

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

Approved by the Board of Directors on 9 September 2026¹

BOSNIA AND HERZEGOVINA

Elektrokrajina - Grid rehabilitation and upgrade

[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.

TABLE OF CONTENTS

TABLE OF CONTENTS	2
ABBREVIATIONS / CURRENCY CONVERSIONS.....	3
PRESIDENT’S RECOMMENDATION	4
BOARD DECISION SHEET	5
ADDITIONAL SUMMARY TERMS FACTSHEET.....	6
1. STRATEGIC FIT AND KEY ISSUES.....	7
1.1 STRATEGIC CONTEXT.....	7
1.2 TRANSITION IMPACT	8
1.3 ADDITIONALITY	9
1.4 SOUND BANKING - KEY RISKS	10
2. MEASURING / MONITORING SUCCESS.....	12
3. KEY PARTIES	13
3.1 BORROWER.....	13
3.2 CLIENT	13
4. MARKET CONTEXT	14
5. FINANCIAL / ECONOMIC ANALYSIS	14
5.1 MACROECONOMIC OUTLOOK FOR BiH	14
5.2 ECONOMIC ANALYSIS.....	15
5.3 PROJECTED PROFITABILITY FOR THE BANK.....	16
6. OTHER KEY CONSIDERATIONS.....	16
6.1 ENVIRONMENT	16
6.2 INTEGRITY.....	17
6.3 OTHER ISSUES.....	18
ANNEX 1: TRANSITION IMPACT SCORING CHART	21
ANNEX 2: GREEN ASSESSMENTS	22
ANNEX 3: PROJECT IMPLEMENTATION	23

ABBREVIATIONS / CURRENCY CONVERSIONS

AESR	Annual Environmental and Social Report
BiH	Bosnia and Herzegovina
BAM	Bosnian Convertible Mark
CBAM	Cross Border Adjustment Mechanism
CAPEX	Capital Expenditure
CO ₂	Carbon Dioxide
CP	Condition Precedent
DERK	State Electricity Regulatory Commission
DSO	Distribution System Operator
E&S	Environmental and Social
EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortisation
EPRS	Elektroprivreda Republike Srpske
ESAP	Environmental and Social Action Plan
ESR	Environmental and Social Requirement
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
EIRR	Economic Internal Rate of Return
ENPV	Economic Net Present Value
ESMP	Environmental and Social Management Plan
ESDD	Environmental and Social Due Diligence
ESP	Environmental and Social Policy
EU	European Union
FBiH	Federation of Bosnia and Herzegovina
FX	Foreign Exchange
GESF	Green Energy Special Fund
GET	Green Economy Transition
IFI	International Financial Institution
LSA	Loan Support Agreement
LV	Low Voltage
MV	Medium Voltage
NTS	Non-technical Summary
NECP	National energy and climate plan
PIA	Project Implementation Advisor
PIU	Project Implementation Unit
PP&R	Procurement Policies and Rules
PSD	Project Summary Document
RAB	Regulated Asset Base
RE / RES	Renewable Energy / Renewable Energy Sources
RERS	Regulatory Commission for Energy of RS
RAROC	Risk Adjusted Return on Capital
RS	Republika Srpska
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SEP	Stakeholder Engagement Plan
SSF	Shareholder Special Fund
TC	Technical Cooperation

CURRENCY EQUIVALENTS

Country's Currency Unit	=	Bosnian Convertible Mark (BAM)
1 BAM	=	0.51 EUR as of 8 July 2026

WEIGHTS AND MEASURES

1 Megawatt (MW)	=	1,000 kilowatts (10 ³ kW)
1 Gigawatt (GW)	=	1 million kilowatts (10 ⁶ kW)

PRESIDENT'S RECOMMENDATION

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

The facility will consist of a sovereign loan of up to EUR 38.0 million to Bosnia and Herzegovina, the proceeds of which will be on-lent for the benefit of ODS Elektrokrajina a.d. Banja Luka (the “Company”), one of the electricity distribution system operators present in Republika Srpska, one of the two entities of BiH. The loan will be used to finance critical and overdue capital investments for the rehabilitation and upgrade of the core electricity distribution network across the Company’s service area, covering five cities and sixteen municipalities, including Banja Luka, and will also refinance a portion of legacy EBRD/GESF debt (the “Project”).

The Project will support the modernisation, reliability and efficiency of the electricity distribution system through the rehabilitation of medium- and low-voltage networks and associated equipment. The investments will strengthen system stability and enable the integration of additional renewable energy capacity into the grid. The Project is aligned with BiH’s strategic objectives to strengthen energy security and resilience, reduce technical losses, facilitate the energy transition and improve quality and reliability of electricity supply for households and businesses.

The expected transition impact of the Project derives from (i) the *Resilient* transition quality, by strengthening critical energy infrastructure and improving security and reliability of electricity supply; and (ii) the *Green* transition quality, by reducing technical losses, improving energy efficiency and supporting the decarbonisation objectives of the energy sector.

Technical cooperation support of EUR 190,000 for this operation is planned to be provided by EBRD’s Shareholder Special Fund to support project implementation, including environmental and social compliance, and strengthen cybersecurity resilience of the Company.

I am satisfied that the operation is consistent with the Bank’s Strategy for Bosnia and Herzegovina, the Energy Sector Strategy, the Green Economy Transition Approach, the EBRD Digital Approach 2026-2030, and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

Bosnia and Herzegovina – Elektrokrajina Grid rehabilitation and upgrade – DTM 57153	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up-to EUR 38 million to Bosnia and Herzegovina (the “Borrower”), to be on-lent to ODS Elektrokrajina a.d. Banja Luka (the “Company”) through Republika Srpska (“RS”). The transaction will finance the rehabilitation and upgrade of medium- and low-voltage electricity distribution networks and associated power facilities in the greater Banja Luka area[REDACTED] (the “Project”).
Client	Bosnia and Herzegovina is represented by the Ministry of Finance and Treasury of BiH. Funds will be down-streamed to the public electricity distribution Company operating in the greater Banja Luka city area. The Company is majority-owned (c.70 per cent) by Elektroprivreda Republike Srpske (“EPRS”), the state-owned integrated power utility of RS, with the remaining shares held by various investment funds. The Company is listed on the Banja Luka Stock Exchange.
Main Elements of the Proposal	<u>Transition impact:</u> <i>Resilient:</i> The Project enhances the resilience of the electricity distribution network in RS by improving reliability, flexibility and operational performance. It will improve quality of service, reduce outages and strengthen the Company’s capacity to meet future demand and climate-related challenges, while demonstrating modern distribution system practices. The Project will also benefit from Digital Hub TC support, to help the Company strengthen its cybersecurity resilience. This will include a gap analysis of the Company’s cybersecurity posture, a roadmap for mitigation, as well as an additional gap analysis and plan for enhancing grid resilience and elevating standards for RES, including related to supply chain security. <i>Green:</i> The Project is aligned with the Bank’s Green Economy Transition (“GET”) Strategy, with a GET share of 79 per cent. It will improve energy efficiency through the reduction of technical losses and facilitate the integration of distributed renewable energy generation. <u>Additionality:</u> <i>Financing terms:</i> The Bank provides long-term sovereign-backed financing, on terms not available to the Company in the local or regional market, including extended tenor and grace period to match the nature of the infrastructure. <i>Standards and procurement:</i> The Company will undertake the procurement of all Bank financed contracts under the Project in line with the Bank’s Procurement Policies and Rules and operate in adherence to the Bank’s Environmental and Social Policies. <u>Sound banking</u> – The transaction is a sovereign loan to Bosnia and Herzegovina, on-lent to the Company. Bosnia and Herzegovina is rated B+ (Stable) by S&P and B3 (Stable) by Moody’s. The sovereign structure provides strong credit support and mitigates repayment risk for financing essential electricity distribution infrastructure.
Key Risks	Project implementation risk: the risk of delays in project implementation is mitigated by the Company engaging an experienced external PIU consultant to assist. Credit, regulatory and cybersecurity risks are mitigated by the sovereign structure, regulated tariff framework and cybersecurity technical assistance.
Strategic Fit Summary	The Project is aligned with the Bank’s Strategy for Bosnia and Herzegovina 2022-2027, which supports closing infrastructure gaps and promoting the country’s low-carbon transition, and with the Bank’s Energy Sector Strategy 2024-2028, which prioritises resilient and efficient energy systems, upgraded power networks and integration of renewable energy. The Project is also consistent with the Green Economy Transition Strategy and is Paris aligned, as it is expected to reduce technical losses, improve energy efficiency and reliability, and enable greater integration of distributed renewable generation. Finally, the Project is aligned with the Adaptation area of the EBRD Approach to Accelerating the Digital Transition 2026-30, as it will enable the Company to improve its cybersecurity resilience.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan of up to EUR 38 million to Bosnia and Herzegovina (the “ Loan ”), on-lent to ODS Elektrokrajina a.d. Banja Luka (the “ Company ”). Bosnia and Herzegovina (“ BiH ”) is rated B+ (Stable) by S&P and B3 (Stable) by Moody’s. The loan will finance electricity distribution network rehabilitation and upgrade investments[REDACTED].			
Mutual Reliance	Not applicable.			
Existing Exposure	As of 31 May 2026, the Bank’s total sovereign exposure to BiH was EUR 1,168 million. Operating assets stood at EUR 735 million, all of which was in infrastructure. Non-sovereign exposure to the Client: 47658 Elektrokrajina power distribution project[REDACTED].			
Repayment	Tenor of up to 20 years[REDACTED].			
Use of Proceeds - Description	The proceeds of the Loan will be used to finance the rehabilitation and reconstruction of deteriorated medium- and low-voltage electricity distribution networks operated by the Company[REDACTED] (the “ Project ”). The Project will cover up to 700 km of medium-voltage and up to 1,000 km of low-voltage network, including replacement of outdated electricity distribution assets associated with the grid. [REDACTED]			
Investment Plan	[REDACTED]			
Financing Plan	[REDACTED]			
Key Parties Involved	Borrower: Bosnia and Herzegovina (sovereign); Supporting Entity: Republika Srpska; Project Company: ODS Elektrokrajina a.d. Banja Luka.			
Conditions to disbursement	[REDACTED]			
Key Covenants	[REDACTED]			
Other material agreements	- Project Implementation Agreement between the Bank and the Company - Loan Support Agreement between the Bank and the Supporting Entity			
Security /guarantees	None.			
Other donor-supported instruments other than guarantees	TA	Detailed technical, economic, environmental and social assessment of the Project	€75,000	EBRD SSF
	TA	Assist the Company with procurement, contract signing and management, and implementation monitoring	€75,000	EBRD SSF
	TA	Cybersecurity Due Diligence and Implementation Support	€40,000	EBRD SSF
	<i>Reimbursement and Cost sharing:</i> The above TC assignments are non-reimbursable transactional TCs required to structure the Project and achieve the Project’s objectives. The Borrower/Company will be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignments where the Company is the contracting party as a parallel contribution to the Project (VAT is levied at 17 percent in BiH).			
[REDACTED]				

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

The power sector in Bosnia and Herzegovina (the “**BiH**”) remains highly exposed to ageing coal-based infrastructure, with thermal power plants still accounting for around 60 per cent of electricity generation. Decarbonisation has been slow, while the reliability of the existing system is weakening due to old thermal units, coal supply constraints, plant outages, low hydrology and decades of underinvestment across the grid. Although BiH has historically been a net electricity exporter, this position became less secure in 2024 when domestic electricity production fell by 7.6 per cent, imports increased by 29 per cent, and exports declined by 9 per cent. The introduction of the EU’s Cross Border Adjustment Mechanism (“**CBAM**”) is expected to place further pressure on the competitiveness of BiH’s carbon-intensive electricity exports. Moreover, at COP29, the BiH government signed the Global Energy Storage and Grids Pledge, which recognises grid modernisation, resilience and efficiency as key enablers of renewable-energy integration and energy security.

The sector therefore faces a dual challenge: replacing an ageing and increasingly unreliable generation base while modernising the network infrastructure needed to maintain security of supply and integrate new renewable capacity. This is particularly relevant at the distribution level, where deteriorated medium voltage (the “**MV**”) and low voltage (the “**LV**”) assets, high losses, frequent outages and limited hosting capacity are already constraining both service quality and the connection of new customers and distributed renewable energy sources.

The Company is one of the largest electricity distribution system operators in Bosnia and Herzegovina and the largest in Republika Srpska (the “**RS**”), serving approximately 282,000 consumers, a population of approximately 577,000 people, across five cities and sixteen municipalities. Its geographically dispersed service area relies on approximately 23,100 km of predominantly overhead MV and LV network, much of which has suffered from prolonged underinvestment. Many transformers are over 40 years old, 10 kV cables were laid more than half a century ago, 36 per cent of MV poles and 62 per cent of LV poles are wooden, and long sections continue to use bare conductors, leaving the network particularly exposed to strong winds, wet snow, ice loading, vegetation and mechanical failure. These vulnerabilities translate into poor reliability: in 2025, the network recorded average outage duration of 807 minutes per customer (SAIDI) and average frequency of interruptions of 14.19 per customer (SAIFI), than the relevant similarly-organised DSOs in Romania and Poland that reported 2024 averages of 170-240 minutes SAIDI and 2.0-2.3 SAIFI, respectively. The deteriorated network also limits capacity to accommodate new demand and distributed generation.

The Project is therefore a targeted resilience intervention rather than routine network replacement. By replacing deteriorated poles, insulators and exposed conductors and installing additional sectionalising equipment, it will address the principal physical causes of network failures, reduce weather- and vegetation-related faults, enable faster

isolation of affected network sections and shorten restoration times. The technical due diligence estimates an improvement of approximately 15-20 per cent in the principal reliability indicators. The benefits will accrue directly to households, businesses, public institutions and essential services through fewer and shorter interruptions, safer infrastructure and reduced maintenance disruption. Stronger and higher-capacity MV and LV networks will also support additional demand and distributed renewable generation; the Company's network already accommodates 873 distributed producers and prosumers with approximately 179 MW of connected capacity. The Project is therefore both a climate-adaptation measure and an enabling investment for BiH's energy transition, addressing essential infrastructure needs whose benefits extend beyond the Company's immediate service area.

The proposed Project also builds on the Bank's previous support to the Company (*the 2016 Elektrokrajina Power Distribution Project*). Previous Bank-financed investments, together with the Company's April 2021 reorganisation, which unbundled electricity distribution from supply activities, repositioned the Company as a pure distribution system operator. [REDACTED]

[REDACTED]

The Project is aligned with the Bank's Strategy for Bosnia and Herzegovina 2022-2027, which supports closing infrastructure gaps and promoting the country's low-carbon transition, and with the EBRD Energy Sector Strategy 2024-2028, which prioritises resilient and efficient energy systems, upgraded power networks and integration of renewable energy. The Project is also consistent with the Green Economy Transition Strategy and the Bank's Paris Agreement alignment approach, as it is expected to reduce technical losses, improve energy efficiency and reliability, and enable greater integration of distributed renewable generation. Finally, the Project is aligned with the Adaptation area of the EBRD Approach to Accelerating the Digital Transition 2026-30, as it will enable the Company to improve its cybersecurity resilience.

1.2 TRANSITION IMPACT

Primary Quality: Resilient

Obj. No.	Objective	Details
1.1	The project will assist the client to move towards international best practice in terms of system reliability or flexibility with significant reduction in statistics such as Average Interruption Time, which other DSOs in the country can also benchmark as best practice.	The project is expected to improve system reliability through the rehabilitation and upgrade of the MV and LV distribution network. According to the Company's estimates, the project should result in approximately a 15-20% improvement in unplanned SAIFI and SAIDI indicators following implementation. The investment is particularly important given the increasing frequency of extreme weather events in the region, including severe storms and heavy snowfall, which have negatively affected network performance in recent years.
1.2	The project will allow the connection of planned renewable energy installations which	The Project is expected to improve the reliability and continuity of electricity supply, increase network resilience to adverse weather

	currently are not possible due to inadequacy of the grid or lead to a decrease in the curtailment of existing renewable energy installations[REDACTED].	conditions, reduce technical losses, and support future demand and renewable energy connections.
1.3	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)	Through a tailored Technical Cooperation assignment, the Company will receive support in identifying and mitigating gaps, thereby aligning with [REDACTED]industry-accepted standards (ISO 27001, NIS2 Directive, Network Code on Cybersecurity (NCCS), and the Commission Delegated Regulation (EU) 2024/1366).

Secondary Quality: Green

Obj. No.	Objective	Details
2.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance is 15% or higher.	The Project is attributed 79% green finance. This share has been calculated in line with EBRD's Methodology to determine the green finance attribution of EBRD investment, furthermore following Route 1 for the defined green use of proceeds.

Digital Approach: The Project is aligned with the Adaptation area of intervention outlined in the EBRD Approach to Accelerating the Digital Transition 2026-30, as it will enable the Company to strengthen its cybersecurity resilience through a comprehensive gap analysis and plan to A). Mitigate any identified cybersecurity gaps, and B). Enhance overall distribution grid resilience and elevate standards for grid-connected RES, including related to supply chain security. The cybersecurity component of the Project is in support of the Resilient Transition Quality and is articulated in objective no 1.3.

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a

Additionality sources	Description of additionality sources
Financing structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project. - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. - Public sector: EBRD investment is needed to close the funding gap. At the same time,	The Project requires long-term financing with an extended tenor and grace period consistent with the long economic life of electricity distribution assets and the pace of CapEx recovery under the regulated tariff framework. Such terms are not available to the Company from commercial lenders on reasonable conditions. EBRD financing enables the Company to continue implementing priority grid rehabilitation investments

EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	while avoiding excessive near-term debt service pressure.
Standard-setting: helping projects and clients achieve higher standards Client seeks/makes use of EBRD expertise on best international procurement standards.	The Project will be implemented in line with EBRD public-sector procurement standards, including transparent tendering, competitive procedures, and clear contractual frameworks. Application of the Bank's procurement requirements, supported by a PIU Consultant, strengthens procurement discipline, mitigates integrity and implementation risks, and goes beyond business-as-usual practices typically applied by the Company.
Knowledge, capacity building and implementation support EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client.	EBRD involvement brings experience in electricity distribution rehabilitation, procurement structuring and project implementation. The Bank supports the engagement of a PIU Consultant, strengthening the Company's capacity to implement this Project and long-term development plan.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/ Macro-economic risk	Medium / Medium	- BiH will be the direct borrower under this sovereign loan and will therefore be directly responsible for debt service. As such, the fiscal and macroeconomic situation of BiH has a direct impact on the capacity to service the debt. - The January 2026 credit ratings of BiH remain below investment grade, with Standard & Poor's rating at B+ and Moody's at B3, both with stable outlook. The rating is based on a consolidated fiscal position and a moderate debt burden, but its economic prospects are constrained by political tensions that hinder collaboration and investment, as well as weak demand from key trading partners in the EU. - Most of the country's debt is held by official bilateral and multilateral creditors with long maturities and favourable interest rates, keeping debt service costs contained. - Based on BiH Law on Debt, foreign debt service of the country has absolute priority over other expenditure and is independent of the adoption of the state budget. Public debt rose modestly to 26.1 per cent of GDP, with RS showing a higher debt ratio at 36.8 per cent due to its weaker fiscal stance and rising expenditures, which is still well within the regulatory caps of 60 per cent for FBiH and 55 per cent for RS.

Regulatory risk	Low / High	• The electricity distribution activity in RS is regulated by the Regulatory Commission for Energy of Republika Srpska (“RERS”), which is responsible for determining electricity tariffs, including tariff rates for distribution system users. RERS adopted updated tariff rates for users of distribution systems in RS in December 2025, effective in February 2026. • [REDACTED]No adverse regulatory change is currently anticipated that would materially affect the Project. The risk is further mitigated by the regulated tariff framework and, from a financing perspective, by the sovereign loan structure, under which repayment risk is borne by the Borrower rather than solely by the Company.
Company creditworthiness	Low / Low	• The Company’s financial profile is constrained by regulated revenues, legacy working capital pressures[REDACTED]. • [REDACTED]The credit risk is ultimately mitigated through the sovereign loan structure. • Continued grid rehabilitation is expected to reduce technical losses and improve operational efficiency, supporting medium-term financial sustainability.
Project implementation risk	High / Medium	• Risks include delays in procurement, cost overruns and failure to achieve expected technical outcomes due to the scale and geographic dispersion of grid rehabilitation works. • The Company already has an experienced PIU that implemented the existing project and managed challenges arising from tendering and Covid-19 pandemic without incurring material cost overruns, although implementation was significantly delayed. • An experienced PIU support consultant will support the PIU through tendering and in contract management. • Contracts for works and equipment will be procured through open competitive tendering in accordance with EBRD Procurement Policies and Rules (“PP&R”). • As in the existing project, the Company will remain liable for covering any cost overruns from its own cash flows.
FX risk	Low / Low	• As BAM is pegged to EUR this risk is not material.
Cybersecurity Risk	Medium / Medium	• [REDACTED]A cybersecurity due diligence was carried out, which identified a number of gaps that EBRD will be addressing by deploying a TC to support the Company with alignment, with a focus on enhancing overall distribution grid resilience and elevating standards for grid-connected RES, including related to supply chain security.

2. MEASURING / MONITORING SUCCESS

Primary Quality: Resilient

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Practices of the relevant stakeholder improved (system reliability)	The project is expected to reduce the frequency and duration of outages, resulting in an estimated 15–20% improvement in reliability indicators. Based on the TDD projections, SAIDI is expected to decrease from 807 to approximately 645-686 minutes/customer/year, while SAIFI is expected to decrease from 14.19 to approximately 11.4–12.1 interruptions/customer/year.	No	Yes	[REDACTED]
1.2	Number of new/improved electricity/energy service(s) connections	The project is expected to improve or add 1000 service connections.	0	1000	[REDACTED]
1.3	Improved cybersecurity standards	Demonstration of substantial alignment with one or more aspects of a recognized cybersecurity standard	No	Yes	[REDACTED]
1.4	Demonstrated quantitative evidence of client's improved cyber resilience	% of classified suppliers increased % of critical providers adhering to requirements increased	No	Yes	[REDACTED]

Secondary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	New or updated GET technology or product leading to renewable energy generation introduced	The Project is expected to improve the reliability and continuity of electricity supply, increase network resilience to adverse weather conditions, reduce technical losses, and support future demand and renewable energy connections.	No	Yes	[REDACTED]
2.2	CO2e emissions reduced (tonnes/year)	The expected green outcomes of the transaction are 6.4GWh of reduced energy losses, resulting in 4,730 tons of CO2e emission reduction per year. These impacts are limited to technical electricity losses only, but the project is expected to deliver higher reductions coming from operations efficiency improvements.	0	4730	[REDACTED]
2.3	Primary energy saved (GJ/year)	The expected green outcomes of the transaction are 6.4GWh of reduced energy losses, resulting in 23,040 GJ energy savings per year. These impacts are limited to technical electricity losses only, but the project is expected to deliver higher reductions coming from operations efficiency improvements.	0	23040	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Borrower of the Loan will be the sovereign, Bosnia and Herzegovina. The country's total consolidated foreign debt stood at EUR 5.1 billion at the end of 2025, representing 17 per cent of nominal GDP of EUR 29.6 billion. External debt service in 2025 (principal and interest) amounted to EUR 643 million. Please refer to Section 5.1 for further analysis of the macroeconomic outlook.

3.2 CLIENT

The Company is the largest DSO in RS, Bosnia and Herzegovina, operating in the north-western part of the entity. The Company's service area covers 5 cities and 16 municipalities, across approximately 8,890 km². The Company operates as a regulated electricity distribution utility in RS.

The Company operates as a regulated distribution utility. Its distribution activity is supervised by the RERS, which issues licences, prescribes tariff methodologies and determines tariff rates for distribution system users.

The Company serves approximately 282,000 connected consumers across its licensed service area, representing close to half of the RS electricity distribution market. Its network also accommodates 873 connected distributed producers and prosumers. In 2025, approximately 1.71 TWh of electricity entered the distribution network from the transmission system and connected distributed producers, while distribution losses amounted to approximately 10 per cent.

The Company operates the medium- and low-voltage distribution network in its licensed service area. Its distribution network is supplied through 25 TS 110/X kV substations, with total installed transformation capacity of 1,100 MVA. Electricity is further distributed through six TS 35/20(10) kV substations, five TS 20/10(6) kV substations, and approximately 4,686 TS 20/0.4 kV, 10/0.4 kV and 6/0.4 kV substations with total installed capacity of around 1,548 MVA. The medium-voltage network includes approximately 124 km of 35 kV network, around 5,000 km of 20(10) kV network and around 85 km of 6 kV network.

The Company is organised as a joint-stock company and is majority owned by EPRS, which holds approximately 70 per cent of its share capital and is ultimately owned by RS. As part of the EPRS group, the Company is a strategic electricity distribution asset in RS.

The Company is a key electricity distribution operator in RS and plays an important role in maintaining system reliability and quality of supply for end-users across its service area. As part of the EPRS group, the Company represents a strategic infrastructure asset for the entity, supporting economic activity and public service delivery. Its operations are capital-intensive and require continuous investment to address ageing infrastructure, reduce technical losses, improve quality of service and enhance the resilience of the distribution network, including enabling the integration of distributed renewable energy sources.

The Company has been a client of the Bank since 2016, when the Bank approved a EUR 15 million senior corporate loan to finance MV/LV network reconstruction, substation rehabilitation and roll out of smart metering. [REDACTED]

4. MARKET CONTEXT

The relevant market is electricity distribution in RS. While five licensed DSOs operate in the entity, each acts as a regulated natural monopoly within its defined service territory, rather than competing with other operators. Accordingly, the Company holds a monopoly position within its licensed distribution area, covering around 50 per cent of electricity consumption in RS. Its revenues and profitability are therefore primarily driven by regulated network tariffs and allowed revenues determined by the regulators.

The BiH electricity sector is regulated at both state and entity level. The State Electricity Regulatory Commission (“**SERC**”) regulates electricity transmission, transmission system operation and international electricity trade, while the RERS regulates electricity generation, distribution, supply, licensing and tariff matters in RS. The Federal Energy Regulatory Commission (“**FERK**”) performs the equivalent entity-level role in the Federation of BiH. In RS, the distribution segment comprises five EPRS-owned DSOs: Elektrokrajina, Elektro-Bijeljina, Elektro Doboje, Elektrodistribucija Pale and Elektro-Hercegovina Trebinje. These companies do not compete, as each operates a monopoly distribution network within its licensed area, but they are relevant operational and regulatory peers.

Tariff regulation in RS is based on a regulated-revenue framework. RERS determines the methodology and tariff rates for use of the distribution network, with allowed revenues intended to recover justified operating costs, depreciation, recognised distribution losses and an allowed return on the regulated asset base. A key recent development is the tariff reset adopted in late 2025, which represents a material improvement in the Company’s regulated revenue framework. [REDACTED] The approved revenues apply to tariff rates for electricity delivered from 1 February 2026.

The level of competition in distribution is limited by design. The Company has a monopoly over electricity distribution in its licensed service area, while competition is mainly relevant in the procurement of equipment, works and services. The retail supply market is formally open, but effective competition remains limited, particularly for households and small customers, and supply continues to be dominated by the incumbent utilities.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 MACROECONOMIC OUTLOOK FOR BiH

The pace of economic growth decelerated from 3.2 per cent in 2024 to 2.1 per cent year on year in 2025. Growth was primarily underpinned by household consumption, bolstered by rising wages and remittances, as well as by gross fixed capital formation. From the production side growth was driven by services sectors, while industrial production continued to decline for the third year in a row, due to slow external demand.

The trend continued into the first two months of 2026, with risks to outlook exacerbated by conflict in the Middle East and Serbian introduction of restrictions on the imports of certain iron, steel, and portland cement products from January to June, affecting particularly the Zenica steel mill, exporting one-third of its production to Serbia. In contrast to decline in industrial production, exports of goods grew in 2025, as a result of specific sectors, such as iron and steel, electrical machinery and vehicles, mineral fuels and ores. Current account deficit narrowed only slightly to 3.2 per cent of GDP. Declining trend in FDI inflow continued the second year in a row, halving in 2025, relative to 2024 to 1.6 per cent of GDP. The decline was driven by slowing external demand and low investor confidence.

Inflationary pressures eased slightly in the beginning of 2026, but the impact of the conflict in the Middle East hasn't yet been accounted for. The inflation rate spiked to 5.1 per cent in March 2026, due to a fuel price spike triggered by the conflict. RS government introduced a set of fiscal measures (partial excise duty refund and public sector wage hikes), while FBiH temporarily abolished 10 per cent tariffs on fuel imports. Real income gains remained strong in 2025, supported by minimum wage hikes in both entities, which boosted wages across other sectors as well. The Global Framework of Fiscal Balance and Policies for 2026-28, which is a prerequisite for drafting 2026 budget was adopted with a delay, marking the first step to implementation of the increase in state-level public sector salaries which was announced in 2025.

General government deficit was at the level of 1.8 per cent of GDP in 2024, while the public debt rose modestly to 26.1 per cent of GDP, with RS showing a higher debt ratio at 36.8 per cent due to its weaker fiscal stance and rising expenditures. IMF assesses 2025 budget deficit at 2.5 per cent of GDP with debt around 30 per cent of GDP, but official data is still unavailable. In March RS issued €500 million 5-year Eurobond, at fixed interest rate of 6.25 per cent, with the demand exceeding €1 billion. This was the largest ever international issuance for RS, and majority of it (€300 million) will be used to repay previous Eurobond maturing this year. Compared to latest FBiH Eurobond issuance the interest rate is higher, reflecting increased global risks as well as lower investors' confidence in RS. In May another 250 million bond was issued, with similar interest rate, adding to RS debt burden.

In February, S&P and Moody's affirmed BiH ratings at B+/B, and B3, respectively, keeping the stable outlook, however, in March, S&P revised its outlook on FBiH's B+ ratings to negative from stable, due to the announced higher pre-election pension spending, which could make it difficult to consolidate the budget in 2027-2028, resulting in faster debt accumulation and a strained liquidity position.

Real GDP is forecast to grow by 2.4 per cent in 2026, and 2.8 per cent in 2027 mainly due to increased consumption, driven by higher real wages and pensions, and more investments. However, downside risks arise from the supply shock driven by the conflict in the Middle East and upward pressure on fuel and food prices, as well as slowdown of external demand. In addition, risks arise from changes in EU regulation, specifically CBAM, which is being applied to electricity exports to EU since January 2026, and will expand the application to other carbon intensive sectors in the following years. Further risks include potential political tensions in 2026, an election year.

5.2 ECONOMIC ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (ESP 2024). The project involves rehabilitation and replacement works within existing medium-voltage and low voltage distribution corridors and does not include construction of new large-scale infrastructure. The Environmental and Social Due Diligence (“ESDD”) for the Project was carried out by an independent consultant and included an assessment of Environmental and Social (“E&S”) risks and impacts in line with the EBRD’s E&S Policy and E&S Requirements (“ESRs”), as well as an audit of the Company’s capacity to manage environmental, social, and health and safety risks. Key risks are related to waste generation, management and disposal; contractor management; occupational health and safety, and stakeholder engagement. A Project-specific Environmental and Social Management Plan (“ESMP”) and ESAP have been prepared as part of the ESDD and agreed with client. The Project is an Annex II project under EIA Directive and the ESDD confirmed the Project does not require an Environmental Impact Assessment or Environmental Permit in line with the national legislation requirements. This is to be formally confirmed by the Competent Authority in line with ESAP. The Company has an established Integrated Management System and operates in line with ISO 9001, ISO 14001, ISO 45001 and ISO 17020. Contractors will be required to implement the ESMP, while operation and maintenance activities will be conducted in line with existing Integrated Management System procedures. No material supply-chain E&S risks were identified; however, the contractor and subcontractor performance will need to be controlled through procurement and contract requirements, and supervision. The Company is currently establishing a dedicated PIU responsible for Project implementation, E&S oversight, and reporting to the EBRD. In line with ESAP, the Company will need to prepare for possible future EU sustainability reporting requirements.

The Company has established internal labour-related policies, a collective agreement, worker representation, and an internal grievance mechanism. For project construction, works will be carried out by contractors; therefore, the main ESR 2 risks relate to contractor labour management and access to a worker grievance mechanism. These risks have been addressed through the project ESAP.

The Project is expected to improve the reliability and continuity of electricity supply, increase network resilience to adverse weather conditions, reduce technical losses, and support future demand and renewable energy connections. The impacts anticipated during construction are primarily related to waste generated from removed poles,

conductors, fittings, insulators, and packaging. Limited, localised impacts on water and soil may occur during pole replacement near water bodies. Impacts related to air quality, noise, and vibration are expected to be negligible. The Company has an existing Waste Management Plan in place, which defines requirements for the separate collection of waste, temporary storage, record-keeping, and the transfer of non-hazardous and hazardous waste to authorised third parties. The Waste Management Plan will be provided to the contractor and implemented during construction works.

The ESR 4 risks relate to occupational health and safety during construction works, community health and safety near work sites, planned electricity supply interruptions, traffic safety, emergency preparedness, and climate hazards. Works will include activities such as work at height, excavation, vegetation clearance, conductor stringing, use of vehicles and machinery, and work in the vicinity of electrical infrastructure. All works will be carried out in a de-energised state under the Company's Permit-to-Work system. The risks and impacts will be managed through implementation of the Project ESMP.

No expropriation is required for the Project. The works will be carried out within the existing Right of Way. As new poles are expected to be installed next to or in the immediate vicinity of existing poles, no additional permanent land acquisition or new easement arrangements are expected. Temporary access to privately owned land is expected to be required during construction for pole replacement. The Company has a well-established practice for managing such access through prior communication with affected landowners.

Biodiversity impacts are expected to be localised, temporary and low in significance. The main biodiversity issues are limited vegetation clearance, temporary habitat/fauna disturbance, potential disturbance of nests on poles during construction, bird electrocution and, less likely, collision risks during operation. The Company has a Bird Protection Plan (BPP), updated in 2023, and related procedures integrated into its Integrated Management System. The Project is also expected to reduce existing bird-related risks as bare conductors will be replaced with insulated conductors, and bird protection measures from the BPP will be implemented.

No direct physical impacts on known cultural heritage assets are expected, as the Project will be implemented within existing distribution corridors and at locations already in technical use. Given the large geographical coverage and number of intervention locations, the possibility of encountering unknown archaeological remains cannot be fully excluded, therefore a Chance Find Procedure is stipulated by the project ESAP.

A Stakeholder Engagement Plan ("SEP") was developed as part of the due diligence process and includes a grievance form for collecting and addressing feedback from external stakeholders, in line with the requirements of the EBRD's ESR10. The SEP, ESPM and the Non-Technical Summary ("NTS") have been publicly disclosed. The Bank will monitor the Project through annual E&S monitoring reports and, if necessary, site visits.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the Company, its shareholders, senior management, Ministry of Finance, 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.

6.3 OTHER ISSUES

[REDACTED]The Company is the sole electricity distribution provider for approximately 282,000 metering points across five cities and sixteen municipalities in north-western Bosnia and Herzegovina, serving households, businesses, public institutions and essential services incl. accommodating 873 distributed producers and prosumers with approximately 179 MW of connected capacity. The Project addresses an immediate infrastructure need by rehabilitating the deteriorated and weather-exposed MV and LV networks, reducing technical losses, improving quality and reliability of supply, and strengthening the resilience of the system against growing climate, cybersecurity and operational risks.

The Project's benefits extend beyond asset replacement. Improved continuity and quality of electricity supply will reduce disruption to citizens, economic activity and essential public services, while stronger and higher-capacity networks will support new demand and the continued integration of distributed renewable generation incl. 300–350 MW of new capacities that are being developed by private investors. The investment is therefore both a climate-adaptation measure and an enabling condition for BiH's energy transition.

Although the assets are located in RS and the direct service benefits will primarily accrue within the Company's distribution area, the Project also supports objectives that are national in nature, including energy security, climate resilience, network efficiency, distributed renewable-energy integration and BiH's gradual alignment with its energy-transition commitments. As distribution networks form an integral part of BiH's wider electricity system, improved reliability and capacity within one of its largest DSOs will also support the effective operation and future development of the broader system. Separately from the physical works, dedicated technical cooperation will assess the Company's cybersecurity posture and prepare a prioritised mitigation plan. The Company will be required to implement proportionate cybersecurity mitigation measures and commission a subsequent independent assessment of their implementation and effectiveness, providing a distinct and complementary layer of institutional and operational resilience.

The Project also presents a strong economic and public-good rationale. Many of its benefits, including avoided interruptions, reduced unserved energy, lower emissions and improved safety and resilience, accrue to customers and the wider economy rather than being captured directly through the Company's regulated revenues. [REDACTED]The sovereign-backed structure enables this critical investment to proceed while mitigating credit and political risks, and the Bank's procurement,

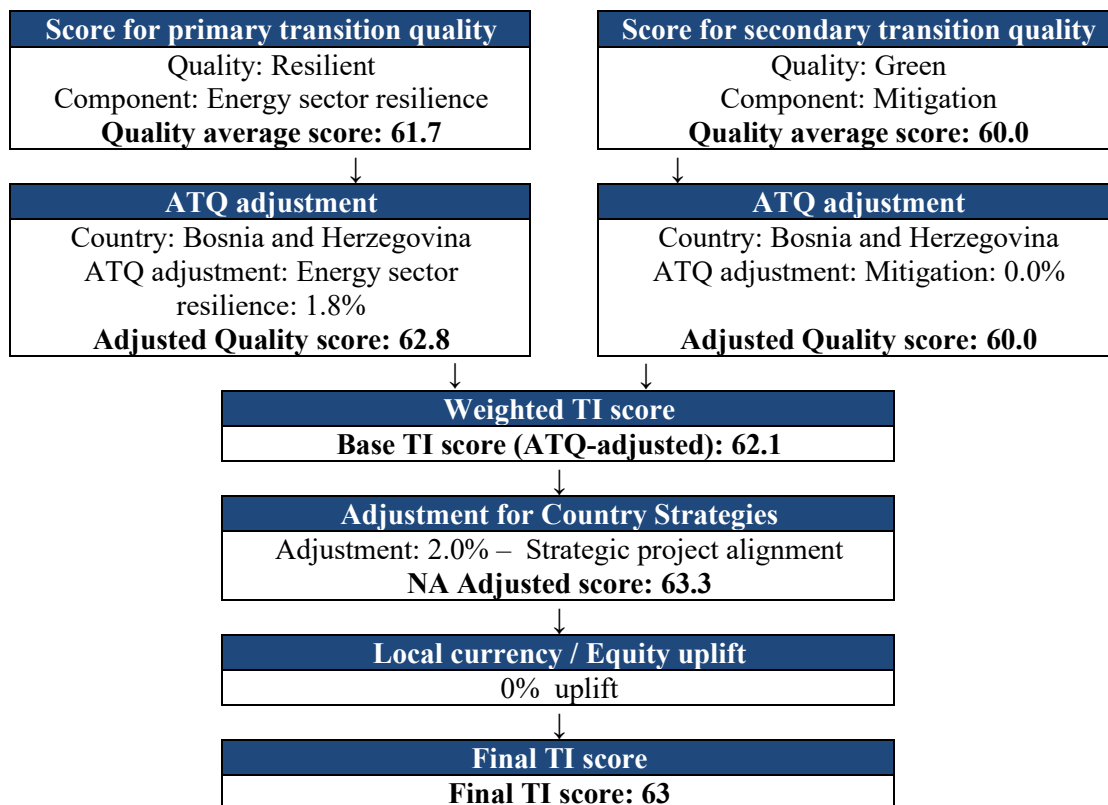
environmental and social, integrity and implementation requirements provide robust safeguards for the use of proceeds.

The Project therefore represents a targeted and economically robust investment in essential public infrastructure. By maintaining a presence through sovereign-backed investments that are subject to robust legal, procurement, integrity and implementation safeguards, the Bank supports essential service delivery, promotes good governance and helps ensure that populations across all parts of BiH continue to benefit from modern, reliable and sustainable infrastructure. [REDACTED]

ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	GREEN ASSESSMENTS
ANNEX 3	PROJECT IMPLEMENTATION

ANNEX 1: TRANSITION IMPACT SCORING CHART



ANNEX 2: GREEN ASSESSMENTS

SUMMARY

- The Project is financing the rehabilitation and upgrade of medium- and low-voltage electricity distribution networks and associated power facilities in greater Banja Luka area, as well as the refinancing of existing EBRD loan
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed 79 per cent **Green finance.**
- Climate-related financial risks have been assessed[REDACTED].

PARIS ALIGNMENT ASSESSMENT

For Direct finance projects

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 projects activities are included in the 'MDBs' aligned list' under the category "Electricity transmission and distribution, including energy access, energy storage, and demand-side management"
- There are no activities included in the 'non-aligned list'.
- There are no applicable additional or specific conditions associated with the 'aligned' project/economic activity.

Alignment with the adaptation goals of Paris Agreement

The project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment. All material physical climate risks have been addressed.

GREEN FINANCE ATTRIBUTION

The Project is attributed 79 per cent green finance. This share has been calculated in line with EBRD's Methodology to determine the green finance attribution of EBRD investment, furthermore following Route 1 for the defined green use of proceeds. [REDACTED]The remaining part is in line with the climate change mitigation finance following additional guidance from Common Principles for Climate Mitigation Finance Tracking (table 2, Energy Transport).

The expected green outcomes of the transaction are 6.4GWh of reduced energy losses, resulting in 4,730 tons of CO₂e emission reduction per year. These impacts are limited to technical electricity losses only, but the project is expected to deliver higher reductions coming from operations efficiency improvements.

ANNEX 3: PROJECT IMPLEMENTATION

Project risk assessment:

Overall risk rating - *Moderate*

[REDACTED]The Client's capacity assessment related risk- *Moderate*

Contracts risk assessment - *Moderate*

[REDACTED]

The Client's capacity assessment related risk – Moderate

ODS Elektrokrajina a.d. Banja Luka will be responsible for implementation of the Project. The Client has prior experience with EBRD-financed distribution network investments through Elektrokrajina Power Distribution Project, providing a solid understanding of EBRD implementation procedures, procurement, reporting and environmental and social requirements. This experience is a significant mitigating factor, particularly as the Project is similar in nature to the previously implemented investment.

While the proposed Project is larger in scale and more geographically dispersed, involving the rehabilitation and reconstruction of approximately 700 km of medium-voltage network and 1,000 km of low-voltage network, including replacement of related distribution assets across the Client's service area, the implementation activities remain within the Client's core operational competencies. The Client has an established organizational structure, technical resources, and implementation capacity to manage projects of this nature and scale.

Since the 2021 unbundling, Elektrokrajina has depended on remittances from Elektroprivreda RS, which collects consumer payments, including distribution tariffs. Although this arrangement can result in timing differences in cash receipts, it has not affected the Client's ability to implement its investment programme and is not expected to materially constrain Project execution.

Overall, the Client has sufficient institutional capacity and resources to implement the Project under the proposed arrangements. Accordingly, targeted consultant support focused on procurement and implementation oversight, combined with regular Bank monitoring, is considered proportionate to the residual implementation risks associated with the Project.

Project implementation arrangements:

ODS Elektrokrajina a.d. Banja Luka will act as the Project Entity and will be responsible for the implementation of the Project. The Project Entity will establish and maintain, throughout the execution of the Project, a Project Implementation Unit with adequate resources and suitably qualified personnel, under terms of reference acceptable to the Bank. The PIU will coordinate, manage, monitor and evaluate all aspects of Project implementation, including procurement of goods, works and services, contract management, technical coordination, environmental and social requirements, and reporting to the Bank.

The Project Entity has relevant experience in implementing distribution network investments, including under a previous EBRD-financed operation, and has the institutional, technical and staffing capacity to implement the Project.

To complement the Project Entity's existing implementation capacity, the current financing structure provides for targeted support for project preparation and procurement, including an SSF-funded PIU support assignment in the amount of up to EUR 75,000. This support is intended to provide targeted assistance with procurement preparation and implementation during the first two years following signing and may be extended until Project Completion, if required.

The Bank will monitor implementation through regular project progress reporting, review of procurement documentation, review of consultant reports, and implementation monitoring during the execution period. The term sheet provides that the Project Entity will submit quarterly project progress reports during implementation and annual environmental and social reports in relation to the Project Entity's operations and the Project.

The Project Entity will carry out day-to-day project supervision using its own resources. Should additional specialist input be required during implementation, it may further strengthen its engineering team by deploying additional internal resources, as appropriate.

To further strengthen implementation oversight, the Bank will explore the feasibility of appointing a Lenders' Monitoring Advisor ("LMA") to provide independent monitoring of Project implementation and progress, as appropriate. The scope of any such assignment and the source of funding will be determined at a later stage, taking into account the Project's implementation needs and the agreed financing arrangements.

Procurement arrangements:

The Project is classified as a public-sector / sovereign operation for procurement purposes. Procurement of goods and services financed from the Bank's loan will be carried out in accordance with the Bank's Procurement Policies and Rules. The CapEx contract envisaged under the project is expected to be procured through open competitive procedure, consistent with the requirements applicable to sovereign public-sector operations.

The procurement approach will be further developed in the Procurement Plan, taking into account the final investment scope, proposed contract packaging, implementation schedule, market capacity, and operational constraints associated with works on existing MV/LV distribution assets.

The Project Entity will be required to provide evidence satisfactory to the Bank that tenders have been conducted and suppliers selected in accordance with the Bank's Procurement Policies and Rules. [REDACTED]

Contracting Arrangements:

The Project will be implemented through contracts for goods and related services required for the rehabilitation and reconstruction of the MV/LV distribution network and associated electricity distribution assets. The final contract packaging is defined in the Procurement Plan, taking into account the confirmed investment scope, geographic dispersion of works, implementation schedule, market capacity, equipment lead times and operational constraints linked to works on existing distribution assets. The proposed procurement

arrangements are considered appropriate given the Project Entity's prior experience with EBRD procurement procedures and the nature of the Project.

PUBLIC

[REDACTED]

PUBLIC