ANNEX 2 to the Call for Expression of Interest No JER-001/2010/2

Funded Risk Sharing Financial Instrument for Microfinance: 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 proposed Financial Instrument for microfinance is specifically destined to support Micro-enterprises as defined in the Commission Recommendation 2003/361/EC in Greece in their start-up and newly established phase (registered from 1 January 2005 onwards), through Micro-loans.

The purpose of the Financial Instrument is twofold; it:

1. provides funding to the Financial Intermediary to support new lending to Micro-enterprises; and
2. shares the risk of new Micro-loans.

Furthermore, the Financial Instrument as proposed aims to:

a. create or support entrepreneurship at its early stages;

b. support Micro-lending (up to EUR 25 000), a category which often experiences finance restrictions due to the relatively high administrative costs.

2 Structure

JEREMIE Holding Fund funds will be provided by EIF (acting in its own name but on behalf of the Hellenic Republic) to a selected Financial Intermediary pursuant to an individual Operational Agreement. 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 Micro-loan portfolio partly funded from the initially disbursed funds[1]. The origination, due diligence, documentation and execution of the Micro-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 Micro-enterprise.

The 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 Micro-loan portfolio.

[1] Repaid amounts will be returned to the Holding Fund.

EIF's repayment claim under the Operational Agreement will be decreased, contingently on losses occurring under the originated Micro 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

These indicative terms are an outline of the principal terms and conditions for the Financial Instrument described herein, which are subject to change and non-exhaustive. This document is intended to provide a basis for discussions and does not constitute an offer nor a binding commitment – either implicit or explicit – on the part of EIF or any entity.

When used in this section, the term "EIF" means EIF acting through the JHF.

Structure	Funded risk sharing financial instrument.
Governing law and language	The terms of the Funded Risk Sharing Financial Instrument for Microfinance shall be in the English language and shall be governed by the laws of England.
Form	Operational Agreement for co-funding of a loan portfolio and risk sharing thereof on a loan by loan basis.
Limitation of liability	Liability of EIF vis-à-vis the Financial Intermediary will be limited to the amounts disbursed to such Financial Intermediary under the relevant Operational Agreement.
Co-financing rate	The Financial Intermediary shall provide co-financing of 50% on a loan by loan basis.
Risk sharing rate	EIF and the Financial Intermediary will share the risk on each loan financed by the facility on a *pari passu* basis. Accordingly, EIF will cover 50% of the losses on a loan by loan basis.
Eligible Micro-enterprises	Micro-enterprises (including individual entrepreneurs/self employed persons) as defined in the Commission Recommendation 2003/361/EC, excluding "firms in difficulty" within the meaning of Art. 45 of Reg. 1828/2006 and 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). The Financial Instrument will be fully allocated to Micro-enterprises in the start-up and newly established phase (registered from 1 January 2005 onwards). A number of industries will be supported, except: a. Arms production and arms trading; b. Tobacco; c. Gambling;

<table>
<tr><td></td><td>d. Human cloning;
e. Genetically modified organisms;
f. Undertakings active in the primary production of fishery, aquaculture[2] and agricultural products, as listed in Annex I to the Treaty on the Functioning of the European Union;
In the case where the financial instrument is implemented within the scope of the De Minimis Regulation, the following additional excluded sectors will also apply:
g. Excluded sectors presented in Article 1 (c-g) of the De Minimis Regulation.

The seat of the eligible Micro-enterprises is in Greece.</td></tr>
<tr><td>Geographical allocation</td><td>The JEREMIE funds will be geographically allocated as follows :
<table>
<tr><th>Regions</th><th>Amount (in EUR m)</th></tr>
<tr><td>Attica</td><td>13.7</td></tr>
<tr><td>Central Macedonia</td><td>6.2</td></tr>
<tr><td>Western Macedonia</td><td>0.59</td></tr>
<tr><td>Southern Aegean</td><td>0.15</td></tr>
<tr><td>Continental Greece</td><td>0.51</td></tr>
<tr><td>Eastern Macedonia and Thrace, Thessaly, Epirus, Ionian Islands, Western Greece, Peloponnese, Northern Aegean, Crete.</td><td>9.18</td></tr>
</table>
Investment loans will be allocated on the basis of the location of the investment, while loans linked to development or expansion activities will be allocated on the basis of the seat of the Eligible Micro-enterprises, as per the budget allocations presented in the table here above.
The JEREMIE funds should be utilized for investments, development or expansion of the Eligible Micro-enterprises activity within Greece.</td></tr>
<tr><td>Eligible forms of Micro-enterprise financing</td><td>Investment, development and/or expansion loans may finance tangible and intangible assets, as well raw materials, stocks, goods and services with the exception of salaries, rent and other operating costs. The underlying loans need to have a fixed repayment schedule - i.e. credit lines are not eligible.</td></tr>
<tr><td>Currency of Micro-loans</td><td>Loans to be denominated in EUR only.</td></tr>
</table>

[2] In the case where an eligible loan is provided within the scope of the De Minimis Regulation, undertakings active in the fishery and aquaculture sectors (not only in the primary production) are not eligible.

Micro-loan Maturity	Minimum 48 months and maximum 60 months, including a grace period of 12 months (for capital repayment). Only amortising loans are eligible.
Micro-Loan and Amount	A Micro-loan shall be a loan with a maximum amount not exceeding EUR 25 000 to a Micro-enterprise. Eligible Micro-enterprises could potentially apply more than once for loans allocated in the context of this Financial Instrument provided that the maximum aggregated loan amount of EUR 25 000 is respected.
Availability period	Up to 12 months from the date of signature of the Operational Agreement.
Origination Model	Newly originated Micro-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.
Risk sharing arrangements	Cover of losses on a loan by loan and *pari passu* basis by EIF acting through the JHF and the Financial Intermediary. EIF's repayment claim under the Operational Agreement will be reduced accordingly.
Loss Cover	EIF's liability will be limited to its share of the residual losses (on the principal amount only) calculated at the applicable risk sharing rate.
Default definition	Applicable default definition of the Financial Intermediary in the context of Basel II.
Disbursement under the Operational Agreement	Disbursement in several tranches, either ex ante or ex post, based on actual utilisation. Decision on whether funding will be provided to the Financial Intermediary ex ante or ex post will be taken by the EIF on the basis of EIF's assessment regarding the credit worthiness of the selected Financial Intermediary (as concluded during the evaluation/due diligence process).
Financial covenants and counterparty risk mitigants	On the basis of EIF's assessment of the counterparty risk of the selected Financial Intermediary (as concluded during the evaluation/due diligence process), EIF will request appropriate financial covenants and undertakings by the selected Financial Intermediary under the Operational Agreement. EIF reserves the right to determine the collateral or risk mitigants to be provided by the selected Financial Intermediary under the Operational Agreement, including, subject to local law requirements, rating triggers, pledges or negative pledges.
Repayment under the Operational Agreement	Repayments would occur regularly (e.g. quarterly) mirroring (i) principal repayments (on a pro rata basis on the basis of the co-financing rate), (ii) interest payments (on a pro rata basis relating to

	the risk sharing rate / co financing rate and also the pricing applied), as well as, (iii) any recovered amount (according to the risk sharing rate), of the underlying Micro-loans. EIF's repayment claim will be reduced/written-off in proportion to the losses occurring under the risk-shared portfolio. Re-utilisation of the JEREMIE funds is not possible.
Additional interest due on the Financial Instrument – In addition to the interest described under "Repayment under the Operational Agreement"	The Financial Intermediary shall pay interest at a commercial interest rate as agreed with EIF under the Operational Agreement on the following funds provided under the Financial Instrument: 1. Funds disbursed to the Financial Intermediary, not yet drawn down to Micro-enterprises (in the case of funding provided ex ante to the Financial Intermediary); 2. Repayments collected by the Financial Intermediary from Micro-enterprises but not yet transferred to the EIF.
Pricing and collateral requirements	Micro-loans provided under this Financial Instrument will be offered to the Eligible Micro-enterprises on the basis of the pricing and collateral policy submitted by the selected Financial Intermediary under the Expression of Interest (c.f. quality assessment criteria). To be noted that the JHF intends to apply a reduced pricing on the portion of the loan supported by JEREMIE resources thereby reducing the overall interest rate to be charged to the Eligible Micro-enterprises. The JHF reserves the right to decide at a later stage, and before the signature of the Operational Agreement with the selected Financial Intermediary, the level of such interest rate reduction. Note on fees (cf. Table 2, Annex 1, Appendix 2): The selected Financial Intermediary will be entitled to charge fees to the Eligible Micro-enterprises, in accordance to the fees policy submitted under the Expression of Interest, <u>up to a cap of 1.5% on the loan amount.</u> Note on collateral (cf. Tables 1a and 1b, Annex 1, Appendix 2): The use of primary residence as a collateral is not allowed under this Financial Instrument.
Other terms and conditions (if applicable)	Other terms and conditions for the new Micro-loans originated under the Financial Instrument should be applied by the Financial Intermediary in accordance with the procedures and policies

	submitted under the Expression of Interest.
Management Fees	Financial Intermediaries might receive a Management Fee in accordance with applicable rules[3], but not exceeding 2% on an annual basis, 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 (i.e. disbursed and not repaid) of the Micro-loan portfolio.
Reporting	The Financial Intermediary shall provide EIF with quarterly information in a standardised form and scope, which will be defined by EIF. An indicative reporting template is provided along this Call for information. Regular controls and verifications will be performed by EIF in order to ensure compliance with the specifications and provisions of this Financial Instrument.
State Aid requirements	In the case where the financial instrument is implemented within the scope of the De Minimis Regulation, the Financial Intermediary shall be responsible for ensuring compliance of the underlying loans with the provisions of such regulation (taking into consideration existing National rules and procedures). In this context, it shall be responsible for the calculation of the Gross Grant Equivalent ("GGE") and also for following the appropriate monitoring procedure as this is stipulated in article 3 of the De Minimis Regulation. For the calculation of the GGE, the Financial Intermediary will be required to match each loan allocated to Eligible Micro-enterprises with the reference table presented in the Commission's Communication 2008/C 14/02, and as it is amended from time to time.
Monitoring and Audit	The Financial Intermediary and the relevant Micro-enterprises (final beneficiaries) shall agree to allow and to provide access to their premises and to documents related to the relevant Financial Instrument for the representatives of the Hellenic Republic, the European Commission (including the European Anti-Fraud Office

[3] In particular Article 43, para. 4, of the Commission Regulation (EC) No. 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006) as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).

	(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 Intermediary shall also include appropriate provisions in each agreement with the Micro-enterprises.
Publicity	The Financial Intermediary, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative known to the Micro-enterprises in Greece. In particular, the selected Financial Intermediary will be contractually required to: • Product labelling: The name of the product should clearly point to JEREMIE (e.g. "JEREMIE Microfinance Instrument"); • Promote JEREMIE and the Financial Instrument through its website; • Insert a promotional billboard inside all branches promoting this Financial Instrument; • Make at least two promotional publications in the five biggest newspapers and in the three biggest financial newspapers; • Include promotional banner concerning the Financial Instrument in relevant TV advertisements; • Make available promotional leaflets in all branches promoting this Financial Instrument; • All documents concerning this Financial Instrument, including amongst others, loan applications, loan agreements, promotional material to the Micro-enterprises, etc, will contain a statement mentioning that part of the financing comes from European Regional Development Fund (ERDF) and also national resources - Appropriate text and logos is envisaged to be provided to the selected Financial Intermediary during the phase of contractual negotiations; • Financial benefit: In the case where a financial benefit to the Micro-enterprises is achieved though this financial instrument, this should be identified at the time of signature of the loan contract and formally communicated to the Micro-enterprise. The financial benefit achieved should also be used as a marketing tool from the Financial Intermediary. • Publicity provisions relating to the Final Beneficiaries (i.e. Eligible Micro-enterprises) shall be described within the Operational Agreement.
Additional Structural	This Financial Instrument is funded by EU structural funds and it is

Fund requirements	therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, hereabove (e.g. Monitoring and Audit, Publicity, Reporting etc). It should be noted however that more detailed information on actions necessary to ensure compliance of operations linked to this Financial Instrument with all structural funds requirements (e.g. retention of documents, environmental protection, equality and non discrimination) will be provided to and discussed with the selected Financial Intermediary during the contractual negotiations process.

Part II: Selection Criteria for the Microfinance Financial Instrument

System of appraisal Yes/ No

1. ELIGIBILITY CRITERIA

1.1. Credit institution authorised to carry out business in Greece under the applicable regulatory framework.

To be noted that joint ventures and also consortia can express their interest as long as (i) each of the joint venture or consortia members is a credit institution authorised to carry out business in Greece under the applicable regulatory framework, (ii) they indicate/nominate one coordinating entity as a contractual counterpart for the EIF for the entire term of the Operational Agreement (in case of selection) , and (iii) all members of the joint venture and/or consortia assume joint and several liability for all applicable obligations. Such Applicants are required to submit one, joint Expression of Interest.

1.2. Ability to deliver nationwide geographical coverage in Greece.

1.3. The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided (in the form requested if specified).

1.4. The Expression of Interest is duly signed.

1.5. The Expression of Interest is completed and submitted in English.

1.6. The Expression of Interest is submitted both by registered mail and e-mail.

1.7. The Expression of Interest is submitted within the Deadline.

1.8. The Expression of Interest specifies at least the items listed in Article 43.3 of Commission Regulation (EC) No 1828/2006[4], as described in Appendix 2 to Annex 1 hereof.

1.9. 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).

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[4] Commission Regulation (EC) No 1828/2006 of 8 December 2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L371 of 27.12.2006), as amended from time to time, including by Commission Regulation (EC) No 846/2009 of 1 September 2009 amending Regulation (EC) No 1828/2006 setting out rules for the implementation of Council Regulation (EC) No 1083/2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and of Regulation (EC) No 1080/2006 of the European Parliament and of the Council on the European Regional Development Fund (Official Journal of the European Union L250 of 23.09.2009).

2. QUALITY ASSESMENT CRITERIA	Max score
2.1. In case of externally rated Financial Intermediaries, actual external rating by at least one of the following rating agencies: (i) Moody's Investor Service Limited, (ii) Standard & Poor's, a division of The McGraw-Hill Companies, Inc. or (iii) Fitch Ratings Ltd, taking into account any change of the rating within the last two years. In case of other Financial Intermediaries, the quality of key financial ratios (a preliminary assessment of the financial standing and credit ability of the Financial Intermediaries will be performed on the basis of key financial ratios calculated from the audited financial statements submitted).	10
2.2. General quality of the project proposal and implementation strategy submitted under the Expression of Interest.	15
2.3. Pricing policy and collateral requirements of the Financial Intermediary, to be charged under the Financial Instrument (maximum risk margins will be compared), as submitted under the Expression of Interest (cf. tables 1a and 1b presented in Annex 1, Appendix 2; to be calculated in accordance with the methodology explained below).	32
2.4. Level of Management Fees requested by the Financial Intermediary.	8
2.5. Detailed assessment of the Financial Intermediary's financial standing with regard to capital adequacy, provisions, liquidity, other financial ratios, its capacity to service outstanding loan portfolio, the quality of its existing SME and Micro-loan portfolio and the rate of its non performing loans, etc. Also assessment of the Financial Intermediary's organisational structure and corporate governance.	15
2.6. Detailed assessment of the Financial Intermediary's credit worthiness and risk management with regard to credit policy (internal procedures and guidelines), origination, risk assessment (rating/scoring), loan approval procedures, collateral requirement, recovery procedures, etc. Assessment of the administrative capacity of the Financial Intermediary: Quality of IT systems, reporting mechanisms, monitoring procedures and controls and assessment of overall ability of the Financial Intermediary's to comply with the Financial Instrument's reporting and monitoring requirements.	20

Explanatory notes relating to evaluation of the Quality Assessment Criteria

Note 1 – Method of evaluation:

First stage: Items 2.1-2.4 will be evaluated first. Applicants who score lower than 45 points will be automatically eliminated. From those applicants who score 45 points and higher, the three highest will qualify to the second evaluation stage.

Second stage: Items 2.5-2.6 will be subsequently evaluated. Applicants who score lower than 70 points overall (first + second stage) will be automatically eliminated. The EIF may select one Applicant – the one with the highest overall score (scoring above the minimum acceptable score of 70 points) - and initiate contractual negotiations accordingly.

Reserve list: Those Applicants who score more than 70 points but are not selected for contractual negotiations of an Operational Agreement will form a reserve list (valid for 1 year following notification of inclusion in the reserve list).

In case more funding becomes available within 1 year from the launching of the Call for Expression of Interest, the EIF has the discretion to consider either (i) higher allocations to the Applicant with the highest overall score (i.e. the one initially selected for contractual negotiations of Operational Agreement) or ii) initiating contractual negotiations with any of the Applicant(s) included in the reserve list taking into consideration the results of the evaluation procedure and the ranking formed.

If, for any reason, no Operational Agreement is signed with the initially selected Applicant, the EIF reserves the right to approach one of the Applicants inserted in the reserve list.

Note 2 – Scoring of items 2.1-2.2 and 2.5-2.6

Score for items 2.1-2.2 will be awarded on the basis of the initial qualitative analysis performed by the EIF. Score for items 2.5-2.6 will be awarded on the basis of the detailed full diligence performed by the EIF.

Note 3 – Scoring of item 2.3

Step 1: All offers will be compared individually, for each Category of Eligible Micro-enterprises (1&2) and each financial parameter (collateral and maximum risk margin for both scenarios), i.e. 2 * 4 = 8 different comparisons.

For each comparison, the lowest offer will be compared to each individual offer (i.e. Lowest offer of all Applicants/Offer of Applicant being measured), resulting to the best offer (i.e. lowest value) achieving a rating of 1. Inferior offers will hence score proportionately lower than 1.

The individual ratings of the 8 comparisons will be subsequently aggregated and the Applicants will be ranked in descending order – The one with the highest score ranking first.

Step 2: The aggregated results will define the score awarded for this Quality Assessment Criterion, in accordance with the following principle:

Rank 1: Awarded full points
Rank 2: Awarded 90% of the points
Rank 3: Awarded 80% of the points
Rank 4: Awarded 70% of the points
Subsequent rankings will apply the same logic with 10% marks being deducted for each lower ranking accordingly.

Note 4 – Scoring of item 2.4

Applicants will be ranked in descending order in accordance with their submitted offer. The Applicant with the lowest offer will receive maximum points.
Subsequent rankings will receive points in accordance with the principle presented above (i.e. Rank 2 will be awarded 90% of the maximum points etc).