

# Altum – Green Bonds Framework

27 September 2017

## 1. Background

ALTUM is a state-owned development finance institution, which offers state aid for various target groups with the help of financial tools (such as loans, credit guarantees, investing in venture capital funds, etc.). ALTUM develops and implements state aid programmes to compensate for the market's shortcomings that can't be solved by private financial institutions.

State aid programmes administered by ALTUM, are implemented with public resources – European Union, national and other international institutions and ALTUM's own financing. ALTUM's shareholders consist of the Republic of Latvia's Ministry of Finance, the Ministry of Economics and the Ministry of Agriculture. The leadership of the company is organized according to best practices of corporate governance in accordance with the Development Finance Institution Law, Law On Governance of Capital Shares of a Public Person and Capital Companies, the Commercial Law, the Cabinet Regulations regarding ALTUM Advisory Council and other binding normative acts. ALTUM's statutes are approved by the Cabinet of Ministers of the Republic of Latvia.

## 2. Use of Proceeds

Eligible Projects are specifically selected loans to Latvian clients funded, in whole or in part, by Altum with the purpose of promoting the transition to low carbon and sustainable development in accordance with the Latvian long term national policies and strategies in the energy sector. Eligible Projects will be financed in accordance with the amended Cabinet of Ministers Regulation No.1065<sup>1</sup>, 2009. The amendments<sup>2</sup> specify that financing from Altum in the form of loans is available to viable business projects in the field of energy efficiency, renewable energy and carbon reduction measures.

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<sup>1</sup> Cabinet of Ministers regulations No.1065, adopted 15 September 2009 “Regulations Regarding Loans for Promoting the Development of Micro, Small And Medium Sized Merchants and Agricultural Service Co-operative Societies” (<https://likumi.lv/doc.php?id=198282>). The Law on Development Finance Institution (<https://likumi.lv/doc.php?id=270323>) states that Altum can implement programs only in accordance with the Cabinet of Ministers Regulations. Regulation No.1065 lay down Altum loan program conditions.

<sup>2</sup> Amendments approved by the Cabinet of Ministers on 26 September 2017

Eligible Project categories:

- **Renewable energy** means wind, solar and bio energy<sup>3</sup> as well as related infrastructure.
- **Energy efficiency** means:
  1. district heating technologies based on renewable energy and related infrastructure,
  2. energy recovery projects,
  3. investments in non-fossil technologies and processes, together with the manufacturing of products, in each case leading to energy efficiency gains of at least 25 per cent;
  4. investments in non-fossil energy consumption reduction projects, in each case leading to energy efficiency gains of at least 25 per cent
  5. minor renovations of commercial or residential buildings leading to reduced energy use per year on a m<sup>2</sup> basis of at least 25 per cent
- **Green buildings<sup>4</sup>** means:
  1. commercial or residential buildings with an energy use per year on a m<sup>2</sup> basis of nearly zero (nearly zero energy building) or at least 25 per cent lower than that required by applicable national regulations at the time of approval by the Altum (according to Cabinet of Ministers regulation No.383, 2013.)
  2. major renovations of commercial or residential buildings leading to reduced energy use per year on a m<sup>2</sup> basis of at least 35 per cent
- **Sustainable transportation** means transportation solutions/systems based on non-fossil fuel and supporting infrastructure.

Altum's Green Bonds will not finance nuclear power or fossil-fuel energy generation projects.

Altum's Green Bonds can be used to finance new projects and to refinance Green Projects in accordance with the Green Bonds Framework. The share of proceeds from Altum's Green Bonds that are allocated to new projects and to completed projects respectively at the time of approval will be reported upon in the annual Investor Letter.

### 3. Process for Project Evaluation and Selection

Green Projects will be evaluated according to a) Altum's Creditworthiness appraisal methodology for Business loans, b) this Green Bonds Framework and c) the related legislation. Potential Green Projects will be selected and approved in consensus by the Loan and Guarantee Department and the Energy Efficiency Programme Department. Only projects where there is a high likelihood that the net, long-term environmental effects are positive will be approved.

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<sup>3</sup> Sources for bio energy should be short rotation forestry, energy crops, wood wastes, agricultural residues, sewage sludge, industrial residues and municipal bio-degradable waste that are sourced near region (up to 300 km). Allocations from the Green Bond proceeds to bioenergy are restricted to a maximum of 20 per cent of the total allocation to renewable energy projects.

<sup>4</sup> Allocations from the Green Bond proceeds to green buildings are restricted to a maximum of 20 per cent of the total allocations.

If, for any reason, a Green Project ceases to meet the environmental criteria on the basis of which it was approved, the Project will be removed from pool of Eligible Projects for financing from Altum's Green Bonds.

#### **4. Management of Proceeds**

The net proceeds from the issue of Green Bonds shall be credited to a separate account with the purpose to finance Eligible Projects as defined above. As long as Green Bonds are outstanding and proceeds from issues are available on a separate account, Altum shall, at the end of every fiscal quarter, deduct funds from the separate account in an amount equal to disbursements to Eligible Projects made during such quarter. Until disbursement to Eligible Projects, the separate account balance will be placed as part of the liquidity reserve.

#### **5. Reporting**

To enable investors to follow the development of Altum's Green Bonds and to get insight into prioritised areas, Altum will provide an annual Investor Letter including:

- 1) a list of financed Eligible Projects including a brief description and expected impact
- 2) a selection of project examples with impact reporting
- 3) the share allocated to new projects and to completed projects respectively and
- 4) a summary of Altum's Green Bond development.

Altum encourages and promotes the use of impact reporting and will provide that when feasible.

The internal tracking method and the allocation of funds from the Green Bond proceeds will be verified by Altum's Internal Audit Department or an external third party appointed by Altum with the relevant expertise and experience. The Investor Letter and the opinion of the Internal Audit Department or external third party will be made publically available on Altum's web page.

The Centre for International Climate and Environmental Research – Oslo (CICERO) will review Altum's Green Bonds Framework and will issue a Second Opinion on this framework. The Green Bonds Framework and Second Opinion will be made available on Altum's web page.