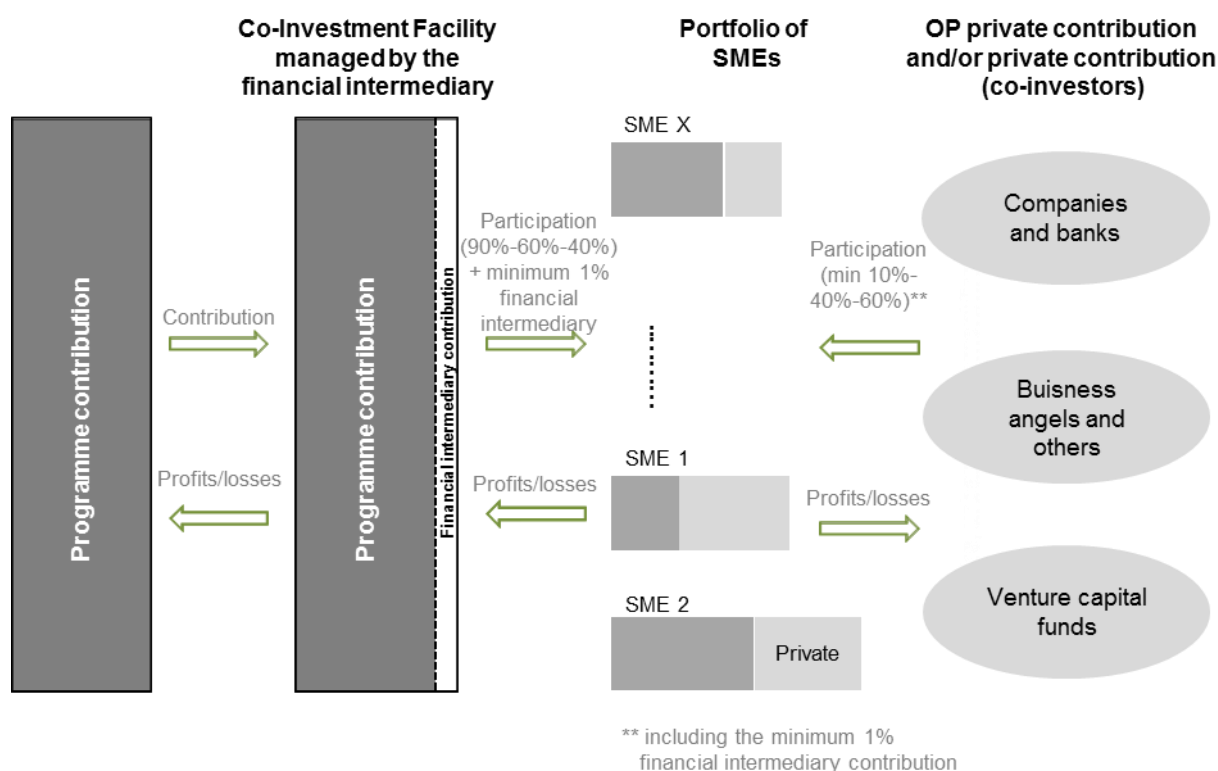


ANNEX V

EQUITY FUND FOR SMEs AND START-UP COMPANIES (CO-INVESTMENT FACILITY)

Schematic representation of Co-investment Facility principle



Structure of the financial instrument	<p>The Co-Investment Facility shall co-invest in the equity of SMEs with the contributions of the ESIF programme, the financial intermediary own resources and with private co-investors.</p> <p>The financial intermediary shall be a private entity who takes all investment/divestment decisions with the diligence of a professional manager in good faith. The financial intermediary shall be economically and legally independent from the managing authority and fund of funds.</p> <p>Co-investors are private investors as defined below, legally independent from the Co-Investment Facility manager.</p> <p>The Co-Investment Facility shall be made available in the framework of an operation which shall be part of the priority axis defined in the programme funded by the ESI Funds and defined in the context of the ex-ante assessment required in Article 37 of Regulation (EU) No 1303/2013.</p>
Aim of the instrument	<p>The aim of the instrument shall be to:</p> <ol style="list-style-type: none"> Invest in SMEs at seed, start-up, and expansion stage or for the realisation of new projects, penetration of new markets or new developments by existing enterprises through co-investment agreements (partnership approach) with co-investors on a deal by deal basis. <p>Such investments shall be made in the limit of the scope of the</p>

	<p>Commission Regulation (EU) N°651/2014 of 17 June 2014 as described below.</p> <p>2. Provide more capital available to increase investment volumes for SMEs.</p> <p>The ESIF programme contribution to the Co-investment Facility shall not crowd out financing available from other public or private investors.</p> <p>The Co-investment Facility amount and rates must be set in order to fill the equity gap evaluated within the ex-ante assessment of the financial instrument in accordance with Article 37 of the of Regulation (EU) No 1303/2013.</p> <p>The ESIF programme shall provide funding to the Co-investment Facility in order to build up a portfolio of investments in SMEs. The Co-Investment Facility will participate with the financial intermediary and co-investors resources on a deal by deal basis.</p> <p>In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary in charge of the Co-investment Facility.</p> <p>In addition to the ESIF programme contribution, the fund of funds may provide its own resources. State aid rules will have to be applied if the resources provided by the fund of funds are State resources. Combination with other State resources must be compliant with State aid rules.</p>
State aid implication	<p>The investment of the Co-Investment Facility is implemented as an instrument entailing State aid. It shall be considered compatible with the internal market and not requiring an ad hoc notification, provided all conditions for compatibility under Article 21 of Commission Regulation (EU) N°651/2014 of 17 June 2014 are satisfied.</p> <p>This concerns the assessment of the presence of State aid at the levels of the fund of funds, financial intermediary, the private investors and final recipients.</p> <p>In particular, on a deal by deal basis the aggregate private participation rate at the level of the SME shall reach at least the following thresholds:</p> <ol style="list-style-type: none"> 1. 10% for risk finance provided to the eligible undertakings prior to their first commercial sale on any market. 2. 40% for risk finance provided to eligible undertakings operating in any market for less than 7 years following their first commercial sale. 3. 60% for risk finance provided: <ul style="list-style-type: none"> (i) to eligible undertakings requiring an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years, or (ii) for follow-on investments in eligible undertakings after the 7-year period of the first commercial sale. <p>For equity and quasi-equity instruments such as the Co-Investment Facility, there is allowable aid at the level of the final recipients when (i) there is allowable aid to private co-investors (ii) the financial intermediary manages on a commercial basis and its financing decisions are independent and profit-driven (iii) the ceiling of private participation as referred above, Article 21(10) Commission Regulation (EU) N°651/2014 of 17 June 2014, are satisfied.</p>

	<p>The costs aiming at the development of the investment projects, the due diligence or accompanying the final recipients shall be integrated in the management costs and fees of the financial intermediary managing the Co-Investment Facility.</p> <p>For activities supported by the EAFRD, general rules apply.</p>
Investment policy	<p><u>a) Disbursement from the managing authority or fund of funds to the Co-Investment Facility:</u></p> <p>Following the signature of a funding agreement between the managing authority or fund of funds and the financial intermediary, the relevant managing authority or fund of funds if applicable will transfers contributions from the programme to the Co-Investment Facility according to the amount needed in terms of investments and management cost and fees. The transfer shall be in tranches.</p> <p>The target investment volume shall be confirmed within the ex-ante assessment in accordance with Article 37 of the of Regulation (EU) No 1303/2013 and shall be taken into account to determine the nature of the instrument.</p> <p>The investment policy of the Co-Investment Facility shall include a clear exit strategy that will be described in the funding agreement.</p> <p><u>b) Disbursements from the Co-Investment Facility to the eligible SMEs</u></p> <p>The Co-Investment Facility will co-invest within a pre-determined limited period of time with other private investors (i.e. the financial intermediary own resources and co-investors).</p> <p>On a deal by deal basis, the selected financial intermediary shall leverage additional finance from:</p> <p>(i) the financial intermediary or a vehicle affiliated to the financial intermediary for at least 1% for the purpose of alignment of interest, and by</p> <p>(ii) Co-investors, i.e. private investors.</p> <p>Investments decisions have to be profit-driven. The following conditions ensure a profit-driven investment:</p> <p>The financial intermediary shall be established according to the applicable laws and shall provide for a due diligence process to ensure a commercially sound investment policy, including an appropriate risk diversification policy aimed at achieving economic viability and efficient scale in terms of size and territorial scope of its portfolio of investments; and</p> <p>Investment in eligible SMEs shall be based on a viable business plan, containing details of product, sales and profitability development, establishing the ex-ante viability of the investment; and</p> <p>A clear and realistic exit strategy shall exist for each investment.</p> <p>The financial Intermediary shall implement a consistent investment policy complying with the applicable industry standards and remaining aligned with the managing authority's financial interests and policy objectives.</p> <p><u>c) Disbursements from the Co-Investors to the eligible SMEs</u></p>

	<p>Potential co-investments in final recipients will be identified, screened and assessed by the financial intermediary along with the co-investors (if any). The financial intermediary will undertake, on a deal by deal basis, a due diligence in which key aspects such as detailed business plan, containing details of product, sales and profitability development, assessment of the viability of the investment and a clear exit strategy will be assessed.</p> <p>The private participation rate at the level of eligible SMEs shall reach the minimum threshold as defined above.</p> <p>The co-investment agreement between the Financial Intermediary and co-investors defines the terms and conditions for investment in the final recipients and is, if applicable, compliant with Article 1(3) of the Commission Implementing Regulation EU No 821/2014..</p>
Fund Contribution to financial instrument: amount and rate (product details)	<p>The Co-Investment facility shall provide capital to unlisted SMEs which fulfil at least one of the following conditions:</p> <ol style="list-style-type: none"> They have not been operating in any market; They have been operating in any market for less than 7 years following their first commercial sale; They require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographical market, is higher than 50% of their average annual turnover in the preceding 5 years; They require follow-on investments in eligible undertakings, including after the 7-year period of the first commercial sale. <p>The co-investment amount and rate per deal shall be determined by factors such as the size and focus of the Co-investment Facility, the participation of co-investors, the expected catalytic effect of the Co-investment facility, remaining in the ceilings set up in Article 21 Commission Regulation (EU) N°651/2014 of 17 June 2014.</p> <p>Amounts returned to the Co-Investment facility from the investments within the time framework for investments as set out in the funding agreement shall be re-used as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013.).</p> <p>Preferential remuneration of private investors aiming solely at asymmetric profit-sharing shall be set in line with Article 44(1) of Regulation (EU) No 1303/2013 of 13 December 2013 and Article 21 (13)(b) of the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p>
Programme contribution to financial instrument (activities)	<p>The underlying transactions portfolio funded by the Co-Investment Facility shall include investments provided for the ultimate benefit of final recipients.</p> <p>The eligibility criteria for inclusion in the portfolio are determined from the EU law (e.g. Regulation (EU) No 1303/2013; fund specific rules and State aid), programme, national eligibility rules, and with the financial intermediary. The financial intermediary shall have a reasonable estimation of the portfolio risk profile.</p> <p>The co-investment shall be made in final recipients for a needed period before an exit in line with the investment policy occurred.</p>
Managing authority's	<p>The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of the delegated Regulation (EU) No 480/2014.</p>

liability	On liquidation of the Co-investment Facility, the financial intermediary shall make a thorough assessment of the risk of claims against the Co-investment Facility and ensure suitable sums are held in escrow accounts to meet such claims.
Duration	<p>The Co-Investment Facility has an indicative duration of ten years and may be extended with the consent of the managing authority.</p> <p>The investment period of the financial instrument will be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 will be used for investments to final recipients at the latest by 31-12-2023.</p>
Investment and risk-sharing at financial intermediary level (alignment of interest)	<p>Alignment of interest between the managing authority and the financial intermediary shall be achieved through :</p> <ul style="list-style-type: none"> • Performance fees as provided by Articles 12 and 13 of the delegated Regulation (EU) No 480/2014. • The remuneration of the financial intermediary that shall reflect the current market remuneration in comparable situations, which shall be the case when the financial intermediary has been selected through a competitive tender and no other advantages granted by the State. • A co-financing by the private co-investors shall be at the minimum level as indicated above in accordance with Article 21(10) Commission Regulation (EU) N°651/2014 of 17 June 2014. • A co-financing by the financial intermediary of a minimum of 1% on each deal under the same conditions as the Co-investment facility. Additional co-investment by the financial intermediary shall be under the same conditions as the Co-investment facility. • The co-financing by other co-investors shall be made on identical terms and conditions as those applicable to the Co-investment Facility except if the ex-ante assessment as referred in Article 37(2)c of Regulation (EU) No 1303/2013 estimates that an asymmetric profit-sharing shall be set between the public and private investors. Such arrangements shall be in line with Article 21(13)b of the Commission Regulation (EU) N°651/2014 of 17 June 2014. • The financial intermediary will not be allowed to engage in investment activities under a new investment vehicle targeting the same type of final recipients until: a) 75% of the Co-investment Facility commitments have been invested and the remaining 25% are committed to be invested, or, if earlier, b) the end of the investment period of the Co-Investment Facility. • Procedures avoiding conflict of interest between the financial intermediary and co-investors shall be set-up before any investment made within a final recipient by the financial intermediary selected.
Eligible Financial Intermediary and Co-investors	The selected financial intermediary (fund manager of the Co-Investment Facility) is a private body established at international, national or regional levels in the Member States. Such body shall be legally authorised to provide equity to enterprises established in the Member States, such as financial institutions, or any other institution authorised to provide financial instruments.

	<p>Private bodies are here considered as private legal entity owned by private and/or public investors investing at own risk and from own resources.</p> <p>The managing authority and fund of funds when selecting financial intermediaries, shall comply with applicable EU law, including on public procurement. The selection of financial intermediaries shall be open, transparent and non-discriminatory aimed if applicable at establishing appropriate risk-sharing arrangements.</p> <p>The financial intermediary shall specify, when selected, the conditions and criteria for the evaluation of co-investors. Those shall be understandable and available to potential co-investors. The financial intermediary shall demonstrate a non-discriminatory approach to find and invest with co-investors. The evaluation of co-investors can be controlled ex-post.</p> <p>The financial intermediary(ies) shall be managed on commercial basis. This requirement is considered to be fulfilled if the conditions set in Article 21 (15) of the Commission Regulation (EU) N°651/2014.</p> <p>The Co-investment Facility shall seek to mobilise Co-investors implementing best practice. The co-investors shall be long-term private investors investing own resources including venture capital funds, business angels, high net worth individuals, family offices, or companies with proven know-how and operational capacity.</p> <p>Co-investors shall be deemed to be any investors which, in the reasonable determination of the financial intermediary, are normal economic operators (i.e. investors operating in circumstances corresponding to the market economy investor principle) in a free market economy, irrespective of their legal nature and ownership.</p> <p>Co-investors shall be independent from the final recipients invested except in the case of follow-on investment into final recipients that are already part of the Co-investment facility.</p>
Final recipient eligibility	<p>The final recipients shall be eligible under the EU and national law, the relevant ESIF programme, funding agreement and with the condition referred in Article 21(5) of the Commission Regulation (EU) N°651/2014 of 17 June 2014. The following eligibility criteria shall be met at the date of the signature of the investment:</p> <ol style="list-style-type: none"> shall be a micro, small and medium enterprise ("SMEs" (including individual entrepreneurs/self-employed persons) as defined in the Commission Recommendation 2003/361/EC¹. shall not be excluded by Articles 1.2 to 1.5 of the General block exemption Regulation, Commission Regulation (EU) N°651/2014 of 17 June 2014. shall not be part of one or more restricted sectors².

¹ Enterprise with less than 250 employees and having a turnover of less than EUR 50 million or total assets less than EUR 43 million; also not belonging to a group exceeding such thresholds. According to the Commission Recommendation, "an enterprise is considered to be any entity engaged in an economic activity, irrespective of its legal form.

² The following economic sectors are together referred to as the "restricted sectors":

- illegal economic activities: any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.
- Tobacco and distilled alcoholic beverages. The production of and trade in tobacco and distilled alcoholic beverages and related products.
- Production of and trade in weapons and ammunition: the financing of the production of and trade in weapons and ammunition of any kind. This restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies.

	<p>d. shall not be in default in respect of any other loan or lease either granted by a financial intermediary or by another financial institution pursuant to checks made in accordance with the financial intermediary internal guidelines and standard credit policy.</p> <p>e. shall be established and operating in the relevant Region/Jurisdiction under the ESIF programme.</p> <p>f. for State aid purposes investment shall not be made in listed companies (SMEs listed on an alternative trading platform are not considered listed for the purposes of this instrument).</p> <p>g. investment shall not be capital replacement (including management buyout or buy-in).</p>
Characteristics of the product for the final recipients	<p>The Co-Investment Facility amount and rates shall be based on the results of the ex-ante assessment referred in Article 37(2) Regulation (EU) No 1303/2013 and be compatible with the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p> <p>The financial intermediary shall invest in SMEs under the form of equity or quasi-equity investment co-financed by the programme public contribution, the financial intermediary own contributions and the co-investors contributions (the private contribution might be included for co-financing of the ESI Funds as a programme private contribution) under a co-investment agreement signed between the financial intermediary and the co-investors. Such investment of the Co-Investment Facility shall contribute to the ESIF programme objective.</p> <p>The total investment (i.e. one or more investment rounds including follow-on) combining public and private resources provided shall not exceed EUR 15m per eligible final recipient as set in the Article 21(9) of the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p>
Reporting and targeted results	<p>Financial intermediary shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope.</p> <p>The report shall include all the relevant elements for the managing authority to fulfil the provisions of Article 46 of Regulation (EU) No 1303/2013.</p> <p>Member States shall also fulfil their reporting and transparency obligations pursuant to the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p> <p>Indicators must be aligned with the specific objectives of the relevant priority of the ESIF programme financing the financial instrument and on the expected results specified in the ex-ante assessment. They shall be measured and reported at least quarterly for the Co-Investment Facility and aligned as a minimum with the regulation requirements. In addition to the common indicators of the priority axis of the ESIF programme (employment increase, number of SMEs,...) other indicators are:</p> <p>Amount invested into SMEs (breakdown)</p> <p>Number of SMEs financed</p>

d. Casinos. Casinos and equivalent enterprises.

e. IT sector restrictions. Research, development or technical applications relating to electronic data programs or solutions, which (i) aim specifically at: (a) supporting any activity included in the Restricted Sectors referred to a to d above; (b) internet gambling and online casinos; or (c) pornography, or which (ii) are intended to enable to illegally (a) enter into electronic data networks; or (b) download electronic data.

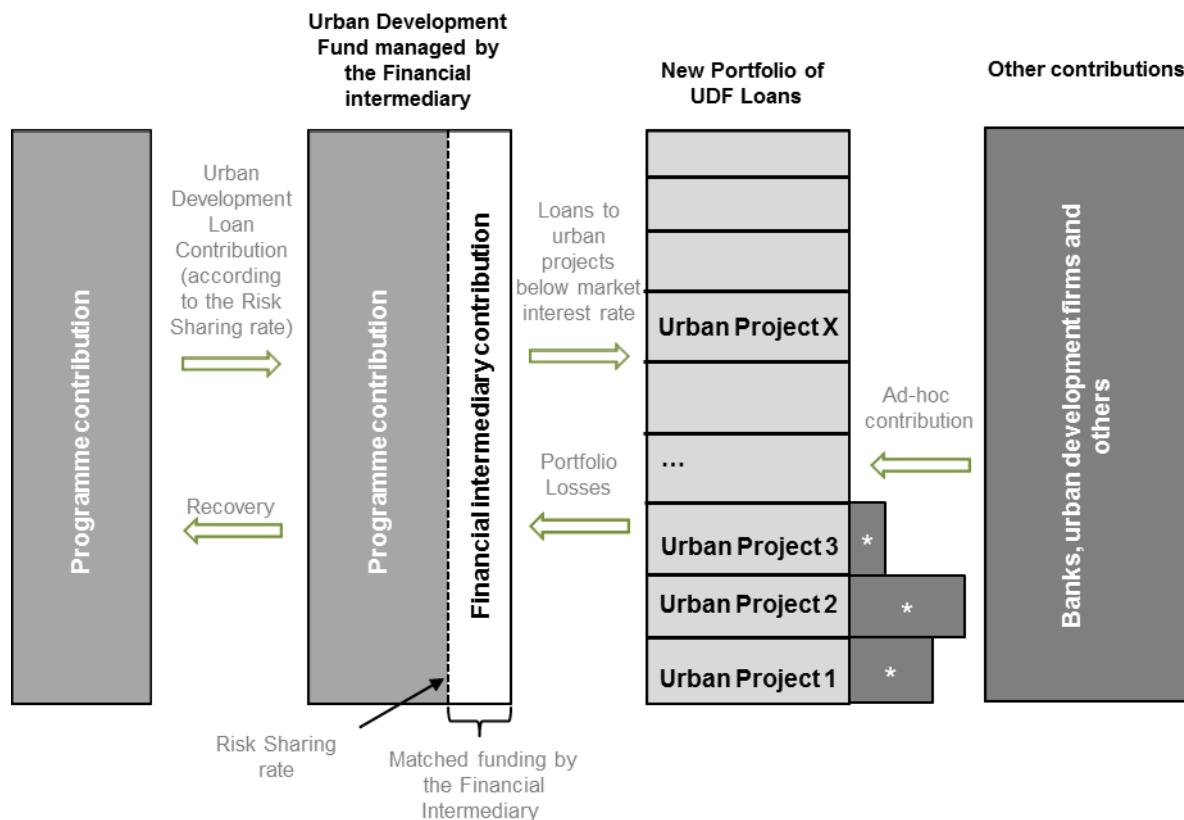
f. Life science sector restrictions. When providing support to the financing of the research, development or technical applications relating to: (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms ("GMOs").

	Value of the investments financed Gain/loss generated by the investment (if applicable) Number employees at "investment" and "number of employees at "exit" in SMEs / enterprises supported.
Evaluation of the economic benefit of the programme Contribution	The financial support of the programme public contribution to the instrument shall be transferred to the final recipients. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

ANNEX VI

LOAN FOR SUSTAINABLE URBAN DEVELOPMENT (URBAN DEVELOPMENT FUND)

Schematic representation of the Urban Development Fund principle



Structure of the financial instrument	<p>The Urban Development Fund (or "UDF") shall take the form of a loan fund to be set up and managed by a financial intermediary with contributions from the programme and the financial intermediary to finance newly originated loans for urban development projects.</p> <p>The UDF shall be made available in the framework of an operation which is part of the priority axis defined in the programme co-funded by the European Structural and Investment Fund (ESIF) and defined in the context of the ex-ante assessment required in Article 37 of Regulation (EU) No 1303/2013.</p>
Aim of the instrument	<p>The aim of the instrument is to:</p> <ol style="list-style-type: none"> 1. Combine resources from the ESIF programme and the financial intermediary to support financing of urban development projects with contributions of other investors. 2. Provide urban development projects located in assisted areas as designated in an approved regional aid map for the period 1.7.2014 - 31.12.2020 in application of Articles 107(3)(a) and (c) of the Treaty with easier access to finance offering projects funds at preferential conditions in terms of interest rate reduction and/or collateral reduction. <p>Such investments shall be made in the limit of the scope of the</p>

	<p>Commission Regulation (EU) N°651/2014 of 17 June 2014.</p> <p>The UDF instrument shall be part of the implementation of interventions envisaged in an integrated approach for a sustainable urban development strategy.</p> <p>The contribution from the ESIF programme to the financial intermediary shall not crowd out financing available from other private or public investors.</p> <p>The ESIF programme shall provide funding to the financial intermediary in order to build up a portfolio of loans to urban development projects, and in parallel, participate in the losses/defaults, revenues and recoveries on the UDF loan in this portfolio on a loan by loan basis.</p> <p>The co-financing of the ESIF programme might be included in the programme contribution and/or the financial intermediary contribution to the UDF, and if applicable in the other contributions to each urban development project.</p> <p>In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary.</p> <p>In addition to the ESIF programme contribution, the fund of funds may provide its own resources which are combined with the financial intermediary resources. The fund of funds shall in this case take a part of the risk sharing between the contributions in the portfolio of loans. State aid rules have to be respected, including the selection rules, if the resources provided by the fund of funds are State resources.</p>
Urban Development project	<p>Urban development project is an investment project that shall be part of the implementation of interventions envisaged in an integrated approach for a sustainable urban development strategy and contributes to the achievement of the objectives defined therein.</p> <p>In addition all urban development projects shall demonstrate the following parameters:</p> <p>Financial sustainability:</p> <ul style="list-style-type: none"> • Urban development projects shall be based on a business model, estimating cash flows, target potential private investors, etc.. • Urban development projects shall be structured in such a way so that they generate directly or indirectly revenue, or reduce expenditures, sufficient to repay the loan received from the UDF and that any State aid support is set at the minimum amount necessary to enable the project to proceed so as not to distort competition. The projects shall have an internal rate of return (IRR) which may not be sufficient to attract financing on purely commercial basis. <p>Financial criteria assessing urban development projects can include: internal rate of return, net present value, pay-back period, cash flow profile, availability and form of collateral, other financial indicators typically used in credit analysis, etc.</p> <p>Strategic alignment:</p> <ul style="list-style-type: none"> • Urban development projects shall be part of an integrated sustainable urban development strategy and comply with the objectives and interventions envisaged by the programme. • Urban development projects shall be located in the relevant Region/Jurisdiction and contribute to the achievement of objectives

	<p>(including quantitative outputs), as stipulated in the programme.</p> <p>The assessment of urban development projects as regards their strategic alignment and impact shall include the following aspects of the projects: cost/benefit analysis (where possible to prepare), contribution to meeting relevant output indicators of programme, potential to attract additional funding from other public and private investors.</p> <p>The following investment priorities might for example be supported by the UDF:</p> <ul style="list-style-type: none"> • Investment in low-carbon strategies for urban areas. • Investment to ensure disaster resilience. • investment for adaption to climate change. • improvement the urban environment, including regeneration of brownfield sites and reduction of air pollution. • Investment in sustainable urban mobility. • Investment support for self-employment and business creation. • Investment in infrastructure for public employment services. • Investment in the health and social sectors, be it in infrastructure, R&D or innovative services, which contribute to local development and to the transition from institutional to community-based and primary forms of healthcare as well as to enhance access to health and social services. • Investment in the physical and economic regeneration of deprived urban and rural communities. • Investment in conserving, protecting, promoting and developing cultural heritage. • Investment in higher education.
State aid implication	<p>The investment shall be considered compatible with the internal market and not requiring an ad hoc notification, provided all conditions for compatibility under Article 16 of Commission Regulation (EU) N°651/2014 of 17 June 2014 are satisfied.</p> <p>This concerns the aid at the levels of the fund of funds, financial intermediary, the private investors and final recipients.</p> <p>At the level of the financial intermediary and the fund of funds the aid is allowed if</p> <ol style="list-style-type: none"> 1. the remuneration (i.e. management costs and/or fees) of the financial intermediary and the fund of funds reflects the current market remuneration in comparable situations, which is the case when the latter has been selected through an open, transparent, non-discriminatory call or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014 and no other advantages are granted by the State. Where the fund of fund only transfers the ESIF contribution to the financial intermediary, and has a public interest mission, and has no commercial activity when implementing the measure, and is not co-investing with its own

	<p>resources - therefore it is not considered a beneficiary of aid, - it is enough that the fund of fund is not overcompensated.</p> <ol style="list-style-type: none"> 2. In all cases, the private contribution to each urban development project cannot be lower than 30% of the total financing provided as referred in the Article 16 (6) of the Commission Regulation (EU) N°651/2014 of 17 June 2014. 3. The UDF is managed on a commercial basis and shall ensure profit-driven financing decisions. <p>The costs aiming at the due diligence of the urban development projects shall be integrated in the management costs and fees of the financial intermediary managing the UDF.</p> <p>Preferential remuneration (asymmetric conditions) for fund of funds and financial intermediary contribution, if any, shall be set in line with Article 44(1) of Regulation (EU) No 1303/2013 of 13 December 2013 and Article 16 (8) (b) and (c) of the Commission Regulation (EU) N°651/2014 of 17 June 2014, as further specified below under "pricing policy.</p> <p>No asymmetric conditions are possible for the other private investors than the financial intermediary since their contributions are invested in parallel at project level.</p>
Lending policy	<p><u>a) Disbursement from the managing authority or the fund of funds to the financial intermediary:</u></p> <p>Following the signature of a funding agreement between the managing authority or fund of funds and the financial intermediary, the relevant managing authority transfers public contributions from the programme to the financial intermediary or fund of funds which will place such contributions in a dedicated UDF. The transfer shall be in tranches and respect the ceilings of the Article 41 of Regulation (EU) No 1303/2013.</p> <p>The target lending volume and range of interest rate shall be confirmed within the ex-ante assessment in accordance with Article 37 of the Regulation (EU) No 1303/2013 and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument).</p> <p><u>b) Origination of a portfolio of loans:</u></p> <p>The financial intermediary shall be required to originate within a pre-determined limited period of time a portfolio of eligible loans for urban development projects in addition to its current loan activities, partly funded from the disbursed funds under the programme at the risk sharing rate agreed in the funding agreement.</p> <p>The financial intermediary shall implement a consistent lending policy based on an agreed investment strategy enabling a sound credit portfolio management; while complying with the applicable industry standards and while remaining appropriate to the managing authority's financial interests and policy objectives. The investment strategy shall be defined within the integrated sustainable urban development strategy, target activity, target spatial areas and eligible expenditure.</p> <p>The identification, selection, due diligence, documentation and execution of the loans to final recipients shall be performed by the financial intermediary in accordance with its standard procedures and in accordance with the principles set out in the relevant funding agreement.</p>

	<p><u>c) Re-use of resources paid back to financial instrument:</u></p> <p>Resources paid back to financial instrument shall be either reuse within the same financial instrument (revolving within the same financial instrument) or after being paid back to managing authority or fund of funds they shall be used in accordance with Article 44 and 45 of the Regulation (EU) No 1303/2013.</p> <p>This revolving approach as referred at Articles 44 and 45 of the Regulation (EU) No 1303/2013 shall be included in the Funding agreement.</p> <p>When revolving within the same financial instrument, as a matter of principles the amounts that are attributable to the support of the ESIF and that are reimbursed and/or recovered by the financial intermediary from loans to final recipients within the time framework for investments shall be made available for new use within the same financial instrument.</p> <p>Alternatively, if managing authority or fund of funds is directly repaid, the repayments shall occur regularly mirroring (i) principal repayments (ii) any recovered amounts and losses deductions of the loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of the Regulation (EU) No 1303/2013.</p> <p><u>d) Loss recoveries:</u></p> <p>The financial intermediary shall take recovery actions in relation to each defaulted loan financed by the UDF in accordance with its internal guidelines and procedures.</p> <p>Amounts recovered by the financial intermediary (net of recovery and foreclosure costs, if any) shall be allocated between the financial intermediary and the managing authority and the fund of funds.</p> <p><u>e) Others:</u></p> <p>Interest and other gains generated by support from the ESI Funds to financial instrument shall be used as referred in Article 43 of the Regulation (EU) No 1303/2013.</p>
Pricing policy	<p>When proposing its pricing, the financial intermediary shall reduce the overall collateral requirement and the interest rate charged on each loan included in the Portfolio, to the allocation provided by the public contribution of the programme and the risk-sharing arrangements.</p> <p>The pricing policy shall at least include the following elements:</p> <ol style="list-style-type: none"> 1) the interest rate on the financial intermediary participation is set at market basis (i.e. according to the financial intermediary own policy), 2) the overall interest rate, to be charged on loans to the eligible urban development projects included in the portfolio, must be reduced proportionally to the allocation provided by the public contribution of the programme. This reduction shall take into account the fees that the managing authority might charge on the programme contribution. 3) the pricing policy shall remain constant during the eligibility period,
Programme contribution to financial instrument:	<p>The actual risk sharing rate, programme public contribution, preferential remuneration and interest rate on loans shall be based on the ex-ante assessment findings and shall be such as to ensure that the benefit to the final recipients complies with Article 16 (8)(b) of the Commission Regulation (EU)</p>

amount and rate (product details)	<p>N°651/2014 of 17 June 2014.</p> <p>The size of the target portfolio of the UDF shall be confirmed within the ex-ante assessment justifying the support to the financial instrument (Article 37 of Regulation (EU) No 1303/2013) and take into account the revolving approach of the instrument (if applicable).</p> <p>The UDF allocation and the risk-sharing rate must be set in order to fill the gap evaluated within the ex-ante assessment, but in any case must comply with the conditions laid down in this term sheet.</p> <p>The co-financing rate agreed with the financial intermediary shall define for each eligible loan included in the portfolio, the portion of the eligible loan principal amount financed by the programme. The risk sharing rate agreed with the financial intermediary determines the portion of the losses which are to be shared between the financial intermediary and the programme contribution in absence of any other arrangement.</p> <p>Detailed terms and conditions for financing to be provided by a UDF must be determined prior to making an investment for each urban development project on the basis of financial forecasts prepared for this urban development project and verified by the financial intermediary.</p>
Programme contribution to financial instrument (activities)	<p>The underlying transactions portfolio funded by the UDF shall include loans for urban development projects.</p> <p>The eligibility criteria for inclusion in the portfolio are determined pursuant to Union law (e.g. Regulation (EU) No 1303/2013, fund specific rules and State aid), programme, national eligibility rules, and with the financial intermediary and the investment strategy (part of the integrated approach for sustainable urban development strategy). The financial intermediary shall have a reasonable estimation of the portfolio risk profile.</p> <p>The financial intermediary will be asked to identify, invest in and manage in a sustainable manner a portfolio of urban development projects based on an investment strategy confirmed within the ex-ante assessment. The financial intermediary shall manage a portfolio of urban development projects that are part of the implementation of interventions envisaged in an integrated approach for a sustainable urban development strategy.</p> <p>For each urban development project, the financial intermediary should at least describe the following:</p> <ol style="list-style-type: none"> General description of the project and the project's timetable, including description of the co-financing partners and shareholders and the project's detailed financing plan. Justification for selection for the contribution from the programme, including an initial assessment of the viability of the project and the subsequent need for UDF investment Identification of risks (including technical, market, financial, etc.). Conformity of project's objectives described in the relevant programme. This means that selected urban development projects shall contribute to the achievement of the programme objectives, including quantitative outputs (Indicators), as stipulated in the relevant priority axes of the programme. <p>When implementing the portfolio, the financial intermediary should in particular:</p>

	<ul style="list-style-type: none"> • Identify, invest in and lead the negotiation and structuring of financial investments in viable urban development projects which fit within requirements and criteria applicable to the relevant programme. • Carry out both compliance and investment appraisal with the requirements of the investment strategy. A viability test must demonstrate that the project would not proceed without UDF investment. • Report on urban development projects in accordance with the article 46 of the Regulation (EU) No 1303/2013. • Secure that at least 30% of the total financing provided to an urban development project is from private origin and that the best possible leverage of private resources is achieved. • Recommend and manage appropriate exit strategies from urban development project investments.
Managing Authority's liability	<p>The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of the delegated Regulation (EU) No 480/2014.</p> <p>The losses covered are principal amounts due, payable and outstanding and standard interest (but excluding late payment fees and any other costs and expenses).</p>
Duration	<p>The lending period of the financial instrument shall be set in order to ensure that the programme contribution as referred in Article 42 of Regulation (EU) No 1303/2013 is used for loans disbursed to final recipients no later than the 31 December 2023.</p>
Lending and risk-sharing at financial intermediary level (alignment of interest)	<p>Alignment of interest between the managing authority, investors and the financial intermediary shall be achieved through :</p> <ul style="list-style-type: none"> • The performance fees as provided by Articles 12 and 13 of the Delegated Regulation (EU) No 480/2014. • The remuneration of the financial intermediary that shall reflect the current market remuneration in comparable situations, which shall be the case when the financial intermediary has been selected through a competitive tender and no other advantages granted by the State. • In addition to the programme contribution, the financial intermediary shall contribute to the financing of at least 30% of the total financing commitment for lending by the UDF. Out of this 30%, minimum 1% of the total financing commitment of the UDF to each project shall be invested by the financial intermediary on its own resources and on a pari passu basis with the programme contribution. • The total amount of private co-financing shall be at least 30% of the total financing provided to an urban development project. • Such co-financing could be regarded as either national co-financing of the ESI Fund (where such co-financing is then invested in eligible project expenditures) or complementary to the programme public contribution. • The risk-sharing with the financial intermediary shall be made on identical terms and conditions as for the programme contribution except if the ex-ante assessment as referred in Article 37(2)c of

	<p>Regulation (EU) No 1303/2013 estimates that a preferential remuneration is needed in the form of an asymmetric risk-sharing set between the public and private investors. Such arrangements shall be in line with Article 16(8)b and c of the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p>
Eligible Financial Intermediaries	<p>Public and private bodies established in a Member State which shall be legally authorised to provide loans to urban development projects located in the jurisdiction of the programme which contributes to the financial instrument. The financial intermediary shall also demonstrate capacity to manage an UDF and monitor the portfolio of urban development projects. It concerns the elements required at the Article 7 of the Delegated Regulation (EU) No 480/2014. But also experience in the relevant targeted market and a suitable track record in the management of equivalent or similar projects and/or financial vehicles investing in similar projects to those foreseen for the UDF, including experience in the use of ESIF.</p> <p>The financial intermediary should be appropriately regulated by the relevant national financial services regulatory body and it must follow professional fund management best practice.</p> <p>The financial intermediary shall be managed on commercial basis. This requirement is considered to be fulfilled if the conditions set in Article 16 (9) of the Commission Regulation (EU) N°651/2014.</p> <p>Private bodies are here considered as private legal entity owned by private and/or public investors investing at own risk and from own resources.</p> <p>The UDF may be established as: joint stock companies, limited liability companies, investment funds, separate blocks of finance within financial institutions or as other acceptable organisational forms. The legal structure of the UDF should allow for additional funding to leverage programme contribution from other public investors into urban development projects.</p> <p>The managing authority and fund of funds when selecting financial intermediaries, shall comply with applicable EU law, including on public procurement. The selection of financial intermediaries shall be open, transparent and non-discriminatory aimed if applicable at establishing appropriate preferential remuneration arrangements (asymmetric conditions).</p> <p>The selection process of the financial intermediary shall evaluate the UDF investment strategy, decision making and overall governance approach, management capacity and contribution by the financial intermediary on its own resources to the UDF. Within the selection process, one of the key eligibility criteria for the selection of the financial intermediary will be its capacity to propose and develop a portfolio of urban development projects to be financed, taking into account the most competitive pricing policy proposed by the financial intermediary participating in the selection process.</p> <p>The financial intermediary is responsible for the identification and evaluation of urban development projects. The financial intermediary shall manage after being selected, an urban development project pipeline.</p> <p>The pipeline of urban development projects should contain projects that the financial intermediary undertakes to finance, based upon the information available at that time.</p> <p>Investors shall be deemed to be any investors which, in the reasonable determination of the financial intermediary, are normal economic operators</p>

	<p>(i.e. investors operating in circumstances corresponding to the market economy investor principle) in a free market economy, irrespective of their legal nature and ownership.</p> <p>The financial intermediary shall specify, when selected, the conditions and criteria for the evaluation of co-investors. Those shall be understandable and available to potential co-investors. The financial intermediary shall demonstrate a non-discriminatory approach to find and invest with co-investors. The evaluation of co-investors can be controlled ex-post.</p>
Final recipients eligibility	<p>The final recipients shall be eligible under the EU and national law, the relevant ESIF programme, funding agreement and with the condition referred in Article 16 of the Commission Regulation (EU) N°651/2014 of 17 June 2014. The following eligibility criteria shall be met at the date of the signature of the loan:</p> <ul style="list-style-type: none"> a. Shall be urban development actors, meaning undertakings with a legal status allowing for taking debts and implementing urban development projects, with various ownership structures, for example combining private and public capital. b. Shall be active partners for regional and local authorities stimulating urban development by investing in urban development project. Final recipients must have suitable legal interest in the asset which the investment is made³. c. Shall not be excluded by Articles 1.2 to 1.5 of the General block exemption Regulation, Commission Regulation (EU) N°651/2014 of 17 June 2014. d. Shall not be part of one or more restricted sectors⁴. e. shall not be delinquent or in default in respect of any other loan or lease either granted by the financial intermediary or by another financial institution pursuant to checks made in accordance with the financial intermediary internal guidelines and standard credit policy. f. Urban Development projects shall be implemented in assisted areas as designated in an approved regional aid map for the period 1.7.2014 - 31.12.2020 in application of Articles 107(3)(a) and (c) of the Treaty. <p>In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have a registered place in a Member State and the</p>

³ This may include a building license or other legal interest as required under an ESCO (Energy Service Company) arrangement

⁴ The following economic sectors are together referred to as the “restricted sectors”:

- a. illegal economic activities: any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.
- b. Tobacco and distilled alcoholic beverages. The production of and trade in tobacco and distilled alcoholic beverages and related products.
- c. Production of and trade in weapons and ammunition: the financing of the production of and trade in weapons and ammunition of any kind. This restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies.
- d. Casinos and equivalent enterprises.
- e. IT sector restrictions. Research, development or technical applications relating to electronic data programs or solutions, which (i) aim specifically at: (a) supporting any activity included in the Restricted Sectors referred to a to d above; (b) internet gambling and online casinos; or (c) pornography, or which (ii) are intended to enable to illegally (a) enter into electronic data networks; or (b) download electronic data.
- f. Life science sector restrictions. When providing support to the financing of the research, development or technical applications relating to: (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms (“GMOs”).

	activity for which the loan was disbursed shall be located in the relevant Member State and Region/Jurisdiction of the ESIF programme.
Characteristics of the product for the final recipients	<p>The UDF shall deliver to final recipients the loans that contribute to the objective of the programme and that are co-financed by the programme. The UDF amount and rates shall be grounded on the results of the ex-ante assessment referred in Article 37(2) Regulation (EU) No 1303/2013 and be compatible with the Commission Regulation (EU) N°651/2014 of 17 June 2014.</p> <p>The loans shall be used exclusively for the following permitted purposes:</p> <ul style="list-style-type: none"> a. Investments in tangible and in intangible assets. b. Working capital related to development or expansion activities that are ancillary (and linked) to activities referred to in (a) above (which ancillary nature shall be evidenced, inter alia, by the business plan of the urban development project and the amount of the financing). <p>The following eligibility criteria shall be met at all times by UDF loans included in the portfolio:</p> <ul style="list-style-type: none"> c. Loans shall be newly originated, to the exclusion of the refinancing of existing loans or financing of completed projects. The project financed by the loan cannot have started before its proposal for UDF funding has been submitted for consideration. With the exception for the cases and limits referred in Article 37 (6) of the Regulation (EU) No 1303/2013. d. The total investment amount of the UDF for the urban development project shall not exceed EUR 20.000.000 as referred in Article 16 (3) of the Commission regulation (EU) No 651/2014. e. Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency in the relevant jurisdiction and/or, as the case may be, in any other currency. f. Loans shall not be in the form of mezzanine loans, subordinated debt or quasi equity. g. Loans shall not be in the form of revolving credit lines. h. Loans shall have a repayment schedule: including regular amortising and/or bullet payments. i. Loans shall not finance pure financial activities and shall not finance the provision of consumer finance. j. Maturity: Loans shall have the minimum maturity of 12 months (including the relevant grace period, if any) and a maximum maturity of up to 240 months.
Reporting and targeted results	<p>Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope.</p> <p>The report shall include all the relevant elements for the managing authority to fulfil the conditions of Article 46 of Regulation (EU) No 1303/2013.</p> <p>Member States shall also fulfil their reporting and transparency obligations pursuant to the Commission Regulation (EU) No651/2014.</p> <p>Indicators must be aligned with the specific objectives of the relevant priority</p>

	<p>of the ESIF programme financing the financial instrument and on the expected results of the ex-ante assessment. They shall be measured and reported at least quarterly for the UDF and aligned as a minimum with the regulation requirements. In addition to the common indicators of the priority axis of the ESIF programme (employment increase, ...) other indicators are:</p> <p>Numbers of loans/projects financed</p> <p>Amounts of loans financed</p> <p>Defaults (numbers and amounts)</p> <p>Resources repaid and gains</p>
Evaluation of the economic benefit of the programme contribution	<p>The financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients taking into consideration, if applicable, the favourable funding conditions provided by the programme public contribution to the UDF.</p> <p>The financial intermediary shall reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loans included in the portfolio reflecting the favourable funding conditions of the UDF.</p> <p>This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.</p>