

REPORT REVIEW

Latvia Sustainability Bond report

Republic of Latvia Sustainability Bond Allocation and Impact Report

13 March 2023

VERIFICATION PARAMETERS

Type(s) of reporting	<ul style="list-style-type: none">▪ Sustainability Bond Allocation and Impact Report
Relevant standard(s)	<ul style="list-style-type: none">▪ Harmonised Framework for Impact Reporting (HFIR), updated June 2022, as administered by International Capital Market Association (ICMA)▪ Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, administered by the International Capital Market Association (ICMA)▪ Latvia's Sustainability Bond Allocation and Impact Report (as of March 10, 2023)
Scope of verification	<ul style="list-style-type: none">▪ Latvia's Sustainability Bond Framework (as of November 2021)▪ Bond identification: ISIN XS2420426038 / A long 8-years bond and will be matured on January 23, 2030(EUR 600 m)
Lifecycle	<ul style="list-style-type: none">▪ Post-issuance verification
Validity	<ul style="list-style-type: none">▪ As long as no changes are undertaken by the Issuer to its Sustainability Bond Allocation and Impact Report as of March 10, 2023

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SCOPE OF WORK

Republic of Latvia (“the Issuer” or “Latvia”) commissioned ISS Corporate Solutions (ICS) to provide an External Review¹ on its Sustainability Bond Allocation and Impact Report by assessing:

1. The alignment of Latvia’s Sustainability Bond Allocation and Impact Report with the commitments set forth in Latvia’s Sustainability Bond Framework (as of November 2021)².
2. Latvia’s Sustainability Bond Allocation and Impact Report - benchmarked against Harmonised Framework for Impact Reporting (HFIR), updated June 2022, as administered by the International Capital Market Association (ICMA) and Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, administered by the International Capital Market Association (ICMA).
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Sustainability Bond issued.

¹ A limited or reasonable assurance is not provided on the information presented in Republic of Latvia Sustainability Bond Allocation and Impact Report. A review of the use of proceeds’ allocation and impact reporting is solely conducted against ICMA’s Standards (Green Bond/Social Bond) core principles and recommendations where applicable, and the criteria outlined in the underlying Framework. The assessment is solely based on the information provided in the allocation and impact reporting. The Issuer [or Latvia] is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² The Framework was assessed as aligned with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines as of November 30, 2021.

ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1.</p> <p>Alignment with the Issuer's commitments set forth in the Framework</p>	<p>The Latvia's Sustainability Bond Allocation and Impact Report meets Issuer's commitments set forth in the Sustainability Bond Framework. The proceeds have been used to finance Energy Efficiency for Buildings, Climate Change Adaptation, Renewable Energy, Circular Economy, Clean Transportation, Sustainable Water Management, Land Use, Biodiversity Conservation, Education, Social Inclusion, Basic Infrastructure, Access to essential services for Social Inclusion and Education in accordance with the eligibility criteria defined in the Framework.</p>	<p>Aligned</p>
<p>Part 2.</p> <p>Alignment with the Harmonized Framework for Impact Reporting (HFIR) and Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB)</p>	<p>The Sustainability Bond Allocation and Impact Report is in line with ICMA's Harmonized Framework for Impact Reporting (HFIR) and Harmonised Framework for Impact Reporting for Social Bonds (HFIRSB). The Issuer follows core principles and where applicable key recommendations.</p>	<p>Aligned except for reporting on an annual basis³</p>
<p>Part 3.</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories as proposed in the Framework⁴.</p> <p>The Latvia's Sustainability Bond Framework has adopted an appropriate methodology to report the impact generated by providing disclosure on data sourcing, calculation methodologies, and granularity reflecting best market practices.</p>	<p>Positive</p>

³ The Issuer has reported within 16 months after issuing the bond on December 6, 2021. Given the complexity for sovereign(s) to issue GSSB financial instruments (number of financed programmes/projects/activities, different government ministries involved in disclosure and reporting and availability of timely data), some delay in the bond allocation reporting could be observed in the bond market.

⁴ The assessment is based on the information provided in the Issuer's report. The Issuer is responsible for the preparation of the report including the application of methods and procedures designed to ensure that the subject matter information is free from material misstatement.




REPORT REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE SUSTAINABILITY BOND FRAMEWORK⁵

The following table evaluates the Sustainability Bond Allocation and Impact Report against the commitments set forth in Latvia’s Framework, which are based on the core requirements of the Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG) as well as best market practices.

GBP, SBP AND SBG	OPINION	ALIGNMENT WITH COMMITMENT
<p>1. Use of Proceeds</p>	<p>Latvia confirms to follow the Use of Proceeds’ description provided by Latvia’s Sustainability Bond Framework. The report is in line with the initial commitments set in Latvia’s Sustainability Bond Framework: To (re)refinance Energy Efficiency for Buildings, Climate Change Adaptation, Renewable Energy, Circular Economy, Clean Transportation, Sustainable Water Management, Land Use and Living Natural Resource, Terrestrial and Aquatic Biodiversity Conservation, Basic Infrastructure, Access to Essential Services for Social Inclusion and Access to Essential Services for Education projects (which represents 34 Green and 7 Social programmes/projects/activities at the date of the Latvia Bond Allocation and Impact report), and exclude projects involved in Rail infrastructure dedicated solely for the transportation of fossil fuels; Power generation with greenhouse gas emissions above 100g CO₂/kWh and nuclear power; Production, transmission and distribution of fossil fuels; Armament, tobacco, alcohol or gaming industries and expenditures already financed via a dedicated funding source, including EU funds or any other Green or Social financing, in order to avoid potential “double counting”.</p> <p>The Issuer’s green and social categories align with the project categories and are in accordance with the eligibility criteria set in Latvia’s Sustainability Bond Framework. Both the environmental and social benefits of the project level are described and quantified.</p> <p>The Issuer is transparent that EUR 600 million of proceed has been allocated to both new and refinancing projects. It is noted that about 48% of the total proceed was allocated to</p>	<p style="text-align: center;">✓</p>

⁵ The Framework was assessed as aligned with the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines as of November 30, 2021.

	<p>the Clean Transportation category. The look-back period is within two years preceding the bond's issuance in December 2021.</p>	
<p>2. Process for Project Evaluation and Selection</p>	<p>Latvia confirms to follow the Process for Project Evaluation and Selection description provided by Latvia's Sustainability Bond Framework. The report is in line with the initial commitments set in the Latvia's Sustainability Bond Framework: To establish a working group - Interministerial Working Group (IWG) - to oversee the implementation of the framework involving different government ministries and their contributions in the process of project evaluation and selection.</p> <p>The projects selected are defined and structured in a congruous manner. The Issuer ensures compliance with the Eligibility Criteria by engaging with the IWG. ESG risks associated with the project categories are identified and managed through Latvia's general and comprehensive laws and regulations applicable to the particular area.</p>	
<p>3. Management of Proceeds</p>	<p>Latvia confirms to follow the Process for Management of Proceeds description provided by Latvia's Sustainability Bond Framework. The report is in line with the initial commitments set in Latvia's Sustainability Bond Framework: The Treasury of the Republic of Latvia coordinates and manages the bond issuances.</p> <p>The EUR 600M proceeds are equal to the amount allocated to eligible projects, with no exceptions. The proceeds are tracked in an appropriate manner by the Treasury of the Republic of Latvia involving ministries represented in IWG.</p> <p>State budget annual financial reports for 2020 and 2021 have been audited. The audit of the 2022 State budget financial report will be concluded and published by the State Audit Office according to the procedures and within the deadline set in national legislation. The IWG will review the actual, currently allocated 2022-year expenditures after 2022 State budget financial report audit is concluded.</p>	
<p>4. Reporting</p>	<p>The Latvia Impact Report is coherent with the Reporting description provided by Latvia's Sustainability Bond Framework. The report is in line with the initial commitments set in Latvia's Sustainability Bond Framework: Publish an allocation report and an impact report on its sustainability bond issued.</p>	

	<ul style="list-style-type: none">▪ The sections “Allocation reporting” and “Impact Reporting” of the Sustainability Bond Allocation and Impact Report comply with the pre-issuance commitment expressed in the framework. The report will be publicly available with the following link: https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainability-bond <p><i>Further analysis of this section is available in Part III of this report.</i></p>	
5. Verification	A Second Party Opinion (SPO) on Latvia’s Sustainability Bond Framework in November 2021 has been provided.	

PART II: ASSESSMENT AGAINST THE ICMA HARMONIZED FRAMEWORK FOR IMPACT REPORTING (HFIR) AND HARMONISED FRAMEWORK FOR IMPACT REPORTING FOR SOCIAL BONDS (HFIRSB)

Reporting is a core component of the GBP and SBP, and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of annual reporting. Sustainability bond issuers are required to report on both the use of green and social bond proceeds as well as the environmental impacts at least on an annual basis until full allocation or maturity of the bond. Both Harmonized Framework for Impact Reporting (HFIR) and Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB) have been chosen as the benchmark for this analysis as it represents the most widely adopted standard.

FOR GREEN EXPENDITURE

The table below evaluates Latvia's Sustainability Bond Allocation and Impact Report against ICMA Harmonized Framework for Impact Reporting (HFIR).

CORE PRINCIPLES		
ICMA HFIR	SUSTAINABILITY BOND ALLOCATION AND IMPACT REPORT	ASSESSMENT
Reporting on an annual basis	<p>Latvia provided a first draft of the allocation and impact report to ISS in December 2022. The report has been finalized in March 2023, the second fiscal year after the sustainability bond issuance in December 6th 2021, and all the proceeds have been fully allocated. It is worth noticing that, given the complexity of the sovereign's Green, Social and Sustainability Bond issued (number of programmes/projects/activities financed, different government ministries involved in the disclosure and reporting exercise and the availability of timely data), some delay in the Green Bond, Social Bond and Sustainability Bond proceeds allocation's reporting is observed in the bond market.</p> <p>The report will be available on the Treasury of the Republic of Latvia's website⁶.</p>	○

⁶ Treasury, Republic of Latvia, Sustainability Bond Framework <https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainability-bond>

Illustrating the
environmental impacts
or outcomes

The assessment and measurement of the impacts generated by Latvia sustainability bond covered the following areas:

Energy Efficiency for Buildings

Increasing the energy efficiency of municipal buildings

- Estimated annual decrease of greenhouse gas emissions (tons of CO₂ equivalent)
- Additional power produced from renewable energy sources (MW)
- Decrease of annual primary energy consumption of public buildings (kWh/year)

Renewable Energy

National Energy Research Programme

- Implemented research projects
- Implemented publicity measures
- Prepared scientific publications on defined challenges

Land Use and Living Natural Resource

Promotion and support of sustainable agriculture and forestry practices

- Number of organic farms supported and supported organic area (ha)
- Number of beneficiaries
- Forest area subject to supervision of forest management
- Surface of sample plots where timber resources characterization data are measured
- Supported forest area (ha) for forest owners for improving the resilience and environmental value of forest ecosystems

Reducing and eliminating sources of radiation avoiding risk of soil and groundwater pollution



- Population with reduced risks from radiation in numbers
- Results from radiation level monitoring in groundwater and soil not exceeding “x” year values
- Monitoring report on quality of groundwater and soil and in the building of the reactor
- Number of innovative climate change mitigation technologies, systems, methods and instruments implemented

Terrestrial and Aquatic Biodiversity Conservation

Fish resources and stocks

- Number of fish released in natural waterbodies
- Number of scientific recommendations for restocking fish resources, improving habitats and restoring spawning grounds prepared
- Number of projects implemented

Surveillance costs for phytosanitary safety and non-contamination

- Plant quarantine organisms, present in Latvia
- Proportion of farms in which crops are grown according to integrated farming guidelines (%)
- Area where soil agrochemical research has taken place over a period of five years (% of the total area of Agricultural land)

Support for restrictions in Natura 2000 territories

- Supported forest area - habitat surfaces (ha)

Ensuring the operation of national parks (protected areas)

- Number of migratory birds protected (number of species)

- Area left for feeding and compensated (hectares)
- Proportion of specially protected nature territories (% of the state territory);
- Tourism and nature education infrastructure objects maintained and improved in good condition (number)
- Nature education classes, events and other activities organized (number).
- Target audience reached through awareness-raising events / classes, etc. (number)
- Surface area of habitats supported in order to attain a better conservation status (ha)
- Number of species in a favorable conservation status

Co-financing of projects within LIFE Programmes

- Area of different habitats covered in restoration activities (ha)
- Scientific publications prepared (number)
- Networking, scientific and public awareness building events (number)
- Priority grassland habitat types restored (number and ha)
- Area of implemented restoration activities (ha); Positively affected total habitat area (ha)
- Area cleared from invasive alien species (ha)
- Revised descriptions of two marine EU protected habitats stony reefs (1170) and sandbanks (1110) facilitating the easier identification of these habitats in the Eastern Baltic Sea area.
- Improved monitoring methodology for assessment of qualitative and quantitative changes in the benthic habitats allowing for better quantification of pressures on the benthic habitats.
- % of contribution to the implementation of the PAF measures

- References values for terrestrial and freshwater habitat types and species of EU importance
- Site conservation objectives are legal obligation stemming from the Habitats directive and Each Natura 2000 site should have quantitative and / or qualitative objective against which all management measures or potential impacts has to be compared. Respectively the indicator is "Site conservation objectives". In total there are 326 sites Natura 2000 sites in Latvia. Conservation objectives adjusted and published in the Natura 2000 database and Nature Conservation agency website for all terrestrial Natura 2000 sites in Latvia are planned for December 2024
- New up-to-date threatened species list for Latvia. Number of species being evaluated
- New up-to-date protected and micro-reserve species lists for Latvia
- Data sheets for each threatened species including scientific information, threats, and recommendation. Estimated species that will be included in the data sheet (number)

Sustainable Water Management

Development, construction, operation and maintenance of water and wastewater management systems

- Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalization actions
- Surface of flood-resilient floor space, areas where flood risks are reduced
- Length of restored dams and water drains (km)
- Number of implemented projects
- Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalization actions

- Area where flood risks are reduced (ha)
- Length of restored dams and water drains (km)
- Implemented projects (number)
- Number of water bodies at risk in Latvia addressed by supported projects
- Number of water bodies at risk in Latvia in 2022 and in 2027
- Number of surface water bodies in high/good status in 2022 and 2027
- Volume (m³) and proportion (% of total) of wastewater discharged into environment and complying with the treatment standards

Climate Change Adaptation

Infrastructure and resources for climate change adaptation

- Number of beneficiaries
- Number of inhabitants that benefit from the flood protection measures
- Number of beneficiaries (municipalities)
- Protected population, reduced negative effects of the affected territory (in numbers)
- Length of territory with engineering-technical solutions introduced (m)

Clean transportation

Construction, operation and maintenance of Sustainable Road Transport services

- Charging stations maintained (number)
- Passenger turnover in regional bus routes (million pas./km)
- Passenger turnover in regional rail routes (million pas./km)
- Share of rail passengers in passenger transport
- Number of serious railway accidents

	<p>Construction, operation and maintenance of Rail Transport services</p> <ul style="list-style-type: none"> Length of new European gauge (1435mm) railway connection main line of Rail Baltica in Latvia under construction (km) <p><u>Circular Economy</u></p> <p>Collection, treatment and recycling of municipal waste</p> <ul style="list-style-type: none"> Volume of produced product in Latvia from recycled material (m³/year or t/year) <p>The Issuer has reported 5 case studies in its report, which include:</p> <ol style="list-style-type: none"> State measures in the forestry sector Innovative climate change mitigation measures in the management of nutrient-rich organic soils Strengthening banks of the Daugava hydroelectric station water reservoir Rail Baltica Projects to improve the status of water bodies at risk <p>More information on the case studies, including environmental performance and description, is available in the allocation and impact report.</p>	
<p>ESG Risk Management</p>	<p>The Issuer confirms that it has managed associated environmental and social risks of the invested projects through individual Ministries represented in the Inter-ministerial Working Group. Several aspects, including the impact on environment, climate neutrality, and society, are disclosed and analyzed through Latvia's general and comprehensive laws as well as on the level of draft legislation.</p>	<p>✓</p>
<p>Allocation of proceeds - Transparency on the currency</p>	<p>Allocated proceeds have been reported in a single currency. Projects on which proceeds have been allocated have been disclosed.</p>	<p>✓</p>

RECOMMENDATIONS

ICMA HFIR	SUSTAINABILITY BOND ALLOCATION AND IMPACT REPORT	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	<p>Latvia has allocated EUR 399.46 million to 34 Green State budget to assets/programmes/projects/activities covering the period of 2020-2022 (January-August). No modification (removal or additional projects) of the portfolio is planned.</p> <p>The Issuer followed a transparent process for the selection and evaluation of Eligible Green Projects. Projects financed and/or refinanced through the Sustainability Bond Framework were evaluated and selected in compliance with the Eligibility Criteria as laid out in the Framework.</p>	<p>✓</p>
Disclose total amount of proceeds allocated to eligible disbursements	<p>A total of EUR 399.46m or 67% of the proceed of the Issuer’s Sustainability Bond has been allocated to green assets/programmes/projects/activities.</p>	<p>✓</p>
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	<p>The Issuer followed a transparent process for the allocation of proceeds.</p>	<p>✓</p>
Report at project or portfolio level	<p>The Sustainability Bond Allocation and Impact Report include the total amount of proceeds allocated per eligible sub-categories and breakdown of each project.</p>	<p>✓</p>
Describe the approach to impact reporting	<p>The Issuer clearly defines impact indicators and/or outcome indicators at project level. The Issuer does not use a pro-rated approach for the impact assessment (for example, for the cross-border project “Rail Baltica”, the Issuer considers the distance of rail located in Latvia thus considers the impact generated within the borders of Latvia).</p>	<p>✓</p>
Report the estimated lifetime results and/or project economic life (in years)	<p>The Issuer does not report on the average portfolio lifetime (in years) for both the eligible project category and the sub-categories but provides information on the projects’ timelines based on annual ongoing expenditures (A), activity completed (C), and project-based expenditures with a concrete completion date (P).</p>	<p>✓</p>

Ex-post verification of specific projects	The Issuer does not sample ex-post verification for projects.	N/A
Report on at least a limited number of sector specific core indicators	Latvia has reported on at least one sector specific core impact indicator for all projects financed except for renewable energy. The Issuer reports using output indicators based on their internal methodology for the renewable energy category. The Issuer has also defined project-specific indicators for Daugava Power Plant, Rail Baltica, and projects of LIFE program.	○
If there is no single commonly-used standard, Issuers may follow and disclose their own calculation methodologies	The calculation methodology has been disclosed by the Issuer for at least one impact and/or output indicator per category and sub-category.	✓
Disclosure on the conversion approach (if applicable)	The Issuer confirms that the conversion approach is not applicable to categories financed in the report.	N/A
Projects with partial eligibility	All projects are 100% eligible for financing.	✓
When the expected impacts of different project components may not be reported separately, Issuers may use (and disclose) the attribution approach	The impact of Latvia's projects is reported separately per category and sub-category on an aggregated basis.	✓

OPINION



The Latvia follows Harmonized Framework for Impact Reporting (HFIR)'s core principles except for annual reporting and some key recommendations. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best practices. The Issuer has not reported on an annual basis but reported in the second fiscal year after the bond issuance in December 2021. Latvia has defined an extensive list of impact indicators covering all financed projects. Allocated proceeds are reported on a project level.

FOR SOCIAL EXPENDITURES

The table below evaluates Latvia Sustainability Bond Allocation and Impact Report against ICMA Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB).

CORE PRINCIPLES		
ICMA HFIRSB	Sustainability Bond Allocation and Impact Report	ASSESSMENT
Reporting on an annual basis	<p>Latvia provided a first draft of the allocation and impact report to ISS in December 2022. The report has been finalized in March 2023, the second fiscal year after the Sustainability bond issuance in December 6th, 2021, and all the proceeds have been fully allocated. It is worth noticing that, given the complexity of the sovereign’s Green, Social and Sustainability Bond issued (number of programmes/projects/ activities financed, different government ministries involved in the disclosure and reporting exercise and the availability of timely data), some delay in the Green, Social and Sustainability Bond Proceeds allocation’s reporting is observed in the bond market.</p> <p>The report will be available on the Treasury of the Republic of Latvia’s website⁷.</p>	○
Formal internal process to track proceeds	Latvia confirms project selection and management of proceeds are in line with the criteria set forth in the underlying Framework.	✓
Allocation of the proceeds to social project categories	<p>In accordance with the criteria established within the Framework, in compliance with the Social Bond Principles issued by the ICMA, Latvia has allocated the net proceeds of the bond issued under this Framework to new and/or existing eligible assets within the following categories:</p> <ul style="list-style-type: none"> ▪ Affordable basic infrastructure, ▪ Access to essential services: Social inclusion and ▪ Access to essential services: Education 	✓
Target Population(s) identified	Where applicable, the Issuer defined targeted populations for the respective project categories Affordable basic infrastructure, Access to essential	✓

⁷ Treasury, Republic of Latvia, Sustainability Bond Framework <https://www.kase.gov.lv/en/debt-management/securities-in-international-capital-markets/sustainability-bond>

	<p>services: Social inclusion, and Access to essential services: Education.</p>	
<p>Output, outcome and/or impact of projects at project or portfolio level</p>	<p>The Issuer referred to existing indicator lists and catalogs from the Annex III of the HFIRSB: (i.e., Number of beneficiaries, average monthly beneficiaries, Number of passenger carrier companies, Passenger turnover).</p> <p>A detailed analysis of impact indicators is available in Part III of this report.</p>	
<p>Illustrating of the social impacts</p>	<p>The assessment and measurement of the impacts generated by the Latvia's sustainability bond covered the following areas:</p> <p><u>Affordable basic infrastructure</u></p> <p>Expenditures to ensure access to affordable, reliable, sustainable and modern energy for all</p> <ul style="list-style-type: none"> ▪ Number of beneficiaries (vulnerable consumers) receiving subsidized final price of electricity <p><u>Access to essential services: Social Inclusion</u></p> <p>Providing minimum income for population groups at risk of poverty</p> <ul style="list-style-type: none"> ▪ Average monthly beneficiaries of minimum old-age pension ▪ Average monthly beneficiaries of minimum disability pension ▪ Average monthly beneficiaries in case of loss of provider ▪ People of retirement age and people with disabilities receiving state social security benefit <p>Public transport services</p> <ul style="list-style-type: none"> ▪ Number of passenger carrier companies receiving subsidies for reduced fares ▪ Passenger turnover in regional bus routes (million pas./km) 	

	<ul style="list-style-type: none"> ▪ Passenger turnover in regional rail routes (million pas./km) <p><u>Access to essential services: Education</u></p> <p>Improving quality and providing access to essential educational infrastructure programmes and services</p> <ul style="list-style-type: none"> ▪ Number of beneficiaries of funding for vocational education (teachers' salaries; scholarships; maintenance costs). ▪ Number of beneficiaries of funding for higher education (academic staff remuneration; scholarships; maintenance costs) and science ▪ Number of computers provided for Improving technological equipment in general education institutions by remote education initiated by the Covid-19 pandemic. 	
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RECOMMENDATIONS

ICMA HFIRSB	Sustainability Bond Allocation and Impact Report	ASSESSMENT
Disclose the methodology and the assumptions used for the calculation of impact indicators	The Issuer provides background on the methodology and assumptions used for the calculation of social impact indicators. Baseline and methodology are provided in the report for at least one impact indicator per category.	✓
When the expected impacts of different project components may not be reported separately, Issuers may use (and disclose) the attribution approach	The impact of Latvia's projects is reported separately per category and sub-category on an aggregated basis.	✓
Disclose the methodology used to determine the share of eligible project financing being applied to impact calculation	The Issuer determines the share of eligible project financing being applied to output calculation, meaning the share of the total project cost that is financed by the Issuer,	✓

	<p>resulting in a pro-rated share of the overall results of the project categories.</p> <p>The allocation has been made based on the State budget expenditure for the period 2020-2022(Jan-Aug).</p>	
Collaborating with experts if reporting on the estimated lifetime impacts and/or project economic life in years	No estimation of lifetime impacts nor the project's economic life in years is reported.	N/A
Assumptions and ex-post verification	<p>The Issuer samples ex-post verification for one specific social project and does not include the relevant results in the reporting.</p> <p>The ex-post verification for one social project is coordinated by the relevant ministry represented in the IWG committee.</p>	✓
Report Period	The entirety of proceeds has been allocated to social assets/programs/projects/activities. No modification (removal or additional projects) of the portfolio is planned.	✓
Disbursement reporting	The entirety of proceeds has been allocated.	N/A
Projects with partial eligibility	All projects are 100% eligible for financing.	✓

OPINION

Latvia follows the Harmonized Framework for Impact Reporting (HFIR)'s core principles except for annual reporting and some key recommendations. The Issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration aligned with best market practices. Latvia has not reported on an annual basis but reported in the second fiscal year after the bond issuance in December 2021, all the proceeds have been fully allocated, and the social impacts and target population have been illustrated.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to putting the impacts into perspective with the number of investments allocated to the respective Use of Proceeds' projects.

The Use of Proceeds allocation reporting occurred the second year following issuance (December 2021), after the full allocation of the proceeds.

Proceeds allocated to eligible projects/assets

The proceeds allocation is broken down at the project category level. The Issuer has provided details about the type of projects included in the portfolio.

The allocation report section of the Sustainability Bond Allocation and Impact Report of Latvia aligns with best-market practices by providing information on:

- The number and share of projects in green and social categories
- A breakdown of proceeds in euros per green and social categories
- A breakdown of expenditure share of proceeds by categories in % per green and social categories
- The total amount of proceeds in euros
- The share of expenditure allocated to an eligible category out of the total eligible expenditure

Impact Reporting Indicators

The table below presents an independent assessment of the Issuer’s report and disclosure on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
<p>Relevance</p>	<p>The impact indicator chosen by the Issuer for this bond is the following:</p> <p><u>Energy Efficiency for Buildings</u></p> <p>Increasing the energy efficiency of municipal buildings</p> <ul style="list-style-type: none"> ▪ Estimated annual decrease of greenhouse gas emissions (tons of CO₂ equivalent) ▪ Additional power produced from renewable energy sources (MW) ▪ Decrease of annual primary energy consumption of public buildings (kWh/year) <p><u>Renewable Energy</u></p> <p>National Energy Research Programme</p> <ul style="list-style-type: none"> ▪ Implemented research projects ▪ Implemented publicity measures ▪ Prepared scientific publications on defined challenges <p><u>Land Use and Living Natural Resource</u></p> <p>Promotion and support of sustainable agriculture and forestry practices</p> <ul style="list-style-type: none"> ▪ Number of organic farms supported and supported organic area (ha) ▪ Number of beneficiaries participated in food quality schemes and improvement of vocational educational programmes ▪ Forest area (ha) subject to supervision of forest management ▪ Supported forest area (ha) for forest owners for improving the resilience and environmental value of forest ecosystems <p><u>Terrestrial and Aquatic Biodiversity Conservation</u></p> <p>Fish resources and stocks</p> <ul style="list-style-type: none"> ▪ Number of fish released in natural waterbodies

- Number of scientific recommendations for restocking fish resources, improving habitats and restoring spawning grounds prepared

Surveillance costs for phytosanitary safety and non-contamination

- Plant quarantine organisms, present in Latvia
- Proportion of farms in which crops are grown according to integrated farming guidelines (%)

Support for restrictions in Natura 2000 territories

- Supported forest area - habitat surfaces (ha)

Ensuring the operation of national parks (protected areas)

- Number of migratory birds protected (number of species)
- Area left for feeding and compensated (ha)
- Proportion of specially protected nature territories (% of the state territory);
- Target audience reached through awareness-raising events / classes, etc. (number)
- Surface area of habitats supported in order to attain a better conservation status (ha)
- Number of species in a favorable conservation status

Co-financing of projects within LIFE Programmes

- Area of different habitats covered in restoration activities (ha)
- Priority grassland habitat types restored (number and ha)
- Area of implemented restoration activities (ha);
- Positively affected total habitat area (ha)
- Area cleared from invasive alien species (ha)

Sustainable Water Management

Development, construction, operation and maintenance of water and wastewater management systems

- Surface of flood-resilient floor space
- Length of restored dams and water drains (km)
- Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalization actions
- Area where flood risks are reduced (ha)

- Volume (m³) and proportion (% of total) of wastewater discharged into environment and complying with the treatment standards

Climate Change Adaptation

Infrastructure and resources for climate change adaptation

- Number of inhabitants that benefit from the flood protection measures
- Protected population, reduced negative effects of the affected territory (in numbers)

Clean transportation

Construction, operation and maintenance of Sustainable Road Transport services

- Passenger turnover in regional bus routes (million pas./km)
- Passenger turnover in regional rail routes (million pas./km)

Circular Economy

Collection, treatment and recycling of municipal waste

- Volume of produced product in Latvia from recycled material (m³/year or t/year)

Affordable Basic infrastructure

- Number of beneficiaries (vulnerable consumers)

Access to essential services: Social Inclusion

- Average monthly beneficiaries (i.e. number of people) of minimum old-age pension
- Average monthly beneficiaries(i.e. number of people)of minimum disability pension
- Passenger turnover in regional bus routes (million pas./km)
- Passenger turnover in regional rail routes (million pas./km)

Access to essential services: education

- Number of beneficiaries of vocational education and higher education

	<ul style="list-style-type: none"> Number of computers provided <p>The output indicators are quantitative to the Use of Proceeds' categories financed with the bond.</p> <p>For all green and social categories except renewable energy, the Issuer refers to a limited number of sector-specific core indicators as listed in ICMA HFIR and HFIRSB. It is worth noting that the core indicators are complemented by a list of additional impact indicators using the Issuer's internal methodology. In the case of renewable energy, the Issuer has allocated to research and publications that can be measured only by an output indicator. While an impact indicator on emissions of GHG or renewable energy generation in MWh/GWh (electricity) as well as GJ/TJ (other energy) would have been stronger evidence of the environmental impact of effective and continued implementation, such impact indicators would be applicable for intervention after the researches or other projects or similar nature.</p>
<p>Data sourcing and methodologies of quantitative assessment</p>	<p>Latvia has regulations for evaluating policy impact and performance through relevant outcome and output indicators⁸. The methodology is set in the Government approved Methodology for Developing and Evaluating Results and Performance Indicators of Ministry and other Central State Institutions⁹.</p> <p>The sustainable development indicators are determined in Latvia's Sustainable Development Strategy until 2030¹⁰, the National Development Plan 2021-2027¹¹, as well as sectoral policy documents and are approved by the Cabinet of Ministers, in accordance with the Law on the Development Planning System¹², and the relevant regulations. They are tied with the monitoring of the implementation of the Sustainable Development Goals, as presented in the latest 2022's report to the UN High-Level Political Forum on Sustainable Development¹³ through the mid-term and ex-post evaluation processes stipulated by Cabinet of Ministers Regulation Nr. 737 On the Creation and Impact Assessment of Policy Planning Documents¹⁴.</p>

⁸ Legal Acts of The Republic Of Latvia, 2009, Rezultātu un rezultatīvo rādītāju sistēmas darbības kārtība, <https://likumi.lv/ta/id/197035-rezultatu-un-rezultativo-raditaju-sistemas-darbibas-kartiba>

⁹ Legal Acts of The Republic Of Latvia, 2009, Ministriju un citu centrālo valsts iestāžu rezultātu un to rezultatīvo rādītāju izstrādes un novērtēšanas metodika <https://likumi.lv/ta/id/200935-ministriju-un-citu-centralo-valsts-iestazu-rezultatu-un-to-rezultativo-raditaju-izstrades-un-novertesanas-metodika>

¹⁰ Sustainable Development Strategy of Latvia to 2030 (approved by Saeima 2010) Official publication in Latvian <https://www.vestnesis.lv/ta/id/191187>; English vers. http://www.pkc.gov.lv/sites/default/files/inline-files/LIAS_2030_en_0.pdf;

¹¹ Legal Acts of The Republic Of Latvia, 2020, Par Latvijas Nacionālo attīstības plānu 2021.-2027. gadam (NAP2027) <https://likumi.lv/ta/id/315879-par-latvijas-nacionalo-attistibas-planu-20212027-gadam-nap2027>;

¹² Law on the Development Planning System <https://likumi.lv/ta/en/en/id/175748>

¹³ Report to the UN High Level Political Forum on Sustainable Development 2022, 2022, Implementation of the Sustainable Development Goals – 2022 https://pkc.gov.lv/sites/default/files/inline-files/Latvia%202nd%20VNR_2022.pdf





¹⁴ <https://likumi.lv/ta/id/270934-attistibas-planosanas-dokumentu-izstrades-un-ietekmes-izvertesanas-noteikumi>

	<p>Furthermore, impact indicators are a compulsory component in the budget requests and explanation to the annual budget according to Regulation Nr. 867 determined by the Cabinet of Ministers “On the procedure for determining the maximum amount of state budget expenditures and the maximum allowable total amount of state budget expenditures for each ministry and other central state institutions for the medium term”¹⁵.</p> <p>Latvia has provided a register list including the associated impact indicator included Latvia Sustainability Bond Report for each project with the relevant data sources and calculation methodologies to measure the impact indicator. According to the provided information, the impact data came from both internal (line ministries represented in IWG in this bond) and external sources, including the collaborating parties and the following websites of the private and public sector (not exhaustive examples):</p> <ol style="list-style-type: none"> 1. www.balticfloc.lv 2. www.orgbalt.eu 3. https://dabasparkspiejura.lv/index.php/lv/par-projektu 4. https://life-peat-restore.eu/lv/ 5. www.lad.gov.lv 6. www.vmd.gov.lv 7. www.silava.lv <p>The data were processed in a mixed approach. Some data were processed manually by calculation, actual measurement, impact contribution figures based on the design stage, interviews and/or collected from the collaborated parties, while some data were processed through information technology solutions.</p> <p>Most of the performance impact data did not require ex-post external verification or additional external party checking, except the impact data related to a subsidy for electricity users, for which Latvia would carry out periodic checking on the subsidy.</p>
<p>Baseline selection</p>	<p>Some impact indicators are compared to baseline data, which captured information from annual agreements and contracts of the green projects, Latvia’s state budget as well as information from the Central Statistical Bureau of Latvia and the State Social Insurance Agency data. The baseline values for these impact indicators are provided in the report when relevant.</p>






Scale and granularity	The impact data is presented at the Use of Proceed project level for the indicators.
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High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the Issuer’s Sustainability Bond Allocation and Impact Report, the impact indicator(s) adopted by Latvia for its Sustainability Bond can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”¹⁶.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p><u>Energy Efficiency for Buildings</u></p> <ul style="list-style-type: none"> Estimated annual decrease of greenhouse gas emissions (tons of CO₂ equivalent) Additional power produced from renewable energy sources (MW) Decrease of annual primary energy consumption of public buildings (kWh/year) 	
<p><u>Renewable Energy</u></p> <ul style="list-style-type: none"> Implemented research projects Implemented publicity measures Prepared scientific publications on defined challenges 	-
<p><u>Land Use and Living Natural Resource</u></p> <ul style="list-style-type: none"> Number of organic farms supported and supported organic area (ha) 	
<p><u>Land Use and Living Natural Resource</u></p> <ul style="list-style-type: none"> Population with reduced risks from radiation in numbers results from radiation level monitoring in groundwater and soil not exceeding “x” year values 	
<p><u>Land Use and Living Natural Resource</u></p>	

¹⁶ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

<ul style="list-style-type: none"> Number of beneficiaries participated in food quality schemes and improvement of vocational educational programmes 	
<p><u>Land Use and Living Natural Resource</u></p> <ul style="list-style-type: none"> Number of innovative climate change mitigation technologies, systems, methods and instruments implemented 	
<p><u>Land Use and Living Natural Resource</u></p> <ul style="list-style-type: none"> Forest area subject to supervision of forest management (ha) Surface of sample plots where timber resources characterization data are measured (ha) Monitoring report on quality of groundwater and soil and in the building of the reactor 	
<p><u>Terrestrial and Aquatic Biodiversity Conservation</u></p> <ul style="list-style-type: none"> Proportion of farms in which crops are grown according to integrated farming guidelines (%) 	
<p><u>Terrestrial and Aquatic Biodiversity Conservation</u></p> <ul style="list-style-type: none"> Nature education classes, events and other activities organized (number). Target audience reached through awareness-raising events / classes, etc. (number) Scientific publications prepared (number) Networking, scientific and public awareness building events (number) Tourism and nature education infrastructure objects maintained and improved in good condition(number) 	
<p><u>Terrestrial and Aquatic Biodiversity Conservation</u></p> <ul style="list-style-type: none"> Number of fish released in natural waterbodies Number of scientific recommendations for restocking fish resources, improving habitats and restoring spawning grounds prepared 	

- Number of scientific recommendations for the regulation of fishing and angling prepared
- Number of projects implemented
- Revised descriptions of two marine EU protected habitats stony reefs (1170) and sandbanks (1110) facilitating the easier identification of these habitats in the Eastern Baltic Sea area.
- Improved monitoring methodology for assessment of qualitative and quantitative changes in the benthic habitats allowing for better quantification of pressures on the benthic habitats.
- References values for freshwater habitat types and species of EU importance

Terrestrial and Aquatic Biodiversity Conservation

- Plant quarantine organisms, present in Latvia (number of plants)
- Area where soil agrochemical research has taken place over a period of five years (% of the total area of Agricultural land)
- Supported forest area - habitat surfaces (ha)
- Number of migratory birds protected (number of species)
- Area left for feeding and compensated (hectares)
- Proportion of specially protected nature territories (% of the state territory);
- Surface area of habitats supported in order to attain a better conservation status (ha)
- Number of species in a favorable conservation status
- Area of different habitats covered in restoration activities (ha)
- Priority grassland habitat types restored (number and ha)
- Area of implemented restoration activities (ha)
- Positively affected total habitat area (ha)
- Area cleared from invasive alien species (ha)
- References values for terrestrial habitat types and species of EU importance



Terrestrial and Aquatic Biodiversity Conservation

- Site conservation objectives are legal obligation stemming from the Habitats directive and Each Natura 2000 site should have quantitative and / or qualitative objective against which all management measures or potential impacts has to be compared. Respectively the indicator is “Site conservation objectives”. In total there are 326 sites Natura 2000 sites in Latvia. Conservation objectives adjusted and published in the Natura 2000 database and Nature Conservation agency website for all terrestrial Natura 2000 sites in Latvia are planned for December 2024 ¹⁷
- New up-to-date threatened species list for Latvia. Number of species being evaluated
- New up-to-date protected and micro-reserve species lists for Latvia
- Data sheets for each threatened species including scientific information, threats, and recommendation. Estimated species that will be included in the data sheet (number)










Sustainable Water Management

- Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalization actions
- Length of restored water drains (km)
- Implemented projects (number) related to Maintenance of the amelioration cadastre, operation and maintenance of State amelioration systems and amelioration systems of State importance
- Number of waterbodies with improved status due to implemented rehabilitations of watercourses through re-naturalization actions
- Implemented projects (number) related to Development, construction, operation and



¹⁷ This only relevant for terrestrial biodiversity conservation

<p>maintenance of water and wastewater management systems (Daugava HPP)</p> <ul style="list-style-type: none"> ▪ Number of surface water bodies in high/good status in 2022 and 2027 ▪ Volume (m3) and proportion (% of total) of wastewater discharged into environment and complying with the treatment standards ▪ Number of water bodies at risk in Latvia addressed by supported projects Number of water bodies at risk in Latvia in 2022 and in 2027> 	
<p><u>Sustainable Water Management</u></p> <ul style="list-style-type: none"> ▪ Surface of flood-resilient floor space, areas where flood risks are reduced (ha); ▪ Length of restored dams (km) ▪ Area where flood risks are reduced (ha) ▪ 	
<p><u>Climate Change Adaptation</u></p> <ul style="list-style-type: none"> ▪ Number of beneficiaries for purchase of insurance policies ▪ Number of inhabitants that benefit from the flood protection measures > ▪ Number of beneficiaries (municipalities) from flood risk prevention in populated areas ▪ Protected population, reduced negative effects of the affected territory (in numbers) ▪ Length of territory with engineering-technical solutions introduced (m) 	
<p><u>Clean transportation</u></p> <ul style="list-style-type: none"> ▪ Charging stations maintained (number) ▪ Passenger turnover in regional bus routes (million pas./km) ▪ Share of rail passengers in passenger transport (in number) ▪ Passenger turnover in regional rail routes (million pas./km). 	

<ul style="list-style-type: none"> CO² savings for every passengers shift from cars and buses to train 	
<p><u>Circular Economy</u></p> <ul style="list-style-type: none"> Volume of produced product in Latvia from recycled material (m3/year or t/year) 	
<p><u>Affordable Basic infrastructure</u></p> <ul style="list-style-type: none"> Number of beneficiaries (vulnerable consumers) 	
<p><u>Access to essential services: Social Inclusion</u></p> <ul style="list-style-type: none"> Average monthly beneficiaries (i.e. number of people) of minimum old-age pension Average monthly beneficiaries(i.e. number of people)of minimum disability pension Average monthly beneficiaries(i.e. number of people)in case of loss of provider People (i.e. number of people) of retirement age and people with disabilities receiving state social security benefit Number of passenger carrier companies receiving subsidies for reduced fares Passenger turnover in regional bus routes (million pas./km) Passenger turnover in regional rail routes (million pas./km) 	
<p><u>Access to essential services: education</u></p> <ul style="list-style-type: none"> Number of beneficiaries Number of computers provided 	

OPINION

The allocation of the bond's proceeds has been disclosed, with a detailed breakdown across different eligible project categories/asset categories as proposed in the Framework and the Latvia's Sustainability Bond Framework has adopted an appropriate methodology to report the impact generated by providing data sourcing, and granularity for at least one indicator per category reflecting best market practices. The data sources and calculation methodologies are not publicly available, and not all indicators' calculation methodologies are transparently disclosed. Besides, the impact indicators used largely align with best market practices using ICMA's recommended metrics in the HFIR and the HFIRSB except for the renewable energy category.

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1. Validity of the External Review (“External Review”): As long as no changes are undertaken by the Issuer to its Sustainability Bond Allocation and Impact Report as of March 10, 2023.
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ANNEX 1: Methodology

Review of the post-issuance Reports

The external review of post-issuance reports provides the Issuer with an independent opinion on the soundness of its post-issuance report and of its alignment with recognized market guidelines and it provides investors with independent information regarding the reliability of the report produced. On the basis of the information provided by the Issuer, the alignment of the report is assessed with recognized market guidelines, the metrics chosen by the Issuer and the soundness of process and methodology of reporting. The metrics are analyzed based on specific sets of indicators using proprietary method referring to common market guidelines.

High-level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, the extent to the Issuers reporting and project categories contribute to related SDGs is identified.

ANNEX 2: Quality management processes

SCOPE

Latvia commissioned ICS to compile an External Review on its Bond Report. The External Review process includes verifying whether the Bond Report aligns with the Issuer's Green, Social and Sustainability Bond Framework and the respective market standards, i.e. the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and to assess the robustness and completeness of the reporting methodologies.

CRITERIA

Relevant Standards for this Report Review:

- ICMA Green Bond Principles and Social Bond Principles
- ICMA Harmonized Framework for Impact Report
- ICMA Harmonized Framework for Impact Report for Social Bonds
- ICMA A High-Level Mapping to the Sustainable Development Goals

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Sustainability Bond Allocation and Impact Report
- Sustainability Bond Framework
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ISS ESG's VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent External Review has been conducted by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with Issuer Name took place from December 2022 to March 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this External Review

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyzes companies and countries regarding their environmental and social performance.

We assess alignment with external principles (e.g., the ICMA Green / Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyze the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent External Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information on External Review services, contact: SPOsales@isscorporatesolutions.com

For more information on this specific Sustainability Bond Allocation and Impact Report Review, please contact: SPOOperations@iss-esg.com

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