INDICATIVE TERM SHEET

Financial instrument Urban Development Fund

Operational Programme Regions in Growth 2014-2020

March 2017

This Indicative Term Sheet comprises the following sections:

Purpose of this Document. Disclaimer.
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Glossary of terms

BNB	Bulgarian National Bank
UD	Urban Development
DA, Delegated Act	Commission Delegated Regulation (EU) No 480/2014
VAT	Value added tax
The Document	These Indicative Technical Specifications
EC	European Commission
EE	Energy efficiency
EU	European Union
ESIF	European Structural and Investment Funds
ERDF	European Regional Development Fund
CrIA	The Credit Institutions Act
PPA	The Public Procurement Act
IP	Investment Priority
IPURD	Integrated Plan for Urban Regeneration and Development
FR	Final Recipient
KPI	Key Performance Indicator
IB	Intermediate Body (the municipal administrations of the towns which are beneficiaries under OPRG PA 1)
MRDPW	Ministry of Regional Development and Public Works
MF	Ministry of Finance
Risk Finance Guidelines	Guidelines on State Aid to Promote Risk Finance Investments (2014/C 19/04)
NCPSD	National Concept Paper on Spatial Development
OP	Operational Programme
OPRG, the Programme	*Regions in Growth* Operational Programme 2014-2020
OA	Operational Agreement
GBER	Regulation (EU) No 651/2014 of 17 June 2014
Ex-Ante Assessment	Ex-Ante Assessment of Financial Instruments Intended for OPRG, PwC, October 2014.
PA	Priority Axis
UDP	Urban Development Project
TDP	Tourism Development and Cultural Heritage Project
CPR	Regulation No (EU) 1303/2013
De Minimis Aid Regulation	Regulation No (EU) 1407/2013
ERDF Regulation	Regulation No (EU) 1301/2013
Regulation 1370/2007	Regulation No (EC) 1370/2007
CIR	Regulation No (EU) 575/2013
T&CH	Tourism and Cultural Heritage
MA	Managing authority
UDF	Urban Development Fund
FI	Financial instrument
FMFIB, the Fund Manager	Fund Manager of Financial Instruments in Bulgaria EAD
FoF	Fund of Funds
NUTS II	In the European Community general classification, Nomenclature of Territorial Units for Statistics, Level II

Key Terminology

Disbursement Account	An account to the name of the UDF held with a bank in the territory of an EU Member State in which the funds extended by the FMFIB are kept until they are disbursed as financing to eligible Final Recipients, including also funds for the payment of the management fee. The account shall bear interest at an interest rate of not less than a 3-month SOFIBOR on an annual basis, and the said account shall be pledged as collateral securing receivables in favour of the FMFIB.
Economic operator	Any individual, legal entity or other party involved in the implementation of the financial instrument;
Eligibility Period	The period from the date of signature of the Operational Agreement until 31 December 2023;
Final Recipient	A legal entity or an individual receiving financing from the instrument and satisfying the eligibility criteria as defined in this Document;
Financial Intermediaries	Any institution, without prejudice to its legal from or ownership, in the context of this Document, including, but not limited to, credit and financial institutions referred to in Article 3a of the Credit Institutions Act or consortia thereof, that have been selected by the FMFIB to implement the financial instrument.
Lot	A portion of the procurement scope which, although it could represent a separate procurement scope, is intrinsically related the rest of the lots within the procurement scope;
Operational Agreement	An agreement signed between FMFIB and a financial intermediary for the purposes of implementing the financial instrument;
Repayment account	An account to the name of the UDF held with a bank in the territory of an EU Member State. The Repayment Account shall receive repayments from the financing extended by the FMFIB and other proceeds attributable to funds from the FMFIB. The account shall bear interest at an interest rate of not less than a 3-month SOFIBOR on an annual basis, and the said account shall be pledged as collateral securing receivables in favour of the FMFIB.
Risk Sharing	Sharing the credit default risk in terms of non-repayment for each individual loan, under equal terms and proportionally (pari passu) to the financing extended, or the guaranteed portion of the respective individual loan (if applicable);
State Aid	State Aid in the meaning of Article 107 and Article 108 of the Treaty on the Functioning of the European Union, together with all other rules and regulations governing the provision of State Aid as adopted from time to time by the EU or Member State; In this particular case, the applicable rules concerning State Aid shall be the rules on 'Regional urban development aid' as per Article 16 and on 'Aid for culture and heritage conservation' as per Article 53 of 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) ;
Urban Development Fund (UDF)	The Urban Development Fund Financial Instrument funded from the Regions in Growth Operational Programme 2014 – 2020.

Purpose of this Document. Disclaimer

This Indicative Term Sheet (the ‘Document’) is designed for information purposes only and in view of conducting a market test in relation to the selection of financial intermediaries to implement the Urban Development Fund Financial Instrument (‘UDF’, the ‘Financial Instrument’) funded from the Operational Programme Regions in Growth 2014-2020 (‘OPRG’, the ‘Programme’).

The Document summarises the key indicative parameters of the Financial Instrument which may, and will be subject to changes, amendments, and clarifications, including, *inter alia,* as a result of the conducted market test. The final contents of the Document shall be subject to subsequent due approval by the respective authorities of Fund Manager of Financial Instruments in Bulgaria EAD (‘FMFIB’, the ‘Fund Manager’).

This Document does not constitute a public call with a binding proposal, nor a proposal to enter into a business transaction on the part of the FMFIB or the Ministry of Regional Development and Public Works (‘MRDPW’), nor does it contain any recommendation to any party to proceed with, or to refrain from, to carry out certain investment intentions, or any other course of action. In that regard, the FMFIB is not liable, nor does warrant any obligations, financial or otherwise, to any party, including also any third parties, with respect to the information contained in this Document.

Commitments may be undertaken by the FMFIB only upon the successful completion of a procedure for the selection of a financial intermediary and the closing of an Operational Agreement (‘OA, ’Operational Agreement’) with a selected contractor.

The Document, in its entirety or in separate parts hereof, may not be used, disseminated, or quoted without the express written approval of the FMFIB.

Objectives of the Financial Instrument and Implementation Environment

Implementation Environment

Operational Programme *Regions in Growth* 2014-2020 ('OPRG', the 'Programme') aims to support, through grants and financial instruments ('FIs', 'Instruments'), a wide variety of activities in a range of priority areas, namely:

- Improvement of energy efficiency;
- Sustainable urban transportation;
- Improvement of the urban environment;
- Development of tourism and promotion of cultural heritage sites;
- Renewal of social, health and education infrastructure; and
- Completion of the process of development of regional road infrastructure.

The Programme has a total budget of over BGN 3 billion, including BGN 2.6 billion provided by the EU from the ERDF. The OPRG envisages the implementation of financial instruments with a budget of approximately BGN 370 million in the following Priority Axes ('PAs'):

- Priority Axis 1: Sustainable and integrated urban development. The funds available for FIs amount to approximately 271 million, to be invested in 39 towns identified as having the highest growth potential[1]. Activities to be financed under this axis comprise:
  - EE improvements in single-family residential buildings and student dormitories;
  - Development of environmentally-friendly and sustainable urban transportation;
  - Improvement of urban environment quality;
  - Development in sports and cultural infrastructure; and
  - Investments in zones with an economic development potential.
- Priority Axis 6: Regional tourism, with BGN 98.57 million earmarked for FI for investments in Tourism Development Projects related to cultural heritage sites across Bulgaria.

The funds under those two axes are pooled together into a single financial instrument, the Urban Development Fund ('UDF'), which has the goal to improve access to financing for Urban Development Projects and Tourism Development and Cultural Heritage Projects ('UDPs', 'TDPs', respectively).

The UDF should attract private capital to leverage the funding available from the Programme and, through the financing provided by the FMFIB and the private capital attracted, promote the implementation of an entrepreneurship approach to the preparation and realisation of investments contributing to the sustainable regional economic and social development.

Identified challenges

The scope of the support from the UDF is designed based on the identified market shortfalls, sub-optimal investment situations and the analyses of lessons learned from the previous programme period discussed in the Ex-Ante Assessment of OPRG Financial Instruments dated October 2014.

The Ex-Ante Assessment confirms the existence of a deficit of financial resources available for investment in the areas concerned amounting to approximately BGN 7.6 billion.

To help overcome the market inefficiency, the Managing authority (MA) of OPRG has tasked FMFIB with the management of the Fund of Funds ('FoF') under a Financial Agreement signed between the parties on 11 November 2016.

[1] As defined in the National Concept Paper on Spatial Development 2013-2025. ('NCPSD'), which opts for the model of moderate poly-centric development of towns at Levels 1, 2 and 3 (described in the section on FI Territorial Scope).

Under that agreement, the FMFIB manages on behalf and for the account of the MA, the resources allocated for financial instruments under the Programme. Within that process, the FMFIB shall conduct a range of activities, including:

- Preparation and conducting of tender(s) for the selection of financial intermediaries ('Financial Intermediaries', 'Intermediaries');
- Signing Operational Agreements with the Intermediaries;
- Monitoring the implementation of the financial instruments;
- Reporting on operations and financial reporting;
- Risk management.

The FMFIB shall assign the management of FIs to Financial Intermediaries selected in an open, transparent, proportionate, and non-discriminatory procedure, in accordance with the applicable law, including, with the applicable state aid regulations and the Public Procurement Act.

This document describes the key parameters of the UDF, and the requirements applicable to the potential Financial Intermediaries and their main rights and obligations in the process of implementing the financial instrument.

Executive Summary of Key UDF Characteristics

Background

Under the Financial Instrument, FIs shall manage funding provided by the FMFIB for financing Eligible Urban Development Projects (UDPs) or Tourism Development Projects (TDPs) to support the achievement of the goals of the OPRG goals and the established Key Performance Indicators (KPIs).

The FMFIB shall share the credit risk associated with non-repayment by Final Recipients with the Financial Intermediaries up to the portion of the financing extended to them (and/or, if applicable, up to the amount of the guaranteed portion of the respective individual loan).

The UDF should pursue the following main objectives:

- Syndicate resources from the FMFIB, the Financial Intermediary and/or other private investors to support financing to Eligible Urban Development Projects and Tourism Development Projects;
- Provide Eligible Projects with enhanced access to financing at preferential terms.

Structure

The implementation structure of the Financial Instrument encompasses the Fund of Funds ('FoF') managed by the FMFIB, and three Urban Development Funds, one for each of the regions of Sofia, Southern Bulgaria, and Northern Bulgaria.

Each UDF will be designed, as a debt fund, to be set up and managed by a Financial Intermediary and to be funded from: the FMFIB, the Financial Intermediary and/or other private investors, for the purposes of on-lending to Urban Development Projects and Tourism Development Projects.

UDFs can be structured as (i) an autonomous legal structure (i.e. as a separate legal entity, investment vehicle) or (ii) as a separate block of finance within a credit or financial institution.

Financing from FMFIB and private investors (and from the financial intermediaries, respectively) could be made available in a number of forms, including:

- Equity in the potential investment vehicle;
- Debt in the potential investment vehicle; and
- A parallel form of financing (i.e. parallel debt) at a final borrower project level.

In the case of structuring it as a separate block of finance, FMFIB is considering to introduce a requirement for the respective credit/ financial institution to have and maintain a credit rating not less than that of the Republic of Bulgaria.

If the UDF is structured as a separate block of finance, provisions should be made to ensure that an accounting separation is implemented between the funds from the FMFIB and the proceeds attributable to them, and any operations, including treasury management, and the rest of the resources available to the credit/ financial institution.

The UDF should be managed on a commercial basis and ensure that financing decisions are driven by profit-making considerations.

Intermediary

Financial Intermediaries could be credit or financial institutions, or other organisations identified in the market test process.

Potential Intermediaries could execute the mandate to manage a UDF either independently, or with partners within a consortium.

Scope of the UDF indicative investment strategy

UDF shall finance projects in the sectors of Urban Development ('UD') and Tourism and Cultural Heritage ('T&CH').

Investments related to Urban Development (i.e. financed under OPRG Priority Axis 1 'Sustainable and integrated urban development') should fall within the scope of the Integrated Plans for Urban Regeneration and Development[2] (IPURD).

Financed projects related to Tourism and Cultural Heritage (i.e. under Priority Axis 6 'Regional tourism') should be linked to cultural heritage sites of national or world significance in the meaning of the Cultural Heritage Act and can be located across the territory of the whole country.

Originating the UDF Portfolio and Portfolio Management

Investment Period

The FMFIB shall make financing available to the UDF for originating a new credit portfolio[3] of Eligible Projects within the Investment Period: up to five years as from the date of signing the Operational Agreement, but not later than the final date of the Eligibility Period (i.e. 31 December 2023).

Term and conditions for Eligible Loans

The terms and conditions applied to the Eligible Loans should reflect the favourable terms under which the FMFIB makes the funds available to the UDF.

Portfolio management services

Processes involved in: (i) identification of Eligible Final Recipients and analyses of their creditworthiness, (ii) structuring and contracting the financing; (iii) drafting and finalisation the applicable credit file documentation; (iv) estimation of the financing gap for the purposes of combining the FI with grant support (where applicable); (v) determining a fair rate of return with regard to the Co-financing (if applicable), (vi) implementing the relevant state aid rules, (vii) performing loan monitoring and management, and (viii) NPL management (including enforcement of secured claims), to be performed by the Financial Intermediary in line with their standard practices, and (ix) other, as applicable.

Financial Instrument Management Fee

In connection with the implementation of the financial instrument, the FMFIB shall pay the Intermediary a management fee as agreed between the parties in the course of the selection procedure under the limitations described herein. The management fee comprises a basic component and a performance-based component.

Co-financing

UDFs shall make loans available for Eligible Projects which are co-financed using resources from the financial intermediaries and, if applicable, from other private investors ('Co-financing').

The amount of the Co-financing should be at least 30 % of the total financing provided for each project, where the concrete minimum private participation will be determined in the course of the procedure for selecting intermediaries (according to the tender bid of the winning bidder).

Co-financing to top up the funding from the FMFIB can be made available at the UDF level and/or at the project level, and the Final Recipients' own resources (the so-called cost-sharing) shall not be considered as Co-financing.

[2] An IPURD is an 'integrated sustainable urban development strategy' in the meaning of Article 2 (60) of Regulation 651/2014.
[3] In certain special, limited scope cases, it will be admissible to refinance existing obligations in the context of implementing a new project.

Interest rate

The interest rate to accrue on the loan made to the Final recipients (FR) shall equal the weighted average of: (i) the interest rate applicable to the private Co-financing and (ii) the interest rate applicable to the financing provided by the FMFIB. Those two interest rate components will be agreed in the course of the intermediary selection procedure.

FMFIB is considering to set up a mechanism whereby the prospective Intermediaries would make a bid in their offers for:

- a maximum interest rate applicable to the Co-financing comprising of a 3-month SOFIBOR + a fixed margin (according to the tender offer);
- an interest rate applicable to the financing from the FMFIB equal to a share of the interest rate on the Co-financing (according to the tender offer).

Without prejudice to the above, the interest rate charged on each separate loan will be subject to verification by applying the Mechanism for determining a Fair Rate of Return (‘FRoR’) described below. Any cost incurred in determining the FRoR shall be covered by the Management Fee.

The intermediary may not charge the Final Recipient any fees, commissions, or other charges in connection with costs that are covered by the management fee for implementing the financial instrument.

Co-financing Guarantees

The FMFIB provides for the option to issue guarantees to limit the respective risk exposure of the selected Intermediaries and/or other private investors.

In case guarantees are issued in favour of the financial intermediaries and/or private investors, whether with, or without combining those with financing made available by the FMFIB for an eligible project, the financial intermediaries and/or the private investor should retain at all times at least 30 % of the risk in the overall financing, i.e. the guarantee can cover only the amount of attracted Co-financing in excess of those 30 %.

Finance documents

Operational Agreement

The terms and conditions under which the FMFIB makes resources available to an UDF shall be agreed in an Operational Agreement setting up the parties’ rights and obligations, including also the conditions precedent to the disbursement of financing by the FMFIB, such as setting up a company (if applicable), introduction of management and control systems, etc.

Finance Documents

A possible arrangement could involve the signing, once the conditions precedents of the Operational Agreements are met, of the appropriate agreements with the selected financial intermediary and/or other private investors (if applicable), depending on the proposed scheme for implementing the financial instrument, including guarantee agreements, intercreditor agreements, etc., as applicable (‘Financial documents’).

The Operational Agreement and the Financial Documents shall be valid until all loans within the scope of the Financial Instrument have been retired and the respective guarantees have expired, and resources involved have been remitted back to the FMFIB (upon deduction of the respective Losses, Fee amount and the like).

Cash flows related to the Operational Agreement

Funds from the FMFIB shall be utilised by the UDFs in Tranches using the mechanism defined below, and all amounts made available to an UDF that have not been used by Final Recipients or used up as a Fee for the Intermediary shall accrue interest in favour of the FMFIB at an interest rate as defined in the section on Deposit

Interest Rate.

All proceeds from Final Recipients received in relation with loan servicing shall be shared between the FMFIB and the private investors *pari passu*, as per their respective share in the financing extended.

FMFIB's claim on the UDF shall be reduced by the amount of any reported Losses on a *pari passu* basis, and by the amounts paid out as a Management Fee.

Reinvesting the Extended Resources ('Recycling')

Provided the KPIs are met within the Investment Period, the FMFIB may authorise recycling into new Eligible Projects of any resources repaid by Final Recipients and attributable to the resources made available by the FMFIB.

Details on indicative parameters of the financial instrument

Total FI budget

The indicative amount of resources to be made available by the FMFIB to the selected UDFs will be allocated into three lots, one per UDF, as follows:

Indicative allocation of resources			
BGN million	**Loans**	**Guarantees**	**Total**
UDF Sofia (Lot I)			
Urban Development and EE	70.5	7.3	77.8
Tourism	8.7	0.9	9.6
	79.2	8.2	87.4
UDF North (Lot II)			
Urban Development and EE	82.2	8.5	90.7
Tourism	36	3.7	39.7
	118.2	12.2	130.4
UDF Sofia (Lot III)			
Urban Development and EE	82.2	8.5	90.7
Tourism	40.6	4.2	44.8
	122.8	12.7	135.5
Total	**320.2**	**33.1**	**353.3**

The amounts shown are indicative and include costs associated with the implementation fees payable to the respective Intermediary, and do not include any increase or decrease that may result from a possible provision of Additional Resources and/ or Recycling.

FI resource allocations under PA 1 'Sustainable and integrated urban development' among the three UDFs has been made in consideration of the specific OPRG objectives and allocation criteria (population, GDP per capita, percentage of GDP) suggested by the European Investment Bank (EIB) at the time of drafting the Investment Strategy for implementing the OPRG financial instruments, as part of implementing an agreement between the EIB and the Ministry of Finance of Bulgaria signed in October 2015.

Resources planned for financial instruments under PA 6 'Regional tourism' have been apportioned among the three UDFs in a proportion to the number of cultural heritage sites of national or world significance located in the respective territory.

Co-financing

Each UDF should arrange a minimum of 30 % in Co-financing at the level of each individual project, and maintaining the respective percentage of Co-financing as agreed over the entire life of the loan.

The credit risk shared among the FMFIB, the FF and/or co-investors (at the UDF or project level) should be proportional and equal to the amount of financing contributed by each of the parties.

The FMFIB is also considering the option to introduce an asymmetric risk sharing mechanism, in line with Article 16(8)(b) and (c) of Regulation (EU) No 651/2014.

Intermediaries should note that the above asymmetric risk sharing can only apply to investments related to urban development falling within the scope of an IPURD.

In view of aligning the interests of the parties, an Intermediary should not contract, in addition to the Collateral agreed for the respective loans, any guarantees, credit enhancements or any other instruments to transfer the risk involved in the required

	minimum level of Co-financing and in the Co-financing covered by an FMFIB guarantee.
Requirements to private investors	The Financial Intermediary should define, following consultations with the FMFIB, the terms and conditions and the criteria for the selection and assessment of potential independent private co-investors, if applicable. Such terms and conditions should ensure there is no discrimination, and the FMFIB shall exercise oversight to that effect. In cases of investments related to urban development that fall within the scope of an IPURD, the Intermediary should apply Article 16(8)(b) of Regulation 651/2014. In case a private investor is attracted at the UDF level, an agreement between the Financial Intermediary and the investor (an intercreditor agreement) should be signed, setting forth the terms and conditions, the percentage of co-investment and the arrangement for covering losses within the eligible projects. In case private investors join in at a later stage at the UDF level, then they shall assume the credit risk proportionately to their Co-financing in the UDF's loan portfolio, in accordance with the terms and conditions of their agreement with the Intermediary.
Mechanism for determining a fair rate of return	The participation of all private investors (including the Intermediary and other investors) should comply with the requirements set out in the applicable state aid rules[4], i.e. in case of investments falling within the scope of an IPURD, such investors must be selected via an open, transparent and non-discriminatory procedure or, alternatively, the fair rate of return (FRoR) attributable to their financing is to be determined by an independent expert selected via an open, transparent and non-discriminatory tender. FRoR is the expected rate of return equal to a discount rate adjusted so as to reflect the level of risk associated with the project and the nature and amount of capital to be invested in the project by private investors. The mechanism to ensure independent FRoR assessment for projects financed by the UDF, including where support is combined with a grant and the provision of embedded guarantees, includes the following stages: ▪ The Intermediary (or the FMFIB) selects a pool of independent experts in an open, transparent, and non-discriminatory framework procedure; ▪ The assessment of the FRoR for each separate project is commissioned by the UDF under a separate agreement to an independent expert with which the Financial Intermediary (or the FMFIB) has signed a framework agreement. Without prejudice to the form of procurement and contracting of independent experts, the cost of that service shall be covered from the Management Fee.
Guarantees	***Purpose*** The purpose of guarantees is to facilitate the arrangement of additional Co-financing over and above the minimum required private Co-financing of 30 % available for projects of Final Recipients. Guarantees can be provided in addition to the financing extended by the FMFIB or without involvement of FMFIB financing, in case the guarantee-backed loan is financed using resources only from the financial intermediaries and/ or other private investors.

[4] Article 16(8)(b) GBER

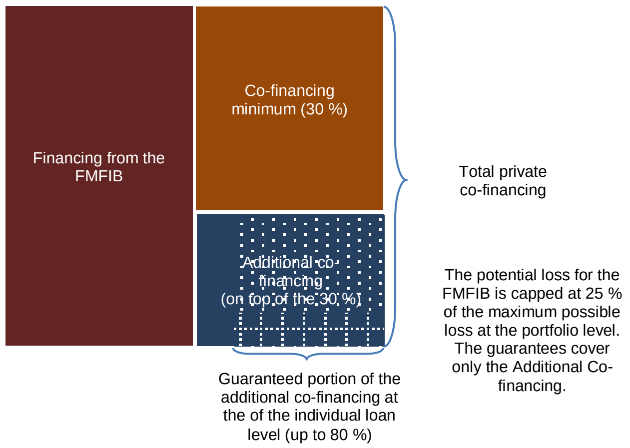
Guarantee Structure

In case of guarantees issued by the FMFIB, the financial intermediaries and/ or the private investors shall retain at least 30 % of the risk in the overall financing for the project. A guarantee can cover up to 80 % of the total amount of the Co-financing attracted in excess of the required minimum of 30 % for a particular loan.

The maximum amount of losses generated from financing covered by the FMFIB guarantees at the portfolio level are capped at 25 % of the total amount of the guarantee-backed Co-financing (the so-called '*guarantee cap*').

The concrete level of the guarantee cap applicable to each Intermediary will be estimated based on a prudent Ex-Ante Risk Assessment.

The chart below illustrates an indicative structure of the guarantee mechanism in the case of agreed Co-financing at the level of 50 %.



The total indicative amount of resources available for guarantees is BGN 33.4 million. Their allocation among UDFs is described in the *'Total FI Budget'* section.

The arrangements concerning the issuance of guarantees will be finalised following the conduct of the market test. Currently, two of those can be presented, in very broad terms:

- Guarantees issued by the FMFIB in its capacity of a non-banking financial institution and backed by cash deposits with the Bulgarian National Bank;
- Alternatively, the guarantees can be issued by another institution (including, *inter alia*, an international financial institution) selected by the FMFIB, in favour of the financial intermediaries/ the private investors to cover the risk of losses arising from Co-financing above the required minimum.

Implementation Reserve

For each Lot, an Implementation Reserve shall be applied, to represent 30 % of the resources in the Lot.

The Implementation Reserve may be made available to the respective UDF in part or in full, depending on progress in achieving the Key Performance Indicators (KPIs), or may not be made available, in case it is found that there is a significant non-performance under the KPIs, respectively.

The FMFIB reserves the right to withhold any undisbursed amounts, including the Implementation Reserve, in the Event of default of the Intermediary.

Allocation of additional resources (including recycling

In case of over 80 % of the resources made available for the respective lot have been invested before the end of the Investment Period and given a satisfactory level of achievement (e.g. 85 %) of the respective KPIs, the UDF can apply for Additional

of resources)	Resources (including accumulated proceeds/ repayments from the existing loan portfolio and/ or from the Implementation Reserve of other UDFs, if applicable) up to a maximum amount of 50 % of the resources for the Lot, supported by business case rationale and an acceptable time schedule for the investment of such Additional Resources. Additional resources can be made available subject to approval by the FMFIB and the availability of uncommitted resources. In extending additional resources, the requirements for Co-financing from private investors, cover rate for each individual loan, and cap for guarantees agreed with the Intermediary for the Lot shall remain unchanged.
Open position	An Open Position is the sum of cash resources available in the Disbursement Account and the Repayment Account. All idle resources attributable to financing from the FMFIB shall be deposited in a Disbursement Account or a Repayment Account set up with a bank located on the territory of an EU Member State. The maximum open position shall be total up to 10 % of the Lot amount. In case an Open Position exceeds the Maximum Open Position authorised, the Financial intermediary should ensure appropriate security, in favour of the FMFIB, for the difference by pledging government securities of EU Member States having a rating of not less than the credit rating of the Republic of Bulgaria, or remit such difference to an account held by the FMFIB with the BNB.
Maximum amount of resources from the FMFIB	The maximum amount of resources agreed in the Operational Agreement, including the Implementation Reserve. At any point in time, the commitment undertaken by the FMFIB may not exceed the total amount of resources made available for the respective Lot. Where additional resources have been provided to an UDF as agreed in an OA, such resources shall be considered included in the Maximum Amount of resources from the FMFIB as from the date on which they have been made available.
Eligible portfolio	Loans extended to Eligible Final Recipients for financing Eligible Projects and Eligible Activities within the Investment Period for which the Co-financing requirements have been met. All projects financed from a UDF should have the following characteristics: ▪ Projects should be financially sustainable, i.e. based on a business model forecasting cash flows and ensuring its viability; ▪ Projects should be structured so as to generate proceeds or cost savings in an amount sufficient to ensure resources are available to service the loan extended by the UDF; ▪ Any State Aid required and granted for the project implementation should be compliant with the thresholds specified in Article 4, Article 16, and Article 53 of Regulation 651/2014; ▪ Projects should have an internal rate of return, at market levels of financing, that is not sufficient to obtain financing on a commercial basis. Regarding the Eligible Portfolio, the UDF shall apply such restrictions and rules included in its credit policy which have been found acceptable by the FMFIB in the process of selection and which comply with the requirements laid out in the OA.
Current amount of the loan portfolio	The cumulative amount of loans to Eligible Projects extended but not repaid by Final Recipients at any point in time within the term of the OA, less the amount of the

	loans overdue for more than 90 days and other losses recognised following the procedure laid out in the OA. In case the financing has been provided as a loan for working capital, a renewal of the financing agreement will not be considered as a new disbursement. In such cases, the Intermediary shall report to the FMFIB a current disbursed amount as at each reporting date until the maximum authorised amount of the respective working capital loan is reached. After that period, such financing should be reported as fully disbursed until the final repayment of such loan in accordance with the terms and conditions of the final loan agreement with the FR.
Current amount of the guarantee-backed portfolio	The cumulative amount of resources covered by guarantees for Eligible Projects at any point in time within the term of the OA, less the amount of resources paid out in connection with guarantees and other losses, recognised following the procedure laid out in OA.
Collateral for financing extended to the FF	The UDF should arrange an appropriate collateral to secure the resources made available by the FMFIB, to include: ▪ A first-ranking pledge on receivables under the terms and conditions of the Operational Agreement from the Disbursement Account and the Repayment Account in favour of the FMFIB, with a security interest in the amount not less than the financing provided by the FMFIB; ▪ A first -ranking pledge on all receivables under the terms and conditions of the Operational Agreement from each final loan agreement included in the Current Portfolio, not less than the amount of the financing made available by the FMFIB; and ▪ Surety by the owner of the UDF (assuming a structure involving a separate investment vehicle: the majority shareholder or the majority equity partner) up to the amount of financing provided by the FMFIB, to guarantee UDF's performance of its obligations and cover of any damages and obligations of the UDF to the FMFIB other than those arising from non-payment by Final Recipients, save for any case of misuse by the UDF. Unless otherwise agreed in the OA, the UDF shall not have the right to grant or set up, nor authorise the granting or setting up of collateral in favour of third parties, nor any other privilege or encumbrance on the Repayment Account or the Disbursement Account or any receivables associated to the current portfolio, or any other resources under the management of the UDF in relation to the FI.
Investment Period	***Baseline*** The UDF should fully utilise the resources provided to it by the FMFIB, using such resources to make disbursements to Final Recipients and as payments of Management Fee within five years from the date of signature of the Operational Agreement, but not later than 31 December 2023. ***Extension of the Investment Period*** The Investment Period may be extended up to 31 December 2031 in case there is an assessment of market conditions indicating that the sub-optimal investment situation persists, where such assessment is carried out following the procedure laid out in the applicable Regulations and provided the parties agree.
Reusing resources paid back to the UDF	Resources paid back to the UDF shall be returned periodically to the FMFIB, which can make them available for reinvestment for a period up to 31 December 2023 in the framework of the same UDF, provided certain progress levels in implementation have been reached and the KPIs achieved.

The FMFIB may also make available for reinvestment paid-back resources for a period of eight years beyond 31 December 2023, in case a market assessment demonstrates a need for continuing support in the same sectors and provided certain progress levels in implementation have been reached and the KPIs achieved by the UDF.

Where such paid-back resources are made available again for reinvestment, the Co-financing requirements in terms of private investors, cover rate per individual loan, and guarantee cap described above shall apply.

Key Performance Indicators

Progress in the implementation of the Financial Instruments shall be tracked using a set of KPIs presented below:

Milestones

Within the Investment Period, the UDF must utilise in full the financing made available by the FMFIB in compliance with the following milestones:

- Satisfied Conditions Precedent set forth in the Operational Agreement, including, *inter alia,* structuring the UDF (as a separate block of finance or an investment vehicle): within six months of signing the Operational Agreement;
- Utilisation by the UDF of 10 % of the resources in the Lot: 31 December 2018;
- Signed final loan agreements with Final Recipients in connection with projects in Urban Development and Energy Efficiency: 20 % of the resources intended for Urban Development under PA 1 in the Lot by 31 December 2018;
- Launch of construction works under a project of a FR: by 31 December 2018;
- Signed final loan agreements for provision of financing to Final Recipients in connection with projects in Tourism and Cultural Heritage: 20 % of the resources intended for Tourism under PA 6 in the Lot by 31 December 2018;
- Utilisation by the UDF of 70 % of the resources in the Lot: within four years as from the date of signature of the Operational Agreement;
- Utilisation by the UDF of 100 % of the Lot: up to five years as from the date of signature of the Operational Agreement, but not later than 31 December 2023.

Target indicators

FI should contribute to the achievement of certain target indicators. Their concrete values will be agreed during the selection procedure. Unit values in the table below are used by OPRG in calculating the contribution of its investments in the Programme indicators and could be used as a basis for estimating the indicator values.

Mechanism for calculating target indicators		
Indicator	**Unit**	**BGN per unit**
Urban environment		
Vacant land, developed or rehabilitated in urban areas	sq. metres	86.06
Total area of rehabilitated land	hectares	574 166.29
Public/ commercial buildings built or rehabilitated in urban areas	sq. metres	1 813.43
Urban transportation		
Annual reduction in greenhouse gas emissions expected	MtCO2-e	18 077.07
Total length of new or improved public transport routes	Kilometres	9 181 607.51
Sports and cultural infrastructure		
Public or commercial buildings built or rehabilitated in urban areas	sq. metres	1 813.43
Energy Efficiency		
Annual reduction in greenhouse gas emissions expected	MtCO2-e	4 604.14
Households moved to a higher category of energy consumption	Households	25 823.79
Tourism and cultural heritage		

Increase in the number of visits in supported sites and attractions	Visits p.a.	97.94
Tourist products developed for cultural heritage sites	pcs.	10 947 854.15

Other Key Performance Indicators

In addition, other key indicators from the Intermediary's business plan will also be deemed to be KPIs based on its offer in the process of selection.

Management fee

In relation with the implementation of the FI, FMFIB shall pay the Intermediary a management fee to be agreed between the parties within the selection procedure.

The management fee should cover all costs incurred by the Intermediary with respect to the *Portfolio Management Services* specified in this Document.

The Intermediary shall not charge the Final Recipients any fees, charges and other expenses for the same services and activities.

The management fee comprises the following components:

- A base component: a percentage, on an annual basis, of the resources utilised by the UDF;
- A performance-based component: a percentage, on an annual basis, of the amount of financing made available by the FMFIB in a Current Portfolio.

FMFIB contemplates to introduce an additional component on top of the management fee as a percentage, on an annual basis, calculated on the resources paid back by Final Recipients (on an annually or in lump sum at the end of the Investment Period if actual Loss is lower that the agreed one).

Management fee calculation and payment

- The management fee shall be paid on a quarterly basis for a past period;
- The management fee shall be calculated based on the actual number of days in the respective period over a year of 365 days;
- Up until 31 December 2023, the Intermediary has the option to receive its Management Fee from the Disbursement Account and/or from the Repayment Account. For the period after 31 December 2023, the Management fee shall be paid out from the balances available in the Repayment Account only;
- The basis for calculation of the Management fee shall be reduced by the amount of the FMFIB financing in Non-performing loans to Final Recipients.

The size of each of the components of the management fee shall be determined as per the tender offer of the respective applicant during the selection procedure. FMFIB is considering the introduction of a maximum size of the percentages for each component.

Management fee Reduction

In case the Intermediary falls short of achieving the KPIs, including the milestone and the final target values of the KPIs, the FMFIB may withhold a certain amount from the performance-based Management fee for the following year, i.e. for 2019 or for 2024, respectively, as follows:

- In case of a cumulative performance below 65 % but not less than 60 % under all KPIs by the end of 2018 or by the end of 2023, respectively, a reduction of 5 % of the performance-based Management fee for 2019 or for 2024, respectively;
- In case of a cumulative performance below 60 % but not less than 50 % under all KPIs by the end of 2018 or by the end of 2023, respectively, a reduction of 10 % of the performance-based Management fee for 2019 or for 2024, respectively;
- In case of a cumulative performance below 50 % under all KPIs by the end of 2018 or by the end of 2023, respectively, a reduction of 25 % of the performance-based Management fee for 2019 or for 2024, respectively.

	No reduction to the Management fee shall apply to cases where the non-performance is not the fault of the UDF or if it is due to *force majore* events (defined in the OA) which the UDF, while exercising due care, was not able, or was not obligated, to foresee, or was unable to prevent.
Outperformance premium	Where, as at the end of the Investment Period, the UDF has outperformed the initially set KPIs, the FMFIB shall pay the Intermediary an Outperformance Premium amounting to 20 % of the Management fee for the final year of the Investment Period. For avoidance of doubt, the Outperformance premium shall be calculated and paid at the earlier of (i) the end of 2023 and/or (ii) following the implementation of the investment in the Lot.
Commitment fee	In case of a delayed commitment of Tranches by the Intermediary with respect to the agreed time schedule for investing the resources (KPIs in the Business Plan of the Intermediary), it shall pay the FMFIB a Commitment Fee of 0.3 %, on an annual basis (calculated on an ACT/365 basis), on uncommitted amounts, calculated proportionately to the time elapsed from the agreed deadline for committing the respective Tranche till the earliest of the following dates: (1) the date of commitment of the Tranche, (2) the date of full repayment of the resources back to the FMFIB, or (3) the date of liquidation of the UDF.
Deposit Interest Rate	The resources made available by the FMFIB, and any proceeds attributable to them, that are held in the Disbursement Account and the Repayment Account should accrue, in favour of the FMFIB, an interest rate of a 3-month SOFIBOR but not less than 0 %. For the purposes of Financial Documents and the ex-post checks on quarterly performance, the value of the 3-month SOFIBOR shall be taken as at the end of each calendar quarter and it shall be applicable for the following quarter.
Mechanism for disbursing and repaying resources under the FI	The FMFIB shall make the agreed resources available to the respective UDF in Tranches, each amounting to a maximum of 25 % of the amount of the Lot. The resources in each Tranche shall be committed and disbursed in stages to the Disbursement Account in accordance with the amounts required to disburse payments to Final Recipients. ***Tranche commitment*** The first Tranche, in the amount of up to 25 % of the Lot, shall be committed based on a Tranche Commitment Request using a template and upon meeting the Conditions Precedents to disbursement of the First Tranche agreed in the Financial Documents. Following a commitment by the FMFIB to disburse a Tranche, the Intermediary may utilise the financial resources of such Tranche in several payments by the FMFIB to the Disbursement Account, each in an amount of at least 20 % of the total amount of the Tranche. The Intermediary could request the commitment of each subsequent Tranche, once at least 85 % of the resources from earlier Tranches remitted by the FMFIB have been disbursed in final loans to FRs or paid as Management fee payments. To obtain resources under the second and any subsequent Tranches, the UDF should file a Tranche Commitment Request using a template, attaching a 'Summary information report on resources invested as eligible costs in the meaning of Article 42(1) of Regulation 1303', and supporting documents in evidence of satisfying the eligibility requirement for the costs and compliance with the terms and

	conditions of the Operational Agreement with regards to resources from earlier Tranches. The FMFIB can make a commitment for a subsequent Tranche after the FMFIB has carried out a check for compliance with the requirement to invest 85 % of the resources from earlier Tranches in eligible costs by examining documents submitted by the UDF and conducting an on-the-spot check. ***Repayment of resources to the FMFIB*** FMFIB's share in all payments towards loan principal, interest and other proceeds in relation to Loan Restructuring or Management of Non-Performance Loans shall be remitted to the Repayment account. Proceeds in the Repayment Account shall be reported to the FMFIB monthly. The Financial Intermediary shall remit to the Repayment Account, immediately, but not later than two business days following the receipt of such monies, the portion of payments made by FRs towards loan principals, *pari passu* to the participation of the FMFIB in the respective loan and interest and other proceeds attributable to it, as applicable. The Intermediary shall pay out amounts from the Repayment Account to the FMFIB at least at the end of each quarter.
Inclusion of loans in the Eligible Portfolio	On a quarterly basis, together with its Quarterly Report, the Intermediary shall submit to the FMFIB a Request for inclusion of loans in the Eligible Portfolio accompanied by information on such loans, using a template. At its discretion, the FMFIB may request additional evidence, and carry out additional checks. The responsibility to conduct all eligibility checks on the FR and to document the results of such checks shall reside with the Intermediary. The FMFIB is considering the introduction of a mechanism, whereby FMFIB representatives (including representatives of the OPRG) would be entitled to sit on the Investment/ Credit Committees of the UDF in an observer, non-voting capacity, and have the right to make comments on project financing applications during Committee meetings. The FMFIB is considering the option for the Intermediary to provide the FMFIB with a detailed project fiche in a format agreed with the FMFIB before the UDF approves the transaction, for loans for which it does not have an approved standard product.
Exclusion of loans from the Eligible Portfolio	Loans affected by a case of Irregularity or Fraud or which have been found in non-compliance with the requirements set in the OA and its annexes shall be excluded from the Eligible Portfolio. The Intermediary could also request the exclusion of loans from the Eligible Portfolio in the event a non-compliance is established, and present new loans that meet the requirements for inclusion in the Eligible Portfolio to replace the amounts of the excluded loans. In case the UDF does not present new loans to replace the excluded ones, the UDF shall undertake to refund an amount equal to the financing made available by the FMFIB paid out to the FRs on the excluded loans to the Disbursement Account. The Management fee shall be recalculated to the date when the Irregularity or the Froud occurred or the non-compliance with the requirements set in the OA and its annexes was established. The amounts involved in the loans affected by the Irregularity or Froud or non-compliance with the requirements set in the OA and its annexes shall be included in

	the Open position, and the Management fee calculated based on the amounts involved in the excluded loans shall be withheld from the Management fee payable for the following period(s).
Financial Intermediary Obligations	The main tasks and responsibilities of the Intermediary shall include: ▪ To maintain the relevant licences, certificates and permits necessary for conducting operations, according to the applicable law; ▪ To act in accordance with all applicable laws and exercise professional care, efficiency, transparency and effort in the discharge of its obligations in accordance with the Financial Documents, employing all appropriate skills and care that can be expected from a qualified and competent institution in managing financial instruments, and in observance of the principles of diversification and risk management, good corporate governance and sound financial management, including with regard to conflict of interest and confidentiality; ▪ To invest in Eligible projects (1) resources from the FMFIB in an amount not less than the amount of the Lot less the Management fee of the UDF and (2) the agreed Co-financing; ▪ To invest funds from the FMFIB in compliance with the eligibility rules, state aid rules and the applicable national and EU legislation in the area of Financial Instruments, considering the characteristics of the FIs and the potential economic viability of the investment projects; ▪ To carry out a transparent and unbiased selection of Final Recipients based on an assessment of their eligibility and creditworthiness, in a manner that does not give rise to any conflict of interest and disrupts competition as little as possible; ▪ To determine the funding gap and the necessary grant financing to ensure the viability of the project, as applicable; ▪ To finance only Eligible Final Recipient project activities and costs; ▪ To ensure compliance with the requirements of EU legislation in cases combining support by means of financial instruments and grant support, if applicable; ▪ To carry out monitoring and control of the Eligible Portfolio and provide periodically information to the FMFIB; ▪ To ensure the achievement of KPIs proposed in its tender offer; ▪ To ensure and maintain the agreed minimum Co-financing level over the entire life of the OA; ▪ If applicable, to commission the calculation of a fair rate of return with respect to the Co-financing; ▪ To ensure the validity and enforceability of all loan agreements and secure them by collateral in accordance with its internal rules and statutory provisions; ▪ to comply with and ensure compliance by the Final Recipients of the national and EU legislation, including concerning state aid, public procurement (where applicable), anti-money laundering, anti-terrorism, and prevention of tax fraud; ▪ To ensure compliance with the requirements for safe-keeping of supporting documents regarding expenditure and documentary evidence for each loan at the Final Recipients (originals or certified copies of records kept on generally accepted data media in accordance with the requirements of the Accountancy Act, the relevant national and EU legislation); ▪ In the Event of Default of an FR, to be responsible for the administration and enforcement of rights and the liquidation of collateral under the final loan agreement;

- To notify the FMFIB: (1) immediately, of any Event of Default or any event which may turn into an Event of Default as defined in the Financial Documents; (2) of any Event of Default by an FR in the respective periodic reporting.
- To notify the FMFIB in a timely manner of any significant adverse development affecting its business activities, operations, and future activities;
- To notify the FMFIB immediately of any Irregularities and suspected Fraud, in case it becomes aware of such cases; to take steps to ensure Irregularities are investigated and the relevant amounts are recovered;
- To deposit and keep any resources received from the FMFIB in a bank account with a bank located on the territory of an EU Member State; to ensure compliance with this requirement on the part of the Final Recipients as well;
- To use an accounting system which provides precise, complete, reliable, and timely information and to comply with the reporting requirements concerning the various sources of funds, including separate reporting of the contribution to the investment goals of the various sources, ensuring no double accounting for one and the same contribution to different financing sources;
- To keep all records associated with its operations and the Eligible Urban Development Projects/ Tourism Development Projects in accordance with the applicable EU Rules for a period of three years, as from 31 December of the year in which the Operational Agreement is over and provide access to the FMFIB, the Managing Authority and any national or EU party duly authorised by the applicable law to carry out audit and/ or control activities, and ensure that FRs provide such access;
- In case it has other creditors, the UDF shall undertake to ensure payments associated with the Financial Documents are at least *pari passu,* in terms of the right to pay, with all other current and future unsecured and secondary obligations, other than those having privileged rights by law;
- To keep a complete credit file for each FR, to include, as a minimum, financing requests, a business plan and its assessment, annual financial statements, a compliance assessment of projects with a IPURD by the town authorities and/ or opinions of independent experts, declarations, correspondence, financing approvals by the relevant competent authorities, annexes, supporting documents for payments made to FR, documents evidencing the use of the resources by the FR for the approved purposes, etc.

  Such a file shall be kept also for FRs which were not approved for financing from the FI, together with records documenting the reasons for declining the loan request;
- To keep detailed records containing the information and supporting documents necessary to verify compliance with all applicable conditions for State Aid, as defined in Regulation 651/2014. That information must be kept for a period of ten years after the date of making the last final loan under the Financial Instrument.
- To promote its activities, in accordance with the requirements for information and publicity set out in the Operational Agreement;
- To ensure, for the entire duration of the Operational Agreement, staffing with the relevant qualified personnel necessary for carrying out its functions and responsibilities under the Operational Agreement in a timely manner and with due care, and that all members of its managing and control authorities and executive directors will put time and effort in implementing the agreed activities;
- To protect the good name of the FMFIB and the institutions involved in the

	management of the financing made available; ▪ To provide regular information and reporting, as agreed in the Financial Documents; and ▪ In the case of investments within a IPURD, apply the requirements laid out in Article 16 (8) and (9) of Regulation 651/2014. Unless it has the FMFIB's prior approval, the UDF may not: ▪ Suspend, novate or transfer to third parties its rights and obligations under the Operational Agreement or a final loan agreement; ▪ Undertake any modification to the rules on selection and assessment of FR without the prior approval of the FMFIB; and ▪ Allow risk sharing by third parties under loan agreements in connection with the Co-financing.
Event of Default of FRs	Event of Default with regard to a Final Recipient shall occur where: ▪ The Final Recipient is overdue on its loan for more than 90 days in terms of its obligations related to that loan; and/ or ▪ The Intermediary believes that the Final Recipient is unlikely to repay its liabilities associated with the loan, unless the collateral is liquidated or by means of other such actions. The UDF take steps in Managing Event of Default of Final Recipients (including loan restructuring and/or foreclosure) in accordance with its standard rules and internal policies and in accordance with the terms and conditions below.
Management of Event of Default of FRs	In the Event of Default of a Final Recipient, the UDF shall, at its own discretion, take steps to: ▪ Restructure the loan to improve its collectability; or ▪ Recover all due amounts in accordance with its internal rules and usual practices, as from the date of recalling the respective credit facility ('Management of Non-Performance by Final Recipients'). Loan restructuring shall not involve haircuts, i.e. reducing the outstanding loan principal. Proceeds from actions undertaken in Loan Restructuring (as applicable) and in the Management of Event of Default of Final Recipients shall be used to cover payables in the following order: ▪ Loan principal overdue, distributed proportionately, on a *pari passu* basis, between the Intermediary and the FMFIB, depending on their share in financing the loan or the guaranteed portion of the loan, respectively; ▪ Regular interest outstanding and overdue; and ▪ Penalty and statutory interest accrued, distributed proportionately, on a *pari passu* basis.
Loss	The UDF shall take all necessary action in managing its credit portfolio of Eligible Loans, including monitoring and Management of Event of Defaults of FRs. The FMFIB shall cover any Losses incurred from an individual loan, after deduction of any amounts paid by the Intermediary and any costs associated with covering legal costs and notary fees and the like related to the recovery of the amounts overdue, in accordance with the applicable law and usual practices (including also costs incurred in relation with the seizure, storage and liquidation of any asset financed from the loan), in proportion to the financing/ guarantee extended by the FMFIB for that

	particular loan. In the case of combining financing from the FMFIB with a Co-financing guarantee, the percentage of covering FMFIB's losses from the proceeds resulting from actions taken in Managing Event of Default of an FR shall be increased, taking into account the amount already paid out under the guarantee backing the Co-financing under that loan and regular interest amounts attributable to it. ***Loan Losses*** ▪ The loan principal, on loans in Event of Default disbursed but not repaid by Final Recipients, financed using resources made available by the FMFIB; and ▪ The regular interest amounts attributable to the financing from the FMFIB up to the 90th day in arrears on the loan principal, and ▪ Any legal and notary fees and other costs related to the recovery of amounts overdue attributable to the portion financed by the FMFIB, according to the applicable law and usual practices. ***Losses relating to guarantees*** ▪ The loan principal, disbursed but not repaid by the FR, secured by the guarantee; ▪ The regular interest rate applicable to the Co-financing provided by the private investors up to the 90th day in arrears on the loan principal secured by the guarantee; and Any legal and notary fees and other costs related to the recovery of amounts overdue, according to the applicable law and usual practices for the guaranteed portion of the loan. The cumulative amount of Loan Losses may not exceed the total amount of disbursements made to the FR financed by the FMFIB.
Guarantee claim	The guarantee issued by the FMFIB for the portion of the Co-financing in excess of the minimum requirement of 30 % of the financing extended to a given project shall be irrevocable and unconditional under the terms and conditions of the Operational Agreement and shall be deemed extended unless the FMFIB objects to the request for inclusion in the Eligible Portfolio. In the Event of Default by a Final Recipient, prior to presenting a payment claim, the Intermediary shall perform all actions related to the Management of Event of Default by a Final Recipient with a general duty of care and in accordance with its usual practices (where applicable) and internal rules. The FMFIB is considering the introduction of a minimum time limit for carrying out actions related to the Management of Event of Default by a Final Recipient before enabling the option to claim the guarantee securing the Co-financing of private investors.
Irregularity	*Irregularity* means any breach of EU law or national law arising from any action or inaction on the part of an economic operator involved in the implementation of ESIF that has, or could have, resulted in damages for the Union budget, by reporting any illegal expenditure to it. A breach falls within the legal definition of the term *Irregularity*, if the conditions listed below are present cumulatively: ▪ a breach of Community law/ national legislation is established; ▪ arising from an action or inaction; ▪ by an economic operator/ business entity; ▪ which has or would have the aim to cause damage to the general budget of the

	European Union; ▪ by reporting an illegitimate (ineligible) expenditure to the general budget of the EU; and ▪ the irregularity has a monetary expression. In case any of the listed elements is not present, no Irregularity can be established, and, hence, the obligation to reporting one does not apply. To avoid any doubt, a breach of Regulation 651/2014 also constitutes an Irregularity. An Irregularity can be discovered both at the FR level and at the UDF level. The UDFs shall be responsible for the recovery of the resources extended by the FMFIB with respect to which Irregularities have been established, together with any interest accruals and any other proceeds generated by such resources. The UDFs shall not be responsible for the recovery of the amounts affected by Irregularities, provided they can demonstrate that, in connection with a given Irregularity, all of the conditions listed below have been cumulatively met: ▪ The Irregularity has occurred at the level of the FR; ▪ The UDFs have complied with the requirements in Article (1) of the Delegated Regulation concerning the resources from the OPRG for which such irregularity has been found; ▪ It was not possible to recover the resources, with regard to which that irregularity was established, although the UDFs undertook all measures in due care as laid out in the agreement and by law. Without prejudice to the above, loans affected by Irregularity at the FR level shall be excluded from the Eligible Portfolio following the procedure laid out in the section on ‘Exclusion of loans from the Eligible Portfolio’, and a UDF may propose new Eligible loans to replace the amounts of excluded loans.
Fraud	A special case of Irregularity, where any intentional action or inaction involves: ▪ The use or presentation of false, incorrect, or incomplete statements or documents, leading to misappropriation or irregular disbursement of resources from the general budget of the European Community or the budgets managed by or on behalf of the European Community; ▪ Concealment of information in breach of a concrete obligation, with the same result; and ▪ The use of such resources for purposes other than those for which they were initially made available. Fraud can be discovered both at the FR level and at the UDF level.
Event of Default of a Financial Intermediary	Event of Default shall occur, where a UDF: ▪ Fails to make timely payment of an amount payable to the FMFIB; ▪ Fails to fulfil any of its obligations under the Financial Documents (upon the expiry of a 60-day cure period, in case corrigible); ▪ Makes a wrong or misleading Representation or Warranty, including in the selection process; ▪ Its assets or owners’ equity are subject to nationalisation, confiscation, expropriation, or similar activities; ▪ Is the subject of a ruling or if liquidation, termination, or insolvency proceedings have been launched or ruled against due to indebtedness, including where such procedures involve its subsidiary or a related party;

	▪ Holds a revoked/ terminated licence, registration, permit, or authorisation necessary for the fulfilment of the obligations under the Operational Agreement; ▪ Has transferred its commercial enterprise, in part or in full, following the procedure laid out in Article 15 of the Commercial Act and/ or has taken a decision to restructure, without having obtained the prior approval of the FMFIB to do so; ▪ Has failed to set up the required Collateral in time and under the terms and conditions of the Financial Documents to secure FMFIB's receivables, and has not undertaken follow-up actions to maintain and update the Collateral; ▪ Through action or inaction, has allowed cases of fraud or corruption to occur; ▪ Act against the rules on identifying Final Recipients for the loans, fails to require the necessary documents from the FRs, fail to comply with, or deviates from the commitments undertaken in making the loans to the FRs (concerning the maximum interest rate, types of collateral, etc.); ▪ Is in non-compliance with respect to the Award Criteria described during the procurement award procedure; ▪ Has allowed the occurrence of non-compliance regarding the Selection Criteria referred to in the formal selection procedure of Intermediary, except for the circumstances laid out in Article 54 (1) (1) of the PPA; ▪ Fails to act in a timely manner against an FR to procure enforcement, through court action, including enforced collection of any loan liabilities overdue; ▪ Fails short on achieving the KPIs in accordance with the commitments made in its tender offer, including a failure to deliver on the investment milestones by more than 30 %, as laid out in the section on 'Key Performance Indicators'; ▪ Losses related to the total amount of loan principals outstanding for any loans overdue for more than 90 days have exceeded the pre-set KPI targets (in accordance with the percentage proposed in its Bidder offer). ▪ Is not in compliance with all statutory and corporate requirements, is not considered a 'going concern', etc.; ▪ Allows enforcement action by third parties to commence against the Collateral, and in case third party claims against the Collateral have been made or if a protective measure (attachment, garnishment, etc.) has been imposed on the Collateral; and ▪ In case of an event which, in the motivated judgment of the FMFIB, would result in a significant adverse change in the UDF; In the Event of Default, and a failure to achieve the KPI targets, the FMFIB reserves the right to reduce the Management fee, to suspend temporarily or terminate the Investment Period, to retain any amounts committed but not disbursed by the UDF, including the Implementation Reserve, or impose other sanctions, including also termination of the Operational Agreement.
Withdrawal of the Intermediary	At any point in time after the signature of the Operational Agreement and following a notice of at least nine months made to the FMFIB, the Intermediary may withdraw from its commitments undertaken under the Financial Documents, provided that as at the date on which such withdrawal takes effect, the Intermediary has already paid the FMFIB liquidated damages amounting to 3 % of the amount of the agreed financing available from the FMFIB. In addition, in the case of withdrawal of the Intermediary, the latter shall assume all unwinding costs associated with the termination of the Financial Documents.

Termination of the Investment Period and/ or withdrawal of the FMFIB	The FMFIB shall have the right to suspend temporarily or withdraw, in full or in part, from its contribution in the following cases: ▪ An Event of Default has occurred or is continuing, and the Intermediary shall assume all unwinding costs related to the termination of the Financial Documents; ▪ A legal basis as laid out in Article 118 of the PPA is present. In case the FMFIB should exert its right to impose a temporary suspension or withdrawal of a portion of its contribution or is unable to fulfil its obligations under the Operational Agreement, the UDF will be given due notice.
Replacement of a UDF/ Novation rights	Replacement of a contractor shall be allowable in the presence of the hypotheses stipulated in Article 116(1)(4)(b) of the PPA, namely, where there is universal or partial legal succession as a result of restructuring the UDF by a merger, acquisition, division, spin-off or by changing its legal entity form, including also where it is in liquidation or other insolvency proceedings, or where an Event of Default has occurred at the UDF, or for another reason due to which the Financial Intermediary is incapable of fulfilling its obligation under the Operational Agreement. The FMFIB shall have the right to trigger the option of transferring the rights and obligations under the OA and the respective documentation for the final loans, to a third party designated by the FMFIB, in observance of the procedure and the requirements laid out in aforementioned Article 116(1)(4) of the PPA, or to take steps so that the FMFIB can assume the UDF’s rights and obligations, including assignment by means of a cession.
UDF Corporate governance structure	The UDF undertakes to set up and maintain permanently a corporate governance and management structure ensuring that: ▪ The UDF’s assets are managed in a prudent, transparent, and professional manner in accordance with the requirements laid out in the Operational Agreement and the requirements in the applicable EU and national legislation; ▪ There is professional independence of its directors and staff authorised to carry out the relevant activities within the UDF; ▪ Any potential conflict of interest with regard to a decision affecting the UDF is disclosed beforehand and all directors or staff who can potentially be in a conflict of interest have been excluded from the respective decision-making process; ▪ Directors and staff authorised to manage and represent the UDF are personally liable for their actions; ▪ Financial resources invested in the UDF are managed in compliance with the applicable EU and national legislation ensuring sound financial management, avoidance of double financing, application of open, transparent, and non-discriminatory public procurement procedures (if applicable), a system for ex-ante and ex-post control of expenditure and distribution of forecasted revenue and expenses from operations in connection with the management of the FI*.*
Investment Committee	The UDF shall set up an Investment Committee, to consist, as a minimum, of the members of the Board of Directors of the UDF, as applicable (or individuals duly authorised by the UDF’s managing bodies). The FMFIB is considering the introduction of participation, in the Investment Committee, of an Observer, in a non-voting capacity, nominated by the FMFIB, and an Observer, in a non-voting capacity, representing OPRG (in case one is nominated by the MA of OPRG). In case private, independent investors are attracted at the UDF level, then they should be represented on the Investment Committee.

	The Investment Committee should make investment decisions on behalf of the UDF on financing the Eligible Projects, manage the implementation of the Operational Agreement and transactions envisaged in the latter, oversee the repayment of the loans, and carry out other functions as agreed in the Operational Agreement.
Territorial Scope of the UDF	***Territorial Scope concerning Urban Development and Energy Efficiency*** The resources in connection with the development of projects in the sectors of Urban Development and Energy Efficiency should be invested within the impact zones, as defined in the Integrated Plan for Urban Regeneration and Development (IPURD) for each of the 39 towns: ▪ UDF North: Montana, Dobrich, Gabrovo, Lovech, Pleven, Razgrad, Rousse, Shumen, Silistra, Targovishte, Veliko Turnovo, Varna, Vidin, Vratsa, Svishtov, Gorna Oryahovitsa, Lom; ▪ UDF South: Blagoevgrad, Burgas, Haskovo, Yambol, Kurdzhali, Kyustendil, Pazardzhik, Pernik, Plovdiv, Sliven, Smolyan, Stara Zagora; Dimitrovgrad, Assenovgrad, Karlovo, Dupnitsa, Petrich, Gotse Delchev, Kazanluk, Panagyurishte, Velingrad; and ▪ UDF Sofia: the city of Sofia To strengthen the functional connections of the towns with their peripheries, the 39 municipalities are given the opportunity to finance certain groups of activities beyond the impact zones as well, on the territory of the town and its periphery, amounting to not more than 20 % of the project portfolio of each town under Priority Axis 1 of the OPRG. The terms and conditions to be met by such projects should be as follows: ▪ They should be part of a group of activities: ‘zones with an economic development potential’, ‘cultural infrastructure’, ‘sports infrastructure’; ▪ They should be implemented in a periphery impact zone of the town and contribute to the improvement of the town’s functional connections with it; and ▪ They should be compliant with the municipal development plans. Projects related to energy efficiency in residential buildings and urban transportation can be implemented across the entire urban territory. **Territorial Scope concerning Tourism and Cultural Heritage** The funds available under Priority Axis 6, ‘Regional tourism’, are intended for financing projects across the territory of the entire country related to a cultural heritage site of national or world significance in the meaning of the Cultural Heritage Act. The territorial scope of each of the UDFs is as follows: ▪ UDF North covers the administrative regions of Montana, Dobrich, Gabrovo, Lovech, Pleven, Razgrad, Rousse, Shumen, Silistra, Targovishte, Veliko Turnovo, Varna, Vidin, Vratsa; ▪ UDF South covers the administrative regions of Blagoevgrad, Burgas, Haskovo, Yambol, Kurdzhali, Kyustendil, Pazardzhik, Pernik, Plovdiv, Sliven, Smolyan, Greater Sofia Region, Stara Zagora; and ▪ UDF Sofia includes the City of Sofia Administrative Region.
Specific Terms and Conditions for approval of projects of Final Recipients	***Approval of projects related to Urban Development and Energy Efficiency*** The municipal administrations of the towns that are eligible for financing under the OPRG Priority Axis 1 have set up separate intermediate bodies within the management and control systems of the OPRG. Upon receiving a request for a statement of opinion on a project, the intermediate

	body conducts a check for compliance between the urban development project and the IPURD and issues a consent in principle as to it being financed but has no operational involvement or authority in selecting any individual projects. **Approval of projects related to Tourism and Cultural Heritage** Activities aimed at restoration and conservation of cultural heritage sites of national and world significance must be coordinated and approved in accordance with the applicable provisions of the Cultural Heritage Act. In addition: ▪ For each project, there should be a public consultation, organised by the respective Final Recipient in the process of the project preparation, and the FR must have documented the public consultation held and must have reported the outcomes from such hearing in the preparation of the project; ▪ For each project, there should be an expert opinion submitted by the Final Recipient, providing assurance that the proposed spatial solution for the respective cultural heritage site and the activities involved correspond to best practices and the conservation and restoration requirements applicable to the area of immoveable cultural heritage, prepared by an independent expert included on the list of experts published at: www.eufunds.bg or another public listing of independent experts in that area consulted on with the OPRG. The Financial Intermediary should decide on financing the project, considering, *inter alia*, compliance with the above requirements.
UDF Investment policy and business plan	The Investment Policy and the Business Plan of the UDF shall be prepared and presented as part of the bidder’s technical proposal using a template designed by FMFIB. The UDF’s Investment Policy may be subject to modification, upon mutual agreement between the FMFIB and the Intermediary, in the event of any of the following hypotheses: ▪ A change in the Investment Strategy of the FMFIB; ▪ In the event of significant development at the macroeconomic level; and ▪ Upon the FMFIB’s initiative in case of *force majore* events other than those mentioned above.
Right of access to information. Reporting.	The Intermediary shall submit to the FMFIB, in a pre-agreed format, the following reporting information on its activities as specified in the Financial Documents: ▪ Monthly, within seven days after the end of the respective month: a summary information report, using a template, providing information on the technical and financial implementation of the Financial Instrument, including: - Agreed resources and resources disbursed as Eligible Loans to FRs, with a breakdown of financing made available by the FMFIB and from the Co-financing, including by Priority Axis; - Loan principal repaid by the FR (from funds from the FMFIB); - Interest amounts and other proceeds generated on funds from the FMFIB; - Leverage effect achieved; - Number of loans contracted with Final Recipients; - Number of Final Recipients of loans by Priority Axes; - Management fee disbursed;

	- Amount of resources under treasury management; - Proceeds generated by treasury management; ▪ Quarterly reports within one month following the end of the respective quarter, using a template, enclosing summary information reports containing detailed information at the level of the Final Recipient, presenting: - Details on the resources contracted and disbursed to the FR, any collateral, interest accruals and other proceeds, repayments, amounts outstanding and overdue, leverage effect expected and achieved; - Details on any new loans made; - Loans excluded from the Eligible Portfolio, after an initial approval; - Renegotiated loans, specifying the modified parameters; - Loans terminated prior to the actual utilisation of the amount; - Declined loan applications, including decision justification; - Compliance with the state aid rules; - The information specified in Article 9(1)(c) and Article 9(2) of Regulation 651/2014; - Summary information report on treasury management, and - Evidence that, in the reporting period, the UDF has fulfilled the financial terms set in the Financial Documents. ▪ Quarterly unaudited financial statements, within 30 days after the end of the quarter, and IFS audited financial statements, within 180 days after the end of the financial year, unless published in the Commercial Register.
Monitoring and audit	The UDF should maintain an adequate reporting system and procedures which must meet the requirements of the FMFIB. Monitoring of the UDF's activities shall include documentary checks once every quarter and on-the-spot checks at the UDF and at selected Final Recipients at least once a year, including review of documentation concerning the loans and the respective accounting records. The UDF should perform similar monitoring of the activities of the Final Recipients. The UDF should ensure that there is an audit trail of all procedures and financed activities, and provide access to its premises, documents and accounting records for the Eligible Portfolio for the purpose of conducting checks by any national or EU party duly authorised under applicable law to carry out audit and/or control activity (including the FMFIB, the OPRG MA, the Certifying Authority, EC, the Audit Authority, the National Audit Office of the Republic of Bulgaria and the European Court of Auditors), and to ensure compliance with the relevant requirements and the provision of such access by the Final Recipients. Each monitoring exercise may include at least the following issues: ▪ Procedures in place to ensure compliance with EU and Bulgarian legislation, and the terms and conditions in the Financial Documents; ▪ The contents of agreements for the provision of financing to the Final Recipients with regard to the requirements concerning auditing and audit trail, in accordance with paragraph 1(e) of Annex IV to the CPR and whether the requirements for information and communication are satisfied, in accordance with Annex XII to the CPR; ▪ Presence of an adequate audit trail for the purposes of reporting and auditing, in accordance with the applicable regulations;

	▪ Presence of supporting documents regarding expenditure relating to the financing extended to the Final Recipients; ▪ Procedures implemented for the purposes of: - Safe-keeping of supporting documents regarding expenditure which should enable ex-post check for the legality and regularity of expenses of the financial intermediaries, and - Assurance that the UDF is capable of producing evidence of the appropriate spending of the resources, compliance with state aid rules and compliance with the applicable EU law and Bulgarian legislation, and the criteria and requirements attached to the financing it receives, and - Compliance with the eligibility criteria for the Final Recipients under the respective instrument and the applicable EU law. ▪ Whether the objectives and target results set in the Financial Documents are being met; ▪ Absence of business relations with parties established in a non-compliant jurisdiction.
Information and communication	The UDF should comply with the requirements concerning information and communication set out in Annex XII to Regulation 1303/2013. Guidelines for implementing activities related to information, communication, and the introduction of uniform visualisation standards for support from EU Funds are provided on the Uniform Handbook for the Implementation of the Rules on Information and Communication 2014-2020[5]. When signing a loan agreement, the Intermediary should inform each Final Recipient in writing that the financing is made available under the OPRG co-financed from the ERDF.
Applicable law	The Operational Agreement with the UDF, and any agreements with the FRs shall be governed by the Bulgarian law and shall be executed in Bulgarian language. All documents submitted to the FMFIB, and all correspondence between the FMFIB and the UDF shall be in Bulgarian language. The FMFIB shall have the right, by way of exception and in case of reasoned necessity, to request that some of the documents be presented by the UDF in bilingual version, with a translation into English, the cost of which shall be at the expense of the UDF. In the case of any inconsistencies, the Bulgarian version shall prevail.
Taxes	All tax burdens in connection with payments described in this document shall be assumed by the party to which they apply and their size shall not be recalculated, except for payment of withholding tax, if any.

[5] http://www.eufunds.bg/archive/documents/1423147813.pdf

Indicative terms and conditions for loans to Final Recipients

Type of financing	Financing may be provided as investment loans, working capital loans (c.f. '*Purpose*' below*)*, and leasing.
Amount	Total investment in an Eligible Urban Development Project may not exceed BGN 39 116 600. Total value of a Tourism Development Project should not exceed BGN 9 779 150, and projects related to infrastructure designated as world cultural heritage should not exceed BGN 19 558 300. For Tourism Development Projects, the Financial Intermediary should have the capacity to calculate amount of support in accordance with the requirements of Article 53(6) of Regulation 651/2014.
Currency	Loans can be provided in Bulgarian levs or in euros. Payments between the FMFIB and the UDF shall be made in BGN. All exchange rate conversion costs, if applicable, shall be at the expense of the UDF.
Purpose	▪ Investments in tangible and non-tangible assets related to implementing the Project, including VAT expense; ▪ Working capital financing related to the development or expansion of activities related to the financed investments, including VAT expense. ▪ For Tourism Development Projects, eligible investments include tangible and non-tangible assets specified in Article 53(4), and the financing shall be provided for the purposes specified in Article 53(2) of Regulation 651/2014 Investments to be financed should not be physically completed or fully implemented as at the date of the investment decision. The financing shall not be used for purchasing vacant land or land with buildings on it, except where the costs for such a purchase are less than 10 % of the amount of the resources disbursed to the Final Recipient for a Tourism Development Project and less than 15 % of the amount of resources disbursed to the Final Recipient for an Urban Development Project for derelict land or formerly in industrial use which comprise buildings. Where the loan is intended for infrastructure investments aimed at supporting urban development or urban regeneration or similar infrastructure investments, such support may include the amount necessary for the reorganisation of a debt portfolio regarding infrastructure forming part of the new investment, up to a maximum of 20 % of the total amount of programme support from the financial instrument to the investment
Final Recipient's own equity	The minimum required equity contribution by the Final Recipient is 15 % of the overall project costs, whereas reduction down to 5 % is possible for projects having a large contribution to the OPRG indicators. The minimum required equity contribution could also be 0 % for Final Recipients which are municipal or public bodies, when the provision of own contribution by the respective body is considered impossible and would effectively hinder project development/ financing. To avoid any doubt, it should be noted that equity contribution shall not be considered to represent attracted private Co-financing for the purposes of meeting the requirement for private Co-financing of at least 30 % of the entire financing.
Tenors	The minimum tenor of the loans shall be 12 months.

	The maximum tenor should reflect the established time frames for investment pay-back in the respective sectors but should not be longer than: ▪ For Urban Development: up to 20 years for projects with significant contribution to the OPRG indicators, and for projects implemented in a PPP; ▪ For Energy Efficiency: up to 15 years for projects performing complete thermo-modernisation that justifies longer payback period; and ▪ For Tourism and Cultural Heritage: up to 20 years for projects with high capital intensity and potential impact to develop integrated tourist products, and projects under PPP model. Loans should be repaid using a repayment schedule, including regular repayment instalments.
Grace period	The grace period should reflect the time needed for preparation, design, and implementation of activities for construction works, supplies and services to implement the financed project. The maximum grace periods shall be as follows: ▪ For Urban Development: up to three years; ▪ For Energy Efficiency: up to one year and six months; ▪ For Tourism and Cultural Heritage: up to three years.
Pricing	***Regular interest rate*** The contractual interest rate on the loans to FRs shall be calculated using the weighted average of the interest rate for the Co-financing offered by the Financial Intermediaries in the process of their selection and the interest rate applicable to the financing made available by the FMFIB. The interest rate accruing on the Co-financing provided by the FF shall be an annual nominal percentage, the maximum rate of which shall comprise the 3-month SOFIBOR[6] plus a surcharge which cannot exceed the maximum applicable fixed surcharge proposed in the tender offer of the Financial Intermediary. The interest rate applicable to the financing made available by the FMFIB shall be an annual nominal percentage defined as a percentage of the proposed interest rate for the Co-financing. The share attributable to the financing extended by the FMFIB shall be subject to a bid to be made in the Financial Intermediary's tender offer. The concrete interest rate for the Co-financing for each transaction shall be lower or equal to the maximum one and shall be determined on a case-by-case basis following an analysis of the specific features, the business plan and creditworthiness of the Final Recipient. Interest rates applicable to the Co-financing from the UDF must reflect the credit enhancement, if any, provided by the risk sharing and/ or guarantee cover of part of the Co-financing provided by the FMFIB. The fair rate of return attributable to the Co-financing for the individual loans in the various target sectors, namely: Urban Development and Energy Efficiency, should be determined (confirmed by an independent expert selected by the FMFIB in an open, transparent, and non-discriminatory framework procedure.
Penalty interest rate	The penalty interest rate shall be calculated in accordance with the UDF's credit policy based on any loan principal amount overdue including also on any overdue portion of the financing extended by the FMFIB. Proceeds from penalty interest shall be shared between the UDF and the FMFIB on a *pari passu* basis, proportionately to the share of the financing provided under the

[6] Sofia Interbank Offered Rate as published on the website of the BNB; for the purposes of the Operational Agreement, the value from the last day of the previous quarter shall be taken and it shall apply for the following quarter.

	respective loan or the guaranteed portion of the loan, respectively.
Fees and commissions	The UDF may not charge the FRs any fees or commissions for the services for which it is being paid a management fee by the FMFIB. The UDF could charge other fees, such as: a commitment charge[7] on unused amounts from the loan extended to an FR, or a charge for early repayment, according to the tender bid of the Intermediary, if that corresponds to its standard practices and policies at the time of submission of its proposal. Proceeds from such charges shall be shared on a *pari passu* basis between the FMFIB and the UDF. In addition, the UDF may charge the Final Recipient fees and costs in accordance with its usual practices related to the preparation of market valuations of the collateral items proposed by the FR and their subsequent updating, and other costs related to the proposed collateral (setting up the pledge, insurance, registration, renewal, reregistration, etc.). Without prejudice to the pricing structure applied to the Loan, the UDF should ensure that it does not receive incompatible State Aid as a result of the financing extended by the FMFIB, i.e. that it transfers in full to the Final Recipients the economic advantage from the financing provided by the FMFIB.
Collateral	The UDF should make loans while applying collateral requirements that must reflect the favourable terms and conditions of the financing extended by the FMFIB and the risk-sharing with the FMFIB on each loan. Collateral put up for the loans should consider the specifics of the respective sector, project type and source of financing and may include mortgages/ pledges on the assets financed, pledges on future proceeds generated by the project or other activities, and other acceptable security, in accordance with the UDF's policy. Collateral items must also be identified in consideration of the nature of the project and the type of FRs, considering the existing restrictions regarding pledges/mortgages on assets owned by municipalities and other public bodies.

[7] Municipal/ public body Final Recipients may be granted a waiver on commitment fees for a certain period, considering the time lag until the public procurement award for the project and in view of the loan disbursement in stages related to design and construction and assembly works.

Eligible investees

Eligible investees	***General requirements*** ▪ Final recipients shall have the appropriate legal status which allows them to apply for loans and to implement eligible projects; ▪ Investees shall have a sufficient legal interest in the assets they invest in; ▪ Funded projects should fall within the territorial scope of the respective UDF. In addition to the above, certain sector-related restrictions with respect to eligible apply, namely ***Energy Efficiency*** ▪ Single-family building owners; and ▪ Universities and legal entities managing student dormitories. ***Urban Development*** Investees, including sponsors, owners of the respective asset and operators, are eligible given that they develop eligible projects related to urban development in one of the following sub-sectors: ▪ Urban transport; ▪ Urban areas; ▪ Industrial projects within *zones with potential for economic development*[8]; ▪ Sport infrastructure; and ▪ Culture infrastructure. ***Tourism and Cultural Heritage*** Public and private entities and public-private partnerships (irrespective of their legal form) as well as religious institutions which develop eligible projects related to the restoration and preservation of cultural heritage and which create viable tourism products.
Ineligible investees	Investees shall not be: ▪ Financial or credit institutions; ▪ Special investment companies, investment trusts, etc.[9]; ▪ Entities included in the consolidated list of legal entities, groups, and organisations subject to financial sanctions from the EU; ▪ Entities which violate the applicable national and EU regulations related to conflict of interest and AML; ▪ Entities located in non-compliant jurisdictions or which maintain commercial relations with such entities; ▪ Companies in difficulty as defined by the EU regulations on State Aid; ▪ Entities which fall within the restrictions of Art. 1, Regulation 651/2014. The selection of investees shall be transparent, based on objective criteria developed by the UDF and should exclude any conflict of interest. UDF shall finance investees without distorting competition. Investees shall comply with the restrictions related to the loan purpose and the expenses eligibility rules set forth in the respective OPRG and UDF guidelines.

8 Defined in the Integrated Plans for Urban Regeneration and Development of the respective city

9 For the avoidance of doubt, SPVs, created specifically for a given eligible project by an eligible investee

Eligible activities

Urban development (UD)	Eligible investments include both greenfield and brownfield development of infrastructure in the eligible sectors. At all times, the projects shall comply with the Integrated Plans for Urban Regeneration and Development (IPURD) of the respective city.
UD: Urban transportation	▪ Development of traffic management plans and Intelligent Transport Systems (ITS), including, *inter alia,* automated traffic management and control systems, vehicle detection and localisation systems which prioritise public transport vehicles, real time passenger information systems, automated ticketing systems, communication sub-systems, video surveillance systems in urban mobility centres, etc.; ▪ Improvement of the accessibility of the public transport stations as well as the adjacent infrastructure (e.g. underpasses and overpasses); ▪ Renovation of transport infrastructure, e.g. socket and catenary cable network, refurbishment of stations, depots, and other facilities and equipment; ▪ Development of route network and the related infrastructure and to remote residential areas; ▪ Introduction of noise-reduction systems, e.g. installation of anti-vibration and anti-noise elements on tram tracks; ▪ General development and improvement of urban public transport systems, such as acquisition of new rolling stock for urban transport, compliant with the European legislation on emissions and the use of renewable/ alternative energy sources in urban transport; ▪ Construction and/ or renovation and/ or reconstruction of street networks and transport infrastructure along with the adjacent components, which are elements of an integrated public transport system (e.g. bridges, tunnels, overpasses, underpasses, i.e. comprising the elements of the technical infrastructure pursuant to Article 64 (1) of the Spatial Development Act); ▪ Construction and/ or reconstruction and/ or renovation of pedestrian streets, sidewalks and pedestrian areas, cycling tracks and lanes, bicycle parking lots, underpasses, overpasses, transport infrastructure, including installation of road signs, information boards, street marking etc., part of an integrated urban transport system; ▪ Improving the links within an integrated urban transport system, i.e. intercity bus, rail, air, inland waterways and marine transport, part of an intermodal transport solutions, including renovation of municipal bus stations and the adjacent areas owned by the municipalities, etc.; ▪ Construction and/ or reconstruction and/ or renovation of parking lots and other measures related to parking facilities in close proximity to public urban transport nodes outside the city centres.
UD: Urban environment	▪ Construction and rehabilitation of public recreation areas, e.g. parks, green zones, children's playgrounds, zoos, city squares, open-air markets, and other similar facilities; ▪ Construction, reconstruction, rehabilitation of the physical elements of the urban environment, e.g. pedestrian alleys and sidewalks, bicycle trails and lanes, pedestrian areas, underpasses and overpasses for pedestrians and cyclists etc.;

	▪ Construction, rehabilitation and reconstruction of streets and public parking lots; ▪ Installation of energy saving street lighting and security and crime prevention measures; ▪ Implementation of systems for control of motor vehicle access in pedestrian areas.
UD: Zones with potential for economic development	▪ Greenfield and brownfield projects related to the technical infrastructure with respect to business activities; ▪ Greenfield and brownfield (re)development of industrial zones and business areas incl. public buildings and commercial real estate; ▪ Rehabilitation, decontamination, recultivation, and other with respect to polluted and disused industrial and brownfield sites; ▪ Landscaping, places for recreation, bicycle lanes, bicycle, and motor vehicle parking lots for the population in zones with potential for economic development.
UD: Sport infrastructure	▪ Greenfield and brownfield development of sports infrastructure, such as sports halls, swimming pools, football fields, stadiums for public use, multisport volleyball / basketball sites, tennis courts, etc., given that the facilities are utilised for mass sport ▪ The infrastructure should be accessible to vulnerable groups, including people with disabilities, and should contribute to their social inclusion.
UD: Cultural Infrastructure	▪ Development of cultural infrastructure including construction, reconstruction, renovation, purchase of equipment and furnishing in cultural centres, theatres, community centres, libraries, opera houses, galleries, exhibition halls and other cultural institutions according to the Culture Preservation and Development Act and the National Community Centres Act. The infrastructure shall be accessible to vulnerable groups, including people with disabilities, and should contribute to their social inclusion.
UD: Energy Efficiency	***General requirements*** The project shall comply with the Integrated Plans for Urban Regeneration and Development (IPURD) of the relevant city and their Investment Programme (when combining the FI with grants for student dormitories). The following activities are eligible: ▪ Energy efficiency surveys and construction surveys of existing residential buildings and student dormitories. ▪ Implementation of energy efficiency measures[10] in single family residential buildings and student dormitories and the respective construction and installation operations, incl. construction reinforcement (if prescribed as mandatory in the constructive survey). The implementation of the a.m. measures for energy efficiency may also include a ”complete” renovation of the respective building, in case the project achieves energy savings more than 60%; ▪ Evaluation of the cost effectiveness of the investment with respect to the expected energy savings; ▪ Greenfield RES installations in relation to the projects listed herein but intended for own energy consumption only. ***Other specific EE requirements***

[10] The EE measures include insulation of the envelopes of the buildings, window replacement, renovation of the systems for microclimate maintenance, technical installations, local installations and / or connections to gas supply, installation of individual meters in accordance with the requirements of Directive 2012/27 /EU (where applicable) as well as accompanying construction works related to the implementation of energy efficiency measures incl. construction reinforcement (when it is prescribed as mandatory in the constructive survey).

	▪ Residential buildings should be designed before 1999; ▪ Minimum EE standard to be achieved in existing buildings equivalent to C-class of energy consumption; ▪ In the case of projects with an element of complete renovation, reduction of energy consumption should be higher than 60%.
Other requirements for the Urban Development projects	Projects should comply with the IPURDs, incl. their territorial scope. In urban transport, eligible investments shall fall within the scope of an integrated project for sustainable urban transport. In addition to the territory of the city, eligible investments may also include functional links to neighbouring settlements which are element of the public urban transport system and are included in integrated project for sustainable urban transport. The projects should take into consideration the intervention zones defined within the IPURDs; however urban transport projects are not limited to those zones. Activities related to sport and cultural infrastructure may be supplemented with activities related to energy efficiency.
Tourism and cultural heritage	Development of cultural heritage sites of national and world importance, including religious sites, through conservation and restoration, regeneration, protection, exhibiting, socialising, promoting, equipping, implementing techniques and software for interpretation, tourist guide services, etc.; Development of adjacent tourist infrastructure, e.g. tourist paths and health paths, climbing routes, horse riding and biking routes, picnic areas, signs, visitor information centres, etc. Small-scale income-generating investments in commercial and food areas, accommodation, leisure, and recreational facilities, within the cultural site or directly linked to it within the integrated tourist product. In this case, 80% of the time and spatial infrastructure capacity should be used for cultural purposes; Additional small-scale non-infrastructure activities directly related to the supported attractions (organisation of events related to the attractions, marketing, and advertising activities); Participation in regional, national, and international tourist exchanges, exhibitions and fairs and organising of expedition trips, visits of travel agents, tour operators, travel guide writers and journalists to promote the supported attractions; Informing the public, including through awareness raising campaigns regarding the protection and conservation of the cultural heritage; Improving the access of people with disabilities to the cultural heritage sites and the adjacent infrastructure. *Other specific requirements for tourism and cultural heritage projects* Approved projects should comply with applicable national legislation (i.e. Cultural Heritage Act and Spatial Planning Act). In addition, prior to application submission the investee is required to have conducted public consultation on the project and to provide an independent expert evaluation of project's cultural and aesthetic value.
Non-eligible activities	▪ any illegal activity under the applicable law or regulations ▪ production and trade of tobacco and distilled alcoholic beverages and related products; ▪ decommissioning or construction of nuclear power plants;

- investment aiming at reducing greenhouse gas emissions from activities listed in Annex I to Directive 2003/87/EC;
- investment in large-scale projects of sport and cultural infrastructure;
- investment in airport infrastructure, if not in relation to the environment preservation or accompanied by investments, necessary to mitigate or reduce its negative environmental impact;
- projects in the fishery and aquaculture sector;
- projects in the primary agricultural production sector;
- projects related to closure of coal mines;
- production and trade of weapons and ammunition of any kind;
- casinos and equivalent enterprises.
- research, development, or technical applications relating to electronic data programmes or solutions, which aim specifically at:
  - supporting any activity included in the restricted sectors listed above;
  - internet gambling and online casinos;
  - pornography;
  - illegally entering electronic data networks; or
  - downloading electronic data.
- research, development, or technical applications relating to:
  - human cloning for research or therapeutic purposes; or
  - genetically modified organisms (GMOs).

Compatible State Aid

Introduction	Loans financing urban development projects and tourism development projects shall comply with applicable State aid rules. Particularly, urban development projects shall comply with Article 16 of GBER encompassing compatibility of State aid at all levels: financial intermediary, private investor, and final recipient. Regarding tourism development projects the UDF shall determine gross grant equivalent for the financing provided through the FI, in compliance with Art. 5 of Regulation (EU) 651/2014 and Art. 53 (6) of Regulation (EU) 651/2014. Following a financial analysis, the UDF approves structure of funding which shall consider project's funding gap and fair rate of return under Art. 16 of GBER, as well as operating profit of the investment and reasonable profit under Art. 53, paragraph 6.
State aid reporting procedure	The UDF shall document any verification performed regarding State aid granted. Information on any support granted and its compatibility with the State aid rules should be reported by the UDF on a regular basis to FMFIB.

Other Criteria

Technical support for investees	The UDF shall provide technical support to investees. All related expenses shall be covered by the Management fee. ***Tentative scope of the technical support*** ▪ information and awareness campaign regarding project financing through FI, incl. possible combination with grants (when applicable); ▪ increasing final recipient's capacity regarding projects directly developed by municipalities, their entities, or other recipients of funding with revenue-generating operations; as well as PPP (hybrid) projects; ▪ clarifications to the investees regarding the application process; ▪ initial consultations on the structure and type of funding (i.e. FI and grants), incl. specific terms of the support by the UDF; ▪ initial consultations on project and investee eligibility in terms of structure and legal status; and ▪ consultations on business plan development.
Combination of financial instrument support with grant funding	Potential funding sources for eligible projects include: UDF funds (incl. co-financing provided by the fund manager), funds attracted from other private investors, final recipient's own funds. To make the project proposal economically viable, the final recipients may apply for a grant or for a support from another financial instrument, or another instrument funded by the EU budget, in accordance with applicable State aid rules and in compliance with the minimum level of "retained" risk associated with private Co-financing. Eligible activities funded by ESIF, other EU instruments or other public programmes can be financed with UDF resources, given that the different funding sources are not used to refinance support received from FI and other sources or to bridge (i.e. to pre-finance) grants. There should be a clear distinction between the costs funded by the UDF and those financed with grants or other sources. Combination is made by following a clear separation between the eligible activities and expenses under both types of support, incl. regarding VAT. Combined funding could cover the same expenditure/ assets, if the sum of all forms of support combined does not exceed its total budget. Eligible projects to be funded with combination of grants and FIs are in the following sub-sectors: ▪ Energy efficiency in student dormitories (university housing); ▪ Urban transport; ▪ Cultural infrastructure; and ▪ Tourism and cultural heritage. When evaluating projects eligible for combined funding, the Financial Intermediary shall review: the project proposal and business plan, eligibility of activities and expenses, business plan specifics, creditworthiness, collateral, compliance with state aid rules, contribution to the KPIs etc. Based on the conducted review, the Financial Intermediary estimates the amount of supplementary grant needed to ensure the viability of the project (if applicable). Following UDF's recommendation with respect to the required grant complementing

	the FI support, the final recipient submits a project proposal in the National CRM system, UMIS, along with the UDF's opinion on amount of necessary grant. The initial financial structure of the project may be amended following the MA's final decision with respect to the size of the grant. In such cases, the Financial Intermediary retains the right to reconsider and/ or adapt the decision to fund the project accordingly, if possible.

Selection of Financial Intermediaries

General information	FMFIB shall select financial intermediaries based on an open, transparent, non-discriminatory, and objective procedure, while avoiding any conflicts of interest (in accordance with the Delegated Regulation and any other applicable legislation, including related to state aid and public procurement[11]). Evaluation of candidates shall be carried out in two stages by a Selection committee in accordance with predefined (1) selection and exclusion criteria, and (2) contract award criteria. Candidates interested in managing more than one UDF shall submit separate application packages for each of the UDFs. The procedure ends by ranking the candidates according to evaluation methodology, based on which a contract award decision is made. FMFIB is considering to limit the options for one candidate to manage more than one UDF.
Type of award procedure	Two-stage competitive procedure with negotiation
Process overview	***Stage 1*** Stage 1 consists of: submission of Expression of Interest, followed by shortlisting of the candidates based on the requirements specified in the exclusion and selection criteria. The shortlisted candidates are invited to the next stage of the procedure, when they are required to present preliminary bids (see Stage 2). FMIFB reserves the right to check whether the requirements comprising the selection criteria, and particularly those related to economic and financial standing as well as to technical capacity, are fulfilled by the respective candidates as stipulated in the EoI. ***Stage 2*** Candidates, invited to the second stage, submit preliminary bids, which include technical proposals (along with a business plan and an investment policy) and price offers. At that stage FMFIB shall provide detailed templates and/ or guidelines with respect to the bid contents. The investment policy presents the general approach to be adopted by the potential intermediary in relation to the managing of the UDF. The business plan, on the other hand, clarifies how the policy shall be implemented and includes financial and operational forecasts, as well as an indicative pipeline of eligible projects. The business plan and investment policy shall be annexed to the Operational Agreement. FMFIB and the candidates who have submitted their application in the second stage, shall negotiate on the terms of the preliminary bids to finalise them. Following their completion, the bids are evaluated in accordance with the pre-set contract award criteria.
Exclusion criteria	Exclusion criteria are stipulated in Art. 54, para 1, p. 1-7 and Art. 55, para 1, p. 1-5 of the PPA.
Indicative selection	***Suitability to pursue the professional activity (legal capacity)***

[11] Public Procurement Act in Bulgaria, incl. its Application Guidance and other relevant secondary legislation.

criteria	▪ Credit institutions (i.e. banks) as defined in Article 2 of the Credit Institutions Act; ▪ Financial institutions as defined in Article 3, para 1 of the Credit Institutions Act; ▪ Other potential parties identified in the market test; and ▪ Consortia established by one or more of the above. ***Economic and financial standing*[12]** ▪ Equity ratio (i.e. book values of shareholder's equity to total assets) not lower than 5% ▪ Ratio Net Portfolio at Risk (PAR) (> 30 days) to Total gross portfolio not higher than 25% ***Technical and professional ability*** ▪ Qualification and capacity of team of the Candidate; ▪ Sufficient level of relevant experience which may include lending volumes, similar services rendered etc.; ▪ Corporate and management structure (of the Intermediary and/or of the UDF), including ownership structure, corporate governance, administrative procedures, and organisational capacity; ▪ Methodology for lead origination and project evaluation, including methodology for assessing the creditworthiness of final recipients; ▪ Procedures regulating cooperation with local authorities; ▪ Strategy for providing technical assistance to final recipients; ▪ Marketing strategy including information and publicity policy; ▪ Accounting policies and procedures related to internal control, monitoring, reporting and financial controlling; ▪ Credit evaluation and approval procedures; ▪ Risk Management policy encompassing loss estimation methodology; loan loss provisioning, credit risk management, etc.; ▪ Monitoring procedures and systems for timely identification and addressing of red flags; ▪ Debt collection procedures; и ▪ Quality control systems, e.g. policy for avoiding conflict of interest, applying the transparency and equal treatment principle etc. Participation will be allowed to candidates who are not in violation and/ or are not given any prescriptions by the relevant regulating authority (e.g. BNB) within the past 12 months preceding the application, in terms of capital and financial position requirements, and have not been granted liquidity support by central banks of other national or European public institution within the past 12 months as of the application date.
Indicative award criteria	The contracting authority shall select the **most economically advantageous proposal** for each lot by applying the **cost effectiveness** principle. FMFIB shall carry out comparative evaluation of the tenders according to the following award criteria which are currently being considered: ▪ Management fee amount; ▪ Committed co-financing and approach to attracting private investors etc.;

[12] The minimum requirements for economic and financial standing are placed in fulfillment of the requirement laid down in Article 7, para 1, point (b) and para 3 of Commission's Delegated Regulation (EU) 480/2014, according to which the financial intermediary shall have adequate economic and financial viability.

- Expected NPL rate;
- Specific terms of the financial products for final recipients.

The financial intermediary shall predetermine conditions for involving potential private investors and applicable assessment criteria. The financial intermediary shall apply non-discriminatory approach for attracting private investors and co-investing with them. Ex-post evaluation by the contracting authority or other competent bodies may be carried out on the selection procedure of private investors.

FMFIB is currently considering additional award criteria based on quality and relevance of the proposed investment program and business plan having in mind UDF’s objectives, team’s qualification, and commitment etc., as far as this complies the applicable legislation.