Annex II: Capacity Building Investment Term sheet

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1 | Overview

Under the Capacity Building Investment ("CBI") Product, EIF may provide financing to selected Financial Intermediaries mainly in the form of subordinated loans, which comply with the criteria set out in this Call, including:

1. This document setting out the indicative terms of the CBI Operation,
2. The terms applicable to the InvestEU CBI Product, and
3. Any additional criteria set out in the Individual CBI Agreement (as described below).

Investments made under this product are not linked to the origination of a supported portfolio of loans in microfinance, social entrepreneurship and skills and education finance. However, in order to be eligible for investment, the intermediary should be primarily operating in the microfinance, social entrepreneurship finance and/or skills, education and training finance spaces and should be able to provide financing to or serve the Target Areas as further described below.
2 | Indicative terms of the Capacity Building Investment (“CBI”)

2.1 | General Provisions

| Form of a CBI Operation | A CBI Operation covers an investment made by the EIF mainly in the form of subordinated loans. When and if deemed relevant, the subordinated loans provided to the Financial Intermediary may be intended to be compliant with the requirements of Tier 2 instruments under the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p. 1, as amended from time to time) or other similar requirements under the laws, regulations or rules in the relevant jurisdiction. |
| Purpose of a CBI Operation | The purpose of the CBI Operation may include:  
(i) investment in organisational development and expansion of the Financial Intermediary, including branch expansion, scaling up or building up of IT infrastructure (e.g. mobile banking, etc.), investment in human resources such as recruitment and training of staff;  
(ii) strengthening operational and institutional capabilities aiming at contributing to the sustainability of the Financial Intermediary, including Greenfield Institutions; this includes, inter alia, investments in working capital and in improving the strategic/governance capabilities of the Financial Intermediary in order to maintain a balanced business, financial sustainability and social performance focus, and  
(iii) institutional capacity building to increase the indebtedness capacity of Financial Intermediaries while supporting them to retain a balanced socio-commercial orientation.  
CBI Operations shall not directly finance the Financial Intermediary’s loan portfolio.  
CBI Operation shall not support any InvestEU Excluded Activities. |
| Maturity of CBI Operations | The maturity of a CBI Operation shall be set taking into account the respective requirements for Tier 2 capital applicable in the relevant jurisdiction. For CBI Operations, which do not aim at the Tier 2 capital treatment by the Financial Intermediary, the maximum scheduled maturity of the CBI Operation shall not exceed 10 years. |
| Implementation period | The EIF may enter into a CBI Agreement with a Financial Intermediary until 31 December 2028, provided that the EIF governing bodies has approved the relevant investment before 31 December 2027. |

1 An asymmetric risk profile (through subordination) may apply
| **Early Termination** | Depending on the type of subordinated loan, the CBI Agreement may contain certain events of default, related to non-payment, breach of obligation, insolvency, unlawfulness, Restrictive Measures and misrepresentation.

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 CBI Operation before the termination date under the relevant CBI Agreement. |
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<td><strong>Currency</strong></td>
<td>The CBI Agreement can be expressed in (i) EUR, or (ii) another tradeable currency that is the legal tender of the Member State where the Financial Intermediary is established, or (iii) currencies other than the legal tender of the Member State where the Financial Intermediary is established and other than EUR, only when there is a strong economic rationale for doing so (the “Base Currency”). All amounts and payments under the CBI Agreement by and to the EIF shall be made in the Base Currency.</td>
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<td><strong>Language and Governing Law</strong></td>
<td>The terms of the CBI Agreement shall be in the English language and shall be governed by the laws of Luxembourg.</td>
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<td><strong>Limits</strong></td>
<td>EIF may provide up to EUR 5 million under a CBI Operation.</td>
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<td><strong>Target Areas</strong></td>
<td>A CBI Operation can be concluded with any Financial Intermediary operating in the microfinance, social enterprise finance and/or skills, education and training finance spaces that is able to provide financing to and/or is serving the Target Areas of microfinance, social entrepreneurship and skills, education and training.</td>
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<td><strong>Pricing</strong></td>
<td>The CBI Operations shall be priced in accordance with EIF policies and procedures for such type of operations, taking into account the credit rating of the Financial Intermediary, prevailing market conditions at the date of the CBI Operation and terms of similar financing obtained by the Financial Intermediary prior to the date of the CBI Operation.</td>
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## 2.2 | Miscellaneous provisions

### European Code of Good Conduct for Microcredit Provision

Regarding Financial Intermediaries active in microfinance, the applicant has to sign up to or endorse the European Code of Good Conduct for Microcredit Provision (as amended from time to time, the “Code”).

In addition, the non-bank Financial Intermediary shall be required to comply with the Code within a limited grace period: 18 months for Brownfield Institutions, 36 months for Greenfield Institutions.

For the avoidance of doubt, applicants holding a banking license in accordance with the applicable laws shall qualify as banks and are required to endorse the Code. Other entities, referred to as “non-banks” in this Term Sheet, are required to sign up to the Code. In exceptional cases whereby an applicant does not qualify as a bank but the endorsement of the Code (instead of signing up to the Code) may be justified, the EIF and the Commission shall agree on the appropriate alternative approach.

### Governance

Under CBI Operations, to be determined on a case-by-case basis, EIF may appoint a representative in the relevant governance body of the Financial Intermediary in duly justified cases, for instance when the representation is deemed relevant as per EIF’s assessment.

### Know your Customer

The Financial Intermediary shall, prior to the signature of the CBI Agreement, disclose to the EIF information on its beneficial ownership and at any time thereafter, promptly inform the EIF of any change in its beneficial ownership.

### Monitoring and Auditing

Financial Intermediaries shall agree to allow and to provide access to documents and premises related to the CBI Operation for the representatives of the European Commission (including the European Anti-Fraud Office (OLAF)), the European Public Prosecutor’s Office (EPPO), the European Court of Auditors, EIF, agents of EIF, EIB and any other European Union institution or European Union body which is entitled to verify the use of the CBI Operation and any other duly authorized body under applicable law to carry out audit or control activities.

### Publicity

The Financial Intermediary will be required to ensure the visibility of the European Union support on its website and, if relevant, in its promotional material, through the inclusion of the Union Emblem and a statement that the Financial Intermediary is benefitting from support from the European Union under the InvestEU Fund.

### Record keeping

The Financial Intermediary shall maintain or be able to produce all the documentation related to the implementation of the CBI Agreement for a period of five (5) years following the maturity date of the relevant CBI Agreement.

### Reporting

The Financial Intermediary shall provide EIF with regular information according to the schedule agreed in the CBI Agreement, in particular on the purpose of the investment financed under the CBI Operation.

Other reporting may be required from the Financial Intermediary as per specific schedule to the CBI Agreement.
Restrictive Measures Implementation

Contractual provisions shall be included in the CBI Agreement to ensure that no funds or economic resources are made available directly or indirectly to, or for the benefit of, persons or entities designated by Restrictive Measures.

State aid

CBI Operations complying with the conditions set out in this Annex II, the CBI Agreement and the InvestEU CBI Product are considered as consistent with State aid rules.

For the avoidance of doubt, in case of CBI Operations with State bodies or vehicles using State resources, such as National Promotional Banks and Institutions, the Financial Intermediary’s obligation to comply with State aid rules shall continue to apply notwithstanding the consistency of the InvestEU CBI Product with State aid rules.