

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Altum's Baa1 issuer rating; outlook stable

28 Jan 2025

Madrid, January 28, 2025 -- Moody's Ratings (Moody's) today affirmed JSC Development Finance Institution Altum's (Altum) issuer ratings at Baa1/Prime-2. The issuer outlook remains stable.

RATINGS RATIONALE

The affirmation of Altum's Baa1 long-term issuer rating reflects 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).

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.

Altum has large capital buffers to withstand the volatility in its earnings and to support future growth. The firm's Moody's-adjusted tangible common equity-to-tangible managed assets ratio stood at 31.1% at end June 2024, as a result of full earnings' retention. Furthermore, while Altum's problem loan ratio is higher than other domestic banks (7.3% at end June 2024), credit risk is largely mitigated by sizeable government- and EU-backed asset-risk protection. Under this credit risk cover scheme, the sponsor (the Latvian state or the EU) takes the first losses within the portfolios, providing significant protection against asset risk.

The affirmation of Altum's Baa1 long-term issuer rating also incorporates our assessment of a very high probability of support from the government of Latvia. This 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.

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 OR DOWNGRADE OF THE RATINGS

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.

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.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Finance Companies published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425167>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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Maria Vinuela
Vice President - Senior Analyst

Carola Schuler
MD - Banking

Releasing Office:

Moody's Investors Service Espana, S.A.
Calle Principe de Vergara, 131, 6 Planta
Madrid, 28002
Spain
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

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