

# European Fund For Southeast Europe

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EFSE Annual Meeting 2007

Budva, Montenegro

### Main parameters of the segment

- As a result of the privatization a lot of rental flat owned by local municipalities were offered for sale for the tenants at a cheap price
- Bad conditioned apartments and buildings without energy efficient heating systems
- Minimum reserve in the budget of the block houses and housing co-operatives
- Relative stable basis regarding the legal background
- Low level regarding the financial culture of the tenants (who is the borrower-> Block house or the inhabitants?)
- More or less poor tenants (any reserve to secure the collateral and the needed debt service)
- RBH deals with the finance of the sector since 2003
- The main investment targets are the energy efficiency projects

## The critical factors of success I.

- The Hungarian Government supports the energy efficiency projects (these investments are the engine of the financial business regarding the segment)
  - Central government/municipality subsidies in frame of application system regarding the 2/3 of the investment size
- Additional government subsidies
  - Saving funds based on the payments of the tenants (30% subsidy of the annual saving)
  - Interest rate subsidy in case of the financing of the block houses (70%)
- As a result of the high subsidy level against the 600-700bps margin the Total Loan Price Indicator is 0%

## The critical factors of success II.

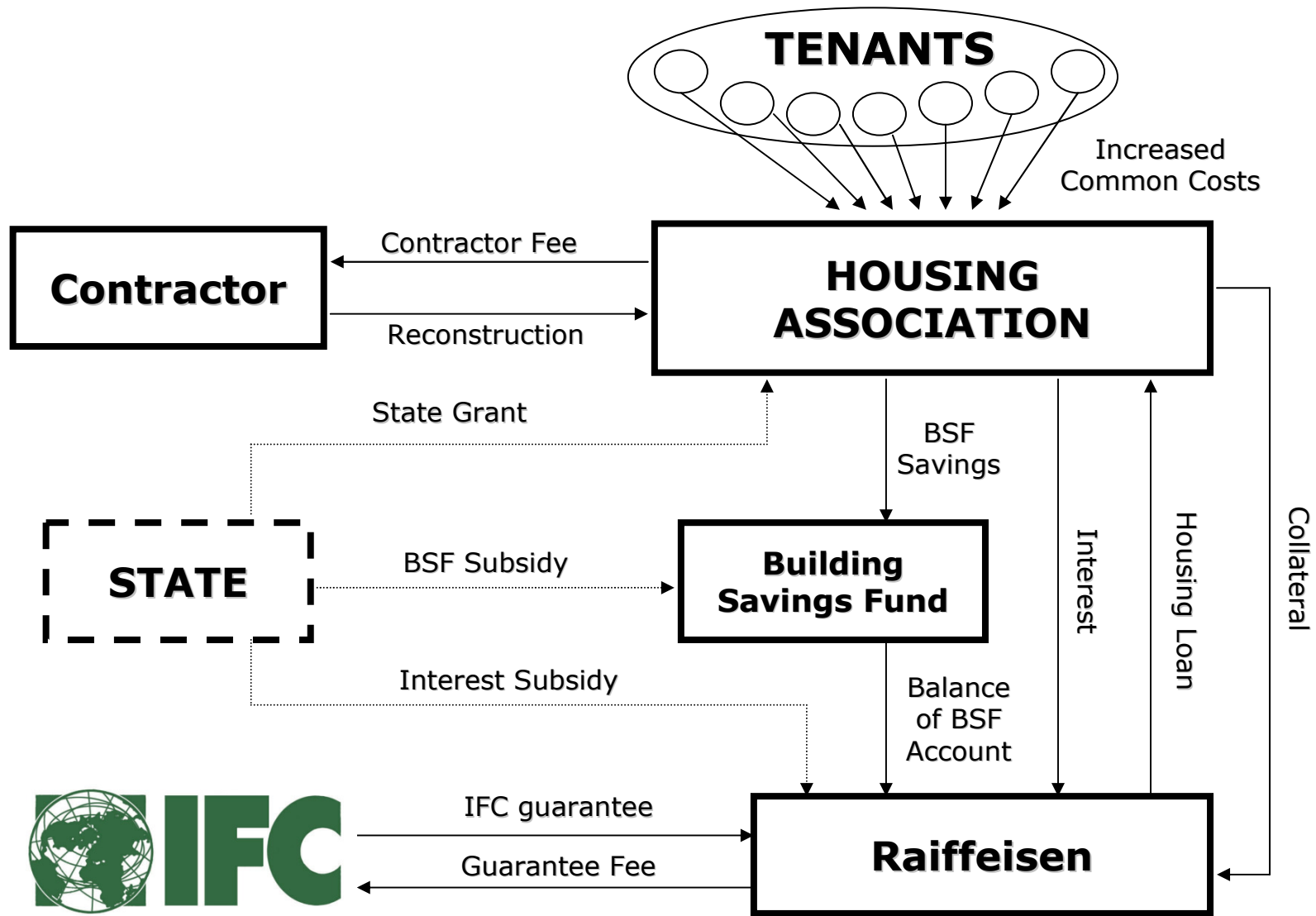
### Risk management

- Banks are moving from defensive banking to sustainable banking - where sustainable development is seen as an advantage and an opportunity for growth
- Few experiences regarding the probability default and the loss given default -> PD of the common cost payment (debt service) is 20%
- Risk management based on portfolio approach
- Mixing of Project and SME financing aspects
- Standardization
  - Local CRM doesn't examine the credibility of the financed entities
  - The basis of the financial scheme are the cashflow's which is secured by the common cost increasing and paying of the tenants
  - Create of standard rules and conditions of the product
  - Streamline of the financial process

The critical factors of success III.

### **IFC cooperation**

- Partnership since 1997
- Stronger cooperation since 2003
  - Individual guarantee based on the GFA: pari passu, first loss...
- Common product development (the details on the next page)
- 2006 portfolio guarantee based on GFA, (notable impact)
  - Portfolio guarantee size is EUR 30mn
  - The examination of the eligibility criterias regarding the IFC guarantee is the competence of RBH
  - IFC has to confirm only the approvals of the applications
  - Control of the eligibility criteria only in case of default



## **Investments Guaranteed by IFC**

- 290 (50% of the portfolio) financed block houses and housing cooperatives
- Size of the mentioned portfolio: EUR 19.000.000
- Total volume/Size of the realized energy efficiency projects: € 30.000.000
- The measure of the energy saving is about EUR 1.000.000 (averagely 30 %) p.a.
- 11.200 ton CO2 emission decrease

## The critical factors of success IV.

- The important role of marketing
  - Advertisements (currently)
  - Country-wide road show's
  - Propagation of the financial culture (take part on conference, on assembly of tenants)
- Special and individual sales technique and management (apply of agents and insurance offices)
- Currently product development based on dialogue with the customer's and delegates of the assembly of tenants
- Partners and broad-based contact - system
  - Government
  - NGO's
  - Municipalities
  - Delegates of assembly of tenants
  - Advisers (who can manage the applications)

## **EBS (Energy Balancing System) model**

- Max tenor of the financing is 10 years
- 1/3 subsidy grant
- 2/3 „self-effort” (combined bullet loan with interest rate subsidy and saving funds )
- Co – operation agreement with the central district heating company (RBH doesn't finance the detachment of the bh's)
- Operating contract between the ESCO and the Block Houses
- ESCO has to make the total renovation of the block houses (change of the windows, heating system reconstruction) and has to guarantee the energy saving to the tenants
- ESCO can buy cheaper energy (based on the agreement with the heating company),
- Resources of the repayment of the loan from 3 parts:
  - Partial common cost increase + energy saving (two third part of the debt service)
  - Currently municipal subsidy (quarterly) on equal parts (quasi pre-finance of the 1/3 municipality subsidy) (one third part of the debt service)

### Future – Developing strategies

- Common Product Development with the Government
- Further financing of the segment without common cost increase, only calculation with the energy saving -> It has to cover the total debt service
- Complex investments with the central district heating companies and calculating with EU subsidies
- Increase of the IFC guarantee facility and common product development
- Doubling of the actually loan portfolio

## Results in 2006

- Final total portfolio size EUR 34.000.000
- Increase of the portfolio year/year 325% (2006/2005)
- Market share 60%
- The number of financed bloc houses is 600 pieces
- 600-700bps margin