will also ensure that the procurement and contracting process is conducted in a fair and transparent manner. Additionally, the support of a Works Supervision consultant will help the Client to cope with the high workload that a day-to-day site supervision requires while ensure support from best international consultants specialized in supervision of railway works contracts. This will reduce the implementation risks associated with delays and cost overruns.

All contracts will be tendered out as open tender in accordance with the EIB Guide to Procurement and the works contracts will be based on FIDIC General Conditions of Contract.

Project implementation arrangements:

The Company will delegate the implementation responsibility to the PIU, which will have the overall responsibility for the implementation of the Project.

The Project set up will include the support of the Project implementation support consultant and supervision services, selected and managed by EIB. The PIU will be supported by an experienced international consultant who will be responsible for hands-on support in all planning, project management and procurement processes. The PIU consultant will assist the PIU in all aspects of implementation and in meeting the requirements of the Bank's financing documents. In particular, the consultant will provide support in the areas of project preparation and preparation of tender documents (including technical specifications).

Moreover, an international consultant will be appointed as supervision engineer. It will act on the Client's behalf during the implementation of the envisaged contracts.

The Project set up is considered adequate for addressing the perceived Project implementation risks.

Procurement arrangements:

The Project will be co-financed by EBRD and EIB, where EIB is in the role of lead-financier, and thus all procurement under the Project follows EIB's GtP. This approach is in line with the EBRD PPR sub-clause 2.6(a). The EIB procurement rules are in line with the EBRD procurement policy principles. A project specific Project Implementation Agreement was signed between the EBRD and the EIB, under the existing "Procedural Framework between the European Bank for Reconstruction and Development and the European Investment Bank in respect of Mutual Reliance for procurement in joint co-financed public sector operation outside the European Union" (2020).

The Bank will co-finance CAPEX contracts only, procured using EIB Open International Procedure, as detailed in the procurement plan. .

The Project also envisages consultancy contracts to support the PIU along the entire project cycle by covering procurement support, monitoring the implementation of the Project and ensuring the comprehensive supervision of civil and electromechanical works.

The procurement of works and services will be conducted and monitored by the EIB in accordance with the EIB's Guide to Procurement.

Procurement Plan

[REDACTED]