

CREDIT OPINION

6 February 2025

Update



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JSC Development Finance Institution Altum

Update following rating action

Summary

JSC Development Finance Institution Altum's (Altum) Baa1/Prime-2 issuer ratings reflect the company's standalone assessment of baa3 and a two-notch uplift based on our expectation of a very high level of support from and a very high level of dependence on the [Government of Latvia](#) (A3 stable). The support assumption is based on Altum's importance to the economic growth strategies of the Latvian government, as well as the government's strong track record of providing support to strategic companies.

Altum is considered to be an important tool for the government in its policy work, and is governed by an institution-specific law, which is unique for financial institutions in Latvia. Its mandate, which was originally issued in 2015 for 7 years, was prolonged in November 2022 until 31 December 2029 by the European Commission. We expect a very high probability that the government would inject additional capital into the company in case of need. However, without explicit government guarantees to Altum, or to its creditors, the government support does not lead to a rating at par with the sovereign rating of Latvia.

Altum's baa3 standalone assessment reflects its sound financial profile, with very strong capitalisation, high risk coverage and low refinancing risk. Such strengths are balanced against high problem loan levels and modest profitability. The standalone assessment is also supported by the unique standing of Altum in Latvia, reflecting its policy mandate to provide a distribution channel for state and European Union (EU) programme funds to both end-customers and other financial institutions.

Credit strengths

- » Very high probability of government support
- » High capitalisation
- » Stable funding profile, with high share of public funding (EU structural funds and state budget)

Credit challenges

- » High volume of problem loans, although coverage is very high
- » Moderate profitability, resulting from its mandate as a development institution

Outlook

The stable outlook reflects our expectation that the company's standalone credit profile, and the support from and dependence on the government of Latvia will remain broadly in line with the current levels over the next 12-18 months. It is also based on the stable outlook on the rating of Latvia.

Factors that could lead to an upgrade

Altum's rating could be upgraded if the firm improves its standalone credit fundamentals significantly, including reducing its volume of problem loans, while continuing to manage EU and state funding prudently. An upgrade could also result from an upgrade of the Latvian government's ratings or if explicit government guarantees protecting creditors in case of failure were provided.

Factors that could lead to a downgrade

A downgrade of Altum's rating could result from a combination of the company significantly changing its funding structure, and a significant deterioration in its risk-coverage reserves and capitalisation. A downgrade of Altum's ratings could also follow a downgrade of the Latvian government's ratings or if the probability of government support decreases.

Key indicators

Exhibit 1

JSC Development Finance Institution Altum (Consolidated Financials) [1]

	06-24 ²	12-23 ²	12-22 ²	12-21 ²	12-20 ²	CAGR/Avg. ³
Total managed assets (EUR Thousands)	1,310,745.0	1,316,086.0	1,099,588.0	976,204.0	850,704.0	13.1 ⁴
Total managed assets (USD Thousands)	1,404,796.1	1,453,821.0	1,173,532.3	1,106,142.6	1,040,883.9	8.9 ⁴
Net Income / Average Managed Assets (%)	2.0	1.5	1.1	1.5	0.8	1.4 ⁵
Tangible Common Equity (Finance) / Tangible Managed Assets (%)	31.1	29.6	36.0	45.1	44.8	37.3 ⁵
Problem Loans / Gross Loans (Finance) (%)	7.3	8.2	9.3	7.1	8.3	8.0 ⁵
Net Charge-offs / Average Gross Loans and Leases (%)	0.1	1.2	0.3	0.3	1.3	0.6 ⁵
Debt Maturities Coverage (%)	619.9	528.5	705.5	4538.1	8462.9	2971.0 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] IFRS [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime.

Sources: Moody's Ratings and company filings

Profile

JSC Development Finance Institution Altum (Altum) has a strong mandate by law to promote the advancement of the Latvian economy through the development, approval, implementation and monitoring of aid programmes. These programmes, consisting of credit lines and guarantees, are funded through the state budget, EU structural funding and a listed bond programme. Although not a systemically important institution in terms of size, Altum is the main development institution in Latvia and is of considerable importance for the delivery of the government's economic policy. Altum's shareholders comprise the Ministry of Finance (40%), the Ministry of Economy (30%) and the Ministry of Agriculture (30%).

Altum's main areas of activity relate to providing loans and guarantees. It also offers nonfinancial support in the form of consultations, education and mentoring. Altum's activity is mainly restricted to programmes (financial instruments or grants) that are developed and then monitored at the ministry level.

Altum's activities are regulated by a special law, the Development Finance Institution Law, passed by the Latvian Parliament in October 2014 and in force since March 2015. Altum's mandate, which was originally issued for 7 years, was prolonged in November 2022 until 31 December 2029 by the European Commission (EC). Altum's creation was supported by the EC's decision "Latvia MLB development segment and creation of the Latvian Single Development Institution". The other laws applicable to the institution are the Law on Governance of Capital Shares of a Public Person and Capital Companies, the Commercial Law and other binding regulatory enactments. Altum was established in December 2013 following the merger of the following three enterprises:

- » Latvian Development Finance Institution Altum SJSC (previously the Mortgage and Land Bank of Latvia), specialised in credit activities
- » Latvian Guarantee Agency LLC (LGA), specialised in guarantees and investments in venture capital
- » Rural Development Fund SJSC (RDF), specialised in credit activities for farmers

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Altum is not a deposit-taking institution and does not have a banking licence. While it is obliged to prepare annual audited accounts in accordance with IFRS, the entity is not required to comply with minimum capital requirements. As of the end of September 2024, Altum reported a total consolidated asset base of €1,391 million.

Detailed credit considerations

Moderate profitability with earnings volatility, inherent to its business model

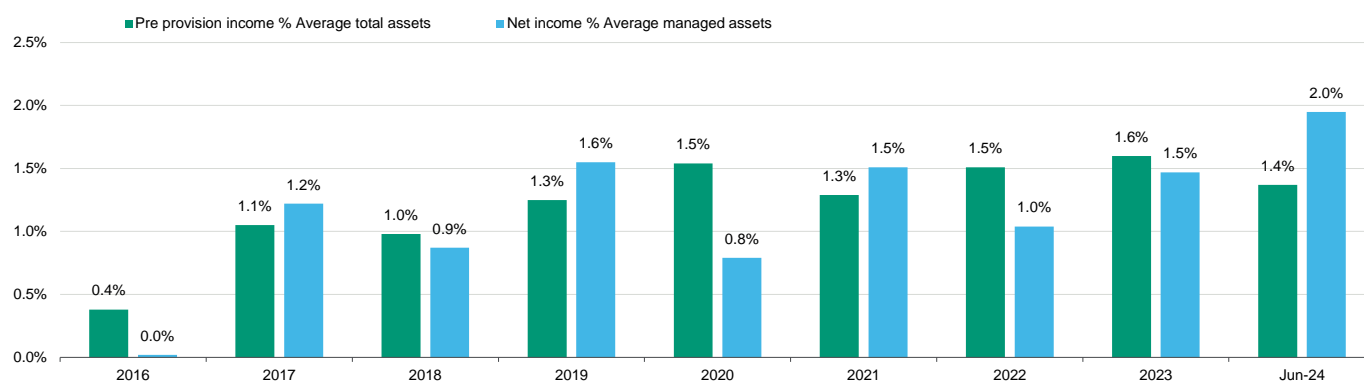
At end-June 2024, Altum's net income to tangible assets ratio stood at 1.95%, equivalent to a score of Baa2. We assign a Profitability score of Baa3 to reflect our expectation of a decline in the company's recurring profitability levels on the back of lower net interest income and higher impairment levels.

Altum reported moderate core profitability levels throughout the past four years, thereby meeting its obligation under the law to remain profitable over the long term and preserving the capital invested by the state (a positive return on equity is, therefore, incorporated into the business strategy). However, because of its public mandate and the lack of profit maximisation incentives, we expect the company's internal capital generation to remain constrained.

In the first nine months of 2024, Altum's earnings significantly increased thanks to the higher interest rate environment and an increase in the lending portfolio. Bottom-line profitability was also positively impacted by extraordinarily low impairment charges that included some one-off reversals. Going forward, we expect net interest income to decrease as assets reprice to lower rates, while credit impairments will increase, adding pressure to the company's bottom-line profitability.

Exhibit 2

Moderate profitability levels, constrained by high loan loss provisions in 2022



Source: Altum's financial statements and Moody's Ratings

Strong capitalisation, supported by substantial risk-coverage reserves

We assign a Capital score of A1, one notch below the initial score, to reflect our expectation that Altum's capital levels will decline, although they will remain high. The assigned score also reflects the company's substantial risk-coverage reserves, that complement its already high capital levels.

Altum has large capital buffers to withstand the volatility in earnings and to support future growth. Its Moody's-adjusted tangible common equity-to-tangible managed assets ratio stood at 31% as of end-June 2024. Altum's profit is not paid out in dividends. Instead, the company accumulates reserves to ensure financial stability and sustainable operations, as well as to mitigate programme risks. We expect Altum's capital levels to decrease as the volume of portfolios with capital rebate increase, although capital will remain at very high levels.

In addition to the company's high capital levels, Altum's credit risk is largely mitigated by sizeable government- and EU-backed asset-risk protection. According to the Law on Development Finance Institutions, prior to the approval of the programmes by the Cabinet of Ministers, Altum estimates the associated expected loss. Under this credit risk cover scheme, the sponsor (the Latvian state or the EU) takes the first losses within the portfolios of loans, venture fund investments or guarantees, providing significant protection against asset risk (the percentage varies from one programme to another). For that purpose, the corresponding portion of public funding is

assigned to the "portfolio loss reserve", which is part of specific reserve capital or alternatively accounted as provisions for risk coverage as part of the liabilities. At end-September 2024, the company's risk coverage reserve amounted to €293 million and the portfolio loss reserve to €96 million.

Furthermore, there is also an additional back-up guarantee via State budget, that covers the losses associated to a guarantee portfolio up to a maximum of €260 million (covering a portfolio of €228 million as of end-September 2024).

Still-high asset risk indicators in line with the entity's business model

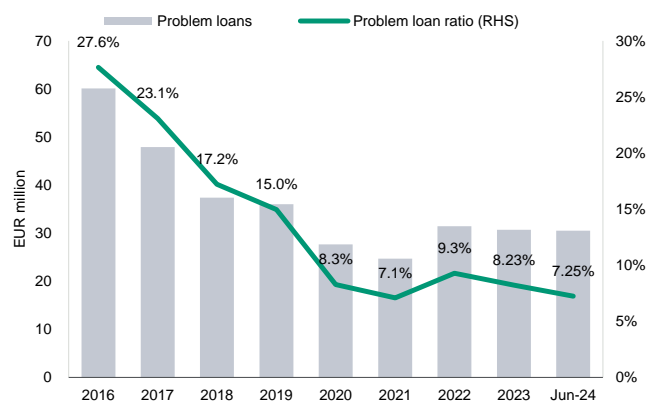
We assign a Weighted Average Asset Risk score of Ba2, in line with the initial score.

Altum's problem loan ratio has been historically high although it has declined progressively since its creation (30.6% as of December 2014). Because of the nature of its mandate and the risk cover, Altum has a larger risk appetite than a commercial bank, as it targets customers that would not usually have access to the Latvian banking industry due to limited financial history or limited financial resources. However, credit risk is largely mitigated by sizeable government- and EU-backed asset-risk protection (see above section).

Altum's nonperforming loans (NPLs)-to-gross loans ratio¹ stood at a still high 7.3% as of June 2024, down from 8.2% at end-December 2023 (Exhibit 3). The loan loss reserves-to-problem loans ratio decreased to 60% at end-June 2024 from 70% at year-end 2023. However, this coverage jumps to 756% if we include the programmes' total credit risk coverage of loans and guarantees.

Exhibit 3

Problem loan ratio

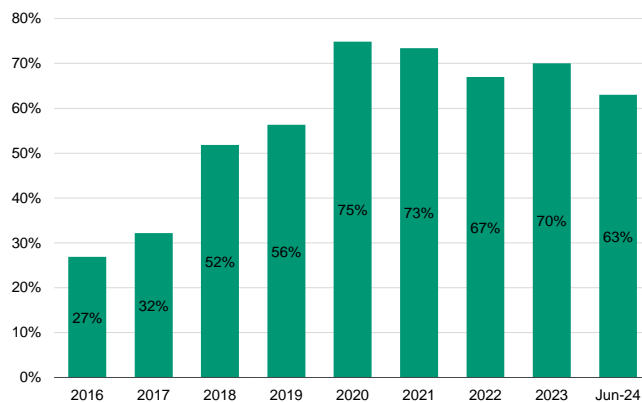


Source: Altum's financial reports and Moody's Ratings

Exhibit 4

Provisioning coverage

Loan loss reserves as a percentage of nonperforming loans



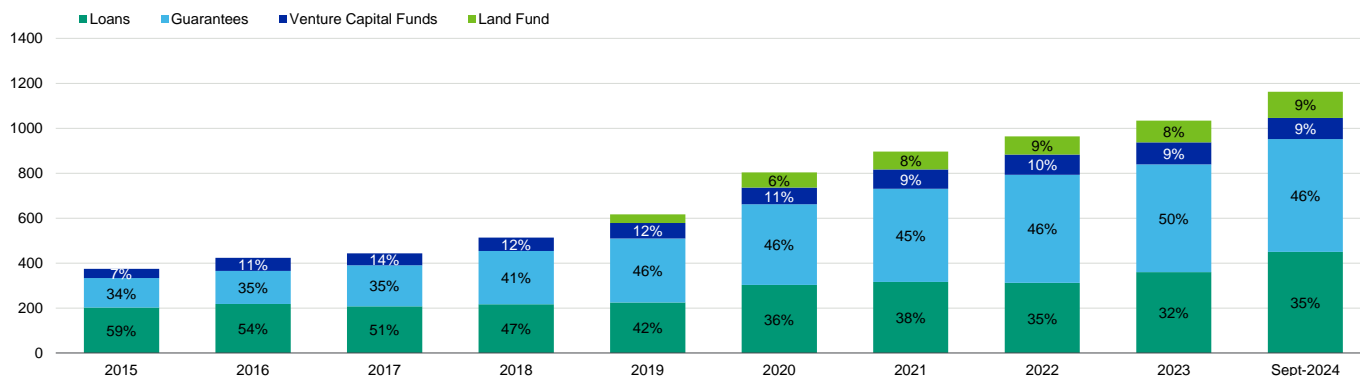
Sources: Altum's financial reports and Moody's Ratings

Altum's portfolio is diversified in terms of financial instruments (Exhibit 5), with a portfolio of financial instruments granted within the state aid programmes of €1,162 million as of September 2024 (December 2023: €1,034 million), made up of 34,740 projects (December 2023: 35,260) and consisting of the following:

- » a guarantee portfolio of €501 million (2023: €480 million),
- » a loan portfolio of €450 million (2023: €359 million),
- » investments in venture capital funds of €94 million (2023: €97 million), and
- » investments under the Latvian Land Fund of €116 million (2023: €97 million).

Since the start of the coronavirus pandemic and the subsequent military invasion of Russia in Ukraine, the loans and guarantees portfolio has consistently increased as Altum set up measures and facilities in place to counter the economic impact. The volume of guarantees grew by 21% between December 2021 and September 2024 and the volume of loans by 42%.

Exhibit 5
Financial instruments outstanding

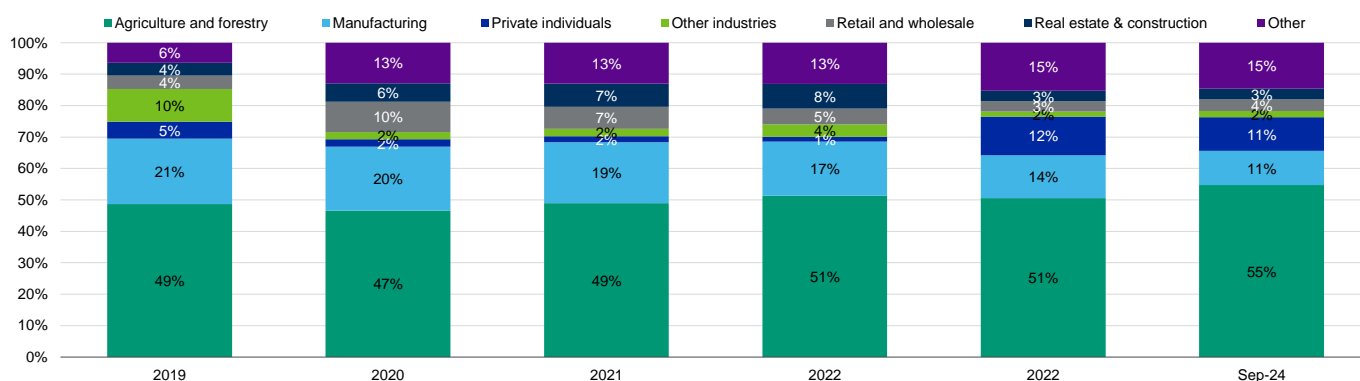


Percentages show the share of total financial instruments outstanding. Because of the growing size of the Land Fund, this is reported as a separate segment since 2019.
Source: Altum's financial reports

Altum expects a certain amount of loss on all its investments, depending on the programme structure and terms. The expected losses are estimated in advance and are covered by the credit risk cover, which is a percentage of a programme's funding.

- » Loans are given directly to companies and, to a lesser extent, to private individuals. The largest portion of loans are investment loans, aimed at helping smaller companies grow their businesses. Agriculture, including also the activities of the Land Fund, has traditionally been a large segment and constituted 55% of the loan portfolio as of September 2024. At the same time, loans extended to the manufacturing industry and private individuals accounted both for 11% of total loans (Exhibit 6).
- » Funds aimed at venture capital/equity investments are managed by external funds, with partnership agreements and consultation committees in place to ensure that the programmes are followed. Fund managers typically also invest their own money in these funds. The programmes aimed at equity investments typically have larger expected loss and associated risk-coverage reserves.
- » Guarantees are given to banks to stimulate lending to borrowers who have viable business strategies but might lack enough own funds or collateral. Such products are extended as part of the state support package to the Latvian economy.

Exhibit 6
Loan book breakdown by industry



Percentages show the share of gross loans for each period.
Source: Altum's financial reports and Moody's Ratings

Strong liquidity, with funding coming from the Latvian state and European institutions

The Weighted Average Cash Flow and Liquidity score of Ba1, four notches below the initial score, reflects the fact that most programmes that are used to fund the institution have limited refinancing risks for Altum. This is balanced against its low funds from operations, which are used to repay market funding, and the limited independent funding franchise, constraining the Liquidity score.

Altum is funded by borrowings from the Latvian state, European institutions and bond issuances. As of September 2024, 64% of Altum's liabilities came from support programme funding and state programmes. The remaining liabilities include bond issuances (at 9% of total liabilities), funding from general governments (at 19%) and from other credit institutions (at 2%). Altum has a comfortable maturity profile, with 86% of having a maturity of more than one year as of September 2024.

As of September 2024, Altum had sufficient liquid resources, consisting mainly of demand deposits in other credit institutions and the Latvian Treasury (€417 million), as well as Latvian government bonds (around €165 million).

Operating environment

A key component of our analysis is the extent to which external conditions can have a significant influence on Altum's credit profile. The Operating Environment score for Altum (Baa2) takes into account two factors: a Macro-Level Indicator (A3) and an Industry Risk score (Baa). The score for the Operating Environment is combined with the Financial Profile score to determine the Adjusted Financial Profile score.

As the Macro-Level Indicator is higher than the Industry Risk indicator, it receives 0% weight in calculating the Operating Environment score, which instead fully reflects the Industry Risk.

Macro-level indicator

The Macro-Level Indicator of A3 for Latvia reflects the intrinsic strength of its economy, the capacity of the government to implement sound economic policies, as well as political risk, government liquidity risk, financial sector risk and external vulnerability risk.

The Economic Strength score of baa2 reflects the country's solid trend growth and income levels that are high in a global comparison, but lower than many regional peers. Latvia's small and open economy is vulnerable to external shocks, but this is balanced by the economy's demonstrated flexibility and adaptability.

The a2 Institutions and Governance Strength score reflects the country's demonstrated capacity to tackle major policy challenges, as exemplified by the very significant macroeconomic adjustment during the twin pandemic and energy crisis shocks.

Susceptibility to Event Risk is assessed at ba, based on our assessment of political risk, in particular geopolitical risks related to Latvia's tense relations with Russia.

Industry risk score

In assessing Industry Risk, we take into account the competitive position, exposure to cyclical economic forces and the track record of the product offering of a finance company's business line(s).

The Industry Risk score for Altum is Baa, which reflects its stable position in the industry as a development institution, with limited exposure to competition from commercial banks and a specific government mandate regulated by law, and, within that scope, its ability to channel EU and state funding into the real economy. Therefore, economic cycles are less important for Altum than for other private finance companies. The company's missions depend not only on the Latvian state but also on future allocations of EU structural funds to Latvia.

Support and structural considerations

The issuer ratings of Altum incorporate both the standalone assessment of baa3 and support considerations. The very high dependence on and the very high probability of support from the government lead to a two-notch uplift to a Baa1 rating. However, without explicit government guarantees to Altum, or to its creditors, the government support does not lead to a rating at par with the A3 sovereign rating.

Very high probability of government support

The Latvian government has a track record of providing support to strategic companies, including the electricity, postal services, airlines, railways and telecom sectors, as well as development institutions. The Latvian government has previously supported its development institutions by means of recapitalisation, liquidity support and guarantees. Because of the importance of Altum for planning and implementing growth strategies in the national economy, we assess that the probability of government support is very high.

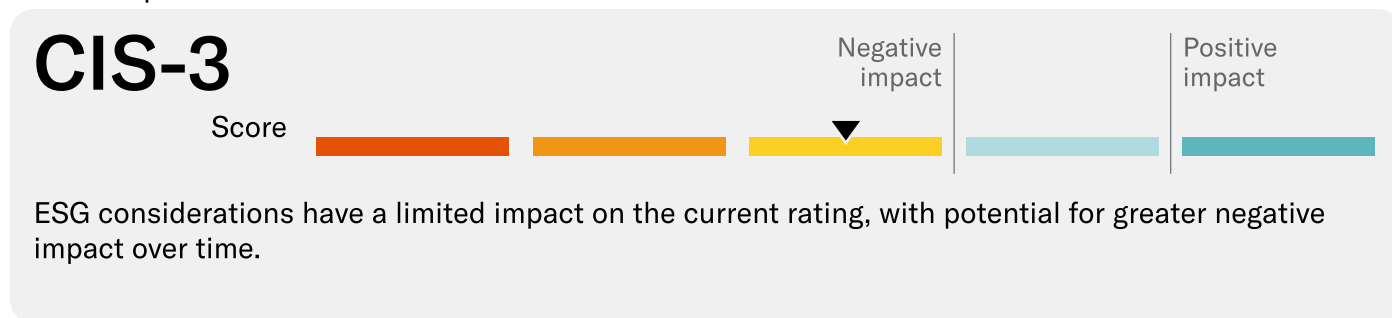
Altum has very high dependence on the Latvian state

The very high default dependence reflects the strong probability that, in the event of a sovereign credit default, the risk of a potential financial crisis affecting Altum would be quite high, given the clear operational links with the government, whereby Altum has an explicit and well-recognised mandate to implement specific government policies; the geographical focus of Altum's activities in Latvia; and its high dependence on state funding.

ESG considerations

JSC Development Finance Institution Altum's ESG credit impact score is CIS-3

Exhibit 7
ESG credit impact score



Source: Moody's Ratings

Altum's **CIS-3** indicates that ESG considerations have a limited impact on the current rating, with potential for greater negative impact over time, stemming from moderate governance risks as a result of high asset risks and despite the mitigating impact of sizeable capital buffers and our current government support assumptions.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Altum faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk. Altum is exposed to mounting business risks and stakeholder pressure to meet more demanding carbon transition targets. Altum is actively engaged in further developing its climate risk management and reporting frameworks, and optimizing its loan portfolio toward less carbon-intensive assets.

Social

Altum faces moderate social risks, partly reflecting its developmental and policy mandate, which entails regulated and mandated lending, and is linked to the company's public ownership. Altum's role as the main development institution in Latvia makes it susceptible to politically and socially motivated decisions that could affect its financial profile.

Governance

Altum's governance risks are moderate, reflecting its public ownership and the government's influence over its business and financial strategy. The company operates under a public policy mandate which entails comparatively high asset risk - albeit mitigated by the credit risk cover scheme and high capitalization.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Methodology and scorecard

The principal methodologies we use in rating Altum are our [Finance Companies](#) rating methodology, published in November 2019.

Exhibit 9

Rating Factors JDA

Instrument Class	Assigned Standalone Assessment	Affiliate Support Notching	Government Support Notching	Individual Debt Class Notching	Assigned Rating
Issuer Rating	baa3	0	2		Baa1

Source: Moody's Ratings

Exhibit 10

Rating Factors

JSC Development Finance Institution Altum						
Financial Profile	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Profitability						
Net Income / Average Managed Assets (%)	10%	1.36%	Baa3	Baa3	Expected trend	
Capital Adequacy and Leverage						
Tangible Common Equity / Tangible Managed Assets (%)	25%	31.11%	Aa3	A1	Expected trend	
Asset Quality						
Problem Loans / Gross Loans (%)	10%	8.23%	Caa2	Caa1	Portfolio composition	
Net Charge-Offs / Average Gross Loans (%)	10%	1.19%	A2	A3	Portfolio composition	
Weighted Average Asset Risk Score			Ba2	Ba2		
Cash Flow and Liquidity						
Debt Maturities Coverage (%)	10%	528.50%	Aaa	Baa3	Other adjustments	
FFO / Total Debt (%)	15%	1.04%	Caa3	Ba1	Other adjustments	
Secured Debt / Gross Tangible Assets (%)	20%	0.00%	Aaa	Ba1	Other adjustments	
Weighted Average Cash Flow and Liquidity Score			A3	Ba1		
Financial Profile Score	100%		Baa1	Baa3		
Operating Environment						
Home Country	Factor Weights	Sub-factor Score	Score			
Macro Level Indicator	0%		A3			
Economic Strength	25%	baa2				
Institutions and Governance Strength	50%	a2				
Susceptibility to Event Risk	25%	ba				
Industry Risk	100%		Baa			
Home Country Operating Environment Score			Baa2			
Operating Environment Score	Factor Weights			Score	Comment	
Operating Environment Score	0%			Baa2		
ADJUSTED FINANCIAL PROFILE				Score		
Adjusted Financial Profile Score				Baa3		
Financial Profile Weight	100%					
Operating Environment Weight	0%					
Business Profile and Financial Policy				Adjustment	Comment	
Business Diversification, Concentration and Franchise Positioning				0		
Opacity and Complexity				0		
Corporate Behavior / Risk Management				0		
Liquidity Management				0		
Total Business Profile and Financial Policy Adjustments				Baa3		
Sovereign or parent constraint				A3	Comment	

Standalone Assessment Scorecard- indicated Range	baa2 - ba1
Assigned Standalone Assessment	baa3

Source: Moody's Ratings

Ratings

Exhibit 11

Category	Moody's Rating
JSC DEVELOPMENT FINANCE INSTITUTION ALTUM	
Outlook	Stable
Issuer Rating -Dom Curr	Baa1
ST Issuer Rating -Dom Curr	P-2

Source: Moody's Ratings

Endnotes

- 1 NPLs for 2018 onwards consist of Stage 3 loans as per the IFRS9 reporting standards, while for previous periods, NPLs consist of the reported impaired loans and past due but not impaired loans.

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