



ANNEX 2 to the Call for Expression of Interest No JER-011/1

First Loss Portfolio Guarantee Financial Instrument: Description and Selection Criteria

Part I: Description of the Financial Instrument (Guarantee)

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 to support loans to Eligible SMEs established in Malta by providing credit risk protection (in the form of a first loss portfolio capped financial guarantee) in order to reduce the particular difficulties that SMEs face in accessing finance because of the lack of sufficient collateral in combination with the relatively high risk they represent.

2 Presentation of the Guarantee

The guarantee (the “**Guarantee**”) shall be issued by EIF acting through the JEREMIE Holding Fund (“**JHF**”) for the benefit of a Financial Intermediary. It shall partly cover the credit risk associated to underlying, newly extended, eligible loans to SMEs (“**Eligible Loans**”) included in the guaranteed portfolio (the “**Portfolio**”).

In order to ensure an alignment of interest between the Financial Intermediary and the JHF, Eligible Loans shall be covered by EIF at a guarantee rate of 75% subject to a maximum liability in respect of loan losses expressed as a guarantee cap amount (the “**Cap Amount**”) calculated on a portfolio basis as a percentage of the portfolio (the “**Guarantee Cap Rate**”).

The Guarantee shall constitute a direct financial guarantee and shall cover losses (relating to unpaid principal and interest) incurred by the Financial Intermediary in respect of each defaulted Eligible Loan up to the Cap Amount.

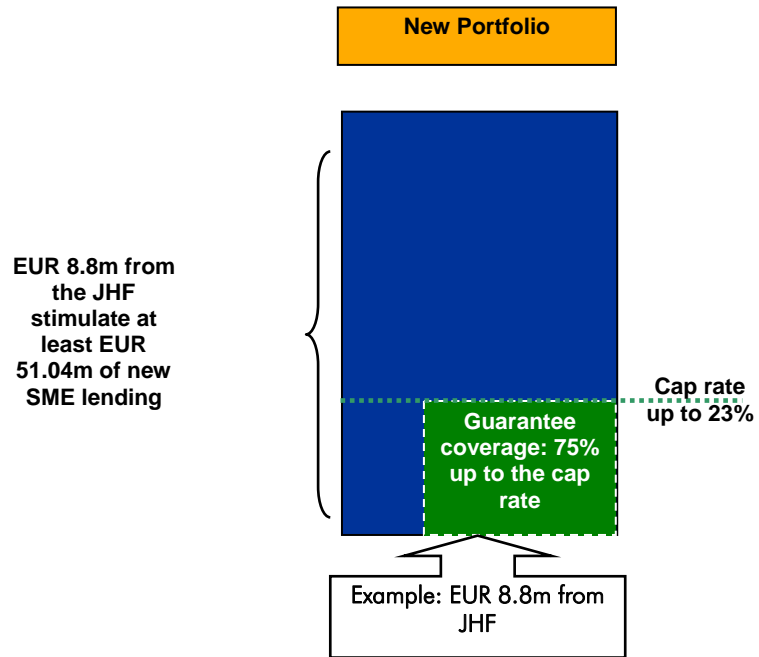
The origination, due diligence, documentation and servicing of the Eligible Loans shall be performed by the Financial Intermediary in accordance with its standard origination and servicing procedures.

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

Eligible Loans (according to pre-defined eligibility criteria on a loan-by- loan and portfolio level) will be automatically covered, by way of submitting inclusion notices on a quarterly basis.

No Guarantee Fee will be payable by the Financial Intermediary to EIF.

3 The Guarantee – example transaction



4 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.

When used in this paragraph 4, the term “EIF” means EIF acting through the JHF.

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| Structure | First loss portfolio capped direct financial guarantee providing credit risk coverage on a loan by loan basis for the creation of a portfolio of Eligible Loans. The Guarantee shall cover losses incurred by the Financial Intermediary in respect of each defaulted Eligible Loan in accordance with the Guarantee Rate. Losses covered by the Guarantee in respect of the Portfolio of Eligible Loans shall in aggregate not exceed the Cap Amount agreed in the Guarantee Agreement (or Operational Agreement) between EIF and the relevant Financial Intermediary. The credit risk retained by the Financial Intermediary shall be 20% of the Portfolio (on a <i>pari passu</i> basis with EIF). |
| Governing law and language | The terms of the Guarantee Agreement shall be in the English language and the Guarantee Agreement is envisaged to be governed by the laws of England. |
| Guarantee Currency | The Cap Amount shall be expressed in EUR. All amounts to be paid by or to EIF under the Guarantee will be paid in EUR. |
| Availability Period | Typically 36 months from the date of signature of the Guarantee Agreement. During such Availability Period, Eligible Loans may be included by the Financial Intermediary in the Portfolio for cover. Such inclusion of Eligible Loans shall occur automatically upon receipt by EIF of an inclusion notice submitted by the Financial Intermediary on a quarterly basis. For the avoidance of doubt the Eligible Loans so included shall be deemed to be covered by the Guarantee from the date of the signature of such Eligible Loans. The underlying Eligible Loans to be covered by the Guarantee shall be: (i) Eligible Loans entered into within the Availability Period; or (ii) Eligible Loans not entered into before the end of the Availability Period but approved during the Availability Period and in respect of which amounts have been drawn for the first time by SMEs within 6 months from the end of the Availability Period. |
| Agreed Portfolio Volume | The maximum aggregate amount of newly originated Eligible Loans to be covered by the Guarantee, as agreed in the Guarantee Agreement. |
| Actual Volume | The aggregate amount of the principal committed to be available under newly originated Eligible Loans included in the Portfolio from time to time, provided that, for the avoidance of doubt: i) if any loan is prepaid and/or repaid, then this shall not reduce the Actual Volume; and ii) if a loan is excluded from the Portfolio as a result of the exclusion |

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| | process described below, then such loan shall not be taken into account for the calculation of the Actual Volume. |
| Guarantee Rate | The Guarantee Rate shall be 75% of each loss covered by the Guarantee. |
| Guarantee Cap Rate | A percentage of the Actual Volume . The Guarantee Cap Rate shall be up to 23% |
| Cap Amount | Expressed in Euro amount, set in the Guarantee Agreement, at which the obligation to pay under the Guarantee is capped, which is the maximum liability under the Guarantee and is calculated on the portfolio basis as the product of the i) lower of the Actual Volume and the Agreed Portfolio Volume, ii) the Guarantee Rate iii) the Guarantee Cap Rate and iv) the Disbursement Ratio. |
| Disbursement Ratio | At a given time, the ratio, expressed as a percentage, equal to the quotient of: (i) the sum of the disbursed principal amounts relating to all Eligible Loans included in the Portfolio at such time and (ii) the Actual Volume at such time. |
| Guarantee cover | Losses deriving from principal and unpaid interest at the time of default, excluding late payments, default interest, capitalised interest and fees. The EIF will rank pari passu with Financial Intermediaries with respect to recoveries, as further described in "Servicing and Recoveries" below; recoveries paid to EIF shall be net of recovery/foreclosure costs. |
| Default definition (applicable to Eligible Loans) | Applicable default definition in line with Basel II requirements (a Default). |
| Guarantee payment | Following a Default under an Eligible Loan and subject to receiving a valid guarantee call from the Intermediary with respect to such Eligible Loan, EIF shall make guarantee payments under the Guarantee within 90 days following receipt of such guarantee call. |
| Events of Default under the Guarantee | Standard events of default (typically: failure to pay, breach of agreement, illegality and bankruptcy). The occurrence of an event of default with respect to the Financial Intermediary would result in the termination of the Guarantee Agreement (such event, an " Early Termination "). No payments will be made by EIF if an Event of Default or potential Event of Default relating to the Financial Intermediary has occurred or is continuing. |

Guarantee Fee

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| Guarantee Fee | No Guarantee Fee will be payable by the Financial Intermediary to EIF |
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Eligible SMEs and Loans

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| Eligible SMEs | Micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36), excluding "firms in difficulty" as these are defined in the 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 |
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| | <p>substituted from time to time. .</p> <p>A number of industries will be supported, except:</p> <ol style="list-style-type: none"> a. Arms production and trading; b. Gambling; c. Tobacco; d. Human cloning; e. Genetically Modified Organisms; f. Undertakings active in the fishery and aquaculture sectors, as covered by Council Regulation (EC) No 104/2000; g. Undertakings active in the primary production of agricultural products, as listed in Annex I to the Treaty on the functioning of the European Community; h. Additional excluded sectors presented in Article 1 (c-g) of the <i>De Minimis</i> Regulation; i. Real Estate; j. Construction. <p>The Eligible SME shall be established and operating in Malta and a particular focus would be given to SMEs established in Gozo. Eligible SMEs shall be required to utilise the proceeds of the Eligible Loans benefiting from cover under the Guarantee within Malta.</p> |
| <p>Eligible Loans</p> | <p>Loans to Eligible SMEs originated by the Financial Intermediary and complying, <i>inter alia</i>, with the following criteria:</p> <ul style="list-style-type: none"> - Origination period: newly originated loans either (i) entered into by the Financial Intermediary during the Availability Period or (ii) approved during the Availability Period and in respect of which amounts have been drawn down for the first time by SMEs within 6 months from the end of the Availability Period; - Purpose of financing: investment (tangible and intangible assets), financial leasing and working capital linked to development or expansion activities; - Fixed repayment schedule (i.e. credit lines are not eligible); - Repayment schedule: amortising loans and bullet loans; - Maturity: minimum 12 months and maximum of 120 months including the relevant grace period (if any) but not longer than 6 months before the termination date of the Guarantee; - Concentration: The maximum obligor concentration will be set at 1% of the Agreed Portfolio Volume; - Currency: EUR; <p>Eligible SMEs could potentially benefit more than once from a guarantee cover provided that the criterion related to the maximum obligor concentration above is met.</p> |

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| <p>Continuing Criteria</p> | <p>The Guarantee shall apply only to SME loans satisfying at all times certain criteria, including that no Irregularity has occurred, where “Irregularity” means the infringement of a provision of European Union law resulting from an act or omission by the Financial Intermediary and/or a SME which is the borrower of an SME Loan which has, or would have, the effect of prejudicing the general budget of the European Union by charging an unjustified item of expenditure to the general budget.</p> |
| <p>Exclusion Process</p> | <p>At any time EIF shall have the right (but not the obligation) to verify whether a Financial Intermediary complies with the Eligible Loan, Eligible SME and Continuing Criteria above (such criteria, the “Loan Eligibility Criteria”).</p> <p>If EIF considers that a loan does not comply with such Loan Eligibility Criteria or any undertakings, requirements or requests, or if it becomes unlawful for the Guarantee to cover a loan, EIF may exclude such loan from the Portfolio. As a result, such excluded loan shall not be taken into account for the purposes of calculating the Actual Volume of the Portfolio.</p> |
| <p>Right of Clawback by EIF</p> | <p>EIF will be entitled to be repaid by the Financial Intermediary certain amounts in specified circumstances, including any amounts paid by EIF in excess of the Cap Amount, any excess amount paid by EIF as a result of an exclusion of a loan of the Portfolio or any amount payable by the Financial Intermediary as a result of fraud or illegality.</p> |
| <p>Adjustment of the Actual Volume</p> | <p>In respect of each loan included in the Portfolio, if on the date falling earlier of the following dates (“the Adjustment Date”):</p> <ol style="list-style-type: none"> 1. the end of a disbursement period when amounts are available for utilisation by an SME, 2. the date falling six months prior to the Guarantee Final Termination Date, and 3. 30 June 2015 <p>the committed amount of principal has not been fully drawn by an SME the Actual Volume shall be adjusted to reflect the actual amount of principal drawn by the relevant SME. The Financial Intermediary shall reflect any such adjustment in the immediately following Report delivered to EIF.</p> <p>If the Actual Volume is adjusted pursuant to (1) above, the Financial Intermediary may include further loans meeting the Loan Eligibility Criteria up to and to extent that the Actual Volume does not exceed the Agreed Portfolio Volume.</p> <p>If amounts are drawn under an Eligible Loan after the Adjustment Date and the Financial Intermediary suffers a loss after such date, the amount of such loss covered by the Guarantee shall be covered pro-rata to the principal disbursed before the Adjustment Date.</p> |
| <p>Guarantee Final Termination Date</p> | <p>The Guarantee will terminate on the earlier of: (i) six months following the Latest Loan Maturity Date; (ii) the date on which an Early Termination (if any) has occurred and (iii) the date (if any) on which the EIF is no longer liable to effect further payments to the Financial Intermediary and has no</p> |

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| | further claims under the Guarantee. |
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Loan conditions

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| Latest Loan Maturity Date | Means the latest day on which Eligible Loan(s) included in the Portfolio are scheduled to be repaid by the relevant SME in accordance with the original scheduled repayment provisions of the documentation governing such Eligible Loan agreements. |
| Pricing and collateral requirements for Loans | <p>Eligible Loans shall be extended to the Eligible SMEs on the basis of the pricing and collateral policy submitted by the selected Financial Intermediary under the Expression of Interest, as requested under point 1(c) of Appendix 2 to the Expression of Interest - "List of Documents".</p> <p>Note for collateral policy: The collateral policy submitted by the Financial Intermediaries under the Expression of Interest shall take into consideration the risk coverage provided by the Guarantee.</p> <p>Note for pricing policy: When submitting their proposed pricing policy, the Financial Intermediaries should take into consideration that the Guarantee will cover 75% of the risk exposure of each Eligible Loan (up to the Cap Rate).</p> |
| Other terms and conditions (if applicable) | Other terms and conditions for the Eligible Loans originated for cover under the Guarantee should be applied by the Financial Intermediary in accordance with the policies submitted under the Expression of Interest. |
| Servicing and Recoveries | <p>The Financial Intermediary shall perform the servicing of the Portfolio, including monitoring and recovery actions.</p> <p>Recoveries net of recovery costs (if any) are shared pro-rata between EIF and the Financial Intermediary according to the Guarantee Rate.</p> <p>The Financial Intermediary shall enforce any security in relation to each defaulted Eligible Loan in accordance with its internal guidelines and procedures.</p> |

Miscellaneous

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| Reporting | <p>Financial Intermediaries shall provide EIF typically within 30 Business Days after the end of the calendar quarter with quarterly information in a standardised form, including among others, information on the borrowers of the guaranteed Eligible Loans, new loans provided and guaranteed, outstanding guaranteed loan amounts.</p> <p>An indicative reporting template is provided on EIF's web-site (www.eif.org) for information.</p> <p>Regular controls and verifications will be performed by EIF in order to ensure compliance with the specifications and provisions of this Guarantee.</p> |
| State Aid requirements | Financial Intermediaries shall be responsible for ensuring that loans originated respect the provisions of the De Minimis Regulation, [Commission Regulation (EC) No 1998/2006 of 15 December 2006 on |

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| | <p>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, restated, supplemented and/or substituted from time to time, in accordance to the State aid assessment performed by the competent authorities in Malta. In this context, they shall be responsible for the calculation of the Gross Grant Equivalent (“GGE”) and also for following the appropriate monitoring procedure as stipulated in the De Minimis Regulation, article 3.</p> |
| <p>Monitoring and Audit</p> | <p>Financial Intermediaries and the relevant SMEs granted a loan covered by the Guarantee shall agree to provide access to documents and premises related to the relevant Guarantee for the representatives of the Government of Malta, the European Commission (including the European Anti-Fraud Office (OLAF)), the European Court of Auditors, 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.</p> |
| <p>Publicity</p> | <p>Financial Intermediaries, in line with applicable law and Structural Funds publicity provisions, shall carry out adequate marketing and publicity campaigns - as specified in the Guarantee Agreement - aimed at making the JEREMIE initiative known to the SMEs in Malta.</p> <p>In particular, the selected Financial Intermediary 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 First Loss Portfolio Guarantee”); • Promote JEREMIE and the Guarantee through its website; • All documents concerning this Guarantee, including amongst others, loan applications, SME loan agreements, promotional material to the SMEs, etc, will contain a statement mentioning that the loan was made possible with the support of the European Regional Development Fund (ERDF) and also national resources - Appropriate text and logos will be provided to the selected Financial Intermediary during the phase of contractual negotiations; • Financial benefit: The financial benefit made possible due to JEREMIE’s participation should be identified at the time of signature of the loan contract and formally communicated to the SME. The financial benefit offered should also be used as a marketing tool from the Financial Intermediary. |
| <p>Additional Structural Fund requirements</p> | <p>This Guarantee is funded by EU structural funds and it is therefore subject to structural funds regulation and requirements, some of which are presented in this Annex (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 Guarantee 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.</p> <p>This Guarantee is further subject to additional national structural funds</p> |

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| | <p>requirements. National structural funds requirements may apply, inter alia, to any amendment of the Guarantee Agreement which may in particular be necessary if the purpose, objective, eligibility conditions, timeframe of, or the budget for, the Guarantee changes. Save as otherwise provided under the relevant law, such changes in the Guarantee would only apply as of the date of implementation of the additional requirements.</p> |
| <p>Transfer</p> | <p>Neither EIF nor the Financial Intermediary shall be entitled to transfer any or all of its rights and obligations under the Guarantee without the consent of the other party, provided that EIF shall, in the event that the Funding Agreement is terminated (for any reason whatsoever), be entitled at any time to transfer all or part of its rights and obligations under the Guarantee to any person. Appropriate arrangements will be put in place for these purposes.</p> |

Part II: Selection Criteria for the First Loss Portfolio Guarantee Financial Instrument

| 1. ELIGIBILITY CRITERIA | | System of appraisal |
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| | | Yes/ No |
| 1.1. | Credit institution authorised to carry out business in Malta under the applicable regulatory framework. To be noted that joint ventures and also consortia can express their interest as long as 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). Such Applicants are required to submit one, joint Expression of Interest. | |
| 1.2. | Ability to deliver nationwide geographical coverage in Malta | |
| 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 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 | Max. score |
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| | 1st stage | 45, of which: |
| 2.1. | <p>Project Relevance, Quality and Coherence</p> <p>2.1.1. General quality of the project proposal submitted under the Expression of Interest. 5</p> <p>2.1.2. Ability to implement the Financial Instrument. 5</p> <p>2.1.3. Ability to grant Eligible Loans to SMEs established in Gozo. 5</p> <p>2.1.4. General implementation strategy (promotion of the Financial Instrument, lending volume, number of SMEs to be assisted). 5</p> <p>2.1.5. Pricing policy and collateral requirements of the Financial Intermediary, to be charged under the Financial Instrument, as submitted under the Expression of Interest.</p> <ul style="list-style-type: none"> o of which offer related to the proposed collateral, interest rate and risk margin (maximum risk margins will be compared) – table 2 presented in Appendix 2. 17 o of which offer related to the proposed fees – table 3 presented in Appendix 2. | |
| 2.2. | <p>Financial Intermediary's servicing capacity</p> <p>A preliminary assessment of the financial standing and credit worthiness of the Financial Intermediaries will be performed on the basis of key financial ratios calculated from the audited financial statements submitted, including but not limited to capital adequacy, provisions and liquidity.</p> | 8 |
| | 2nd stage | 55, of which: |
| 2.3. | <p>Financial Intermediary's operational capacity</p> <p>2.3.1. Financial Intermediary's organisational structure and corporate governance. Administrative capacity of the Financial Intermediary: quality of IT systems, reporting mechanisms, monitoring procedures and controls. Financial Intermediary's overall ability to comply with the Financial Instrument's reporting and monitoring requirements. 15</p> <p>2.3.2. Capability to build up the Portfolio of Eligible Loans. 25</p> <p>2.3.3. Financial Intermediary's credit policy (internal procedures and guidelines), origination, risk assessment (rating/scoring), loan approval procedures, collateral requirement, recovery procedures etc. Quality of its existing SME portfolio and the rate of non-performing loans. 15</p> | |

