

DEVELOPMENT FINANCE INSTITUTION ALTUM AS

**Mid-term Operational Strategy
2022-2024
EXTRACT**

Abbreviations

ALTUM –	Development Finance Institution ALTUM AS (AS Attīstības finanšu institūcija ALTUM)
Recovery and Resilience Facility or RRF	a new European Commission budget programme to supplement the EU multiannual budget for the programming period 2021-2027 to support reforms and investments linked to the transition towards a green and digital economy and to mitigate the social and economic impact of the pandemic crisis.
CEB –	Council of Europe Development Bank
EEFPMB –	Energy Efficiency Programme for Multi-Apartment Buildings
EIB –	European Investment Bank
EIF –	European Investment Fund
ERDF –	European Regional Development Fund
ESCO –	energy service company
EC –	European Commission
EU –	European Union
ESG -	Environmental, Social and Governance considerations
Financial Regulation -	Regulation (EU, Euratom) [...] of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union, such as Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 Regulation on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) Nmillio 966/2012
FCMC –	Financial and Capital Market Commission
IT –	information technologies
IS –	Information systems
LFL –	Land Fund of Latvia (Latvijas Zemes fonds)
Law –	Development Finance Institution Law ¹
Cabinet –	Cabinet of Ministers
SME –	Small and medium enterprises
AML/CTPF –	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
OECD –	Organisation for Economic Co-operation and Development
VCF –	venture capital fund (-s)
RMS –	Risk management system
Company -	ALTUM

¹ <http://likumi.lv/doc.php?id=270323>

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1. EXECUTIVE SUMMARY

The strategy includes the ALTUM goals for the following three years up to 2024.

ALTUM will strengthen its role as a **key partner of the Government in the implementation of financial instrument programmes**. ALTUM will continue actively engage in the **development of new financial instrument programmes** together with the relevant ministries.

The total EU public contribution to the **RRF** financial instruments to be implemented under ALTUM support programmes is at least EUR 225 million, which will target specific areas of support: **climate change mitigation solutions**, namely, improving energy efficiency in multi-apartment buildings and switching to renewable energy technologies and improving energy efficiency in enterprises as well as implementation of the programme for **digitalisation** projects in enterprises and **construction of rental houses**. These new support programmes are planned to start in 2022.

There also planned to be implemented other new programmes with a significant impact on Latvia's national economy in 2022. The new Strategy period will see **granting loans with capital rebate for large investment projects, the creation and launch of the 5th generation venture capital funds** and other programmes to be financed from the EU funds during the new programming period (2021-2027). Support to the existing programmes for entrepreneurs as well as introducing brand new ones to promote business **productivity, research and innovation** will be continued as well as supporting energy efficiency improvements in both multi-apartment buildings and private homes. Transitional funding from the European Agricultural Fund for Rural Development (EAFRD) is to provide additional funding for the Programme for Agricultural and rural development guarantees and the Programme for Loans for Enterprises for Rural Territories, while a new measure – loans with capital rebate for small rural businesses – is to be introduced with funding from the Common Agricultural Policy Strategic Plan 2023-2027.

Altum will continue to implement other ongoing state support programmes in areas identified as the state supported and prioritised, ensuring access to finance for enterprises at different stages of development and for specific target groups of the population.

Altum will follow the demand in the financial market and current market failures, improving and adapting state support instruments to the needs of clients and cooperation partners as well as to economic policy priorities.

During the Strategy period, the EC will decide on ALTUM's future activities and proposed financial instruments beyond 31 December 2022, to ensure continuity of state support.

In addition to the EU funds invested through financial instruments under the Cohesion Policy, **ALTUM plans to mobilise guarantees under the European Commission's InvestEU programme.**

A pillar assessment will be carried out in 2022 to enable ALTUM qualifying as an InvestEU Implementing Partner in 2023.

The Strategy anticipates a moderate increase in the volume of new transactions, with the volume of new transactions growing by [...] by 2024.

ALTUM's gross portfolio of financial instruments is expected to grow at an average annual rate of [...], reaching a total portfolio size of EUR [...] billion by the end of 2024

Contribution to economy by ALTUM volumes issued characterises a projected increase in ALTUM's impact on economic development by facilitating mobilisation of private capital and financial resources in the priority areas.

Return on Equity (ROE) is planned to remain above [...] % during the Strategy implementation period.

ALTUM's projected profit is calculated taking into account the approved provisions of the state support programmes, the projected financial results including.

Equity at the end of the reporting year is expected to show positive dynamics.

To ensure ALTUM's financial efficiency, the Cost-to-Income Ratio is planned to be no more than 65%.

Altum will particularly focus on environmental, social and corporate governance (ESG) considerations, both in financing decisions and in Altum's internal processes. The plan is to develop ESG criteria and sustainability targets for the financed projects, integrate them into the lending monitoring, to review and analyse the existing client portfolio, and gradually withdraw from financing projects that do not meet the ESG criteria set by ALTUM.

ALTUM will base its activities on standardisation of solutions, further optimisation of internal processes and the IT system modernisation.

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All amounts in this document are presented in the euro and rounded.

2. ALTUM DESCRIPTION

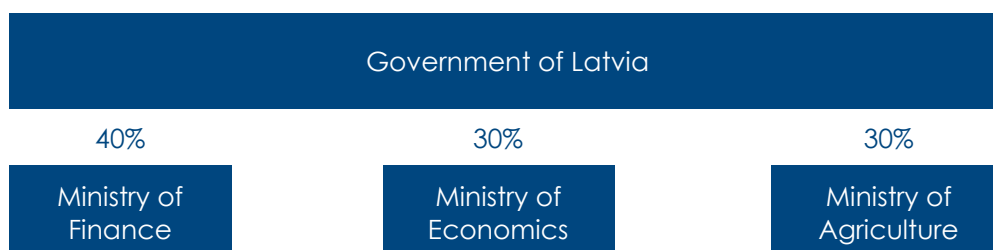
2.1. General Information

ALTUM² is a state-owned financial institution which implements support and development programmes by means of financial instruments and grants, realising national economic policy as well as taking care of accomplishing other governmental assignments defined in regulatory enactments. The primary goal of operations is correcting market failures by means of various support instruments, thus contributing to the development of national economy.

The decision on the establishment of ALTUM was made by the Cabinet on 17 December 2013. Its purpose was to integrate three capital companies³ previously independently engaged in providing state support in a single institution and hold state resources for implementing state support and development programmes at one place. ALTUM's strategic objective was set by the Cabinet Order of 17 December 2013 "On Establishment of the Joint Stock Company "Development Finance Institution". ALTUM was established with the specific objective set out in the Cabinet Order, namely, the implementation of state support and development programmes. At the same time, the Cabinet defined the following tasks for: 1) implement programmes approved by the Cabinet; 2) participate in the elaboration of state support and development programmes within the scope of competence and in cooperation with the responsible line ministry, representatives of the non-governmental sector and other cooperation partners; 3) collect, summarize and provide information to policy-makers on state support and development programmes; 4) ensure transparency and professional monitoring of state support and development programmes (in the form of financial instruments).

Share capital	Number of shares	Face value of a share	Assets (gross) ⁴	Profit before tax ⁵	Number of employees ⁶
204 862 333	204 862 333	1	896 million	5,9 million	221

All voting shares of ALTUM are owned by the Government of Latvia. The ALTUM shareholders are the ministries defined in the **Law**. The shareholding structure is as follows.



² Unified registration number 50103744891

³ The integrated capital companies: state-owned JSC Latvijas Attīstības finanšu institūcija ALTUM (Latvian Development Finance Institution ALTUM; before 1 January 2014 - state-owned JSC Latvijas Hipotēku un zemes banka (Mortgage and Land Bank of Latvia)), SIA Latvijas Garantiju aģentūra (Latvian Guarantee Agency) and state-owned JSC Lauku attīstības fonds (Rural Development Fund)

⁴ Audited data as at 31 December 2021

⁵ Audited data as at 31 December 2021

⁶ Data as at 31 December 2021, including employees on long term leaves



2.2. Mission, Vision, Values

MISSION

WE HELP LATVIA GROW!

VISION

COOPERATION PARTNER AND FINANCIAL
EXPERT IN PROMOTING THE GROWTH OF
NATIONAL ECONOMY

VALUES

Excellence

Building on our experience and creative approach, we seek to excel in everything we do. Continuous development, surpassing expectations, looking at things and facing challenges in a creative way – that's us.

Team

Our professionals together with clients and partners – that is our team in creating and implementing effective state support programmes tailored to clients' needs.

Responsibility

Our daily activities are effective, respectful and trustworthy.

2.3. Corporate Governance model

The Company management is organized according to good corporate governance practices, in line with the Law, the Law on Governance of Capital Shares of a Public Person and Capital Companies⁷, the Commercial Law⁸ and other binding regulatory enactments as well as implementing the principles of the Corporate Governance Code developed by the Ministry of Justice of the Republic of Latvia. The Law on Development Finance Institution allows for the principles of corporate governance, including the possibility to appoint one or several independent members of the Supervisory Board.

The Articles of Association of ALTUM are approved by the Cabinet of Ministers.⁹

ALTUM is managed by the shareholders' meeting, **Supervisory Board** and **Management Board**.

The Management Board of **five Members** is responsible for daily operations. Supervisory functions are performed by the **Supervisory Board** of **three members**.

The internal audit function at ALTUM is performed by the **Internal Audit Unit** (hereinafter –IAU) acting in accordance with the International Standards for the Professional Practice of Internal Auditing and the Code of Ethics of the Institute of Internal Auditors. The key objective of the IAU is to help in achieving the goals of ALTUM by implementing a systematic, disciplined approach to evaluate and improve risk management, efficiency of control and management processes. The IAU stresses that in its activities it is functionally independent and accountable to the Council in providing to the ALTUM shareholders an independent opinion on the functioning of the internal control system

In its operations ALTUM adheres to **International Accounting Standards** and **International Financial Reporting Standards** as well as the principles of **Capital Adequacy Directive requirements**¹⁰, to the extent they pertain to the peculiarities of the ALTUM operations and are effectively applicable.

On 15 June 2017, the international credit rating agency *Moody's Investors Service* (Moody's) assigned **ALTUM a Baa1 credit rating with a stable outlook**, which is one of the highest ratings assigned to Latvian companies.

On 12 August 2021, Moody's published an updated analytical report on ALTUM's credit rating. Moody's reissued ALTUM a long-term credit rating of Baa1 with a stable outlook, a baseline credit assessment (BCA) of baa3 and a short-term rating of P-2.

⁷ <http://likumi.lv/doc.php?id=269907>

⁸ <http://likumi.lv/doc.php?id=5490>

⁹ <http://likumi.lv/ta/id/273346-par-akciju-sabiedribas-attistibas-finansu-institucija-altum-statutu-apstiprinasanu>

¹⁰ http://ec.europa.eu/finance/bank/regcapital/legislation-in-force/index_en.htm

In 2017, ALTUM launched listing of securities (bonds) on Nasdaq Riga; therefore, complying with the requirements of the Financial Instrument Market Law¹¹ (hereinafter – the FIM Law), an **Audit Committee** was established at ALTUM.

The Audit Committee acts in accordance with the FIM Law and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

The Audit Committee performs tasks stipulated in the FIM Law, inter alia, supervises the financial reporting process, the efficiency of operation of the internal control, risk management and internal audit system to the extent applicable to ensuring the credibility of financial statements, supervises the course of the annual audit, etc.

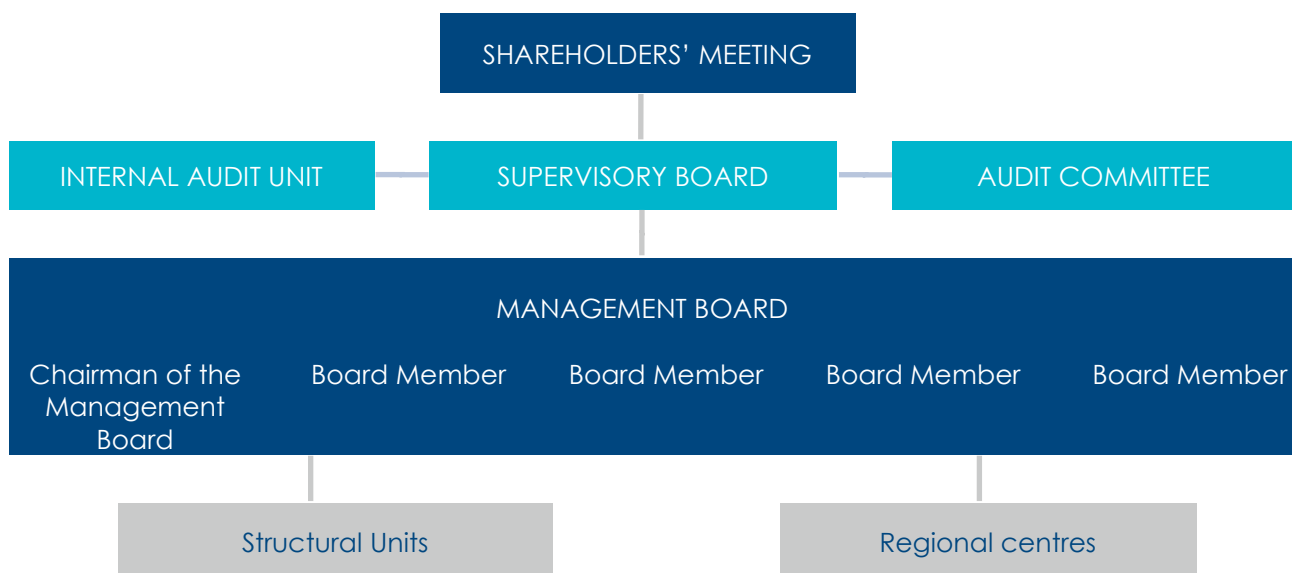
The Audit Committee is a collegial body composed of members elected at the shareholders' meeting.

ALTUM has established an **internal control system** in accordance with its operational profile, incl. the management of both risk and capital adequacy. The risk management system ensures prospective their management and taking timely corrective actions to mitigate or eliminate risks. By assuming risks, ALTUM maintains its long-term ability to meet its objectives and targets. Risk management is carried out using a variety of risk management techniques and measures as well as setting risk limits and hedging.

ALTUM has developed and implements **corporate governance principles** in line with the UN Global Compact and the Guiding Principles for Corporate Social Responsibility.

¹¹ <https://likumi.lv/doc.php?id=81995>

2.4. Governance Structure



For daily operations and collegial decision making, a number of committees have been established at ALTUM. The operating principles of each committee are set at the committee meetings and the meeting minutes are written. For taking decisions regarding state support instruments, the so-called four eyes principle is ensured.

The principal functions of the **Asset-Liability and Risk Management Committee** are the assessment of the asset/liability structure, monitoring, planning and management of the ALTUM growth, its liquidity, credit and other risks, capital adequacy and capital requirements as well as the equity amount and structure.

The main task of the **Information System Management Committee** is to monitor and manage the development of the ALTUM information systems, set the IS strategic and tactical planning directions and ensure the compliance of the IS development priorities regarding the operational management with the ALTUM business development strategy and current priorities.

The Credit Committee, whose functions are divided by risk limits and competence levels, takes decisions on credit exposures.

The Debtor Management Committee was established to improve the efficiency of debtor management and control process, improve the quality of the ALTUM loan portfolio as well as make decisions on approving the realisation of venture capital investments.

The **Investment Committee** is set up to assess new investments in the 4th generation venture capital funds and to decide about the approval of venture capital investments.

The **Ethics Commission** at ALTUM considers and assesses issues related to the compliance with the Code of Conduct at the Company.

On 1 December 2015, the Cabinet adopted Regulations on the Advisory Council of the joint-stock company Development Finance Institution ALTUM¹², whose functions include making proposals aimed at improving the analysis of eliminating financial instrument market failures, and regarding the implementation of financial instrument programmes supervise the implementation progress as well as make proposals on its improvement. The Advisory Board is chaired by a representative of the Ministry of Finance.

2.5. Real Estate

To meet the operational needs, ALTUM owns two office buildings at the addresses 3 and 4 Doma laukums Square in Riga as well as a real estate at 12 Lielā iela in Liepāja and 12 Lielā iela in Jelgava.

Also, temporarily ALTUM becomes the owner of real property through repossession of collateral for outstanding loans and other default liabilities of clients.

Also, temporarily ALTUM becomes the owner of real property through repossession of collateral for outstanding loans and other default liabilities of clients.

The Latvian Land Fund, the management of which was entrusted to ALTUM by the Cabinet Order No 119 of 11 March 2015, buys, sells and leases land used for agriculture in order to ensure the fulfilment of the objectives defined by the law - to promote the protection and availability of land resources for agriculture, rational, efficient and sustainable use as well as the preservation of agricultural areas.

¹² <http://likumi.lv/ta/id/278499-noteikumi-par-akciju-sabiedribas-attistibas-finansu-institucija-altum-konsultativo-padomi>

3. IMPLEMENTATION OF THE MID-TERM STRATEGY 2019-2021

In March 2021, the Mid-Term Strategy 2019-2021 was amended to set new planned performance indicators, taking into account the implementation of the Covid-19 crisis related state support programmes to mitigate negative impacts, previously not included in the Strategy, as well as considering that the risk coverage for these financial instruments is provided by contributing cash in ALTUM's special reserve capital, which provides an increase in equity, while the programme income and expenses, including allowances for expected credit losses established in accordance with International Financial Reporting Standards, affect the financial results for the reporting period,

ALTUM has successfully met its main non-financial target as set out in the Strategy: to support and facilitate the availability of finances to business and to contribute to national economic development by boosting investment in digitalisation, energy efficiency, productivity, innovation and affordable housing.

In the period from the end of 2018 to the end of 2020, **ALTUM operational scope increased** from EUR 559 million to **EUR 872 million**, of which the financial instruments portfolio increased from EUR 528.5 million to EUR 803.5 million, and due to the implementation of ALTUM support instruments the injection into the national economy was EUR 1.228 billion (instead of the projected EUR 1.199 billion).

The operational scale increased significantly due to the rapid launch of the COVID-19 impact mitigation programmes and parallel to them other new support programmes, such as the Study and Student Portfolio Guarantee Programme and the subsidy BALSTS for the purchase or construction of housing for families with three or more children. Provisions of most of the active programmes were changed to make them more accessible to a wider range of beneficiaries and to improve the eligibility conditions.

Notwithstanding that the specificity of ALTUM operations requires a very large amount of equity, which was also significantly increased in 2020 (the total amount contributed into ALTUM's special reserve capital during 2020 totalled EUR 145 million), in the years 2019 and 2020, ROE was 3.6% and 1.8% respectively (vs the projected 1.3%).

During the Strategy implementation period, so far there have been met the **main financial objectives** of ALTUM Mid-Term Operational Strategy 2019-2021: **to ensure a positive return on the ALTUM capital while implementing state support programmes.**

In 2019 and 2020, the indicators related to the financial objectives were exceeded. ALTUM's total profit for the period reached EUR 13.7 million considerably exceeding the projected in the Strategy EUR 6.2 million for that period. The performance in the first half of 2021 allows expecting meeting successfully the strategic objectives of the year, too.

There is achieved the objective of a credit rating that is not more than two notches below the Latvian sovereign rating assigned by Moody's. Moody's long-term credit rating Baa1 assigned to Altum is one of the highest assigned to Latvian capital companies and credit institutions.

The high credit rating allowed ALTUM to issue long-term bonds with good financial terms: the total amounts were EUR 15 million in 2019, , EUR 20 million in 2020 , EUR 20 million in 2021.

ALTUM has successfully implemented the state support programmes delegated to it, and constantly works to improve them and their terms and conditions.

During the Strategy implementation period , a number of actions were taken to improve the client service model (introduction of remote client service, implementation of standardised solutions for loans up to EUR 25 000, efficient and expeditious organisation of client service for Covid-19 related

state support programmes, creation of the auction portal of the Latvian Land Fund as well as other significant improvements).

Since 2019, **ALTUM participates in the Sustainability Index assessment organised by the Institute for Corporate Sustainability and Responsibility**. ALTUM's performance is analysed in five key areas: strategic planning, market relations, working environment, environment and local community. In 2019, **ALTUM received** the Sustainability Index Silver award, in 2020 - the Gold award and **in 2021 - the Platinum award, the highest category**.

3.1. Guarantees

Credit guarantees for enterprises

Work continued on improving the terms and conditions for guarantees, making them available both to a wider range of economic operators and to a greater extent. The maximum guarantee amount was increased from EUR 3 million to EUR 5 million, and the range of beneficiaries was extended including loans for those who acquire shares. Additional ERDF funding of EUR 18 million is also earmarked for the issuance of guarantees to businesses, as well as EUR 4.5 million for guarantees to large economic operators. In total, in the Strategy implementation period until 31 August 2021, guarantees of **EUR 106.5 million** were issued to enterprises, an **increase of 14%** compared to the previous Strategy period.

Under the second round selection portfolio guarantees intended for economic operators, new agreements were signed with two credit institutions and currently there are five of them that provide portfolio guarantees. By 30 December 2023, the inclusion of transactions within the existing agreements is planned as well. A total of **EUR 22.2 million was issued in portfolio guarantees for enterprises**.

ALTUM continued to provide support under the Guarantee Programme for Agriculture, Fisheries and Rural Development Measures, improving the terms and conditions of the programme by increasing the total public funding from EUR 1.1 million to EUR 8.8 million, setting the guarantee amount at 80% of the total funding and the maximum guarantee amount at EUR 1 million as well as an annual guarantee premium for working capital guarantees. A total of **EUR 10.8 million in guarantees** has been issued.

Housing guarantees for families with children and young specialists, and the subsidy BALSTS

As at 31 December 2021, under the Housing Guarantee Programme for Families with Children, **18,515 guarantees amounting to EUR 152.5 million** were issued; the total mortgage amount for which the respective guarantees were issued was EUR 1.4 billion. In total, more than 28.6 thousand children grow up in supported families. **Moreover, under this programme 3638 guarantees to young professionals for EUR 28.6 million** were issued. The total mortgage amount for which the respective guarantees were issued was EUR 238 million.

In 2020, changes were made in the Housing Guarantee Programme –including the maximum loan amount increase to EUR 250 000, eligibility for the guarantee in case of pregnancy and yet unborn baby, an increase by 5% for the guarantee if the home to be purchased is categorised as energy efficiency class A or nearly zero-energy building. The guarantee may be renewed if it was granted more than three years ago and the number of dependent children has increased. Conditions are provided for the introduction of the programme in the form of a portfolio guarantee.

In November 2020, under the Housing Guarantee Programme ALTUM **started to issue a subsidy BALSTS for mortgage loan recipients** whose family has at least three children or two children and a third child expected. Since the launch of the programme until 31 December 2021, **578 subsidies amounting to EUR 4.8 million** have been granted for mortgage loans amounting to EUR 45.9 million. In total, more than 1812 children are growing up in supported families.

Study and Student Portfolio Guarantees

In 2020, the Study and Student Portfolio Guarantee Programme was launched. The programme provides guarantees for study and student loans for academic studies in Latvia. By the start of the academic year 2021/2022, there were granted **3300 loans amounting to EUR 23 million**.

Export credit guarantees

As of Q3 2021, the export credit **guarantee portfolio amounted to EUR 13.9 million**. More than 50% of all export credit guarantees were issued to manufacturing companies, 44% to trading companies and a small part to construction companies. More than 70% of the guarantees granted were for exports to Belarus, Russia and Ukraine.

The Covid-19 pandemic opened to ALTUM the opportunity of expanding the scope of export credit guarantees, making them available also for export transactions to developed countries, regardless of the size of the exporting company.

3.2. Loans

ALTUM implemented several loan programmes:

- micro loans – up to EUR 25,000,
- loans for rural areas – up to EUR 100,000,
- start-up loans – up to EUR 150,000,
- SME growth-loans, including energy efficiency loans, – up to EUR 2.85 million,
- agricultural loans, inter alia, for financing the acquisition of land and working capital of farmers,
- parallel loans – up to EUR 5,000,000.

Key improvements made to loan programmes:

- SME growth loans complemented by new product for cash flow of energy efficiency service providers. In Q4 2021, it is planned to approve amendments to the programme, envisaging that the sectors to be supported include residential real estate development outside Riga and its conurbations; the maximum loan for energy efficiency measures will be increased to EUR 5 million;
- the maximum amount of loans for the purchase of agricultural land was increased from EUR 430,000 to EUR 1 million, and conditions were laid down for the lease and disposal of land purchased in special cases;
- the maximum loan amount for small borrowers operating in rural areas increased from EUR 70,000 to EUR 100,000, the funding can also be used for land acquisition;
- the Parallel Loan Programme is also open to farms and agricultural cooperative societies. In Q4 2021, it is planned to approve amendments to the programme, envisaging that the sectors to be supported include residential real estate development outside Riga and its conurbations. The state support conditions and deferred terms of principal amount payments were specified to facilitate access to loans for a wider range of stakeholders.

3.3. Venture capital

Since 2019, intensive and continuous work is carried out to improve the supervision of venture capital funds, with a particular focus on complying with the requirements defined in the state support framework.

Changes have been initiated to Cabinet Regulation No 226 of 12 April 2016 "Regulations on Acceleration Funds for Establishing and Developing Economic Operators and Enhancing their Competitiveness" and Cabinet Regulation No 518 of 2 August 2016 "Regulations on Seed Capital, Start-up Capital and Growth Capital Funds for Establishing and Developing Economic Operators and Enhancing their Competitiveness", where the main changes include reallocation of funding, specifying of support conditions and supported sectors as well as a supplement on the recovery of support.

After selecting managers for ALTUM's 4th generation of venture capital funds, **six acceleration venture capital funds** (three pre-seed and three seed funds), **two growth venture capital funds and one seed and start-up venture capital fund have started their operations.**

The committed public funding for ALTUM investments in the above funds:

- In acceleration pre-seed funds – EUR 9,600,000
- In acceleration seed funds – EUR 5,400,000
- In growth funds – EUR 32,289,750
- In a seed fund – EUR 5,850,000
- In a start-up fund – EUR 13,650,000

By 30 June 2021, the total amount of investments made by the 4th generation funds amounted to **EUR 26 million, with ALTUM participating with EUR 19 million.**

In the current Strategy implementation period, ALTUM continued investing in the 4th generation venture capital funds. The 3rd generation funds also succeeded in realizing a number of investments.

After realising their investments, the 2nd and 3rd generation venture capital funds reimbursed ALTUM cumulatively EUR 22 million by 30 June 2021. Already in 2020, ALTUM also started to receive the first repayments from the 4th generation funds.

It should be noted that the Covid-19 crisis made it more difficult for the 4th generation venture capital fund managers to make new investments as there were additional challenges in the process of selecting new projects and attracting investors, as well as in the operations of start-ups. At the same time, the pandemic also affected the ability of the 3rd generation funds to invest.

ALTUM, together with the European Investment Fund and the specialised financial institutions – Fund KredEx in Estonia and UAB Investicijų ir verslo garantijos in Lithuania – continued its activities in the **Baltic Innovation Fund**. The latter, managed by the European Investment Fund, was set up to provide investments in early-stage and growth-stage companies, mainly in the Baltic countries.

ALTUM's total committed capital in the Baltic Innovation Fund is EUR 26 million. By Q3 2021, ALTUM had invested EUR 19 million in the Fund. The total capital contributed by institutional investors to the Baltic Innovation Fund is EUR 97 million. As at 30 June 2021, the Baltic Innovation Fund had invested in 66 companies; 10 of them in Latvia received a total of EUR 60.92 million.

The Baltic Innovation Fund invests in companies wishing to develop their Baltic and international operations, attracting venture capital investments of up to EUR 15 million per company. One of the

objectives of the Baltic Innovation Fund is to increase the level of equity investment in SMEs and small MidCaps^[1] with a significant business presence in the Baltic countries.

In 2019, with the support of ALTUM shareholders, an agreement was signed with the existing Baltic partners and the EIF to establish the **Baltic Innovation Fund 2**, with a maximum investment of EUR 26 million per country and a maximum investment of EUR 78 million by the EIF. The Baltic Innovation Fund 2 investment strategy is based on the identified market needs to complement the Baltic private equity market with access to growth stage capital. The creation of this fund is a solution for further development of the Baltic venture capital sector. The Baltic Innovation Fund 2 focuses on increasing access to venture capital instruments for growth stage companies, mainly SMEs, that need to expand and grow. The Baltic Innovation Fund 2 supports investments outside Latvia, thus promoting an integrated Baltic capital market and increasing financing opportunities for companies.

As at 30 September 2021, the Baltic Innovation Fund 2 had made total investments of EUR 36.7 million.

3.4. Programmes for Improving Energy Efficiency

Energy Efficiency Programme for Multi-Apartment Buildings

By the time of drawing up this strategy, 989 projects were submitted to ALTUM, out of which **846 have already received a positive opinion for a total amount of EUR 183 million**. ALTUM has made decisions on providing **grants worth of EUR 89.5 million, issued guarantees worth of EUR 39.4 million and loans of EUR 16.2 million**. **Building completion and insulation** was done to a total of **288 multi-apartment houses**, while 98 renovation projects are under construction. As the programme has received a sufficient number of project applications, applying is closed now and the preparation for implementation of the submitted projects is underway.

Three Latvian credit institutions, namely SEB banka, Swedbank and Citadele banka, are actively involved in the implementation of the EEPMB programme and project funding.

ALTUM has initiated a number of changes to improve the implementation of the Programme for Improving Energy Efficiency in Multi-Apartment Residential Buildings: (1) amendments to Cabinet Regulation of 15 March 2016 No 160 "Regulation for the Implementation of measure 4.2.1.2 "Promoting energy efficiency in state buildings" of specific objective 4.2.1 "Promoting energy efficiency in state and residential buildings" under the Operational Programme "Growth and Employment"", stipulating that the deadline for the completion of the work cannot be used as an evaluation criterion; (2) the procedure for ALTUM to consider granting a loan for a EEPMB project (if the credit institution has not taken a decision on financing the project within 20 working days of the loan application); (3) as of July 2020, a single framework for supplier selection is established.

In 2020, additional funding of EUR 30 million made it available to open the programme to new projects. Additional 102 projects were accepted between 22 November and 21 December 2020.

Energy Efficiency Programme for Private Houses

From 27 May 2021 to 1 July 2021, applications were accepted for the Energy Efficiency Programme for Private Houses. A total of 392 project applications were accepted. As of the date of the Strategy, **243 applications were approved**, 52 were rejected while 76 beneficiaries withdrew from the programme.

[1] any entity which, at the date of the first investment (by the Investment Fund or, in the case of co-financing, by the EIF on contract basis), is a MidCap, other than one employing not more than 500 staff members (on a full-time basis).

Out of 243 project applications approved under the Energy Efficiency Programme for Private Houses, 198 beneficiaries have signed a contract with ALTUM, of which 61 beneficiaries are already implementing energy efficiency measures in their private house.

As the programme has received a sufficient number of project applications for the allocated funding, the application for the programme is closed now and the implementation of the submitted projects is underway, i.e., improvement of energy efficiency of private houses.

The largest number of project applications was received from Jelgava - 28, Valmiera - 14, Sigulda – 11 and Ventspils - 11.

When implementing energy efficiency improvement measures in a private house, it is most often recommended to insulate its facade, replace windows and doors as well as install heat recovery systems.

From 8 September 2021, the **Loan Programme for Multi-Apartment Building Renovation** is available with a total funding of **EUR 31 million**.

Other energy efficiency programmes

As at 30 September 2021, the European Local Energy Assistance (**ELENA**) had awarded grants of almost EUR 700,000, with projects of ~EUR 100,000 in the pipeline. This programme was intended as additional support to ALTUM providing energy efficiency loans for economically viable and properly prepared projects. The programme implementation deadline was 30 June 2022, as set by the EIB.

A loan product was developed in accordance with the Cabinet Regulation No 1065 "Regulations Regarding Loans for Promoting the Development of Micro, Small And Medium Sized Economic Operators and Agricultural and Forestry Service Cooperative Societies", available for **ESCO for the purchase of cash flow** by refinancing completed multi-apartment building insulation projects. **In 2021, a loan was granted to LABEEF** (Latvian Baltic Energy Efficiency Facility).

3.5. Energy Efficiency Programme for Corporate Segment

By 30 September 2021, **45 loan projects had been approved for a total amount of EUR 21.2 million**, including EUR 13.5 million in loans for improving energy efficiency in companies, resulting in a 21% reduction in their energy consumption or 41,237 MWh per year.

3.6. Latvian Land Fund

Over the last three years, the transactions volume of the Latvian Land Fund increased significantly, reaching 21,622 ha in the first half of 2021 and amounting to EUR 72 million. Since the establishment of the Latvian Land Fund, more than 600 ha of long-abandoned and overgrown properties underwent clean-ups.

3.7. Specialised State Support Programme to Mitigate the Negative Impact of Covid-19

In 2020, one of ALTUM's biggest challenges was to implement state support programmes as quickly as possible and to provide support to businesses that faced the negative effects of Covid-19.

When in mid-March 2020, Covid-19 was declared a global pandemic and there was a sharp downturn in the economic situation, ALTUM responded quickly and was actively involved in mitigating the negative impact of Covid-19 on the business sector and in cooperation with the Ministry of Economics promptly developed new financial support instruments, as well as continued the introduction of new support programmes not related to Covid-19 mitigation and improved and streamlined the conditions of the existing support instruments.

Support to businesses to overcome the negative effects of Covid-19 was mainly implemented through loan and guarantee instruments.

So far, within the framework of the Covid-19 related support instruments the following support to businesses has been granted:

1. Working capital loans: public funding – EUR 60 million, EUR 103 million granted, 640 transactions approved;

2. Individual and portfolio guarantees: public funding – EUR 31.5 million, **bank financing – EUR 110.8 million**, guarantees – EUR 42.1 million, 244 transactions approved;

3. Capital Fund: public funding – EUR 48.9 million, investments granted – **EUR 32.9 million**, 5 transactions approved;

4. Culture Support Programme: public funding – EUR 6 million, **EUR 1,7 million** granted, 18 transactions approved;

5. Short-term export credit guarantees: **112 guarantees** issued for the amount of **EUR 8.6 million**.

As the impact of the Covid-19 pandemic on the Latvian economy continues, support instruments are planned to be available for companies affected by Covid-19 also in 2022.

In 2020, ALTUM joined the moratorium declared by the Finance Latvia Association on the temporary moratorium of loan principal payments for legal entities that had received loans.

Altum Capital Fund

On the basis of the amendments to the Law on Measures for Prevention and Suppression of the National Threat and its Consequences due to the Spread of Covid-19, dated 23 April 2020 (expired on the date of entry into force of the Law on the Suppression of Consequences of the Spread of COVID-19 Infection), an alternative investment fund was established, with ALTUM as the fund manager. The Fund was set up to support well-managed, promising large companies to overcome the impact of Covid-19, that, because of the virus, are ready to change their current operations by altering their business model, adapting product development, introducing new technologies, entering new export markets and fostering their growth.

In May 2020, ALTUM was registered with the FCMC as an alternative investment fund manager

The requirements for the Fund's investment policy were set out in the Cabinet Regulation No 458 of 14 July 2020 "Regulations on Equity Investments in Businesses Affected by the Spread of Covid-19", that defines the following types of investments to be supported:

- equity investments,
- mezzanine loans with a conversion option,
- purchase of corporate bonds admitted to trading on alternative Nasdaq First North or regulated Baltic markets.

The limited partnership AIF "Altum Capital Fund" was registered in July 2020 and on 16 September of the same year the entire committed capital contribution of EUR 100,000,000 was raised, 50% of which were from the companies managing the state-funded pension scheme and 3rd pillar pension scheme. Until the development of this Strategy, the Fund had committed more than EUR 32 million.

At the end of 2021, an amendment to the provisions of the programme broadened the scope of equity investments by reducing the eligibility of enterprises from 250 to 150 employees and extending the deadline for access to finance to 30 June 2022.

3.8. Three Seas Initiative Investment Fund

On 16 September 2020, ALTUM joined the investment fund "Three Seas Initiative Investment Fund S.A. SICAV-RAIF (hereinafter the Three Seas Investment Fund) by signing an investment commitment of EUR 20 million.

The Three Seas Investment Fund was established on 3 June 2019 in the Grand Duchy of Luxembourg.

The Three Seas Investment Fund is a politically inspired, commercially driven platform to improve connectivity between the 12 EU Member States located between the Baltic, Adriatic and Black Sea. The solutions are expected to be reliable and sustainable, strengthening the EU cohesion and transatlantic links, while delivering tangible improvements for the people of the region. The aim of the creation of the Three Seas Investment Fund is to improve infrastructure by developing the most innovative solutions in digital, energy and transport systems. The Three Seas Investment Fund partners are the United States, Germany and the EC, which are closely involved in the process.

The Three Seas Investment Fund finances strategically important infrastructure projects that are essential for the economic growth of the region.

ALTUM representatives, besides participation at the members meeting, are actively involved in the activities of the Fund Council and Board.

As at 30 September 2021, ALTUM had invested more than EUR 7 million in this fund.

3.9. Pillar Assessment

In addition to what was not planned in the Strategy, **in 2019 ALTUM launched the Pillar Assessment project to verify a full-fledged compliance assessment** in accordance with the requirements of **the Financial Regulation**, which is a prerequisite for participation in the *InvestEU* support mechanism established by the European Commission. The pillar assessment is carried out according to the assessment methodology approved by the EC. ALTUM assessed nine pillars with more than 300 test questions, related to

- internal control system,
- accounting system,
- independent external audit,

rules and procedures relating to:

- EU funding in the form of grants,
- procurement,
- financial instruments,
- exclusion from access to funding,
- publication of information on recipients,
- protection of personal data.

On the basis of an assessment by an independent external auditor, the EC decides whether the institution can be entrusted with budget implementation tasks and an indirect management agreement.

In 2020, ALTUM carried out the so-called pilot pillar assessment to obtain an auditor's opinion on ALTUM's compliance with the requirements of the Financial Regulation and to identify improvements to be made, namely, to improve internal processes and governance.

In 2021, ALTUM implemented the auditor recommendations and **in October 2021 ALTUM submitted its application to the EC for the InvestEU pillar assessment**. During the application process, the EC assesses ALTUM's legal and financial compliance. Receiving the EC opinion, the selection of auditors for the pillar assessment in 2022 is planned.

3.10. Client service

During the previous Strategy implementation period, **ALTUM introduced an efficient remote client service model across all client segments**, ensuring continuity of service availability even during the Covid-19 crisis periods. For example, in the remote client service system *mans.altum.lv* a client can submit all the documents necessary to receive the service as well as communicate with ALTUM staff. Clients can choose a form of remote consultation, including video consultations. With the onset of the Covid -19 pandemic, previously identified clients could conclude transactions with ALTUM using a secure electronic signature.

The workflow model (standardised terms and conditions, automated contract drafting) **successfully implemented within the K25 project** (for loans up to EUR 25,000) **has also been partially applied to other loans**.

During the pandemic, a particularly important client service parameter was the speed a client received the decision to grant or reject a loan. Reviewing the workload of each staff member at a given point in time was introduced and workload reallocated expeditiously to ensure the fastest possible decision making.

To mitigate the impact of Covid-19, ALTUM launched the Covid-19 crisis related working capital loan Programme in March 2020, which was subject to specific client service principles, the most important of which was a loan application processing time of up to 5 calendar days. In March and April 2020, client service was organised to ensure a continuous flow of applications, working on weekends and public holidays. In this way, the companies were provided with the necessary financial flow very quickly, helping many clients to adapt to the crisis conditions, and also to re-profile their operations, for example, to start producing products that were in short supply at the time, e.g., face shields or disinfectants.

The experience gained in servicing clients who received the Covid-19 crisis related loans allowed us to improve internal processes to operate even more efficiently, for example, greater specialisation of the staff, more flexibility to reallocate projects across regional borders. Servicing clients in the "crisis mode" demonstrated the flexibility, performance and high stress resilience of the ALTUM team.

An **on-line client satisfaction survey was set up** to get faster client feedback and response to market changes.

During the previous strategy implementation period, **ALTUM fully implemented and strengthened the use of centralised remote client service tools in the start-up and small project client audience**, freeing up the time of client transaction managers to service larger and more complex projects.

Certain stages of the application assessment and decision-making process have been streamlined and standardised, thus reducing the application assessment time.

ALTUM has reviewed and reduced the number of documents to be submitted by clients, obtaining a number of data from external data sources, ensuring their centralised and automatic import into ALTUM systems.

The client portal *mans.altum.lv* has been updated introducing the partner section and improving its usability. Further development of the system is planned for the future.

Client applications are registered on the client portal *mans.altum.lv*.

The Latvian Land Fund auction portal is launched.

An automated solution for processing payment requests under the EEFPMB programme.

3.11. HR Management

In the previous strategy period since 2019, ALTUM established structural units and determined the number of employees in line with the Company's strategic goals and procedures for support programme implementation.

ALTUM's workforce composition is as follows: 66% female and 34% male; as to the age groups: 9% is under 30 years; 66.7% is between 31 and 50 years; and 24.3% is over the age of 51 years. The gender distribution of the staff is relatively stable, but proportionate to the gender balance in the management team.

Adherence to the principles of diversity, equality and inclusion is an integral part of ALTUM HR policy and these principles are implemented in daily HR management processes. **In 2020, ALTUM joined the Latvian Diversity Charter**, becoming one of the official ambassadors of diversity in business and workplace.

ALTUM has established a competence-based annual evaluation system, ALTUM Collective Agreement is in place, **a unified compensation, incentive and professional development system has been developed**. ALTUM working environment and HR management processes are continuously improved in constructive cooperation with authorised representatives of employees.

Since the beginning of 2020, ALTUM has put in place appropriate IT and technical solutions for fully effective remote working so that, in the event of an increased risk to the safety and health of staff, employees can fully perform their duties remotely.

In 2020, improving internal communication ALTUM carried out a qualitative overhaul of the internal communication environment and promoted employee engagement, increased internal communication activity and website popularity.

ALTUM is committed to providing employees with safe and health-friendly working conditions by taking reasonable and practical measures to ensure a healthy and safe working environment.

To promote the well-being and health of employees, **since 2019 ALTUM has significantly improved its recreation and sports facilities as well as the number of ergonomic workstations and equipment**.

In order to ensure a health-friendly working environment in the COVID -19 situation, in 2020 and 2021 ALTUM paid particular attention to the cleanliness and protection of the internal working environment, the availability of various protective equipment and disinfectants for employees, and actively communicated with employees about health protection measures both in the working environment and in everyday life.

The working environment has also been improved in terms of environmental impact by reducing electricity consumption, replacing lighting with energy-efficient bulbs, gradually replacing the car fleet with hybrid and electric cars, reducing paper consumption and introducing electronic document management, reducing the use of plastics and installing drinking water filters.

4. STRATEGIC GOALS

4.1. Road Map



Effective HR management;
motivation and evaluation of
employees

Responsibility,
teamwork,
excellence

Continuous improvement,
meaningful communication

4.2. New EU Programming Period

Market failure assessment

ALTUM programmes are implemented in accordance with the relevant regulations approved by the Cabinet to minimise market failures regarding the availability of funding. Both before and during the programme implementation process the current market failures and the business needs are closely monitored and, where applicable, the programmes are improved accordingly.

ALTUM as a development financial institution offers support instruments that are a solution in situations when market funding is not available mainly due to the following reasons: insufficient collateral, insufficient existing cash flow, the entity is newly founded or too young and it does not have a stable cash flow, insufficient participation in the project or equity, high project risk. The primary criterion for granting ALTUM support is the assessment of the project's viability and economic feasibility that is carried out in all cases.

Prior to the implementation of the EU programming period 2021-2027, an initial (market failure) assessment of financial instruments was carried out¹³. It included a survey of economic operators and interviews with various stakeholders, industry associations, ministries, credit institutions and others, to identify the extent and areas of market failures. The assessment provides recommendations for new financial instruments ministries plan to introduce in the new programming period.

New EU programming period

In the new EU programming period, according to the national planning document "Latvia's Draft Operational Programme for 2021-2027", ALTUM's financial instruments will receive more funding than in the current period. After the development and approval of the necessary national framework, the Ministry of Economics in cooperation with ALTUM and other partners in 2022 develop the Cabinet Regulations for each planned programme in the following key areas including indicative planned funding (the amounts given in the Supplement to the Draft Operational Programme may be specified upon its approval and the Cabinet Regulations for a specific programme):

- 1) 5th generation venture capital - indicatively EUR 75 million;
- 2) new financial instruments (incl. loans with capital rebate) to support productivity gains in enterprises and innovations – indicatively EUR 60 million;
- 3) continuing with similar to the existing programmes in the form of loans and guarantees – indicatively EUR 75 million.

A major difference from the 2014-2020 programming period is that under the new EU Regulation 2021/1060 for Funds (Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy) it will be possible to implement hybrid financial instruments, which also include a grant element in the form of capital rebate. This means that a financial instrument with a

¹³ https://www.esfondi.lv/upload/izvertejumi/0_ex_ante_sakotneja-novertejuma-zinojums_.pdf

grant element can be combined in a single transaction, where the grant component is less than half of the total amount of support. This mechanism will significantly facilitate the administrative implementation of several programmes and will allow an operator to receive both types of support in a single application. The capital rebate is to be granted upon achieving the planned project results and completion of the project.

A total of EUR 147 million of ERDF is earmarked for improving energy efficiency in multi-apartment buildings and private houses; these instruments are described in greater detail in the sections below

The new programme "Loans with Capital Rebate for Small Rural Businesses" is to be introduced under the Common Agricultural Policy Strategic Plan 2023-2027, with indicative EAFRD funding of EUR 21 million.

InvestEU

In addition to the investments from EU funds in the form of financial instruments under the Cohesion Policy, ALTUM plans to attract guarantees under the European Commission's *InvestEU* programme (running from 2021 to 2027) as a follow-up to the so-called "Juncker Plan" under the European Fund for Strategic Investments (ESIF), providing an EU budget guarantee to support investment and access to EU financing. The EIB Group is to be the main *InvestEU* Implementing Partner. Other Partners include such international financial institutions as the European Bank for Reconstruction and Development, the Nordic Investment Bank and national development institutions. ALTUM intends to use this opportunity. The most important requirement is a pillar assessment.

In 2022, a pillar assessment is to be carried out in cooperation with selected auditors to enable ALTUM to qualify as an *InvestEU* Implementing Partner. After receiving the auditors' opinion, it is planned to coordinate with the responsible DG of the European Commission to agree on the next steps required to conclude the Indirect Management Delegation Agreement and to apply for participation in the *InvestEU* support mechanism; the next round of selecting Implementing Partners is planned for 2023.

Alignment of future ALTUM activities with the EC

In 2015, the EC authorised ALTUM operations until 31 December 2022 by Decision in State Aid Case No SA.36904 (2014/N). This Decision assesses ALTUM's scope of activities and the financial instruments offered as well as sets the maximum amount to be invested in ALTUM's capital. To ensure continuity of operations, a pre-notification was submitted to the European Commission in September 2021 to extend ALTUM operations for the next seven years. To prepare the necessary information, all ministries were consulted on their plans to implement the programmes in cooperation with ALTUM, the total possible funding for the programmes was calculated and the maximum planned amount to be invested in ALTUM's capital was estimated.

4.3. Operational priorities

Altum will implement the existing and introduce new state support programmes in areas identified as the state supported and prioritised, ensuring access to finance for enterprises at different stages of development and for specific target groups of the population.

ALTUM's **main financial objective** in implementing the state support programmes is to ensure positive return on Altum's equity.

ALTUM's **main non-financial objective** is to support and facilitate availability of finances to business and to contribute to national economic development.

As an economic response to the challenges posed by the Covid-19 pandemic, the EC set up the EU Recovery and Resilience Facility (RRF) in the first half of this year. The EU Economic and Financial Affairs Council has endorsed Latvia's National Recovery and Resilience Plan.

The total EU public contribution to the RRF financial instruments to be implemented under the ALTUM support programmes is at least **EUR 225 million**, which will be complemented by private funding targeting the prioritized areas of support: namely, improving energy efficiency in multi-apartment buildings and private houses, switching to renewable energy technologies and improving energy efficiency in enterprises, digitalisation projects in enterprises, construction of rental houses. An important principle to be respected in the implementation of the RRF instruments is "do no significant harm". The planning of the programmes to be financed has already been subject to an assessment against the environmental objectives, while the implementation of the programmes is to be monitored against the planned results and objectives.

A significant part of the available resources will be dedicated to climate change mitigation and digitalisation.

Altum will particularly focus on **environmental, social and corporate governance** (ESG) considerations, both in financing decisions and in Altum's internal processes.

Altum's objective is to continue ensuring the highest possible credit rating that is not more than two notches below the Latvian sovereign rating assigned by the international credit rating agency.

ALTUM will continue with its efforts to improve internal processes, to further implement standardised solutions in decision-making, and to review and improve risk management processes.

4.3.1. Solutions for Climate Change Mitigation

4.3.1.1. ENERGY EFFICIENCY PROGRAMMES

Energy efficiency of companies

The programme to improve energy efficiency in enterprises, launched in 2017 with the issuance of green bonds as a source of resources, has a total funding of EUR 200 million for the coming years, including EUR 80 million from the RRF and EUR 40 million from the ERDF, including additional funding from other international financial institutions or through the issuance of bonds.

The new, improved programme is to finance:

- energy efficiency measures - replacement of appliances and electrical equipment, energy recovery devices, LED lighting, heating,
- sustainable transport,
- renewable energy - solar panels and collectors, cogeneration, wind turbines, hydropower, biomass boiler houses,
- so-called "green buildings" (non-residential buildings),
- ESCO - loans to energy service companies for the provision of energy services to businesses and private individuals,
- research and development activities.

The programme provides additional support in the form of capital rebate covering part of the loan principal if the expected project results are achieved.

Energy efficiency in residential buildings

The EEPMB programme under the RRF is planned to continue with the ERDF funding for the 2021-2027 programming period, with more than EUR 138 million earmarked for the Energy Efficiency Programme for Multi-Apartment Buildings and Private Houses.

A new EEPMB programme under the RRF is to be launched in 2022, with funding of EUR 57 million, supporting energy efficiency improvements in more than 180 multi-apartment buildings. The programme will be implemented as a hybrid financial instrument, with ALTUM providing a loan or guarantee for building insulation, and, if the primary energy savings from the insulation will be at least 30% for the building, a capital rebate or reduction of up to 49% of the loan principal will be granted. The administrative burden for citizens implementing projects will be reduced, namely, fewer reports and permits and a focus on delivering the result, i.e., energy savings.

In addition, the Loan Programme for Multi-Apartment Building Renovation, launched in 2021, will be continued. The aim of the programme is to facilitate access to finance for renovation of multi-apartment buildings and to motivate apartment owners to invest in the improvement of their property, including common areas. The total funding for the programme is EUR 31 million. The funding is earmarked for renovation of common areas and residential landscaping, also for replacing water pipes or roofs, installing a children or sports playground, renovating the facade of the building, and other works.

Additional funding available, ALTUM will continue to accept applications for the Energy Efficiency Programme for Private Houses.

ESCO

Building on the financing of energy service companies already launched, the new strategy period will also see the availability of funding for the purchase of future cash flows from energy service providers or ESCOs through the refinancing of completed multi-apartment projects.

European Local Energy Assistance

In cooperation with the EIB, ALTUM plans to continue providing the grant (European Local Energy Assistance or ELENA) to support companies through covering the costs related to expertise and the drafting of energy efficiency projects.

A new agreement with the EIB is planned for 2022. The total amount of the programme is EUR 2.25 million, 90% of which will be covered by the EIB.

4.3.1.2. Energy Efficiency Fund

To support initiatives in the area of energy efficiency according to the Energy Efficiency Law,¹⁴ ALTUM will continue managing the State Energy Efficiency Fund whose funding is defined by the Energy Efficiency Law, i.e., the contributions to the Fund will be ensured by the Ministry of Economics. When the Fund's volume reaches a sufficient level, ALTUM in cooperation with the Ministry of Economics will use the respective resources for implementing state support programmes for reaching the mandatory final energy consumption target and measures for community awareness raising on energy efficiency.

Under the Fund, so far marketing and educational activities have been carried out, raising awareness on energy efficiency.

4.3.1.3. PROMOTING SUSTAINABLE FINANCING AND ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE

The European Union has taken a series of steps to support the transition to a more resource-efficient and sustainable low-carbon economy and to create a financial system that supports sustainable growth.

Sustainable finance is a key to achieving policy objectives under the European Green Deal as well as to meeting the international commitments of all EU countries concerning climate and sustainability objectives.

Sustainability is a key feature of the EU recovery from the Covid-19 pandemic and the financial sector will play a crucial role in achieving the objectives of the European Green Deal, including the transition to a climate-neutral, climate-resilient, resource-efficient and equitable economy.

To implement sustainable finance and environmental, social and corporate governance (ESG) considerations, ALTUM will

- expand its set of sustainable financial instruments,
- improve the inclusion of SMEs and MidCaps in sustainability engagement by providing them with appropriate access to finance and specific incentives to achieve sustainability outcomes,
- generally, increase the financial sector and government support for integrity in this area,
- develop internal processes for setting up and monitoring ESG,
- develop the staff competence in sustainable finance and ESG assessment, as well as risk management.

During the strategy period, ALTUM's state support programmes will promote the implementation of projects that contribute, through measurable indicators, to a positive assessment of the social and environmental factors related to the sustainability of enterprises and their impact on society.

ALTUM will start working on the necessary conditions for the relevant state support programmes as well as the evaluation criteria as early as 2022.

¹⁴ <https://likumi.lv/doc.php?id=280932>

4.3.2. New Support Programmes with a Significant Impact on the Economy

4.3.2.1. LARGE INVESTMENT LOANS WITH CAPITAL REBATE

On 6 July 2021, the state support programme for medium-sized and large enterprises for investment projects (of at least EUR 10 million) to boost competitiveness was approved, providing the possibility of capital rebate, i.e., repaying the loan principal amount. The share of public funding is to be 58.565 million, while private funding will reach at least EUR 136.5 million, along with the contribution of the economic operators in the project implementation.

The programme implementation envisages ALTUM cooperation with the Investment and Development Agency of Latvia, responsible for the evaluation of projects according to the areas of the smart specialisation strategy as well as for the evaluation of project performance indicators (exports, jobs, R&D, average salaries, green investments) both at the initial project selection stage and after the project implementation before the capital rebate is granted.

ALTUM funding is expected to be in the form of capital rebate and ALTUM will assess the economic feasibility of the projects as well as their compliance with the set terms and conditions. The remaining project funding will be raised from credit institutions or international financial institutions, as well as a certain amount of co-financing from the business itself. Capital rebate of up to 30% of the loan amounts received from ALTUM and other financiers will be applied and will be granted in equal instalments over three years after the completion of the project, subject to achieving the planned indicators.

4.3.2.2. STATE SUPPORT FOR CONSTRUCTION OF RENTAL HOUSES

To promote the availability of rental housing for households with sufficient income, a programme for the construction of low-rent housing is planned. The RRF funding of EUR 42.9 million is earmarked for this purpose. The available funding is for building up to 700 apartments and thus helping ensure access to modern housing in the regions for people who cannot afford quality housing at market prices. The rents of such apartments are expected to be within the amount specified in the programme terms and conditions.

4.3.2.3. NEW VENTURE CAPITAL FINANCIAL INSTRUMENTS

In the new Strategy period, ALTUM plans to create the 5th generation funds to support investments in high-growth and innovative companies with EUR 75 million of public funding.

In 2022, fund managers will be selected for managing:

- start-up funds for pre- seed and seed capital investments with a total public funding of EUR 45 million;
- venture capital funds, with public funding of EUR 10 million for seed capital investments and public funding of EUR 20 million for growth capital investments.

The above mentioned venture capital funds - seed capital and growth capital funds - are expected to attract an additional 50% private funding and to operate on a *pari passu* basis.

ALTUM will focus on the qualifications of fund managers and their track record in successful fund management. The selection and qualification of managers will be subject to a clear initial selection process, the criteria including an assessment of the applicants' qualifications and previously managed fund performance, and an assessment of the investment strategies proposed by the candidates.

The 5th generation venture capital funds will invest in start-ups as well as late-stage companies, including export-oriented market segments.

4.3.3. Digitalisation Programme for Corporate Segment

Latvia's RRF allocates 21% of its funds to measures supporting digital transformation. ALTUM Digitalisation Programme for Corporate Segment will support the digital transformation of enterprises by providing funding for the digitalisation of business processes, the purchase of Industry 4.0 solutions (i.e., both hardware and software), 5G networking systems and equipment, data storage solutions, etc.

The RRF funding under this programme amounts to EUR 45 million, which, together with additional funds raised from ALTUM, will make it possible to create support instruments of EUR 80 million- EUR 100 million. The programme is to be implemented in the form of a hybrid financial instrument (i.e., a loan with a principal reduction option). Companies will have access to loans ranging from EUR 100,000 to EUR 7 million with a term of up to 10 years.

This digitalisation and automation programme for SMEs and large enterprises is designed to promote business development, strengthen competitiveness and increase sales by supporting productivity-enhancing investments.

4.3.4. Other State Support Programmes

4.3.4.1. GUARANTEES

Credit guarantees for enterprises

ALTUM will continue to provide credit guarantees and guarantees for farmers, improving eligibility conditions, widening the range of beneficiaries and improving access to guarantees. It is planned to grant guarantees to economic operators for refinancing ALTUM loans to credit institutions and to make guarantee premiums more affordable for clients as well as to promote the development of sustainability projects through guarantees. ALTUM will also assess opportunities for international cooperation by attracting cooperation partners from Baltic or international financial institutions and also assess cooperation with other financial market participants. The implementation of the Portfolio Guarantee Programme for economic operators will be continued with an open selection process for new credit institutions.

The new EU programming period 2021-2027 is to allocate EUR 40 million for business guarantees, portfolio guarantees and guarantees for digitalisation projects.

Housing guarantees for the families with children and young specialists, the subsidy BALSTS

In the second half of 2021, a selection of credit institutions was made for the introduction of a programme in the form of portfolio guarantees, starting in 2022. These changes are to reduce the public funding required for the implementation of the programme and ensure faster delivery of guarantees. In the coming years, the availability of the subsidy BALSTS for large families purchasing a home is planned.

Study and Student Portfolio Guarantees

In Q4 2021, an agreement with the European Investment Fund is expected to be signed on the counter-guarantee under the Skills & Education Guarantee Pilot (S&E Pilot), which will provide additional funding for the implementation of the programme as well as expand the types of training entitled for crediting (studies outside Latvia).

Export Credit Guarantees

ALTUM will continue to issue and service short-term export credit guarantees in line with the objectives of the National Industrial Policy Guidelines 2021-2027, as well as initiate improvements to this programme, ensuring the availability of export credit guarantees to a wider range of economic operators, and participate in strengthening and improving the export support ecosystem in Latvia. The EC notification on ALTUM's existing short-term export credit guarantees to EU/OECD countries, if the exporter is an SME and its export sales do not exceed EUR 2 million or the deferred payment period is longer than 6 months, is valid until the end of 2022. A new notification will be prepared to continue the said programme that will include encouraging a wider range of exporters to be supported under this programme, e.g., increasing the maximum export sales to EUR 5 million, which is also the maximum guarantee limit currently set under the Credit Guarantee Programme intended for economic operators. ALTUM expects to reach an export credit guarantee portfolio of EUR 12 million during the Strategy implementation period.

4.3.4.2. LOANS

ALTUM will continue to implement the existing loan programmes and plans to launch new ones using funding from the RRF and EU or to improve the terms and conditions of the programmes in line with public funding.

The European Agricultural Fund for Rural Development (EAFRD) with EUR 30 million will become a new source of funding within the framework of the current EU programming period and the Ministry of Agriculture makes it available to ALTUM for the implementation of financial instruments under the existing programmes: EUR 20 million for small loans in rural areas and EUR 10 million for rural guarantees.

In the EU new programming period, the new programme "Loans with Capital Rebate for Small Rural Businesses" (indicatively EUR 21 million) is to be introduced under the Common Agricultural Policy 2023-2027. The objective of the programme is to encourage people to engage in economic activity and to increase the availability of financial resources for economic operators in the agricultural and rural development sectors. ALTUM financing is expected to be in the form of capital rebate, which will be granted to borrowers if they achieve the planned indicators.

4.3.4.3. LATVIAN LAND FUND

ALTUM will continue to manage the Latvian Land Fund, fulfilling the tasks defined by the law regarding the acquisition, sale, lease and management of agricultural land.

In the period until the end of 2024, the Latvian Land Fund expects to have a stable and balanced real estate portfolio, with moderate growth of 3-5%, reaching a real estate portfolio of 30,000 ha.

The plan is to ensure efficient management of agricultural land, generating an average return of 3.8%.

The Latvian Land Fund plans to increase transactions by activating new and small farms, focusing more on less-active and border regions, concluding longer term lease agreements where possible, and acquiring several properties at the same time from companies in other sectors or from farms that are going out of business.

ALTUM in cooperation with the Ministry of Agriculture of the Republic of Latvia plans to assess the possibilities of improving the laws and regulations in order to ensure more efficient implementation of the objective of the Latvian Land Fund and to improve the process of concluding transactions already provided for in the law.

4.3.4.4. SOCIAL ENTREPRENEURSHIP PROGRAMME

The Social Entrepreneurship Programme, under which ALTUM provides grants to social enterprises, will continue. On the initiative of the Ministry of Welfare, it is proposed to allocate an additional EUR 3 million to the programme in the current EU programming period. If the Cabinet approves the planned amendments, ALTUM will re-launch the Social Entrepreneurship Programme in 2022. At the same time, it is planned to continue supporting social enterprises in the new EU programming period, with an improved support mechanism in the form of a hybrid financial instrument (loan and grant).

4.3.4.5. Specialised state support programmes to mitigate the negative impact of Covid-19

ALTUM will continue to service the support programmes for businesses in the pandemic-affected sectors in accordance with the rules and delegation approved by the Cabinet.

Support is available for working capital, export credit guarantees and guarantees for payment holiday for cultural entrepreneurs and for large economic operators through the Altum Capital Fund. During the Strategy implementation, an indicative amount of EUR 138 million is planned to be issued in new transactions.

4.3.4.6. THREE SEAS INITIATIVE INVESTMENT FUND S.A. SICAV-RAIF

ALTUM will continue its active participation in the Three Seas Initiative Investment Fund S.A. SICAV-RAIF, facilitating the advancement of projects that are essential for Latvia and its economic growth as a whole.

In 2022, the Three Seas Summit and Business Forum is to take place in Latvia.

4.3.4.7. VENTURE CAPITAL

The new Strategy period envisages continued investment in the 4th generation acceleration, pre-seed and seed funds, as well as seed, start-up and growth funds.

ALTUM will continue to work with all previous generation venture capital funds where investment repayments are planned during the Strategy period in order to maximise returns.

ALTUM will continue its participation in the **Baltic Innovation Fund** and the **Baltic Innovation Fund 2**.

The Ministry of Economics in cooperation with ALTUM and the Ministry of Finance plans to develop and submit to the Cabinet for consideration the regulation for implementing the specific support objective "Baltic Small and Medium-Sized Enterprise Initial Public Offering Fund ". The Fund is designed to support Baltic SMEs wishing to issue bonds on the stock exchange. The total public funding from Latvia will amount to EUR 20 million and the Fund is expected to reach EUR 40 million together with the funding from Lithuania. The Fund will support the fund raising process by investing in the SME initial public offering and in its preparatory period.

4.3.5. Priority Axis of ALTUM Internal Processes

4.3.5.1. OPTIMISATION AND IMPROVEMENT OF INTERNAL FUNCTIONS

Issuing, monitoring and servicing of EU structural funds, which currently constitute a considerable part of ALTUM resources, create a significant administrative burden; therefore, ALTUM will continue to improve its internal processes in order to optimise its operations.

It is planned to set as standardised as possible eligibility and financial criteria for assessing applications and taking decisions.

Within the framework of the so far successfully implemented **K25 project** (centralised assessment of applications for loans up to EUR 25,000), it is **planned to apply (transform) this model** for higher-priced loans (increase of the loan amount is planned).

ALTUM's internal **IS are to be modernised**, allowing better integration between the IS, reducing data re-transfers and providing greater ease of use for users.

ALTUM plans **to improve the scoring of requirements under the AML/CTPF framework**, *inter alia*, by automating a number of search tools.

In the new Strategy period, **changes to the LGD** (loss given default) **methodology** are planned, which will allow for a more accurate calculation of the required credit risk provisions.

A flat rate is to be set for business guarantees, regardless of risk category.

An accurate range of service charges is to be set for loans.

The possibility of remote identification of clients will be examined.

ALTUM will continue its efforts to reduce the time needed to assess client projects and applications and to **reduce decision-taking deadlines**.

The **electronic environment will be improved**, enabling clients to self-serve at their own convenience.

It is planned to:

- replace the submission of documents with data extraction from external data sources, ensuring their automatic import into ALTUM's IT systems;
- standardise approaches and tools in the loan application analysis process;
- use a new information system for the application, evaluation and documentation processes, increasing automation and reducing manual tasks to a minimum;
- use centrally an updated process support software to control and monitor anti-money laundering and counter-terrorist and proliferation financing.

ALTUM will pay particular attention to expanding digitalisation processes

ALTUM will integrate solutions offered by the increasing digitalisation of the operating environment and the availability of digital data, thereby ensuring its own efficiency gains as well as meeting ALTUM clients' increasing demands for speed of service delivery and UX (user experience), ALTUM's ability to integrate into digital collaboration chains and processes.

Digitalisation will provide the basis for achieving strategic objectives, including:

- shortening approval time for services in the small financial services segment;
- ability to requesting from the client only such information that is not available in public registers or from business partners;
- ability to unifying and standardising processes;
- implementing algorithms and technologies for partial or full automation of processes and decisions;
- opportunities to deliver new services and existing services in new ways;
- expanding access to ALTUM services, including the introduction of self-service processes for both clients and business partners;
- integration and use of the rising opportunities in the processes of banks and other business partners,
- developing electronic channels for remote client service.

In the monitoring of venture capital funds, ALTUM will continue to implement a number of significant improvements:

- **streamline the cooperation process** with fund managers;
- provide a **business control function** for a systematic and impartial financial assessment of the fund portfolio;
- **join INVEST EUROPE, the largest private equity association**, as a full member, which provides opportunities to shape the sector policy together with other development finance institutions in the region as well as to adopt best management practices and implement them in ALTUM's work.

Within the framework of the monitoring function to control the fulfilment of obligations, it is planned to:

- implement more active preventive measures to ensure **qualitative monitoring of the fulfilment of obligations**,
- **improve restructuring processes** by systematising them and introducing common guidelines for all support programmes,
- **promote voluntary fulfilment of debt obligations**,
- **optimise the costs** associated with debt recovery processes.

4.3.5.2. CLIENT SERVICE

To continue building a focused, accurate, open and trustworthy relationship with clients and partners, the following priority areas for client service development are identified for the new Strategy period:

- develop staff competences and expertise in sustainable business, the Green Deal, digitalisation of business processes;
- self-development of the staff as experts actively promoting and explaining the Green Deal to the public;
- further strengthen its partner network, thereby expanding the opportunity for clients to receive a complex support solution;
- shorten the time taken to assess and decide on client projects;
- upgrade the client service information systems through their better integration and greater automation of client data extraction;
- reduce the number of client documents to be submitted by making the respective forms easy to grasp and fill in;
- develop electronic channels for remote client service;
- provide accessibility of services by removing and eliminating barriers to free access to information and services in the digital environment, ensuring full and effective participation and improving access to services that meet the specific needs and functional limitations of persons with disabilities;
- organise client feedback in all client segments (on-line survey, thematic surveys) in order to respond quickly to market changes;
- develop the client service information systems to make them as understandable and friendly as possible for both internal users and clients;
- examine the possibility of introducing a single call centre,
- assess the possibility of introducing remote client identification.

4.3.5.3. MARKETING AND COMMUNICATION

ALTUM's visibility and appreciation among several stakeholder groups positively increased in recent years, as demonstrated, for example, by the results of journalist and banker surveys.

Given the increasing number of new state support programmes and intensity of their implementation, ALTUM is obliged to provide responsive marketing programmes to target audiences in order to maximise effective use of funding.

In 2022, ALTUM plans to finalise the development of the new ALTUM website, which will serve as a digital platform to attract clients and facilitate access to state support programmes.

ALTUM will continue:

- using effectively social media to reach target audiences accurately,
- maintaining the important role of public relations both in communicating with the media and in delivering messages to influencers and end-users,
- working with social partners, actively using their channels to attract new clients.

The change in client sentiment towards remote servicing, acquiring information and digital services remains important, and ALTUM will provide both a proactive role and support to other units to improve client communication.

4.3.5.4. MAIN PRIORITIES OF HR MANAGEMENT

In the new Strategy period, the priorities for HR policy are as follows:

- **staff aligned with strategic goals**

Ensuring and maintaining the quality and quantity of personnel, promoting the efficient use of HR and fostering their professionalism, responsibility, loyalty and initiative, using internal and external resources to attract staff, assessing the competences required by the company, with a particular focus on integrating the staff into the company.

Achievable target: the staff voluntary turnover rate not exceeding 10% per year.

- **motivation of the employees to achieve the set goals**

Drawing-up a new Collective Agreement together with employees' representatives, improving staff motivation and performance management system. Ensuring socially responsible and lawful employment relations. Ensuring fair and competitive remuneration aligning the salary level to that of competitive entities operating in Latvian financial sector and private entities.

- **development of staff competences**

Continuous development of critical and necessary competencies for the Company, including support for academic education, in order to increase employees' contribution to ALTUM's objectives and to give employees the opportunity to pursue their professional development. In line with trends in the use and development of digital technologies, development of digital skills and professional knowledge of staff to work with new support instruments, to assess ALTUM's objectives (e.g., ESG) and to meet EU requirements for sustainable access to finance. Leadership development.

Achievable target: at least 70% of the employees undergo relevant training each year

- **open, collaborative working environment**

An activity-based, inclusive, psychologically safe and positive working environment. Development of a unified electronic system for HR management and staff self-service. Provision of team building events. Improving internal communication, including the use of the Yammer platform for internal communication. Monitoring of staff engagement, well-being and inclusion through periodic staff surveys.

- **sustainable, well-ordered, safe, environmentally and health-friendly working environment**

A sustainable, safe and modern working environment, providing a healthy indoor climate that is compatible with daily activities while minimising negative impacts on the environment. Continuous internal monitoring of the working environment and ensuring safety at work. Improvement of the working environment and provision of workplace equipment in line with safety at work standards and the requirements of a modern, health-friendly working environment. Involvement of employees in health promotion events.

4.4. Cooperation with Partners

All stakeholders, including ALTUM partners, involved in the development of the national economy have a key role to play in the implementation of the state support programmes.

ALTUM promotes long-term successful cooperation **with partners**, is open to new initiatives, encourages decision making based on fair business principles, focuses on the use of e-services, fosters feedback, conducts cooperation assessment survey and makes the assessment-based improvements, applies good industry practice and adheres to professional standards.

ALTUM is an active member in international organizations whose goals are to improve the financing of various industries of national economy and access to finance, complementing and stimulating

the market, meanwhile retaining its balance in such areas as SMEs, long-term financing, export insurance and others.

ALTUM cooperation partners

Public institutions	Associations	International financial institutions	Business representatives
<ul style="list-style-type: none"> ▪ Ministry of Economics ▪ Ministry of Finance ▪ Ministry of Agriculture ▪ Ministry of Welfare ▪ Ministry of Culture ▪ Ministry of Education and Science ▪ Central Finance and Contracting Agency ▪ Investment and Development Agency of Latvia ▪ Rural Support Service ▪ Ministry of Environmental Protection And Regional Development ▪ Latvian Association of Local and Regional Governments ▪ Latvian Rural Advisory and Training Centre ▪ Bank of Latvia ▪ Financial and Capital Market Commission ▪ etc. 	<ul style="list-style-type: none"> ▪ European Long Term Investors Association (ELTI) ▪ European Association of Guarantee Institutions (AECM) ▪ European Venture Fund Investors Network (E.V.F.I.N.) ▪ Network of European Financial Institutions for SMEs (NEFI) ▪ Latvian Association of Commercial Banks ▪ Latvian Chamber of Commerce and Industry (LCCI) ▪ Latvian Private Equity and Venture Capital Association ▪ Employers' Confederation of Latvia ▪ Farmers Parliament ▪ Farmers Organizations Cooperation Council ▪ Internal Auditors Institute ▪ Industry associations ▪ Business Union of Latvia ▪ Foundation 'Fund for Development of Agriculture of Latvia' ▪ Latvian Association of Large Cities ▪ Latvian Association of Business Consultants 	<ul style="list-style-type: none"> ▪ European Investment Fund ▪ EIF-NPI Equity Platform ▪ European Investment Bank ▪ The Council of Europe Development Bank ▪ Nordic Investment Bank ▪ European Bank for Reconstruction and Development 	<ul style="list-style-type: none"> ▪ International cooperation partners (Kredex, INVEGA) ▪ Credit institutions ▪ Venture capital funds ▪ Latvian Business Angels Network, association ▪ Business incubators ▪ Private and university-linked business incubators

- Latvian Startup Association
"Startin.LV"

5. RAISED FUNDS

The implementation of state support programmes requires a significant amount of resources. A decision on resource mobilisation and the sources and that on launching a specific support programme are taken at the same time. The amount of resources required is determined in the process of the programme appraisal, approved by a regulation or protocol decision.

Depending on the purpose of use, ALTUM's own capital (including funds transferred to the reserve capital for the implementation of support programmes), European Union funds and state budget funds as well as reimbursed public funding are used as resources.

At the same time, the required funding is also obtained through borrowing from the Treasury and international financial institutions (EIB loans) as well as in financial markets (by issuing bonds).

Accordingly, a diversity of funding sources is ensured reducing the dependence on a particular source.

The term structure of the borrowed funds is matched to that of the portfolio established by ALTUM. Loan periods are 4 – 30 years.

ALTUM target audience are residents of Latvia, so the euro is used for programme implementation; the funding is also raised in the euro, thus avoiding currency risk.

The borrowing rate (fixed or variable) is also chosen according to the rate that will be charged to the final beneficiary, minimising the interest rate risk for ALTUM.

Assessment of a funding source includes consideration of predictable encumbrance to the ALTUM assets which is approved only in exceptional circumstances, the latter being also the condition for requiring a state guarantee.

Funding of EUR 733 million is planned for financing new transactions over the Strategy period (2022-2024).

The projected increase will be achieved by attracting funds from Latvia's National Recovery and Resilience Plan (NRRP) and EU Structural Funds for the next programming period. There will be continued the utilisation of EU Structural Funds for the programming period 2014 -2020, the funds allocated from the state budget and the recovered public funding of the previous programming periods (2004-2006 and 2007-2013) as well as by increasing the borrowings and issuing bonds.

In 2021, a bond prospectus for up to EUR 75 million was approved. The first issue of EUR 20 million was already made in 2021. Bond issues are planned for the next three years as well, with the funds raised to be used to finance ALTUM support programmes, including the Latvian Land Fund and Green Investments.

6. STATEMENT OF PROFIT OR LOSS, BALANCE SHEET AND STATEMENT OF CASH FLOWS

Statement of profit or loss (EUR'000)

Items		2019	2020	2021	2022	2023	2024
1.	Interest income	13 344	16 442	18 596			
2.	Interest expense	(1 775)	(1 870)	(2 116)			
A	Net Interest income (1 + 2)	11 569	14 572	16 480			
3.	Income from implementation of state support programmes	6 165	6 526	6 997			
4.	Expenses to be compensated for implementation of state aid programmes	(5 584)	(5 950)	(6 320)			
B	Net income for implementation of state support programmes	581	576	677			
5.	Gain/(loss) from trading securities and foreign exchange translation	90	(56)	36	-	-	-
6.	Share of profit/(loss) in investments in venture capital funds	(118)	(1 806)	(684)			
7.	Profit/(loss) from public funding compensation for changes in the value of venture capital funds	129	1 908	1 055			
8.	Other income	2 168	3 053	2 978			
9.	Other expense	(634)	(1 145)	(1 341)			
C	Other income and expense(5 : 9)	1 635	1 954	2 045			
D	Operating income (A+B+C)	13 785	17 102	19 202			
10.	Staff costs, net	(4 640)	(5 416)	(5 760)			
11.	Administrative expense, net	(1 821)	(1 831)	(1 828)			
12.	Amortisation of intangible assets and depreciation of property, plant and equipment	(787)	(916)	(927)			
E	Operating expense (10+11+12)	(7 248)	(8 163)	(8 515)			
13.	Impairment gain / (loss), net	1 594	(3 400)	(1 146)			
F	Profit/(loss) before corporate income tax	8 131	5 539	9 540			
14.	Corporate income tax	-	-	-	-	-	-
G	Net profit / (loss) for the year	8 131	5 539	9 540			

Balance sheet (EUR'000)

Assets		2019	2020	2021	2022	2023	2024
1.	Due from other credit institutions and Treasury	181 046	359 950	422 720			
2.	Loan portfolio, gross	239 956	333 895	353 275			
3.	Investments in venture capital funds, net	68 331	73 165	89 718			
4.	Financial assets	52 305	40 798	17 999			
5.	Investment properties	24 366	36 759	40 080			
6.	Grants	17 197	31 284	50 402			
7.	Assets held-for-sale	503	28	0			
8.	Intangible assets and property, plant and equipment	6 132	6 115	5 395			
9.	Other assets	6 096	5 652	6 574			
10.	Prepaid expense and accrued income	4 595	4 052	5 283			
Total assets		600 527	891 698	991 447			

Equity and liabilities		2019	2020	2021	2022	2023	2024
1	Earmarked funding for the programme implementation	126 075	185 626	266 762			
2	Loans received	117 305	175 689	190 427			
3	Bonds issued	45 000	65 000	85 000			
4	Other liabilities	2 774	3 211	2 983			
5	Deferred income and accrued expense	5 456	8 297	9 081			
6	Provisions for payables and liabilities	71 743	71 942	59 239			
7	Capital and reserves	232 175	381 933	377 955			
Total liabilities and equity		600 527	891 698	991 447			

Statement of cash flows (EUR'000)

	2019	2020	2021	2022	2023	2024
Due from other credit institutions and Treasury	136 650	181 046	359 950			
Loan portfolio, net	-23 785	-93 939	-19 380			
Investments in venture capital funds	-13 637	-4 834	-16 553			
Change in financial assets	12 598	11 507	22 799			
Change in investment properties	-9 572	-12 393	-3 321			
Change in earmarked funding	27 546	137 935	115 873			
Purchase of property, plant and equipment and intangible assets	-1 096	-1 222	-1 199			
P/L effect on cash flow	3 790	9 829	11 382			
Guarantees paid (from ALTUM funds)	0	-14 087	-19 118			
Contributions to reserve capital (not from ALTUM funds)	0	161 120	41 321			
Other unspecified effects	48 552	-15 012	-69 034			

Due from other credit institutions and Treasury at the end of the year	181 046	359 950	422 720			
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7. KEY PERFORMANCE INDICATORS

The key performance indicators (KPIs) provided below will help to keep track of ALTUM pursuing the specific goals, formulated in the Strategy.

KPIs are focused on:

- launching new state support programmes without causing financial losses to ALTUM, inter alia, by maintaining their coverage;
- strict financial and risk management discipline;
- excellent customer service and cooperation;
- high corporate governance culture.

Return on equity is affected by high equity proportion in the structure of the ALTUM resources.

Return on equity is affected by high equity proportion in the structure of the ALTUM resources.

		2024
NON-FINANCIAL OBJECTIVES	New transactions, EUR'000 (incl. grants)	339
	Gross portfolios at the end of the year, EUR'000 (incl. grants)	1 299
	Moody`s credit rating	No more than two notches below the credit rating assigned to Latvia
	Contribution to economy by Altum volumes issued per annum, EUR'000	773
	Volume of the state support programmes (incl. grants) per employee, EUR'000	5.6
	Staff turnover	<10%
	Number of trained employees per annum	>70%
FINANCIAL OBJECTIVES	Return on Equity (ROE), %	≥1.3%
	Profit or loss, EUR'000	9 824
	Equity (at the end of the year), EUR'000	422 427
	Cost-to-Income ratio, %	≤65%
	6-month liquidity ratio, %	≥100%
	Tangible common equity (TCE) / tangible managed assets (TMA),%	≥20%

Key performance indicators of non-financial objectives

The Strategy sets a moderate increase of new transaction volumes, the new ones increasing by 3.24% by 2024 compared to those expected in 2021.

ALTUM's gross portfolio of financial instruments is expected to grow by average 10% p.a. so as at the end of 2024 the portfolio could reach EUR 1.3 billion.

To ensure an effective fundraising in financial markets necessary for implementing the state support programmes, ALTUM must maintain an investment grade credit rating not significantly lower than the credit rating assigned to Latvia.

The volumes Altum contributes to economy demonstrates the expected impact of ALTUM on economic development fostering the mobilisation of private capital and financial resources in the assisted areas.

Under the ALTUM strategy a considerable increase in activities is envisaged providing funding for energy efficiency programmes and support programmes affecting significantly economy and promoting the management of sustainable funding and achieving the volume of state support programmes per employee in line with the non-financial objectives.

The operational efficiency of ALTUM can only be ensured employing highly qualified and loyal employees constantly developing their competences and creating a sound working environment resulting in a low staff turnover rate.

Key performance indicators of financial objectives

ALTUM has a relatively large proportion of equity where funds earmarked for implementing particular programmes are transferred. In the strategy period, the projected return on equity ratio (ROE) is to be maintained above 1.3%.

The projected profit of ALTUM is calculated taking into account the terms and conditions of the approved state support programmes, inter alia, the expected financial results of the programmes.

It is expected that the financial indicator 'Equity' will show positive dynamics at the end of the reporting year.

To ensure the efficiency of ALTUM finances, the cost-to-income ratio should not exceed 65%.

The 6-month liquidity ratio is established in line with the liquidity risk level set in the Risk Management Strategy.

To ensure ALTUM equity compliance with the risks arising from ALTUM activities, there is established the ratio characterising capital adequacy - tangible common equity (TCE) / tangible managed assets (TMA) which is to be at least 20%.

ALTUM support programme revenues are determined by the relevant programme regulations approved by the Cabinet or the programme funding agreement

[...]

[...]

Definitions of ratios

Cost-to-Income ratio (CIR)

Cost to income ratio (CIR) is calculated by dividing the total amount of personnel expenses, administrative expenses and depreciation of intangible assets and property, plant and

	<p>equipment by operating income before operating expense included in the statement of comprehensive income. CIR is used to measure the operational efficiency of the ALTUM Group. It is one of the performance indicators that ALTUM management assesses on a quarterly basis in management reports to measure the performance of various activities and the results of efficiency-improving measures.</p>
<p><i>Tangible common equity (TCE) / tangible managed assets (TMA)</i></p>	<p>Tangible Common Equity (TCE) is calculated by subtracting the revaluation reserve of available for sale investments from total equity.</p> <p>The amount of total managed assets (TMA) is calculated by adding the guarantees shown as off-balance sheet items to the total assets of ALTUM taking into account provisions for these guarantees and subtracting deferred expense, accrued income, property, plant and equipment, intangible assets, other assets and available for sale assets.</p> <p>The items used to calculate both indicators (TCE, TMA) are included in the following financial statements of ALTUM: statement of financial position and statement of changes in equity, and in the following notes: Off-balance items and contingent liabilities and Provisions. TCE/TMA are used to measure the Group's capital adequacy and the share of invested capital in total assets under management, plus the portfolio of guarantees recorded off-balance sheet. ALTUM Assets, Liabilities and Risk Management Committee assesses the value of this indicator on a quarterly basis.</p>
<p><i>6-month liquidity ratio</i></p>	<p>The 180-day liquidity ratio is calculated by dividing the amount of the balances due from other credit institutions and the Treasury with a maturity of up to one month and the sum of financial assets at fair value through other comprehensive income and investment securities by the sum of the total liabilities maturing within 6 months and total financial liabilities maturing within 6 months (off-balance item). The data required for the calculation of the 180-day liquidity ratio is disclosed in ALTUM's financial statements: in the statement of financial position and the following notes – contractual maturity analysis of assets and liabilities under the Risk Management section, Off-balance sheet items and contingent liabilities. The 180-day liquidity ratio is used to assess and monitor the ALTUM Group's ability to meet the legally enforceable claims of customers and other creditors or contingent liabilities that will arise in the next six (6) months, with the liquid assets at its disposal. The 180-day liquidity ratio helps to manage the ALTUM Group's liquidity risk in line with the ALTUM Group/ALTUM Resource Management Strategy and Risk Management Strategy. The level of this ratio is assessed quarterly by ALTUM Asset, Liabilities and Risk Management Committee.</p>
<p><i>Contribution to economy by Altum volumes issued</i></p>	<p>The economic weight of ALTUM volumes issued is calculated by adding the funds invested by a private co-financier and project executor to the funds invested by ALTUM. This is based on ALTUM's role as a strategic development finance institution focused on Latvia's economic development</p>

<i>Volume of the state support programmes per employee</i>	The volume of state support programmes per employee is calculated by dividing the gross value of the portfolio of support programme instruments by the average number of employees during the period, excluding the members of the Supervisory Board and the Audit Committee.
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The strategy of ALTUM is based on the following assumptions whose significant changes require amendments to the strategy, too:

- 1) state (government) counter-guarantees provided for all guarantees issued by ALTUM,
- 2) the funds of the EU Structural Funds and state budget reimbursed within the framework of the state support programmes executed by ALTUM is used by it for implementing new financial instruments,
- 3) the new activities initiated by ALTUM and defined in the Strategy agreed upon and supported by responsible institutions, inter alia, the European Commission, as required by regulatory enactments,
- 4) timely planned amendments to legislation, inter alia, without affecting the financial stability and solvency of ALTUM, its clients or business partners as well as other significant factors.
- 5) balance between the financial instruments of EU centralised and national level maintained on Latvian market,
- 6) the current requirements for the administration of state support programmes maintained; they are neither considerably supplemented nor amended.

8. SWOT ANALYSIS

Internal factors

Strengths

- Experience and specific knowledge of financial instruments, state support programmes and related regulations
- Leading state-owned company implementing state support instruments with a strong culture of good corporate governance
- Capacity to implement new support instruments
- Experience and cooperation with Latvian and international institutions, European development banks, European and Latvian financial institutions

Weaknesses

- ALTUM operates in a small economy (Latvian framework)
- Share of Structural Funds

External factors

Opportunities

- Offer a wider range and scope of services through partners
- Offer services with support from the State, EFSI and EIF
- Financing national and local infrastructure

Threats

- Requirements for launching, implementing and administering programmes which require significant administrative resources and time
- Launching new financial instruments after an ex-ante study and agreement with the EC, a time-consuming process
- Duplication of services offered by EU centralised public support institutions with those offered by ALTUM, e.g. guarantees provided by such institutions

9. RISK ANALYSIS

[...]

ALTUM Risk Management Process

[...]

Risks Inherent in ALTUM Operations

[...]

10. MONITORING STRATEGY IMPLEMENTATION

In accordance with the binding regulatory framework, the Board of ALTUM will submit quarterly reports on the implementation of ALTUM action plan and strategy.

11. IMPLEMENTED AND PROSPECTIVE STATE SUPPORT PROGRAMMES AND NEW PROJECTS

Programmes under execution ¹⁵	
Loans	
1.	SME Growth Loans
2.	Co-financing (mezzanine) loans
3.	Working capital Loans for Agriculture sector
4.	Loans for Purchase of Agriculture Land
5.	Loans for Agricultural, Rural and Fishery Related Entities (small loans for rural areas)
6.	Start-up (Loans to Start a Business) and micro loans
7.	Loans for Energy Efficiency
8.	Loans for Improving Energy Efficiency in Multi-Apartment Residential Buildings
9.	Loans for Multi-Apartment Building Renovation
10.	Reverse Lease Transactions of the Land Fund
Guarantees	
1.	Business Support Credit Guarantees
2.	Portfolio Guarantees
3.	Loan guarantees for Agriculture sector
3.	Export Credit Guarantees (incl., medium- and long-term)
4.	Housing Guarantees
5.	Guarantees for Improving Energy Efficiency in Multi-Apartment Residential Buildings
6.	Study and Student Loan Guarantees
Venture capital	
1.	Seed Capital Funds
2.	Venture Capital Funds
3.	Expansion Capital Funds
4.	Accelerator funds
5.	Baltic Innovation Fund
6.	Baltic Innovation Fund 2
7.	Altum Capital Fund
8.	Three Seas Initiative Investment Fund
Other activities	
1.	Management of the Land Fund of Latvia
2.	EE-MARB grants
3.	Social Entrepreneurship Programme
4.	Subsidy for families BALSTS

¹⁵Support programmes implemented by ALTUM, including follow-ups of these programmes. Information on the state aid opportunities provided by ALTUM is available at www.altum.lv.

5.	Grants under the support Programme for Increasing the Energy Efficiency of Private Houses
6.	Grants under the European Local Energy Assistance (ELENA) programme
New projects¹⁶	
1.	EEPMB loans with capital rebate (RRF)
2.	Improving energy efficiency in business (RRF)
3.	Digital transformation (RRF)
4.	Investment loans with capital rebate
5.	Low-rent housing construction (RRF)
6.	EEPMB guarantees with capital rebate (RRF)
7.	Housing portfolio guarantees for families with children
8.	Housing portfolio guarantees for young specialists
9.	EE portfolio guarantees for private house

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¹⁶ The development and implementation of the projects are started after drafting this strategy and their implementation is closely related to the decisions taken by the institutions involved.

12. RISK IMPACT ASSESSMENT

[...]