MOODY'S
INVESTORS SERVICE

# Rating Action: Moody's affirms all ratings of Hoist Finance AB and changes outlook to negative from stable

**01 Jul 2020**

Stockholm, July 01, 2020 -- Moody's Investors Service ("Moody's") has affirmed all ratings of Hoist Finance AB (publ) (Hoist), including the Baseline Credit Assessment (BCA) at ba3, long-term senior unsecured debt and issuer ratings at Baa3 and subordinate rating at Ba3. The rating agency has also changed the outlook of Hoist's long-term senior unsecured debt and issuer ratings to negative from stable.

The affirmation of Hoist's ratings reflects Moody's view that the debt purchaser's BCA is appropriately positioned and broadly resilient to the deteriorating economic conditions from the coronavirus crisis. Whereas the company will need to take important provisions due to shortfalls in estimated cash collections in 2020, lowering profitability significantly this year, Moody's believes that profitability will gradually recover over the outlook horizon.

The negative outlook reflects uncertainty regarding Hoist's future liability structure and balance sheet, including future loss absorption amounts that would protect the senior unsecured debt ratings as indicated by Moody's Advanced Loss Given Failure (LGF) analysis.

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

RATINGS RATIONALE

RATINGS AFFIRMATION

The ratings affirmation reflects Hoist's sound capitalisation, coupled with a retail deposit-based funding profile and large liquidity reserve. These strengths are balanced against the impact of deteriorating operating conditions on collections, along with the valuation and pricing risks associated with the acquisition of nonperforming debt portfolios and regulatory changes resulting in increased risk weights which challenge the bank's regulated monoline business model.

Moody's considers that debt purchasing companies will be particularly affected by the coronavirus crisis as measures taken by countries to limit the spread of the virus, including courts closures and suspension of bailiffs, social distancing measures, combined with households' diminished ability to repay their debts, which will meaningfully reduce debt purchasers' near-term cash collections (see "Moody's takes rating action on seven Debt Purchasers in EMEA"; https://www.moodys.com/research/--PR_425835 ).

Nevertheless, the affirmation of Hoist's BCA is based on Moody's expectations that the debt purchaser's credit fundamentals will be broadly resilient to the coronavirus outbreak. Whereas Moody's expects a shortfall of expected cash collections of up to 10% in 2020, which would lead to material provisions and significantly lower profitability in 2020, we believe that profitability will gradually recover over the outlook horizon.

Whereas there is uncertainty regarding Hoist's future liability structure and balance sheet, the affirmation of the senior unsecured debt ratings reflects Moody's Advanced Loss Given Failure (LGF) analysis of the group's current balance sheet structure. The analysis indicates that Hoist's senior creditors are likely to face extremely low loss-given-failure, due to the loss absorption provided by subordinated and low-trigger Additional Tier 1 debt. This results in the maximum three notches of uplift for senior unsecured debt ratings, leading to long-term senior unsecured ratings of Baa3.

Whereas the current balance sheet would suggest an additional notch of uplift for the junior senior unsecured (often referred to as senior non-preferred) programme rating, the affirmation of the (P)Ba3 junior senior unsecured programme rating at the level of the BCA reflects the uncertainty around the company's future liability structure, and the high likelihood that the proportion of liabilities subordinated to the junior senior debt class will fall as the balance sheet grows.

Moody's does not incorporate government support in Hoist's ratings.

OUTLOOK

The negative outlook reflects uncertainty regarding Hoist's future liability structure and balance sheet, including a risk that future loss absorption amounts protecting the senior unsecured debt ratings could be lower, warranting a lower notching as indicated by Moody's Advanced Loss Given Failure (LGF) analysis.

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.

An upgrade of Hoist's issuer and senior unsecured debt ratings would be prompted by an upgrade of the company's BCA. At the same time, the junior senior unsecured programme and subordinated ratings could be upgraded either as a result of an upgrade of the BCA, or if the company were to increase the size of its subordinated debt significantly. The junior senior unsecured programme rating could also be upgraded if there is sufficient certainty around junior senior maintaining its current subordination levels also over the medium term.

Conversely, Hoist's BCA could be downgraded if (1) its profitability or capital decreases significantly, among other things, as a result of the recent regulatory changes; (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)

..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, outlook changed to Negative from 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, outlook changed to Negative from Stable

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

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

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

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

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

..Outlook Action:

....Outlook changed to Negative from Stable

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in November 2019 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1147865 . 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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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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