MOODY'S
INVESTORS SERVICE

Rating Action: Moody's affirms Hoist Finance's Baa3 Senior unsecured ratings; outlook changes to negative

27 Apr 2022

Stockholm, April 27, 2022 -- Moody's Investors Service ("Moody's") today affirmed Hoist Finance AB (publ)'s (Hoist) ratings, including its Baa3 Senior unsecured debt ratings, the Junior Senior unsecured MTN program (P)Ba2 ratings, and the Subordinate Ba3 ratings. The Baseline Credit Assessment (BCA) was affirmed at ba3, and the long-term Counterparty Risk Assessment (CRA) was affirmed at Baa3(cr). The outlook was changed to negative from stable.

The change to a negative outlook reflects Moody's view that the significant changes to the of board of directors, twice over the past 12 months, are signs of governance weaknesses and the company's inability to address some of the strategic challenges that it faces, together with the risk that the updated strategy will be insufficient to improve the firm's underlying profitability.

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

RATINGS RATIONALE

The affirmation of Hoist's Baa3 Issuer and Senior unsecured debt ratings reflects Hoist's BCA of ba3 and a three-notch uplift as per Moody's Advanced Loss Given Failure Analysis (LGF). The BCA incorporates the company's regulated nature, with prudential capital and liquidity requirements, providing stability and predictability as well the bank's new, but as yet unproven, strategy aimed at restoring profitability, which has already resulted in the sale of its UK unsecured business. This is, however, balanced against weak financial performance during the pandemic, with high impairments and limited new business. Hoist's income to tangible assets deteriorated further to a negative 0.69% for 2021 due to large provisions, partly taken in its UK portfolios, compared to a negative 0.14% in 2020 and a positive 1.59% in 2019. Tangible Common Equity to Risk Weighted Assets (TCE/RWA) was adequate at 11.37% at end of 2021 and is likely to increase by as much as 280 basis points as the UK unsecured operations are sold.

The BCA also includes one negative adjustment for corporate behavior reflecting Hoist's dependence on exogenous factors in growing its loan book, such as banks' willingness to offload non-performing credits, in line with peers in the debt purchasing industry, as well as the heightened risks of governance failures.

Hoist's Baa3 Issuer and Senior unsecured debt ratings also incorporate a three-notch uplift from the bank's Adjusted BCA as per LGF, due to the large volumes of loss absorbing liabilities protecting senior debt holder in case of failure.

OUTLOOK

The negative outlook considers Moody's mounting concern that the multiple changes to the board of directors and executive management are signs of governance weaknesses and inability to address some of the strategic challenges, including high cost to collect and operational inefficiencies, that the company faces.

During the last year, the composition of the board of directors has been changed twice, increasingly reflecting the dominance of the largest two owners. In particular, the latest overhaul of the board of directors is an indication of the challenges in agreeing on a successful long-term strategy and appointment of executive management. The acting CEO, appointed 15 March 2022, is now implementing a new cost reduction and growth strategy which focuses on shedding inefficient operations, such as selling the UK unsecured operations and investing in higher yielding business. The outlook period will be used to assess the execution of the updated strategy and whether it will improve profitability without increasing risk appetite. The evolving composition of assets and their origin will be an important aspect of that assessment, potentially altering the company's weighted macro profile.

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

An upgrade is unlikely due to the negative outlook, but a stabilization of the outlook could be triggered by managerial continuity coupled with successful execution of cost efficiency measures and improved performance, including: (1) improving recurring profitability, (2) maintaining adequate capital levels above regulatory requirements, (3) not expanding into riskier assets or jurisdictions, and (4) minimizing conduct risk and ad hoc provisions.

Hoist's BCA could be downgraded if (1) further substantive changes to strategy or management are made, (2) its recurring profitability remains at current low levels, (3) its capital decreases, (4) its reliance on market funding materially increases; or (5) our assessment of Hoist's asset risk deteriorates. In terms of the issuer, senior unsecured, junior senior unsecured MTN program and subordinated debt 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:

....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)

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

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

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

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

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

....Junior Senior Unsecured Medium-Term Note Program, Affirmed (P)Ba2

....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 Negative From Stable

Outlook Action:

....Outlook, Changed To Negative From Stable

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.

For ratings issued on a program, series, category/class of debt or security this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series, category/class of debt, security 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.

The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

These ratings are solicited. Please refer to Moody's Policy for Designating and Assigning Unsolicited Credit Ratings available on its website www.moodys.com.

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_1288235 .

At least one ESG consideration was material to the credit rating actions(s) announced and desribed 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.

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.

Niclas Boheman
Vice President - Senior Analyst
Financial Institutions Group
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Simon Ainsworth
Associate Managing Director
Financial Institutions Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody's Investors Service (Nordics) AB
Norrlandsgatan 20
Stockholm, 111 43
Sweden
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.