DEVELOPING BLENDED FINANCING TOOLS FOR RENOVATION

PILOT FINANCIAL INSTRUMENT CONCEPT FOR BULGARIA

INSPIRENOV WEBINAR FOR FINANCIAL INSTITUTIONS, 17 JUNE 2026

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Co-funded by the European Union

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

INDICATIVE STRUCTURE OF THE PILOT FI

Type of the FI

- Funded risk-sharing on portfolio level up to 70%
- Embedded/Portfolio guarantee with 80% individual loan coverage and up to 25% cap on portfolio level
- Combination with grant in one or two operations

Financial products

- Loans combined with grants in one or two operations

Implementation:

- Through financial intermediaries (incl. banks and or financial institutions)

Expected amount of the investment in final recipients (indicative amount)

- 20 mln. euro

Public resources allocated to the FI (indicative amount)

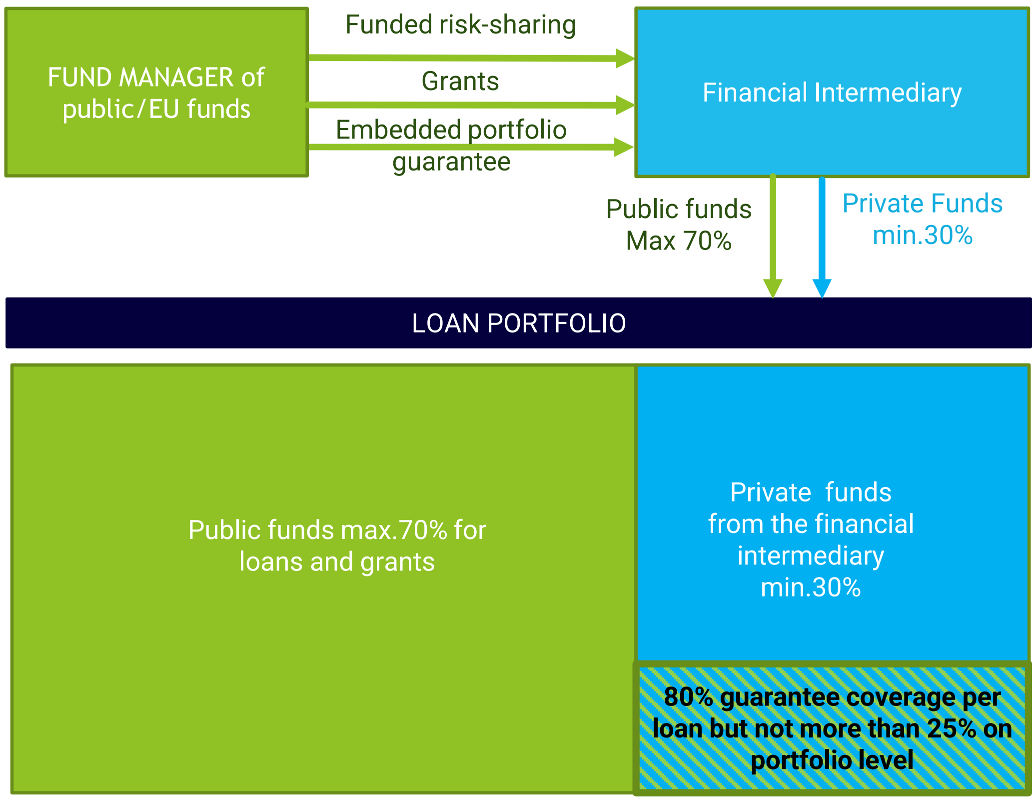
- 14 mln. euro

Expected private funding from the financial intermediaries (indicative amount)

- 6 mln. euro (min. 30% on portfolio level)

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

FUNDED RISK-SHARING WITH EMBEDDED PORTFOLIO GUARANTEE IN COMBINATION WITH GRANTS IN SINGLE OPERATION



BENEFITS FOR THE FINAL BENEFICIERIES

- Significant reduction in the interest rate – the public funding is at 0% or close to 0% interest rate
- Lower collateral requirements due to the guarantee coverage
- Grant financing which reduces the loan burden
- Access to financing for higher risk projects
- No guarantee fee for the final beneficiary

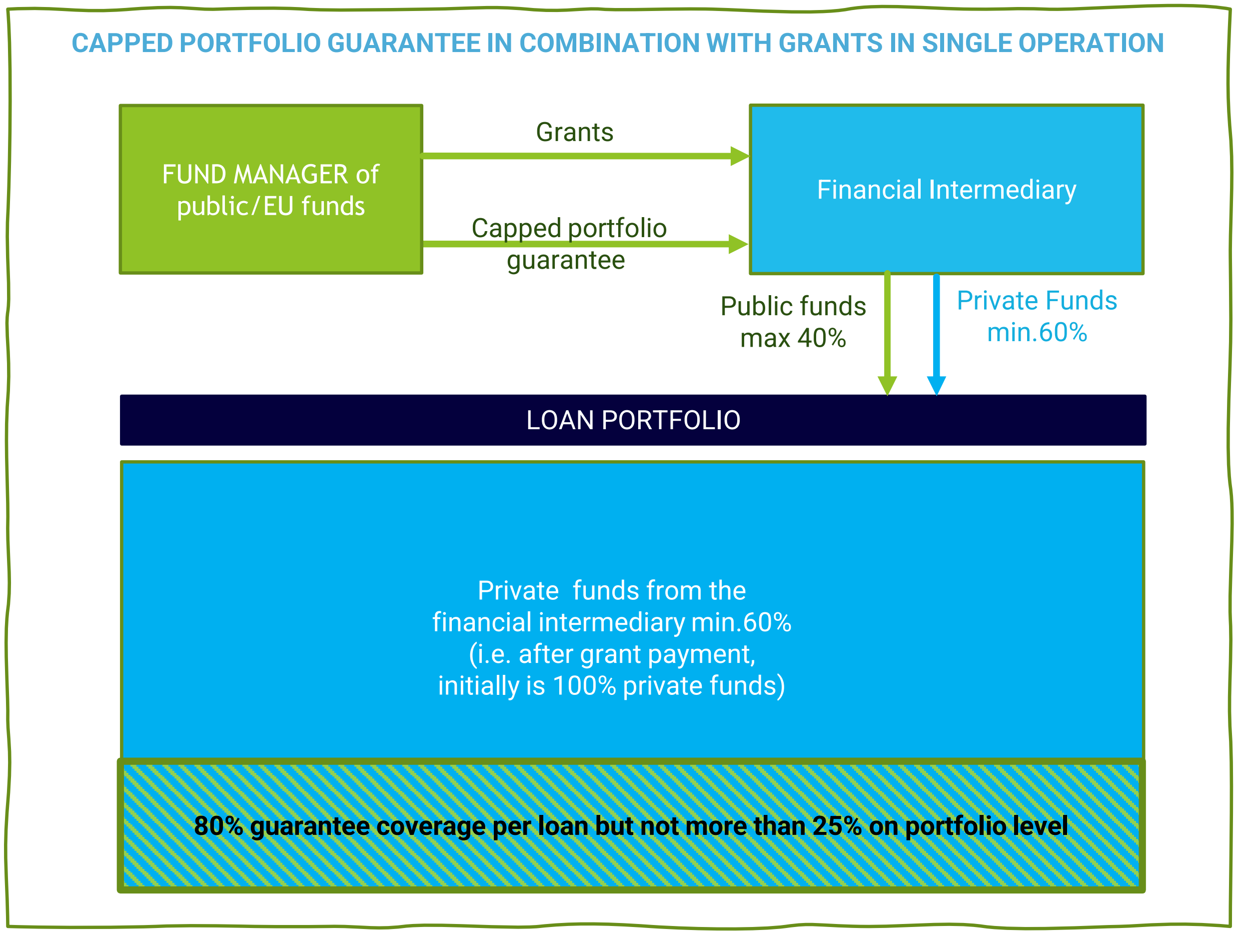
BENEFITS FOR THE FINANCIAL INTERMEDIARY

- High credit risk coverage both due to public share in the financing and the guarantee coverage on the private funds
- No guarantee fee for the financial intermediary
- Management fee on the public funds (loans and grants) of up to 7% for the investment period

BENEFITS FOR THE PUBLIC FUNDING

- Higher leverage of the public funds 1.4x-1.6x (i.e. attraction of additional private funds)
- Recycling of the public funds (returns on loans can be reinvested in new projects)
- More effective use of public funds as financed projects are viable in the long-term compared to 100% grant projects

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS



BENEFITS FOR THE FINAL BENEFICIERIES

- Lower collateral requirements due to the guarantee coverage
- Grant financing which reduces the loan burden
- Access to financing for higher risk projects
- No guarantee fee for the final beneficiary

BENEFITS FOR THE FINANCIAL INTERMEDIARY

- Credit risk coverage due to the guarantee coverage on the private funds up to 80% on loan level and up to 25% on portfolio level
- No guarantee fee for the financial intermediary

BENEFITS FOR THE PUBLIC FUNDING

- Significant leverage of the public funds **5x** (i.e. attraction of additional private funds through the guarantee)
- Recycling of the public funds (unused gurarantee can be reinvested in new projects)
- More effective use of public funds as financed projects are viable in the long-term compared to 100% grant projects

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

Eligible final recipients

- Owners and/or users of residential buildings;
- Homeowners' associations;
- Public, private or PPP providers of energy services, ESCOs;
- Municipalities;

Eligible activities

Measures for energy efficiency and sustainable renovation of residential buildings, including:

- Structural (and seismic) strengthening; heating and air conditioning systems;
- Integrated renewable energy installations on site for own consumption with possibility for connecting to the electricity transmission network for the sale of surplus quantities;
- Equipment for charging electric cars, digitization of buildings, green infrastructure, etc.;
- Credit lines and guarantees for ESCO companies;

Territorial coverage and min. EE requirement

- On the territory of the entire country, with specific budget limits for South/North Bulgaria and regions in transition;
- Requirement for ensuring the EE of the entire building with the aim of achieving at least the "B" energy consumption class of the building and at least 30% reduction in direct and indirect greenhouse gas emissions;
- The percentage of energy savings is calculated from the energy performance certificate based on the generated emissions before and after the introduction of the energy saving measures (ESM) of the building subject to intervention.

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

FINANCIAL PRODUCT TERMS

Loan amount – up to 22 mln. euro (depending on the state aid regime)
Term of the loan – up to 20 years
Grace period – up to 3 years, with possibility for extension
Pricing – low interest rates, no fees and commissions on the public funds; reduced collateral requirements
Own participation of the final recipient – min. 5%, with possible reduction to 0%
Investment period – 2026[1] - 2029
Expected results at the end of 2029 - 534 renovated dwellings

[1]after the completion of the selection procedure for financial intermediaries

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

Combination of FI and grants in single operation

Grant amount of 30% for energy class B and 40% for energy class A or A+ of the eligible project financing (VAT is not eligible) depending on the applicable state aid regime and provided in the form of/a combination of:

- **Technical assistance:** for project preparation/implementation, as well as energy audits (max. EUR 10 000 for the initial audit and max. EUR 5 000 for the final audit);
- **Investment grant:** to cover part of the investment costs for projects which do not have enough revenue generating potential to be fully financed on a loan basis;
- **Capital rebate:** transforming part of the loan into grant upon project completion and the achievement of the targeted indicators;

For low-income individuals (with incomes below the poverty line) and/or receiving energy assistance the product may envisage 100% grant and/or loans financed with 100% public funds (i.e. no private co-financing).

Applicable State aid regimes:

- for the loan/guarantee - art.39, art.38b for ESCOs and art. 16 of GBER , de minimis or no aid;
- for the grant – art 38a of GBER, de minimis or no aid.

- Combined support of FI and grant in a single operation is implemented by the financial intermediary according to the FI rules, incl. payment, reporting, auditing, etc.
- For managing the grant and the funded risk-sharing in one operation the financial intermediary receives a management fee of up to 7% of the invested public funds until the end of the investment period;

PILOT FINANCIAL INSTRUMENT FOR EE MEASURES IN RESIDENTIAL BUILDINGS

MAIN CHALLENGES

- Initial organization and persuasion of the HoA for initiating the loan application;
- Assessment of the credit risk of the HoA and structuring of the financing for each individual homeowner;
- Structuring/signing of the loan contract with the HoA and collection of the installments from each individual homeowner;
- Coordination of the selection of the contractors and the implementation of the project on behalf of the HoA;
- Suggested legal requirements to be implemented by the government in order stimulate the implementation of the instrument (i.e. legal status of the HoA, the loan to be transferred with the transfer of the ownership of the apartment, requirement EE measures on the façade of the buildings to be done only by the HoA, etc.)

PUBLIC FINANCIAL INSTRUMENTS LEVERAGING PRIVATE FUNDS FOR EE

CASES OF LATVIA AND LITHUANIA

Energy Efficiency Programme for Multi-Apartment Residential Buildings in Latvia

2007-2013
- ERDF Grant
- Latvian Investment and Development Agency

2014-2023
- ERDF Grant + FI
- EUR 157m/ 37m
- EUR 300m impact
- ALTUM

2022 -2026
- RRF Grant + FI
- EUR 57m
- 170 buildings
- ALTUM

2025-tbc
- ERDF FI + Grant
- EUR 170m (est)
- ALTUM

Results 2014-2023

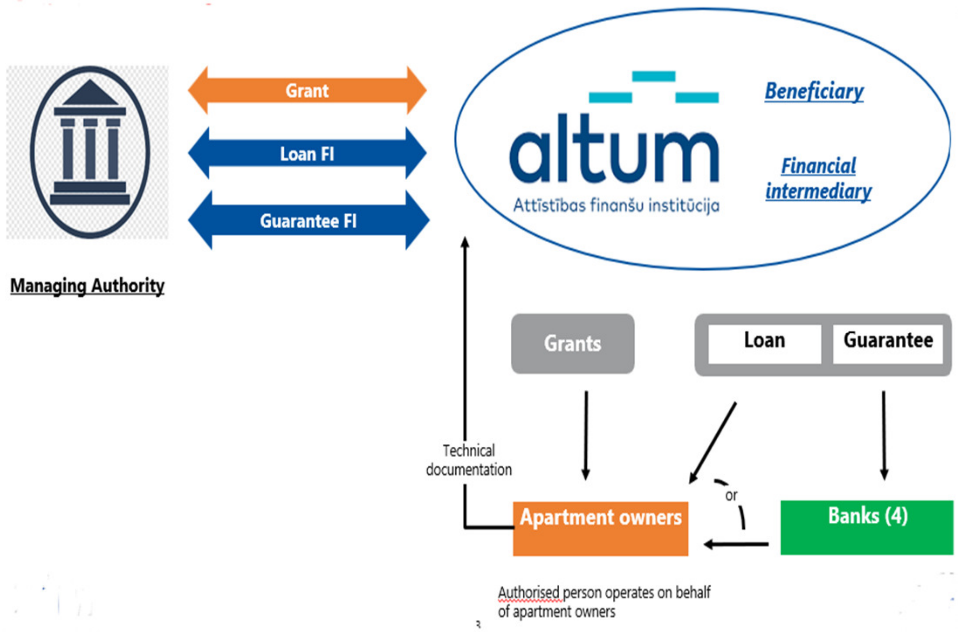
	NUMBER	AMOUNT
GRANTS	623	EUR 157 m
GUARANTEES	324	EUR 70 m
LOANS	185	EUR 42 m

NUMBER OF HOUSEHOLDS WITH IMPROVED ENERGY CLASS	CO_2 EMISSIONS SAVINGS (t/yr)	AVERAGE HEATING CONSUMPTION AFTER PROJECT IMPLEMENTATION (KWH/M2)
18 557	24 403	57

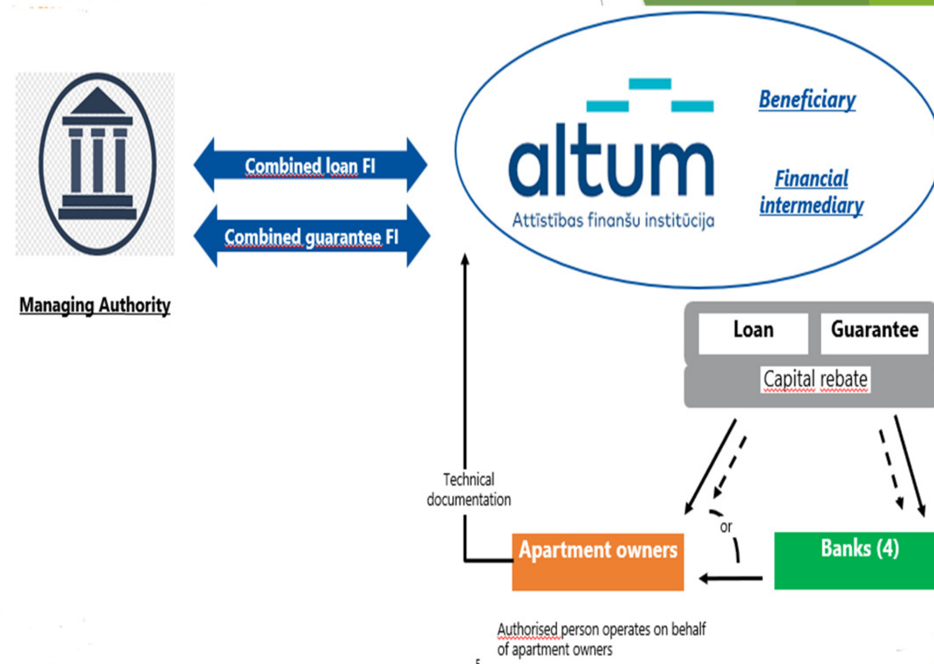
5% of multi-apartment residential buildings are renovated in Latvia

The evolution of FI/grant combination in Latvia

2014-2023: 2 FI + grant in 2 operations



2022-2025: 2 FI + capital rebate in 1 operation



TOTAL FUNDING DEFICIT EUR 2,9 bln

GUARANTY + CAPITAL REBATE IN SINGLE OPERATION

Capital rebate is applied to **Bank's loan**

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR

Co-financing	Bank's loan
10% 50 000 EUR	90% 450 000 EUR

ALTUM's loan guarantee to the bank

80%
360 000 EUR

Capital rebate from ALTUM

30%
135 000 EUR

Cooperation agreement with the commercial banks

PARALLEL LOAN + CAPITAL REBATE

Capital rebate is applied to ALTUM's loan,only

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR

Co-financing	Bank's loan	ALTUM's loan
20% 100 000 EUR	40% 200 000 EUR	40% 200 000 EUR

Capital rebate
30% 60 000 EUR

Cooperation agreement with the commercial banks

DIRECT LOAN + CAPITAL REBATE IN SINGLE OPERATION

Capital rebate is applied to **ALTUM's loan**

PROJECT EXAMPLE WITH ELIGIBLE COSTS OF 500 000 EUR

Co-financing	ALTUM loan	
10% 50 000 EUR	90% 450 000 EUR	
		Capital rebate
		30% 135 000 EUR

Funds can be borrowed (increases the interest rate)

Public funds for risk coverage

Client receives refusal letter from the commercial bank

Terms of the financing

Participating banks - SEB banka , Swedbank and Citadele banka with whom Altum has guarantee agreements

Borrower - a legal entity, which the apartment owners or the community of apartment owners have authorized. The authorized person may be an apartment owners' association or an energy service company (ESCO), a project manager or a legal entity that is the sole owner of the apartment in the building;

- Combined loan/guarantee FI with grant
- Capital rebate 49% of the eligible costs and TA for 49% of project documentation preparatory costs, max. 10 000 EUR
- At least 30% primary energy savings (prev. 30% energy savings for heating)
- Financing of up to 100% of the eligible project costs; a loan for ineligible costs can also be granted from the Bank or Altum
- Loan Term – 20 years, with grace period of up to 24 months (for 2021-2027 the loan term will be increased to 30 years)
- Loan amount – Max amount – 3 750 000 eur, depending on the bank
- Interest rate - interest rate is fixed for at least 10 years, if the loan interest rate consists of a fixed and variable (Libor, Euribor or other) part; in case of direct loan by Altum fixed interest rate - 3,9% p,a,
- Collateral:
  - Commercial pledge on receivables (future cash flow) arising from transactions between the authorised representative and the apartment owners
  - Deposit in the amount of at least 2-3 loan payments.
  - Altum guarantee covering up to 80% of the loan, max. 3 000 000 eur for one building
- **Loan repayment** - from apartment owners' maintenance payments
- The amount of debt for services received (management, waste management, heating, water supply and sewage services) related to the use of the apartment property has been **less than 5-10% of the amount of invoices for these services over the last year**. If the house has historically incurred a debt exceeding 300 EUR, the house manager or authorized person must provide additional information about the occurrence of the debt and actions taken to repay it.

12 steps to Capital rebate

Capital rebate (% of total eligible costs)

49%

(VAT is ineligible)

12. Decision on capital rebate (altum)
11. Application for activization of capital rebate
10. Contract signature and loan disbursement
9. Approval by Altum (altum)
8. Loan/Guarantee application to Altum
7. Apartment owners' decision on project financing terms
6. Loan application to commercial bank
5. Altum's opinion on selection of service providers (altum)
4. Selection of the service providers
3. Application to Altum for reservation of the Capital rebate (altum)
2. Elaboration of technical documentation
1. Initiation of the energy efficiency project

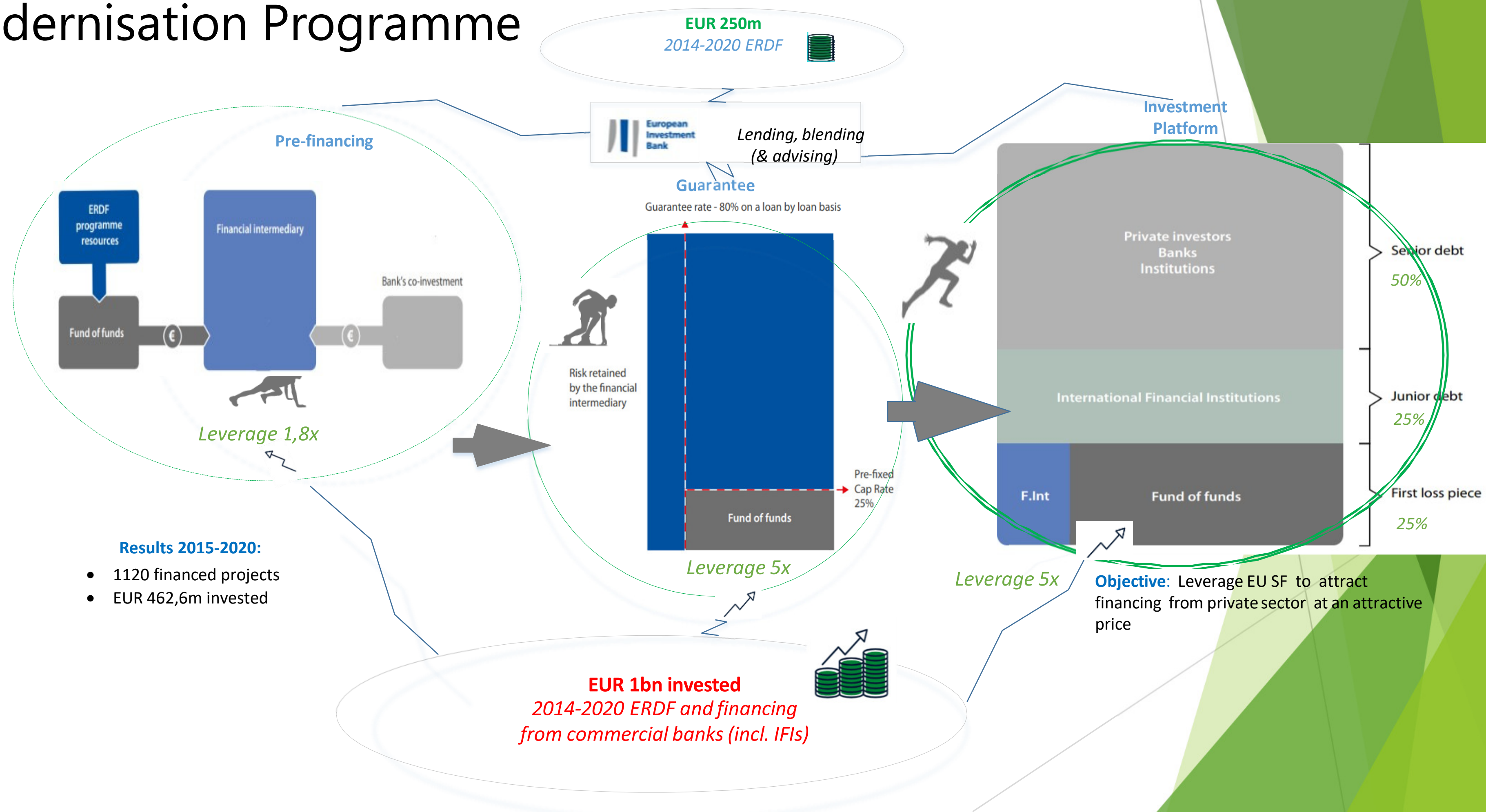
Finansē Eiropas Savienība NextGenerationEU
2027 Nacionālais attīstības plāns

https://www.altum.lv/pakalpojumi/iedzivotajiem/daudzdzivoklu-maju-energoefektivitate-2022-2026?tab=2

Capital rebate

Capital rebate's specifications	Apartment owners select Authorized Person (legal person) Applying for a loan or guarantee, application is submitted for a capital rebate as well *De minimis* aid on apartments' owner's level Eligible costs: - Technical documentation - Construction works - Renovation, reconstruction or creation of engineering systems - Renewables - Microgeneration energy production technological equipment - Author supervision and construction supervision - Project management - VAT Design&build is eligible
Activization of capital rebate	Construction and renewable energy technology measures have been implemented Building has been put into operation Temporary energy certificate of the building is registered, which confirms the fulfilment of the energy efficiency condition Supporting documentations of the eligible costs are submitted

Financial Instruments funding the Lithuanian Modernisation Programme



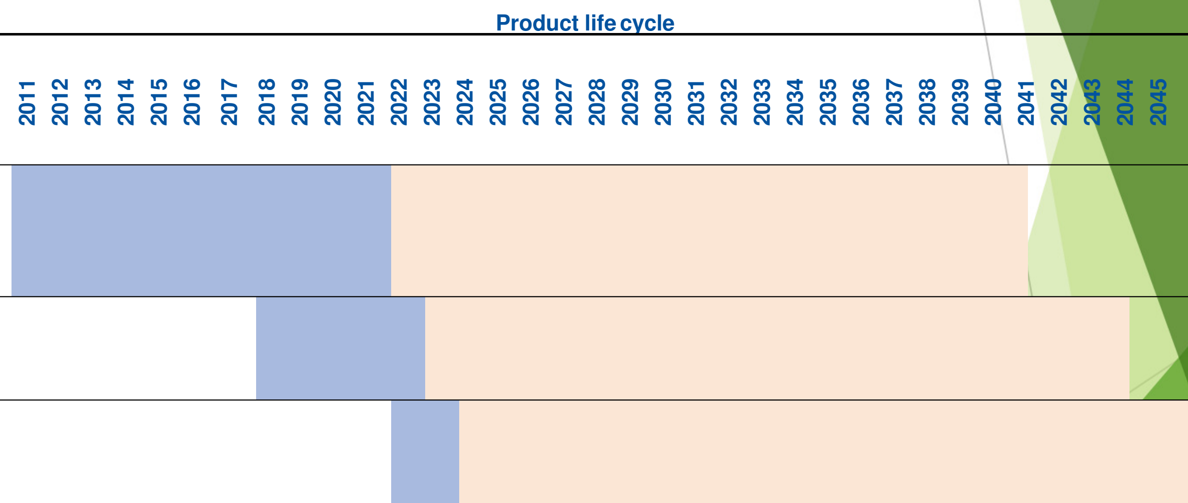
Results 2015-2020:

- 1120 financed projects
- EUR 462,6m invested

Financial Instruments funding the Lithuanian Modernisation Programme

- Since Y2011 - **2 779** multi-apartment buildings financed through Šiaulių Bankas alone
- About 8% of total 35 000 buildings
- EUR 1bln invested incl. EUR 250m from ERDF
- SB Modernisation fund managed by Šiaulių Bankas and co-funded by EIB (ERDF), CEB, INVL Asset Management, Swedbank and Nordic Investment Bank initially EUR 275 in 2022 for 600 buildings, additional EUR 200m in 2024 for 300 buildings more

Renovation programme / Source of funds	Loan amount signed (mEUR)	ERDF	Outstanding amount (mEUR)	
1-5 call: EIB funds + 3 prefinancing agreements	508	203	190	
Loans with EIB guarantee	225	45	152	
SB modernization fund	275	90*	163	
Total:	**1 008**	**248**	**505**	**2 779 loans are under administration**



- Disbursements of loans
- Repayments of loans

* Recycled funds

THANK YOU!