ANNEX 2 to the Call for Expression of Interest No JER-004/2
Funded Risk Sharing Financial Instrument: Description and Selection Criteria

Part I: Description of the Financial Instrument

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest.

1 Rationale

The purpose of the Financial Instrument is twofold. It:

1) provides liquidity to the Financial Intermediary to support new SME lending; and

2) shares the risk of new SME loans, thereby freeing up capital for the Financial Intermediary.

SME loan portfolios to be established on the basis of the Financial Instrument are geared towards eligible SMEs which are sound, well-performing and within the normal credit risk spectrum of SMEs in Lithuania (i.e. bankable SME risk).

2 Structure

JEREMIE Holding Fund funds will be provided by EIF (acting in its own name but on behalf of the Republic of Lithuania) to selected Financial Intermediaries pursuant to individual facility agreements. Subject to the risk-sharing element set out below, the Financial Intermediary undertakes to repay to EIF the disbursed amount and any interest accrued thereon.

The Financial Intermediary further undertakes to originate a new SME loan portfolio partly funded from the disbursed funds. The origination, due diligence, documentation and execution of the SME loans will be performed by the Financial Intermediary in accordance with a pre-set origination model agreed with EIF but otherwise applying all normal standard procedures of the Financial Intermediary.

In this context, the Financial Intermediary shall have the sole direct client credit relationship with each SME.

Each Financial Intermediary will be responsible (in compliance with its internal operating guidelines) for the handling of payments, the ongoing monitoring, the reporting to EIF as well as the management and realisation of collateral backing the newly originated SME loan portfolio.

EIF's repayment claim under the facility agreement will be decreased, contingently on losses occurring under the originated SME portfolio (under agreed conditions and at a predetermined ratio), thereby providing a risk-sharing element to the Financial Intermediary.

3 Indicative Summary of Transaction Terms

Structure	Funded risk sharing financial instrument.
Governing law and language	The terms of the Funded risk sharing financial instrument are envisaged to be in the English language and to be governed either by the laws of England or the laws of Luxembourg.
Form	Facility agreement for co-funding of a loan portfolio and risk sharing thereof on a loan by loan basis.
Limitation of liability	Liability of EIF as against each Financial Intermediary will be limited to the amounts disbursed to such Financial Intermediary under the relevant facility agreement.
Risk sharing rate	Up to 50% on a loan by loan basis.
Eligible SMEs	Micro, small and medium enterprises as defined in the Commission Recommendation 2003/361/EC, as implemented by the Law of the Republic of Lithuania on Small and Medium-sized Business Development No VIII-935, with applicable industry restrictions for JEREMIE, which is not "a firm in difficulty" within the meaning of 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 or substituted by future Community guidelines. SME's primary place of business is in the Republic of Lithuania.
Eligible forms of SME financing	1. Investment loans (tangible and intangible assets) 2. Working capital
SME Loan Maturity	Maximum 120 months including grace period (for capital repayment). Both amortising and bullet loans are eligible under suitable duration criteria to be established.
SME Loan Amount	In general, the maximum loan amount to an individual SME final beneficiary shall be set ex ante by EIF and in such a manner as to allow the newly formed portfolio to be sufficiently diversified. The maximum obligor concentration will be set at 1% of total loan portfolio.
Availability period	Up to 24 months from date of signature of the facility agreement.

Origination Model	Newly originated SME loans to be covered by the Financial Instrument are automatically included in the portfolio subject to pre-set loan inclusion criteria defined on a loan-by-loan basis. As part of its due diligence, EIF will carry out an in-depth review of the SME loan origination and credit risk assessment procedures (including SME credit rating systems) of the Financial Intermediary and define loan inclusion criteria on a loan as well as portfolio basis, thereby enabling the application of a portfolio approach in EIF risk analysis. It is expected that each SME portfolio which is risk-shared will contain at least 100 SME obligor exposures after full ramp-up.
Risk sharing arrangements	Cover of residual losses (following recoveries/realisation of collateral) on a *pari passu* basis by EIF acting through the JHF and the Financial Intermediary. EIF's repayment claim under the facility agreement will be reduced accordingly. In order to mitigate the ramp-up risk, the risk sharing arrangement would start only once a minimum portfolio diversification has been reached in the newly originated loan portfolio. Such minimum diversification will either be set as a minimum number of SME loans or a minimum percentage of the total facility amount.
Loss Cover	Up to 50% of the defined loss (principal amount only).
Default definition	Applicable default definition of the Financial Intermediary in the context of Basel II.
Disbursement under the facility agreement	Upfront in full or in tranches.
Repayment under the facility agreement	Repayments would occur regularly (e.g. quarterly) on a pro rata basis mirroring principal repayments of the underlying SME loans covered by EIF risk sharing component of the facility. EIF's repayment claim will be reduced/written-off in proportion to the losses occurring under the risk-shared portfolio.
Pricing	At market terms both at the level of the Financial Intermediary (facility agreement) and of SMEs (underlying portfolio of new loans) to ensure the Financial Instrument does not entail any element of state aid. At the level of the Financial Intermediary the pricing shall be based on a commercial deposit rate for an equivalent maturity period. It shall apply to:

	• Amounts disbursed to the Financial Intermediary before the minimum diversification has been reached (section "Risk sharing arrangements"); • Other amounts disbursed to the Financial Intermediary, not repaid to EIF acting through the JHF, and not utilized for the underlying portfolio of loans. The pricing of the portion utilized for the underlying portfolio of loans after the minimum diversification has been reached shall consist of a pro rata share of the full interest and any other payments received in respect of the SME loans in the risk-shared portfolio. The Financial Intermediary shall apply pricing and other lending terms for the new SME loans originated under the Financial Instrument according to its lending policies proposed under the Expression of Interest. Nevertheless, the lending terms and conditions, especially pricing policy, under this Financial Instrument shall not disadvantage the SMEs as compared to normal lending policies of the Financial Intermediary. Financial Intermediaries might receive a management fee in accordance with applicable rules[1] for their origination and servicing of the portfolio. The management fee shall be calculated as a percentage of the pro rata share (i.e. on the co-funding contributed by EIF acting through the JHF) of the average outstanding amount of the SME loan portfolio.
Reporting	Financial Intermediaries shall provide the EIF with periodical information in a standardised form and scope.
Monitoring and Audit	Financial Intermediaries and the relevant SMEs (final beneficiaries) shall agree to allow and to provide access to documents related to the relevant Financial Instrument for the representatives of the Ministries, the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, 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 also include appropriate provisions in each agreement with the SMEs.
Publicity	Financial Intermediaries will have to carry out adequate marketing and publicity campaigns as will be specified in the Operational Agreement, focussed in the relevant territory as appropriate, aimed at

[1] According to the Council Regulation (EC) No. 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No. 1260/1999 (Official Journal of the European Union L210 of 31.07.2006)

	making the JEREMIE initiative known to the SMEs in Lithuania in line with applicable law.

Part II: Selection Criteria for the Funded Risk Sharing Financial Instrument

1. ELIGIBILITY CRITERIA		**System of appraisal** **Yes/ No**
1.1.	Banking institution authorised to carry out business in the Republic of Lithuania under the applicable regulatory framework	
1.2.	Ability to deliver nationwide geographical coverage in the Republic of Lithuania (Applicant is represented in all counties)	
1.3.	Applicant and its senior management is not in any situation of exclusion (as per template provided in Appendix 4 to the Expression of Interest)	
1.4.	Applicant's absence of conflict of interest (as per template provided in Appendix 3 to the Expression of Interest)	
1.5.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided.	
1.6.	The Expression of Interest is duly signed	
1.7.	The Expression of Interest is completed and submitted in English	
1.8.	The Expression of Interest is submitted both by registered mail and e-mail	
1.9.	The Expression of Interest is submitted within the Deadline	
1.10.	The Expression of Interest specifies at least the items included in Article 43.2 of EC Regulation 1828/2006[2]	
1.11.	The Expression of Interest addresses all the items of the Financial Instrument, including any special conditions, set out in the relevant parts of the Financial Instrument description (Part I of this Annex)	

2. **QUALITY ASSESSMENT CRITERIA**	
2.1.	Applicant's commitment to SME lending Priority will be given, in particular, to the Financial Intermediaries with larger share

[2] As described in the supporting documents to be submitted in accordance with Appendix 2 to Annex 1 of the Call for Expression of Interest JER-004/2

	of SME lending operations (outstanding portfolio and annual loan growth)
2.2.	Amount of co-financing, SME loans' pricing policy, and level of management fee Priority will be given, in particular, to the Financial Intermediaries with more favourable terms and conditions for SME loans
2.3.	Project applicant's Suitability for Task/Project Priority will be given to the Financial Intermediaries, which have appropriate risk assessment procedures with regard to loans (internal rating, scoring, etc) and track-record of such procedures, loan origination for SME lending, loan approval system, monitoring and recovery procedures, and risk management