



The Western Balkan Enterprise Development and Innovation Facility SME Guarantee Facility

CALL FOR EXPRESSION OF INTEREST TO SELECT FINANCIAL INTERMEDIARIES UNDER THE WESTERN BALKAN ENTERPRISE DEVELOPMENT AND INNOVATION FACILITY - SME GUARANTEE FACILITY -

(Published on 17 April 2013)

The objective of this Call for Expression of Interest, launched by the European Investment Fund, is to select eligible financial institutions to become Financial Intermediaries under WB EDIF Guarantees and WB EDIF Counter-Guarantees, as further described below.

1. Background

In 2010, the Commission, the European Bank for Reconstruction and Development, the European Investment Bank and certain other international financial institutions entered into an agreement, the Western Balkan Investment Framework (the “WBIF”), for the purpose of contributing to the financing, preparation and implementation of priority projects in the Western Balkan Beneficiary Economies.

In 2011, the parties to the WBIF decided to become active in the field of private sector development and earmarked certain amounts to support SMEs’¹ access to finance.

Within this context, the 5th WBIF Steering Committee decided in December 2011 to finance the Western Balkans Enterprise Development and Innovation Facility (the “WB EDIF”), a project developed by EIF with EIB and EBRD as co-lead international financial institutions.

WB EDIF envisages the establishment of a four-pillar virtual platform, of which the third pillar shall be a guarantee facility (“WB EDIF Guarantee Facility” or the “Facility”) aimed at enhancing SMEs’ access to finance in the Western Balkans region (the “Western Balkan Beneficiary Economies”). The “Western Balkan Beneficiary Economies” comprises Albania, Bosnia and Herzegovina, Croatia, former Yugoslav Republic of Macedonia, Kosovo², Montenegro and Serbia.

¹ As defined in Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36).

² This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

The European Investment Fund (“EIF”) has been mandated by the European Commission (the “Commission”) to implement and manage the financial instruments under the WB EDIF Guarantee Facility. On a continuous basis until the Deadline (as described below), EIF will select eligible financial institutions to become Intermediaries under the WB EDIF Guarantee Facility.

This notice is addressed and restricted to financial institutions committed to SME financing having the capacity to operate at nation-wide or at least regional level, established and operating in one or several of the Western Balkan Beneficiary Economies.

The objectives and main terms of guarantees to be entered into with EIF pursuant to the WB EDIF Guarantee Facility are further described in Annex II to this Call for Expression of Interest.

2. Financial Intermediaries

This Call for Expression of Interest is addressed and restricted to:

- a) In respect of WB EDIF Guarantees public or private credit or financial institutions, in each case, duly authorised to carry out lending activities according to the applicable legislation;
- b) In respect to WB EDIF Counter-Guarantees: public or private guarantee schemes, guarantee institutions or other credit or financial institutions duly authorized to issue guarantees according to the applicable legislation,

in each case established and operating in one or several of the Western Balkan Beneficiary Economies.

Eligible Financial Intermediaries shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which they may be subject and shall not be established, and shall not maintain business relations with entities incorporated, in territories whose jurisdictions do not co-operate with the European Union in relation to the application of the internationally agreed tax standard.

3. Application procedure

Financial institutions interested in this Call for Expression of Interest should submit an application to EIF to be considered as a possible Financial Intermediary under the WB EDIF Guarantee Facility until 30 June 2014 (Deadline), depending, inter alia, on the availability of the budgetary resources for WB EDIF, as described below.

The EIF Anti-Fraud Policy shall apply to the (Counter-) Guarantee Agreement (please refer to www.eif.org/news_centre/publications/2009_anti_fraud_policy.htm.)

In accordance with Annex I to this Call for Expression of Interest, the Application should include the Applicant’s identification and the Information Requirements with supporting documents.

Information Requirements (as further specified in the Appendix 2 to the Annex I) should place particular emphasis on:

- a) Expected added value of the WB EDIF Guarantee Facility for SMEs;
- b) Envisaged actions for the implementation, particularly with regard to its launch (timing, target customers, promotional activities, type of products, changes to the underlying legal documentation, etc.);
- c) Estimated absorption capacity in terms of expected volumes of SME¹ loans (“SME Transactions”) to be included in the Portfolio and geographical coverage;
- d) Origination and credit risk management process;

e) Expected characteristics of the Portfolio (split per rating, industry, region, etc);

4. Language and governing laws

The Expression of Interest shall be prepared in English.

The terms of the (Counter-) Guarantee Agreement shall be in English. The (Counter-) Guarantee Agreement shall be governed by the laws of England.

5. Submission of Expression of Interest

The Expression of Interest shall be submitted before the Deadline both by (i) email and (ii) registered mail or professional courier service. The Expressions of Interest sent by registered mail or professional courier service shall consist of a closed single package, and shall contain the Expression of Interest, together with its attachments, in paper form and in removable electronic storage medium (e.g. CD-ROM).

The Deadline is set on the **30 June 2014** provided that EIF may, at its sole discretion, determine that the Deadline will end on an earlier date or will be extended, depending, inter alia, on the availability of the budgetary resources for the WB EDIF Guarantee Facility. Any change in the Deadline will be announced officially in the WB EDIF section of EIF's website.

The Deadline applies (i) in case of e-mails to the reception by EIF and (ii) in case of registered mail or professional courier service to the date of dispatch proven by the post office stamp or a dispatch receipt.

The (Counter-) Guarantee Agreements may be signed with selected Financial Intermediaries until 31 December 2015 at the latest, provided that applications conforming to the provisions of this Call for Expression of Interest have been received by EIF before the Deadline. Such Deadline may be extended by EIF.

The Expressions of Interest shall indicate the name of the Applicant and be sent to the following address:

**European Investment Fund
WB EDIF Guarantee Facility – Expression of Interest
Guarantees, Securitisation & Microfinance
15, Avenue JF Kennedy
L-2968 Luxembourg**

An electronic version of the Expression of Interest should be sent to: wbedif@eif.org, stating in the subject of the email, as appropriate: "WB EDIF Guarantee – Expression of Interest: [name of the applicant]" or "WB EDIF Counter-Guarantee – Expression of Interest: [name of the applicant]".

An acknowledgement of receipt will be sent to the relevant Applicants by EIF via e-mail, which shall state the following:

- unique application identifier (Expression of Interest number);
- confirmation that the Expression of Interest was received before the Deadline.

The acknowledgement of receipt shall not be construed as a declaration of completeness of the Expression of Interest and the documents submitted therewith, nor any kind of assessment or acceptance of the same.

The Applicants may withdraw, in the same manner as specified above, their Expression of Interest at any stage of the Selection process.

6. Selection procedure

Financial Intermediaries will be selected in due consideration of the general principles of transparency, equal treatment and non-discrimination, in compliance with EIF's policies, rules, procedures and statutes and in conformity with best business and market practices.

Following the receipt of the Expression of Interest, EIF shall select the Applicants pursuant to the selection process outlined in the following sections of this Call for Expression of Interest. The selection procedure involves:

- a) Assessment of compliance of Expressions of Interest with the formal criteria,
- b) Assessment of Expressions of Interest based on the evaluation criteria.

Following the pre-selection based on the Expression of Interest, EIF shall proceed to a due diligence process of the pre-selected Applicant, as a result of which EIF will decide whether or not to propose to its Board of Directors for approval the entering into a (Counter-) Guarantee Agreement under the WB EDIF Guarantee Facility. The contractual negotiation process will not be concluded prior to the approval of the EIF Board of Directors.

The Expressions of Interest for WB EDIF Guarantees and WB EDIF Counter-Guarantees shall be subject to the uniform selection process.

In any phase of the selection process until and prior to entering into a legally binding agreement with an Applicant, EIF reserves itself full discretion to consider or not Applicants' applications and no Applicant has any claim or other right or may expect to be ultimately selected as Financial Intermediary under the WB EDIF Guarantee Facility. Any negotiation of terms and conditions of (Counter-) Guarantee Agreements by no means entails any obligation for EIF to enter into such (Counter)-Guarantee Agreement with the relevant Financial Intermediaries.

6.1. Pre-selection

Applications for the WB EDIF Guarantee and WB EDIF Counter-Guarantee, which have been deemed complete by EIF, will be assessed by EIF for pre-selection on the basis of the Expressions of Interest, on a "first come, first served" basis.

The pre-selection comprises: i) formal assessment of the application received, ii) the overall quality of its contents, as further described in the sections below. When assessing the application, EIF will use its professional analysis and judgement.

Only applications that meet the formal criteria as further described in the section 6.1.1. below may continue to go through the quality assessment process. EIF will complete a preliminary assessment as to whether the application contains sufficient information to be deemed complete. EIF will liaise with the Applicant for any further information required to complete the application. Only after having obtained any additional information needed, EIF will deem the application complete and evaluate the application as per the quality assessment process. In case applications are incomplete they must be completed before the Deadline. For the avoidance of doubt any complete application received before a previously incomplete application is completed will be considered first.

For the quality assessment, as further described in section 6.1.2. below, EIF will evaluate the overall quality of the application. All criteria listed under section 6.1.2 are assessed at the discretion of EIF with equal importance, which means the pre-selection process does not give specific weight to any one of these criteria.

All Applicants will be sent a notification about the result of the pre-selection process. Pre-selected Applicants are advanced to the due diligence phase of the selection process as referred to in section 6.2. Applicants listed on the reserve lists may be considered for pre-selection depending upon the availability of the budgetary resources.

EIF may suspend or abandon the pre-selection process at any time and no Applicant may claim any right to be pre-selected or included on the reserve list as described above.

6.1.1 Formal assessment

EIF shall assess whether an application for the WB EDIF Guarantee or the WB EDIF Counter-Guarantee has been prepared in accordance with the provisions of this Call for Expression of Interest according to the formal criteria:

- a) The Expression of Interest is prepared in accordance with Annex I to the Call for Expression of Interest. All necessary supporting documents are provided (in the form requested if specified);
- b) The Expression of Interest is duly signed;
- c) The Expression of Interest is completed and submitted in English;
- d) The Expression of Interest is submitted both by registered mail and e-mail;
- e) The Expression of Interest is submitted within the Deadline;
- f) the Applicant is established and operating in one or several of the Western Balkan Beneficiary Economies and authorised to carry out its business under the applicable regulatory framework;
- g) The Expression of Interest addresses all information required as per Appendix 2 of the Annex I to the Call for Expression of Interest;
- h) whether the Applicant provided the requested data for the screening/pre-selection process.

6.1.2 Quality assessment

After the formal check of the received Expressions of Interest and after having obtained any additional information or clarifications from Applicants, if and as needed, EIF will pre-select the Applicants according to the evaluation criteria set out below, in no particular order of priority:

- a) financial standing and financing capacity of the Applicant as evidenced by its external credit rating and/or by EIF financial analysis of the Applicant;
- b) operational capability of the Applicant (to assess and manage risk and to comply with the terms and conditions of the (Counter-) Guarantee Agreement;
- c) ability to provide the required data for EIF to properly conduct its analysis and assessment of the Intermediary's track record and future activity;
- d) ability to comply with the terms and conditions of the (Counter-) Guarantee Agreement, particularly to provide or to support financing to Final Beneficiaries within a predefined timeframe (absorption capacity);
- e) expected impact of the WB EDIF Guarantee Facility, *inter alia* in terms of new financing volumes to be generated, number of Final Beneficiaries, geographical reach;
- f) ability to provide the reporting specific requirements and willingness to accept the enhanced access to finance requirements.

EIF, when making its pre-selection decision will consider, *inter alia*, the impact of the application on the geographical distribution in the Western Balkan Beneficiary Economies.

6.2. Due diligence

Pre-selected applications will be followed up with on-site due diligence visits, carried out in accordance with EIF's internal rules and procedures, where financial and operational matters relating to the (Counter) Guarantee Agreement implementation shall be covered. The aim of the due diligence is to assess on-site, the content of the application based on, *inter alia*, the ability to build up the envisaged Portfolio, the Financial Intermediary's ability to duly inform SMEs about the EU support, the risk nature of the envisaged Portfolio, the quality of origination, risk management, collection recovery/workout processes, systems and ability to comply with the reporting requirements. The due diligence process does not comprise legal negotiations.

6.3. Selection

Subject to the satisfactory outcome of a due diligence and after having obtained any additional information requested during the process, EIF may request its Board approval for a (Counter-) Guarantee Agreement to be entered into with the selected Financial Intermediary. EIF has no obligation to select a (pre-) selected Applicant. The participation of any institution will depend, *inter alia*, on the budget available for the WB EDIF Guarantee Facility and other considerations made by EIF such as, without limitation: outcome of the due diligence, result of negotiations with the institution.

EIF will publish, from time to time, on its website the list of Financial Intermediaries with whom EIF signed (Counter-) Guarantee Agreements.

ANNEX I: TO CALL FOR EXPRESSION OF INTEREST TO SELECT FINANCIAL INTERMEDIARIES UNDER
WB EDIF Guarantee Facility



EXPRESSION OF INTEREST-

To:

European Investment Fund
WB EDIF Guarantee Facility

Attention: Guarantees, Securitisation & Microfinance
15, Avenue JF Kennedy
L-2968 Luxembourg

Expression of Interest under the WB EDIF Guarantee Facility

Applicant submitting the Expression of Interest:

_____, _____
(company name, registration
number)

Dear Sir or Madam,

Herewith we are submitting our Expression of Interest on behalf of [Applicant] in response to the Call for Expression of Interest in the framework of the WB EDIF Guarantee Facility implemented by EIF. Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest.

The undersigned duly authorised to represent the [Applicant], by signing this form certifies and declare that the information contained in this Expression of Interest and its Appendices is complete and correct in all its elements.

The undersigned duly authorised to represent the [Applicant], by signing this form certifies and declare to have read the EIF Anti-Fraud Policy and declare not to have made nor to make any offer of any type whatsoever from which an advantage can be derived under the Guarantee Agreement/Counter-Guarantee Agreement (*) and not to have granted nor to grant, not to have sought nor to seek, not to have attempted nor to attempt to obtain, and not to have accepted nor to accept, any advantage, financial or in kind, to or from any party whatsoever, constituting an illegal practice or involving corruption, either directly or indirectly, as an incentive or reward relating to signing of the Guarantee Agreement/Counter-Guarantee Agreement (*).

Yours sincerely,

Signature(s):
Name and position in capitals:
Applicant's name
Place:

Stamp of the Applicant (if applicable):

Date (day/month/year):

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Appendices

Appendix 1 Applicant

Appendix 2 Information Requirements

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Appendix 1 to the Expression of Interest.

APPLICANT

INFORMATION REQUIRED	
APPLYING FOR:	<input type="checkbox"/> WB EDIF GUARANTEE (*) <input type="checkbox"/> WB EDIF COUNTER-GUARANTEE (*)
NAME	
LEGAL FORM	
CONTACT DETAILS	Title: Mr/Mrs/other (delete or complete as appropriate) Surname: Forename(s): Function: Address: Telephone: Fax: Email:

(*) select as appropriate

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Appendix 2 to the Expression of Interest.

INFORMATION REQUIREMENTS

The points below list the headings for the minimum information needed. In case of joint applications all the following information shall be provided for the Applicant.

N.B.: All information required below concerning the activity of the applicant institution and its products must be provided, specifically and in detail, for:

1. Medium- and long-term loans (final loan maturity of at least 12 months); and
2. SMEs according to the EU Definition (Commission Recommendation 2003/361/EC)

1. FINANCIAL INTERMEDIARY'S ACTIVITY

1.1. General information

1.1.1. Description of the Financial Intermediary (date of establishment, number of employees capital structure and shareholders, banking group, organisational structure, distribution network, number of branches, etc.)

1.1.2. Financial Intermediary's legal status, regulatory framework and applicable regulations,

1.1.3. Financial Intermediary's rating and rating agencies' reports (if applicable)

1.1.4. Definition of the different internal business segments of the Financial Intermediary (including the relevant segments applicable for SMEs)

1.2 SME activity

1.2.1.

a) for Financial Intermediaries applying for WB EDIF Guarantee: description of the lending activity related to SMEs (description of the lending products offered to SMEs, purpose, min. and max. maturity of loans, rate of financing (as % of borrower financing needs), min. and max. loan amount, repayment features, etc.)

b) for Financial Intermediaries applying for WB EDIF Counter-Guarantee: description of the guarantee activity related to SMEs (description of selection of Sub-Intermediaries, description of the guarantee products offered to SMEs, applicable guarantee rate, type and features of the loans covered by the guarantees (term, repayment features, amounts, etc).

2. FINANCIAL STANDING

2.1. Key financial figures for the last full 3 years available according to the table below:

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Currency: [•]'000	2010 Audited/Unaudited IFRS/Local	2011	2012
Net profit (amount)			
Return on average equity (%)			
Total assets			
Total Gross Loan Book ¹ (amount)			
Gross Corporate Loan Book (amount)			
Total SME Loan Book (in % of the Gross Corporate Loan Book) ²			
Cost/income (%)			
Shareholders' equity (amount)			
Tier 1 capital ratio (%) (if applicable)			
Regulatory capital adequacy ratio/ Solvency ratio (%)			

Financial Intermediaries are required to provide their internal SME definition.

2.2. Annual reports (including full set of financial statements with independent auditors report) for the last three years (to be annexed to the Expression of Interest in electronic version only)

3. OPERATING PRINCIPLES (WITH RESPECT TO SMEs).

3.1. Credit policy: internal procedures and guidelines

3.1.1. Risk assessment procedures (internal rating/scoring system)

3.1.1.1. Description of the rating models/scoring systems in place

3.1.1.2. Description of the key inputs and their respective weight in the rating output

3.1.2. Collateral requirements

3.1.2.1. Description of the collateral requirements including personal guarantees (type, valuation, haircuts, down payment and residual value for leases, etc.)

3.1.3. Loan (or as case may be Guarantee) approval procedures (description of the process, authorities, limits, acceptance /decline rates)

3.1.4. Dunning procedure and monitoring (monitoring of payment dates, frequency of contact with the client, early warning system, etc.)

3.1.5. Recovery procedures (steps taken, departments involved, indication whether recovery process is dealt with in-house or is outsourced, length of recovery procedures). In case of Guarantors, a description of its principles for sharing recoveries with Sub-Intermediaries, processes and operating modalities.

3.2. Risk management: methods utilised for loss forecasting, provisioning and credit risk management at portfolio level.

¹ For Guarantors: the Total Guarantee Portfolio.

² For Guarantors: the Total SME Guarantee Portfolio (as % of Total Guarantee Portfolio).

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4. SME DATA AND PERFORMANCE

All information required below (4.1.-4.2.) shall be provided specifically with respect to SMEs (to the extent the information is available, otherwise by internal segment)

4.1. INTEREST RATES AND REMUNERATION

4.1.1. In respect to Financial Intermediaries applying for WB EDIF Guarantee: current pricing policy applied by type of product, current cost of funding, description of interest spread components, including a) administrative costs component, b) minimum risk related margin, split: i) by risk category of the borrower and ii) to the extent relevant, by currency., c) other components, if applicable.

4.1.2. In respect to Financial Intermediaries applying for WBE EDIF Counter Guarantee: current pricing policy with regard to guarantees, basis of the calculation and frequency of collection of the guarantee premiums, components of the guarantee premium (administration costs, cost of risk, etc.), premium calculation methods (modulation to the type of loan, risk rating of the SME, guarantee rate, collateral, etc.), the level of subsidisation of the guarantee premiums, description of modalities of premium collection (from SME, through Sub-Intermediaries, etc.)

4.2. PERFORMANCE TRACK RECORD

4.2.1. If rating models are used for the SME activity, please provide (for each model in use):

- a) the rating master scale with the respective minimum, maximum and median probability of default (“PD”) per rating class.
- b) the latest back-testing information on the PD model evidencing the actual versus modelled PD and the evolution of the explanatory power of such model (e.g. Gini score) over the last 3 years
- c) 1-year, 2-year and 3-year rating migration table over the last 3-years.
- d) the latest back-testing information on the LGD model evidencing the actual versus modelled LGD.

4.2.2. If no rating model is in place, please provide for each year of origination of Transactions:

- a) Aggregate initial principal amount of Transactions granted in each year (EUR or relevant currency)
- b) Aggregate number of Transactions granted in each year (by currency)
- c) Aggregate defaulted amount for each year following origination, i.e. aggregate outstanding principal amount at the time of default for the Transactions belonging to the same vintage (i.e. granted during the same year) that defaulted in each year after their origination date, as presented in the table below:

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VINTAGE ANALYSIS TABLE³:

Year of origination	Originated Transaction volume (by currency)	Originated Transactions (number)	Defaults occurred within 1, 2, 3, ... years (by currency)						Cumulative defaults (sum) (by currency)
			1	2	3	4	5	6	
....									
2008									
2009									
2010									
2011									
2012									

4.3.3. Average recovery rate: the average amount recovered to date on the defaulted Transactions for at least 5 years, on aggregate basis and split by currency, product, risk categories, as relevant.

4.3.4. Average time lags between the granting of the SME Transaction, the payment default by the borrower and the Transaction being written off (end of recovery period)

4.3.5. Details on loan restructurings, including percentage of loan book that has been restructured and percentage of restructured loans that have subsequently fallen into default.

5. WB EDIF IMPLEMENTATION MEASURES

5.1. Overall (Counter-) Guarantee Agreement implementation strategy, marketing and publicity strategy, description of product types (existing or newly created), indication of the nature, type of activities and lead time expected for preparation of the (Counter-) Guarantee Agreement rollout, envisaged procedures for allocation of Transactions to the Portfolio.

5.2. Proposed Agreed Portfolio Volume (size of the Portfolio) to be originated during the Availability Period of up to 2 years

³ Vintages are created by reference to all selected Transactions originated during the same year.

Default definition: the default definition used must be in line with the Applicant internal procedures (e.g. a loan is regarded as defaulted if either it becomes more than X days past due or it has been written-off (other default criteria can also be used)). The default definition used must be specified.

Defaulted amounts: The aggregate of the outstanding principal amount of all SME Transactions that defaulted in each year following their origination date is tracked separately for each vintage. The vintage analysis table is thus produced by recording in each cell - for each vintage line - the total outstanding amount at the time of default for transactions that have defaulted in the year of the relevant column (1, 2, 3, ...). For instance, if the Time to default [Time to default = default date - origination date, expressed in number of months] is comprised between 0-12 months, i.e. transactions defaulted within the first year of their life, the respective defaulted amount is to be shown in the column corresponding to year 1; if the time to default is comprised between 13-24 months, the respective defaulted amount is to be shown in the column corresponding to year 2, etc.

Cumulative defaults: the last column of the table contains the sum of all the defaults shown in the previous columns. It indicates the cumulative defaults occurred for a given vintage during the observation period. Such amount divided by the corresponding originated volume gives the cumulative default rate for the vintage

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5.3. Increased access to and availability of finance proposed in terms of:

- the overall effect on the volume of financing provided to the eligible Final Beneficiaries;
- the effect on the financing provided in terms of higher risk taking (i.e. reduced collateral requirements, financing of start-ups, reduced risk related margin)

How the envisaged reduction level of risk related margin (or, as case may be the guarantee risk premium) to be charged under Transactions and envisaged reduction in collateral are determined:

If the level of such reduction depends on credit risk rating of the borrower, the currency of SME Transaction or other conditions, appropriate details should be presented.

5.5. Expected types of collateral, applied haircuts and average collateralisation levels for SME Transactions to be included in the Portfolio (by product, risk category)

6. EXPECTED CHARACTERISTICS OF TO-BE-CONSTRUCTED PORTFOLIO

Financial Intermediaries are required to provide a description of the portfolio to be built up:

6.1 Expected minimum number of industry sectors in the Portfolio

6.2 Expected concentration on start-up entities and micro-enterprises in the Portfolio

6.3 Expected breakdown by region of the Portfolio

6.4 Expected breakdown of the Portfolio by risk category, e.g. internal scoring/ rating/ PD/ expected loss and by internal segment.

6.5 Expected concentration of bullet loans, if applicable

6.6 Currency (if applicable)

6.7 Expected maximum concentration of loans in the Portfolio denominated in currencies other than EUR (% of the Portfolio for each currency).

6.8 Maturity profile

6.9 Expected weighted average maturity (WAM) and weighted average life (WAL) for the Portfolio including details of the how this is calculated (grace periods, amortisation profiles etc...).

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Appendix 1: Guarantee Policy and Operation



Guarantee Policy and Operation ("Operational Guidelines")

GUARANTEES

OBJECTIVES OF THE GUARANTEES

The Facility created in the framework of the Western Balkans Enterprise Development and Innovation Facility is funded by the European Union and is operated by the European Investment Fund ("EIF") on behalf of the Commission.

The Facility has as its objective the provision of Union resources to increase access to, and availability of, finance for SMEs in the Western Balkan Beneficiary Economies (meaning Albania, Bosnia and Herzegovina, Croatia, Kosovo¹, the Former Yugoslav Republic of Macedonia, Montenegro, and Serbia).

The guarantees and counter-guarantees issued by EIF (the "**Guarantees**") shall cover portfolios of newly granted Debt Instruments (as described below) provided for the ultimate benefit of SMEs which qualify as Final Beneficiaries under the Facility.

The Guarantees are financed by the budget of the European Union and are issued by EIF in its own name, but on account and risk of the European Union.

THE INTERMEDIARIES

Intermediaries: Intermediaries shall be established and be operating in one or several of the Western Balkan Beneficiary Economies and will be selected among financial or credit institutions duly authorised to carry out lending activities according to applicable legislation, guarantee schemes, including mutual guarantee organisations, micro-finance institutions, and any other financial institution committed to SME financing.

Selection process: Intermediaries shall be selected in compliance with EIF's policies, rules and procedures and in conformity with best business and market practices in a fair manner, avoiding any conflict of interest. On the basis of a Call for Expression of Interest, proposals will be examined by EIF, on a continuous basis, using professional analysis and judgment taking into account these Operational Guidelines and any other relevant documents.

Proposals will be considered for approval by EIF after satisfactory evaluation and pre-selection by EIF, on the basis of these Operational Guidelines and within the constraints of the available European Union budget allocations.

Selection criteria: Intermediaries shall be selected having regard to the following selection criteria, in no particular order of priority:

¹ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

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- financial standing and financing capacity;
- operational capability of the Intermediary and its ability to assess and manage risk;
- ability to provide the necessary data in order for EIF to properly conduct its analysis and assessment of the Intermediary's track record and future activity;
- ability to comply with the terms and conditions of the Facility, particularly to provide or to support financing to Final Beneficiaries within a pre-defined timeframe (absorption capacity);
- expected impact of the Facility, *inter alia* in terms of new financing volumes to be generated, number of Final Beneficiaries, geographical reach;
- ability to provide the reporting specific requirements and willingness to accept the Additionality requirement (as defined below).

FINAL BENEFICIARIES

Final Beneficiaries: A Final Beneficiary shall be an enterprise that, at the date of the relevant Debt Instrument, is an SME established in a Western Balkan Beneficiary Economy. Each Final Beneficiary can benefit more than once from the Facility.

Excluded Sectors: The SME shall not have a substantial focus on one or more Restricted Sectors (which assessment shall be made by the Intermediary in its discretion based, without limitation, on the proportionate importance of such sector on revenues, turnover or client base of the relevant SME).

For the purpose of the foregoing, "Restricted Sectors" shall mean:

a. Illegal Economic Activities

Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.

Human cloning for reproduction purposes is considered an Illegal Economic Activity in the context of these Restricted Sectors guidelines.

b. Tobacco and Distilled Alcoholic Beverages

The production of and trade in tobacco and distilled alcoholic beverages and related products.

c. Production of and Trade in Weapons and Ammunition

The financing of the production of and trade in weapons and ammunition of any kind. This restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies.

d. Casinos

Casinos and equivalent enterprises.

e. IT Sector Restrictions

Research, development or technical applications relating to electronic data programs or solutions, which

- (i) aim specifically at:
 - (a) supporting any activity included in the EIF Restricted Sectors referred to under a to d above;

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- (b) internet gambling and online casinos; or
 - (c) pornography,
- or which
- (ii) are intended to enable to illegally
 - (a) enter into electronic data networks; or
 - (b) download electronic data.

f. Life Science Sector Restrictions

When providing support to the financing of the research, development or technical applications relating to (i) human cloning for research or therapeutic purposes; or (ii) Genetically Modified Organisms ("GMOs"), EIF will require from the EIF counterpart appropriate specific assurance on the control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs.

PORTFOLIO

Portfolios: A portfolio covered by the Guarantee shall include Debt Instruments provided for the ultimate benefit of SMEs. The eligibility criteria for inclusion in the Portfolio shall be determined by EIF, in agreement with the Intermediary, with the aim of reaching a large number of Final Beneficiaries and achieving sufficient Portfolio diversification and homogeneity in order to allow a reasonable estimation of the Portfolio risk profile. These criteria shall reflect market conditions and practices in the relevant Beneficiary economy or region.

Exclusivity/ Priority: Intermediaries shall be obliged to include in the Portfolio all Debt Instruments that are eligible under the terms of the relevant Guarantee Agreement, provided that such an obligation shall not be applicable if an Intermediary is already subject to a similar binding exclusivity requirement under a prior agreement. If an Intermediary benefits from a Guarantee under this Agreement and also a guarantee under the SME Guarantee Facility under the Competitiveness and Innovation Framework Programme (2007 to 2013) established by the Decision of the European Parliament and of the Council N° 1639/2006/EC of 24 October 2006, then Debt Instruments shall not be eligible for cover under both guarantees, and the guarantee agreement first entered into by the Intermediary shall have priority.

Debt Instrument: A loan instrument entered into with a Final Beneficiary or, as the case may be, any guarantee instrument covering such loan instrument.

Each Debt Instrument shall have a fixed repayment schedule. For the avoidance of doubt, credit lines such as overdrafts and short term revolving facilities shall not be eligible.

Lease transactions, or guarantee instruments covering lease transactions, shall not be eligible for cover by the Guarantee.

Purpose of financing: The instruments forming part of a portfolio shall be investment and/or working capital loans, or finance for any other purpose supporting the business of SMEs.

THE GUARANTEE

The Guarantee shall provide partial coverage for a Portfolio of Debt Instruments for the ultimate benefit of SMEs. The Guarantee shall cover each of the instruments included in the Portfolio at a fixed guarantee

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rate. The total liability under the Guarantee shall be limited to a pre-set maximum level expressed as a percentage of the guaranteed Portfolio.

The indicative terms and conditions currently envisaged for Guarantee Agreements are set out in the Appendix 2.1 to this Annex II.

Nature of the Guarantee:	First loss guarantee covering at the applicable Guarantee Rate (as defined below): (i) principal and/or interest amounts (excluding default interest, capitalised interest, fees and other costs and expenses) due, payable and outstanding following the occurrence of an event of default or acceleration of the relevant Debt Instrument, and (ii) any reduction in principal and/or interest amounts (excluding default interest, capitalised interest, fees and other costs and expenses) as a result of the repayment obligations under a Debt Instrument being restructured, and (iii) if the Guarantee is a counter-guarantee, any amounts due and paid by the Intermediary under the terms of a Debt Instrument.
Recoveries:	Subject to the Guarantee Cap, EIF will rank pari passu with the Intermediary with regard to loss payments. Loss recoveries may be taken into account by an estimated loss recovery rate for the individual Portfolio set ex-ante and, where applicable, deducted from the payments to be made by EIF against guarantee calls, which may lead to a deviation from the pari passu rule. If an ex-ante estimated loss recovery rate is not set, then EIF shall be entitled to its pro-rata share of recoveries (net of recovery costs).
Agreed Volume:	The target volume of the Portfolio the Intermediary shall endeavour to build up within the Availability Period, being the aggregate nominal amounts of the Debt Instruments included in such Portfolio. For the avoidance of doubt, a volume of the Portfolio below the Agreed Volume shall not affect the legal validity of the Guarantee.
Actual Volume:	The aggregate nominal amounts of Debt Instruments which are included in the Portfolio. The actual volume of the Portfolio shall be adjusted following the end of the period in which Debt Instruments may be included in the Portfolio to reflect amounts actually disbursed and made available to Final Beneficiaries.
Term:	The term of Debt Instruments included in the Portfolio (including the relevant grace period, if any) shall end (and the Guarantee shall cover defaults which have occurred) on or before on or before 31 May 2023, or any later date in case the Facility is extended.
Guarantee Rate:	<p>Up to 70% of the financing instruments included in the Portfolio. The Guarantee Rate shall be determined individually for each Portfolio having regard to the risk sharing arrangements between the Intermediary and EIF and the objective of the Facility.</p> <p>The Intermediary shall maintain an economic exposure of at least 20% of the credit risk under each Debt Instrument included in the Portfolio, and it shall not enter into any credit support, guarantee or other transfer of risk arrangements with respect to such portion (for the avoidance of doubt, for these purposes any collateral provided by the Final Beneficiary shall not constitute credit support, a guarantee, or other transfer of risk arrangement).</p>
Guaranteed Portfolio:	The actual volume, up to the Agreed Volume, of the Portfolio multiplied by the

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Guarantee Rate.

- Cap Rate:** Up to 25%. The Cap Rate, expressed as a percentage of the Guaranteed Portfolio, shall be fixed individually for each Guarantee having regard to the risk profile of the underlying Debt Instruments.
- Guarantee Cap:** The amount at which EIF's obligation to pay under the Guarantee shall be capped and which shall be the maximum liability under the Guarantee, calculated as the Guaranteed Portfolio multiplied by the Cap Rate. The Guarantee Cap shall be set either in EUR or, if agreed by EIF, in a non-EUR legal tender of a Western Balkan Beneficiary Economy.
- Guarantee Fee:** Other than a Commitment Fee, if any, no guarantee fee shall be charged to the Intermediary.
- Commitment Fee:** A Commitment Fee shall be charged to the Intermediary in case the Portfolio does not reach at least 90% of the Agreed Volume. Such Commitment Fee shall be calculated at the end of the period in which Debt Instruments may be included in the Portfolio on the basis of the difference between the actual volume of the Portfolio (following a relevant adjustment, if any) and the Agreed Volume. The Commitment Fee shall encourage utilisation under the Facility so as to reach the Agreed Volume to be covered under the Guarantee. In duly justified cases, EIF may, at its discretion, waive any Commitment Fee, wholly or partially;
- Availability Period:** Each Guarantee Agreement will stipulate an availability period during which Debt Instruments may be included in the Portfolio for cover (the "**Availability Period**"). Debt Instruments approved by the Intermediary before the expiry of the Availability Period may be included in the Portfolio provided that they are entered into within six (6) months from the date of approval.
- Additionality:** The Facility addresses a market failure and provides an incentive to increase access to, and availability of, Debt Instruments.
- In consideration of the Guarantee, Intermediaries shall undertake to use all reasonable efforts (subject to materially adverse market conditions and/or other events and circumstances outside of the Intermediary's control) to make available a volume of eligible Debt Instruments equal to the Agreed Volume. In addition, taking into account, *inter alia*, the benefit of the Guarantee, EIF shall assess on a case by case basis for each Intermediary how the objective of the Facility shall be further addressed and such an assessment shall result in Intermediaries being required to improve lending conditions (e.g. through reduced collateral requirements and/or reduced pricing and/or the deployment of a specific new product).

SPECIFIC REQUIREMENTS

- Reporting:** Each Intermediary shall provide EIF with periodic information as and when required in the relevant Guarantee Agreement in order to enable EIF to comply with its reporting and monitoring obligations.
- Monitoring and audit:** Intermediaries, Sub-Intermediaries and Final Beneficiaries shall agree to allow, and to provide access for, EIF, agents of EIF, the European Court of Auditors,

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the Commission and/or the agents of the Commission, including OLAF, adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the funds of the European Union. To that effect, EIF, Intermediaries and Sub-Intermediaries shall include appropriate provisions in each agreement relating to the Guarantee, using the exact wording in the relevant language:

"The counterparty acknowledges that the European Investment Fund (the "EIF"), the agents of EIF, the European Court of Auditors (the "ECA"), the Commission and the agents of the Commission including OLAF (the "Agents") shall have the right to carry out controls and to request information in respect of this agreement and its execution. The counterparty shall permit inspections by EIF, the agents of EIF, the ECA, the Commission and the Agents of its business operations, books and records. As these controls may include on the spot controls of the counterparty, the counterparty shall permit access to its premises to EIF, the agents of EIF, the ECA, the Commission and the Agents during normal business hours.

Any necessary translations in the relevant language of the above wording shall be performed by or otherwise be the sole responsibility of Intermediaries.

- Data Protection:** Intermediaries shall be required to comply with any applicable data protection legislation in the relevant Western Balkan Beneficiary Economies.
- Promotion:** Intermediaries shall be required to ensure that their specific promotional material, specific promotion campaigns and information on their webpage(s) relating to the financing supported by the Facility include the EU logo (twelve yellow stars on a blue background) and a statement that the supported debt financing "benefits from a guarantee issued under the 'Western Balkan Enterprise Development and Innovation Facility – Guarantee Facility' financed by the European Union". Intermediaries shall display the European logo at least as prominently as their own logo.
- Visibility:** Intermediaries shall be required to include or, as the case may be, require in the agreements with the Final Beneficiaries or in a cover letter accompanying the agreements, the sentence: *"This financing benefits from a guarantee issued under the 'Western Balkan Enterprise Development and Innovation Facility' financed by the European Union"* in the relevant language provided by the Commission. This requirement shall be passed on to Sub-Intermediaries, where applicable.

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Appendix 2.1 Indicative Term Sheet

Indicative WB EDIF Guarantee Term Sheet

Important Disclaimer

This summary term sheet is for information purposes only. This document is an outline of the principal terms and conditions for the product described herein, which are subject to change and non-exhaustive.

This document is intended to provide a basis for discussions and does not constitute a recommendation, a solicitation, an offer or a binding commitment – either implicit or explicit – on the part European Investment Fund (EIF) (the “**Relevant Entity**”) and/or or any other person to enter into one or more transaction(s). Any finance commitment by any of the Relevant Entity can only be made, inter alia, after appropriate approval, conclusion of legal due diligence and finalisation of the required legal documentation. The Relevant Entity does not act as adviser to you or owe you any fiduciary duty. The Relevant Entity does not make any representations or warranties (whether explicitly or implicitly) with respect to the information contained in this document.

Overview of the Guarantee

The guarantee (the “**Guarantee**” or “**WB EDIF Guarantee**”) shall be issued by EIF (the “**Guarantor**”) in the context of the WB EDIF Facility for the benefit of a [specify relevant Financial Intermediary] (the “**Financial Intermediary**”). It shall partly cover the credit risk associated with underlying, newly extended loans to SMEs (“**SME Transactions**”) included in the guaranteed portfolio (the “**Portfolio**”).

In order to ensure an alignment of interest between the Financial Intermediary and the WB EDIF Facility, eligible SME Transactions shall be covered by EIF at a guarantee rate of 70%.

The Guarantee shall constitute a direct financial guarantee and shall cover losses (relating to unpaid principal and interest) incurred by the Financial Intermediary in respect of each defaulted eligible SME Transaction.

The origination, due diligence, documentation and servicing of the SME Transactions shall be performed by the Financial Intermediary in accordance with its standard origination and servicing procedures.

In this context, the Financial Intermediary shall retain the direct client credit relationship with each SME. SME Transactions (according to pre-defined eligibility criteria on a loan-by-loan and portfolio basis) will be automatically covered, by way of submitting inclusion notices on a quarterly basis until the end of the relevant Availability Period.

Summary terms of the Facility	
Target Region	Western Balkans (Albania, Bosnia & Herzegovina, Croatia, Montenegro, FYROM, Serbia, Kosovo ¹), collectively the “Western Balkan Beneficiary Economies”
Purpose	To increase access to, and availability of, finance for SMEs in Western Balkan Beneficiary Economies by providing direct and counter-guarantees to Financial Intermediaries.
Structure	Under the Facility, EIF provides:

¹ This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the 1C J Opinion on the Kosovo Declaration of Independence

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	<p>a) Direct guarantees to banks and other financial intermediaries (“Financial Intermediaries”) who extend loans to SMEs (“SME Transactions”); and</p> <p>b) Counter-guarantees to guarantor Financial Intermediaries, who issue guarantees to banks and other financial intermediaries (“Sub-Intermediaries”) to cover (directly or indirectly) SME Transactions.</p> <p>EIF’s guarantee issued under the Facility (the “Guarantee”) is a first loss portfolio capped direct financial guarantee providing credit risk coverage on a loan by loan or guarantee by guarantee basis for the creation of a portfolio of eligible “Intermediary Transactions”. In the case of a direct guarantee, the “Intermediary Transactions” shall be SME Transactions. In the case of a counter-guarantee, the “Intermediary Transactions” shall be guarantees issued by the Financial Intermediary to Sub-Intermediaries to cover (directly or indirectly) SME Transactions.</p> <p>The Guarantee shall cover losses incurred by the Financial Intermediary in respect of each defaulted eligible Intermediary Transaction in accordance with the Guarantee Rate.</p> <p>Losses covered by the Guarantee in respect of the Portfolio of eligible Intermediary Transactions shall in aggregate not exceed the Cap Amount agreed in the guarantee agreement between EIF and the Financial Intermediary (the “Guarantee Agreement”).</p> <p>The Financial Intermediary shall maintain an economic exposure of at least 20% of the credit risk under each Intermediary Transaction included in the Portfolio, and it shall not enter into any credit support, guarantee or other transfer of risk arrangements with respect to such portion (for the avoidance of doubt, for these purposes any collateral provided by the Final Beneficiary shall not constitute credit support, a guarantee, or other transfer of risk arrangement).</p>
Enhanced Access to Finance	<p>In order to further the principle of Enhanced Access to Finance, the Financial Intermediary shall undertake to use all reasonable efforts (subject to materially adverse market conditions and/or other events and circumstances outside of the Financial Intermediary’s control) to make available a volume of eligible Debt Intermediary Transactions that equals the Agreed Volume.</p>
Governing Law and Language	<p>The terms of the Guarantee Agreement shall be in the English language and the Guarantee Agreement shall be governed by the laws of England.</p>
Guarantee Currency	<p>The Guarantee Cap Amount shall be expressed in EUR. The currency of Intermediary Transactions included in the Portfolio can be EUR and/or the local currency of the relevant Western Balkan Beneficiary Economy.</p> <p>In case Intermediary Transactions are denominated in a currency other than EUR, and losses or loss recoveries are denominated in a currency other than EUR, the FX Mechanism described below shall be applied.</p>
Availability Period	<p>Typically up to 24 months from the date of signature of the Guarantee Agreement, or such other period as decided by EIF.</p> <p>During the Availability Period, eligible Intermediary Transactions may be included</p>

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	<p>by the Financial Intermediary in the Portfolio for cover. Such inclusion of Intermediary Transactions shall occur automatically upon receipt by EIF of an inclusion notice submitted by the Financial Intermediary on a semi-annual basis. For the avoidance of doubt, the Intermediary Transactions so included shall be deemed to be covered by the Guarantee from the date of the signature of such Intermediary Transactions.</p> <p>In addition, eligible Intermediary Transactions approved by the Financial Intermediary before the expiry of the Availability Period may be included in the Portfolio provided that they are entered into within six (6) months from the date of approval.</p> <p>The Availability Period will be deemed to be terminated (unless otherwise decided by EIF) if halfway through the Availability Period the Actual Volume does not exceed 30% of the Agreed Volume.</p>
Financial Intermediaries	<p>Intermediaries shall be established and be operating in one or several of Western Balkan Beneficiary Economies and shall be selected among financial or credit institutions duly authorised to carry out lending activities according to applicable legislation; guarantee schemes, including mutual guarantee organisations; micro-finance institutions; and any other financial institution committed to SME financing.</p>
Exclusivity	<p>Financial Intermediaries shall be obliged to include in the Portfolio all Intermediary Transactions that are eligible under the terms of the Guarantee Agreement, provided that such an obligation shall not be applicable if an Intermediary is already subject to a similar binding exclusivity requirement under a prior, but not subsequent, agreement.</p>
Agreed Volume	<p>The target Portfolio volume which the Financial Intermediary shall agree to use all reasonable efforts to build up within the Availability Period (subject to materially adverse market conditions and/or other events and circumstances outside of the Financial Intermediary's control), being the aggregate nominal amounts of the Intermediary Transactions included in such Portfolio.</p> <p>For the avoidance of doubt, a volume of the Portfolio below the Agreed Volume shall not affect the legal validity of the Guarantee.</p> <p>At any time during the Availability Period, the Agreed Volume may be reduced by EIF if the Financial Intermediary materially lags behind its Portfolio ramp up time schedule as reflected in the Guarantee Agreement.</p> <p>At any time during the Availability Period, provided there are sufficient budgetary resources available, EIF may agree with the Financial Intermediary to increase the amount of Agreed Volume if the ramp-up of the Portfolio has been substantially achieved or, considering the facts and circumstances, is certain to be achieved well before the end of the Availability Period.</p>
Actual Volume	<p>The aggregate amount of the principal committed to be available under newly originated eligible Intermediary Transactions included in the Portfolio from time to time, provided that, for the avoidance of doubt:</p> <ul style="list-style-type: none"> i) if any eligible SME Transaction is prepaid and/or repaid, then this shall not reduce the Actual Volume; ii) if an Intermediary Transaction is excluded from the Portfolio as a

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	<p>result of the exclusion process described below, then such Intermediary Transaction shall not be taken into account for the calculation of the Actual Volume; and</p> <p>iii) the Actual Volume may in no circumstances exceed the Agreed Volume.</p> <p>In case the Portfolio is to consist of eligible Intermediary Transactions denominated in EUR and a local currency, for the purpose of the calculation of Actual Volume, Intermediary Transactions denominated in the local currency will be converted into EUR at the Relevant FX Rate.</p>
Commitment Fee	A Commitment Fee shall be charged to the Financial Intermediary in case the Portfolio does not reach at least 90% of the Agreed Volume. Such Commitment Fee shall be calculated on the basis of the difference between the actual volume of the Portfolio (following a relevant adjustment, if any) and the Agreed Volume.
Guarantee Rate	The Guarantee Rate shall be a percentage up to 70% of each Loss covered by the Guarantee.
Guarantee Cap Rate	The Guarantee Cap Rate shall be up to 25%.
Cap Amount	Expressed in EUR, the amount at which EIF's obligation to pay under the Guarantee is capped. The Cap Amount is calculated on a Portfolio basis as the product of i) the Actual Volume (adjusted to reflect disbursed amounts, as described below), ii) the Guarantee Rate, and iii) the Guarantee Cap Rate.
Guarantee Fee	Other than a Commitment Fee (if applicable), the Guarantee shall be provided free of charge to the Financial Intermediaries.
Losses	<p>The Guarantee covers losses incurred by the Financial Intermediary on or before 31 May 2023, where losses mean:</p> <ul style="list-style-type: none"> i. Principal and/or interest amounts (excluding default interest, capitalised interest, fees and other costs and expenses) due, payable and outstanding following occurrence of either an eligible SME Transaction Default or an eligible SME Transaction Acceleration provided that if such SME Transaction has not been accelerated after 90 days following the relevant eligible SME Transaction Default any interest that would be payable after that time shall not be covered; ii. Any reduction in principal and/or interest amounts (excluding default interest, capitalised interest, fees and other costs and expenses) payable as a result of an SME Transaction Restructuring; and iii. If the Guarantee is a counter-guarantee, any amounts due and paid by the Financial Intermediary under the terms of an Intermediary Transaction. <p>EIF will rank pari passu with Financial Intermediaries with respect to recoveries as further described in "Servicing and Loss Recoveries" below.</p>
SME Transaction Default	Means, in respect of an SME Transaction and unless otherwise specified in the specific terms of the Guarantee Agreement that (i) the Financial Intermediary considers at any time (acting reasonably in accordance with its internal procedures and as reflected in its financial and regulatory reporting) that an SME is unlikely to meet its payment obligations under such SME Transaction (without recourse by the

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	Financial Intermediary to action such as realisation of security); or (ii) an SME has failed to meet any payment obligation under the relevant SME Transaction which has continued for at least 90 consecutive calendar days.
SME Transaction Acceleration	Means, in respect of an SME Transaction, and unless otherwise specified in the specific terms of the Guarantee Agreement, the occurrence of an event of default (howsoever defined) under such SME Transaction which has entitled the Financial Intermediary to accelerate payment of any amounts owed to it and the Financial Intermediary has exercised such right of acceleration (or is prevented from exercising such rights of acceleration solely by application of mandatory laws and regulations preventing or staying the exercise of such right).
SME Transaction Restructuring	Means, in respect of an SME Transaction and unless otherwise specified in the specific terms of the Guarantee Agreement, that the Financial Intermediary, acting in a commercially reasonable manner to prevent an SME Transaction Default and in accordance with its standard internal procedures, agrees (such agreement to be made in writing with the relevant SME) to the distressed restructuring of such SME Transaction such that the amount of principal scheduled to be paid, and/or any interest amount due, by the relevant SME is reduced.
Payment Demand Period	<p>Payment demands under the Guarantee Agreement shall only be valid if they are (with respect to a Loss incurred during a calendar quarter in relation to an Intermediary Transaction covered by the Guarantee) sent on any day during the month following such calendar quarter (or if not sent during such period, during any subsequent periods of one month following subsequent calendar quarters but not later than by the third Report Date following the occurrence of the Loss in relation to an SME Transaction covered by the Guarantee).</p> <p>In no case may a payment demand be made after the Report Date following the Latest SME Transaction Maturity Date (as defined below).</p>
Guarantee Payment Date	Following the occurrence of a Loss on one or more eligible Intermediary Transactions and subject to receiving valid payment demands, EIF shall make guarantee payments under the Guarantee within 60 calendar days of the relevant Report Date.
Events of Default under the Guarantee	Standard events of default (typically: failure to pay, breach of agreement, repudiation, Irregularity, illegality and bankruptcy). The occurrence of an event of default, if it has not been remedied within the relevant grace period (if any) may result in the termination of the Guarantee Agreement (such event, an “Early Termination”). Upon Early Termination all amounts due by EIF and/or Financial Intermediary would be calculated in accordance with the terms of the Guarantee Agreement as if the Report Date were the Early Termination date.
Latest SME Transaction Maturity Date	Means the earlier of (X) the latest day on which a loan covered by the Guarantee is scheduled to be repaid by the relevant SME in accordance with the scheduled repayment provisions of the documentation governing such loan and (Y) 31 May 2023.
Guarantee Final Termination Date	The Guarantee shall terminate on the earlier of: (i) six months following the Latest SME Transaction Maturity Date; (ii) the date on which an Early Termination (if any) has occurred, and (iii) the date (if any) on which EIF is no longer liable to effect further payments to the Financial Intermediary and has no further claims

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	under the Guarantee.
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SME Eligibility Criteria

Eligible SMEs	Micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) ("SMEs").
Eligibility Criteria	<p>Intermediary Transactions shall comply, inter alia, with the following criteria. All the Eligibility Criteria shall be met at all times except the SME Criteria i)-iv) and Intermediary Transaction Criteria vii) 2, which shall only be met at the date of the document evidencing the relevant loan agreement.</p> <p><i>SME Criteria</i></p> <ul style="list-style-type: none"> i) Eligible SME: the borrower under the relevant SME Transaction shall be an Eligible SME; ii) Firm in Difficulty: the SME shall not be a "firm in difficulty" as these are defined in the Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2.), as amended, restated, supplemented and/or substituted from time to time; iii) Restricted Sectors: the SME shall not have a substantial focus on one or more Restricted Sectors (which determination shall be made by the Financial Intermediary in its discretion based, without limitation, on the proportionate importance of such sector on revenues, turnover or client base of the relevant SME); iv) The SME shall be established and operating in the Target Region; and v) Other criteria as per the specific terms scheduled to the Guarantee Agreement. <p>With respect to each Intermediary Transaction included in the Portfolio the Financial Intermediary shall be required to retain appropriate records evidencing the fulfilment of the respective SME Criteria.</p> <p><i>Intermediary Transaction Criteria</i></p> <ul style="list-style-type: none"> i) Origination period: newly originated Intermediary Transactions entered into by the Financial Intermediary during the Availability Period or approved during the Availability Period and entered into within 6 months from the date of approval; ii) Purpose of financing: investment and/or working capital loans, or finance for any other purpose supporting the business of SMEs; iii) SME Transaction shall not be in the form of mezzanine loans, subordinated debt or quasi-equity; iv) SME Transaction maximum amount: up to EUR 500,000 (if an SME Transaction is denominated in a currency other than EUR, an equivalent amount in the relevant local currency, as set at the date of entering into the Guarantee Agreement); v) Fixed repayment schedule (which, for the avoidance of doubt, shall exclude any revolving facility); vi) Repayment schedule: amortising or bullet; vii) Maturity: <ul style="list-style-type: none"> 1. minimum of 12 months; 2. maximum maturities: the term of SME Transactions

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	<p>(including the relevant grace period, if any) must end on or before 31 May 2023²;</p> <p>viii) SME Transaction shall not be affected by an Irregularity or Fraud;</p> <p>ix) Currency: an Intermediary Transaction has to be denominated in EUR or in the relevant local currency³;</p> <p>x) Other criteria as per specific terms schedule to the Guarantee Agreement.</p> <p>Portfolio Criteria</p> <p>i) Other Portfolio Criteria, as defined in the Guarantee Agreement, such as maximum risk concentration or geographical concentration or in case of Portfolio composed of EUR denominated and local currency Intermediary Transactions the split of the Agreed Volume between currencies.</p> <p>Eligibility criteria might be adjusted further to the above following EIF due diligence of each Financial Intermediary.</p> <p>The breach of any of the eligibility criteria shall result in an exclusion of the relevant Intermediary Transaction(s) from the Portfolio save as specified in the "Exclusion Process".</p>
Fraud	Shall have the meaning as set out in Article 1 in the Convention drawn up on the basis of Article K.3 of the Treaty on European Union, on the protection of the European Communities' financial interests (OJ C 316, 27.11.1995, p.49) ⁴
Irregularity	Shall have the meaning as set out in Article 1.2 in Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p.1) ⁵

² Any rescheduling of principal or interest of an SME Transaction included in the Portfolio beyond 31 May 2023 shall only occur as part of the distressed restructuring of such SME Transaction to avoid SME Transaction Default.

³ If the Guarantee is a direct guarantee, whenever the Intermediary Transaction will be in EUR and not in the local currency, the Financial Intermediary will be required to demonstrate during EIF's due diligence that, pursuant to its Credit and Collections Policy, it will, prior to making an Intermediary Transaction, assess the ability of the potential borrower of the relevant SME Transaction to service the SME Transaction. This assessment shall include reference to the potential consequences of the devaluation of the local currency of the jurisdiction in which the potential borrower is incorporated and/or operates where the SME Transaction is to be made in a currency other than the lawful currency of the jurisdiction in which the potential borrower is incorporated or operates.

⁴ Fraud affecting the EU's financial interests shall consist of:

- (a) in respect of expenditure, any intentional act or omission relating to:
- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Union or budgets managed by, or on behalf of, the European Union,
 - non-disclosure of information in violation of a specific obligation, with the same effect,
 - the misapplication of such funds for purposes other than those for which they were originally granted;
- (b) in respect of revenue, any intentional act or omission relating to:
- the use or presentation of false, incorrect or incomplete statements or documents, which has as its effect the illegal diminution of the resources of the general budget of the European Union or budgets managed by, or on behalf of, the European Union,
 - non-disclosure of information in violation of a specific obligation, with the same effect,
 - misapplication of a legally obtained benefit, with the same effect.

⁵ Any infringement of a provision of EU Law resulting from an act or omission by an economic operator which has, or would have, the effect of prejudicing the general budget of the EU or budgets managed by them either by reducing or losing revenue accruing from own resources collected directly on behalf of the Communities, or by an unjustified item of expenditure.

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<p>Exclusion Process</p>	<p>At any time, EIF may (but shall not be obliged to) verify whether an Intermediary Transaction included in the Portfolio is an eligible Intermediary Transaction and whether its inclusion in the Portfolio is in compliance with the terms of the Guarantee.</p> <p>If a Financial Intermediary becomes aware that an Intermediary Transaction is or becomes a non eligible Intermediary Transaction or any other undertakings, requirements or requests of the Guarantee are not complied with or satisfied in connection with such Intermediary Transaction the Financial Intermediary shall include such information in the immediately following Report delivered to EIF.</p> <p>If an Intermediary Transaction does not comply with Eligibility Criteria it shall be deemed to be excluded from the Portfolio (and shall not be covered by the Guarantee) as of the date on which it became a non eligible Intermediary Transaction.</p> <p>However if an eligible Intermediary Transaction is or becomes a non eligible Intermediary Transaction as a result of any event or circumstance beyond the control of the Financial Intermediary after a payment demand relating to such Intermediary Transaction was served by the Financial Intermediary to EIF such transaction shall be deemed to be covered by the Guarantee.</p> <p>Similarly if an eligible Intermediary Transaction becomes a non eligible Intermediary Transaction as a result of any event or circumstance beyond the control of the Financial Intermediary but before a payment demand relating to such Intermediary Transaction was served by the Financial Intermediary to EIF, then such Intermediary Transaction shall be deemed to be covered by the Guarantee if the Financial Intermediary accelerated payment of all amounts owed to it under such Intermediary Transaction no later than on the Report Date immediately following the date on which it became aware of the same. However if the Financial Intermediary does not proceed to the acceleration of such Intermediary Transaction within the timeframe specified above then this Intermediary Transaction shall be excluded from the Portfolio as of the date on which it became a non eligible Intermediary Transaction.</p> <p>The Actual Volume shall be reduced following an exclusion from the Portfolio by the aggregate committed principal amount of the Intermediary Transactions so excluded.</p>
<p>Right of Clawback by EIF</p>	<p>EIF will be entitled to be repaid by the Financial Intermediary certain amounts in specified circumstances, including any amounts paid under the Guarantee by EIF in excess of the Loss, and any excess amount paid by EIF as a result of an exclusion of an Intermediary Transaction from the Portfolio.</p>
<p>Adjustment of the Actual Volume</p>	<p>In respect of each eligible Intermediary Transaction included in the Portfolio, if on the date which is (such date, the "Adjustment Date"):</p> <ol style="list-style-type: none"> 1. the end of a disbursement period (when amounts cease to be available for utilisation by an Eligible SME), 2. the date on which the commitment made available for utilisation under eligible Intermediary Transaction is cancelled, <p>the committed amount of principal has not been fully drawn by an Eligible SME, the Actual Volume shall be adjusted to reflect the actual amount of principal drawn by the relevant SME. The Financial Intermediary shall reflect any such adjustment in the Report immediately following such Adjustment Date.</p>

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	<p>If the Actual Volume is adjusted pursuant to this section or section Exclusion Process as described above (the amount of reduction of the Actual Volume, the “Adjusted Portion”), the Financial Intermediary may include one or more further eligible Intermediary Transactions in the Portfolio up to the aggregate of Adjusted Portions and to the extent that the Actual Volume does not exceed the Agreed Volume and if such inclusions are made until the second Report Date following the Report Date where a Party has been effectively notified about the adjustment of the Actual Portfolio Volume.</p> <p>The replacements shall be made pursuant to the terms described in the Availability Period section above.</p>
Relevant FX Rate	<p>Means the relevant foreign exchange reference rate displayed by the European Central Bank from time to time on its website (www.ecb.int for the time being) and which is based on the daily concertation procedure between central banks within and outside the European System of Central Banks or, if such rate is not or is no longer available at the relevant time, any replacement to such rate as agreed by the Parties.</p>
FX Mechanism	<p>(a) In case the Portfolio is to consist of eligible Intermediary Transactions denominated in EUR and a local currency, for the purpose of the calculation of the Actual Volume, the amount of principal of Intermediary Transactions denominated in a local currency shall be determined using the Relevant FX Rate prevailing at the date of the signature of the Guarantee Agreement.</p> <p>(b) For the purpose of paying amounts claimed by the Financial Intermediary under the Guarantee, any amounts in respect of an Intermediary Transaction shall be paid by EIF in EUR, where EUR equivalent of such amounts shall be determined using the Relevant FX Rate not earlier than four business days prior to the date of payment by EIF to the Financial Intermediary.</p> <p>(c) For the purpose of paying Loss Recoveries to EIF (if applicable), any amounts in respect to an Intermediary Transaction shall be paid to EIF in EUR, where EUR equivalent of such amounts shall be determined using the Relevant FX Rate not earlier than four business days prior to the date of payment by the Financial Intermediary to EIF.</p>

Intermediary Transaction conditions

Terms of Intermediary Transactions	<p>Eligible Intermediary Transactions shall be originated, documented and monitored on the basis of the internal guidelines, procedures and policies of the Financial Intermediary.</p>
Servicing and Loss Recoveries	<p>The Financial Intermediary shall perform the servicing of the Portfolio, including monitoring and recovery actions.</p> <p>The Financial Intermediary shall take recovery actions (including the enforcement of any security) in relation to each defaulted eligible Intermediary Transaction in accordance with its internal guidelines and procedures.</p> <p>Loss Recoveries mean each and every amount, net of recovery and foreclosure costs (if any), recovered or received by the Financial Intermediary in respect of a Loss where EIF has paid amounts under the Guarantee in respect of such Loss.</p>

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	<p>Loss Recoveries shall be shared between EIF and the Financial Intermediary pro rata to the Guarantee Rate⁶.</p> <p>EIF shall be entitled to its portion of the Loss Recovery up to the date on which the Financial Intermediary, acting in good faith and in commercially reasonable manner determines in accordance with its internal guidelines and recovery procedures that the recovery period for the relevant defaulted eligible Intermediary Transactions shall be terminated.</p> <p>The Financial Intermediary shall send to EIF at any relevant time, but not later than 30 days of the end of each calendar quarter a recovery notice with accompanying Loss Recoveries schedule and shall pay to EIF any relevant amount, within three months of the end of each calendar quarter in which Loss Recoveries are recovered or received by the Financial Intermediary.</p> <p>The provisions of this section shall survive termination of the Guarantee Agreement.</p>
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Miscellaneous

Reporting	<p>Financial Intermediaries shall provide EIF within 30 calendar days after the end of each calendar semester (the 'Report Date') with semi-annual information in a standardised form, including among others, information on the SMEs covered by the Guarantee, new eligible Intermediary Transactions provided and eligible Intermediary Transaction amounts outstanding (the 'Report').</p> <p>An indicative reporting template is presented in the appendix to this document.</p> <p>Regular controls and verifications will be performed by EIF in order to ensure compliance with the specifications and provisions of the Guarantee Agreement.</p>
Monitoring and Audit	<p>Financial Intermediaries, Sub-Intermediaries and the relevant SMEs covered by the Guarantee shall agree to allow and to provide access to documents and premises related to the relevant Guarantee for the European Commission (including the European Anti-Fraud Office (OLAF)), the European Court of Auditors, EIF, and any other authorised bodies duly empowered by applicable law to carry out audit and/or control activities. To that effect, the Financial Intermediaries shall ensure the inclusion of appropriate provisions in each agreement with the Sub-Intermediaries and SMEs.</p> <p>The provisions of this section shall survive the Guarantee termination.</p>
Compliance with Laws	<p>The Financial Intermediary shall comply in all respects with all laws (whether national laws or laws of the European Union) to which it may be subject, the breach of which may (i) adversely impact the performance of the Guarantee Agreement or (ii) adversely prejudice the interests of, inter alia, EIF or the Commission.</p> <p>The Financial Intermediary shall include in the documentation applicable to each eligible Intermediary Transaction included in the Portfolio, representations, warranties and undertakings for the purpose of ensuring that each such eligible Intermediary Transaction shall comply with the Eligibility Criteria above.</p>
Publicity	<p>Financial Intermediaries shall be required to ensure that SMEs are made aware of the support provided by the Guarantee by including specific language in the relevant loan agreement (or a letter accompanying the agreement).</p> <p>Financial Intermediaries shall also be required to highlight the Guarantee Facility support in their specific promotional material, specific promotion campaigns and</p>

⁶ [The Financial Intermediary will have the right to net-off the Recoveries first against default interest and expenses]

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	specific information on websites.
Transfer	The Financial Intermediary shall not be entitled to transfer any or all of its rights and obligations under the Guarantee without the prior written consent of EIF.
State Aid	Financial Intermediaries shall be required to comply with any applicable State aid rules.

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Appendix 2.2. Indicative form of the Report

PART A - NEW OPERATIONS

Part A – A1 SMEs

A.1.1	A.1.2	A.1.3	A.1.4	A.1.5	A.1.6	A.1.7	A.1.8	A.1.9	A.1.10	A.1.11	A.1.12	A.1.13	A.1.14	
Fiscal number	Name	Address	Postal Code	Place	Region	Country	Date of establishment	Sector	Number of employees	Total turnover (EUR)	Total assets (EUR)	SME internal scoring/rating (Rating Class)	Borrower type	Comments
<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>		<i>Optional</i>

Part A – A2 New SME transactions

A.1.1	A.2.1	A.2.2	A.2.3	A.2.4	A.2.4.1	A.2.5	A.2.6	A.2.7	A.2.8	A.2.9	A.2.10	A.2.11	
Fiscal number	SME Transaction ID	Currency	Purpose (nature) of financing	Investment amount	Working capital	Principal amount	Maturity (months)	Grace period (months)	Loan maturity (months)	Signature date	First disbursement date	Payment frequency	Comments
<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>		<i>Optional</i>

Part A – A3 SME Guarantees

A.1.1	A.2.1	A.3.1	A.3.2	A.3.3	A.3.4	A.3.5.1	A.3.5.2	
Fiscal number	SME Transaction ID	Guarantee amount	Guarantee rate	Guarantee start date	Guarantee expired date	Beneficiary	Beneficiary type	Comments
<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Optional</i>

PART B - List of Included Operations

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A.1.1	A.2.1	B.1	B.2	B.3	
Fiscal number	SME Transaction ID	Cumulative disbursement	Cumulative outstanding principal amount	End of disbursement	Comments

Mandatory Mandatory Mandatory Mandatory Mandatory Mandatory

PART D - Expired Loans

A.1.1	A.2.1	D.1.
Fiscal number	SME Transaction ID	Repayment date

Mandatory Mandatory Mandatory

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Appendix 2.3. Indicative form of the Recoveries schedule

A.1.1 Fiscal number	A.2.1 SME Transaction ID	C.5 Recovery date	C.6 Recovery amount	C.7 Recovery payment currency
<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>

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Appendix 2.4. Indicative form of the Payment Demand schedule

A.1.1.	A.2.1.	A.2.2	C.1	C.2	C.3	C.4	C.5	C.6
Fiscal number	SME Transaction ID	Currency	Event type date	Event type	Defaulted principal amount	Unpaid interest covered	Recovery date	Recovery amount
<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>	<i>Mandatory</i>