MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Hoist Finance's Baa3 senior unsecured ratings; stabilizes outlook

04 Oct 2021

Stockholm, October 04, 2021 -- Moody's Investors Service ("Moody's") has today affirmed Hoist Finance AB (publ)'s (Hoist Finance or Hoist) senior unsecured ratings of Baa3, its issuer ratings of Baa3/P-3, and its subordinate Ba3 ratings. The junior senior unsecured programme rating was upgraded to (P)Ba2 from (P)Ba3. Furthermore, the Baseline Credit Assessment (BCA) was affirmed at ba3. The outlook on the long-term senior unsecured and issuer ratings was changed to stable from negative.

The affirmation of the senior unsecured and issuer ratings reflects Hoist's ba3 BCA and three notches of uplift as indicated by Moody's Advanced Loss Given Failure (LGF) analysis. The BCA balances Hoist's sound capitalisation, coupled with a retail deposit-based funding profile and large liquidity reserve against risks associated with debt purchasers, including valuation and pricing risks associated with the acquisition of nonperforming debt portfolios and strategic challenges. The upgrade of the junior senior ratings to (P)Ba2 reflects the BCA and one notch uplift as indicated by LGF.

The primary driver for the change to stable outlook is the rating agency's expectation that Hoist will maintain sufficient amounts of loss absorbing liabilities too keep the three notches of uplift in LGF. Furthermore, during the outlook period, the rating agency expects a recovery in profitability as collection rates normalize and acquisitions of new portfolios to gradually pick up post pandemic while managing a sound capitalisation and continued prudent liquidity position.

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

RATINGS RATIONALE

The affirmation of the senior ratings reflects: 1) the affirmation of the BCA at ba3 due to stable capitalisation, coupled with strong liquidity management balanced against valuation and pricing risks and strategic challenges; 2) the continued three notches of uplift in LGF.

BASELINE CREDIT ASSESSMENT

As a regulated bank, Hoist has to meet minimum capital and liquidity requirements and is able to gather low cost retail deposits, key strengths compared to debt purchaser peers. Hoist's capitalisation remains sound, with a tangible common equity to risk weighted assets (TCE/RWA) of 11.5% despite large pandemic related impairments during 2020 and first half year of 2021. While downside risks remain due to possible renewed pandemic related restrictions , Hoist has adequate buffers to withstand further deterioration in its portfolios.

While the financial profile of Hoist is likely to improve over the coming quarters with lower impairments and improved business volumes, the BCA also reflects the valuation and pricing risks when acquiring non-performing loans, its monoline revenue streams, and the volatile flow of new business. New acquisitions are to a large extent dependent on external factors, such as banks willingness to offload non-performing credits, affecting Hoist's ability to grow and replenish amortising loans. This strategic challenge is incorporated through a negative corporate behavior adjustment in the BCA.

LOSS GIVEN FAILURE

Hoist's senior unsecured and issuer ratings continue to incorporate three notches of LGF uplift due to the volumes of subordinated liabilities, SEK800 million in Tier 2 debt and SEK1.1 billion in Additional Tier 1 debt, (resulting in a subordination of 9.3% of tangible banking assets (TBA)), providing loss absorption buffers in case of failure, as well as the large issuances of senior debt, approximately SEK4.5 billion (taking into account today's €148 million redemption) equivalent to 14.8% of TBA (end of June figures), diluting potential losses between creditors in case of failure.

Hoist's junior senior programme rating of (P)Ba2 receives one notch of uplift according to LGF due to the large volumes of subordinated loss absorbing liabilities.

OUTLOOK

The change in outlook on the senior unsecured and issuer ratings to stable from negative reflects Moody's view that Hoist will hold sufficient volumes of loss absorbing liabilities to maintain an extremely low loss rate for senior creditors in case of failure. The stable outlook also reflects Moody's expectations that Hoist will return to profitability through sound collection performance and management's continued focus on costs while managing a stable capitalisation, with TCE/RWA above 10% and prudent liquidity management, pre-funding large acquisitions and with large liquidity reserves. With collection performance improving, 102% in Q2 2021 from 91% in Q2 2020, Moody's expects Hoist to return to profitability during the second half year 2021.

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

Hoist's BCA could be upgraded if the company (1) improves its profitability significantly on a sustained basis, without increasing earnings volatility from its current levels; (2) increases its capital targets significantly and demonstrates the ability to maintain higher capital levels; or (3) diversifies its business model.

Conversely, Hoist's BCA could be downgraded if (1) its recurring profitability or capital decreases significantly, (2) the company materially increases its reliance on market funding; or (3) our assessment of Hoist's asset risk deteriorates.

In terms of the issuer, senior unsecured, junior senior unsecured programme and subordinated ratings, a downward movement is likely in the event of a downgrade of Hoist's BCA or a lower notching from our Advanced LGF analysis.

LIST OF AFFECTED RATINGS

..Issuer: Hoist Finance AB (publ)

Upgrade:

....Junior Senior Unsecured Medium-Term Note Program, Upgraded to (P)Ba2 from (P)Ba3

Affirmations:

....Adjusted Baseline Credit Assessment, Affirmed ba3

....Baseline Credit Assessment, Affirmed ba3

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

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

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

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

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

....Long-term Issuer Rating, Affirmed Baa3, Outlook Changed To Stable From Negative

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

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

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

....Senior Unsecured Regular Bond/Debenture, Affirmed Baa3, Outlook Changed To Stable From Negative

Outlook Action:

....Outlook, Changed To Stable From Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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 at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at http://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1288435 .

At least one ESG consideration was material to the credit rating action(s) announced and described above.

The Global Scale Credit Rating on this Credit Rating Announcement was issued by one of Moody's affiliates outside the UK and is endorsed by Moody's Investors Service Limited, One Canada Square, Canary Wharf, London E14 5FA under the law applicable to credit rating agencies in the UK. Further information on the UK endorsement status and on the Moody's office that issued the credit rating is available on www.moodys.com.

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