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►**B** **COMMISSION IMPLEMENTING REGULATION (EU) No 964/2014**

of 11 September 2014

laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments

(OJ L 271, 12.9.2014, p. 16)

Amended by:

		Official Journal		
		No	page	date
►**M1**	Commission Implementing Regulation (EU) 2016/1157 of 11 July 2016	L 192	1	16.7.2016

▼B

COMMISSION IMPLEMENTING REGULATION (EU) No 964/2014

of 11 September 2014

laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards standard terms and conditions for financial instruments

▼M1

Article 1

Subject matter

This Regulation lays down rules concerning the standard terms and conditions for the following financial instruments:

(a) a portfolio risk sharing loan (‘RS Loan’);

(b) a capped portfolio guarantee;

(c) a renovation loan;

(d) a co-investment facility;

(e) an Urban Development Fund.

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Article 2

Additional terms and conditions

Managing authorities may include other terms and conditions in addition to those to be included in the funding agreement in accordance with the terms and conditions for the selected financial instrument set out in this Regulation.

▼M1

Article 3

Grants under the standard terms and conditions

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1. In case of financial instruments combined with grants for technical support to final recipients benefiting from one of the instruments, such grants shall not exceed 5 % of the ESI Funds contribution to the instrument and be subject to the conclusions of the *ex-ante* assessment justifying such grants referred to in Article 37 of Regulation (EU) No 1303/2013.

2. The body implementing the financial instrument (hereinafter ‘the financial intermediary’) shall manage the grant for technical support. The technical support shall not cover the activities which are covered by management cost and fees received to manage the financial instrument. The expenditure covered by the technical support may not constitute part of the investment to be financed by the loan under the relevant financial instrument.

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Article 4

Governance under the standard terms and conditions

1. The managing authority or, if applicable, the fund of funds manager shall be represented in the supervisory committee or a similar type of governance structure of the financial instrument.

2. The managing authority shall not participate directly in individual investment decisions. In the case of a fund of funds, the managing authority shall exercise only its supervisory role at the level of the fund of funds without interfering in individual decisions by the fund of funds.

3. The financial instrument shall have a governance structure that allows for decisions concerning credit and risk diversification to be made transparently in line with relevant market practice.

4. The fund of funds manager and the financial intermediary shall have a governance structure that ensures impartiality and independence of the fund of funds manager or of the financial intermediary.

Article 5

Funding agreement under the standard terms and conditions

1. The managing authority shall conclude in writing a funding agreement for contributions from programmes to financial instrument, which shall contain the terms and conditions in accordance with Annex I.

2. The funding agreement shall contain as annexes:

(a) the *ex-ante* assessment required under Article 37 of Regulation (EU) No 1303/2013 justifying the financial instrument;

(b) the business plan of the financial instrument including the investment strategy and a description of the investment, guarantee or lending policy;

(c) the description of the instrument which must be aligned with the detailed standard terms and conditions of the instrument and which must fix the financial parameters of the financial instruments;

(d) the monitoring and reporting templates.

Article 6

RS Loan

1. The RS Loan shall take the form of a loan fund to be set up by a financial intermediary with contribution from the programme and contribution of at least 25 % of the loan fund from the financial intermediary. The loan fund shall finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans.

2. The RS Loan shall comply with the terms and conditions set out in Annex II.

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Article 7

Capped Portfolio Guarantee

1. The Capped Portfolio Guarantee shall provide credit risk coverage on a loan by loan basis up to a guarantee rate of maximum 80 %, for the creation of a portfolio of new loans to the small and medium-sized enterprises up to a maximum loss amount fixed by the guarantee cap rate which shall not exceed 25 % of the risk exposure at portfolio level.

2. The Capped Portfolio Guarantee shall comply with the terms and conditions set out in Annex III.

Article 8

Renovation Loan

1. The Renovation Loan shall take the form of a loan fund to be set up by a financial intermediary with contribution from the programme and contribution of at least 15 % of the loan fund from the financial intermediary. The loan fund shall finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans.

2. Final recipients may be natural or legal persons or independent professionals, owning premises as well as administrators or other legal bodies acting on behalf and for the benefit of owners, implementing energy efficiency or renewable energies measures that are eligible under Regulation (EU) No 1303/2013 and programme support.

3. The Renovation Loan shall comply with the terms and conditions set out in Annex IV.

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Article 8a

Co-investment Facility

1. The Co-investment Facility shall take the form of an equity fund managed by a financial intermediary investing contributions from the European Structural and Investment Funds (ESIF) programme into small and medium-sized enterprises (SMEs). The Co-investment Facility shall attract additional investments in SMEs through a partnership approach with private co-investors on a deal by deal basis.

2. The Co-investment Facility shall comply with the terms and conditions set out in Annex V.

Article 8b

Urban Development Fund

1. The Urban Development Fund shall take the form of a loan fund and shall be set up and managed by a financial intermediary with contributions from the ESIF programme and a mobilisation of co-financing of at least 30 % from the financial intermediary and co-investors. The Urban Development Fund shall finance and support implementation of urban development projects in assisted areas which are designated in a regional aid map for the period 1 July 2014 to 31 December 2020 in accordance with points (a) and (c) of Article 107(3) of the Treaty, as well as mobilise co-investment from private sources.

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2. The Urban Development Fund shall comply with the terms and conditions set out in Annex VI.

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Article 9

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

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ANNEX I

Annotated table of content of a funding agreement between a managing authority and a financial intermediary

Table of content:

(1) Preamble

(2) Definitions

(3) Scope and objective

(4) Policy objectives and *ex-ante* assessment

(5) Final recipients

(6) Financial advantage and State aid

(7) Investment, guarantee or lending policy

(8) Activities and operations

(9) Target results

(10) Role and liability of the financial intermediary: risk and revenue sharing

(11) Management and audit of the financial instrument

(12) Programme contribution

(13) Payments

(14) Account management

(15) Administrative costs

(16) Duration and eligibility of expenditure at closure

(17) Re-utilisation of resources paid by the managing authority (including interest yielded)

(18) Capitalisation of interest rate subsidies, guarantee fee subsidies (if applicable)

(19) Governance of the financial instrument

(20) Conflicts of interest

(21) Reporting and Monitoring

(22) Evaluation

(23) Visibility and transparency

(24) Exclusivity

(25) Settlement of disputes

(26) Confidentiality

(27) Amendment of the agreement and transfer of rights and obligations

1. PREAMBLE

Name of the Country/Region

Identification of the Management Authority

Common Code for Identification (CCI) No of programme

Title of the related programme

Relevant section of the programme referring to the financial instrument

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Name of the ESIF

Identification of the priority axis

Regions where the financial instrument shall be implemented (NUTS level or other)

Amount allocated to the financial instrument by the managing authority

Amount from ESIF

Amount from national public (programme public contribution)

Amount from national private (programme private contribution)

Amount from national public and private outside programme contribution

Expected starting date of the financial instrument

Completion date of the financial instrument

Contact information for communications between the parties

Purpose of the agreement

2. DEFINITIONS

3. SCOPE AND OBJECTIVE

The description of the financial instrument, including its investment strategy or policy, the type of support to be provided.

4. POLICY OBJECTIVES AND *EX-ANTE* ASSESSMENT

The criteria for eligibility for financial intermediaries if applicable as well as additional operational requirements transposing the policy objectives of the instrument, financial products to be offered, final recipients targeted, and envisaged combination with grants.

5. FINAL RECIPIENTS

Identification and eligibility of the final recipients (target group) of the financial instrument.

6. FINANCIAL ADVANTAGE AND STATE AID

Evaluation of the financial advantage by the programme public contribution and alignment with the State aid rules.

7. INVESTMENT, GUARANTEE OR LENDING POLICY

Provisions regarding investment, guarantee or lending policy especially regarding portfolio diversification (risk, sector, geographical zones, size) and existing portfolio of the financial intermediary.

8. ACTIVITIES AND OPERATIONS

Business plan or equivalent documents for the financial instrument to be implemented, including the expected leverage effect referred to in Article 37(2)(c) of Regulation (EU) No 1303/2013.

Definition of eligible activities

A clear definition of the activities assigned and the limits thereof, concerning in particular the modification of activities and the portfolio management (losses and default and recovery process).

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9. TARGET RESULTS

Definition of the activities, results and impact indicators associated with base line measurements and expected targets.

The target results the financial instrument is expected to achieve as contribution to the specific objectives and results of the relevant priority or measure. List of indicators in accordance with the operational programme and Article 46 of Regulation (EU) No 1303/2013.

10. ROLE AND LIABILITY OF THE FINANCIAL INTERMEDIARY: RISK AND REVENUE SHARING

Identifications and Provisions on the liability of the financial intermediary and of other entities involved in the implementation of the financial instrument.

Explanation of risk valuation and risk and profit sharing of the different parties.

Provisions in line with Article 6 of Commission Delegated Regulation (EU) No 480/2014 ([1]) concerning role, liabilities and responsibility of bodies implementing financial instruments.

11. MANAGEMENT AND AUDIT OF THE FINANCIAL INSTRUMENT

Relevant provisions in line with Article 9 of Delegated Regulation (EU) No 480/2014 concerning management and control of financial instruments.

Provisions on the audit requirements, such as minimum requirements for documentation to be kept at the level of the financial intermediary (and at the level of the fund of funds), and requirements in relation to the maintenance of separate records for the different forms of support in compliance with Article 37(7) and (8) of Regulation (EU) No 1303/2013 (where applicable), including provisions and requirements regarding access to documents by audit authorities of the Member State, Commission auditors and the European Court of Auditors in order to ensure a clear audit trail in accordance with Article 40 of Regulation (EU) No 1303/2013.

Provisions in order for the audit authority to comply with guidance in relation with audit methodology, check list and availability of documents.

12. PROGRAMME CONTRIBUTION

Provisions in line with Article 38(10) of Regulation (EU) No 1303/2013 concerning the modalities of transfer and management of programme contributions.

Where appropriate, provisions on a framework of conditions for the contributions from the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural development and the Future Maritime and Fisheries Fund.

13. PAYMENTS

Requirements and procedures for managing payments in tranches, respecting the ceilings of Article 41 of Regulation (EU) No 1303/2013 and for the forecast of deal flows.

([1]) Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (OJ L 138, 13.5.2014, p. 5).

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Conditions for a possible withdrawal of the programme public contribution to the financial instrument.

Rules concerning which supporting documents are required to justify the payments from the managing authority to the financial intermediary.

Conditions under which payments from the managing authority to the financial intermediary must be suspended or interrupted.

14. ACCOUNT MANAGEMENT

Details of the accounts. including if applicable requirements for fiduciary/ separate accounting as set out in Article 38(6) of Regulation (EU) No 1303/2013.

Provisions explaining how the account of the financial instrument is managed. Including conditions governing the use of bank accounts: counterparty risks (if applicable), acceptable treasury operations, responsibilities of parties concerned, remedial actions in the event of excessive balances on fiduciary accounts, record keeping and reporting.

15. ADMINISTRATIVE COSTS

Provisions on the remuneration of the financial intermediary on the calculation and payment of management costs and fees to the financial intermediary and in accordance with Articles 12 and 13 of Delegated Regulation (EU) No 480/2014.

The provision must include the maximum rate applicable and the reference amounts for the calculation.

16. DURATION AND ELIGIBILITY OF EXPENDITURE AT CLOSURE

The date for the entry into force of the agreement.

The dates defining the implementing period of the financial instrument and the eligibility period.

Provisions on the possibility of extension, and termination of the programme public contribution to the financial intermediary for the financial instrument, including the conditions for early termination or withdrawal of programme contributions, exit strategies and the winding-up of financial instruments (including the fund of funds where applicable).

Provisions regarding the eligible expenditure at closure of the programme in accordance with Article 42 of Regulation (EU) No 1303/2013.

17. RE-UTILISATION OF RESOURCES PAID BY THE MANAGING AUTHORITY (INCLUDING INTEREST YIELDED)

Provisions on the re-utilisation of resources paid by the managing authority.

Requirements and procedures for managing interest and other gains attributable to support from ESIF in accordance with Article 43 of Regulation (EU) No 1303/2013.

Provisions regarding the re-use of resources attributable to the support of the ESI Funds until the end of the eligibility period in compliance with Article 44 of Regulation (EU) No 1303/2013.

Provisions regarding the use of resources attributable to the support of the ESI Funds following the end of the eligibility period in compliance with Article 45 of Regulation (EU) No 1303/2013.

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18. CAPITALISATION OF INTEREST RATE SUBSIDIES, GUARANTEE FEE SUBSIDIES (IF APPLICABLE)

Provisions in line with Article 11 of the Delegated Regulation (EU) No 480/2014 referred to in Article 42(1) of Regulation (EU) No 1303/2013 concerning capitalisation of annual instalments for interest rate subsidies and guarantee fee subsidies.

19. GOVERNANCE OF THE FINANCIAL INSTRUMENT

Provisions describing an appropriate governance structure of the financial instrument to ensure that decisions concerning loans/guarantees/investments, divestments and risk diversification are implemented in accordance with the applicable legal requirements and market standards.

Provisions on the investment board of the financial instrument (role, independence, criteria).

20. CONFLICTS OF INTEREST

Clear procedures need to be established to deal with conflicts of interest.

21. REPORTING AND MONITORING

Provisions for monitoring of the implementation of investments and of deal flows including reporting by the financial intermediary to the fund of funds and/or the managing authority to ensure compliance with Article 46 of Regulation (EU) No 1303/2013 and State aid rules.

Rules on reporting to the managing authority on how the tasks are performed, reporting on results and irregularities and corrective measures taken.

22. EVALUATION

Conditions and arrangements for the evaluation of the financial instrument.

23. VISIBILITY AND TRANSPARENCY

Provisions on visibility of the funding provided by the union in line with the Annex XII to Regulation (EU) No 1303/2013.

Provisions guaranteeing access to information for final recipients.

24. EXCLUSIVITY

Provisions establishing under which conditions the fund of funds manager or the financial intermediary is allowed to start a new investment vehicle.

25. SETTLEMENT OF DISPUTES

Provisions on the settlement of disputes.

26. CONFIDENTIALITY

Provisions defining what elements of the financial instrument are covered by confidentiality clauses. Otherwise all other information is considered public.

Confidentiality obligations entered into as part of this agreement shall not prevent proper reporting to the investors, including those providing public funds.

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27. AMENDMENT OF THE AGREEMENT AND TRANSFER OF RIGHTS AND OBLIGATIONS

Provisions defining the scope and conditions for possible amendment and termination of the agreement.

Provisions forbidding the financial intermediary to transfer any right or obligation without the prior authorisation of the managing authority.

ANNEX A: the *ex-ante* assessment required under Article 37 of Regulation (EU) No 1303/2013 justifying the financial instrument.

ANNEX B: the business plan of the financial instrument including the investment strategy and a description of the investment, guarantee or lending policy.

ANNEX C: the description of the instrument which must be aligned with the detailed standard terms and conditions of the instrument and which must fix the financial parameters of the financial instruments.

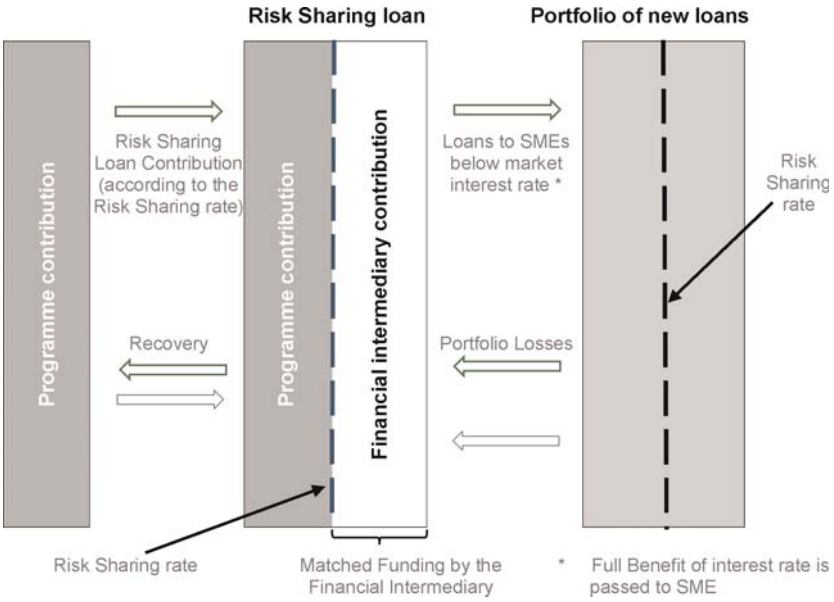
ANNEX D: the monitoring and reporting templates.

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ANNEX II

Loan for SMEs based on a portfolio Risk Sharing loan model (RS loan)

Schematic representation of the RS loan principle



Structure of the financial instrument	The Risk Sharing loan (RS loan or financial instrument) shall take the form of a loan fund to be set up by a financial intermediary with contributions from the programme and the financial intermediary to finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans. The Risk Sharing loan 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 relevant ESIF and defined in the context of the *ex-ante* assessment required in Article 37 of Regulation (EU) No 1303/2013.
Aim of the instrument	The aim of the instrument shall be to: 1. combine resources from the ESIF programme and the financial intermediary to support financing to SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013, and 2. provide SMEs with easier access to finance by providing financial intermediary with a funding contribution and credit risk sharing and thereby offering SMEs more funds at preferential conditions in terms of interest rate reduction and if relevant collateral reduction. The contribution from the ESIF programme to the financial intermediary shall not crowd out financing available from other private investors or public investors. The ESIF programme shall provide funding to the financial intermediary in order to build up a portfolio of newly generated loans to SMEs, and in parallel, participate in the losses/ defaults and recoveries on the SME loans in this portfolio on a loan by loan basis and in the same proportion as the programme contribution in the instrument.

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	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 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 the pro-rata part of the risk sharing between the different contributions in the portfolio of loans. State aid rules have to be respected if the resources provided by the fund of funds are State resources.
State aid implication	The RS Loan shall be designed as a State aid free instrument, i.e. market-conform remuneration for the financial intermediary, full pass-on of financial advantage by the financial intermediary to the final recipients, and the financing provided to the final recipients are under the applicable *de minimis* Regulation. (a) *Aid at the level of the financial intermediary and the fund of funds is excluded when:* 1. the financial intermediary and the managing authority or fund of funds bear at any time the losses and benefits in proportion to their contributions (pro-rata) and there is an economically significant participation of the financial intermediary in the Risk Sharing loan, and 2. 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 and objective selection procedure 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 resources — therefore it is not considered a beneficiary of aid, — it is enough that the fund of fund is not overcompensated, and 3. The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the managing authority shall, in line with the Article 7(2) of Delegated Regulation (EU) No 480/2014, asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the undisbursed public contribution shall be transferred back to the managing authority. (b) *At the level of the SMEs:* At the SMEs' level, the loan shall comply with the *de minimis* rules. For each loan inserted in the portfolio, the financial intermediary shall calculate the GGE by using the following calculation methodology: **Calculation of the GGE = Nominal amount of the loan (EUR) × (Cost of funding (standard practice) + Cost of risk (standard practice) – Any fees charged by the managing authority on the programme contribution to the financial intermediary) × Weighted average life of the loan (Years) × Risk sharing rate.** When the GGE is calculated with the above mentioned formula, for the purpose of the Risk Sharing loan, the requirement as foreseen in Article 4 of the *de minimis* Regulation ([1]) is considered to be met. There is no minimum collateral requirement.

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	A verification mechanism shall ensure that the GGE calculated with the above mentioned formula is not below than the GGE calculated following the Article 4(3)(c) of the *de minimis* Regulation. The total amount of aid calculated with the GGE cannot be above EUR 200 000 over a 3 years fiscal period taking into account the cumulation rule for final recipients in the *de minimis* Regulation. Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE. Regarding SMEs in the fisheries and aquaculture sector, the aid shall comply with the relevant rules of the fisheries *de minimis* Regulation. For activities supported by the EAFRD, general rules apply.
Lending policy	(a) *Disbursement from the managing authority or fund of funds to the financial intermediary:* Following the signature of a funding agreement between the managing authority and the fund of funds or the financial intermediary, the relevant managing authority transfers public contributions from the programme to the fund of funds or the financial intermediary which places such contributions in a dedicated Risk Sharing loan fund. The transfer shall be in tranches and respect the ceilings of the Article 41 of Regulation (EU) No 1303/2013. The target lending volume and range of interest rate shall be confirmed within the *ex-ante* assessment in accordance with Article 37 of Regulation (EU) No 1303/2013and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument). (b) *Origination of a portfolio of new loans:* The financial intermediary shall be required to originate within a pre-determined limited period of time a portfolio of new eligible loans 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. Eligible loans for SMEs (according to pre-defined eligibility criteria on a loan-by-loan and portfolio level) shall be automatically included in the Portfolio, by way of submitting inclusion notices at least on a quarterly basis. The financial intermediary shall implement a consistent lending policy, especially regarding portfolio diversification, enabling a sound credit portfolio management and risk diversification, while complying with the applicable industry standards and while remaining aligned with the managing authority's financial interests and policy objectives. 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. (c) *Re-use of resources paid back to financial instrument:* Resources paid back to the financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to the managing authority or the fund of funds they shall be used in accordance with Article 44 of Regulation (EU) No 1303/2013.

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	When revolving within the same financial instrument, as a matter of principle, 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. This revolving approach as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement. Alternatively, if the managing authority or the fund of funds is directly repaid, the repayments shall occur regularly mirroring (i) principal repayments (on a pro rata basis on the basis of the risk sharing rate) (ii) any recovered amounts and losses deductions (according to the risk sharing rate), of the SME loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of Regulation (EU) No 1303/2013. (d) *Loss recoveries:* The financial intermediary shall take recovery actions in relation to each defaulted SME loan financed by the financial instrument in accordance with its internal guidelines and procedures. Amounts recovered (net of recovery and foreclosure costs, if any) by the financial intermediary shall be allocated pro-rata to the risk-sharing between the financial intermediary and the managing authority or the fund of funds. (e) *Others:* Interest and other gains generated by support from the ESI Funds to financial instrument shall be used as referred in Article 43 of Regulation (EU) No 1303/2013.
Pricing policy	When proposing its pricing, the financial intermediary shall present a pricing policy and the methodology to ensure the full pass on of the financial advantage of the programme public contribution to the eligible SMEs. The pricing policy and the methodology shall include the following elements: (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 SMEs 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 GGE calculation as presented in the State aid section shall be applied on each loan included in the Portfolio. (4) The pricing policy and the methodology shall remain constant during the eligibility period.
Programme contribution to financial instrument: amount and rate (product details)	The actual risk sharing rate, programme public contribution 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 the *de minimis* rule. The size of the target portfolio Risk Sharing loan 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). The composition of the targeted portfolio of loans shall be defined in a way to ensure diversification of risk.

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	The RS loan 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. The risk sharing 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 exposure of the losses which are to be covered by the financial intermediary and by the programme contribution accordingly.
Programme contribution to financial instrument (activities)	The portfolio funded by the RS loan instrument shall include only newly originated loans provided to SMEs, to the exclusion of the refinancing of existing loans. The eligibility criteria for inclusion in the portfolio are determined pursuant to Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification. The financial intermediary shall have a reasonable estimation of the portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant Member State or region.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of Delegated Regulation (EU) No 480/2014. The losses covered are principal amounts due, payable and outstanding and standard interest (but excluding late payment fees and any other costs and expenses).
Duration	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. The typical duration to create the portfolio of loans is recommended to be up to 4 years from the date of signature of the funding agreement (between the managing authority or fund of funds and the financial intermediary).
Lending and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority and the financial intermediary shall be achieved through: — Performance fees as provided by Articles 12 and 13 of the Delegated Regulation (EU) No 480/2014. — In addition to the programme contribution, the financial intermediary shall contribute under local market conditions to the financing of at least 25 % of the total financing commitment for lending to SMEs within the RS loan instrument. — The losses and recoveries shall impact pro-rata the financial intermediary and the managing authority within their respective liability according to the risk-sharing rate. The expected risk-sharing rate shall be determined based on the *ex-ante* assessment findings justifying the support to the financial instrument.
Eligible Financial Intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans.

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Final recipients eligibility	The final recipients shall be eligible under EU and national law, the relevant programme and funding agreement. The following eligibility criteria shall be met at the date of the signature of the loan: (a) shall be a micro, small and medium enterprise (SMEs (including individual entrepreneurs/self-employed persons) as defined in Commission Recommendation 2003/361/EC ([2]) ([3]). (b) shall not be a SME active in the sectors defined in point (d) – (f) of Article 1 of the *de minimis* Regulation. (c) shall not be part of on one or more restricted sectors ([4]). (d) shall not be a firm in difficulty as defined by State aid rules. (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. In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have a registered place of business in a Member State and the economic 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	The financial intermediary shall deliver to final recipients the loans that contribute to the objective of the programme and that are co-financed by the programme under the RS loan instrument. Their terms shall be grounded on the *ex-ante* assessment referred to in Article 37 of Regulation (EU) No 1303/2013. The loans shall be used exclusively for the following permitted purposes: (a) investments in tangible and intangible assets, including transfer of proprietary rights in enterprises provided that such transfer takes place between independent investors. (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 SME and the amount of the financing). The following eligibility criteria shall be met at all times by the loans included in the portfolio: (c) Loans shall be newly originated, to the exclusion of the refinancing of existing loans. (d) The principal amount of a loan included in the RS loan portfolio (i) shall be up to EUR 1 000 000 based on the *ex-ante* assessment and (ii) shall be provided under such conditions that would not cause the GGE with respect to each final recipient to exceed EUR 200 000 (or EUR 100 000 in the road freight transport and EUR 30 000 in the fishery and aquaculture sectors) over any period of three fiscal years; eligible SMEs could potentially apply more than once for loans allocated in the context of this financial instrument provided that the above-mentioned GGE limit is fully respected. (e) Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency in the relevant jurisdiction and, 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.

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	(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 or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. (j) Loans shall have a minimum maturity of 12 months including the relevant grace period (if any) and a maximum maturity of up to 120 months.
Reporting and targeted results	Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. 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. Member States shall also fulfil their reporting obligations pursuant to the *de minimis* Regulation. 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 of the *ex-ante* assessment. They shall be measured and reported at least quarterly for the RS loan instrument 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: Numbers of loans/projects financed Amounts of loans financed Defaults (numbers and amounts) Resources repaid and gains
Evaluation of the economic benefit of the programme contribution	The financial intermediary shall reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding and risk sharing conditions of the RS loan. The entire financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients in the form of an interest rate reduction. The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

([1]) Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (OJ L 352, 24.12.2013, p. 1).

([2]) Commission Recommendation 2003/361/EC of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (notified under document number C(2003) 1422) (OJ L 124, 20.5.2003, p. 36).

([3]) 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’.

([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.

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(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. 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).

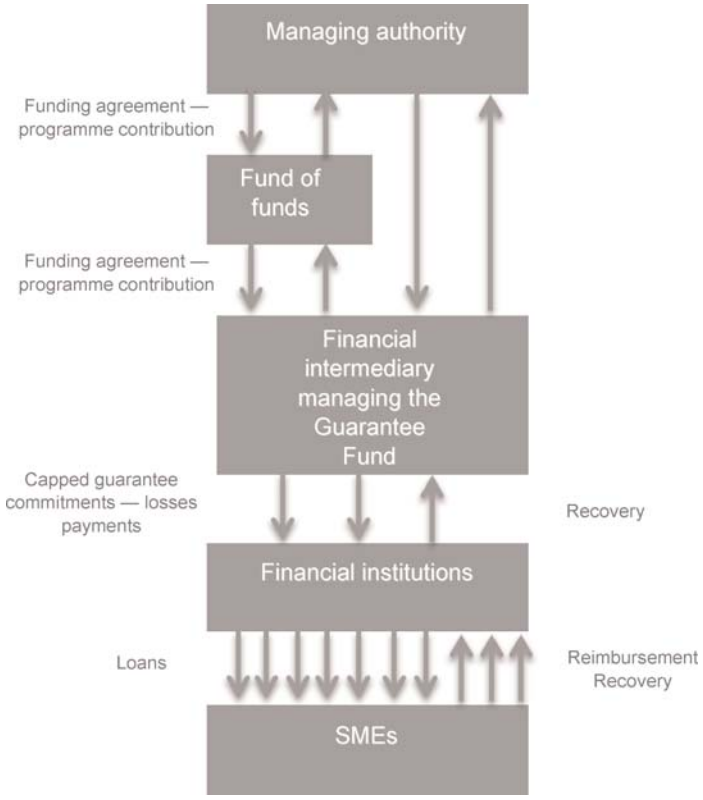
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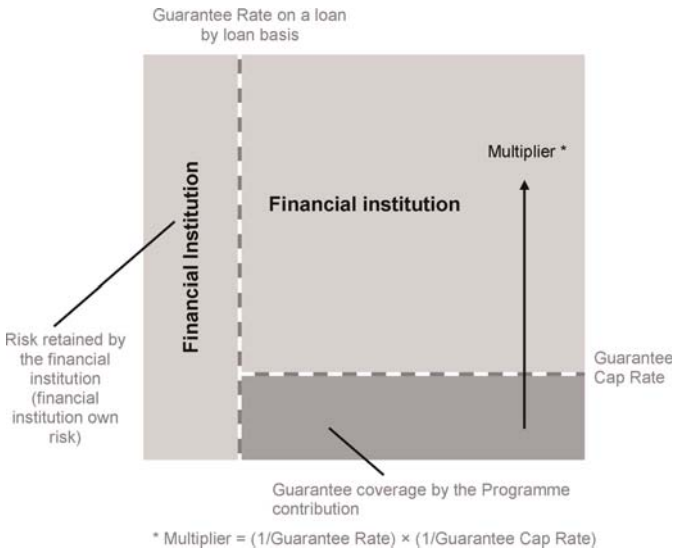
ANNEX III

Capped Portfolio Guarantee for SME's (Capped Guarantee)

Schematic representation of the Capped Guarantee

Relation between stakeholders and Capped Guarantee portfolio coverage





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Structure of the financial instrument	The Capped Portfolio Guarantee shall provide credit risk coverage on a loan by loan basis, for the creation of a portfolio of new loans to SMEs up to a maximum loss amount (cap). The Capped Portfolio Guarantee shall be made available by the managing authority, in the framework of the operation which is part of the priority axis defined in the programme co-funded by the European Structural and Investment Funds (ESIF) and defined in the context of the *ex-ante* assessment required in Article 37 of Regulation (EU) No 1303/2013.
Aim of the instrument	The aim of the instrument shall be to: (1) Provide better access to finance to targeted SMEs, addressing concrete and well identified market gaps. (2) Leverage of the ESIFs to support financing for SMEs as referred in Article 37(4) of Regulation (EU) No 1303/2013. The ESIF programme contribution from the managing authority takes the form of a guarantee fund managed by a financial intermediary. This contribution shall not crowd out guarantees available from other public or private investors. The guarantee fund managed by the financial intermediary shall commit to provide funds from the ESIF programme to the financial institutions building up portfolios of new loans in case of default of the final recipients. In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary. The Capped Guarantee Instrument shall be implemented to cover a portfolio of new loans build up by one or more financial institutions. The financial institutions building up portfolios of new loans shall count on a partial guarantee covering losses up to a capped amount when providing loans to eligible SMEs. The financial advantage of the guarantee must be passed on to the final recipients (e.g. as a reduction of the interest rate of the loans or/and collateral reduction but always with a full financial advantage of the programme public contribution passed on to the final recipients).
State aid implication	The Capped Portfolio Guarantee shall be designed as a State aid free instrument, i.e. market conform at the level of the financial intermediary managing the guarantee fund and financial institutions building up portfolios of new loans and aid to the final recipients under the applicable *de minimis* Regulation. (a) *At the level of the fund of funds, the financial intermediary managing the guarantee fund, the financial institutions building up portfolios of new loans the aid is excluded when:* (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 in an open, transparent, objective and non-discriminatory selection procedure or if the remuneration is aligned with the Articles 12 and 13 of Delegated Regulation (EU) No 480/2014, and no other advantage is 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 resources — therefore it is not considered a beneficiary of aid, — it is enough that the fund of fund is not overcompensated and (2) The financial institution shall be selected through an open, transparent, non-discriminatory and objective selection procedure to build up the portfolio of new loans with its own resources and the risk retained by the financial institution is in no case less than 20 % of the loan amount (on a loan by loan basis), and

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	(3) In addition, the financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the managing authority shall, in line with the Article 7(2) of Delegated Regulation (EU) No 480/2014, asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the uncommitted public contribution shall be transferred back to the managing authority. The guarantee must be linked to a specific financial transaction, for a fixed maximum amount and limited in time. (b) *At the level of final recipients:* At the SMEs' level, the guaranteed loan shall comply with the *de minimis* rules. For each loan inserted within the guaranteed portfolio, the financial intermediary shall calculate the GGE by using the following calculation methodology: **Calculation of the GGE = Nominal amount of the loan (EUR) × Cost of risk (standard practice) × Guarantee rate × Guarantee cap rate × Weighted average life of the loan (Years).** The total amount of aid calculated with the GGE cannot be above EUR 200 000 over a 3 years fiscal period taking into account the cumulation rule for final recipients in the *de minimis* Regulation. When the GGE is calculated with the above mentioned formula, for the purpose of a Capped Portfolio Guarantee instrument, the requirement as foreseen in Article 4 of the *de minimis* Regulation ([1]) is considered to be met. A verification mechanism shall ensure that the GGE calculated with the above mentioned formula is not below than the GGE calculated following the Article 4(6)(c) of the *de minimis* Regulation. Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE. Regarding SMEs in the fisheries and aquaculture sector, the aid shall comply with the relevant rules of the fisheries de minimis Regulation For activities supported by the EAFRD, general rules apply.
Guarantee policy	(a) *Transfer from the managing authority to the financial intermediary:* Following the signature of a funding agreement between the managing authority and the fund of funds or the financial intermediary, the relevant managing authority transfers contributions from the programme to the fund of funds or to the financial intermediary which places such contributions in a dedicated guarantee fund. The transfer shall be in tranches and respect the ceilings of Article 41 of Regulation (EU) No 1303/2013. (b) *Origination of a portfolio of new loans:* The financial institutions shall be required to build up within a pre-determined limited period of time portfolios of new SME loans. Newly originated SME loans are partly covered by the programme contribution on a loan by loan basis up to a certain amount (Cap). Eligible SME loans are automatically included in the portfolio subject to a pre-set loan inclusion criteria.

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	Inclusion of SME loans shall occur automatically upon receipt by the financial intermediary managing the guarantee fund of an inclusion notice submitted at least on a quarterly basis until the end of the relevant inclusion period. The financial institutions shall implement a consistent loan policy regarding portfolio diversification, enabling a sound portfolio management and risk diversification, while complying with the applicable industry standards and while remaining appropriate to the managing authority's financial interests and policy objectives. The identification, selection, due diligence, documentation and execution of the loans for final recipients shall be performed by the financial institutions in accordance with their standard procedures and in accordance with the principles set out in the agreement between the financial intermediary and the financial institution building up a portfolio of new loans. (c) *Loss cover:* The Capped Portfolio Guarantee shall cover losses incurred by the financial institutions in respect of each defaulted eligible SME loan in accordance with the guarantee rate of a maximum percentage of 80 %. Losses covered by the Capped Portfolio Guarantee in respect of the portfolio of eligible SME loans shall in aggregate not exceed the cap amount. The cap amount which is the maximum liability under this instrument is the product of the volume of the target loan portfolio multiplied by the guarantee rate and the guarantee cap rate. The guarantee cap rate shall be determined as part of the *ex-ante* risk assessment in accordance with Article 42(1)(b) of Regulation (EU) No 1303/2013 and Article 8 of Delegated Regulation (EU) No 480/2014. Losses covered are principal amounts due, payable and outstanding and standard interest (but excluding late payment, fees and any other costs and expenses). (d) *Guarantee payment:* Following the occurrence of a loss related to a default, the financial intermediary managing the guarantee fund shall make guarantee payments to the financial institution under the Guarantee within typically 60 days.
Pricing and collateral policies	The financial intermediary shall present a methodology that ensures the full pass on of the financial advantage of the programme public contribution to the eligible SMEs. The financial institution shall have a pricing/collateral policy in line with the methodology. The pricing/collateral policy and the methodology shall include the following elements: (1) The instrument shall cover a maximum of 80 % of the risk exposure of each eligible SME Loan (up to a Cap). (2) The entire financial advantage of the programme public contribution shall be passed on to the eligible SMEs, through a reduction of the interest rate charged and/or a reduction of the collateral required by the financial institution. (3) The GGE calculation as presented in the State aid section shall be applied for each loan included in the portfolio. (4) No Guarantee fees shall be charged to the financial institution by the financial intermediary managing the guarantee fund. (5) The financial institution shall reduce the overall interest rate and/or collateral requirement under each eligible SME loan included in the portfolio following the pricing policy and methodology ensuring the full pass on of the financial advantage.

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	The level of such reduction proposed by the financial institution shall be assessed and confirmed by the financial intermediary following the relevant analysis and due diligence and shall deemed to be an eligibility criterion for SME loans to be included in the Portfolio. (6) The managing authority may decide based on the *ex-ante* assessment which identifies the targeted SMEs and the *ex-ante* risk assessment that determines the risk, to require guarantee fees payable by the final recipients. In such case, the GGE shall be calculated with the formula presented in the section on State aid here above or be aligned with the conditions of the Guarantee Notice. The fees paid by the final recipients shall be paid back to the guarantee fund as resources returned in the sense of Article 43 of Regulation (EU) No 1303/2013. (7) The pricing policy and the methodology shall remain constant during the eligibility period.
Guarantee to financial institution amount and rate (product details)	The Capped Portfolio Guarantee shall respect the conditions set in Article 8 of the Delegated Regulation (EU) No 480/2014. The Guarantee Cap rate shall be determined in the *ex-ante* risk assessment in accordance with Article 42(1)(b) of Regulation (EU) No 1303/2013 and Article 8 of Delegated Regulation (EU) No 480/2014 and in all cases not exceed 25 %. The guarantee may cover expected and unexpected losses. The multiplier of the guarantee financed by the programme contribution is defined as: Multiplier = (1/Guarantee Rate) × (1/Guarantee Cap Rate). The multiplier ratio shall be based on the *ex-ante* risk assessment and be equal to or higher than 5. The size of the target portfolio partially covered by the guarantee shall be based on the *ex-ante* assessment findings 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). The composition of the targeted portfolio of loans shall be defined in a way to ensure diversification of risk.
Guarantee to financial institution (activities)	The loan portfolio guaranteed by the guarantee instrument shall include newly originated loans provided to the final recipients, to the exclusion of refinancing of existing loans. The eligibility criteria for inclusion in the portfolio are determined pursuant to the Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification. Financial institutions shall have a reasonable estimation of the portfolio risk profile (concentration limit by sector for example). These criteria shall reflect market conditions and practices in the relevant country or region. The financial institution shall estimate *ex-ante* a recovery rate to be used for calculating the amount expected to be recovered from the defaults in the portfolio, which impacts the evaluation of the guarantee cap rate.
Managing authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of Delegated Regulation (EU) No 480/2014. Default means, in respect of a loan to final recipient that (i) the financial institution can prove at any time (acting in accordance with its internal procedures and as reflected in its financial and regulatory reporting) that a final recipient is unlikely to meet its payment obligations; or (ii) a final recipient has failed to meet any payment obligation under the relevant SME loan which has continued for at least 90 consecutive calendar days

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Duration	The guarantee 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 with guarantees of loans disbursed to final recipients no later than the 31 December 2023. The typical duration to create the portfolio of guaranteed loans is recommended to be up to 4 years from the date of signature of the funding agreement (between the managing authority or fund of funds and the financial intermediary).
Risk-sharing at FI level (alignment of interest)	Alignment of interest between the managing authority, the financial intermediary and the financial institution shall be achieved through: — The own credit risk retained by the financial institution in no case shall be less than 20 % on a loan by loan basis. — The financial institution commits to build up a portfolio of new loans with its own resources. — The financial advantage of the Capped Guarantee is fully passed on to final recipient SMEs. — Performance fees for financial intermediary as provided by Articles 12 and 13 of Delegated Regulation (EU) No 480/2014.
Eligible Financial Intermediaries and Financial Institutions	Financial intermediaries shall be public and private bodies established in a Member State which are legally authorised to provide guarantees on loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Financial institutions shall be public and private bodies established in a Member States which are legally authorised to provide loans to enterprises operating in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, and, as appropriate, microfinance institutions or any other institution authorised to provide loans.
Final Recipient (final recipients) eligibility	The final recipients shall be eligible under Union and national law, the relevant programme, and funding agreement. The final recipients shall fulfil the following eligibility criteria at the date of the document evidencing the relevant SME guarantee, meaning the guarantee commitment: (a) shall be a micro, small and medium enterprise (SMEs (including individual entrepreneurs/self-employed persons) as defined in the Commission Recommendation 2003/361/EC ([2]). (b) shall not be a SME active in the sectors defined in points (d)-(f) of Article 1 of the *de minimis* Regulation. (c) shall not be part of one or more restricted sectors ([3]). (d) shall not be a firm in difficulty as defined by State aid rule. (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. In addition, at the time of the investment and during the reimbursement of the guaranteed loan, final recipients shall have a registered place of business in a Member State and the economic activity for which the guaranteed loan was disbursed shall be located in the relevant Member State and Region/Jurisdiction of the ESIF programme.

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Characteristics of the product for the final recipients	The financial institution shall deliver to final recipients the loans that contribute to the objective of the programme and that are guaranteed by the programme under the Capped guarantee portfolio. The terms of the guarantees and of the loans shall be grounded on the *ex-ante* assessment referred to in Article 37(2) of Regulation (EU) No 1303/2013. The loans shall be used exclusively for the following permitted purposes: (a) Investments in tangible and intangible assets including transfer of proprietary rights in enterprises provided that such transfer takes place between independent investors. (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 final recipient and the amount of the financing). The following eligibility criteria shall be met at all times by the loans included in the portfolio: (c) Loans shall be newly originated, to the exclusion of refinancing existing loans. (d) The guaranteed part of the underlying loan included in the portfolio i) shall be up to EUR 1 500 000 based on the *ex-ante* assessment and ii) shall be provided under such conditions that would not cause the GGE with respect to each final recipient to exceed EUR 200 000 (or EUR 100 000 in the road freight transport and EUR 30 000 in the fishery and aquaculture sectors) over any period of three fiscal years. Eligible SMEs could potentially apply more than once for loans allocated in the context of this financial instrument provided that the above-mentioned GGE limit is fully respected. (e) Loans shall provide financing for one or more of the permitted purposes in EUR and/or national currency in the relevant jurisdiction and, 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) Shall have a repayment schedule, including regular amortising and/or bullet payments. (i) Loans shall not finance pure financial activities or real estate development when undertaken as a financial investment activity and shall not finance the provision of consumer finance. (j) Shall have between a minimum maturity of 12 months and a maximum maturity of 120 months.
Reporting and targeted results.	Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. 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. Member States shall also fulfil their reporting obligations pursuant to the *de minimis* Regulation. 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 of the *ex-ante* assessment. They shall be measured and reported at least quarterly for the guarantee fund

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	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: Numbers of loans guaranteed Volume of the loans guaranteed Number of loans defaulted Value of the loans defaulted Guarantees committed/called (number, amounts) Resources uncalled and gains (e.g. interest generated)
Evaluation of the economic benefit of the programme contribution	The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients (benefit of the guarantee). The financial advantage for the eligible SMEs shall be evidenced by a reduction of the overall interest rate required by the financial institution and/or collateral reduction on such SME loan. The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section. These principles shall be reflected in the agreements between the managing authority or fund of funds and the financial intermediaries and between the financial intermediaries and the financial institutions building up portfolios of new loans.

([1]) Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (OJ L 352, 24.12.2013, p. 1).

([2]) 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'.

([3]) 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. 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.

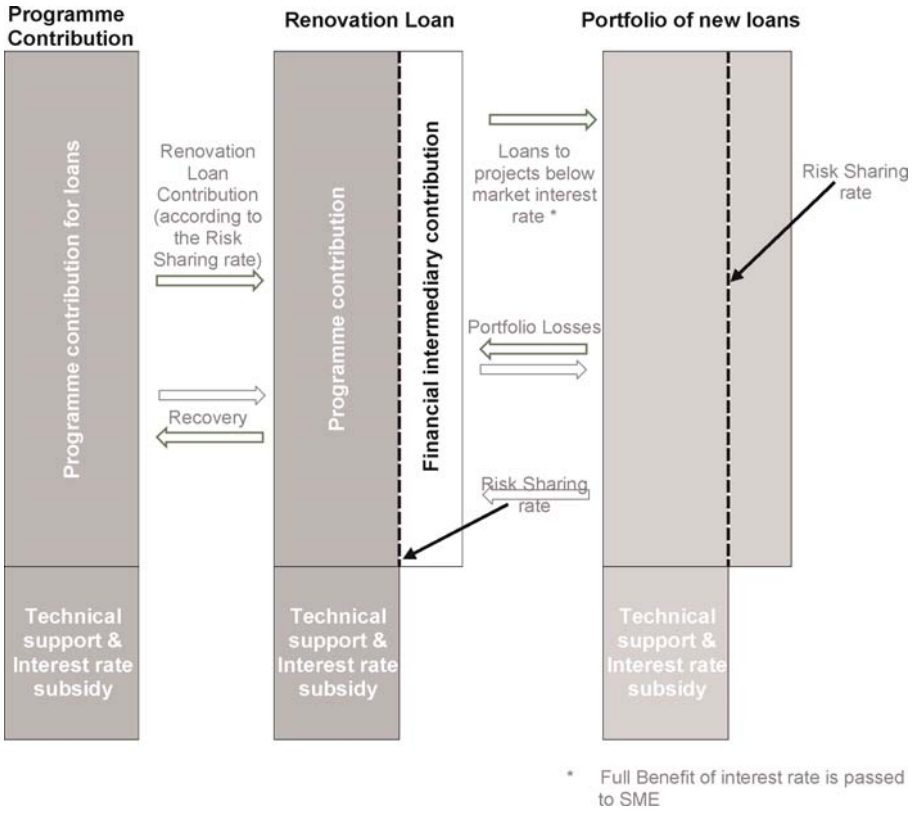
(f) Life science sector restrictions. When providing support to the financing of the research, development or technical applications relating to: (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms (GMOs).

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ANNEX IV

Loan for energy efficiency and renewable energies in the residential building sector (Renovation loan)

Schematic representation of the Renovation loan principle



Structure of the financial instrument	The Renovation loan shall take the form of a loan fund to be set up by a financial intermediary with contributions from the programme and the financial intermediary itself to finance a portfolio of newly originated loans, to the exclusion of the refinancing of existing loans. The Renovation loan shall be made available, in the framework of the operation which is part of the priority axis defined in the programme funded by the ESIF and defined in the context of the *ex-ante* assessment required in Article 37 of Regulation (EU) No 1303/2013.
Aim of the instrument	The aim of the instrument is to offer preferential loans to natural and legal persons or independent professionals owning premises (apartment, social housing or individual household), as well as administrators or other legal bodies acting on behalf and for the benefit of the owners in order to undertake renovation works that are eligible for ESIF support. The ESIF programme contribution from the managing authority to a financial intermediary shall not crowd out financing available from other private or public investors. The ESIF programme shall provide funding to the financial intermediary in order to build up a portfolio of newly generated loans, and in parallel, participate in the losses/defaults and recoveries on the loans in this portfolio on a loan by loan basis and in the same proportion as the programme contribution in the instrument. In the case of fund of funds structure, the fund of funds shall transfer the contribution from the ESIF programme to the financial intermediary.

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	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 the pro-rata part of the risk sharing between the different contributions in the portfolio of loans. State aid rules have to be respected also in relation to such resources if they are public resources.
State aid implication	The Renovation Loan shall be designed as a State aid free instrument, i.e. market-conform remuneration for the financial intermediary, full pass-on of financial advantage by the financial intermediary to the final recipients, and the financing provided to the final recipients are under the applicable *de minimis* Regulation. (a) *Aid at the level of the financial intermediary and the fund of funds is excluded when:* (1) the financial intermediary and the managing authority or fund of funds bear at any time the losses and benefits in proportion to their contribution (pro-rata) and there is an economically significant participation of the financial intermediary in the Renovation loan instrument, and (2) 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 they have been selected through an open, transparent, non-discriminatory and objective selection procedure or if their 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 resources — therefore it is not considered a beneficiary of aid, — it is enough that the fund of fund is not overcompensated, and (3) The financial advantage of the programme public contribution to the instrument shall be fully passed on to the final recipients in the form of an interest rate reduction. When selecting the financial intermediary, the managing authority shall, in line with the Article 7(2) of Delegated Regulation (EU) No 480/2014, asses the pricing policy and the methodology to pass on the financial advantage to the final recipients. Where the financial intermediary does not pass on all the financial advantage to the final recipients, the undisbursed public contribution shall be transferred back to the managing authority. (b) *Aid at the level of an entity acting on behalf of the owners (i.e. natural and legal persons, independent professionals owning premises, administrators, other legal bodies):* Aid at the level of an entity acting on behalf of the owners is excluded when: (1) the entity does not benefit from any direct transfers of public support and (2) The entity transfers all the financial advantages of the programme public contribution to the final recipients (c) *At the level of the owners without or with an economic activity (legal person or independent professionals, landlords and owners who install renewable energies, supplying part of the energy produced to the grid):* Owners that are natural persons and which are not considered undertakings because they do not exercise an economic activity are not considered to be beneficiaries of State aid.Owners with an economic activity qualify as an ‘undertaking’ and are subject to State aid rules. In particular, this is the case if they are landlords (renting is an economic activity) and in the case of installing renewable energies, if part of the renewable energies produced is supplied to the grid (supplying energy to the grid is considered an economic activity).

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	At the level of the owners with an economic activity, the aid shall comply with the *de minimis* rules. For each loan inserted within the portfolio regarding owners with an economic activity, the financial intermediary shall calculate the GGE by using the following calculation methodology: **Calculation of the GGE = Nominal amount of the loan (EUR) × (Cost of funding (standard practice) + Cost of risk (standard practice) – Any fees charged by the managing authority on the programme contribution to the financial intermediary) × Weighted average life of the loan (Years) × Risk sharing rate.** When the GGE is calculated with the above mentioned formula, for the purpose of the Renovation loan instrument, the requirement as foreseen in Article 4 of the *de minimis* Regulation ([1]) is considered to be met. There is no minimum collateral requirement. A verification mechanism shall ensure that the GGE calculated with the above mentioned formula is not below than the GGE calculated following the Article 4(3)(c) of the *de minimis* Regulation. The total amount of aid calculated with the GGE cannot be above EUR 200 000 over a 3 years fiscal period taking into account the cumulation rule for final recipients in the *de minimis* Regulation. Technical support grant or another grant provided to the final recipient shall be cumulated with the calculated GGE.
Lending policy	(a) *Disbursement from the managing authority or fund of funds to the financial intermediary:* Following the signature of a funding agreement between the managing authority and the fund of funds or the financial intermediary, the relevant managing authority transfers public contributions from the programme to the fund of funds or the financial intermediary which places such contributions in a dedicated Renovation loan fund. The transfer shall be in tranches and respect the ceilings of Article 41 of Regulation (EU) No 1303/2013. The target lending volume and range of interest rate shall be confirmed within the *ex-ante* assessment in accordance with Article 37 of Regulation (EU) No 1303/2013 and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument). The maximum risk-sharing of the financial instrument towards the final recipients shall be 85 % (i.e. at least 15 % shall be provided by the financial intermediary own funds). (b) *Origination of a portfolio of new loans:* The financial intermediary shall be required to originate within a pre-determined limited period of time a portfolio of new loans funded according to a risk-sharing rate agreed in the funding agreement (i.e. funded by (i) the programme contribution) (ii) the financial intermediary own fund). Eligible loans pre-defined according to eligibility criteria on a loan-by-loan basis and portfolio level shall be automatically included in the portfolio by way of submitting inclusion notices at least on a quarterly basis. The financial intermediary shall implement a consistent lending policy, especially regarding portfolio composition enabling a sound credit portfolio management and risk diversification, while aiming at reducing the market failure identified in the *ex-ante* assessment (referring to Article 37 of Regulation (EU) No 1303/2013) and while remaining aligned with the managing authority's financial interests and policy objectives.

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	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. (c) *Re-use of resources paid back to financial instrument:* Resources paid back to the financial instrument shall be either reused within the same financial instrument (revolving within the same financial instrument) or after being paid back to the managing authority or the fund of funds they shall be used in accordance with Article 44 of Regulation (EU) No 1303/2013. 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. This revolving approach as referred at Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement. Alternatively, if managing authority or fund of funds is directly repaid, the repayments shall occur regularly mirroring (i) principal repayments (on a pro rata basis on the basis of the risk sharing rate) (ii) any recovered amounts and losses deductions (according to the risk sharing rate), of the Renovation loans and (iii) any interest rate payments. These resources have to be used in accordance with Articles 44 and 45 of Regulation (EU) No 1303/2013. (d) *Loss recoveries:* The financial intermediary shall take recovery actions in relation to each defaulted loan co-financed by the Renovation loan in accordance with its internal guidelines and procedures. Amounts recovered by the financial intermediary (net of recovery and foreclosure costs, if any) shall be allocated pro-rata to the risk-sharing between the financial intermediary and the managing authority or the fund of funds. (e) *Others:* Interest and other gains generated by support from the ESI Funds to financial instrument shall be used in accordance with Article 43 of Regulation (EU) No 1303/2013.
Pricing policy	When proposing its pricing, the financial intermediary shall present a pricing policy and the methodology to ensure the full pass on of the financial advantage of the programme public contribution to the final recipients. The pricing policy and the methodology shall include the following elements: (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 final recipients 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 GGE calculation as presented in the State aid section shall be applied on each loan included in the Portfolio. (4) The pricing policy and the methodology shall remain constant during the eligibility period.

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Programme contribution to financial instrument: amount and rate (product details)	The Renovation loan allocation to financial intermediaries and the minimum risk sharing rate shall be based on the *ex-ante* assessment findings justifying the support to the financial instrument (Article 37 of Regulation (EU) No 1303/2013) and taking into account the revolving approach of the instrument (if applicable).
Programme contribution to financial instrument (activities)	The loan portfolio funded by the Renovation loan instrument shall include newly originated loans to the final recipients, to the exclusion of the refinancing of existing loans. The eligibility criteria for inclusion in the portfolio are determined pursuant to the Union law (e.g. Regulation (EU) No 1303/2013 and Fund-specific rules), programme, national eligibility rules, and with the financial intermediary with the aim of reaching a large number of final recipients and achieving sufficient portfolio diversification and homogeneity in order to allow a reasonable estimation of the portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant country or region. The financial intermediary shall be required to cooperate with regional or national bodies responsible for providing additional services in relation to the implementation of the renovation projects, which includes inter alia: consultancy services; verification and evaluation of project preparation, construction, technical supervision and procurement documents; evaluation of the compliance of renovation projects with Union and national law; the provision of grant support, State aid verification and registration.
Managing authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of Delegated Regulation (EU) No 480/2014.
Duration	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 by 31 December 2023.
Lending and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority and the financial intermediary shall be achieved through: — Performance fees as provided by Articles 12 and 13 of Delegated Regulation (EU) No 480/2014. — The financial intermediary must contribute under local market conditions to the financing with at least 15 % of the total financing commitment for lending to final recipients (allowing determining the risk sharing rate). — The losses and recoveries shall impact pro-rata the financial intermediary and the managing authority within their respective liability.
Eligible financial intermediaries	Public and private bodies established in a Member State which shall be legally authorised to provide Renovation loans to persons owning premises and enterprises operating and owning premises in the jurisdiction of the programme which contributes to the financial instrument. Such bodies are financial institutions, and as appropriate microfinance institutions or any other institution authorised to provide loans.
Final recipient eligibility	The final recipients shall be eligible under Union and national law, the relevant priority, and funding agreement. Final recipients shall be natural or legal persons or independent professionals (economic activity), as well as administrators or other legal bodies acting on behalf and for the benefit of owners, owning premises (apartment or individual household) implementing energy efficiency or renewable energies measures that are eligible under Regulation (EU) No 1303/2013 and programme support.

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Within the eligibility rules under the programme and in line with national and Union rules the following examples of types of works may be eligible:

— Technical support for the preparation of the part of the project relating to the energy efficiency or renewable energies measures.

— Implementation costs of the part of the project relating to the energy efficiency or renewable energies measures.

— Major repairs or replacement of heating and hot water systems:

— Replacement or refitting of the heating substation or the boiler house (individual boilers) as well as hot water preparation systems.

— Installation of balancing valves for stands.

— Improvement of heat insulation for pipes.

— Replacement of pipes and heating devices.

— Installation of individual heating measurement system and thermostatic valves in apartments.

— Replacement or refitting of hot water system pipes and installations.

— Replacement or refitting of ventilation system.

— Replacement of windows and entrance doors.

— Roof insulation, including construction of a new sloping roof (excluding construction of premises in the attic).

— Insulation of façade walls.

— Insulation of cellar ceiling.

— Installation of alternative energy sources (sun, wind, etc.) systems.

— Major repairs or replacement of elevators by replacing them by more energy efficient elevators.

— Replacement or repair of the common use engineering systems of the building (sewage system, electric installations, fire prevention installations, drinking water pipelines and installations ventilation system).

Regarding the final recipients, the following eligibility criteria shall apply when lending to final recipient/owners with an economic activity under a legal entity (for example independent professionals). The eligibility criteria shall be met at the date of the signature of the loan:

(a) shall be a micro, small and medium enterprise (SMEs (including individual entrepreneurs/self-employed persons) as defined in the Commission Recommendation 2003/361/EC.

(b) shall not be a SME active in the sectors defined in points (a) — (f) of Article 1 of the *de minimis* Regulation.

(c) shall not be part of on one or more restricted sectors ([2]).

(d) shall not be a firm in difficulty as defined by State aid rules.

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	(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. In addition, at the time of the investment and during the reimbursement of the loan, final recipients shall have a registered place of business in a Member State and the economic 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	The financial intermediary shall deliver to final recipients new loans that contribute to the objective of the programme and that are co-financed by the programme under the Renovation loan, to the exclusion of the refinancing of existing loans. Their terms shall be grounded on the *ex-ante* assessment referred to in Article 37 of Regulation (EU) No 1303/2013. The Renovation loan maturity shall be for a period of up to 20 years. The maximum amount of each Renovation loan shall be fixed in relation with the *ex-ante* assessment findings justifying the programme contribution to the financial instrument and shall be fixed in the funding agreement between the managing authority, fund of funds and the financial intermediary. The maximum amount per loan per individual household shall not exceed EUR 75 000. Loans for a building administrator are the sum of individual households of the building. The financial instrument may require from the final recipients or the administrators of common property acting on behalf of final recipients, an 'own funds' contribution. The Renovation loan shall be subject to annual fixed interest rate and shall include regular amortisation. The interest rate on the financial intermediary participation is set at market basis. The interest rate applicable to the relevant eligible loan included in the portfolio shall be reduced by the proportion of the programme public contribution in favour of the final recipients. An interest rate subsidy, as under Article 37(7) of Regulation (EU) No 1303/2013, may be awarded to low income households or vulnerable households ([3]) The maximum interest rate subsidy shall correspond to the interest rate to be paid by the low income households or vulnerable households on the contribution of the financial intermediary in each loan. Certain technical support costs may be included in the financial instrument in the context of Article 37(7) of Regulation (EU) No 1303/2013. Support must be provided for project preparation only (preparatory studies and assisting in the preparation of the investment up to the investment decision). These technical support costs shall only be eligible in the event that a Renovation loan is signed between the financial intermediary and the final recipients and regardless of the entity that provides these services (e.g. regardless of whether the financial intermediary provides such services or they are obtained from another entity).
Reporting and targeted results	Financial intermediaries shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. 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. Member States shall also fulfil their reporting obligations pursuant to the *de minimis* Regulation. 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 of the *ex-ante* assessment. They shall be measured and reported at least quarterly for the Renovation loan and aligned as a minimum with the regulation requirements. In addition to the common

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	indicators of the priority axis of the ESIF programme (number of households with improved energy consumption classification, estimated annual decrease of GHG …) other indicators are: Number and volume of the loans Renovated family houses (square meters) Renovated apartments in buildings (square meters). Defaults (numbers and amounts) Resources repaid and gains Number and amounts of the technical support Number and amounts of interest rate subsidies
Evaluation of the economic benefit of the programme contribution	The financial intermediary shall reduce the overall effective interest rate (and collateral policy where appropriate) charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding and risk sharing conditions of the Renovation loan. The entire financial advantage of the programme public contribution to the instrument shall be transferred to the final recipients in the form of an interest rate reduction. The financial intermediary shall monitor and report on the GGE for final recipients as referred in the State aid section. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

([1]) Commission Regulation (EU) No 1407/2013 of 18 December 2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (OJ L 352, 24.12.2013, p. 1).

([2]) 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. 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).

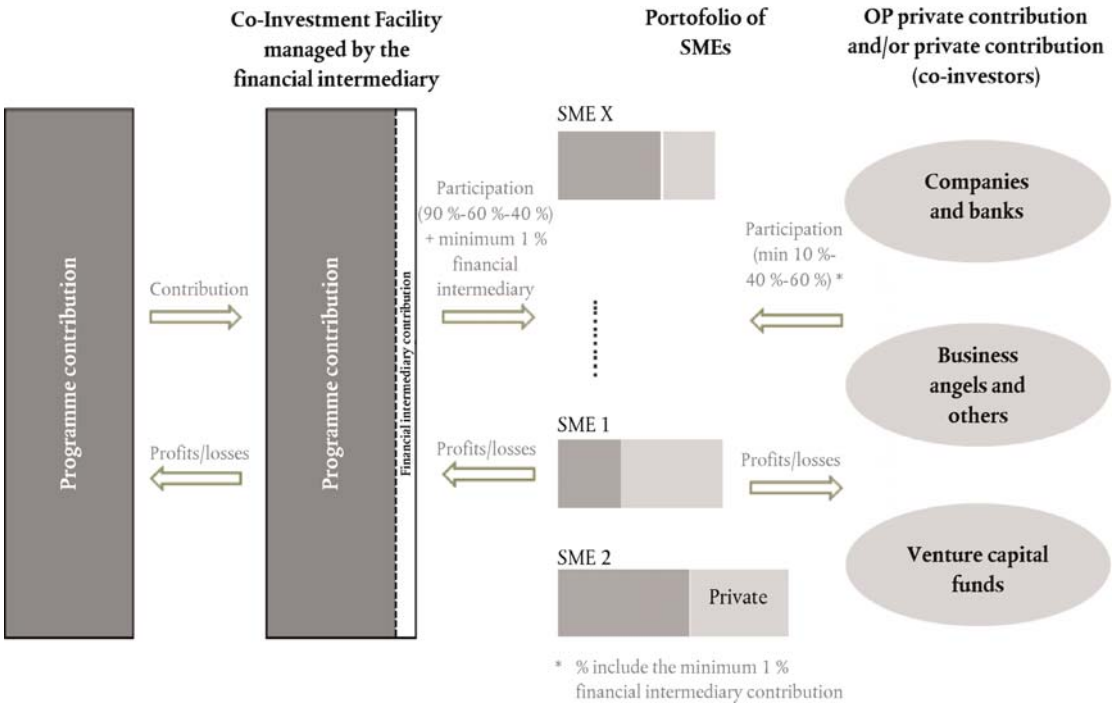
([3]) As defined in Commission Decision 2012/21/EU of 20 December 2011 as disadvantaged citizens or socially less advantaged groups who due to solvency constraints are unable to obtain housing at market conditions.

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ANNEX V

CO-INVESTMENT FACILITY

Schematic representation of the Co-Investment Facility principle



Terms and conditions for the Co-Investment Facility

Structure of the financial instrument	The Co-Investment Facility shall invest in the equity of SMEs with the contributions of the ESIF programme, the financial intermediary's own resources and private co-investors. The financial intermediary shall be a private entity that takes all investment and 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 from fund of funds. Private co-investors shall be private bodies and shall be legally independent from the financial intermediary. The Co-Investment Facility shall be made available in the framework of an operation which is part of the priority axis defined in the programme funded by the ESI Funds and specified in the context of the *ex ante* assessment required under Article 37 of Regulation (EU) No 1303/2013.
Aims of the instrument	The aims of the instrument shall be to: (1) 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. Such investments shall be made within the scope of Commission Regulation (EU) No 651/2014 (*). (2) Provide more capital to increase investment volumes for SMEs. The aims are linked with the following conditions. The ESIF programme contribution to the Co-Investment Facility shall not crowd out financing available from other public or private investors.

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	The Co-Investment Facility amount and rates shall be set to fill the equity gap identified in the *ex ante* assessment of the financial instrument in accordance with Article 37 of Regulation (EU) No 1303/2013. The ESIF programme shall provide funding to the Co-Investment Facility to build up a portfolio of investments in SMEs. The Co-Investment Facility shall participate with the financial intermediary and co-investors on a deal by deal basis. 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. In addition to the ESIF programme contribution, the fund of funds may provide its own resources. State aid rules apply where the resources provided by the fund of funds are State resources. Where fund of funds resources are combined with other State resources Article 21 of Regulation (EU) No 651/2014 also apply.
State aid implication	The investment of the Co-Investment Facility shall be implemented as an instrument entailing State aid. It shall be considered compatible with the internal market and not requiring an ad hoc notification, provided conditions for compatibility under Article 21 of Regulation (EU) No 651/2014 are satisfied. The presence of State aid shall be assessed at the levels of the fund of funds, financial intermediary, the private investors and final recipients. 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: (a) 10 % for risk finance provided to the eligible undertakings prior to their first commercial sale on any market; (b) 40 % for risk finance provided to eligible undertakings operating in any market for less than 7 years following their first commercial sale; (c) 60 % for risk finance provided either to eligible undertakings requiring an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographic market, is higher than 50 % of their average annual turnover in the preceding 5 years, or for follow-on investments in eligible undertakings after the 7-year period of the first commercial sale. Private participation is here considered as investments made by private bodies. For the purposes of the Co-Investment Facility there is allowable aid at the level of the final recipients if: (a) there is allowable aid to private co-investors; (b) the financial intermediary is managed on a commercial basis and its financing decisions are independent and profit-driven; (c) the ceiling of private participation as set out in Article 21(10) of Regulation (EU) No 651/2014 are satisfied. The costs associated with the development of the investment projects, for the due diligence and for accompanying the final recipients shall be covered by the management costs and fees of the financial intermediary managing the Co-Investment Facility. Activities supported by the EAFRD, are subject to general State aid rules.

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Investment policy	(a) *Disbursement from the managing authority or from the fund of funds to the Co-Investment Facility* 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 shall transfer the contributions from the programme to the Co-Investment Facility. The amount of the transfer shall cover the needs in terms of investments and management costs and fees. The transfer shall be carried out in tranches. The target investment volume shall be confirmed within the *ex ante* assessment carried out in accordance with Article 37 of Regulation (EU) No 1303/2013. The investment policy of the Co-Investment Facility shall include a clear exit strategy. That strategy shall be described in the funding agreement. (b) *Disbursements from the Co-Investment Facility to the eligible SMEs* The Co-Investment Facility shall co-invest, within a pre-determined limited period of time, with the financial intermediary and other private investors. On a deal by deal basis, the selected financial intermediary shall leverage additional finance from the financial intermediary or a vehicle affiliated to the financial intermediary for at least 1 % for the purpose of alignment of interest; and from co-investors, i.e. private investors. Investments decisions shall be profit-driven. In order to be considered profit driven the investment shall comply with the following conditions: (i) the financial intermediary is established in accordance with the applicable laws and provides for a due diligence process ensuring 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; (ii) investment in eligible SMEs is based on a viable business plan, containing details of product, sales and profitability development, establishing the *ex ante* viability of the investment; (iii) a clear and realistic exit strategy exists for each investment. The financial Intermediary shall implement a consistent investment policy that complies with the applicable industry standards and that is aligned with the financial interests and policy objectives of the managing authority. (c) *Disbursements from the Co-Investors to the eligible SMEs* The financial intermediary shall identify, screen and assess potential co-investments in final recipients as well as any co-investors. The financial intermediary shall carry out a due diligence assessment on a deal by deal basis. The due diligence shall assess key aspects such as the business plan, the viability of the investment and the exit strategy. The business plan shall contain details on product, sales and profitability development.The private participation rate of eligible SMEs shall reach the minimum threshold set in Article 21 of Regulation (EU) No 651/2014. The co-investment agreement between the financial intermediary and co-investors shall establish the terms and conditions for investment in the final recipients and shall comply with Article 1(3) of Commission Implementing Regulation (EU) No 821/2014 (**), where that Article is applicable.

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Fund Contribution to financial instrument: amount and rate (product details)	The Co-Investment Facility shall provide capital to unlisted SMEs which fulfil at least one of the following conditions: (a) the SMEs have not been operating in any market; (b) the SMEs have been operating in any market for less than 7 years following their first commercial sale; (c) the SMEs require an initial risk finance investment which, based on a business plan prepared in view of entering a new product or geographic market, is higher than 50 % of their average annual turnover in the preceding 5 years; (d) the SMEs require follow-on investments in eligible undertakings, including after the 7-year period of the first commercial sale. The co-investment amount and rate per deal shall be determined by applying at least the following factors: (a) the size and focus of the Co-Investment Facility; (b) the participation of co-investors; (c) the expected catalytic effect of the Co-Investment Facility; remaining within the ceilings set out in Article 21(10) of Regulation (EU) No 651/2014. Amounts returned to the Co-Investment Facility from the investments within the timeframe for investments as set out in the funding agreement shall be re-used as provided for under Articles 44 and 45 of Regulation (EU) No 1303/2013. Preferential remuneration of private investors aimed solely at asymmetric profit-sharing shall be set in line with Article 44(1) of Regulation (EU) No 1303/2013 and Article 21(13)(b) of Regulation (EU) No 651/2014.
Programme contribution to financial instrument (activities)	The underlying transactions portfolio funded by the Co-Investment Facility shall include investments provided for the benefit of final recipients. The eligibility criteria for inclusion in the portfolio are determined in accordance with Union law, the ESIF programme, national eligibility rules, and with the financial intermediary. The financial intermediary shall have a reasonable estimation of the portfolio risk profile. The co-investment shall be made in final recipients for the required period before an exit in line with the investment policy.
Managing authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of Commission Delegated Regulation (EU) No 480/2014 (***). 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	The Co-Investment Facility has an indicative duration of 10 years and may be extended with the consent of the managing authority. The investment period of the financial instrument shall be set to ensure that the programme contribution referred to in Article 42 of Regulation (EU) No 1303/2013 is used for investments to final recipients at the latest by 31 December 2023. Investments made after 31 December 2020 shall be assessed for compliance with the State aid rules which enter into force after that date.

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Investment and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority and the financial intermediary shall be achieved through: — performance fees as provided for under Articles 12 and 13 of Delegated Regulation (EU) No 480/2014, — the remuneration of the financial intermediary that shall reflect the current market remuneration in comparable situations, including carried interest, if any, — a co-financing by the private co-investors that shall be at the minimum level in accordance with Article 21(10) of Regulation (EU) No 651/2014, — a co-financing with own resources 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 subject to the same conditions as the Co-Investment Facility, — the co-financing by other co-investors which shall be made on identical terms and conditions as those applicable to the Co-Investment Facility except if the *ex ante* assessment referred to 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 Regulation (EU) No 651/2014, — the financial intermediary shall not engage in investment activities under a new investment vehicle targeting the same type of final recipients until either such a time as 75 % of the Co-Investment Facility commitments have been invested and the remaining 25 % are committed to be invested, or, the end of the investment period of the Co-Investment Facility, if earlier. Procedures aimed at avoiding conflict of interest between the financial intermediary, co-investors and investees shall be laid down before any investment made in 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) shall be 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. Private bodies shall be considered as private legal entities owned by private or public investors investing at their own risk and from their own resources. The managing authority and fund of funds shall comply with Union law when selecting financial intermediaries. The selection of financial intermediaries shall be open, transparent and non-discriminatory. The selection of the financial intermediaries shall establish appropriate risk-sharing arrangements in the case of preferential remuneration and determine possible carried interest. The financial intermediary shall specify, in the context of its selection, 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 may be controlled *ex post*. Financial intermediaries shall be managed on a commercial basis. This requirement is considered to be fulfilled if the conditions laid down in Article 21(15) of Regulation (EU) No 651/2014 are fulfilled. 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.

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	Co-investors shall be deemed to be any investors which, in the reasonable determination of the financial intermediary are investors operating in circumstances corresponding to the market economy investor principle in a free market economy, irrespective of their legal nature and ownership. Co-investors and the financial intermediary shall be independent from the final recipients of the investment except in the case of follow-on investment in final recipients that are already part of the Co-Investment Facility.
Final recipient eligibility	The final recipients shall be eligible under Union and national law, the relevant ESIF programme, funding agreement and with the condition referred to in Article 21(5) of Regulation (EU) No 651/2014. The following eligibility criteria shall be met by the final recipients at the date of the signature of the investment: (a) they shall be a micro, small and medium enterprise ('SMEs' (including individual entrepreneurs/self-employed persons) as defined in Commission Recommendation 2003/361/EC (****); (b) they shall not be excluded by Article 1(2) to (5) of the Regulation (EU) No 651/2014. (c) they shall not be part of one or more restricted sectors (*****); (d) they shall not be an undertaking in difficulty as defined by Article 2(18) of the Regulation (EU) No 651/2014: (e) they 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; (f) they shall be established and operating in the relevant region/jurisdiction under the ESIF programme; (g) for reasons related to State aid considerations, investment shall not be made in listed companies (SMEs listed on an alternative trading platform shall not be considered listed for the purposes of this instrument); (h) they shall not receive investment as replacement capital (including management buyout or buy-in); (i) they shall comply with Articles 10 and 11 of Regulation (EU) No 508/2014 of the European Parliament and of the Council (******), if they are SMEs active in the fisheries and aquaculture sector.
Characteristics of the product for the final recipients	The Co-Investment Facility amount and rates shall be aligned with the results of the *ex ante* assessment referred to in Article 37(2) of Regulation (EU) No 1303/2013 and shall comply with Regulation (EU) No 651/2014. The financial intermediary shall invest in SMEs in the form of equity or quasi-equity investment co-financed by the programme public contribution, the financial intermediary's own contributions and the co-investors contributions (the private contribution may 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. The total investment (i.e. one or more investment rounds including follow-on) combining public and private resources provided shall not exceed EUR 15 000 000 per eligible final recipient as set in Article 21(9) of Regulation (EU) No 651/2014. The total investment allowed per eligible final recipient shall be verified by including risk finance investments made under other risk finance measures.

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Reporting and targeted results	The financial intermediary shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. The report shall include all the relevant elements for the managing authority to comply with Article 46 of Regulation (EU) No 1303/2013. Member States shall also fulfil their reporting and transparency obligations pursuant to Regulation (EU) No 651/2014. Indicators shall be aligned with the specific objectives of the relevant priority of the ESIF programme financing the financial instrument and with 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 requirements of Regulation (EU) No 1303/2013. In addition to the common indicators of the priority axis of the ESIF programme other indicators are: (a) amount invested into SMEs (with breakdown); (b) number of SMEs financed; (c) value of the investments financed; (d) gain or loss generated by the investment (if applicable); (e) number of employees at 'investment' and 'number of employees' at 'exit' in SMEs 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.

(*) Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.6.2014, p. 1).

(**) Commission Implementing Regulation (EU) No 821/2014 of 28 July 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards detailed arrangements for the transfer and management of programme contributions, the reporting on financial instruments, technical characteristics of information and communication measures for operations and the system to record and store data (OJ L 223, 29.7.2014, p. 7).

(***) Commission Delegated Regulation (EU) No 480/2014 of 3 March 2014 supplementing Regulation (EU) No 1303/2013 of the European Parliament and of the Council laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund (OJ L 138, 13.5.2014, p. 5).

(****) Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (OJ L 124, 20.5.2003, p. 36).

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.'.

(*****) 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. 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').

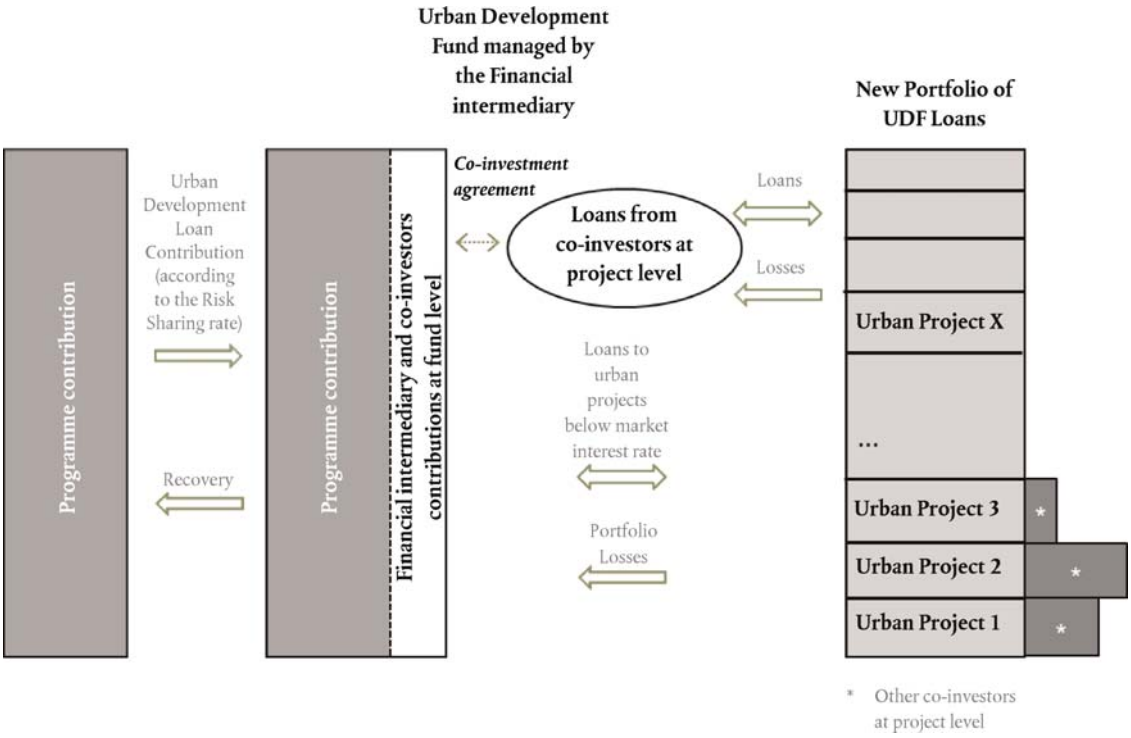
(******) Regulation (EU) No 508/2014 of the European Parliament and of the Council of 15 May 2014 on the European Maritime and Fisheries Fund and repealing Council Regulations (EC) No 2328/2003, (EC) No 861/2006, (EC) No 1198/2006 and (EC) No 791/2007 and Regulation (EU) No 1255/2011 of the European Parliament and of the Council (OJ L 149, 20.5.2014, p. 1).

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ANNEX VI

URBAN DEVELOPMENT FUND

Schematic representation of the Urban Development Fund principle



Terms and conditions for the Urban Development Fund

Structure of the financial instrument	The Urban Development Fund (hereinafter referred to as 'UDF') shall take the form of a loan fund to be set up and managed by a financial intermediary with contributions from the programme, the financial intermediary and co-investors to finance newly originated loans for urban development projects. 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 (EU) No 1303/2013.
Aim of the instrument	The aims of the instrument is to: (1) Combine resources from the ESIF programme, the financial intermediary and co-investors to support financing of urban development projects. (2) Provide urban development projects located in assisted areas as designated in an approved regional aid map for 1 July 2014 to 31 December 2020 in application of points (a) and (c) of Article 107(3) of the Treaty with easier access to finance offering projects funds at preferential conditions. Such investments shall be made within the scope of Regulation (EU) No 651/2014. The aims are linked with the following conditions. The UDF instrument shall be part of the implementation of interventions envisaged in an integrated approach for a sustainable urban development strategy. The contribution from the ESIF programme to the financial intermediary shall not crowd out financing available from other private or public investors.

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	The ESIF programme shall provide funding to the financial intermediary in order to build up a portfolio of loans to urban development projects. The programme shall also participate in the losses and defaults, revenues and recoveries on the UDF loan in this portfolio on a loan by loan basis. The co-financing of the ESIF programme shall be provided by one of the following: the programme contribution by the managing authority, the financial intermediary contribution, and co-investors' contributions at the level of co-investments in the fund, co-investments through loans into urban development projects and co-investments by other co-investors. 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 addition to the ESIF programme contribution, the fund of funds may provide its own resources which are combined with the financial intermediary's resources. In this instance, the fund of funds shall take a part of the risk sharing between the contributions in the portfolio of loans. Article 16 of Regulation (EU) No 651/2014 will have to be applied if the resources provided by the fund of funds are State resources or are combined with other State resources.
Urban development project	The urban development project shall be part of the implementation of interventions envisaged in an integrated approach for a sustainable urban development strategy and which contributes to the achievement of the objectives defined therein. In addition all urban development projects shall demonstrate the following parameters: Financial sustainability: — urban development projects shall be based on a business model, estimating cash flows and targeting potential private investors, — urban development projects shall be structured in such a way that they generate revenue or reduce expenditures, sufficient to repay the loan received from the UDF and they shall be structured such 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 is not sufficient to attract financing on a purely commercial basis. Strategic alignment: — urban development projects shall be part of an integrated sustainable urban development strategy and have the potential to attract additional funding from other public and private investors, — urban development projects shall comply with the objectives and interventions envisaged by the ESIF programme and shall contribute to meet relevant output indicators of the ESIF programme, — urban development projects shall be located in the relevant region/jurisdiction and contribute to the achievement of objectives (including quantitative outputs) as stipulated in the ESIF programme. The following investment priorities may be supported by the UDF: — investment in low-carbon strategies for urban areas, — investment to ensure disaster resilience, — investment for adaption to climate change, — investment to improve the urban environment, including regeneration of brownfield sites and reduction of air pollution, — investment in sustainable urban mobility,

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	— 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 towards the conservation, protection, promotion and development of cultural heritage, — investment in higher education, including collaboration with companies, — investment in ICT development.
State aid implication	The investment shall be considered compatible with the internal market and not requiring an ad hoc notification, provided it complies with Article 16 of Regulation (EU) No 651/2014. The presence of State aid shall be assessed at the levels of the fund of funds, financial intermediary, the private investors and final recipients. In this regard the financial intermediary and the fund of funds shall comply with the following conditions: (a) the management costs and 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 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 resources — therefore it is not considered a beneficiary of aid — it is enough that the fund of fund is not overcompensated; (b) the private contribution to each urban development project is not lower than 30 % of the total financing provided in compliance with Article 16(6) of Regulation (EU) No 651/2014; (c) the UDF is managed on a commercial basis and shall ensure profit-driven financing decisions. Private contribution is here considered as investments made by private bodies. The costs for the due diligence of the urban development projects shall be covered by the management costs and fees of the financial intermediary managing the UDF. Preferential remuneration (asymmetric conditions on risk-sharing arrangements) for fund of funds, financial intermediary contribution and co- investors contributions at fund level and project level in a form of loans, if any, shall be set in line with Article 44(1) of Regulation (EU) No 1303/2013, points (b) and (c) of Article 16(8) of Regulation (EU) No 651/2014, as further specified under the pricing policy. No asymmetric conditions are possible for the other co-investors at project level since their contributions are not invested in loans and outside UDF.

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Lending policy	(a) x*Disbursement from the managing authority or from the fund of funds to the financial intermediary* 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 shall transfer public contributions from the programme to the financial intermediary which shall place such contributions in a dedicated UDF. The transfer shall be carried out in tranches and shall respect the ceilings of Article 41 of Regulation (EU) No 1303/2013. The target lending volume and range of interest rate shall be confirmed within the *ex ante* assessment in accordance with Article 37 of Regulation (EU) No 1303/2013 and shall be taken into account to determine the nature of the instrument (revolving or non-revolving instrument). (b) *Origination of a portfolio of loans* 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. The financial intermediary shall implement a consistent lending policy based on an agreed investment strategy enabling 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. 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. In case of co-investors providing loans into urban development projects a co-investment agreement between the financial intermediary and co-investors providing loan directly to an urban development project should be signed. Such agreement 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 (*). Such co-investment agreement shall specify the conditions for risk-sharing arrangements if any. (c) *Re-use of resources paid back to financial instrument* Resources paid back to financial instrument shall be either reused 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 Regulation (EU) No 1303/2013. This revolving approach as referred to in Articles 44 and 45 of Regulation (EU) No 1303/2013 shall be included in the funding agreement. 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. 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.

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	(d) *Loss recoveries* 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. Amounts recovered by the financial intermediary (net of recovery and foreclosure costs, if any) shall be allocated between the financial intermediary, the managing authority and the fund of funds. (e) *Interest and other gains* Interest and other gains generated by support from the ESI Funds to financial instrument shall be used as referred in Article 43 of Regulation (EU) No 1303/2013.
Pricing policy	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. The pricing policy shall at least include the following elements: (1) The interest rate on the financial intermediary participation shall be 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 and the risk-sharing arrangements. (3) The pricing policy shall remain constant during the eligibility period.
Programme contribution to financial instrument: amount and rate (product details)	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 Regulation (EU) No 651/2014. The size of the target portfolio of the UDF shall be established on the basis of the *ex ante* assessment justifying the support to the financial instrument in accordance with Article 37 of Regulation (EU) No 1303/2013 and shall take into account the revolving approach of the instrument, if applicable. The UDF allocation and the risk-sharing rate shall be set to fill the gap identified in the *ex ante* assessment, and shall comply with the conditions laid down in this Annex. The minimum co-financing rate agreed with the financial intermediary shall be defined for each eligible loan included in the portfolio, corresponding to the maximum portion of the eligible loan principal amount financed by the programme. The risk sharing rate agreed with the financial intermediary shall determine the portion of the losses which are to be shared between the financial intermediary, co-investors (at fund level and at project level) and the programme contribution in absence of any other arrangement. Detailed terms and conditions for financing to be provided by a UDF shall be determined prior to making an investment for each urban development project on the basis of financial forecasts prepared for the urban development project and verified by the financial intermediary.

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Programme contribution to financial instrument (activities)	The underlying transactions portfolio funded by the UDF shall include loans for urban development projects. The eligibility criteria for inclusion in the portfolio are determined in accordance with Union law, the ESIF programme, national eligibility rules, the investment strategy (part of the integrated approach for sustainable urban development strategy) and with the financial intermediary. The financial intermediary shall have a reasonable estimation of the portfolio risk profile. The financial intermediary shall be required 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. For each urban development project, the financial intermediary shall provide at least the following: (a) a general description of the project and the project's timetable, including a description of the co-financing partners and shareholders and the project's detailed financing plan; (b) a 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; (c) an identification of the risks; (d) the compliance with the 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, as stipulated in the relevant priority axes of the programme. When implementing the portfolio, the financial intermediary shall in particular: (a) identify, invest in and lead the negotiation and structuring of financial investments in viable urban development projects which meet the requirements and criteria applicable to the relevant programme; (b) 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; (c) report on urban development projects in accordance with the Article 46 of Regulation (EU) No 1303/2013; (d) ensure 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.
Managing Authority's liability	The managing authority's liability in relation to the financial instrument shall be as set out in Article 6 of Delegated Regulation (EU) No 480/2014. The losses covered are principal amounts due, payable and outstanding and standard interest (but excluding late payment fees and any other costs and expenses.
Duration	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. Investments done after 31 December 2020 need to be checked for compliance with State-aid rules, which will enter into force after that date.

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Lending and risk-sharing at financial intermediary level (alignment of interest)	Alignment of interest between the managing authority, co-investors and the financial intermediary shall be achieved through: — performance fees as provided for under 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, — the financial intermediary shall ensure the financing of at least 30 % of the total financing commitment for lending to the urban development projects. Out of this 30 %, minimum 1 % of the total financing commitment of the UDF to each project shall be invested by the financial intermediary from its own resources on the same terms and conditions as the programme contribution. The other minimum 29 % shall be provided by the financial intermediary, co-investors at fund level or co-investors at project level through loans, — the total amount of private co-financing shall be at least 30 % of the total financing provided to an urban development project, — co-financing by co-investors could be regarded as either national co-financing of the ESI Fund as long as it doesn't come from final recipients' own resources (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 and with co-investors (at fund level or at urban development project level) shall be made pro-rata as for the programme contribution except if the *ex ante* assessment as referred in Article 37(2)(c) of 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 co-investors. Such arrangements shall be in line with Article 16(8)(b) and c of Regulation (EU) No 651/2014 and included in the co-investment agreement between the parties. Such arrangements do not apply to the 1 % invested by the financial intermediary from its own resources as required here above for the purpose of alignment of interest.
Eligible Financial Intermediaries	The selected financial intermediary shall be a public or private body established in a Member State and 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 eligible financial intermediary shall also demonstrate capacity to manage a UDF and monitor the portfolio of urban development projects. It concerns the elements required at the Article 7 of Delegated Regulation (EU) No 480/2014. Eligible financial intermediary shall also demonstrate experience in the relevant targeted market and a suitable track record in the management of equivalent or similar projects or financial vehicles investing in similar projects to those envisaged by the UDF, including experience in the use of ESIF. The financial intermediary shall be appropriately regulated by the relevant national financial services regulatory body and it shall follow professional fund management best practice. The financial intermediary shall be managed on commercial basis. This requirement shall be considered to be fulfilled if the conditions set in Article 16(9) of Regulation (EU) No 651/2014 are complied with. Private bodies shall be considered as private legal entities owned by private or public investors investing at their own risk and from their own resources. The legal structure of the UDF shall allow additional funding to leverage programme contribution from other investors into urban development projects. The managing authority and fund of funds shall comply with Union law when selecting financial intermediaries. The selection of financial intermediaries shall be open, transparent and non-discriminatory. The selection of the financial intermediaries shall aim at establishing appropriate risk-sharing arrangements in case of preferential remuneration.

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	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 eligibility criteria for the selection of the financial intermediary shall 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. The financial intermediary shall be responsible for the identification and evaluation of urban development projects. Once selected, the financial intermediary shall manage an urban development project pipeline. The pipeline of urban development projects shall contain projects that the financial intermediary undertakes to finance, based upon the information available at that time. Investors shall be deemed to be any investors which, in the reasonable determination of the financial intermediary are investors operating in circumstances corresponding to the market economy investor principle in a free market economy, irrespective of their legal nature and ownership. The financial intermediary shall specify, in the context of its selection, 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 may be controlled *ex post*.
Final recipients eligibility	The final recipients shall be eligible under Union and national law, the relevant ESIF programme, funding agreement and with the condition referred in Article 16 of Regulation (EU) No 651/2014. The following eligibility criteria shall be met by the final recipients at the date of the signature of the loan: (a) they 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) they 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 made; (c) they shall not be excluded by Article 1(2) to (5) of the Regulation (EU) No 651/2014; (d) they shall not be part of one or more restricted sectors (**); (e) they shall not be a company in difficulty as defined by Article 2(18) of the Regulation (EU) No 651/2014; (f) they 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; (g) they shall invest in urban development projects that are implemented in assisted areas as designated in an approved regional aid map for the period 1.7.2014-31.12.2020 in application of Article 107(3)(a) and (c) of the Treaty. 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 activity for which the loan was disbursed shall be located in the relevant Member State and region/jurisdiction of the ESIF programme.

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Characteristics of the product for the final recipients	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 aligned with the results of the *ex ante* assessment referred in Article 37(2) Regulation (EU) No 1303/2013 and shall comply with Regulation (EU) No 651/2014. The loans shall be used exclusively for the following permitted purposes: (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). The following eligibility criteria shall be met at all times by UDF loans included in the portfolio: (c) loans shall be newly originated, to the exclusion of the refinancing of existing loans or financing of completed projects; (d) the total investment amount of the UDF for the urban development project shall not exceed EUR 20 000 000 as set out in Article 16(3) of 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 360 months.
Reporting and targeted results	The financial intermediary shall provide the managing authority or fund of funds with at least quarterly information in a standardised form and scope. The report shall include all the relevant elements for the managing authority to comply with Article 46 of Regulation (EU) No 1303/2013. Member States shall also fulfil their reporting and transparency obligations pursuant to Regulation (EU) No 651/2014. Indicators shall be aligned with the specific objectives of the relevant priority of the ESIF programme financing the financial instrument and with the expected results specified in the *ex ante* assessment. They shall be measured and reported at least quarterly for the UDF and aligned as a minimum with the requirements of Regulation (EU) No 1303/2013. In addition to the common indicators of the priority axis of the ESIF programme other indicators are: (a) numbers of loans/projects financed; (b) amounts of loans financed; (c) defaults (numbers and amounts); (d) resources repaid and gains.

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Evaluation of the economic benefit of the programme contribution	The financial advantage of the programme's 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's public contribution to the UDF. The financial intermediary shall reduce the overall effective interest rate and collateral policy, where appropriate, charged to the final recipients under each eligible loan included in the portfolio reflecting the favourable funding conditions of the programme contribution to the UDF. This principle shall be reflected in the funding agreement between the managing authority or fund of funds and the financial intermediary.

(*) Commission Implementing Regulation (EU) No 821/2014 of 28 July 2014 laying down rules for the application of Regulation (EU) No 1303/2013 of the European Parliament and of the Council as regards detailed arrangements for the transfer and management of programme contributions, the reporting on financial instruments, technical characteristics of information and communication measures for operations and the system to record and store data (OJ L 223, 29.7.2014, p. 7).

(**) 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. 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').