MOODY'S
RATINGS

Rating Action: Moody's Ratings upgrades Hoist Finance AB (publ)'s long-term issuer rating to Baa2, outlook changed to stable

24 Sep 2024

Stockholm, September 24, 2024 -- Moody's Ratings (Moody's) today upgraded Hoist Finance AB (publ)'s (Hoist) ratings, including its long- and short-term Counterparty Risk Ratings (CRR) to Baa2/P-2 from Baa3/P-3, the senior unsecured debt ratings to Baa2 from Baa3, the long- and short-term issuer ratings to Baa2/P-2 from Baa3/P-3, the senior unsecured MTN program rating to (P)Baa2 from (P)Baa3, the junior senior unsecured MTN program rating to (P)Ba1 from (P)Ba2, the subordinate MTN program rating to (P)Ba2 from (P)Ba3 and the subordinate debt ratings to Ba2 from Ba3. We also upgraded the Baseline Credit Assessment (BCA) and Adjusted BCA to ba2 from ba3, and the long- and short-term Counterparty Risk Assessments (CR Assessment) to Baa2(cr)/P-2(cr) from Baa3(cr)/P-3(cr). The outlook on the long-term issuer and senior unsecured debt ratings was changed to stable from positive.

RATINGS RATIONALE

BASELINE CREDIT ASSESSMENT

The upgrade of Hoist's BCA to ba2 reflects our expectation that the bank will continue on its trajectory of improving profitability driven by efficiency gains and scale advantages, while maintaining high collection performance on its non-performing loan (NPL) portfolio, sound capitalisation levels, comfortably above regulatory requirements, and competitive funding costs as a regulated bank with access to insured retail deposits across seven European countries.

Furthermore, Hoist's plan to qualify as a Specialised Debt Restructurer (SDR) from January 2025, which would exempt the bank from the prudential backstop regulation, is supportive because it will result in a simplified business model less reliant on complex securitisation structures. It will also result in a strengthened liquidity position because of the bank's need to meet higher regulatory requirements to qualify for an SDR status. These strengths are balanced against Hoist's ambitious growth objective, with a target to double the investment portfolio to SEK36 billion in 2026 from SEK18 billion in 2021, that will require strong focus on risk management in all local markets to mitigate a potential increased level of credit risk.

ADVANCED LOSS GIVEN FAILURE ANALYSIS

The Baa2 senior unsecured debt and long-term issuer ratings reflect the ba2 BCA and the extremely low loss given failure and three notches of uplift, as indicated by our Advanced Loss Given Failure (LGF) analysis. Hoist holds large buffers of subordinated liabilities, which provide ample loss absorptions buffers to senior creditors in case of a failure.

OUTLOOK

The stable outlook on Hoist's long-term senior unsecured debt and issuer ratings balances our expectation that improvements in profitability demonstrated over the past 2 years will be sustained over the next 12 to 18 months with the volatility seen in impairment gains and losses and price sensitive, albeit largely fixed term funding structure. We also incorporate the benefits from Hoist becoming an SDR that will facilitate further growth within a more restrictive regulatory framework.

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

An upgrade of the ratings could be triggered by: (1) a further improvement in recurring profitability, (2) maintaining adequate capital levels above regulatory requirements, and (3) minimizing conduct risk and ad hoc provisions.

Hoist's BCA could be downgraded if (1) the bank demonstrates a higher risk appetite such as expansion into more chunkier problem loans (2) its recurring profitability falls, (3) its capital decreases below the regulatory requirement due to larger than expected impairment losses, or (4) its reliance on market funding materially increases.

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 reduced buffers of loss absorbing liabilities.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in March 2024 and available at https://ratings.moodys.com/rmc-documents/409852 . Alternatively, please see the Rating Methodologies page on https://ratings.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 on https://ratings.moodys.com/rating-definitions .

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