

ANNEX 2 to the Call for Expression of Interest No JER-009/6

JEREMIE funded 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 funding to the Financial Intermediary to support new SME lending; and
2. shares the risk of new SME loans.

SME loan portfolios to be established on the basis of the Financial Instrument are geared towards Eligible SMEs which are not in difficulty¹ and within the normal credit risk spectrum of SMEs in Bulgaria (i.e. bankable SME risk).

2 Structure

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

The Financial Intermediary further undertakes to originate a new portfolio of SME loans partly funded from the initially disbursed funds². 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 the 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.

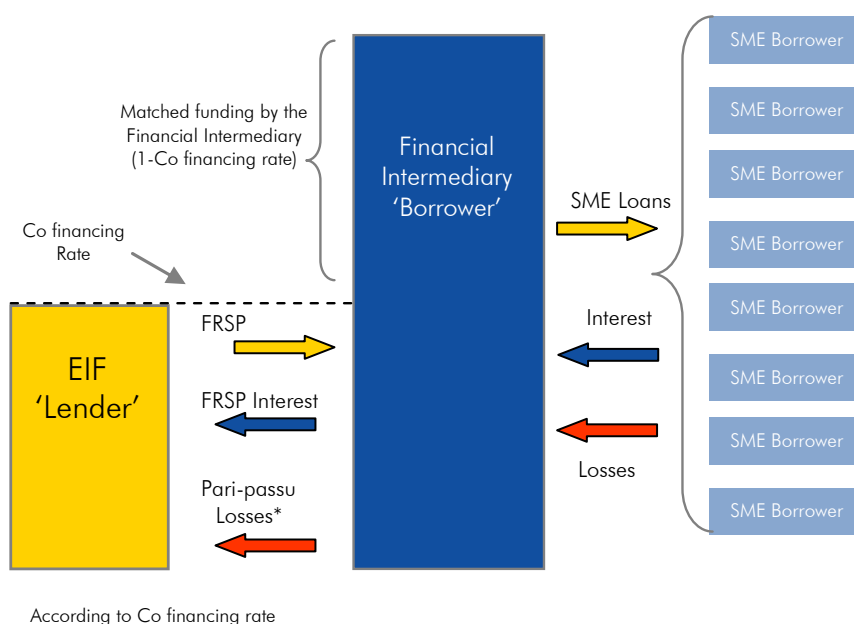
Each Financial Intermediary will be responsible (in compliance with its internal operating guidelines) for the handling of payments, the ongoing monitoring, the reporting to the EIF as well as the management and realisation of collateral backing the newly originated SME loan portfolio.

The EIF's repayment claim under the Operational 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.

Graphically, the structure is as follows:

¹ "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), as amended, restated, supplemented and/or substituted from time to time.

² Repaid amounts will be returned to the Holding Fund.



Summary description of JEREMIE funded financial instrument Structure

In the situation of ex-ante financing, the JEREMIE funds are provided to the Financial Intermediary in advance and in tranches. For as long as they remain undrawn to Eligible SMEs, they shall be remunerated on the basis of a commercial deposit rate agreed between the EIF and the Financial Intermediary.

Once funds are drawn to SMEs, and hence the risk sharing element is activated, the JEREMIE funds shall be remunerated on the basis of the interest amounts actually paid by the SMEs on the SME loans. The interest rate of the SME loan shall be the weighted average of (i) the rate charged by the Financial Intermediary, in accordance to its submitted offer, and (ii) the interest rate required by the JHF (which will be 0%).

Repayments from SMEs are collected by the Financial Intermediary and, as regards the JEREMIE funded portion are transferred to the JHF on a periodic basis. For as long as such repayments remain deposited within the Financial Intermediary (awaiting transfer to the JHF) they shall be earning a deposit rate.

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 the EIF or any entity.

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

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| Structure | funded financial instrument with risk sharing element. |
| Governing law and language | The terms of the JEREMIE Funded Financial Instrument shall be in the English language and shall be governed by the laws of England. |
| Form | Operational Agreement for co-funding of a SME loan portfolio and risk sharing thereof. |
| Limitation of | Liability of the EIF vis-à-vis the Financial Intermediary will be limited to |

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| liability | the outstanding amount 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 | The EIF and the Financial Intermediary will share the risk on each SME loan financed by the facility on a <i>pari passu</i> basis (i.e. the EIF will cover 50% of the losses on an Eligible SME loan). |
| Eligible SMEs and transactions | <p>Micro, small and medium enterprises as defined in the Commission Recommendation 2003/361/EC and as implemented by the SME Act of the Republic of Bulgaria. "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), as amended, restated, supplemented and/or substituted from time to time shall not be eligible.</p> <p>A number of industries will be supported, except:</p> <p>a. Illegal Economic Activities</p> <p><i>Any production, trade or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade or activity.</i></p> <p><i>Human cloning for reproduction purposes is considered an Illegal Economic Activity.</i></p> <p>b. Tobacco and Distilled Alcoholic Beverages</p> <p><i>The production of and trade in tobacco and distilled alcoholic beverages and related products.</i></p> <p>c. Production of and Trade in Weapons and Ammunition</p> <p><i>The financing of the production of and trade in weapons and ammunition of any kind.</i></p> <p>d. Casinos</p> <p><i>Casinos and equivalent enterprises.</i></p> <p>e. IT Sector Restrictions</p> <p><i>Research, development or technical applications relating to electronic data programs or solutions, which</i></p> <p><i>(i) aim specifically at:</i></p> <p><i>(a) supporting any activity included in the EIF Restricted Sectors referred to under 2. a to d above;</i></p> <p><i>(b) internet gambling and online casinos; or</i></p> <p><i>(c) pornography,</i></p> <p><i>or which</i></p> <p><i>(ii) are intended to enable to illegally</i></p> <p><i>(a) enter into electronic data networks; or</i></p> <p><i>(b) download electronic data.</i></p> <p>f. Life Science Sector Restrictions</p> <p><i>When providing support to the financing of the research, development or</i></p> |

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| | <p><i>technical applications relating to</i></p> <p>(i) <i>human cloning for research or therapeutic purposes; or</i> (ii) <i>Genetically Modified Organisms ("GMOs"),</i></p> <p><i>The 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 Genetically Modified Organisms;</i></p> <p>g. Undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000;</p> <p>h. Undertakings active in the primary production of agricultural products, as listed in Annex I to the Treaty on the functioning of the European Community;</p> <p>As the Financial Instrument is implemented within the scope of the Commission Regulation (EC) No 1998/2006³, the following additional excluded sectors and activities will also apply:</p> <p>i. Excluded sectors presented in Article 1 (c-g) of the Commission Regulation (EC) No 1998/2006.</p> <p>The SME shall be established under the Bulgarian Commercial Act or Co-operations Act and operating in Bulgaria.</p> <p>It shall not be eligible: expenditure associated with a transaction which is not eligible for financing from the European Regional Development Fund as further set out in (i) the Council of Ministers Decree N 62/2007 for adoption of national rules on eligibility of expenditure under the operational programmes co-financed by the Structural Funds, and (ii) Article 8 of the Council of Ministers Decree N 236/2007 for adoption of detailed rules on eligibility of expenditure under the operational programme "Development of the Competitiveness of the Bulgarian Economy".</p> <p>The transactions cannot be combined with: (X) any assistance under any operational programme (as defined in the Council Regulation) other than the Operational Programme and (Y) any assistance received from a financial instrument financed by the European Union and (Z) any assistance financed by public funds provided by the national authorities.</p> |
| Eligible forms of SME financing | <p>SME loans shall be granted only in order to finance:</p> <p>A. investments in tangible and in intangible assets; or</p> <p>B. working capital related to development or expansion activities that are ancillary (and linked) to activities referred to in (A) above (which ancillary nature shall be evidenced, inter alia, by the business plan of the SME and the amount of the financing); and/or</p> <p>C. working capital (such as purchase of raw materials, stocks and other manufacturing inputs, labour, inventories and overheads, funding to finance trade receivables, non-consumer sales receivables) related to the establishment, strengthening or</p> |

³ Commission Regulation (EC) No 1998/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid (Official Journal of the European Union L379 of 28.12.2006, p.5), as amended, (the "De Minimis Regulation").

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| | <p>expansion of new or existing business activity of an SME on the basis of one of the two following options whichever is applicable to each case: i) a plan for the creation or expansion of an enterprise or, ii) loan application and/or credit documentation, in each case including a description of the SME's working capital needs;</p> <p>but in each case excluding pure financial activities or real estate development when undertaken as a financial investment activity or the provision of consumer finance.</p> <p>Refinancing, restructuring, and/or partial disbursements of an existing committed loan is not eligible.</p> |
| Currency of SME- loans | An SME loan may be denominated in either EUR or BGN. |
| SME loan Maturity | Minimum 12 months and maximum 120 months including the relevant grace period of up to 1/3 of the loan maturity (for capital repayment). |
| SME loan and Amount | <p>The maximum loan amount per SME will in no case be greater than such a loan amount that would result to the Gross Grant Equivalent ("GGE") to exceed EUR 200,000 per undertaking (or EUR 100,000 per undertaking active in the road transport sector) for a period of three consecutive years calculated in accordance with article 2, par. 4 (a) from Commission Regulation (EC) No 1998/2006.</p> <p>Eligible SMEs could potentially apply more than once for loans allocated in the context of this Financial Instrument provided that the aforementioned Gross Grant Equivalent ("GGE") limit is respected.</p> |
| SME Portfolio Criteria | The Financial Instrument will also foresee the definition of SME Portfolio Criteria (e.g. maximum single industry concentrations (expressed by NACE code – Rev.2.Division), maximum concentrations for bullet and/or balloon loans, etc.), aimed at ensuring a certain risk profile of the Financial Instrument. |
| Maximum loan Portfolio | The maximum aggregate notional amount of newly originated loans that may be co-financed by the JHF and the Financial Intermediary and covered by the Financial Instrument, as agreed in the Operational Agreement. |
| Availability period | At maximum 36 months from the date of signature of the Operational Agreement but not later than 31.12.2015. |
| Origination Model | Newly originated SME loans to be covered by the Financial Instrument are 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 basis and <i>pari passu</i> basis by the EIF acting through the JHF and the Financial Intermediary. The EIF's repayment claim under the Operational Agreements will be reduced accordingly. |

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| Loss Cover | The EIF will cover losses incurred by the Financial Intermediary on the SME loans co-financed by the Financial Instrument calculated under the risk sharing arrangement. At any time, the EIF's liability for coverage of such losses shall not exceed outstanding principal amount of the Financial Instrument at such time. |
| SME loans Default definition | Default definition in line with Capital Requirements Directive. |
| Disbursement under the Operational Agreement | Disbursement in several tranches, either ex ante or ex post, on a periodic basis, based on actual utilisation. Decision on whether funding will be provided to the Financial Intermediary ex ante or ex post will be taken by EIF on the basis of EIF's assessment regarding the credit ability of the selected Financial Intermediary (as concluded during the evaluation/due diligence process). In case of non or partial build-up of the SME loan portfolio, prepayment clauses shall apply. |
| Financial covenants and counterparty risk mitigants | On the basis of the EIF's assessment of the counterparty risk of the selected Financial Intermediary (as concluded during the evaluation/due diligence process), the EIF will request appropriate financial covenants and undertakings by the selected Financial Intermediary under the Operational Agreement. The 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 of the Financial Instrument under the Operational Agreement | Repayments would occur on a periodic basis typically mirroring (i) principal repayments (on a pro rata basis on the basis of the co-financing rate) and (ii) any recovered amount (according to the risk sharing rate), of the underlying SME- loans. The EIF's repayment claim will be reduced/written-off in proportion to the Losses occurring under the risk-shared portfolio (according to the co-financing rate). |
| Loss Recoveries | The Financial Intermediary shall take recovery actions (including enforcement of any security) in relation to each defaulted SME loan co-financed by the Financial Instrument in accordance with its internal guidelines and procedures. Recoveries with respect to losses on such SME loans by the Financial Intermediary shall be shared between the EIF and Financial Intermediary according to the risk sharing arrangement. |
| Pricing and Collateral requirements | SME loans provided under this Financial Instrument will be offered to the Eligible SMEs 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 will not apply any interest rate on the amounts lent to the Financial Intermediary for as long as these |

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| | amounts are on-lent to the SMEs (under the same condition, namely, no interest rate when on-lent to the SMEs), thereby reducing the overall interest rate to be charged to the SMEs by the Financial Intermediary by at least 50%. |
| Interest due | The Financial Intermediary shall pay interest at a commercial deposit interest rate, as agreed with the EIF under the Operational Agreement on the following funds provided under the Financial Instrument: 1. Funds disbursed to the Financial Intermediary, but not yet disbursed to SMEs (in the case of funding provided ex ante to the Financial Intermediary); 2. Repayments (principal, default interest, recoveries) collected by the Financial Intermediary from SMEs but not yet transferred to the EIF. |
| Other terms and conditions (if applicable) | Other terms and conditions for the new SME loans originated under the Financial Instrument should be applied by the Financial Intermediary in accordance with the policies submitted under the Expression of Interest. |
| Management Fees | Financial Intermediaries might receive a Management Fee in accordance with applicable rules ⁴ , but not exceeding 3% 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 the EIF acting through the JHF) on the average outstanding amount (i.e. disbursed and not repaid) of the portfolio of SME loans. |
| Reporting | Financial Intermediaries shall provide the EIF with quarterly information in a standardised form and scope, which will be defined by the EIF. An indicative reporting template is provided along this Call for information. Regular controls and verifications will be performed by the EIF in order to ensure compliance with the specifications and provisions of this Financial Instrument. Further to the quarterly reporting obligations, a monthly KPI report (e.g. applications received, approvals, disbursements, rejections, etc.) may be also requested from the Financial Intermediary. |
| De Minimis | As the financial instrument is implemented within the scope of the Commission Regulation (EC) No 1998/2006 ⁵ , the Financial |

⁴ 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).

⁵ Commission Regulation (EC) No 1998/2006 of 15.12.2006 on the application of Articles 87 and 88 of the Treaty to de minimis aid (Official Journal of the European Union L379 of 28.12.2006, p.5), as amended, (the

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| requirements | Intermediaries 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, they shall be responsible for the calculation of the Gross Grant Equivalent ("GGE") ⁶ and also for following the appropriate monitoring procedure as this is stipulated in article 3 of the Commission Regulation (EC) No 1998/2006. |
| Monitoring and Audit | Financial Intermediaries and the relevant SMEs (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 Republic of Bulgaria (including the Managing Authority), the European Commission (including the European Anti-Fraud Office (OLAF)), the Court of Auditors of the European Communities, the 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 | <p>Financial Intermediaries, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns aimed at making the JEREMIE initiative and in particular this Financial Instrument known to the SMEs in Bulgaria.</p> <p>In particular, the selected Financial Intermediaries will be contractually required to:</p> <ul style="list-style-type: none"> • Product labelling: The name of the product should clearly point to JEREMIE (e.g. "JEREMIE funded financial instrument for SMEs"); • 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 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 SMEs, etc, will contain a statement mentioning that part of the financing comes from European Regional Development Fund (ERDF) and also national resources in accordance with Art. 9 of the Commission Regulation (EC) No. 1828/2006 - Appropriate text and logos is envisaged to be provided to the selected Financial |

"De Minimis Regulation"). Commission Regulation (EC) No 1998/2006 shall apply until 31 December 2013. After this date the scheme shall be aligned with the relevant amendment or repeal Regulation.

⁶ The Financial Intermediaries will be contractually obliged to state in the individual loan agreement with each Final Beneficiary the exact amount of De Minimis aid received through this loan in the form of GGE.

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| | <p>Intermediary during the phase of contractual negotiations;</p> <ul style="list-style-type: none"> • Financial benefit: Any financial benefit to the SMEs achieved through this financial instrument should be identified at the time of signature of the loan contract and communicated to the SME. 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 SMEs) shall be described within the Operational Agreement. |
| Additional Structural Fund requirements | <p>This Financial Instrument is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which have already being presented in this Annex, here above (e.g. Monitoring and Audit, Publicity, Reporting etc, as well as national rules on eligibility of expenditure). 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 for a period of 10 years from the date on which de minimis aid was granted with respect to documents demonstrating that the conditions of Commission Regulation (EC) No 1998/2006 have been complied with, environmental protection, equality and non discrimination) will be provided to and discussed with the selected Financial Intermediaries during the contractual negotiations process.</p> |

Part II: Selection Criteria for the JEREMIE funded financial instrument

System of
appraisal
Yes/ No

1. ELIGIBILITY CRITERIA

1.1. Credit institutions authorised to carry out business in Bulgaria 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 Bulgaria 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.

Note: Applicants for which, at any stage, the process for recalling or cancelling their authorisation to carry out business in Bulgaria has started, or is about to start, are not Eligible.

1.2. 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).

1.3. The Expression of Interest is duly signed.

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

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

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

1.7. 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).

1.8. Ability to deliver nationwide geographical coverage in Bulgaria.

| 2. QUALITY ASSESSMENT CRITERIA | Max score |
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| 2.1. 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). In case of externally rated Financial Intermediaries, actual external ratings will be also considered. | 15 |
| 2.2. Absorption capacity based on the project proposal and implementation strategy and track record in SME lending, including lending under EU programmes. | 30 |
| 2.3. Pricing policy and collateral requirements of the Financial Intermediary, to be charged under the Financial Instrument, as submitted under the Expression of Interest (collateral and maximum interest rates, for the avoidance of doubt including applicable base rate, will be compared) – table 1 presented in Appendix 2 section 1. | 40 |
| 2.4. Level of Management Fees requested by the Financial Intermediary. | 15 |
| 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 loan portfolio and the rate of its non-performing loans, etc. Also assessment of the Financial Intermediary's organisational structure and corporate governance. | 40 |
| 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, risk management and monitoring etc. | 60 |
| 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. | |