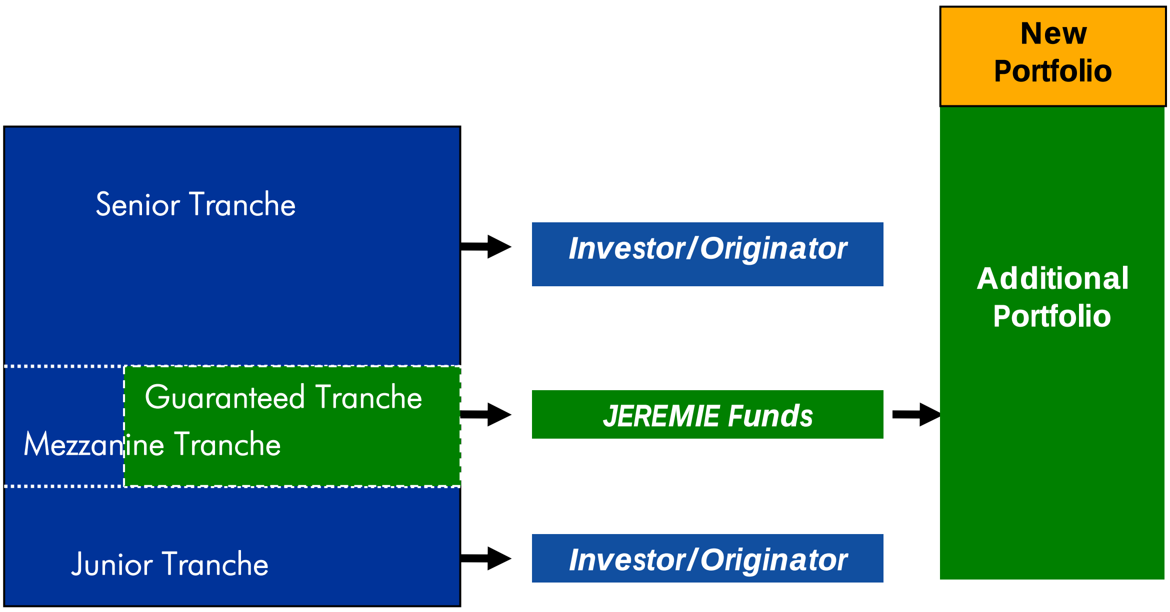
ANNEX 2 to the Call for Expression of Interest No JER-004/3

Financial Instrument: Description and Selection Criteria

Capitalised expressions utilised herein shall have the meaning attributed to them in the above mentioned Call for Expression of Interest, unless otherwise defined below or the context requires otherwise.

Part I: Description of the Financial Instrument:

In the proposed transaction (the "**Transaction**") EIF acting through the JHF will provide a financial guarantee to the selected Financial Intermediary on up to 80% of the Mezzanine Tranche (the "**Guaranteed Tranche**") of a defined Reference Portfolio consisting of SME loans originated by such Financial Intermediary. At least 20% of the credit risk with regard to the Mezzanine Tranche shall be kept by the respective Financial Intermediary, i.e. the originator shall undertake to retain at all times in its books unhedged at least 20% of the credit risk of the Mezzanine Tranche. The Junior Tranche which is typically equal to the cumulative expected losses in the Reference Portfolio as well as the senior tranche ranking above the Mezzanine Tranche may either be retained by the Financial Intermediary or covered by a third party investor.



The Financial Intermediary shall pay a Guarantee Fee to EIF acting through the JHF and, in return, shall receive Guarantee Payments. The Guarantee Fee shall be paid quarterly as a fixed percentage of the outstanding amount of the Guaranteed Tranche.

Guarantee Payments shall cover Losses up to a cumulative amount equal to the Guaranteed Tranche Amount in EUR, being the initial volume of the Guaranteed Tranche guaranteed by EIF acting through the JHF.

The selected Financial Intermediary shall commit to originate within the Commitment Period a new portfolio of Eligible SME Loans, i.e. the Additional Portfolio (as defined below). The size of such Additional Portfolio shall be a multiple of the amount of the Guaranteed Tranche. For avoidance of doubt, the guarantee is not conditional on the build-up of the Additional Portfolio, however, should the Financial Intermediary fail to build up the Additional Portfolio a Commitment Fee (as defined below) becomes due and payable.

1 Indicative Summary of Transaction Terms

Structure	Structured loan portfolio guarantee.
Governing law and language	The terms of the structured loan portfolio guarantee are in the English language and to be governed either by the laws of Luxembourg or the laws of England.
Form	Unconditional Financial guarantee.
Reference Portfolio	A portfolio consisting of Eligible Assets, with a minimum outstanding nominal amount of at least EUR 100 m or its equivalent in local currency as converted at the Euro foreign exchange reference rate published by the European Central Bank at the cut off date. The Reference Portfolio may include Eligible Assets which are fully drawn down or partially drawn facilities. The Financial Intermediary shall retain (at least) 20% of the Mezzanine Tranche to ensure alignment of interest between the Financial Intermediary and EIF (as guarantor). The Reference Portfolio shall have a composition of Eligible Assets which allows it to be treated as a diversified portfolio from a risk management perspective and shall show sufficient granularity and homogeneity so as to have an aggregate default and loss expectation that may be predicted with reasonable accuracy. The maximum obligor concentration shall be determined on a deal by deal basis but shall in no case exceed 1% of the Reference Portfolio; further concentration limits (industry, region, etc) may be provided for in the Transaction.
Eligible Assets in the Reference Portfolio	Loans to Eligible SMEs originated by the Financial Intermediary and complying, *inter alia*, with the following criteria: - investment or working capital loan; - pre-defined repayment schedule, with a minimum remaining maturity of 6 months and maximum remaining maturity of 5 years, provided that the remaining maturity shall not go beyond 30 June 2014; - the interest on each loan is payable on a periodic basis

	and is either expressed as a fixed rate or as a floating rate computed on a benchmark interest rate plus or minus a spread, if any; - governed by Lithuanian law; - denominated in EUR or Litas; - Loans to borrowers on the early warning list are not eligible; - no agreement has been concluded or is being negotiated for the relevant loan according to which its repayment would be suspended; - the loan is not in arrears for more than 30 days as at the cut-off date; - no specific provision for loss has been made by the Financial Intermediary in respect of the loan; - no litigation is pending with respect to the relevant loan, to the best knowledge of the Financial Intermediary, nor is any such litigation threatened and neither the legal department nor the collection department of the Financial Intermediary is dealing with enforcement of the relevant loan; - the relevant borrower is not in breach of any of its material obligations pursuant to the underlying loan agreement and the provider of related collateral is not in breach of the underlying collateral agreement; - loans covered by other public guarantees are not eligible; - each loan and any related collateral have been originated by the Financial Intermediary in compliance with all applicable legal provisions and the credit and collections policies of the Financial Intermediary in effect at the time of origination and all required consents, approvals and authorisations have been obtained in respect thereof; - each loan and the related collateral constitutes unconditional, irrevocable, legally valid and enforceable obligations of the respective borrower with respect to the selected Financial Intermediary; - the selected Financial Intermediary shall undertake to hold on its books the underlying loans that form part of the Reference Portfolio for the entire duration of the Guarantee; - the Financial Intermediary is the sole legal and beneficial creditor of such loan and the sole holder of any related collateral, i.e. collateral is free of third party rights; - the Financial Intermediary has kept proper documentation for each loan, indicating, in particular, the amounts outstanding hereunder from time to time and the related collateral, if applicable;

	- each loan is distinguishable from other loan claims of the Financial Intermediary; - neither the Financial Intermediary nor any person affiliated with it carries direct or indirect obligations of liability for the performance of the relevant loan or for any related collateral.
Eligible SMEs	SMEs 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, which are 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[1], as amended or substituted by future Community guidelines, and which are registered and have their main place of business in Lithuania. SMEs active in the following sectors shall not be considered as eligible: a. gambling; b. production, supply or trade in arms, tobacco, alcohol; c. human cloning; d. primary production of fishery, aquaculture and agricultural products, as listed in Annex I to the Treaty establishing the European Community (applicable only for the Additional Portfolio).
Mezzanine Tranche	The risk tranche of the Reference Portfolio senior ranking to the Junior Tranche.
Guaranteed Tranche	Up to 80% of the Mezzanine Tranche which is covered by the Financial Instrument. A vertical slice of at least 20% of the credit risk in the Mezzanine Tranche shall be kept unhedged on the books of the respective Financial Intermediary, i.e. shall not be covered by the Financial Instrument.
Guaranteed Tranche Amount	The initial volume of the Guaranteed Tranche covered by the Financial Instrument and the maximum amount of Guarantee Payments payable thereunder.
Junior Tranche	The lowest risk tranche of the Reference Portfolio, subordinated to the Mezzanine Tranche and the senior tranche, which first absorbs the Losses in the Reference Portfolio. The size of the Junior Tranche typically equals at least the amount of

[1] Official Journal of the European Union C 244 of 1.10.2004.

	cumulative expected losses in the Reference Portfolio
Credit Event	With respect to an Eligible Asset forming part of the Reference Portfolio, after entering into the Transaction, the occurrence, of: Bankruptcy; or Failure to pay (more than 90 days overdue); or Restructuring.
Loss	Realised Losses and Appraised Losses as defined below
Realised Loss	Losses on the Eligible Assets forming part of the Reference Portfolio for which a Credit Event occurred and for which the recovery process has been carried out and terminated. Realised Losses may include, depending on the structure of the Transaction, enforcement/recovery costs and/or accrued interest (the later limited to the time period before the Credit Event) in addition to the unpaid principal amounts. The allocation of the Realised Losses shall be subject to Loss Allocation. The Loss Verification Agent shall verify and, if necessary, challenge the determination and allocation of Realised Losses.
Appraised Loss	Losses on the Eligible Assets forming part of the Reference Portfolio for which a Credit Event occurred and for which the recovery process, as at the end of a Transaction [before June 2014], will not be finalised. Such losses will be estimated or appraised, based on certain procedures. An Appraised Loss shall be allocated pursuant to the Loss Allocation as if it were a Realised Loss.
Loss Allocation	Losses shall be allocated, subject to the conditions to Loss Allocation being met, as follows: *first*, to reduce the Junior Tranche, *second*, after the Junior Tranche has been reduced to zero, to reduce the Mezzanine Tranche, *third*, after the Mezzanine Tranche has been reduced to zero, to reduce the senior tranche of the Reference Portfolio. The Loss Allocation shall be subject to certain conditions, such as: - compliance of the Eligible Asset with the eligibility criteria set out in the definition of "Eligible Asset"; - servicing of the Eligible Asset in respect of the Realised Loss or Appraised Loss occurred by the selected Financial Intermediary in line with its internal procedures; - verification of the Loss upon a Verification Event by the Loss Verification Agent.

Loss Verification Agent	A reputable accounting firm appointed to perform certain checks and verifications, in particular, upon occurrence of the Verification Event, to verify the determination and allocation of Losses.
Verification Event	The event that the Junior Tranche is reduced to less than 50% of its initial size.
Guarantee Payment	After the reduction of the Junior Tranche to zero and upon Loss Allocation to the Mezzanine Tranche, the Financial Intermediary shall receive guarantee payments under the Financial Instruments in order to cover on a *pari passu* basis up to 80% of the Losses allocated to the Mezzanine Tranche. The Guarantee Payments shall cover Losses up to a cumulative amount equal to the Guaranteed Tranche Amount in EUR, being the size of the Guaranteed Tranche covered by the Financial Instrument.
Term	The term of the Financial Instrument shall not go beyond 30 June 2015.
Late Recoveries	Any amounts recovered by the Financial Intermediary from the respective Eligible SME after allocation of Losses in respect of the relevant Eligible Assets in the period during the Transaction and up to12 months after the term of the Financial Instrument.
Additional Portfolio	The selected Financial Intermediary shall commit to originate within the Commitment Period a new portfolio of Eligible SME Loans. The size of such Additional Portfolio shall be a multiple amount of the Guaranteed Tranche covered by the Financial Instrument which is a function of the capital relief sought to be achieved. For avoidance of doubt, the guarantee in form of the Financial Instrument is not conditional on the build-up of the Additional Portfolio, however should the Financial Intermediary fail to build up the Additional Portfolio a Commitment Fee (as defined below) becomes due and payable.
Eligible Assets in the Additional Portfolio	Eligible Assets in the Additional Portfolio are: - investment or working capital loan; - with pre-defined repayment schedule, with a minimum maturity of 12 months The Additional Portfolio must include a large number of loans to Eligible SMEs and the maximum obligor concentration shall be determined on a deal by deal basis but shall in no case exceed 1% of the Additional Portfolio volume.
Commitment Period	The period defined individually for each Transaction during

	which the Additional Portfolio shall be built up, typically not exceeding 3 years from entering into the respective Transaction.
Guarantee Fee	The pricing of the Financial Instrument shall reflect the underlying credit risk of the Guaranteed Tranche and shall not be set below the safe harbour premia set forth in the Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees[2].
Commitment Fee	In case the Additional Portfolio is not or not to the full amount built up by the Financial Intermediary during the Commitment Period, an additional fee for the Financial Instrument shall become due and payable. The Commitment Fee shall be calculated on the basis of the difference between the volume of newly originated Eligible Assets and the agreed volume of the Additional Portfolio.
Reporting	The selected Financial Intermediary shall provide EIF with quarterly information on the Reference Portfolio and the Additional Portfolio in a standardised form and scope as defined by EIF.
Monitoring and Audit	The selected Financial Intermediary and the relevant SMEs being the borrowers of the newly originated Eligible Assets included in the Additional Portfolio shall agree to allow and to provide access to documents related to the relevant Financial Instrument and the relevant loan documentation for the representatives of 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 selected Financial Intermediary shall procure that the same access rights are granted by the SMEs being the borrowers of the newly originated Eligible Assets included in the Additional Portfolio and shall therefore include appropriate provisions in each loan agreement with the SMEs.
Marketing and Publicity	The selected Financial Intermediary shall undertake to carry out adequate marketing and publicity campaigns as to be specified in the Operational Agreement, focused in the relevant territory as appropriate, aimed at making the JEREMIE initiative known to the SMEs in Lithuania in line with applicable law.
Management Cost	The selected Financial Intermediary may be entitled to request: - a partial coverage of up to 50% of the costs related to the external rating of the Reference Portfolio if required in the implementation of the Financial Instrument, in any case limited to the overall amount of EUR 100,000 to be

[2] Official Journal of the European Union C 155 of 20.6.2008.

	covered in accordance with Art. 43 of the Commission Regulation 1828/2006; - costs related to the Reporting, Marketing and Publicity, and the Loss Verification Agent.

Annex 2

Part II: Selection Criteria for the Financial Instrument

1.	ELIGIBILITY CRITERIA	System of appraisal Yes/ No
1.1.	Banking institution authorised to carry out business in Lithuania under the applicable regulatory framework	
1.2.	Ability to deliver nationwide geographical coverage in Lithuania	
1.3.	Have at least an existing portfolio of SME loans of EUR 100m	
1.4.	Applicant and its senior management are not in any situation of exclusion (as per template provided in Appendix 4 to the Expression of Interest)	
1.5.	Applicant's absence of conflict of interest (as per template provided in Appendix 3 to the Expression of Interest)	
1.6.	The Expression of Interest is prepared in accordance with Annex 1 to the Call for Expression of Interest. All necessary supporting documents are provided	
1.7.	The Expression of Interest is duly signed	
1.8.	The Expression of Interest is completed and submitted in English	
1.9.	The Expression of Interest is submitted both by registered mail and e-mail	
1.10.	The Expression of Interest is submitted within the Deadline	
1.11.	The Expression of Interest specifies at least the items included in Article 43.2 of EC Regulation 1828/2006[3]	

2.	QUALITY ASSESMENT CRITERIA
2.1	Commitment to SME lending Priority will be given to Financial Intermediaries with a well defined SME lending strategy, level of SME lending in relation to the entire lending activity, also considering geographical coverage of the branch network, market share, product range offered in the SME lending segment, terms and conditions of SME lending, as well as commitment to build up larger size of the Additional Portfolio (higher multiple of the Guaranteed Tranche)
2.2	Internal risk assessment (rating/scoring) systems/procedures for SME lending, availability of default probabilities and recovery rate estimates
2.3.	Previous experience with similar type of financial instruments

3 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-004/3

2.4.	Financial Intermediary's operational capacity: Credit assessment and risk management assessed with regard to credit policy (internal procedures and guidelines), origination, risk assessment (rating/scoring), loan approval procedures, collateral requirement, recovery procedures, risk management & monitoring, etc.
2.5.	Financial Intermediary's servicing capacity: Financial standing of the Intermediary assessed with regard to capital adequacy, provisions, liquidity, financial ratios, its capacity to service outstanding loan portfolio, etc.
	Criteria 2.4 and 2.5 will be used during due diligence to check whether the Financial Intermediary reaches necessary quality level to be accepted as suitable counterpart, but will not be used for scoring purposes.