°CICERO Shades of Green

ALTUM
Green Bond Second Opinion

December 15, 2021

ALTUM is a Latvian state-owned development finance institution that offers state aid with the help of a diverse range of financial tools, such as loans, credit guarantees and investments in venture capital funds. ALTUM's statutes are approved by the Cabinet of Ministers of the Republic of Latvia.

Eligible assets under this green framework are within renewable energy (40%), energy efficiency (40%), green buildings (15%) and sustainable transportation (5%). In the renewable energy category, most proceeds will be allocated to Dark Green activities within solar PV, but also bioenergy and wind power. There is a 300 km sourcing threshold to ensure local sourcing of bioenergy, but there is no requirement for the feedstock to be certified and care should be taken to ensure the sustainable sourcing of the bioenergy feedstock. Investors should be aware that energy efficiency projects can include carbon intensive sectors, even if assets directly related to fossil fuels will be excluded. The issuer informs that financing will be provided to A and A+ energy class buildings. Most buildings will be in class A that corresponds to around a 30% increased energy efficiency for residential and 50% for public buildings compared to regulation, representing a significant improvement. Investors should be aware that the issuer allows funding of buildings heated with fossil fuels, as well as buildings housing emission intensive customers.

As ALTUM is implementing state aid programs decided by the Cabinet of Ministers, ALTUM currently has no separate strategic plan or targets for promoting a transition to a low carbon society. The issuer still focuses on sustainability and has recently established a roadmap to better include sustainability in ALTUM's value chain. ALTUM is not reporting on its Scope 2 and 3 emissions. ALTUM's portfolio will be exposed to physical climate change, like increased heavy rainfall and flooding. The issuer includes climate resiliency measures in its green buildings portfolio and informs us that they have a two-year plan to implement climate risk assessment in loan origin assessment processes for the remaining of ALTUM's portfolio. ALTUM will also consider reporting in line with TCFD.

ALTUM's selection process is strong and builds on experiences from the 2017 framework. Relevant projects are screened for lock-in risks and controversial projects, and the environmental expert holds a veto. Relevant KPIs have been provided for the 2021 green bond framework. Impact reporting will be externally verified.

Based on the overall assessment of the project types that will be financed by the green finance framework, governance, and transparency considerations, ALTUM's green finance framework receives a **CICERO Medium Green** shading and a governance score of **Good**. The Medium Green shading is given under the assumption that ALTUM's green bond framework focuses on renewable energy and energy efficiency as indicated. The framework would benefit from systematic climate risk assessments, and from excluding fossil fuel elements.

SHADES OF GREEN

Based on our review, we rate the ALTUM's green bond framework **CICERO Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green bond framework. CICERO Shades of Green finds the governance procedures in ALTUM's framework to be **Good**.

GREEN BOND PRINCIPLES

Based on this review, this Framework is found to be aligned with the principles.

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Contents

1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated September 2021**.** This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'Shades of Green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green	Examples
Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.	Wind energy projects with a strong governance structure that integrates environmental concerns
Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.	Bridging technologies such as plug-in hybrid buses
Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.	Efficiency investments for fossil fuel technologies where clean alternatives are not available

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

2 Brief description of ALTUM's green bond framework and related policies

ALTUM is a Latvian state-owned development finance institution, which offers state aid for various target groups with the help of financial tools such as loans, credit guarantees and investing in venture capital funds. ALTUM develops and implements state aid programs that will be implemented with public resources (European Union, national and other international institutions and ALTUM's own financing). ALTUM's shareholders consist of the Republic of Latvia's Ministry of Finance, the Ministry of Economics and the Ministry of Agriculture. The issuer's operations are governed by the Development Finance Institution Law and is also organized according to the best practices of corporate governance principles stipulated by the Commercial Law and the Law on Governance of Capital Shares of a Public Person and Capital Companies. ALTUM's statues are approved by the Cabinet of Ministers of the Republic of Latvia.

During the Covid-19 pandemic ALTUM has been actively involved in mitigating the negative impacts of Covid-19 in the business sector, and new financial instruments for support were developed in cooperation with the Ministry of Economics.

As of 31 December 2020, ALTUM's gross financial instruments portfolio was EUR 804 million consisting of 26,578 projects. This SPO is an update of the SPO on ALTUM's green bond framework from 2017. The project categories in the 2021 framework are the same as in 2017.

Environmental Strategies and Policies

ALTUM focuses on sustainable development and innovative solutions for ensuring financial stability, and defines business sustainability as long-term value creation, taking into account economic, ethical, social and environmental considerations. As ALTUM is administering and implementing state aid programs decided by the cabinet, ALTUM currently has no separate strategic plan or targets for promoting a transition to a low carbon society. According to the issuer, ALTUM's ambition level on sustainability is mainly driven by its main stakeholders like investors and international lenders, and they have established a roadmap to strengthen the integration of ESG aspects in ALTUM within the coming three years. This includes among others to work with their customers to map the carbon footprint of its portfolio, and from this identify and exclude the most emissions-intensive clients. ALTUM informs us that they will work to establish concrete sustainability targets and to integrate relevant EU legislation, like the EU Taxonomy.

ALTUM commits to reducing its own direct negative environmental impacts by improving and reducing the thermal energy used, increase energy efficiency, carry out gradual replacement of the ALTUM's car fleet to hybrid and electric cars, establish an alternative choice of transport in addition to the car fleet, reduce waste generation and ensure waste sorting, evaluate and, as far as possible, choose more environmentally friendly resources during work travels. ALTUM is calculation their scope 1 emissions and saw a reduction in CO_2-emissions of 36.1% from 2018 to 2019, and 22.4% from 2019 to 2020. The reductions were achieved by among others improving the energy efficiency of ALTUM offices, and remote work due to Covid-19. The issuer is not reporting on its scope 2 and 3 emissions.

ALTUM's portfolio will be exposed to physical climate change, like increased heavy rainfall and flooding. For green buildings, ALTUM includes climate resiliency measures, e.g. related to increased precipitation and temperature changes. The issuer further informs us that climate risk assessment will be incorporated in loan

origination assessment processes covering Altum portfolio, gradually starting with (i) RRF (Recovery and Resilience Facility[1]) "climate" programmes' projects, (ii) the green bond framework 2021 projects and (iii) new sustainability products, followed by other products for SME, to promote the transition of the clients towards low-carbon and climate resilient economy. The expected implementation timeline for (i) - (iii) is 30 June 2022, while for the whole SME segment it is planned to implement along with ESG aspects integration in credit risk assessment until 31 March 2023 at latest. The issuer will also consider the implementation of TCFD-reporting while integrating ESG aspects in credit risk management.

The issuer works to increase the environmental understanding of employees in environmental protection issues. Furthermore, ALTUM promotes the inclusion of the basic green principles in procurement procedures and towards suppliers and partners. ALTUM has not established a Code of Conduct, but is adhering to the government's procedure on green public procurements for the procurement of e.g. office supplies and indoor lighting. ALTUM also functions as the manager of the State Energy Efficiency Fund and has by that a duty to inform the public regarding the importance and practical benefits of energy efficiency and provide consultations in the field of energy efficiency and construction.

As of 30 June 2021, ALTUM has committed a total of 18.1 million EUR and disbursed a total of 15.7 million EUR for green projects that are estimated in total to generate an annual reduction in GHG emissions of 7,945 tonnes CO_2e. That in turn corresponds to an estimated reduction of 439 tonnes CO_2e per 1 million EUR committed annually. In the future, the main reductions are expected to come from energy efficiency projects.

ALTUM has received the Platinum category award in the Latvian Sustainability Index, and in September 2021 ALTUM joined Nasdaq Sustainable Bonds Network. Sustainability in ALTUM builds on the UN sustainable development goals (SDGs), and ALTUM considers that their green bond framework has an influence on among others the following SDGs: SDG 7 (Affordable and clean energy), SDG 9 (Industry, innovation and infrastructure), SDG 11 (Sustainable cities and communities) and SDG 13 (Climate action). ALTUM has also committed to the following international regimes:

- The United Nations Global Compact (UNGC)
- Financial Initiative (UNEP FI) of the United Nations Environment Programme
- The OECD Guidelines for Multinational Enterprises
- The Carbon Discovery Project (CDP)
- United Nations Principles for Responsible Investment (UN PRI)

Use of proceeds

Eligible projects are specifically selected loans to Latvian clients, funded, in whole or in part, by ALTUM with the purpose of promoting the transition to low carbon and sustainable development in accordance with the ALTUM loan programs.

As in ALTUM's green bond framework from 2017, the green bond framework of 2021 will allocate green bond proceeds to finance and refinance projects within renewable energy, energy efficiency, green buildings and sustainable transportation. As for the 2017 green proceeds, most proceeds will be used to finance new projects (more than 90%). Green bond proceeds are allocated to individual projects. ALTUM's green bonds will not finance nuclear power or fossil-fuel related power generation projects.

Under the 2017 framework, 75% of green proceeds were provided for energy efficiency measures, 23% for sustainable transportation and 2% for renewables. The issuer informs that they estimate an increase in proceeds

[1] Commission endorses Latvia's plan (europa.eu)

related to renewable energy to 40% (mainly solar PV) and 40% for energy efficiency[2]. The issuer also confirms that allocations from the green bond proceeds to bioenergy will be restricted to a maximum of 20% of the total allocation to renewable energy projects. For green buildings the expected share is 15% and restricted to a maximum of 30% of the total allocations. 5% is expected to be used for sustainable transportation.

The share of proceeds from ALTUM's Green Bonds that are allocated to new projects and to completed projects respectively at the time of approval will be reported upon in the annual Investor Letter.

Selection

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Green projects will be evaluated according to: a) ALTUM's creditworthiness appraisal methodology for business loans, b) the green bond framework and c) the related legislation. Potential green projects will be selected and approved in consensus by the Loan and Guarantee Department and the Energy Efficiency Programme Department. Only projects where there is a high likelihood that the net, long-term environmental effects are positive will be approved. The issuer informs that the experience with the selection process from the 2017 issuance is positive, and they are planning on continuing using the same process with a specialized unit responsible for the program implementation. In 2019 the issuer included a regional branch network in the process, the role of this network may be expanded in the future.

ALTUM aims to follow the EU sustainable finance best industry practices when assessing environmental and social risks. Eligible projects must comply with national as well as EU regulations and standards, including environmental and social requirements. ALTUM will use its internal experts with environmental competence when evaluating environmental and social risks in potential green projects. The environmental experts have veto power, and no decision on a project will be taken without a positive review from the environmental expert. ALTUM's Project Evaluation and Selection Process consist of evaluating the resilience and environmental impact of eligible projects and potential lock-in and rebound effects, and the issuer informs that projects with a substantial risk for lock-in of non-sustainable technologies will not be funded. According to the issuer, they will also screen for controversial projects.

The issuer further informs that employees in Energy Efficiency Programme department (EEPD) have broad capacity and competence in energy efficiency related areas. When EEPD employees lack adequate competence, ALTUM will insource that competence, e.g. from The State Environmental Service; Department of Environmental Science (University of Latvia, Faculty of Geography and Earth Sciences).

If for any reason, a green project ceases to meet the environmental criteria on the basis of which it was approved, the project will be removed from pool of eligible projects for financing from ALTUM's green bonds.

Management of proceeds

CICERO Green finds the management of proceeds of ALTUM to be in accordance with the Green Bond Principles. The green bond proceeds will be managed by ALTUM on an aggregated basis for multiple green bonds, and ALTUM will allocate its proceeds from the green bonds to eligible projects selected in accordance with the eligible project criteria.

[2] The issuer informs that they are providing financing (loans, guarantees and grants) under separate programs for energy efficiency measures in residential multiapartment buildings and single-family houses.

ALTUM will record all the green projects under the project categories which forms the basis for the impact reporting. The net proceeds from the issue of green bonds shall be credited to a separate account with the purpose of financing eligible projects.

As long as green bonds are outstanding and proceeds from issues are available on a separate account, ALTUM shall, at the end of every fiscal quarter, deduct funds from the separate account in an amount equal to disbursements to eligible projects made during such quarter.

Until disbursement to eligible projects, the separate account balance will be placed as part of the liquidity reserve. Projects that are no longer eligible will be substituted as soon as practicable, on a best effort basis. Where proceeds cannot be immediately allocated or reallocated, ALTUM has the possibility to invest the balance of the net proceeds at their own discretion either in short-term liquid ESG instruments or in cash or cash equivalents. According to the issuer, such investments cannot be linked to the financing of activities which may conflict with the environmental objectives of ALTUM's Green Bond Framework, thereby excluding assets assosiated with fossil fuels.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

To enable investors to follow the development of ALTUM's green bonds and to get insight into prioritized areas, ALTUM will provide an annual investor letter including:

1) aggregated overview of financed eligible projects at project category level
2) project-by-project list of financed eligible projects
3) a selection of eligible projects descriptions with impact reporting
4) the share allocated to new projects and to completed projects respectively, and
5) a summary of ALTUM's green bond development.

ALTUM encourages and promotes the use of impact reporting and will provide that when feasible at the eligble project category level on an aggregated basis as well as on project basis in respective project-by-project report as annex to annual investor letters. The expected reduction of GHG emissions for energy efficiency and renewable energy project categories has been calculated based on respective conversion rates applied to estimated energy savings according to a local methodology[3]. The issuer informs that reporting has been working well for the 2017 green framework, and they intend to report along the same lines for the updated framework. Relevant KPIs have been provided.

The internal tracking method and the allocation of funds from the green bond proceeds will be verified by ALTUM's Internal Audit Department or an external third party appointed by ALTUM. The investor letter and the opinion of the Internal Audit Department or external third party will be made publicly available on ALTUM's web page. Impact reporting will be verified externally.

[3] Republic of Latvia Cabinet Regulation No. 42 "Methodology for Calculating Greenhouse Gas Emissions", 23 January 2018. Conversion rates for Latvia are based on the particular country's energy balance (LV energy consumption balance includes considerable portion of renewable energy) thus leading to lower reduction of GHG emissions as might be in other countries with different structure of the country's energy balance for projects with similar energy saving.

3 Assessment of ALTUM's green bond framework and policies

The framework and procedures for ALTUM's green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where ALTUM should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in ALTUM's green bond framework, we rate the framework **CICERO Medium Green.**

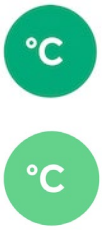
Eligible projects under the ALTUM's green bond framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the "overall environmental profile" of a project should be assessed and that the selection process should be "well defined".

Category	Eligible project types	Green Shading and some concerns
Renewable energy	• Renewable energy means wind, solar and bioenergy as well as related infrastructure.	**Medium to Dark Green** ✓ The issuer estimates that around 40% of the green proceeds will be allocated to renewable energy, focusing on solar PV both for households (rooftop) and standalone electricity generation. ✓ Solar power is key to a low-carbon transition. ✓ Environmental requirements to sub-contractors and life cycle impacts of the solar modules are important considerations. ✓ Proceeds can be used to purchase existing windfarms, but no new windfarms will be supported. ✓ The issuer informs that sources for bioenergy would be short rotation forestry, energy crops, wood wastes, agricultural residues, sewage sludge, industrial residues and municipal bio-degradable waste that are sourced near region (up to 300 km). The feed-stock certification level is at an early stage in Latvia, and certification is not required to be eligible for green proceeds.

		✓ Allocations from the green bond proceeds to bioenergy are restricted to a maximum of 20% of the total allocation to renewable energy projects. ✓ There are potential concerns regarding sustainability of the feedstock sourcing. Also, be aware of problems with local air pollution from bio-energy combustion. ✓ The Cabinet of Ministers of the Republic of Latvia is working to transpose the EU Renewable Energy Directive (EU RED II) in the national legislation. ✓ The issuer informs that environmental impact assessments (EIAs) are carried out before the selection of the projects when needed. ✓ According to the issuer, they will perform screening for selection of controversial projects.
Energy efficiency	Energy efficiency means: 1. District heating technologies based on renewable energy and related infrastructure. 2. Energy recovery projects. Measures contributing to a more efficient use of energy. 3. Investments in equipment and devices in each case leading to energy efficiency gains of at least 25 per cent as per se or at the level of the production unit to be processed. 4. Minor renovations of commercial or residential buildings leading to reduced energy use per year on a sqm basis of at least 25 per cent.	**Medium to Dark Green** ✓ The issuer estimates that around 40% of the green proceeds will be allocated to energy efficiency projects. ✓ According to the IEA[4], energy efficiency plays an essential role in accelerating clean energy transitions and achieving global climate and sustainability goals. ✓ The issuer informs that environmental impact assessments (EIAs) are carried out before the selection of the projects. ✓ The issuer informs that 42% of the fuel used in the district heating in Latvia is fossil fuels, but that this is mostly in the Riga region due to a natural gas plant. Projects funded by green proceeds will not be used in the regions heated by fossil fuels (mainly natural gas). ALTUM will only support the production of energy (heat, electricity) from renewable sources, and infrastructure for district heating can be used for renewable district heating only. ✓ No minimum energy efficiency threshold is imposed for the energy recovery projects. ✓ Fossil fuel projects or equipment cannot be funded by green proceeds. However, there is a risk of involvement of carbon intensive sectors, and sectors using fossil fuels in their value chain. ✓ Efficiency projects should not lead to prolonged life for technologies not compatible with zero carbon emission (lock-in). Also, be aware of possible rebound effects.

[4] Energy Efficiency 2020 – Analysis - IEA

		✓ We encourage the issuer to be ambitious when selecting assets for funding within the energy efficiency category.
Green buildings 	Green buildings mean: 1. Residential or non-residential buildings with EPC-labels at least A, set in accordance with national regulations. 2. Major renovations of commercial or residential buildings leading to reduced energy use per year on a sqm basis of at least 35 per cent.	**Light to Medium Green** ✓ The issuer estimates that around 15% of the green proceeds will be allocated to green buildings, and informs that allocations to green buildings will be restricted to a maximum of 30% of the total allocations. ✓ Construction of new buildings will be eligible for finance. The issuer informs that financing will be provided to A and A+ energy class buildings only.[5] ✓ For public buildings, the minimum permitted level for non-renewable primary energy consumption for new office buildings is ≤ 110 kWh/m^2 for class A and ≤ 95 kWh/m^2 for class A+. For residential buildings (between 50-120 m^2) the class A is ≤ 110 and class A+ ≤ 65 kWh/m^2. ✓ Class EPC A corresponds with the minimum requirements for new buildings. However, developers do not need to comply with this requirement if is not technically or functionally possible or if the cost-benefit analysis of the lifetime of the building indicates losses. If these exemptions can be demonstrated, the developer needs to comply with at least EPC C. According to the issuer, this is the situation in most cases. ✓ The issuer informs us that they expect close to 100% of the buildings financed to be class A. This corresponds to around a 30% increased energy efficiency for residential and 50% for public buildings compared to EPC C, representing a significant improvement. ✓ The investor should be aware buildings heated with fossil fuels and properties related to fossil intensive industries are eligible for green finance. However, buildings dedicated to extraction, storage, transport or manufacture of fossil fuels will be excluded. ✓ ALTUM will provide green financing to energy service companies (ESCOs) operating in the Baltic states and is looking to expand its services to other EU Member States as well. The ESCOs will operate within the restrictions of the green framework. ✓ ALTUM is including climate resiliency measures towards climate change, i.e., increased

[5] As defined by the following Cabinet of Ministers Regulations: https://likumi.lv/ta/id/322436-eku-energoefektivitates-aprekina-metodes-un-eku-energosertifikacijas-noteikumi

		precipitation, temperature changes, etc. Standardized risk management process is being established on clients' activities to identify, assess, and implement mitigation measures to adapt to climate change and its impacts to increase the resilience of green buildings to climate change. ✓ When financing investment projects under EUs Recovery and Resilience Facility[6] (RRF) the EU-taxonomy's DNSH-adaptation criteria will be applied. The issuer informs that this will also be the case for other projects going forward. ✓ ALTUM does not have any policies related to reducing construction emissions from construction activities.
Sustainable transportation	Sustainable transportation means transportation solutions/systems based on non-fossil fuel and supporting infrastructure. Includes, but is not restricted to: 1. Zero-emission vehicles. 2. Zero-emission passenger vehicles for public transportation. 3. Charging infrastructure to support clean transportation.	**Dark Green** ✓ The issuer estimates that around 5% of the green proceeds will be allocated to energy sustainable transportation. ✓ ALTUM will calculate the life cycle emissions of the vehicles[7], and GHG-emissions savings will be calculated e.g. based on the carbon intensity in the electricity grid.

Table 1. Eligible project categories

Background

As a member of the EU, Latvia is subject to the EU's climate targets of reducing collective EU greenhouse gas emissions by at least 55% by 2030, increasing the share of renewable energy to 38-40% and improving energy efficiency by at least 40%[8]. The European Green Deal aims for carbon neutrality in 2050. Each of the Baltic countries have developed National Energy and Climate Plans (NECPs) in which they outline their targets and strategies in all sectors.[9] These strategies include measures such as increasing renewable energy capacity, increasing energy efficiency, facilitating the large-scale implementation of clean transportation alternatives, and increasing carbon sinks through reforestation and the LULUCF sector.

Latvia's overarching climate targets is to be carbon neutral within 2050, and they have developed a national climate strategy which outlines how the target shall be met. Two strategic objectives have been identified: 1) reduction of GHG emissions in all sectors of national economy; 2) increase of CO_2 removals. The strategy also gives interim targets to achieve the transition towards climate neutrality of 38% reduction by 2030 and 76% reduction by 2040. Currently, renewable energy sources account for 40% of Latvia's primary energy supply and more than half of electricity generation.[10]

[6] Commission endorses Latvia's plan (europa.eu)
[7] Methodology approved by the Latvian Cabinet of Ministers, Siltumnīcefekta gāzu emisiju aprēķina metodika (likumi.lv)
[8] 2030 Climate Target Plan | Climate Action (europa.eu)
[9] Latvijas nacionālais attīstības plāns 2021.–2027. gadam (pkc.gov.lv)
[10] OECD Environmental Performance Reviews: Latvia 2019 (Abridged version)

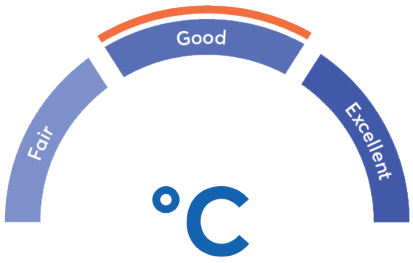
As a national development financial institution, ALTUM is playing an important role in developing the society in a sustainable way. ALTUM aims to support Latvia in achieving the climate targets set out in the National Energy and Climate Plan for 2021-2030. ALTUM's credit policy, as well as cooperation with other financial sector participants, are reviewed in accordance with these challenges.

Governance Assessment

Four aspects are studied when assessing the ALTUM's governance procedures: 1) the policies and goals of relevance to the green bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.

As ALTUM is administering and implementing state aid programs decided by the cabinet, ALTUM currently has no separate strategic plan or targets for promoting a transition to a low carbon society. The issuer still focuses on sustainability and has recently established a roadmap to better include sustainability in ALTUM's value chain. ALTUM is not yet reporting on its scope 2 and 3 emissions. The issuer includes climate resiliency measures for their green buildings portfolio, and aims to incorporate climate risk assessment in the loan origination assessment processes for the remaining portfolio within a two year period. The issuer further informs us that they will consider reporting in line with TCFD.

ALTUM's selection process is strong and builds on experiences from the 2017 framework. Relevant projects are screened for lock-in risks, rebound effects and controversial projects, and the environmental experts hold a veto. Reporting has been working well for the 2017 framework, and relevant KPIs have been provided for the 2021 framework. Impact reporting will be externally verified.



The overall assessment of ALTUM's governance structure and processes gives it a rating of **Good**.

Strengths

According to the IEA, renewable energy and energy efficiency play essential roles in accelerating clean energy transitions and achieving global climate and sustainability goals. ALTUM's green bond framework is expected to focus on renewable energy and energy efficiency and will most likely contribute to Latvia's climate targets, and is considered a strength. It is a strength that the issuer has laid down a 300 km sourcing threshold to ensure local sourcing of biofuels and thus reduce transportation needs. It is furthermore a strength that ALTUM requires EIAs before a project within the renewable energy and energy efficiency categories are selected, which will reduce the possibilities of supporting projects with high negative environmental impacts. By excluding fossil fuel projects or equipment in these categories ALTUM is reducing the risk of lock in of e.g. fossil fuel infrastructure. However, there is a risk of involvement of carbon intensive sectors, and sectors using fossil fuels in their value chain. We encourage the issuer to be ambitious when selecting assets for funding within the energy efficiency category.

It is considered a strength that ALTUM is including climate resiliency measures in green buildings.

Weaknesses

We find no material weaknesses in ALTUM's green bond framework.

Pitfalls

Even if ALTUM as an administrator of state aid programs currently does not have a separate strategic plan or targets for promoting a transition to a low carbon society, we encourage the issuer to establish their own sustainability targets, including emission reduction targets also for their portfolio. This will send a clear signal to ALTUM's customers on the importance of reducing the climate impacts also from the customers' side.

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. ALTUM should be aware of such effects and possibly avoid green bond funding of projects where the risk of rebound effects is particularly high. CICERO Green encourages ALTUM to establish energy efficiency thresholds for the energy recovery projects.

Even though it is a strength that the issuer aims to source feedstock for biofuels locally and conduct EIAs before a project is selected, there is a risk of unsustainable sourcing when the feedstock is not certified. We encourage the issuer to establish criteria related to certification of feedstock for bioenergy.

As the energy performance of buildings improves, construction emissions are becoming a more significant share of a building's climate footprint and should be managed. Efforts to reduce construction phase emissions are also important to further limit the environmental impact of buildings. ALTUM's green building criteria could be more ambitious on these elements. Allowing buildings heated with fossil fuels to be allocated green loans may increase the risk of lock-inn of fossil fuel heating sources. We encourage the issuer to tighten the selection criteria for green buildings, and consider not allocating green loans to buildings heated with fossil fuels as well as buildings housing emission intensive customers.

Even if ALTUM is including climate resiliency measures for their green building's portfolio, the issuer has not carried out systematic climate risk assessments to identify the physical climate risks ALTUM's own premises or their portfolio are exposed to. However, the issuer aims to incorporate climate risk assessment in the loan origination assessment processes for the remaining portfolio within a two-year period. CICERO Green encourages ALTUM to start reporting in line with TCFD.

Appendix 1:
Referenced Documents List

Document Number	Document Name	Description
1	ALTUM Green Bond Framework, dated September 2021.	Green Bond Framework.
2	Consolidated and Separate Annual Report for the year 2020, dated 31-03-2021.	The report summarizes key financial and development information.
3	Development Finance Institution Law, dated 15-11-2014.	The law specifies the organizational structure, administration, financial management of ALTUM, its procedure for the development, approval, implementation and monitoring of programs.
4	National Development Plan of Latvia for 2021-202, approved 02-07-2020.	Latvia's highest national-level medium-term planning document, defining Latvia's long term development vision.
5	Strategy of Latvia for the Achievement of Climate Neutrality by 2050, dated 2019.	Outlining interim targets and measures to reach Latvia's climate neutrality by 2050-target.
6	ALTUM's green bonds investor report, including an overview of green projects, dated 30-06-2021	Giving investors information on the green bond issuances of 2017 and 2012.

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Appendix 2:
About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.