



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

16 Dec 2022

Paris, December 16, 2022 -- Moody's Investors Service ("Moody's") today affirmed JSC Development Finance Institution Altum's (Altum) Baa1 long-term issuer rating. The Baseline Credit Assessment (BCA) was also affirmed at baa3, together with the short-term issuer rating at P-2. The outlook remains stable.

A full list of affected ratings can be found at the end of this press release.

RATINGS RATIONALE

The affirmation of Altum's Baa1 long term issuer rating is based on (i) the affirmation of its standalone Baseline Credit Assessment (BCA) of baa3, and (ii) Moody's assumption of a very high probability of support from the Government of Latvia (A3 stable), leading to two notches of uplift.

The affirmation of Altum's baa3 BCA reflects the sound financial profile of the company, with very strong capitalisation, high provisioning coverage incorporated into its funding programmes, and low refinancing risk. Such strengths are balanced against high problem loan levels and low profitability. The BCA 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 37.4% at end June 2022, as a result of strong earnings' retention. Furthermore, while Altum's problem loan ratio is higher than other domestic banks (7.4% at end June 2022), 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 of loans, venture fund investments or guarantees, providing significant protection against asset risk.

The affirmation of Altum's Baa1 long term issuer rating also incorporates Moody's assessment of a very high probability of support from the government of Latvia, providing two notches of uplift above the BCA. 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. Therefore, its existence is not dependent on the stability of the Latvian banking sector. Moody's expects 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.

OUTLOOK

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

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

An upgrade of the Baa1 long-term issuer rating could be warranted if the Latvian government's ratings are upgraded or explicit government guarantees protecting creditors in case of failure are provided; or if Altum improves its standalone credit fundamentals significantly, including reducing its volume of problem loans and the losses arising from venture capital and guarantees, as well as managing non-EU and state funding prudently.

Factors that could lead to a downgrade

A downgrade of the Baa1 long-term issuer rating could follow if the Latvian government's ratings are downgraded or if the probability of government support decreases. In addition, 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.

PRINCIPAL METHODOLOGIES

The methodologies used in these ratings were Finance Companies Methodology published in November 2019 and available at <https://ratings.moodys.com/api/rmc-documents/65543>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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