MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Hoist Finance AB's (publ) junior senior debt (P)Ba3, while affirming all other ratings

27 Aug 2018

London, 27 August 2018 -- Moody's Investors Service ("Moody's") has rated foreign currency long-term junior senior debt (generally referred to as non-preferred senior debt in the market) issued under the EMTN programme of Hoist Finance AB (publ) (Hoist) at (P)Ba3. This announcement follows the bank's updated EMTN programme under which Hoist considers to issue non-preferred senior debt once the legislation is in place in Sweden, which will take effect as of year-end 2018.

At the same time, Moody's has affirmed Hoist's long-term senior unsecured and issuer ratings of Baa3, along with all other ratings, as well as the baseline credit assessment (BCA) of ba3. The outlook remains stable.

Please see the report "Banks -- Nordic countries: FAQ: Nordic banks' new non-preferred senior debt instruments" for additional details on the junior senior notes and the risks they pose to creditors.

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

RATINGS RATIONALE

RATINGS OF JUNIOR SENIOR INCORPORATES THEIR LIKELY HIGH LOSS SEVERITY

The (P)Ba3 rating assigned to the junior senior debt reflects (1) Hoist's adjusted baseline credit assessment (BCA) of ba3; (2) Moody's advanced Loss Given Failure (LGF) analysis, which indicates likely high loss severity for these instruments in the event of an issuer's failure; and (3) Moody's assumption of a low probability of government support for this new instrument, resulting in no additional uplift.

In contrast to most other institutions where Moody's has assigned a (P) junior senior rating, Hoist is not subject to regulatory requirements to issue non-preferred debt under MREL (Minimum Requirements for own funds and Eligible Liabilities). Instead, Hoist is considering to issue non-preferred senior to maintain the material loss absorbing cushion for senior debt under Moody's advanced LGF analysis.

Hoists ba3 baseline credit assessment (BCA) is underpinned by a "strong" macro profile and sound capitalization, coupled with a solid retail deposit-based funding profile and sizeable liquidity portfolio. These strengths are counterbalanced by Hoist's monoline business model, the valuation and pricing risks associated with acquiring non-performing debt portfolios, as well as the concentration risk stemming from a limited number of suppliers.

Hoist's long- and short-term issuer rating of Baa3/Prime-3, long-term senior unsecured debt rating of Baa3, junior senior debt rating of (P)Ba3, and subordinated debt rating of Ba3 incorporate (1) the company's baseline credit assessment (BCA) of ba3; (2) the results from our advanced LGF analysis, which takes into account the severity of loss faced by different liability classes in resolution, leading to three notches uplift for Hoists issuer and senior unsecured debt ratings, but no uplift for its junior senior and subordinated debt rating; and (3) our assumption of a "low" probability that government support will be extended to the company in the event of financial distress, which results in no additional uplift.

The firm also has a long- and short-term Counterparty Risk Assessment (CR Assessment) of Baa3(cr)/Prime-3(cr).

WHAT COULD MOVE THE RATINGS UP/DOWN

An upgrade of Hoist's issuer and senior debt ratings would be prompted by an upgrade of the company's BCA. Hoist's BCA could be upgraded if the company: (1) significantly improves its profitability on a sustained basis without increasing earnings volatility; (2) increases capital targets and demonstrates ability to maintain high capital levels; and/or (3) diversifies its business model.

Hoist's BCA could be downgraded if: (1) Hoist materially increases its market funding reliance; (2) it experiences a protracted decrease in profitability or in its solvency ratios; and/or (3) the rating agency's assessment of Hoist's asset risk deteriorates. In terms of the issuer, senior, junior senior and subordinated ratings, a downward movement is likely in the event of a downgrade of Hoist's BCA, and/or a lower notching from Moody's Advanced LGF analysis.

LIST OF AFFECTED RATINGS

Issuer: Hoist Finance AB (publ)

..Assignment:

....Junior Senior Unsecured Medium-Term Note Program, assigned (P)Ba3

..Affirmations:

....Long-term Counterparty Risk Ratings, affirmed Baa3

....Short-term Counterparty Risk Ratings, affirmed P-3

....Long-term Counterparty Risk Assessment, affirmed Baa3(cr)

....Short-term Counterparty Risk Assessment, affirmed P-3(cr)

....Long-term Issuer Rating, affirmed Baa3 Stable

....Short-term Issuer Rating, affirmed P-3

....Baseline Credit Assessment, affirmed ba3

....Adjusted Baseline Credit Assessment, affirmed ba3

....Senior Unsecured Regular Bond/Debenture, affirmed Baa3 Stable

....Senior Unsecured Medium-Term Note Program, affirmed (P)Baa3

....Subordinate Regular Bond/Debenture, affirmed Ba3

....Subordinate Medium-Term Note Program, affirmed (P)Ba3

....Other Short Term, affirmed (P)P-3

..Outlook Action:

....Outlook remains Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in August 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the credit rating action on the support provider and in relation to each particular credit rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

For any affected securities or rated entities receiving direct credit support from the primary entity(ies) of this credit rating action, and whose ratings may change as a result of this credit rating action, the associated regulatory disclosures will be those of the guarantor entity. Exceptions to this approach exist for the following disclosures, if applicable to jurisdiction: Ancillary Services, Disclosure to rated entity, Disclosure from rated entity.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Louise Lundberg
VP-Sr Credit Officer
Financial Institutions Group
Moody's Investors Service Limited, Stockholm Branch
Krejaren 2
Ostermalmstorg 1
Stockholm 114 42
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Sean Marion
MD - Financial Institutions
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service Ltd.
One Canada Square
Canary Wharf
London E14 5FA
United Kingdom
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454