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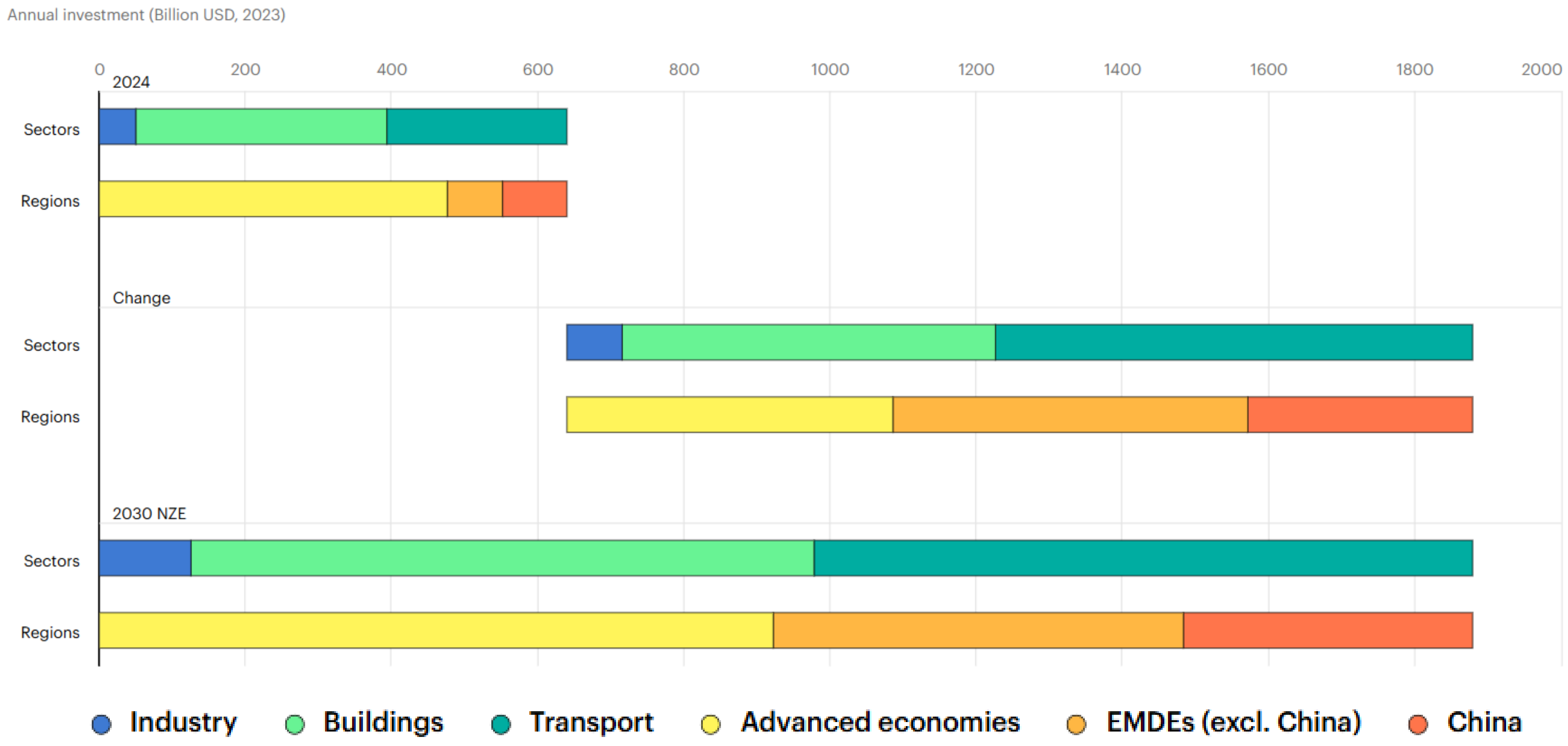
OPPORTUNITIES AND CHALLENGES FOR CAPITAL MARKETS IN FINANCING RESIDENTIAL ENERGY EFFICIENCY PROJECTS

ENERGY EFFICIENCY INVESTMENT HAS RISEN BY NEARLY 50% SINCE 2019, BUT STILL FALLS SHORT OF WHAT WOULD BE REQUIRED



MAIN CAPITAL MARKETS RELATED MODELS RELEVANT FOR HUNGARY

Originate to hold

- Green loans, green covered / unsecured bonds

Originate to distribute

- Green loans, securitization

Investment fund

- Direct investments, ESG/Sustainable mutual funds

Other notable analogies

- Carbon credit markets
- Energy efficiency obligation markets

MAIN CAPITAL MARKETS RELATED MODELS RELEVANT FOR HUNGARY

Originate to hold

- Green loans, green covered / unsecured bonds

Strengths	Weaknesses
• Almost all banks have green loan frameworks • Eligiblity criteria broadly align with the EU Taxonomy • Many banks have experience (and also successes) with green bonds • Central bank incentives for green loan origination and green covered bond issuance still in place • Green interest rate discount has become the norm (to some extent)	• Low demand for green renovation loans • Strong reliance on state grants • Administrative and operative burdens of green loans (profitability?)

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Originate to distribute

- Green loans, securitization

Opportunities	Cons
• More structuring flexibility to create ESCO-type vehicles • Would help if there were capital / liquidity constrains at banks • New EU regulatory proposals to revive EU securitization markets	• The bottleneck is in the green project pipeline • Immature Hungarian securitization market

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MAIN CAPITAL MARKETS RELATED MODELS RELEVANT FOR HUNGARY

Investment fund

- Direct investments, ESG/Sustainable mutual funds

Pros + Opportunities	Cons
• Most fund managers have in place the core SFDR policies • The real estate mutual fund market's popularity • Easier to do local sustainable investments than with equities • Aligns with tenant ESG expectations • ELTIFs	• Less suitable for renovations compared to new constructions • Not suitable for individual residential properties

KEY DILEMMAS ACROSS MODELS

- EPBD regulation a key opportunity with its finance elements, but only if properly transposed into Hungarian law
- Relationship with „EKR" (energy efficiency obligation scheme)
- State grants (how to stop the „stop-and-go effect)
- Incentives - payoff of renovations still weak in many cases due to energy pricing
- Renovation supply chain issues (construction companies, advisors etc.)

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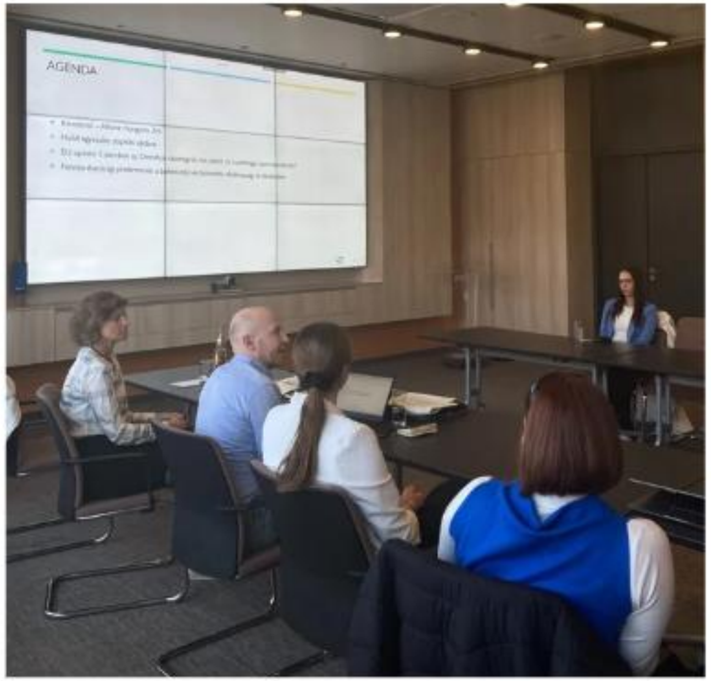
HUNGARIAN SUSTAINABLE INVESTMENT AND FINANCE ASSOCIATION

HuSIF

Mission:
to foster sustainable investments in Hungary and Europe among asset managers, banks and insurers.



THANK YOU FOR YOUR ATTENTION – LET'S CONNECT!

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