

“The role of OTP Bank in energy saving programs including renewable sources of energy”

presented by Dr. Éva Weöres,
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1. Introduction of OTP Bank

- Largest commercial bank in Hungary
 - with total assets of HUF 2,390 billion (23% of all bank assets in Hungary)
 - OTP has 42% market share in retail deposits
 - OTP has 30% market share in retail loans
- Main bank serving municipalities
 - Out of the 3168 municipalities 2827 are served by OTP
 - OTP has 87% market share in municipal deposits
 - OTP has 58% market share in municipal loans
- Serves 100 out of the 200 largest Hungarian companies
- Recognized as the Best Bank in Hungary in 2002 by Euromoney

2. OTP and the Environmental Industry

- Joined the United Nation's Environmental Program in 1994
- Cooperates with the Hungarian Ministry of Environment
- Incorporated environmental risk analysis in its corporate lending policy
- Seeks an environmental friendly corporate image
- Has energy efficiency based lending with established credit arrangements
- In October 1999, OTP Bank reached an agreement with IFC-GEF Program for contract guarantees
- Since 2003 recognizes the CO2 emission-reduction quotas as equity participation in capital expenditure projects

ENERGY SAVED DUE TO HIGHER EFFICIENCY =
ENVIRONMENT PROTECTION

3. OTP's Role in Energy Conservation

- In 1998 and in 2000, OTP Bank wins the public tender for financing annual HUF 1 billion worth of projects under the Municipal Energy Efficiency Program. The Program provides a financing opportunity with 50% interest rate subsidy with the following results:
 - 500 TJ / yr energy savings on national level,
 - 700 m HUF / yr savings for municipalities.
- 2000: HUF 1 billion loan for municipal district heating through Honeywell ESCO
- 2000: Entering a new market, by financing the modernization of heating systems for state budget supported public institutions (HUF 1 billion)
- 2000-2001: Municipal public lighting modernization through ÖKO-LUX ESCO
- 2002: Participation in the Széchenyi Program (state economic development program) providing 30% direct funding in energy saving projects.
- 2003: Participation in the National Energy Saving Program

4. Participation in ESCOs by OTP

A. Honeywell ESCO (Established in 1998 by OTP, Honeywell, IFC, and EBRD)

- Objective of the company:
 - Improvement of primary and secondary district heating systems
 - Heating modernization, automatization, control, energy-loss detection, and auditing existing systems
- B. Öko-Lux (Est. in 1998 by OTP and Energovill with share capital of HUF 610 m)
 - Energovill was acquired by Enron in February 1999 which later exited its Hungarian operations in 2000
 - Öko-Lux 2000 Ltd. has continued with the business from August 2000
 - Öko-Lux 2000 Ltd. has HUF 200 m line of credit from OTP, IFC and municipal guarantees, and support from regional electricity distributors
- Goal of the company: Modernization and financing of upgrades of public lighting
- The need: Public lighting is the responsibility of the municipalities that have limited internal sources of financing available to them
- The solution: Municipalities can carry out the project without any direct borrowing, as ESCO's take the loans and secure repayment through energy savings (20-40%).
- Results: 480 projects (municipalities) out of which 108 by Öko-Lux 2000 Ltd

5. The Financing of ESCO Projects- Advantages of the ESCO

For the buyer the utilization of an ESCO structure makes the execution of an energy saving capital expenditure much easier:

- The energetic feasibility studies are being prepared by the ESCO;
- The risk is worn by the ESCO company;
- The financing becomes easier as the ESCO takes on the loan;
- The execution of the project is accomplished by the ESCO, while the buyer's task is limited to monitoring of the execution in line with the contract;
- All applications are prepared and submitted by the ESCO, while the associated financial advantages benefit the buyer;

6. The conditions for securing subsidized finances

From economic point of view

- The main constraint for winning finances from subsidized sources is the internal rate of return on the investment (IRR), has to reach between 70 to 80 percent of the National Bank's refinancing rates, which today is around 6%.

From technical point of view

- The only limit posed is that 50% of the returns must come from energy savings

From financial point of view

- The major prerequisite for receiving a subsidized loan is the necessity of own equity participation, and having sufficient securitization background

7. The factors considered for securitization against the risk of ESCO financing

- Well analyzed, and technically sound energy saving, which can serve as a source of debt repayment;
- Incentives provided for the ESCO company for energy saving, by taking all risk and performance guarantees;
- Only profitable, self financing projects are considered that are typically being grouped together with more similar projects to increase scale and diversification of project specific risks;
- Payment guarantees by the Municipality, and right for direct collection from the municipal accounts;
- The track record of the ESCO;
- Guarantees made by the equipment suppliers;
- The capital expenditure serving as a collateral;
- Debtor guarantees in case of state budget supported institutions;
- Transfer of revenue collection rights;
- IFC-GEF guarantees;
- Loan guarantee fund

8. ESCO financing by OTP Bank loans

Since 2000 OTP Bank has participated in an increased number of ESCO financing:

- Approval of credit lines for ESCO companies;
- Modernization of public lighting - HUF 500 million (Öko-Lux, Holux, etc.)
- Modernization of indoor lighting - HUF 2 billion (CAMINUS Rt)
- Modernization of heating systems - HUF 1.2 billion (KIPKER Rt)
- Hospital heating system reconstruction - HUF 600 million (MK Energo Team)
- District heating modernization - HUF 1 billion (EETEK)
- Heat energy contracting - HUF 450 million (COTHEC)

In 2003 OTP Bank already has opened HUF 5 billion (EUR 20 m) worth of lending lines

9. The National Energy Saving Program - 2003

The total amount of support provided by the Nation Energy Saving Program in 2003 was HUF 2 billion

Support of energy savings at the private consumer level max. HUF 250-500,000 / homes	Support for decreasing municipal energy consumption and associated costs max. HUF 25 million / institutions
Support for modernization of public lighting max. HUF 25 million	Support for the supply-side modernization of district heating max. HUF 50 million
Support for the expansion of renewable energy sources max. HUF 35 million	Support for ESCOs max. HUF 15 million
Support for the detection of energy-losses in the industrial sector max. HUF 5 million	Support for the auditing and improvement of municipal energy consumption max. HUF 5 million

- The National Energy Saving Program supports the ESCO or thirty party financing as well
- OTP Bank is a partner in providing the necessary loan financing. In case of energy related applications, OTP provides its clients a direct loan financing for up to 45% of the project.
- Finally, a famous quotes by István Széchenyi (the Greatest Hungarian):
“Money, if well used and invested, can make magic in the world”
“Money is only a tool, the goal is the mutual success.”

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