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A leading debt restructuring partner to international banks and financial institutions

Hoist Finance

Annual Report 2017

Welcome to Hoist Finance

Hoist Finance is a leader in acquisition of NPLs. With the aim of creating long-term relationships, we have developed into a leading partner to international banks and financial institutions across Europe.

Hoist Finance focuses on creating a long-term sustainable instalment plans with customers. Our methods build on transparency, dialogue and mutual respect. The goal is for customers to be satisfied, debt-free and, given time, to be able to re-enter the financial ecosystem.

Together with our partners, we strive to promote positive development for our customers and society as a whole.

This annual report and sustainability report provides information on developments in 2017 and introduces some of the people responsible for Hoist Finance's success.

Pleasant reading!

VISION

A leading debt restructuring partner to international banks and financial institutions

MISSION

Our Mission – Your Trust

Focus on amicable settlement

History

1994–1996

Hoist Finance established as a credit market company

- Hoist Group's first NPL portfolio acquisition.
- Hoist Kredit obtains credit market licence.

1997–2008

Geographic expansion starts

- Operations established in Germany, France, Belgium and the Netherlands.

2009

Diversified funding

- Introduction of HoistSpar, a deposit offer in Sweden.

About Hoist Finance

Our strengths

>20

years' experience

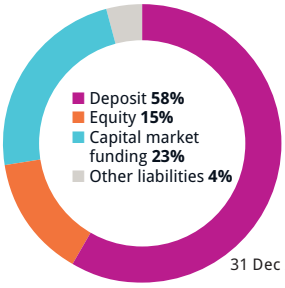
» Structured data from more than 2,000 loan portfolios that enable correct pricing and right strategy for reaching sustainable repayment plans in place with our customers.

Amicable agreements

» Solution-oriented dialogues with customers.

Stable funding model

» An efficient and diversified funding model provides strategic flexibility. Our funding is based on a a mix of retail deposits and bonds.



31 Dec 2017

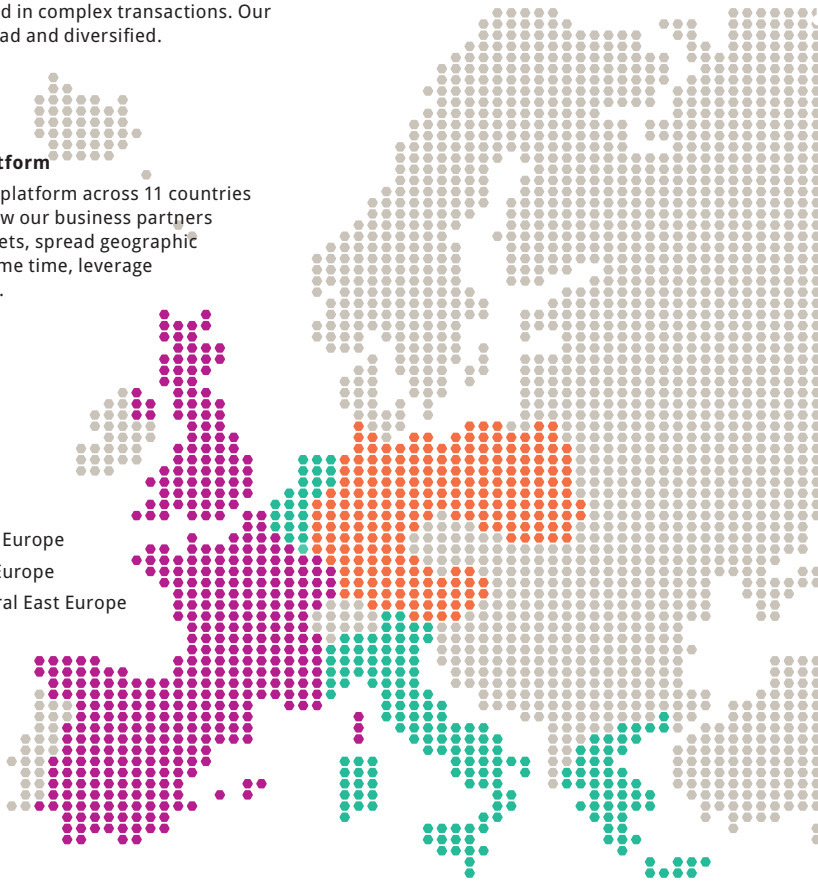
All of

Europe's ten largest banks have partnered with us.

» We are a leading partner for international banks and are experienced in complex transactions. Our partner base is broad and diversified.

A pan-European platform

» Our pan-European platform across 11 countries means we can follow our business partners into different markets, spread geographic risks and, at the same time, leverage economies of scale.



Three regions
- Region West Europe
- Region Mid Europe
- Region Central East Europe

Continued expansion

» The carrying amount of loan portfolios rose from SEK 2.4 billion to SEK 8.9 billion.

» Operations established in Italy, Poland, the UK and Austria.

2010–2014

2015

Stock exchange listing

» Hoist Finance listed on the stock exchange.

» Entry into new asset class, loans to SMEs in Italy.

2016

Partnership with European central bank and continued geographic expansion

» Operations established in Spain.

» Strategic partnership with the Bank of Greece for the liquidation of 16 banks.

2017

Improved credit rating and strong acquisition volumes

» Continued strong growth and expansion in the loans to SMEs segment.

» Credit rating raised to Baa3 by Moody's

» Klaus-Anders Nysteen appointed as CEO to succeed Jörgen Olsson in March 2018.

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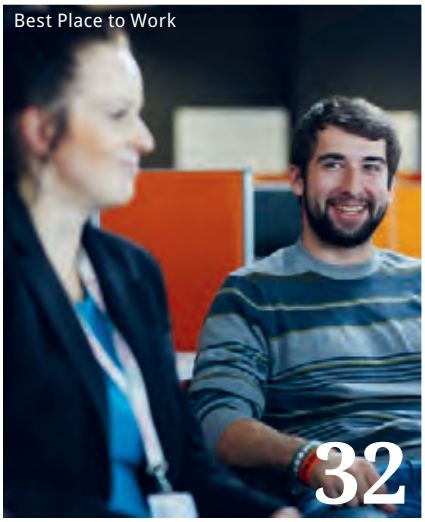
Our Mission – Your Trust



Hoist Finance AB (publ) is a financial parent holding company, and prepares its financial statements in accordance with the Swedish Annual Accounts Act (ÅRL) and owns all the shares in Hoist Kredit AB (publ), a regulated credit market company which prepares its financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL). Hoist Kredit AB (publ) and Hoist Finance AB (publ) completed a merger as of 2 January 2018, whereby Hoist Finance AB (publ) acquired Hoist Kredit AB (publ). The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS).

In order to assess the performance of Hoist Finance's NPL acquisition and collection activities, the Group has chosen to evaluate the business based on its EBIT. Based on the segment reporting, EBIT does not contain any adjustments or changes relative to the statutory accounts and has been prepared using the same accounting policies as the statutory accounts. The differences are described in the Guide section on page 128. This presentation also facilitates the comparison with other debt purchase companies.

Reference to statutory annual report and the Sustainability Report:

The statutory annual report is comprised on pages 6–8, 24–37, 46–50 and 54–131. The Sustainability Report in accordance with the Swedish Annual Accounts Act (ÅRL) is included in the statutory annual report and is comprised on pages 6–8, 24–37 and 46–50.

The year in brief

Quarter

1

- The Board proposed a dividend of SEK 1.30 (0.75) per share for 2016.
- Continued expansion loans to SMEs segment through portfolio acquisitions from Banco BPM.

2

- Moody's Investors Service raised the credit rating to Baa3.
- The Board decided on prioritised sustainability direction based on stakeholder dialogues and materiality analysis.

3

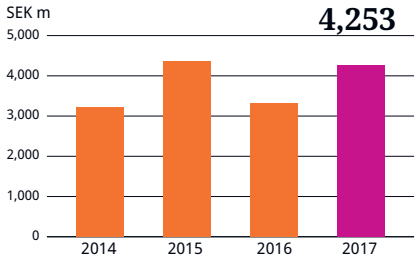
- Hoist Finance launched savings offering in Germany.

4

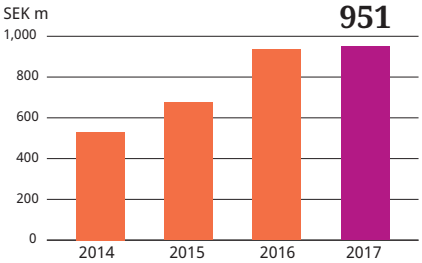
- Hoist Finance appointed Klaus-Anders Nysteen as the new CEO.
- Hoist Finance reported record large acquisition volumes for a single quarter.
- Hoist Finance announces the restructuring of its German and Belgian operations.
- Hoist Finance receives permission to merge with its subsidiary Hoist Kredit. The merger was completed on 2 January 2018.

2017 in figures

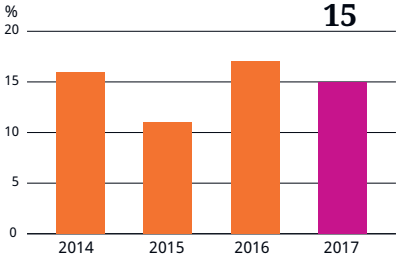
Portfolio acquisitions



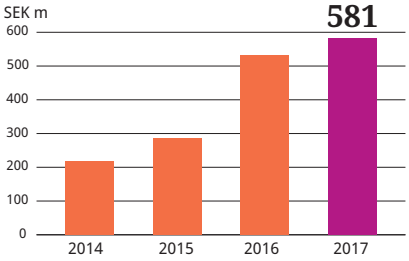
EBIT



Return on equity



Profit before tax



Key figures

SEK M	2017	2016	2015
Total revenue	2,811	2,627	2,247
EBITDA, adjusted	3,251	2,921	2,408
EBIT	951	935	675
EBIT margin, %	34	36	30
Profit before tax	581	533	285
Net profit	453	417	231
Basic earnings per share, SEK[1)]	5.10	5.07	2.90
Diluted earnings per share, SEK[1)]	5.09	4.97	2.84
Acquired loan portfolios	4,253	3,329	4,370
Carrying amount, acquired loan portfolios[2)]	15,024	12,658	11,279
Gross 120-month ERC[3)]	23,991	21,375	19,367
Return on equity, %	15	17	11
Total capital ratio, %	17.71	16.76	15.21
CET1 ratio, %	11.70	12.46	12.32
Liquidity reserve	6,800	5,789	5,156
Number of employees (FTEs)	1,335	1,285	1,349

1) Includes the effect of outstanding warrants. Following the 1:3 share split in 2015, each warrant entitles the holder to subscribe for three new shares. Comparative figures have been restated in view of the share split.
2) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.
3) Excluding run-off consumer loan portfolio and portfolios in the Polish joint venture.

See "Definitions" on page 136 for additional details on key figures.

A value-based company to be proud of

As I write my final CEO statement, I once again summarise a very successful year for our company. Our return on equity increased to 19 per cent (17), excluding nonrecurring items.

WHAT FORMS THE FOUNDATION of a successful company which year after year succeeds in expanding with improved profitability? I believe that the foundation comprises the people who have built the company, and the core values that imbue the company as well as the common-sense that guides us through decisions and dialogues.

Looking back

After a long career in banking and finance, I had decided to step aside. For many years, I had been amazed by the enormous growth in credit, which followed in the wake of financial deregulation. This led to large balance sheets combined with tight margins in the banking sector – a risky situation that imploded in 2007–2008. It was at this moment I came into contact with Hoist Finance, at the time a company with operations in Germany, the Netherlands and Belgium. It was a company that already specialised in helping banks and financial institutions with tasks they had less expertise in, namely, the management of NPLs.

Looking back over my eight years at Hoist Finance, there is much that I am proud of. We have grown from having operations in five countries into a pan-European Group with operations in 11 countries. Since 2012, our portfolio has grown more than 300 per cent and our profit before tax has increased from SEK 30 million to SEK 581 million, or by 1,837 per cent.

I am also proud that we are the only regulated company that is specialised partner to the banking industry. Moreover, in 2016, we, together with two partners, were appointed as the sole liquidator for 16 Greek banks by the Bank of Greece. This was the first time a company in our industry had been engaged by a central bank.

This shows that there is a strength in being regulated and that there is an advantage of obeying the same rules as the bank .

To increase transparency and strengthen our brand, we listed on the stock exchange in 2015, thereby expanding our shareholder base and setting clear goals to deliver upon going forward.

A well-functioning financial ecosystem requires clear systems and processes for managing NPLs in a professional manner. Companies such as Hoist Finance perform a key societal function in maintaining confidence in the financial system. Moreover, our work relies on our strong core values in the form of TRUST: Transparency, Results, Uniqueness, Skills and Teamwork.

The base for our success, and that which I am most proud of, is the strength of all our employees and how this has led to our strong track-record and, at the same time, given our employees the opportunity to grow with the task.

Review of 2017

During the year we have dedicated considerable resources in building a stronger whole through the exchange of best practices, training employees and improving our systems – to become even better in helping customers to become debt-free.

Our Partners

The trend continues to move to our advantage; an increasing number of banks are turning to us to start discussions on how to best managing non-performing loans. Our specialisation means we can offer our bank partners a financial upside together with the knowledge that our communication and interaction with their customers will be conducted with respect and sensitivity. Over the past year, we have strengthened our brand in the European market, strengthened our offer in new asset classes and had the opportunity to start partnerships with new bank partners.

Our investors

We continue to deliver healthy growth quarter after quarter. We continue to invest in a disciplined manner to ensure the financial targets we set for our investments. We also continue to improve operational efficiency, increasing our competitiveness and, in parallel, making us more attractive as a partner and an employer. Overall, we have strengthened our position and added value to the company.

Our team

Together, we continue to build a value-driven organisation. Supporting our customers in difficult circumstances requires empathy, a heart and sound core values. Over the year, we have continued to train our employees, to develop our leadership program and continued on our shared values, convictions and behaviour.

Our customers

Anyone can find themselves in a difficult life situation. In a situation facing challenges that seem unsurmountable. Our task is to assist our customers with retaking financial control over their lives. During the year, we launched a self-service portal in the UK to facilitate for our customers to asses and enter repayment possibilities by themselves.

Klaus-Anders Nysteen Jörgen Olsson

Thank you

To conclude, I would like to convey my sincerest thanks to all the employees of the Group, and all the partners and investors with whom I have had the pleasure of sharing this journey. Together, we have made Hoist Finance the strong and stable company that it is today.

I would also like to take this opportunity to welcome Klaus-Anders Nysteen to a company with extraordinary employees, a disciplined investment strategy and a sound corporate culture – a company with strong growth ahead.

Jörgen Olsson
Managing Director and CEO
until 14 March 2018

A strong and stable foundation to continue building on

Since my announcement as the new CEO of Hoist Finance, I have been looking forward to start and to continue our growth journey together with my new colleagues. During my initial time at Hoist Finance, I have benefited from seeing large parts of the operations and meeting many of my new colleagues. The positive image of the company that I had before starting has been further strengthened . Hoist Finance is a fantastic company with many highly skilled people who care intensely about our customers, the company and society as a whole.

Our commitment for 2018

Looking ahead in 2018, we will continue to invest in developing operations in line with our strategic goals.

Reliable partner for the banking system

2018 will present our partners with further challenges in the form of a new regulatory framework, IFRS 9, and intensified focus from the ECB and EU on how banks should manage NPLs moving forward. Our position is to be present, open for dialogue, and to provide our partners with the best assistance in facing these challenges. We add value by reducing tied-up capital for our banking partners and, in parallel, enabling them to focus fully on their core strategy and competence. Our task for 2018 is to strengthen our brand and to attract more partners.

Attractive to investors

Our market is being reshaped, both in terms of consolidation and in terms of geographical expansion amongst participants. Such a market requires keeping a cool head and continuing to take sound and well-founded decisions that enable us to live up to the financial targets we communicated to our shareholders. It also requires one to be fleet of foot and adaptable to new market conditions – to be able to continue building a long-term winner in the industry. In 2018, much of our focus will be on taking the company to the next level in parallel with continuing our profitable growth.

Best place to work

We have a high ambitions in terms of our employees finding work at Hoist Finance to be both personally developing and enjoyable. This is based on a simple conviction – if you enjoy your work you will also do a better job. If we succeed in further strengthening this, it will benefit all our stakeholders: partners; customers; and investors. In 2018, we will continue to work diligently on strengthening our core values and increase our focus on training and personal development.

Prioritised by customers

The digitalisation process we have begun will continue and accelerate. We apply a customer-centric approach to everything we do when developing systems, processes and staff. Yet again, we are driven by the simple conviction that we must offer our customers the best support when they start on their path to becoming debt-free.

2018 and the future

Activity levels are high in our industry and continuing to rise. A healthy pipeline of potential business bodes well for a strong performance in 2018. Hoist Finance is currently well placed. At the same time, much remains to be done to develop the company further. The foundations are in place for profitable Growth and we are now setting our sights on an exciting year with new opportunities.

Klaus-Anders Nysteen
Managing Director and CEO
from 15 March 2018

Successful strategy

		Strategic initiatives	Strategic objectives
Preferred partner	**Be trustworthy partner with unparalleled funding capacity.**	» Focus on bank-originated assets » Maintain and develop unique funding model » Deliver ethical, reliable and seamless transaction execution	» Ensure satisfied partners by implementing a stable evaluation process » Strengthen and develop skills in existing and new asset classes
Preferred by customers	**Be customer-centric, with a focus on amicable and fair settlements.**	» Continued proprietary development of operations » Ethical and fair treatment of customers » Respect customer privacy	» Ensure customer satisfaction by creating a stable evaluation process in all countries » Develop and improve amicable collection strategies with a focus on self-service solutions
Best place to work	**Build an extraordinary company with extraordinary people.**	» Continue the development of an equal opportunities workplace that promotes diversity » Reduce our own environmental impact	» Be awarded top ratings in "a Great place to work" in terms of diversity and equality with zero incidence of discrimination » Listed as "a Great place to work" in all countries
Attractive to investors	**Redefine industry standards with our disciplined approach and ambitious targets.**	» An ethical approach built on our status as a regulated credit market company » Leverage the economies of scale in the business model » Grow in selected new markets » Strengthen positions and expand in existing markets	» See Financial targets on the next page

Examples of activities in 2017

- Continued expansion and strengthened partnerships in existing markets
- Increased competence and expansion in new asset classes

Read more on page 24.

- Increased training for customer service personnel
- Self-service portal launched in the UK

Read more on page 28.

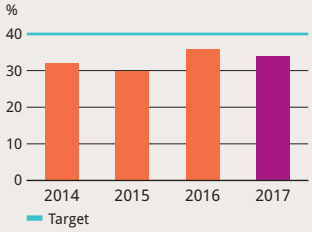
- Scheduled, structured communication activities have been introduced in all countries
- Increased focus and training in value-based leadership throughout the Group

Read more on page 32.

- Improved key operational figures
- Increased focus on digitalisation and operational efficiency

Read more on page 36.

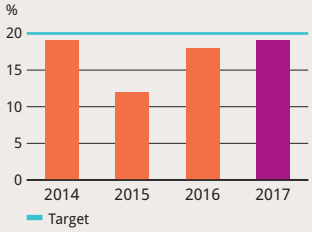
Financial targets



EBIT

By using our operating leverage we aim to achieve an EBIT margin of above 40% in the medium term.

Outcome 2017:
34% (36)



Profitability

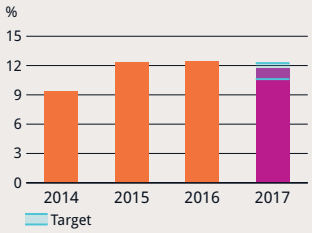
By ensuring the right balance between growth, profitability and capital efficiency we aim to achieve a return on equity of 20% in the medium term.

Outcome 2017:
19% excluding nonrecurring items (17)

Dividend policy

Under our dividend policy we will initially aim to distribute a dividend of 25–30% of the Group's net profit over the medium term. Given the historically strong cash flow generation of our business, our long-term aim is to distribute a dividend of around 50% of annual net profit.

Proposed dividend for 2017:
SEK 1.90 per share (1.30) corresponding to 34% (25).



Capitalisation

Under normal conditions, the CET1 ratio should be 2.5–4.5 percentage points above the overall CET1 requirements specified by the Swedish Financial Supervisory Authority.

Outcome 2017:
11.70% (12.46)

Our business model for value creation

Our business model and strategies delivers value to all our stakeholders
Our solution-oriented model, built on trust, creates value for our business partners, customers, employees, shareholders and society as a whole.

Resources

Relationship capital – attractive partner

- Experience gained from more than 2,000 NPL portfolios over more than 20 years
- More than 200 business partners among banks and financial institutions, including all of Europe's largest banks
- Credit market company under the supervision of the Swedish FSA

Relationship capital – amicable settlements

- Debt restructuring partner with its own operations in nine countries
- Over 20 years experience of reaching amicable settlements

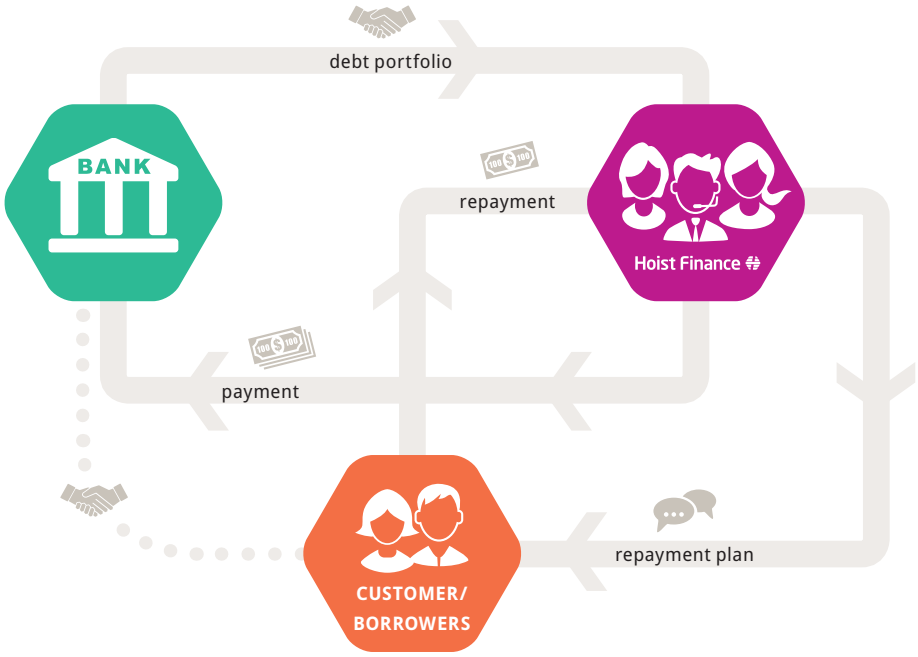
Human capital – best place to work

- Strong core values and sound corporate culture
- 1,442 competent, committed and innovative employees

Financial capital

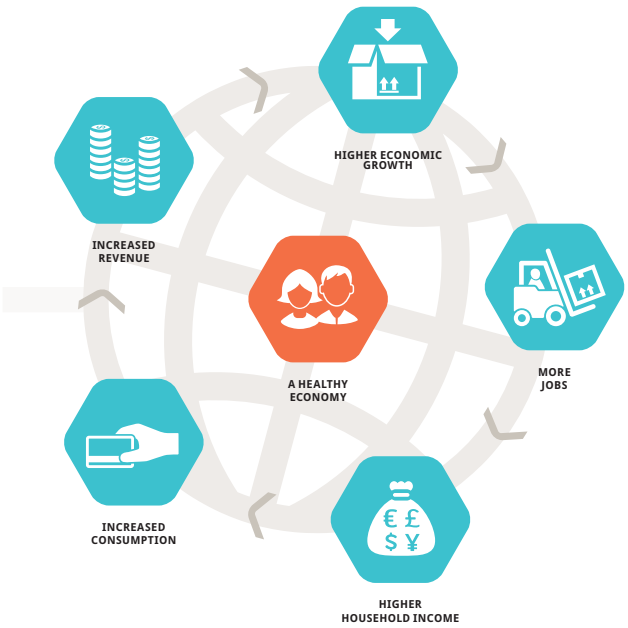
- SEK 13.2 billions in deposits
- SEK 5.2 billions in issued bonds
- SEK 3.2 billions in equity

Our business model



Hoist Finance is a specialist in managing of NPLs, and is an important, transparent and reliable partner for international banks and financial institutions.

Hoist Finance focuses on creating a long-term sustainable repayment plans with customers. Our method builds on transparency, dialogue and mutual respect. The goal is for customers to be satisfied, debt free and, given time, to be able to re-enter the financial ecosystem.



Hoist Finance promotes a healthy financial ecosystem, which is important for society and the economy at large.

By enabling borrowers with payment difficulties to become debt-free, and by allowing banks to focus on their core operations, namely sound credit origination, the company promotes economic growth and increased financial security through lower unemployment and reduced exclusion.

Value for our stakeholders

European banks and financial institutions

» Reduced risk exposure, which strengthens capital relationships
» Increased cashflow, strengthening liquidity
» Higher returns on equity
» Increased focus on core business

Customers

» Respectful dialogue
» A realistic repayment plan
» Gain the opportunity to sort out their finances
» And return as a bank customer

Employees

» A long-term employer that offers a stimulating environment
» An equal opportunities workplace that promotes diversity
» Possibilities to learn and develop

Shareholders

» A long-term investment with a healthy dividend and good value growth

Savers/HoistSpar

» Competitive interest rates
» Competitive savings alternative

Suppliers

» Long-term, dynamic business relationship

Society

» Promote a healthy financial ecosystem
» Promote economic development
» Taxes and fees
» Over time, help reduce financial exclusion

Economic value distributed

Hoist Finance's operations generate economic values that benefit its stakeholders. In the form of salaries to employees, payments for goods and services to suppliers and dividends to shareholders as well as to society in the form of taxes, social security expenses, deposit guarantee and stabilisation fund expenses.

1) excl. stability fee and deposit guarantee scheme, incl. credit losses and profit from shares and participations in joint ventures.

Respect, trust and an amicable approach always

Our business model delivers growth based on acquisitions of non-performing loan portfolios and mutual agreements based on respect for customers.

History and operations

With over 20 years' experience, Hoist Finance is one of the leading non-performing loan purchasers in Europe.

Experts in NPL purchasing

The portfolios that Hoist Finance acquires are mainly from well-reputed international banks, which means that they are responsibly originated. Through its many years of experience and data accumulated from previous acquisitions over the years, Hoist Finance has honed its skills in purchasing NPL portfolios. The purchasing process is based on long-term relationships with the company's partners, thereby ensuring mutual trust founded on open dialogue and ethical behaviour.

Amicable settlements

Our objective is for customers to become debt-free over time and thus able to return to and be part of the financial ecosystem. The primary driver for accomplishing this in the best manner possible is through mutual, realistic agreements with customers, whereby Hoist Finance develops new amicable settlements to remain at the forefront of customer interaction.

The financial ecosystem

Hoist Finance is part of the financial ecosystem. Our contribution to more sustainable development is to ensure we have debt-free, satisfied customers by treating them in an ethically correct manner at the same time as we and our partners always act in compliance with applicable laws and regulations.

Hoist Finance's undertakings regarding societal responsibility are integrated into everything we do. Societal responsibility is found in the business model, in collaborations with partners and customers, in the care of our employees and in the goal to reduce our environmental impact.

Our aim is to be perceived as the industry's ethical leader and, thereby to create and maintain the long-term confidence of partners, customers and employees. To be a leading partner, we have to earn our stakeholders' trust. We want to earn this by acting responsibly and with respect. We want to be the preferred choice of our partners and the best place to work. We also want our customers to feel that we treat them fairly, and at the same time, to be attractive to investors. For us, this is a sustainable way of working.

Sustainable way of working

In 2017, Hoist Finance conducted extensive dialogues with external stakeholders. The objective was to increase understanding of how various stakeholder groups perceive the company's sustainability efforts and which sustainability topics they deem important. The findings of the dialogues and the subsequent materiality analysis have been analysed, discussed and approved by the Executive Management Team. The key materiality topics were thereafter integrated, together with the findings from the employee survey, into the company's business strategy and the sustainability targets decided. The aim is to strengthen sustainability efforts through full integration of the key sustainability topics into our own operations.

A summary of our sustainability goals is available on page 50.

Global sustainable development goals

The UN Global Sustainable Development Goals (SDG) were adopted by 193 UN Member States along with representatives from governments, the business sector, researchers and civil society. The 17 new goals have 169 targets and are relevant for every country in the world and even for companies, since the business community has been highlighted as a key participant to ensure goal achievement.

It is natural for Hoist Finance to always act as a responsible member of the community. Therefore the company will respond to the SDGs and focus on those goals where the operations can make a constructive contribution. Accordingly, a project has been planned for 2018 to study and understand the SDGs, how they connect with operations and how the organisation can contribute to reaching the goals. Part of theses efforts will entail identification by the company of which data is relevant for quantifying and valuing the operations' impact.

By integrating the goals in its strategy and promoting established national policies, Hoist Finance will not only contribute to a sustainable future, it will also strengthen its operating licence. This is because governments around the world use the sustainability goals to set future policy and regulatory development.

Sustainability reporting

Hoist Finance's integrated 2017 Annual Report and Sustainability Report has been prepared pursuant to the GRI Standards: Core option. The GRI index is published on pages 51 and 52 and clarifies the scope of the Sustainabil-

Our operations and our value creation contribute to the UN's SDGs. In 2018, we will initiate efforts to define which targets we contribute to, how we work with them and how we follow them up.

ity Report. The required sustainability report according to the Annual Accounts Act is included in the statutory annual report and can be found on pages 6–8, 24–37 and 46–50 where the following areas are described: The strategic sections: attractive partner pages 24–27, preferred by customers pages 28–30, best place to work pages 32–35 and attractive to investors pages 36–37. The business model is detailed on pages 6–8. The sustainable enterprise section on pages 47–50 describes Hoist Finance's key sustainability topics in more detail and how the sustainability efforts are organised as well as which goals and key figures the company works with. The results of actions taken by Hoist Finance are also reported here to reduce the company's direct impact on the environment.

EMPLOYEES

Olivia Hall UK Communications Manager

Meet Olivia Hall, UK Communications. Her key roles and responsibilities include facilitating all communication in the UK organisation, including the monthly internal information events known as Town Hall, production of the quarterly HIVE magazine, management of all external press and media contacts, and internal events such as the annual Oscars ceremony and Christmas parties.

What Olivia likes most about her job is the variety it brings; no day is the same and she gets to work with a range of people from across the business on all kinds of exciting initiatives. We asked Olivia how communication contributes to innovation:

"Communication is key to becoming not only a more innovative company, but also a really great place to work. We have embarked on a long journey here at Hoist Finance, and it started with training on the importance of good communication. We have already seen improvements start to happen across our Group with our learning and sharing culture becoming more prominent by the day and collaboration across our European sites becoming part of our everyday roles. We're at an exciting time for our future, since communication not only becomes priority, it becomes a necessity and I'm proud to work for a company that values the power of communication."

The European NPL market

In 2017, distressed debt amounted to SEK 10,000 billion in Europe or about five per cent of all loans outstanding. The transaction market is expected to continue to grow in 2018, driven by new legislation aimed at preventing further build up of NPLs in the European banking sector.

Defaulted loans are inherent components of any lending activity. Banks include a predetermined default rate in their credit origination processes and price their credits accordingly. Loan losses and NPLs generally encompass non-performing loans, insolvency proceedings and debts with valid repayment plans, where customers' payments do not meet the contractual terms.

Once a loan is classified as non-performing, the probability that it will be repaid in full is substantially lower than for performing loans. As a result, debt purchasers such as Hoist Finance can acquire NPL portfolios at a significant discount to the nominal value.

Disciplined investors, such as Hoist Finance, know how to value an underperforming asset and can assess the cost and the possibility of recovering any value from the asset. Banks on the other hand often have a different view of the value of their loan portfolios, which has hampered NPL divestments. Slow procedures and structural inefficiencies in debt recovery have also contributed to limiting the transaction market.

Since the European banks and financial institutions have nearly SEK 10,000 billion in underperforming loans on their balance sheets, this has become an increasingly pressing issue for them. The average Euro area NPL ratio has declined gradually from 8 per cent in 2013, to 6 per cent in 2017. Six countries still had NPL ratios of more than 10 per cent, significantly more in some cases. With over-indebtedness among households and SMEs, banks are restricting credit and SMEs are avoiding necessary investments, which in turn hampers economic growth.

Typical stages of development in different markets

Undeveloped market

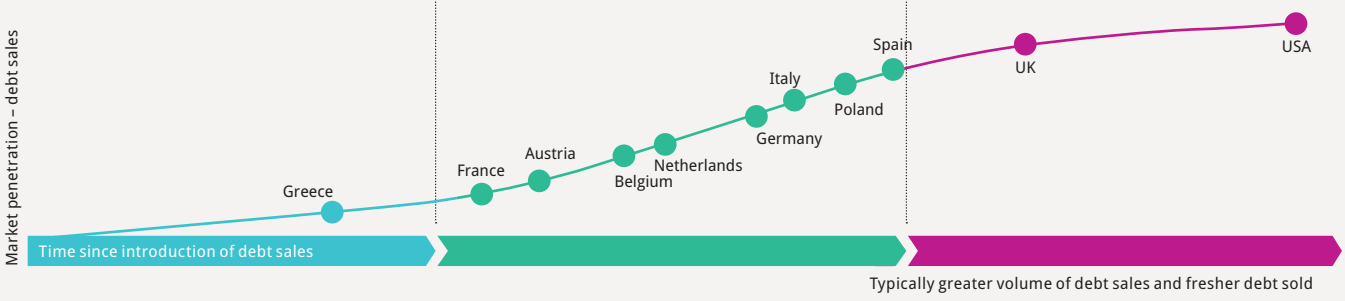
- No (or very limited) NPL sales.
- Wide bid-ask spreads.
- Weak data quality.
- Sales from early adopters including consumer credit companies and international banks.
- Cultural barriers and "denial" among banks.
- Old and low-quality NPLs typically sold.

Growth market

- Increasing competition across NPL purchasers and decreasing bid-ask spreads.
- Increased share of fresher NPL vintages.
- Local banks gradually become more active.
- Better quality NPLs typically sold.

Mature market

- NPL sales an integral part of the financial ecosystem.
- Consolidation among debt purchasers.
- Trend towards the sale of higher quality/fresher NPL vintages.



New regulations and accounting rules

The challenge with high NPL ratios and their inhibitive effects on economic growth has concerned authorities in Europe. As a result, the European Central Bank has proposed new, tough, provisioning standards for bad loans in 2017. Lenders will have to start making provisions against potential losses on unsecured underperforming loans and, after two years, make provisions against the full expected loss. The corresponding period for claims on secured loans that have defaulted will be seven years. The exact design of any new requirements will be discussed further in the EU and tangible guidelines are expected in 2018.

By 2017, European banks had provisioned on average 45 per cent of the nominal loan amount in all asset classes in their loan portfolios. It is expected that moving to 100 per cent could lead to higher provision levels and significantly increased NPL sales over time.

The accounting standard changes from 2018 with the transition from IAS 39 to IFRS 9, which is expected to impact the market. To be able to predict credit losses at an earlier stage, new accounting standards have been introduced from 2018, which encompass new principles for the classification and measurement of financial assets. The company's reason for holding the asset (the business model) together with the contractual cash flows of the financial instruments – determine the basis for measurement.

Changed principles for provisions for and for impairment of credit losses are also introduced, which apply a forward-looking approach. This means that the previous model based on incurred credit losses is replaced by a model based on expected credit losses. The impairment rules under IFRS 9 build on a three stage model whereby the accounting reflects the credit risk, see below.

Around 40 per cent of the banks' underperforming loans were managed by specialised companies in 2017. This share is expected to gradually increase to 60 per cent by 2021. Independent servicers managed around SEK 1,350–1,550 billion of underperforming loans owned by banks, other financial institutions and investors. Total assets under management are expected to grow, reaching around SEK 2,000 billion in the next three years, according to PwC estimates in 2017.

Advantages of divesting NPLs from a banking perspective

- **Reduce risk.** NPL sales reduce the sellers' risk exposure, release reserves and strengthen capital ratios by reducing risk-weighted assets.
- **Release liquidity.** NPL sales translate into up-front cash payments that improve the selling banks' liquidity positions.
- **Focus on core business.** It takes time, resources and specific expertise to recover NPLs. By selling NPLs, banks avoid the costs and challenges associated with maintaining an in-house debt recovery organisation.
- **Return on equity.** Divestment of NPLs contributes to an improved return on equity, which is vital to meeting shareholder demands for continuously improved returns.

New accounting rules for credit loss provisions

The introduction of IFRS 9 from 2018 has affected the banks' provisions for credit losses. Under the new rules, a provision for expected credit losses must be made on granting credit.

Performing loan
Stage 1

Performing loans, where borrowers comply in full with their payment obligations.

Until 2017
- No credit provisions

From 2018
- Provision for 12-month ECL

Under-performing loans
Stage 2

Loans with a significant increase in credit risk. For example, deterioration in profit margins or alternatively delayed payments.

Until 2017
- Minimal credit provisions

From 2018
- Provisions for expected credit losses for remaining maturity

Non-performing loans
Stage 3

The borrower has serious payment problems, for example more than 90 days past due.

Until 2017
- Provision for confirmed loss

From 2018
- Provisions for expected credit losses for remaining maturity

- **According to previous** rules no provisions needed to be made for performing or underperforming credits.
- **From 2018** when granting credit, a bank must calculate and make a provision for not less than 12-month ECL.
- If, for any reason, the credit risk is assessed as having increased a provision must be made for the full lifetime expected credit loss.

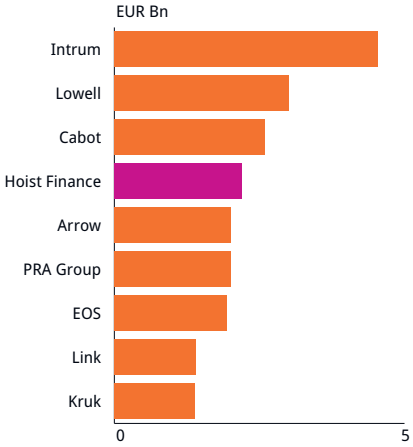
Source: PWC

Competition

A few large and well-known debt purchasing companies have emerged as the European debt purchasing market matures, although only a small number of these companies have a pan-European presence, operate across geographical platforms and compete in multiple markets. Hoist Finance is one of them. Other large debt purchasers are typically focused on one or two markets.

Efficiency and cost savings are high on the agenda for these companies and help fuel the consolidation trend.

Gross estimated remainig collection, ERC, 120 month



Building a European secondary market for NPLs

Pablo Portugal

Director at the Association for Financial Markets in Europe (AFME)

"Reducing the high levels of NPLs in parts of the banking sector remains a key priority in the EU policy agenda. EU finance ministers agreed in July 2017 on an action plan, declaring that "the negative effects of current high NPL ratios in a substantial number of member states can pose risks of cross-border spill-overs in terms of the overall economy and financial system of the EU and alter market perceptions of the European banking sector as a whole, especially within the Banking Union."

What is AFME's view of the NPL developments in Europe?

"We are encouraged by the progress achieved in the past year. Many European banks, including Association for Financial Markets in Europe (AFME) members, have proven NPL strategies and management processes in place. According to figures from the European Banking Authority (EBA) of November 2017, the NPL ratio of EU banks has decreased from 5.4% as of June 2016 to 4.5%, due to the decline of NPLs, reflecting progress made by EU banks to clean up their balance sheets. However, the EBA points out that around one-third of EU member states have NPL ratios above 10% and the value of NPLs remains at a level close to EUR 900 billion," says Pablo Portugal.

Why isn't the European NPL market maturing faster?

"There are many impediments to address in seeking to develop deeper EU secondary markets for NPLs including the quality of insolvency frameworks and national judiciary systems; unharmonised licensing and regulatory regimes related to the ability of non-banks to buy or manage NPLs; the quality and access to data on NPLs; tax disincentives relating to the transfer of loans and loan loss deductibility; costs of recovery/servicing (including transaction costs such as registry); subdued securitisation market; and lack of economies of scale for small banks to dispose of distressed assets."

What is your view of the action plan so far and will it be enough?

"We agree that building a deeper European secondary market for NPLs and distressed debt can contribute to the acceleration of the NPL adjustment process as banks continue their internal processes related to restructuring their loan portfolios. The volume of the European secondary market in NPLs totalled EUR 80 billion in 2016, or a cumulative total of EUR 153 billion between 2015 and the first half of 2017. This volume of NPL sales is relatively low compared to the total stock of European NPLs."

What should be done to further stimulate the NPL market?

"We suggest measures to standardise the NPL sale process. Potential measures could include harmonisation of requirements for the participation of non-banks, which would allow a wider number of participants to own or manage NPLs; evaluation of the requirement for non-domestic investors to have a local partner to buy a portfolio," Pablo Portugal concludes, adding that the harmonisation of data protection laws could also stimulate the market.

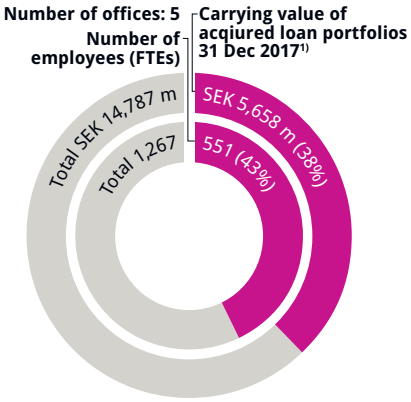
AFME has not endorsed, provided input to, or reviewed any other aspect of this Annual Report.

Three regions in Europe

Hoist Finance operates in 11 European countries. To promote closer relationships with customers, banks and financial institutions, the operations are divided into three regions, all of which have local differences in terms of repayment patterns, legislation and market maturity.

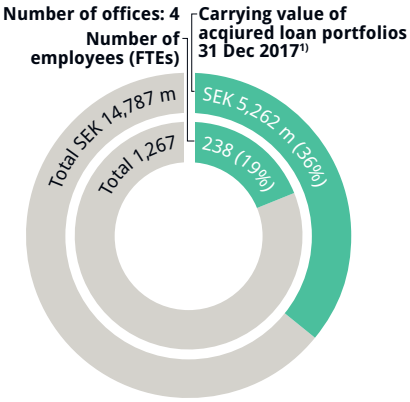
Region West Europe

France, Spain and the UK



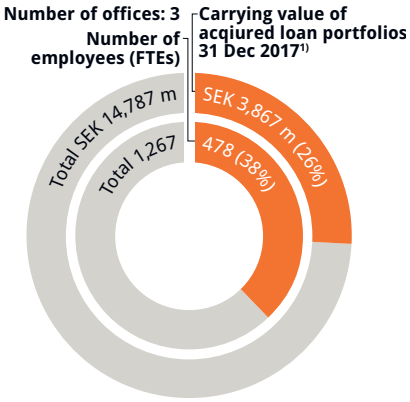
Region Mid Europe

Belgium, Greece, Italy and the Netherlands



Region Central East Europe

Poland, Germany and Austria



1) Excluding portfolios held in the Polish joint venture.

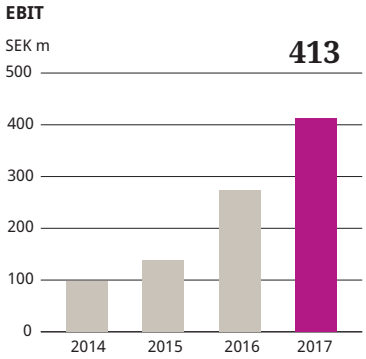
Region West Europe

France, Spain and the UK

Significant progress was made in the UK, where a web-based customer portal was launched and in Spain, where a solid platform for continued growth was established in just over a year. Encouraging signs of a growing transaction market were noted in France.

38%[1)]
Share of total carrying amount
(2016: 36%)

1) Excluding portfolios held in the Polish joint venture



The region's total revenue increased 11 per cent to SEK 974 million during the year (875). EBIT increased 51 per cent to SEK 413 million (273). The main reasons were strong portfolio growth coupled with improvements in efficiency. Region West Europe accounted for 35 per cent of the Group's total revenue during the year.

The carrying amount for acquired portfolios was SEK 5,658 million (4,522) at year end. Gross ERC increased to SEK 9,233 million (7,927) year-on-year, mainly due to stable growth in the UK and Spain.

Market

As in other regions, the European Union's focus on structural reforms made NPL sales more attractive for banks. As a result, the deleveraging trend continued as banks freed up capital to create extra headroom and address regulatory changes, including the impact of IFRS 9 on loan loss provisions, see page 12 for more information.

In the UK, Europe's most mature market in non-performing loan sales, there were no signs that uncertainty regarding Brexit was having any material effect on the transaction market or operations.

The total acquisition volume in the region increased to SEK 1,793 million (1,462), of which most of acquisitions were in the UK.

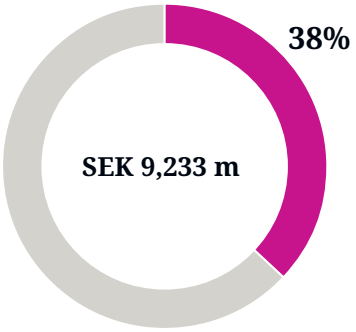
UK

Organic growth continued and included new asset types that broadened Hoist Finance's scope to partner with international banks. The market followed the expected trend in 2017, and the transaction market was unchanged in terms of volumes and values compared with 2016. As in other regions, there was an increasing trend toward forward flow sales.

Hoist Finance, which is one of the leading players in the country, entered into contracts with a number of selling banks for both forward-flow and spot transactions.

Much of the year was spent on creating a web-based portal to enhance end-to-end communication with customers. The initial response was very positive and by November, after five months,

Gross 120 month ERC



Hoist Finance's performance in Region West Europe[1)]

SEK M	2017	2016
Gross collections on acquired loan portfolios	1,588	1,297
Net revenue from acquired loan portfolios	919	809
Total revenue	974	875
EBIT	413	273
EBIT margin, %	42	31
Carrying amount, acquired loan portfolios, 31 December	5,658	4,522
Gross 120-month ERC, 31 December	9,233	7,927

1) Based on the operating income statement, excluding the Central Functions and Eliminations operating segment. Detailed information is presented in the Administration Report.

more than 11,200 customers had registered on the self-service portal and almost 3,700 new instalment plans were in place. The new website accounted for 22 per cent of all new instalment plans set up each month.

France

2017 saw increased activity and higher volumes of NPL sales in the French market, mainly from mutual savings banks. The market also noted the arrival of first-time sellers. At least four major transactions were completed that together matched historic annual volumes for the French market.

Banks that are under pressure to reduce costs are expected to further drive de-risking measures. Increased regulation and demands for increased efficiency are becoming the main drivers for a larger transaction market and a trend toward selling fresher claims.

The French market is still less mature compared with the rest of Europe and considerable growth potential remains.

During the year, Hoist Finance acquired its first portfolio from a mutual savings bank, which had recently started to sell NPLs.

Internally, Hoist Finance continues to develop a more customer-centric approach and improve processes, information management and IT. Efforts were also made to further strengthen the organisation by enhancing management skills and making the company an attractive employer.

Spain

In 2017, unsecured NPL sales in the Spanish market totalled about EUR 6 billion, which was in line with expectations except for a larger share than expected of fresher non-performing consumer debt. Similar volumes were seen in the secured debt market.

Hoist Finance also entered a forward flow contract for the first time in the Spanish market.

The Spanish operations grew significantly during the year, and were based around Optimus which was acquired in autumn 2016. The number of employees grew from eight in the fourth quarter of 2016, to about 44 a year later. Apart from the integration of Optimus and implementing the Group infrastructure into the Spanish operations, the local team also developed in-house litigation capabilities.

Ulf Eggefors Acting Regional Director – Region West Europe

How would you summarise 2017?

In the UK, we had a record investment year. We continued to improve operations and launched a new customer website with very good results. Hoist Finance has long applied a customer-centric approach, which has facilitated adoption to more stringent regulation in recent years in the UK.

France has continued to develop operations to increase competitiveness, and has also developed new relationships which we expect will pay off in coming years.

In Spain, we have integrated the Group's new IT platform as well as recruited senior staff to continue expansion.

What was the most important thing in the region during the year?

That was the successful launch of our UK website, which enables our customers to manage their relationship with Hoist Finance in an integrated manner.

What are the most important drivers right now?

The market will be impacted by EU reforms and obviously IFRS 9. We are well prepared to manage increased volumes.

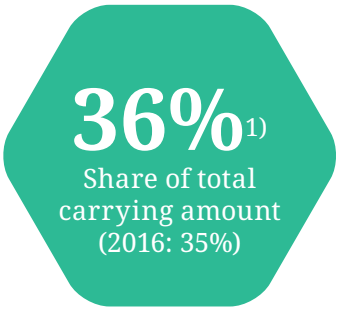
What is the outlook for 2018?

We will need to continue improving our operations to remain competitive. As we can see in the UK, there is a need to broaden our communication channels with customers. This will improve quality and reduce cost when we integrate the customer administration process with our existing platform. We are exploring new asset classes in the region and therefore need to strengthen skills in these areas.

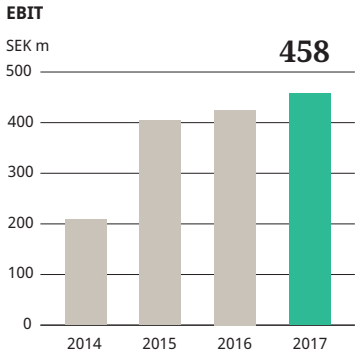
Region Mid Europe

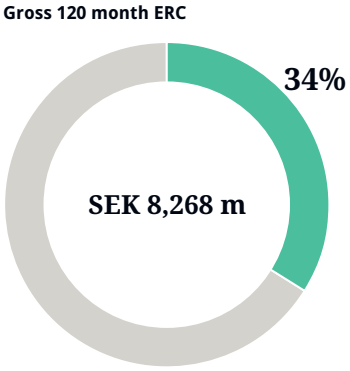
Belgium, the Netherlands, Italy and Greece

Given the considerable challenges being addressed by the banks in Italy and Greece, our focus during the year was on strengthening and positioning the company to acquire and manage larger volumes in these markets. Hoist Finance also continued to strengthen its competence in other asset classes, where NPLs to SMEs is of great interest.



1) Excluding portfolios held in the Polish joint venture





The region's total revenue increased 16 per cent to SEK 950 million during the year. EBIT amounted to SEK 458 million (425). The improvement was mainly due to strong portfolio growth in Italy. Region Mid Europe accounted for 34 per cent of the Group's total revenue during the year.

The carrying amount for acquired loan portfolios was SEK 5,262 million (4,331) at year end. Gross ERC increased to SEK 8,268 million (7,117) year-on-year, mainly due to a strong transaction market in Italy.

Market

The regional focus was on the Italian market as a result of the large volumes of NPLs in the banking system which are expected to reach the market over the next few years. The pace of development has accelerated in the Greek debt market, thereby making this market very interesting.

Following the Greek debt crisis, there were substantial quantities of NPLs. Instead of the market following a slow development process, which has been commonplace in many other European markets, the process is currently ongoing at a high pace. Other than accelerating divestment of NPLs, no practical alternative exists for stabilizing the country's economy. Even if the region's largest market is Italy, the volume of NPLs in Greece is significant given the country's size.

As in Hoist Finance's other markets, the introduction of more stringent regulatory frameworks together with the ECB's calls to banks to clean up their debt portfolios comprise drivers that promote the discontinuation and divestment of NPLs.

NPLs to SMEs have come to dominate interest in the region, particularly in Italy and Greece. Hoist Finance has therefore continued to broaden its skills and increase its capacity within the asset class to be able to leverage this growth and continue disciplined investment.

Business overview

Business optimization, including efficient processes for managing customers and customer contacts, has been a key focus area during the year. This has entailed considerable internal focus, but ultimately, the main purpose has been to improve circumstances for customers and to remain highly cost-efficient.

Belgium/the Netherlands

The market for NPLs is developing in the region – though not at the same pace as in southern Europe. Larger banks tend to manage their debt recovery in-house and, therefore, divestments of NPL portfolios is not as common. However, there are some signs of change and, in addition

Hoist Finance's performance in Region Mid Europe[1)]

SEK M	2017	2016
Gross collections on acquired loan portfolios	1,822	1,575
Net revenue from acquired loan portfolios	918	811
Total revenue	950	819
EBIT	458	425
EBIT margin, %	45	52
EBIT margin, excluding nonrecurring items, %[2)]	50	–
Carrying amount, acquired loan portfolios, 31 December	5,262	4,331
Gross 120-month ERC, 31 December	8,268	7,117

1) Based on the operating income statement, excluding the Central Functions and Eliminations operating segment. Detailed information is presented in the Administration Report.
2) After adjustment for nonrecurring items amounting to SEK 27 million, which have arisen due to restructuring costs and adjustment of previous accrual accounting.

to financial companies operating in the consumer credit field, one of the major Dutch banks divested a NPL portfolio in the past year.

Italy

For the last few years, the bank system has been undergoing a structural change, wherein the divestment of NPLs is becoming increasingly common. As part of the above, the number of forward flow contracts, whereby NPLs are acquired, for example, on a monthly basis.

Hoist Finance holds a strong position after successful expansion in the NPLs to SMEs segment over the last two years. The considerable scope of this market is intrinsically linked to the plethora of small businesses in Italy.

At the start of 2017, a portfolio was acquired from Banco BPM comprising around 1,800 claims with a nominal value of about EUR 640 million. This was the fourth SME segment portfolio acquired from the seller by Hoist Finance.

Greece

Hoist Finance has had an agreement with the Bank of Greece since 2016. Hoist Finance is part of a consortium tasked with the liquidation of 16 Greek banks and with supervising the restructuring and optimisation of the Greek bank sector. The other partners in the PQH consortium are the auditing firm PwC and the software company Qualco.

Focus in 2017 was on rationalizing and centralizing the 16 bank's debt recovery operations into one single unit. The process has been time consuming but is expected to deliver results moving forward. The country's economic recovery is continuing, albeit at a slow pace. However, work continues with reforms which, given time, are expected to generally boost development.

Many participants recognize the potential in the Greek market and are trying to establish local operations. During the year, Hoist Finance established its own operation, Hoist Hellas, with the aim of acquiring loan portfolios that are expected to be released into the market.

Charles De Munter Regional Director – Region Mid Europe

How would you summarise 2017?

We saw a shift in favour of loans to the SME segment. It was really a continuation of the direction we took back in 2015, including buying more asset classes and larger claims. Most of the investments during the year were made in Italy and we also strengthened our capacity by hiring more personnel.

What was the most important thing in the region during the year?

Greece was important, following our agreement with the Bank of Greece in the previous year. In 2017, we had to prove our capacity, not only within asset liquidation but also by providing expertise in our area, to help make Greece an attractive place for investments once again. Our position is unique, as Hoist Finance is the only debt restructuring company actively supporting Greece with legislative expertise.

Toward the end of the year, we decided to consolidate our Benelux business to Amsterdam and to close the Brussels office to achieve greater economies of scale and to be able to offer our bank partners a shared platform in the region.

What are the main drivers or trends at the moment?

Everybody is talking about Italy, partly due to the expected market growth, and partly because sellers are becoming increasingly professional. The Italian market has become more competitive but we will, as always, remain a disciplined investor not acquiring assets at unsustainable levels. We established operations in Italy back in 2014, and have local operations with more than 20 years of experience. This means we have an established position and close partnerships with the larger banks in the country.

What is the outlook for 2018?

The transaction market in Italy was strong over the last year, and we believe the market will be even stronger in 2018. We also believe that banks will start to divest NPLs on a larger scale in Greece in 2018 as the gross book value of the Greek NPLs amounts to billions of Euros. We don't see the same dramatic developments for the Benelux area, but we do expect slow but sustainable growth and an increase in new asset classes in the market in 2018.

» » Increased pressure on the banking system

Over the past year, the Italian NPL market has become extremely interesting due to the considerable volumes of NPL portfolios in the Italian banking system.

The banking system is burdened by bad loans and weak demand for credit due to an extended period with a stagnant economy. The scope of NPLs was estimated in excess of EUR 300 billion in 2017, which was the largest volume in Europe.

One of Europe's largest markets

One of the reasons for the build-up of such large volumes built up is the Italian legal system, which has allowed banks to delay for six or seven years before being required to reclassify their debt as doubtful or non-performing. The government has not intervened as quickly as in other countries in recent years to address credit problems. New insolvency legislation means that, in the future, insolvency proceedings will extend for not more than three years, compared to decades previously.

Altogether, this means Italy is expected to remain one of Europe's largest NPL markets for several years to come. The substantial credit volumes are a reminder that Italy, despite weak economic growth, remains Europe's fourth largest economy as measured by GDP. This makes Italy a very interesting market for Hoist Finance.

Increased pressure on the banks

Over the last year, several factors combined to apply pressure on the Italian banks to increase transparency concerning their claims. The ECB has previously urged Italian banks to manage their NPLs, but in 2017, the ECB went further and took measures to close two banks, Veneto Banca and Banca Popolare di Vicenza, since they were no longer able to meet capital adequacy requirements. Parts of the two banks' gross book value of more than EUR 17 billion in NPLs was to be sold in an effort to recover capital.

Rules for increased transparency

A number of recent rule changes are expected to help make the Italian market more dynamic, and to encourage more banks to divest NPL portfolios. The ECB presented a proposal in 2017, that entails that after two years, Italian and other European banks should gradually increase provisions for unsecured loans if capital repayments cease. As in other European markets, IFRS 9 entered force from 1 January 2018, which means that the previous accounting model based on incurred credit losses was replaced by a model based on expected credit losses. Read more on page 12. Moreover, Italian legislation was amended in June 2017 to facilitate the restructuring and divestment of NPL portfolios. Altogether, the changes are expected to contribute to considerable interest in the acquisition of NPL portfolios in the Italian market.

Hoist Finance's market position

Hoist Finance has two call centres in Italy with just over 200 employees, well-established procedures and more than 20-years' combined experience of the operating in the Italian market. Furthermore, Hoist Finance has the financial muscle and confidence to expand further. All in all, this provides a strong position from which to adopt a long-term approach in the Italian market.

The Italian NPL market

Clemente Reale

CEO of Hoist Italia

What are the characteristics of the Italian NPL market?

In the last few years, growth has made the Italian market more mature, transparent and competitive. At the same time, we have also seen major players decide to leave the Italian market, partly because of its complexity to operate in without having your own operations. We expect the market to remain strong for the next few years, since the challenges facing the Italian banking system remain considerable.

What were the trends in 2017?

During 2016–2017, we invested in new IT systems to better manage the unsecured and the SME segments. We have also been growing and consolidated the team, including adding some specialists in both the SME and secured segments.

Do you specialise in any particular area?

No, we are active in most NPL segments such as secured and unsecured consumer loans as well as loans to SMEs. We have also started gradually acquiring mortgage debt, so now we have personnel dedicated to real estate, for example, due diligence processes and property valuation. We have also prepared for the establishment of a temporary asset management unit to secure in-house competence for managing real estate.

What is the outlook for next year?

Next year looks promising, we believe a substantial quantity of transactions will come to market, especially credits to SMEs, but also unsecured loans. Having our own operations is a real advantage for us because there will be a scarcity of platforms. You need a lot of skilled and experienced people to service loan portfolios.

Emanuele Reale

Head of Sales and Investments

Have the legal and regulatory changes given any boost to market developments?

Yes, the Italian banks are more inclined to discuss partnerships today because the ECB and the Bank of Italy have put pressure on them. Taking losses on bad loans can no longer be postponed by the banks. Step by step, the situation is normalising and the transaction market is growing.

Why is the SME market of interest now?

The corporate NPL market is booming because the new regulations mean that banks will have to make the necessary provisions in their books, so market prices are now more in line with the provisions. That means that the divestment of an NPL portfolio no longer negatively impacts the bank's balance sheet.

Until recently, it was easier to sell small loan portfolios, typically consumer loans, with low gross book values. Collecting smaller claims is extremely labour intensive so selling them has been an attractive option for the banks. Larger non-performing loans, such as those to SMEs, have not been sold partly because it has been easier not to recognise them in the books.

What are the trends and major drivers developing the Italian market?

Debt recovery is labour intensive, especially consumer credit. Banks generally want to divest these claims, because they don't want to hire more people. As a result, we see forward flow contracts starting to be established in Italy, which is a sign of the market maturing. Read more about forward flow contracts on page 26.

Increased consolidation in the banking sector is another sign of a maturing market. The difference between our valuation of an NPL portfolio and the bank's assessment is not as wide as before.

Amicable settlements in Italy

Massimiliano Fransoni

Team Leader

How do you approach customers?

We want the settlement to be a good agreement, both for us and for the customer. The monthly instalment is not decided by us, it depends on the financial circumstances of the customer. The aim is always to find a long-term sustainable repayment plan.

How do you adjust for everyone's personal circumstances?

We have many customers and each with their own unique circumstances. When we engage with the customer, it usually is easy to work out a solution together. Some of our competitors can be more aggressive, but we always pursue the amicable approach.

How do you handle vulnerable customers?

In these situations, it's important to remain calm with the customer. I usually give my phone number and tell customers not to think about it any more for the present and to instead wait until their finances have improved and to then call me back to try and come to an arrangement.

What kind of training does the staff go through?

Our staff receive extensive training, including training in communication and our code of conduct. We learn how to remain calm when handling upset customers and we also study relevant legal aspects. All new personnel are supervised during the first two or three weeks at the new job. We have a new IT system to help us obtain the information we need about the customer's debt, the exposure and the customer's work circumstances, all in the same file.

Why is Hoist Finance an attractive work place?

I really enjoy working here, I believe we have a lot of good ideas at the company that I and other employees find inspirational. The core idea that the agreement must be good for both parties is very different from other Italian debt recovery agencies and I really appreciate that.

Region Central East Europe

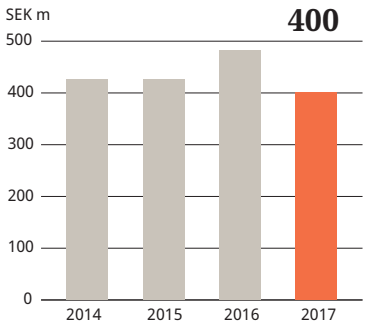
Poland, Germany and Austria

Much of the year was dedicated to improving operations aimed at further strengthening the competitiveness of Hoist Finance. New customer administration systems, strengthened competence and a broadened product portfolio comprised a few of the focus areas during the year.

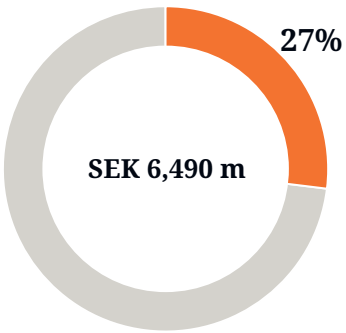
26%[1)]
Share of total carrying amount (2016: 29%)

1) Excluding portfolios held in the Polish joint venture

EBIT



Gross 120 month ERC



The region's total revenue decreased 1 per cent to SEK 839 million during the year, compared with SEK 851 million in the preceding year. EBIT decreased 17 per cent to SEK 400 million (483). The decrease was mainly due to increased costs in conjunction with the restructuring in Germany and lower revenue in terms of fees and commissions. Region Central East Europe accounted for 30 per cent of the Group's total revenue during the year.

The carrying amount for acquired loan portfolios was SEK 3,867 million (3,564) at year end. Gross ERC increased to SEK 6,490 million (6,331) year-on-year due to strong acquisitions in the fourth quarter.

The year was dominated by continuing efforts to improve the cash flows of existing portfolios together with general efficiency enhancements. Being a long-term market participant requires recurring investments in systems and infrastructure. This includes systems through which customers can interact with Hoist Finance in their chosen manner, for example through text messages, email or chat functions, in addition to letters and telephone calls. A number of projects were initiated during the year to develop these types of CRM systems for the German market.

Market

The regional market continued to trend in line with expectations throughout the year. Poland continued to be a key market in the region. The total acquisition volume in the region was SEK 771 million (596), of which most of acquisitions were in Poland.

Poland

The Polish market is continuing to develop into an increasingly mature market, despite some uncertainty regarding political and regulatory trends in the country. The market has grown and will be about as large as the German market, when measured by the acquisition prices of the NPL portfolios.

Consolidation of the Polish market within Hoist Finance's segment is expected to continue in pace with increasing regulation. Over the last four years alone, the number of participants has shrunk from about 15 to five.

Germany

The German market remained stable with no major changes in terms of the relatively low volume of NPLs being divested. Hoist Finance's continued assessment is that, in time, the German

Hoist Finance's performance in Region Central East Europe[1)]

SEK M	2017	2016
Gross collections on acquired loan portfolios	1,467	1,440
Net revenue from acquired loan portfolios	812	790
Total revenue	839	851
EBIT	400	483
EBIT margin, %	48	57
EBIT margin, excluding nonrecurring items, %[2)]	51	–
Carrying amount, acquired loan portfolios, 31 December[3)]	3,867	3,564
Gross 120-month ERC, 31 December[4)]	6,490	6,331

1) Based on the operating income statement, excluding the Central Functions and Eliminations operating segments. Detailed information is presented in the Administration Report.

2) After adjustment for nonrecurring items amounting to SEK 32 million, which have arisen due to restructuring costs.

3) Including run-off consumer loan portfolio.

4) Excluding run-off consumer loan portfolio.

market will take on the characteristics of the UK market, with a faster sales pace and a greater share of fresher NPLs being sold.

Forward flow contracts make up more than half of the market. These contracts typically run for 12 to 24 months, while the actual divestment of claims is performed monthly. This is also common in many other European markets.

The increased use of technical tools and gathered data have contributed to increasing the return on the portfolios, for example, by adding new data to old portfolios.

During the year, Hoist Finance invested in an extensive internal change and improvement process in Germany, including strengthening the local management. Furthermore, a decision to close down the office in Bremen and consolidate the German operations to Duisburg was made.

During the year, Hoist Kredit, which is part of the Hoist Finance Group, started to offer consumers a savings alternative with competitive interest rates in Germany. The savings accounts are offered in partnership with Raisin, which has Europe's largest savings platform with more than 90,000 customers.

One of the reasons for offering a competitive savings alternative in the German market is to complement SEK deposits with EUR and, thereby strengthen and further diversify long-term funding. The Group will thus achieve better matching of assets against same-currency liabilities, which reduces currency exposure.

The launch of the German savings alternative took place in autumn 2017 and was well-received by customers.

Austria

The debt purchasing market is relatively small with a limited number of purchasers. Although the market is diversified and therefore similar to Germany's, the major banks have a larger market share and are concentrated in Vienna. There were no major changes in the market during the year. The Austrian operations have been administered from Germany since 1997.

Henrik Gustafsson Regional Director – Region Central East Europe

How would you summarise 2017?

Across the region, this was a year of restructuring. We have reviewed our way of working in Germany and made considerable progress with efficiency. This has entailed increased reliance on technology and improved decision data for assessing and pricing portfolios. We have also invested in a new collection system that we expect to be launched in spring 2018.

Restructuring efforts also characterised our operations in Poland, where we have worked on strengthening our debt recovery methods and processes. We have set high targets and, therefore, internal operational improvements will continue in both Germany and Poland in 2018.

What was the most important thing in the region during the year?

Many things were important, but of two of the most important things were skills development and the exchange of best practices. We achieved this through several different workshops within the countries and between different departments. Moreover, in Poland we have widened our product offering to better meet the needs of banks. I am also proud and gratified of our employees' achievements to date in Germany, where our improvement processes have required considerable effort.

At the end of the year, we decided to consolidate our German operations to Duisburg, which resulted in the closure of the Bremen office. Consolidation means improved coordination of know-how and competence, increased staffing flexibility and facilitated sharing of best practices, which together generate greater economies of scale.

What are the most important drivers right now?

These are the same as for our other European regions, where increased regulation is expected to drive banks to increase NPL divestment. We believe that the new accounting standard, IFRS 9, will induce banks to be more favourable to change in terms of their balance sheets.

Digitalisation is another driver that we are leveraging. We continue to challenge ourselves in terms of new technology. This is notable from actions including the gradual introduction of a new digital customer portal through which customers can create their own repayment plan.

What is the outlook for 2018?

The outlook remains favourable and we do not predict any major changes in the market. The banks will need to be able to outsource their debt recovery operations and we envisage excellent possibilities for assisting them with this.

Attractive offering to the banking market

With Hoist Finance's more than 20 years of experience in acquisition and management of loan portfolios, and with its regulated credit market company status – selling banks can be sure that Hoist Finance meets the most stringent quality requirements. The company's offering is flexible and solutions are tailored to suit different financial institutions and circumstances.

Hoist Finance aims to be the preferred choice for its partners. The company values its solid, strong partnerships and is fully convinced that good partnerships drive positive change not only for Hoist Finance and its partners, but also for customers and society.

Hoist Finance works continuously to improve the company's business model and to align it more closely with the market and with its partners' requirements and expectations. A good reputation within the industry and positive customer relationships are two critical factors for market confidence in Hoist Finance.

When transferring claims, banks are obliged to continue to take responsibility for their customers. In the UK, particularly stringent requirements apply in terms of clear product and process standards for customer contact. As a result, correct and fair treatment of customers comprises an extremely important question in conjunction with the sale of claims. Hoist Finance welcomes these requirements since the company has invested considerable time and resources in developing and adding value to amicable settlements for customers and, therefore is well advanced in this regard.

Hoist Finance intends to develop a partner survey to investigate market developments and to gather valuable feedback on the company's performance. The aim is to develop a process to continuously measure satisfaction among our partners.

Regulated credit market company

Hoist Finance is a regulated credit market company. This means that the operations are under the supervision of the Swedish FSA in areas including the assessment of capital adequacy and liquidity. The Swedish FSA assesses major risk areas, such as credit, liquidity, market and operational risk.

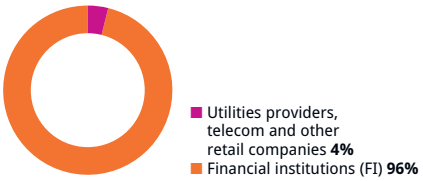
The assessments are made based on items including Hoist Finance's own equity and liquidity assessments. For certain types of risk, the Swedish FSA uses its own methods to assess the capital requirement pursuant to Pillar 2. Thereafter, the Swedish FSA determines the resources, in terms of capital and liquidity, that must be held to cover Hoist Finance's assessed risks. Hoist Finance

Experts in NPL purchasing

Bank-originated NPLs

- Larger ticket sizes
- Long-tail stable cash flows
- Less risky repayment profile
- Highest growth segment
- High-quality origination

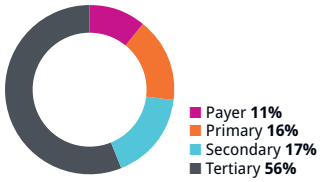
Carrying value by type of debt,
31 December 2017



Asset-class flexibility

- Flexibility to buy all types of financial institution-originated debt
- Varying freshness of debt in different markets
- Customer benefit: Hoist Finance as a one-stop-shop
- High proportion of paying/fresh NPLs in recent years

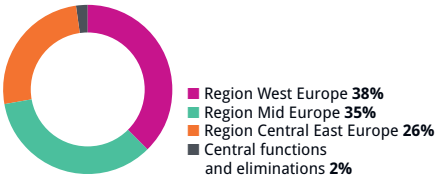
Carrying value by age of debt,
31 December 2017



Diverse geographic profile

- Reduces single-market exposure from a risk and origination perspective
- Enables a more even flow of investment opportunities
- Strengthens value proposition to partners

Distribution by market,
31 December 2017



SUSTAINABILITY GOALS

Ensure satisfied partners by implementing a stable evaluation process

Zero confirmed cases of corruption

ensures that the company meets these requirements with a healthy margin.

Well-positioned

Hoist Finance has a strong position as a partner for international banks and financial institutions in the European market. The company is the fourth largest when calculated using estimated remaining collections (ERC), see next page. Hoist Finance's strong position rests on the following elements:

- **Good understanding** of the regulated banking environment
- **20 years' experience** as a specialised bank partner for administering NPLs.
- **Transparent and long-term** partner
- **Pan-European presence** in combination with good knowledge of local market conditions

Flexible solutions

Hoist Finance has primarily focused on unsecured consumer credit from various types of financial institutions. In the last few years, however, the share of NPLs from smaller and medium-sized companies has grown. To save on resources and costs, banks have been less willing to segment and sell claims in smaller parcels. The trend has therefore gone toward increasingly large and complex divestments of larger debt portfolios that include various asset classes.

NPLs are generally categorised according to how long the loans have been in default.

- **Performing loans** have been in default for one day to three months and normally have a recent history of continuous payments
- **Primary loans** have been in default for three to nine months
- **Secondary loans** have been in default for nine months to two years
- **Tertiary loans** have been in default for two to five years
- **"Garage loans"** have been in default for five or more years, after which they are typically fully written off.

The majority of portfolios acquired by the company have been tertiary loans, but the share of fresher loans has increased as markets become more mature. Hoist Finance has successfully secured the capacity and competence to handle more extensive regulation, a broader mix of claims and increased volumes.

Simple transfers

When transferring a portfolio, it is important that the bank's customers are transferred as smoothly as possible and using a long-term approach and optimal care for the customer relationship. Hoist Finance has extensive processes and procedures for ensuring fair treatment of customers and for ensuring the banks' compliance criteria continue to be followed. Starting the process in good time is crucial to success. Therefore, Hoist Finance involves the banks' local operations at an early stage.

EMPLOYEES

Charlène Devroede Business System Manager, France

Meet Charlène Devroede, our Business System Manager in France. She works with ongoing operational excellence and process improvement. Striving toward "operational excellence" means identifying current work methods, to then identify improvements that enable the design and implementation of an enhanced process. The aim is to optimize the quality of Hoist Finance's work and maximize our outcome. Another important part of the job is to ensure that everyone is working toward the same goals.

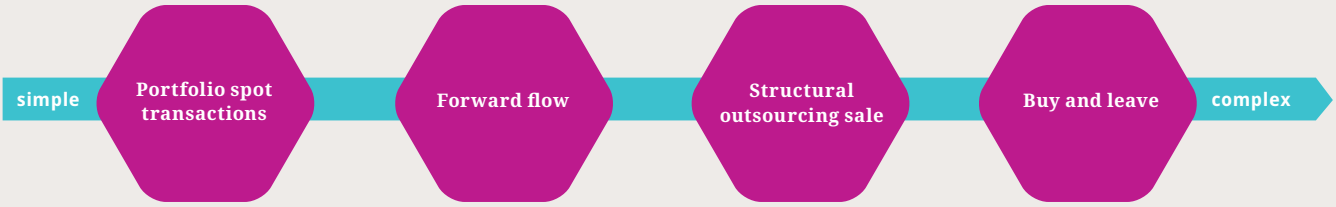
Previously, Charlène worked with debt recovery at a French company for eight years. At Hoist Finance she started with customer contact, but was quickly recruited to work with operational excellence and was trained by our Group Analytics team.

"Every day I go into the unknown and learn new things, I love to learn!"

IT is an indispensable support for Charlène in her work and she says she would be unable to accomplish any improvements without it.

Various solutions

Several different models for purchasing NPL portfolios.



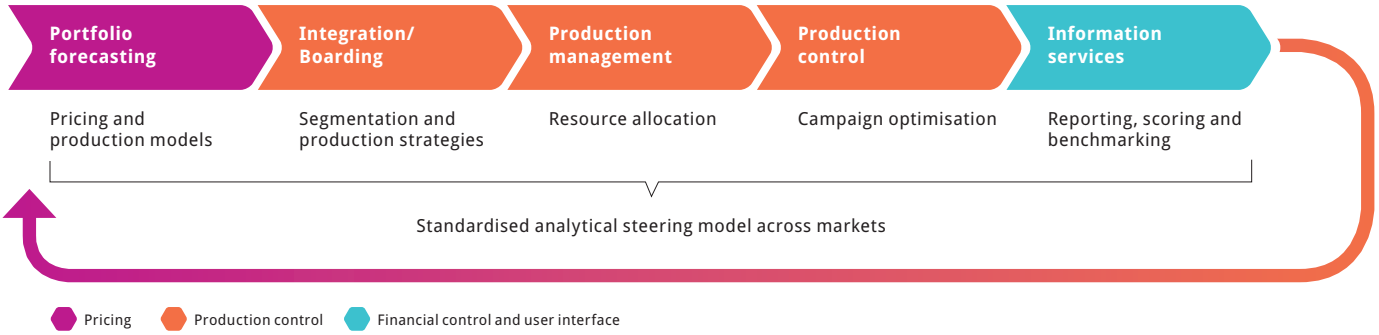
In spot agreements, the portfolio is transferred to the buyer on payment. Most of Hoist Finance's portfolios are purchased via **spot transactions**

In **forward flow contracts**, a pre-determined volume (fixed or range) of NPLs is acquired by the buyer at a pre-determined price during a specific time period.

Over the last 15 years, Hoist Finance has also acquired loan portfolios in conjunction with **structural outsourcing sales that included call centres** together with the employees and the portfolios managed by the call centres.

Buy and leave agreements mean that the buyer acquires portfolios on a spot basis; however, collection is still conducted by the bank based on agreed collection strategies, activities and collection targets.

Data-based pricing



Data is crucial for calculating the value of portfolios on acquisition. Continuous feedback between data collection and debt collection as well as analytical control models to ensure that all operational processes are based on data and that all relevant operational information is stored in the data warehouse.

Sales via panels

When financial institutions and banks divest loan portfolios, this is often conducted via panels, which function as a type of auction. A panel of interested purchasers, such as Hoist Finance and other companies that have met the bank's strict requirements, is put together. A panel can comprise up to five participants, often ones that the banks has worked with previously. The requirements may include, inter alia, documented experience of professional and respectful customer service, compliance with local market regulations and compliance at EU-level concerning areas including IT security and customer treatment.

Asset sales can also be conducted through bilateral agreements, although this tends to happen with participants that the Bank has collaborated with in the past.

The majority of Europe's ten largest banks by assets have sold NPL portfolios to Hoist Finance at least once in the past ten years. Hoist Finance's broad geographic presence in Europe is also significant when panel participants are being selected.

Pricing of non-performing NPL portfolios

Hoist Finance uses historical data to assess and price debt portfolios. Exhaustive data comprised of time-series of Hoist Finance's portfolio acquisitions since the year 2000 have made it possible to offer counterparties reasonable prices for their assets, with a high degree of accuracy.

Based on the database, Hoist Finance has developed a powerful set of examination and analysis processes and tools to use ahead of potential acquisitions of loan portfolios. The database contains detailed information about activities, costs and recoveries from all NPL portfolios acquired or managed by the company.

When evaluating a potential acquisition, at an early stage Hoist Finance's debt recovery, investment and analysis team can, in close collaboration with the financial institution, enable a collection forecast, for example 120-month ERC together with the recovery costs, which facilitates calculating an accurate price.

Overall, data-based pricing creates favourable preconditions for both parties to do good business. Hoist Finance is able to offer reasonable terms, while selling partners can be assured they received a market price.

Anti-corruption measures

Hoist Finance has an extensive anti-corruption program and has set up ethical guidelines for how the company and its employees should conduct business in a responsible and ethical manner. Policies and regular training on the ethical guidelines are some examples of the measures taken to combat all forms of corruption. Other measures include recurring internal surveys. The company's anti-corruption efforts contribute to keeping corruption risks at an absolute minimum. In 2017, the compliance function conducted a more extensive survey regarding the risk of corruption in all business units (10/10). The survey's primary goal was to identify strengths and weaknesses in the area. The survey's findings showed that managers had a healthy understanding of what corruption comprises and the majority were very familiar with our internal rules and well-trained on the subject. In parallel, the survey showed that we should continue with our anti-corruption framework corruption to thereby continuously reduce the risk for corruption.

Anti-money laundering measures

Hoist Finance works actively to counteract money laundering and financing of terrorism. Business measures are adjusted to the findings of the annual risk analysis that is carried out. For example, different personnel categories receive training based on how and to what extent they come into contact with money laundering issues. The preventive measures include know your customer measures, transaction monitoring and separate inspections of politically exposed persons (PEPs) as well as checks against sanctions lists. When suspicious transactions are identified, these are reported immediately to the competent authorities.

Good regulatory compliance

During 2017, Hoist Finance was not subject to any financial or non-financial sanction for compliance violation by any regulatory authority in any country of operation.

Gross 120-month ERC

A portfolio is valued, inter alia, in terms of estimated remaining collections (ERC), which is a calculation of the gross amount that remains to be collected in an NPL portfolio. The assessment is based on estimates and extends from the following month through the coming 120 months, or ten years. Estimates are based on Hoist Finance's extensive experience of processing and repayment over the economic life of the loan portfolios.

Preferred by customers thanks to amicable settlements

Friendly customer relationships are a prerequisite for amicable settlements. This requires good understanding and intuitiveness to what is often a challenging situation for the customer. Hoist Finance has more than 20 years of experience of debt recovery and employees who provide optimal customer care for all parties.

SUSTAINABILITY GOALS

Ethical and fair treatment of customers.

Ensure a sound privacy culture. No loss of customer information.

It is of crucial importance to Hoist Finance that employees continue to be responsive and engage in a respectful dialogue with customers to reach a viable solution for all parties. The aim, in close dialogue with customers, is to establish a realistic, long-term sustainable repayment plan, whereby particular attention is paid to customers' personal circumstances. Since most customers want to be debt-free, it is easier for Hoist Finance to reach agreement on voluntary repayment solutions, to the extent possible.

Ethical and fair treatment

Ethical and fair treatment of customers is essential to Hoist Finance's business model for amicable settlements. The model is based on reaching agreements with each customer that are adapted to their own specific circumstances. Since Hoist Finance's customers frequently find themselves in financially vulnerable positions, it is important that every customer is treated with respect and dignity. To support this aim, all employees with customer contacts receive training on how to manage the process from a human perspective and how to act to ensure compliance with all laws and regulations.

Locally adapted operations

Customer contact and NPL management are provided through 12 offices across Europe. Methods and practices vary across markets due to differences in the regulatory landscape among the various countries. This regulatory landscape tends to be more extensive as the market matures. The UK has the most comprehensive customer contact regulations. Regulatory differences in certain markets also result in customer contacts and agreements instead being made with the help of selected local partners.

Hoist Finance continuously monitors customers' circumstances to assess whether the prerequisites for the collection process have changed. Dialogues are usually conducted by telephone but also by email, post or even as personal meetings if preferred by the customer. This work is based on well-developed, structured processes, which are important when thousands of customer contacts are made each day.

Recruiting the right employees who have empathy and good social skills is a key success factor, as is good internal training.

During 2017, Hoist Finance continued to invest significant amounts in developing digital tools for customer account management and engagement through web-based customer portals.

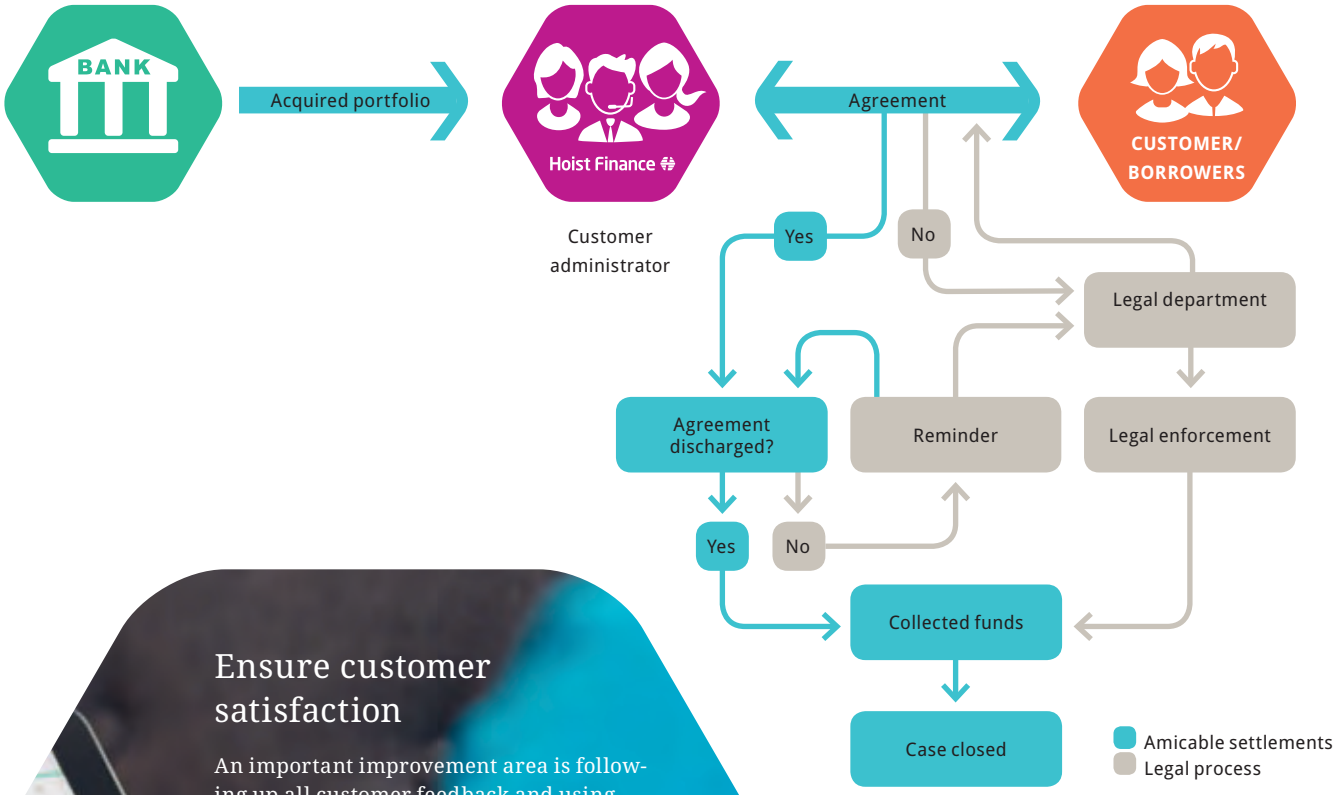
Legal action the last resort

Legal action is only considered when no other route is available. Following initiation of the legal process, dialogue continues with the customer and in many cases a new voluntary repayment plan is prepared based on the customer's circumstances despite the ongoing legal process. Only a fraction of all claims managed by Hoist Finance are resolved in a legal process.

Respect for customers' privacy

The information that Hoist Finance possesses about its customers' personal finances is highly sensitive. Processes have been established to guarantee complete protection of data regarding customers' personal finances. The company also works continuously to ensure that IT

Collection process overview



Ensure customer satisfaction

An important improvement area is following up all customer feedback and using this as a basis to change procedures if so required. These measures guarantee that the company provides the best possible service to its customers. Since 2015, Hoist Finance UK has applied a customer survey programme, whereby customers are asked three questions at the end of each phone call to rate their overall experience with Hoist Finance and the call handler. Based on the results of this survey, additional improvements were implemented in customer service and, in 2017, 88% of respondents were positive to Hoist Finance's model for amicable settlements. This high score shows that customers appreciate the company's work method.

EMPLOYEES

Maciej Gzowski Manager, amicable collections department in Poland

Meet Maciej, he's managing the amicable collections department in Wroclaw, Poland.

"My team and I continuously work to find the best solutions for our customers. I myself put a lot of effort into making Hoist Finance Poland the best place to work. I'm particularly satisfied with the days when we reach our targets and have satisfied customers, some of them even ask if they can move their debt from other companies to Hoist Finance.

I am not the first to adopt new technology but I feel the need to understand it. There is no way to lead operational excellence without new technological solutions. I feel strong support both from my colleagues as well from the rest of the Hoist Finance Team."

systems are updated to be able to withstand all forms of IT crime. In addition, the company has advanced IT systems and internal procedures for ensuring that the employees manage customer data with considerable caution.

Complaints

Should a customer feel unfairly treated, it is essential that the customer is able to make a complaint. In all markets, systems are in place to manage complaints from customers. To guarantee that local conditions and procedures are considered, complaint management, monitoring and follow-up is conducted at a local level by local complaint managers.

The local complaint managers report regularly to both the local management team and to the Group's complaint manager. These report in turn to the Board of Directors and the Risk and Audit Committee, as well as to the Executive Management Team.

During 2017, the complaints process was harmonised and improved, at both Group and local level.

The compliance function also implemented a number of activities to ensure correct management of complaints. In co-operation with the Group's complaint manager, a workshop was conducted to provide in-depth training to everyone with responsibility for local complaint management in each country where we have operational activities. The purpose of the workshop was to harmonise and highlight the importance of treating customers correctly when a complaints matter is addressed.

In 2017, the compliance function also worked to ensure that sufficient information is provided to customers at the right time and in the right amount.

The compliance function also created investigation templates for complaint management and so-called "hello letters" that were implemented in local operations to facilitate implementation of checks. The studies conducted in the countries show that there are areas for improvement but generally the outcome was satisfactory.

EMPLOYEES

Lucia Ayala Compliance Officer in Spain

Meet Lucia, she's Compliance Officer in Madrid, Spain. Her duties include responsibility for regulatory compliance, data protection and anti-money laundering measures. She was one of the five existing employees at Optimus when it was acquired by Hoist Finance in autumn 2016.

"We are now 44 employees in Spain and it is both incredibly impressive and motivating to be part our Spanish expansion. This also entails advantages as an employee, since being part of the Hoist Finance family means greater potential for development."

Regarding advancing as an innovative and successful company, Lucia has the following to say:
"It is crucial for companies in our industry to have solid core values as a foundation. My perception is that other companies in Spain do not have the same focus on the above as we do. By continuing to live according to our values – TRUST – and by investing in these values, we can become even more innovative and successful."

Digitalisation

provides the customer with options

Hoist Finance is in the midst of a comprehensive digital adjustment process, an activity that gained momentum in 2016. Although historically, customer contact has primarily taken the form of phone calls or letters, user-driven system design and digital channels are now advancing quickly. The first self-service portal was launched in 2017 and planning is currently under way for the launch of customer portals in more countries.

The development and launch of new digital meeting places will fundamentally affect Hoist Finance's customer contacts. At the same time, the business is becoming increasingly computerised, which will not only improve management efficiency but also open the door to greater customer interaction and deeper relations.

The company-wide customer portal that is now being built will enable the customers to decide for themselves how and when they want to fulfil their financial obligations, give them a good overview of their current position and enable them to create their own repayment plans. As a result, all customers will be able to more easily affect their own situation and to independently drive their process towards a debt-free life. The customer portal is being developed for both online use and as an app.

During summer 2017, a customer portal was already launched in the UK and the preliminary customer reactions have been positive, including a higher payment rate and larger instalments. One reason could be that customers obtain a better overview and are simultaneously given the opportunity to test out a recovery plan that works for them.

Increased customer understanding

With our company-wide Enterprise Data Warehouse, in which all information about payment flows, customer behaviour and rate of activity is stored and analysed, a better and more sophisticated platform is created for understanding the customers' capabilities and needs. What factors influence how and why customers make a payment, or start to pay off their debt? Control and understanding of flows will rise significantly and the accuracy in understanding the events in a customer's life that generate effects on the customer's payment capacity and behaviour will increase.

Digital solutions, such as customer portals, will probably be particularly suitable for customers who are able to and want to pay their debts. For customers who are not properly able but want to repay, the customer portal makes things easier by enabling them, for example, to set up a long-term repayment plan with fewer payments over a longer term. The customer portal could also serve as a support to customers in understanding their situation and what to do to become debt-free, by offering tools for experimenting and testing various scenarios and thus understanding their own payment capacity.

New IT platform

A prerequisite for building upon the digitalisation journey is the new core system that will be gradually realised in all countries in the next few years, with the first country, Spain, already under way. The upgrade of the IT platform also entails realisation of a new Enterprise Data Warehouse (EDW) with a completely different capacity than before. An EDW contains all information needed for governance, follow-up and control of the operations and is a prerequisite for creating and delivering computerised analytical models as a base for the business. The models then form the foundation for decisions regarding portfolio valuations, customer strategies, processes and efficiency improvements, as well as financial follow-up and reporting.

Digitising all relevant information facilitates analysis of who the customers are, their behaviours and needs, and thus also what the customer base looks like at an aggregate level. As a result of improved information management and increased digitalisation of both core systems and customer interfaces, customer processing will become more efficient, while also becoming more customer focused and long-term relation building.

IT security

As a feature of the digital upgrade, the protection of personal data was also strengthened during the year. The security level of the new systems is of the same class as that of the major banks and this has been one of the year's largest investments. The systems are compatible with the EU's new General Data Protection Regulation, GDPR, which will enter force in May 2018. It means in practice that all data is protected through limited access, automatic surveillance and encryption of sensitive information.

Anders Wallin CIO

"The customer portal is just the tip of the iceberg. The base comprises our database, core intelligence. With this core intelligence, we can run computerised analytical models to produce a decision base for portfolio valuations, strategies for various customer processes and financial follow-ups and reporting."

Best place to work

SUSTAINABILITY GOALS

Create a workplace hallmarked by diversity and equal opportunities

Listed as a "Great place to work" in all countries

Hoist Finance wants to be the best place to work in the industry. A prerequisite for this is having the best work environment and for employees to perceive Hoist Finance as an extraordinary company with fantastic colleagues.

Our employees are the backbone of the company. Their work and engagement with customers is crucial to the success of Hoist Finance as a business.

In 2017, focus has been on implementing improvements based on the findings of the TRUST survey, such as communication and inclusion, remuneration and recognition, and skills and career development.

Corporate culture

To measure the development of Hoist Finance's corporate culture and work environment over time, a collaboration with global expertise supplied by "Great Place to Work" was initiated in 2016. They conduct one of the world's largest employee survey and ranking programmes, and provide tools to support and prioritise development areas. An employee survey that measures TRUST is a key tool. It provides information about employee perceptions of the company and is used to measure how far Hoist Finance has come in implementing its values. The result for 2017 was an index of 61 per cent. The objective is for Hoist Finance to achieve the highest ratings in each country, compared with similar companies, to thereby win a "Best place to work" rating in the respective countries.

Improvement efforts are being conducted in liaison and together with the employees. In 2017, initiatives were implemented by most offices to improve communication. The Group has also focused on communication and the intranet has been reworked and now includes all countries except for Germany. A clear role as Head of Communication has been introduced to further strengthen Group communication. In 2018, the employee programme will focus in particular on driving development in the improvement areas as well as focus on further improving strengths. The results will be used in each country to initiate open dialogues and collaboration with employees.

Code of Conduct

As a good corporate citizen, Hoist Finance closely monitors its fulfilment of all legal requirements in the countries where it operates.

Beyond legal and regulatory compliance, the Hoist Finance Code of Conduct specifies behavioural norms that employees are expected to adhere to. The Code of Conduct ensures that our actions take into consideration the best interests of the company, its stakeholders and those affected by our operations.

To ensure that all employees are aware of the standards and expectations, numerous Code of Conduct training sessions were held at different levels in

EMPLOYEES

Sebastian Mielnik Account Manager

Meet Sebastian Mielnik, successful customer manager in Milton Keynes, UK. What is the secret behind Sebastian's strong results in terms of reaching agreements with customers?

"The key is to create a good rapport with the customer," says Sebastian.

After listening to Sebastian work for a few hours one could observe the following:

- Sebastian is very friendly to customers and never loses his patience or temper, even in difficult situations.
- Sebastian is good at concluding things with the customer, such as taking statements and agreeing payment plans.
- Most importantly, Sebastian is very good at showcasing, verbalising and illustrating the best solution for the customer, for example, how long it would take for a repayment to be made in full depending on what option the customer chooses.

Corporate culture and values

The foundation comprises our shared values, beliefs and behaviour. Building trust is what inspires and guides us every day.

TRUST

Transparency
By being open, honest and true we will gain trust, respect and confidence.

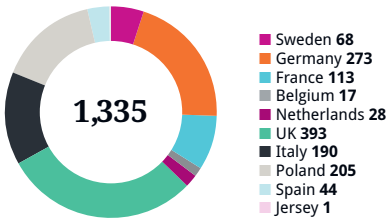
Results
With energy, enthusiasm and direction, we will deliver on our commitments and produce sustainable growth.

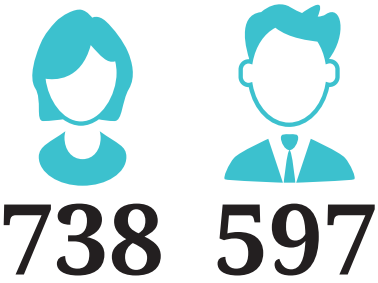
Uniqueness
We must dare to be different and innovative in order to continuously improve.

Skills
When we trust our people, and challenge them to develop the right skills, they will grow personally and contribute positively.

Teamwork
Strong and loyal teams go the extra mile to achieve success for the company and each other.

Number of employees (FTE) 2017
by country





Number of employees, 2017	Women	Men	Total
Total number of employees, 31 December 2017	823	620	1,443
Full-time employees (FTEs), 31 December 2017	738	597	1,335
Average number of employees	718	570	1,288

Percentage women, 2017	
Senior executives	40%
Parent Company, Board of Directors	63%
Full-time employees (FTEs)	55%

Results from Great Place to Work, Group

People have been treated fairly...	2017	2016*
irrespective of age	79%	77%
irrespective of ethnic origin	93%	94%
irrespective of gender	86%	87%
irrespective of sexual orientation	93%	95%
irrespective of disability	91%	93%

* Excluding Poland and Spain, which did not take part

the company. All managers in the Group have participated in the training, and have then assumed responsibility for training their local organisations.

Work environment and well-being

Customer centres in general and debt recovery platforms in particular are stressful workplaces. Communicating with financially vulnerable customers requires integrity, empathy and a good understanding of the customers' circumstances. Accordingly, Hoist Finance promotes ensuring the best possible work environment to enable employees to reach their full potential. This is done by ensuring the well-being of employees.

This year's TRUST survey found that 68 per cent of the personnel were satisfied with their work environment. Our offices work to improve their work environment and in 2017, among other measures, the offices in Milton Keynes and Rome were refurbished. Spaces for taking breaks and eating lunch have been dramatically improved. Moreover, the company-wide Hoist Strive Challenge combines physical activity with fundraising for local charities.

Career and skills development

Through providing career development opportunities for employees, the company secures its own success as well as the employees' personal development. Continuous skills development is a key prerequisite for the company's ability to adapt to new circumstances and ensure innovative problem-solving. In 2017, the average investment in training per employee was 37 hours.

In addition to strengthening professional skills, it is vital that employees are aware of and feel confident about handling potential compliance issues. Examples of training to ensure regulatory compliance include special training to prevent money laundering and coaching in guiding customers through potentially stressful and emotional situations. Employees are trained in conducting respectful dialogues with customers, aimed at reaching amicable, mutually satisfying solutions. New courses are continuously added to Hoist Finance's e-learning platform, and most countries also provide learning support from local trainers and coaches.

Leadership development

For Hoist Finance, it is essential to have inspiring leaders that can spread ways of working to create the best place to work. Therefore, the company has established its own mandatory management programme. The main objective of the "Leading with TRUST" programme is to build a uniform corporate culture and to improve teamwork. In 2017, 89 people took part in the programme. The effects of leadership development are always difficult to measure, but the TRUST survey, the company's tool for measuring employee satisfaction, found that a large proportion of employees are positive regarding managers' competence to run operations and to the corporate culture.

Most of the company's offices also offer basic leadership training and other local development programmes. Moreover, leaders are developed by identifying replacements for all critical positions and by developing colleagues who can step in to replace them. The annual leadership conference is also a part of developing leadership and the corporate culture. The theme of this year's conference was "Sharing and learning."

Diversity and equal opportunities

Building a diverse workplace with equal opportunities for all employees is fundamental to Hoist Finance's strategy in developing the best place to work. Diversity was the area in the TRUST survey where the results were highest. 85 per cent of employees perceived Hoist Finance as treating everyone with respect. This approach to diversity is clearly formalized in the company's diversity policy that was adopted and implemented in 2017.

When setting salaries, the Diversity Policy is applied. Equality and fairness comprise the cornerstones, and employees are remunerated based on local salary levels, market practices and collective agreements where these are in place. The remuneration policy is updated each year.

Whistleblowing and discrimination

Hoist Finance has empowered its employees to report any discovery or experience of any form of misconduct or any form of harassment and/or lack of respect. Hoist Finance has therefore prepared a whistleblowing procedure through which employees can openly and anonymously communicate wrongdoings to the compliance function. To raise awareness of this responsibility, an e-learning course was held covering the whistleblower process for all existing employees in 2016 and, thereafter, all new employees completed training in 2017.

Different discrimination laws apply in different countries. Therefore, Hoist Finance has grievance procedures in place in each country based on local legislation and agreements with labour organisations. Cases of discrimination can be reported using the whistleblower

Hoist Finance's Stockholm office was certified as a Great Place to Work 2017 and, accordingly, is eligible to enter and compete to be one of Sweden's 25 top workplaces. The evaluation was carried out by Great Place to Work, a neutral external party, which ensures an independent evaluation.

procedure. In 2017, no such discrimination cases were filed using the whistleblower procedure.

Employees

At 31 December 2017, Hoist Finance had 1,443 employees (1,388), including temporary employees, in 11 countries. 27 per cent of the employees are covered by collective agreements. Of these, 92 per cent (88) were permanent employees and 8 per cent (12) were temporary employees. Recalculated as full-time employees (FTEs), there were 1,335 employees (1,285) at year end, of which 738 (731) were women and 597 (554) were men. The average number of employees in 2017 was 1,288 (1,327), of which 718 (752) were women and 570 (575) were men.

Calculated based on average number of employees, 57 per cent (57) of employees were women. At year end, 13 per cent (14) of the members of the Executive Management Team were women. At 31 December 2017, 26 per cent (25) of the members of the Group Board of Directors were women and 63 per cent (57) of the members of the Parent Company's board. were women. Within the Group, 45 per cent (42) of managers in the Group were women during the same period.

Employee turnover and sick leave

In 2017, 462 new employees were recruited and staff turnover was 28.81 per cent (22.55). Short-term absence due to illness was 4.51 per cent (3.94), which we believe corresponds to that of other businesses with a high percentage of customer centre jobs.

During the year, Hoist Finance decided to move its operations in Bremen to Duisburg and its operations in Brussels to Amsterdam. Employees have been offered the possibility to move with the company, but few have taken up this offer. The largest impact of the relocations on staff turnover is expected in 2018.

Local commitment

Hoist Finance aims to create a strong connection to the local communities where the company operates. Therefore, Hoist Finance actively supports its employees in getting involved in their local communities. Through their commitment, employees contribute to positive development in their communities and feel pride in doing so, which in the end both parties benefit from.

Most of Hoist Finance's offices support their local communities in one way or another and examples of this can be found in the UK, France and Italy. One tangible example of the activities over the year is that the Italian office in Lecce has chosen to support AIL, the Italian leukaemia organisation. Both individuals and the company have got involved. Another example is from the Stockholm office, which via the "Vid din sida" (By your side) initiative were able to contribute 40 packages to the homeless containing items including warm socks, beanies, torches and shampoo.

EMPLOYEES

Théo Ahonoukoun Head of HR at Hoist Finance France

Meet Théo Ahonoukoun, Head of HR at Hoist Finance France.

Théo ensures that all members of the French team are given opportunity to develop their skills and develop in their work. He is also Head of internal communication and CSR and is responsible for ensuring that Hoist Finance's core values, TRUST, are kept relevant in daily operations.

Outside of work, Théo invests considerable time and energy in other people. His activities include volunteering in an organisation that helps physically disabled individuals and an organisation that helps financially vulnerable people with everything from meals to social activities and socialising.

» I meet a lot of fantastic people that inspire me and I often note tremendous generosity from people in difficulty. The concept of doing good things and helping fellow human beings rhymes well with my own and with Hoist Finance's values.

When asked whether technology was important to his role, Théo answered both yes and no.

» IT is extremely useful for processing data, for helping employees develop in their careers and for driving innovation. But in the end, I only see technology as a tool for realising the ideas and thoughts that we have as individuals.

Improved credit rating

driven by long-term financing strategy

Hoist Finance offers secure and attractive savings alternatives in SEK and EUR. Together with efficient capital market funding, this constitutes solid and well-diversified funding.

During the year, Hoist Finance continued to develop the company's funding. The launch of a second deposit savings scheme in EUR combined with active work to restructure the company's capital market debt resulted in greater diversification and a stronger and more efficient capital structure. As a direct consequence of this, Hoist Finance's long-term credit rating was upgraded to investment grade (Baa3).

HoistSpar in Sweden

HoistSpar, savings products that are part of the Hoist Finance Group, offers attractive and secure savings alternatives to private individuals and companies in Sweden. Interest rates are competitive and account regulations are simple, with customers allowed to save up to SEK 950,000.

During the year, the proportion of Swedish savings accounts with longer maturities remained stable. As per 31 December 2017, HoistSpar's deposits had risen to SEK 12,243 million (11,849), distributed over 63,271 active accounts (61,387).

New savings offering in Germany

During the autumn, Hoist Finance also launched savings accounts in Germany, through one of the largest deposit savings platforms in Europe. A key reason for the launch was to strengthen and further diversify the Group's funding. Interest rates are competitive and account regulations are simple, with customers allowed to save up to EUR 100,000.

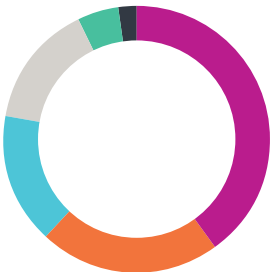
As per 31 December 2017, deposits in Germany amounted to EUR 100 million, represented by 4,462 accounts.

Capital market funding

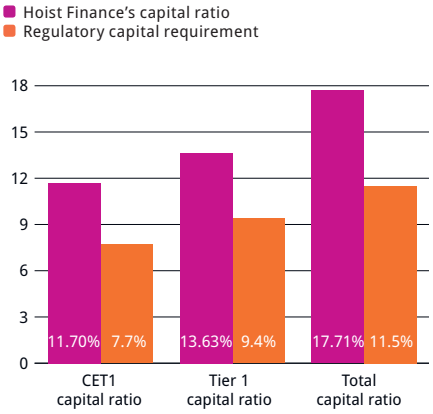
During the year, the limit for the Euro Medium Term Note Programme (EMTN) was increased from EUR 750 million to EUR 1 billion. At year end, the company had issued the equivalent of SEK 5,158 million under the EMTN programme, represented by three separate bond loans, plus two own funds programmes outside the EMTN programme corresponding to SEK 380 million, all on competitive terms.

Funding structure, 31 Dec 2017

- Demand deposits **37%**
- 1-3 year fixed-interest deposits **21%**
- Unsecured bond loans **19%**
- Equity incl. additional Tier 1 capital **15%**
- Other liabilities **4%**
- Subordinated bond loans **4%**



Capital adequacy, 31 Dec 2017



Capital structure, 31 Dec 2017

- CET1 capital **66%**
- Additional Tier 1 capital **11%**
- Tier 2 capital **23%**

SUSTAINABILITY GOALS

Ensuring sustainably strong financial earnings

Compliance with laws and regulations combined with an ethical approach

17.71%
Total capital ratio
(16.76)

11.70%
CET1 ratio
(12.46)

Hoist Finance completed two capital market transactions during the year. During the second quarter, Hoist Finance issued EUR 80 million in Tier 2 capital under the EMTN programme, while repurchasing all of its previously issued Tier 2 capital. The optimisation of the capital structure intended by the transaction also resulted in Moody's credit rating agency raising the company's credit rating to Baa3. During the third quarter, the company issued a senior EUR 250 million bond loan under the EMTN programme and, in this connection, implemented a partial repurchase of previously issued senior debt.

Deposits from the public and the capital market borrowing represent strong and diversified funding in SEK and EUR. The deposits also give Hoist Finance a competitive advantage as they are stable at relatively low cost.

Investing in Hoist Finance is secure for a number of reasons.

- **European deposit guarantee**
  All deposits in the EU are covered by the deposit guarantee up to an amount corresponding to EUR 100,000 and up to SEK 950,000 in Sweden.
- **Regulated by the Swedish Financial Supervisory Authority**
  The company is a regulated credit market company under the supervision of the Swedish FSA.
- **Investment grade credit rating**
  In 2017, the Moody's credit rating agency raised the company's credit rating to Baa3/Prime-3 for its long and short-term borrowing, which corresponds to investment grade.
- **Strong capital position**
  Hoist Finance's core Tier 1 capital ratio and total capital ratio amounted to 11.70 per cent (12.46) and 17.71 per cent (16.76), respectively, as per 31 December 2017, which comfortably exceeds the regulatory requirements.
- **Competitive deposit offerings**
  HoistSpar has had a competitive savings offering in Sweden since 2009 and in Germany since 2017.

Liquidity reserves

As a credit institution, Hoist Finance is subject to substantial regulation, including capital requirement legislation. As per 31 December 2017, Hoist Finance's liquidity reserve amounted to 30 per cent of total assets. The liquidity portfolio is largely made up of Swedish government and municipal bonds, and covered bonds, as well as short-term lending to other banks. Hoist Finance's short-term liquidity coverage ratio (LCR) was 1,010 per cent (695) at year-end, compared with its regulatory ratio of 80 per cent (70).

The share

Hoist Finance's shares were listed on Nasdaq Stockholm's Mid Cap list on 25 March 2015. Based on the last price paid on 29 December 2017, which was SEK 92.25, Hoist Finance's market capitalisation was SEK 7,489 million.

Proposed dividend for 2017
34%
of profit for the year

Share performance in 2017

Hoist Finance's share price climbed 8.1 per cent in 2017, compared with the total OMX Stockholm PI index, which rose 6 per cent. The highest closing price quoted during the year was SEK 92.25, on 29 December 2017, and the lowest closing price was SEK 74.50, on 24 February 2017.

Trading volume

Following implementation of the EU's Markets in Financial Instruments Directive (MiFiD), equities can be traded in marketplaces other than the exchanges on which they are listed. This has given rise to a fragmentation of equity trading, which is now conducted on both regulated marketplaces (stock exchanges) and other trading platforms. In 2017, a total of 36.6 million of Hoist Finance shares[1)] were traded in all marketplaces, and the average daily trading volume was 145,949 shares[1)]. Trading on Nasdaq Stockholm accounted for 49.0 per cent of the total trading volume in Hoist Finance's shares.

Share capital

At year end, Hoist Finance's share capital amounted to SEK 27,061,515.33, divided among 81,184,546 shares. All shares carry equal entitlement to the company's earnings and equity, and equal voting rights.

Ownership structure

The number of shareholders was 3,248 at year-end 2017. Of Hoist Finance's share capital, 80 per cent is owned by Swedish investors and 16 per cent by foreign investors[1)]. The UK and the US account for the largest share of foreign ownership.

Dividend

The Board of Directors has set a dividend policy specifying an intention to distribute 25–30 per cent of the Group's net profit over the medium term. Given the strong cash flow historically generated by Hoist Finance, the long-term goal is to distribute approximately 50 per cent of net profit. For the 2017 financial year, the Board has proposed that the general meeting approve a dividend of SEK 1.90 (1.30) per share, corresponding to 34 per cent of consolidated profit for the year. The total dividend would thus amount to SEK 154 million. Based on the last price paid on 29 December 2017 (SEK 92.25), the proposed dividend represents a dividend yield of 2.1 per cent.

Hoist Finance share data
31 December 2015 to 31 December 2017

Closing low, SEK	74.50
Closing high, SEK	92.50
VWAP	82.98
Share turnover	36,633,225
Daily turnover, shares	145,949
Number of trades	87,330
Average per day. trades	347.9
Average value per trade, SEK	34,809
Average daily turnover, SEK M	12.1
Daily turnover Rel. MCAP, %	0.18
On Nasdaq (normal trading), %	49.00
Transactions on other trading platforms, %	50.4
Part dark pools (Nasdaq), %	0.60

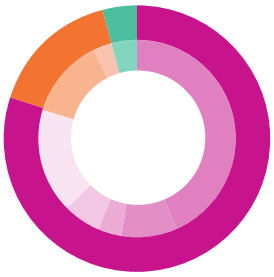
1) Source: Modular Finance AB.

Ownership structure, 31 December 2017

Size	Number of shares	Capital, %	Votes, %	No. of shareholders	Shareholders, %
1–500	349,055	0.4	0.4	2,195	67.6
501–1,000	299,801	0.4	0.4	376	11.6
1,001–2,000	333,793	0.4	0.4	215	6.6
2,001–5,000	632,718	0.8	0.8	183	5.6
5,001–10,000	616,210	0.8	0.8	82	2.5
10,001–20,000	870,957	1.1	1.1	60	1.8
20,001–50,000	1,650,480	2.0	2.0	48	1.5
50,001–100,000	1,561,662	1.9	1.9	22	0.7
100,001–100,000,000	72,152,195	88.9	88.9	67	2.1
Total	**81,184,546**	**100**	**100**	**3,248**	**100**

Source: Modular Finance AB

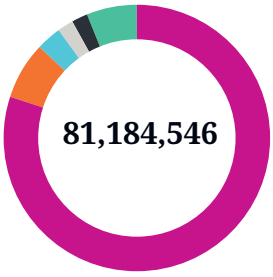
Shareholder categories



- **Swedish 80%**
  - Fund management 43%
  - Investment & Asset man 9%
  - Pension & Insurance 4%
  - Private persons 6%
  - Other Swedish shareholders17%
- **Foreign 16%**
  - Fund management 13%
  - Other foreign 3%
- **Anonymous shareholders 4%**

Source: Modular Finance AB

Geographic distribution of shareholders
per cent of total number of shares 81,184,546



- Sweden **80%**
- USA **7%**
- UK **3%**
- Norway **2%**
- France **2%**
- Others **6%**

Source: Modular Finance AB

Ownership structure, 31 December 2017

	Share of capital and votes, %
Carve Capital AB	9.7
Zeres Capital	8.6
Swedbank Robur Fonder	8.1
Handelsbanken Fonder	6.1
Didner & Gerge Fonder	4.5
Jörgen Olsson privately and through companies	4.1
Carnegie Fonder	3.6
AFA Försäkring	3.2
Danske Invest Fonder	3.0
Costas Thoupos	3.0
Total 10 largest shareholders	**53.9**
Other shareholders	46.1
Total	**100.0**

Source: Modular Finance AB

Seven reasons to invest in Hoist Finance

	Investment motive	Underlying reasons
1.	**Strong underlying growth in the transaction market for non-performing loans.**	Hoist Finance considers there to be a number of long-term factors impacting the industry that will result in strong growth and increased sales volumes over the coming years. » Increased regulatory pressure on banks facilitating the decision to sell NPLs. » Growing outsourcing trend among European banks.
2.	**Extensive data warehouse and disciplined purchase processes ensure investments have a low risk and high return.**	Analysis and data processing are at the core of the company's operations and are fully integrated in pricing and collection. Hoist Finance has strict financial requirements for investments, and pursues standardised and disciplined purchase processes. The company's portfolios generate healthy cash flow and deliver significant returns.
3.	**Hoist Finance is a leading debt restructuring partner for international banks, and has a diversified customer base together with expertise in structuring complex transactions.**	Hoist Finance offers a strong value proposition for international banks – the status as a regulated credit market company is a key differentiating factor. The company has established relationships with leading international banks, and has partnered with all of Europe's ten largest banks by total assets within the past nine years.
4.	**Hoist Finance has amicable and solution-oriented in-house collection platforms.**	Hoist Finance's solution-oriented and amicable approach to collections aims to achieve optimal outcomes for the company as well as customers.
5.	**Hoist Finance is a leading pan-European debt purchaser with a focused profitable-growth strategy.**	Over the past ten years, the company has followed a conscious and focused strategy of expanding into new European markets, while also maintaining profitability. This means the company's personnel have unique skill sets, which have allowed Hoist Finance to build a diversified pan-European platform, covering the majority of Europe's large NPL markets.
6.	**Hoist Finance's business is underpinned by a strong funding model.**	Hoist Finance's highly efficient and diversified funding model provides strategic flexibility. Funding is accomplished through a mix of retail deposits and unsecured bonds. Deposit funding is a core competitive advantage, providing Hoist Finance with access to funding at comparatively low costs and allowing the company to hold significant liquidity.
7.	**Hoist Finance promotes sustainable way of working**	Hoist Finance promotes responsible way of working. Societal responsibility is integrated into Hoist Finance's business model, its partnership with banks, its dialogue with customers, its care of employees and in the goal to reduce environmental impact.

Progress in 2017

Strengthened positions in existing markets and further expansion in new asset classes.

Disciplined investment strategy for reaching the company's return on equity target of 20per cent.

- Return on equity in 2017, excluding nonrecurring items, of 19 per cent.

Leveraged the company's status as a regulated credit market company.

- Expanded collaboration with partners due to increased requirements for regulatory compliance and value chain control.

Developed debt restructuring strategies with a focus on in-house collection.

- Improved collection strategies.
- Increased focus on digitalisation and self-service solutions.

Leveraged existing economies of scale.

- Increased volumes on existing platforms. Gradual economies of scale increases are reflected in improved operating margins.

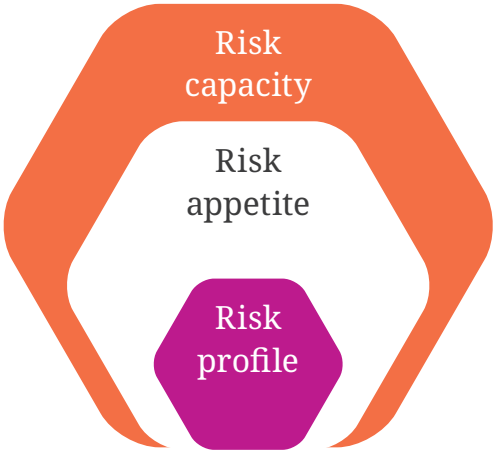
Maintained and developed strong funding base and leveraged strong capital and liquidity positions.

- Upgraded credit rating to Baa3 by Moody's.
- CET1 capital was 11.70 per cent at 31 December 2017, exceeding the statutory capital requirement by 4.0 per cent.
- Launched savings offering in Germany.

- Pursued extensive dialog with various stakeholder groups to increase understanding of how the company's sustainability efforts are perceived.

Risk management

Risk is an inherent part of any business operation. Without assuming risks, it is impossible for a business to achieve long-term profitability. Hoist Finance acquires and manages NPLs and thereby actively exposes itself to credit risk. This is Hoist Finance's core business, in which the Group has been successful for the past 20 years.



At any time, the company's risk profile must be within the risk appetite decided by the Board, which in turn must be within the risk capacity

Hoist Finance defines risk as the possibility of a negative deviation from what is expected. This could be a deviation from expected earnings, liquidity or capitalisation. Ongoing risk management is a core activity in all banking and financing activity, and is fundamental for long-term profitability and stability.

Risk management framework

Risk management at Hoist Finance aims to minimise negative financial fluctuations in earnings and to secure the company's survival by maintaining adequate capital and liquidity levels. This creates and maintains confidence in Hoist Finance among stakeholders, thereby enabling sustainable shareholder value.

To fulfil this goal, the Board has adopted policies and strategies for the company's management, analysis, control and reporting of risks in day-to-day operations, which together comprise a risk management framework.

Hoist Finance's core business and risk strategy is to generate returns through controlled exposure to credit risk in the form of NPLs and, accordingly, Hoist Finance therefore actively pursues this type of credit risk. Other types of risk, such as operational risk and market risk are undesirable but sometimes unavoidable. However, these risks are minimised as far as is economically justifiable.

Risk capacity, which comprises the capital and liquidity buffers in place, is determined in order to ensure the survival of the company. Capital risk capacity is the difference between actual capital levels and regulatory minimum levels and shows the capacity to absorb losses before critical levels are reached. Liquidity risk capacity is the scale of the liquidity outflow Hoist Finance can accommodate without breaching regulatory minimum requirements.

The Board of Directors determines Hoist Finance's risk appetite within the available risk capacity. By weighing potential returns against potential risks, the Board decides on an appropriate risk and return level for Hoist Finance. Hoist Finance's risk appetite then provides the basis for business decisions and risk limits, which are applied in day-to-day business activities and in risk monitoring. Continuous monitoring is provided by the Group's Risk Control function to ensure Hoist Finance does not assume any risks that exceed the established risk appetite, risk capacity or limits.

Three lines of defence

Hoist Finance's risk management is built on clearly defined goals, policies and guidelines, a sound risk culture, an efficient operating structure, and transparent reporting and monitoring. The Board of Directors' risk management policy stipulates the framework, roles and responsibilities for risk management and the guidelines for ensuring that there is adequate capital and liquidity to withstand economic adversity.

Hoist Finance's risk management allocates roles and responsibilities in accordance with three lines of defence.

Risk culture

Within Hoist Finance there is deep insight and understanding of how a sound risk culture is critical for efficient risk management. Therefore, structured efforts are ongoing to support and promote a sound risk culture within the company. Hoist Finance defines a sound risk culture as:

- **Transparency**, where information is shared as far as possible and all communication and feedback is clear, concise and constructive.
- **Teamwork**,where the atmosphere is open and it is easy to share and learn from experience, both from successes and failures.
- **Balance between risk/reward**, where all decisions and considerations take into account both the risk and the reward that the decision entails. The company also believes that independent credible challenge and constructive discussions is critical for a sophisticated decision-making on risk and reward.
- **Sound incident management**, where incidents are reported, analysed and actions taken to mitigate risks insofar as it is economically justifiable and where a sound, learning risk culture promotes learning from mistakes to continuously improve

Promoting the risk culture is a long-term and continuous endeavour that permeates everything Hoist Finance does. Internal rules, remuneration systems,

incentives, ethical guidelines, formal educational initiatives and other governing mechanisms within the company are designed to ensure that the risk culture develops in a positive direction.

Security

Hoist Finance's operations are regulated by the Swedish FSA, which imposes requirements in areas including the management of operational risks, security and information security. The company is positive to more stringent security requirements, and works pro-actively to deliver on high internal security standards to safeguard the business, the customers and the owners.

Information and IT security

Given the company's business activities, Hoist Finance sets great value on information and IT security, where the work is aligned with the ISO 27000 international standard. Organisationally, there are functions in all three lines of defence that are involved in the effort to secure information.

The three lines of defence for risk management and internal control

1st line of defence

The Board of Directors, the CEO and all employees. The business units and subsidiaries bear full responsibility for the risks that arise in day-to-day operations. The local offices have the best knowledge in any given situation, as they are closest to the customers and the various markets. The first line of defence is responsible for managing Hoist Finance's risks and for complying with the applicable rules and regulations.

2nd line of defence

The Risk Control and Compliance functions are both independent control functions. This means that they are not involved in the business operations and that they report independently to the Board of Directors and the CEO. The second line of defence is responsible for identification, quantification, analysis and reporting of all risks.

3rd line of defence

The Internal Audit function is responsible for conducting an independent review and evaluation of work done in both the first and second lines of defence. The Internal Audit function reports directly to the Board of Directors.

Additional and more detailed information about Hoist Finance's risk management is presented in the Administration Report, Note 31 and in Hoist Finance's Pillar 3 report. This also includes quantitative risk measurements.

The risks to which Hoist Finance is exposed, can be divided into two groups, namely strategic risks pertaining to Hoist Finance in relation to its macro environment and business-related risks which are more linked to Hoist Finance's business model and operations.

Strategic risks

Risk type	Risk profile	Risk management
Competition The risk of increased competition to purchase NPLs or regarding savings accounts for the general public could result in lower earnings for Hoist Finance.	As regards to the acquisition of NPLs, Hoist Finance operates in ten countries within Europe and offers savings accounts in Sweden and Germany.	Hoist Finance strives to be competitive through cost-efficient borrowing and lending operations.
Regulatory framework The risk of new regulations negatively impacting Hoist Finance's business model or otherwise negatively affecting earnings.	As a credit market company, Hoist Finance is regulated by the Swedish FSA and, accordingly, is subject to the majority of the banking regulations in Sweden.	Hoist Finance has a compliance department that works internationally across the jurisdictions in which the company operates. Forthcoming regulations are continuously monitored and subjected to risk analysis. Hoist Finance actively participates in discussions and makes statements on proposed regulatory frameworks.
Tax The risk that misinterpretation or amendment of the current tax rules would negatively impact Hoist Finance's earnings.	Given that Hoist Finance operates in a large number of jurisdictions in Europe, tax issues are relatively complex. High complexity entails a risk that misinterpretations may have arisen.	The company has a highly qualified and dedicated function that solely works with tax issues. The function is tasked with minimising any risk for misinterpretation.
Macro risks The risk that a change in the economic trend could cause an unexpected drop in revenue.	Changes in GDP, unemployment levels and declines in European social welfare protection are assessed as having most impact on Hoist Finance's revenue.	Hoist Finance expends considerable energy on developing and simulating the effects of stressed macro scenarios to identify the best method to prepare in case these events should occur. Based on the simulations, action plans have been prepared to counter the negative effects to as high a degree as possible.

Business-related financial risks

Risk type	Risk profile	Risk management
Credit risk The risk of loss arising from a customer's failure to repay principal or interest or to otherwise meet a contractual obligation.	Credit risk refers mainly to acquired loan portfolios and the risk that collection will be lower than forecasted. Other credit risk exposures are: (i) cash deposits with banks; (ii) investments in fixed-income instruments; and (iii) counterparty risk related to hedging FX and interest-rate risk.	Credit risk in acquired loan portfolios is monitored, analysed and managed by the management in each country, and by the Group's business control unit. Other credit risks are analysed and managed by the Group's Treasury function. The Risk control function analyses and controls all credit risk exposures.
Market risk The risk arising from adverse movements in foreign exchange rates and interest rates.	The main FX risks arise from the fact that the loan portfolios (the assets) are denominated in EUR, PLN and GBP, while the reporting currency is SEK and the majority of liabilities are denominated in SEK. Interest-rate movements have an effect on net interest income.	Market risks are hedged continuously by the Group's Treasury function and independently analysed and controlled by the Group's Risk Control function.
Liquidity risk The risk of difficulties in obtaining funding and the resulting inability to meet payment obligations when they fall due.	Liquidity risk is linked primarily to refinancing risk of existing wholesale funding and deposits from the public and the risk of large withdrawals occurring at short notice. Furthermore, increased requirements for funds pledged as collateral for derivative positions could potentially negatively impact liquidity.	The Group has a significant liquidity reserve to cover potential outflows of liquidity.

Business-related operational risks

Operational risks encompass a broad area and include numerous types of risk. Within this risk group, Hoist Finance has identified a number of risks of particular importance for operations. The risk of loss resulting from inadequate or failed internal processes, people, IT systems or from external events, including legal and compliance risk.

Risk type	Risk profile	Risk management
Model risk This pertains to the risk of the models used by Hoist Finance to value assets and measure risk, for whatever reason, generating erroneous results or becoming irrelevant for the market conditions.	The correct pricing and valuation of NPLs is central to Hoist Finance's operations and critical for profitability moving forward.	The company applies a focused and active approach to these issues. The models are continuously and rigorously evaluated to enable early identification of deviations that could indicate erroneous calibration or other faults with the models.
Outsourced operations As part of the operational management of certain NPL portfolios, the company uses partners (known as debt collection agents) which, through outsourcing agreements, administer tasks such as customer contact, payments, arranging payment plans, etc. The risk of these partners not acting toward customers in accordance with the strict practices and high standards for which Hoist Finance is known.	Partners are used, more or less, depending on the jurisdiction, but generally, only a minor portion of the total claims administration is handled by partners. Nevertheless, this risk is prioritised since a breach of practices regarding customer management could have considerable consequences for the company's reputation and brand.	Hoist Finance has rigorous controls in place to ensure that the partners we use act in the professional manner required by the company. These controls include assessments of financial strength and operational processes as well as internal governance and control.
Information security The primary risk here concerns loss, leaks, changes to or theft of sensitive information.	The information that would cause most damage if leaked, lost or stolen would be customer details or business secrets in the form of valuation data and risk models. Due to rigorous risk management measures, Hoist Finance views this risk as limited.	The company has a dedicated security department that continuously works with these issues and the IT department maintains a stringent security focus. The risk control function also conducts reviews of the above.
Continuity risk Hoist Finance's operations also include a risk of not being able to maintain operations in the case of an internal or external disruption.	Hoist Finance depends on the availability of personnel and on certain critical infrastructure, such as IT systems and telephony, and to a certain extent premises from which to conduct operations during disruptions. Focus on continuity management has been within these areas.	To be well prepared for disruptive events the company conducts drill exercises on a regular basis. Through these continuity drills, Hoist Finance reduces its vulnerability to disruptions in its critical processes and increases its capacity to regain critical processes within a tolerable duration.
Brand risk The primary risk here concerns damage to the brand.	The risk of Hoist Finance not acting toward customers in accordance with the strict practices and high standards for which Hoist Finance is known, and that this is showcased by the media thereby damaging the brand and, in the worst case, leading to a decline in possibilities to purchase claims.	Ethical and fair treatment of customers is essential to Hoist Finance's business model for amicable settlements. Methods and working practices build on legislation and rules.
Corruption and fraud The primary risk here concerns breaches of the law.	The risk of losses due to fraudulent behaviour and corruption. Corruption risks can arise both intentionally and unintentionally due to lack of understanding.	The risk of fraud is minimised through various duality measures in internal processes. For example, any transaction not deemed insignificant requires at least one extra signature. Hoist Finance has an extensive anti-corruption program and has set up ethical guidelines for how the company and its employees should conduct business in a responsible and ethical manner. Policies and regular training on the ethical guidelines are some examples of the measures taken to combat all forms of corruption. Other measures include recurring internal surveys.
Money laundering and financing of terrorism The primary risk here concerns involvement in money laundering and terrorism financing.	The risk of the company becoming involved in money laundering as a result of inadequate or failed internal processes or lack of know-how among staff.	Hoist Finance actively combats money laundering and terrorism financing. Business measures are adjusted to the findings of the annual risk analysis that is carried out. The preventive measures include know your customer measures, transaction monitoring and separate inspections of politically exposed persons (PEPs) as well as checks against sanctions lists.
Labor law and work environment The primary risk here concerns breaches of local labour law.	The risk that Hoist Finance does not treat its employees in accordance with laws and regulations.	Management training and developed policies form the basis of the strict practices and high standards for which Hoist Finance is known in terms of discrimination, trade union rights, work environment, collective agreements and remuneration.
Skills shortage The primary risk here concerns being unable to attract the best possible expertise.	The risk that Hoist Finance is not a sufficiently attractive employer to be able to attract and retain employees, thereby leading to a lack of efficiency and high costs.	Considerable focus on developing the work environment and clear action plans for achieving better results in Great Place to Work.

Sustainable enterprise

Hoist Finance's undertakings regarding societal responsibility are integrated into everything we do. In collaborations with partners and customers, in the care of our employees and in the goal of reducing our environmental impact.

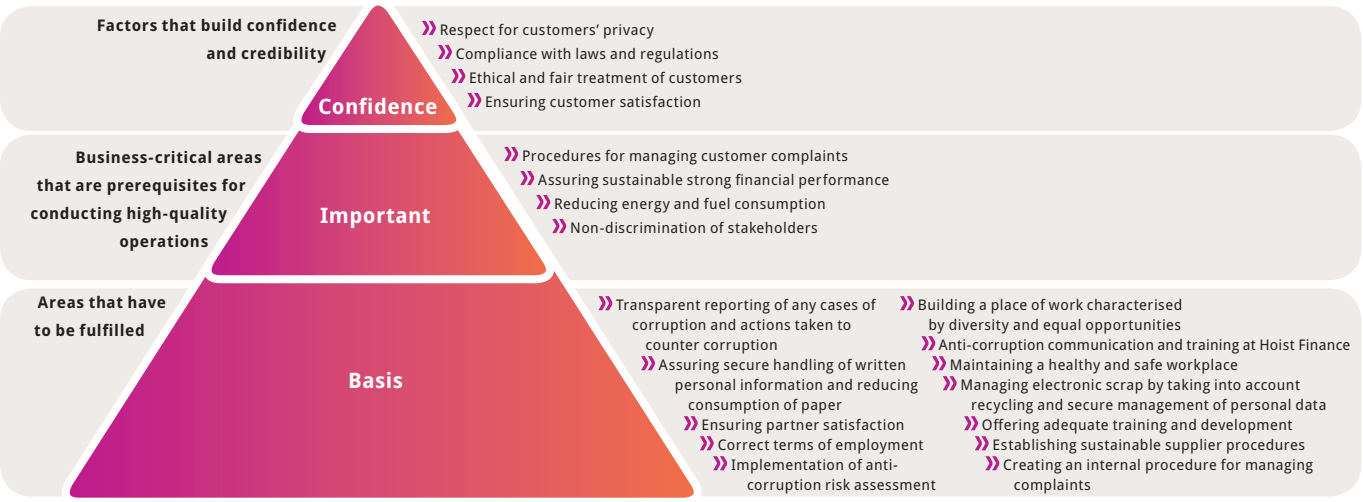
Stakeholder dialogue and materiality analysis

Hoist Finance's stakeholders are groups and individuals who, directly or indirectly, are affected by the company's operations: employees; shareholders; business partners; customers and society at large. The management and the Board of Directors of Hoist Finance have overall responsibility for balancing these interests while securing the company's survival.

Hoist Finance has a goal of creating long-term value for stakeholders and of gaining their confidence. During 2017, Hoist Finance turned to the stakeholders to find out what they thought were the most important sustainability aspects for the company. The selection process was conducted in dialogue between local units and the head office and where each country identified appropriate participants. Questions were sent to the company's stakeholders in 2017, including analysts, banking partners, DCAs, customers, regulators and Hoist-Spar customers. Legislation in the UK prevented us from sending questionnaires to our end customers in the UK, and accordingly they are not represented in the stakeholder dialogue. We also invited the Swedish FSA to participate, but they declined. The compiled results show that the stakeholders consider four sustainability aspects to be of particular importance to Hoist Finance:

- Respect for customers' privacy
- Compliance with laws and regulations
- Ethical and fair treatment of customers
- Ensuring customer satisfaction

Materiality assessment, external stakeholders



A sustainable business strategy

In 2017, the Executive Management Team approved the materiality assessment, whereby the results of the stakeholder dialogue together with the employee-satisfaction survey were analysed, and the most important sustainability issues were integrated into the business strategy. Key metrics were set in each strategic area or, alternatively, are being developed (see table on page 50).

Preferred partner

- Ensure satisfied partners by implementing a stable evaluation process.
- Report confirmed incidents of corruption and actions to resolve them.

Preferred by customers

- Ethical and fair treatment of customers.
- Ensure a sound privacy culture.

Best place to work

- Create a workplace hallmarked by diversity and equal opportunities.
- Be listed as a "Great place to work" in all countries.

Attractive to investors

- Ensure sustainable and strong financial earnings.
- Comply with laws and regulations, combined with an ethical approach.

Contribution to society

Reduced environmental impact

- By reducing energy, fuel and paper consumption.
- Recycling or safe destruction of electronic waste.

The results of the dialogue with external stakeholders are illuminated in the materiality assessment on page 47. This shows that the stakeholders also consider other sustainability issues to be of importance to Hoist Finance. Targets, which will be followed up, have also been set for these. A significant focus, and resources, will also be targeted at continuously making improvements in the most material aspects.

Sustainability organisation

The Board of Directors has overall responsibility for sustainability work at Hoist Finance and for establishing how the Group is to contribute to a smoothly functioning financial ecosystem. The Board approves the sustainability (CSR) policy and other policies that govern Hoist Finance's sustainability work. The CEO and the Executive Management Team make decisions on goals, development and implementation of the sustainability programme in line with the strategy adopted by the Board of Directors.

Hoist Finance's sustainability work is decentralised and implemented where the company conducts its business and operations. Activities encompass all of the company's operations and are coordinated by the Group Head of HR, who is responsible for sustainability issues in the Executive Management Team. The country heads are responsible for ensuring that sustainability work is implemented and that procedures and instructions match applicable policies. They are also responsible for reporting the progress that is made.

The following policies govern Hoist Finance's sustainability work in various ways

Linked to CSR at a central level	Linked to partner relationships	Linked to customer relationships	Linked to employees	Linked to risks
CSR policy	Investment policy	Policy for managing NPL portfolios	Remuneration policy	Risk management policy
Code of Conduct	Policy for conflicts of interest	Complaint management policy	Diversity policy	Operational risk policy
Internal governance and control policy		Instructions for incident reporting	Whistle-blowing policy	IT policy
		Outsourcing policy		
		Personal data policy		
		Anti-laundering policy		

Sustainability policy

Hoist Finance's Sustainability (CSR) policy forms the foundation for the company's sustainability programme and the daily sustainability work. All our initiatives and activities are guided by our four guiding principles for sustainability.

1. **Respect for customers and partners** is about safeguarding the integrity of our customers and partners. Customers are treated with respect and dignity through a constructive and transparent dialogue.
2. **Respect for business ethics** is about complying with all laws, regulations and internal guidelines by acting ethically and with integrity.
3. **Respect for human and labour rights** means demonstrating respect for the individual and our commitment to offer professional growth and equal opportunities to our employees in a healthy and safe workplace.
4. **Respect for the environment** entails minimising the environmental footprint from our operations through increased awareness of our negative impact and by focusing on actions that make a difference.

Increase sustainability awareness and skills

A crucial factor for being able to fully integrate sustainability into Hoist Finance's business operations is

CSR training launched in Stockholm, London and Athens.

SUSTAINABILITY GOALS

Reduce energy, fuel and paper consumption

Electronic waste is sent for recycling or safe destruction

employee awareness and having skills in sustainability issues. For this reason, the focus in 2017 was on a number of internal training activities throughout the organisation. These included special courses for the Executive Management Team, group managers and parts of the personnel in Stockholm. An e-training course on sustainability aspects was launched for the personnel in Stockholm, group managers, members of the Executive Management Team, members of the Board, country heads and sustainability managers in the various countries. Hoist Finance also plans to recruit a CSR manager at Group level with responsibility for planning, implementation and monitoring of the sustainability programme.

Sustainability risks

Hoist Finance works continuously to assess the various risks associated with the operations. Identified risks are managed by implementing relevant controls in the organisation. Various types of sustainability risks have been identified and Hoist Finance's capacity to influence and control the risks varies depending on whether the risks are located within or outside the organisation. A summary of Hoist Finance's risks is presented on pages 42–46.

Reduced environmental impact

Hoist Finance's goal is to minimise the environmental impact of its own operations. All employees are urged to contribute to creating a more sustainable and eco-friendly workplace. The company strives to reduce energy and fuel consumption, reduce paper consumption, manage electronic waste and impose sustainability requirements in connection with purchases. A tangible example is the transition to and the promotion of Skype for Business in all offices to reduce emissions from business travel. Notable local initiatives include conversion of the Stockholm office to a green office during 2016, with other offices following suit. Initiatives were also taken in Italy, Sweden, Belgium and the Netherlands to raise awareness about Hoist Finance's environmental footprint and how it can be reduced.

Climate change reporting

As the world at large obtains greater understanding of the related risks that could ultimately substantially impact the global economy, and also about how many different areas of society are impacted, climate change and other environment-related challenges will move higher up on various policy agendas worldwide. Hoist Finance is well aware of its stakeholders' need to better understand the financial sector's climate-related risks and how the companies are working to mitigate them. Accordingly, Hoist Finance's head office has joined the CDP (Carbon Disclosure Project), a global information system that enables companies, cities, states and regions to measure and manage their environmental impact, in order to develop the company's own efforts. In 2018 and 2019, Hoist Finance will focus on developing Group-wide metrics to ensure that all operations in the Group engage in uniform and consistent reporting. With this in mind, Hoist Finance launched measures during the year, including the introduction of a procedure for quarterly collection of CO_2 data and a review to determine how the targets for energy consumption and CO_2 emissions can be made more tangible.

Sustainable purchasing policy

Hoist Finance has considerable potential to influence its suppliers by pursuing an appropriate purchasing policy. In 2017, Hoist Finance formulated an in-depth purchasing policy, featuring distinct sustainability requirements for its purchased products and services. Accordingly, Hoist Finance not only has an opportunity to influence its own operations but can also contribute to a more sustainable business sector outside the company. The purchasing policy will be implemented throughout the Group during 2018. All of Hoist Finance's new suppliers must satisfy the requirements set in the purchasing policy before any agreements are formulated. In addition, current supplier agreements will be examined on the basis of the purchasing policy and adjusted if required.

Sustainability results

Reduce energy and fuel consumption

Key metrics	2017
Energy consumption within the organisation[1]	2,258,212 kWh
Direct GHG emissions[2]	70 tonnes
Indirect GHG emissions[1]	1,346 tonnes
– Indirect emissions per sq. m. office space	0.1 tonnes
Other indirect GHG emissions[2]	832 tonnes
– Other indirect emissions per sq. m. office space	0.7 tonnes
Paper consumption[3]	44,332 kg
Percentage of recycled wastepaper	72%
Percentage of recycled computers[3]	91%

1) London office, Spain, Greece and Benelux excluded.
2) London office, Spain and Greece excluded.
3) London office and Greece excluded.

Overview of results in 2017

Strategy	Topic	Preliminary key metrics	Activities with targets, 2017	Results 2017
Preferred partner page 24–27	Transparent reporting of confirmed incidents of corruption and actions that have been taken	Number of reported cases of corruption. Number of investigated cases of corruption. Number of rectified cases of corruption.	Ensure reporting of corruption and actions that have been taken.	Measurement carried out. No reported cases of corruption.
	Ensure business partners' satisfaction	Key metric under development.	Establish a Group-wide method of systematic measurement.	No action taken during the year.
Preferred by customers page 28–31	Respect for customers' privacy	Number of customer complaints regarding personal data issues.	Launch Group-wide e-training in personal data matters. Improve the customer complaint process.	E-training in personal data matters launched in eight of ten countries. In 2017, the complaints process was improved and harmonised, at both Group and local level. Clearer guidelines and policies have been adopted and most of the initiatives formulated for improved Group-wide customer complaint management were implemented in 2017.
	Ethical and fair treatment of customers	Key metric under development.	Establish a Group-wide method of systematic measurement	Method identified but not tested.
	Ensure customer satisfaction	% customer satisfaction in all countries.	Establish a Group-wide method of systematic measurement. Implement the process in two countries.	Customer satisfaction measurement established in the UK and test completed in Poland during 2017. The result in UK increased from 87% total customer satisfaction 2016 to 88% for 2017. The total result for the first measurement in Poland was 92%.
Best place to work page 32–35	No discrimination of identified stakeholders	Number of reported cases of discrimination.	Ensure sound and efficient management of discrimination cases received through the whistle-blower procedure.	Harmonised process implemented. No cases reported in 2017.
	Appropriate terms of employment	Be listed as a Great Place to Work[1] in all countries by 2019.	Implement Great Place to Work measurement in all countries except Greece. Ensure that all countries have established targets for 2017–2019. Implement an audit of the corporate culture in more countries. Make decisions on developing and introducing Group-wide processes for strengthening the corporate culture.	Measurement completed in all countries. Most of the countries have set targets based on the outcome of the Great Place to Work 2017 survey. Corporate culture audits conducted in Sweden, France and Italy. The Attract, Introduce and Set Target processes have been selected for development in 2018. Great Place to Work® certification for the Stockholm office.
	Create a workplace hallmarked by diversity and equal opportunities	Rate comparably to the top companies in the respective countries in the diversity category in the Great Place to Work survey.	Formulate a diversity policy and initiate implementation. Implement Great Place to Work measurement in all countries except Greece. Set targets for gender breakdown of the management.	Diversity policy formulated but no joint implementation activity completed. 85% positive responses in the diversity category in the 2017 survey. Comparable with the best companies with 93% positive responses. No targets decided.
Attractive to investors page 36–41	Comply with laws and regulations	Number of investigations of legislative or regulatory breaches	Continued skills development of employees.	No investigations of legislative or regulatory breaches. A number of E-training programmes have been implemented in nine of ten countries. E-training is supplemented by internal and external classroom-based programmes.
	Ensure sustainable and strong financial earnings	Achieve the financial targets.	Strengthen integration of the return on equity into internal governance. Implement management training concerning return on equity.	Return on equity must be calculated prior to all portfolio acquisitions. Return on equity is to be included in operational reporting by the Group and per country. Training implemented during the Management Conference in June.
	Establish sustainable purchasing policies	Key metric under development. Annual evaluation of 90% of DCA partners.	Develop a purchasing process and a purchasing policy. Evaluate DCA partners. Develop method for evaluating other key suppliers.	Policy developed. 100% of all DCA partners evaluated. No method developed for evaluating other suppliers.
Environment page 49	Reduce energy and fuel consumption	Key metric under development for the reduction of energy and fuel consumption.	Establish processes for data collection and initiate quarterly collection from all countries.	Processes established.
	Reduce paper consumption	Key metric under development for the reduction of paper consumption.	Establish processes for data collection and initiate quarterly collection from all countries.	Processes established.
	Manage electronic waste by considering recycling potential and handling of personal information.	Key metric under development for recycling and safe destruction of electronic waste.	Establish processes for data collection and initiate quarterly collection from all countries.	The process has been secured for three of ten countries.

1) Great Place to Work conducts one of the world's largest employee survey and ranking programmes, and provides tools to support and prioritise development areas.

This is Hoist Finance's second integrated sustainability report, presented annually each calendar year, in accordance with the Global Reporting Initiatives (GRI) Sustainability Reporting Guidelines Standard, Core option. Hoist Finance's sustainability reporting covers all of its operations unless otherwise stated. The scope of the sustainability report is presented in the GRI-index below.

The most recent sustainability report was presented on 22 March 2017. The table of contents below contains all standard disclosures and the specific disclosures that have been identified as the most relevant in view of Hoist Finance's long-term sustainability targets. The specific disclosures and other contents of the sustainability report have been selected based on Hoist Finance's materiality analysis on page 47. No limited assurance procedures according to GRI has been performed.

Please contact Group Head of IR Michel Fischier with questions concerning sustainability, see page 137.

Standard Disclosures

Disclosure	Title	Comment	Reference
102-1	Name of the organization		Front cover, 54
102-2	Activities, brands, products, and services		6–7, 28–31, 36–41
102-3	Location of headquarters		62
102-4	Location of operations		15
102-5	Ownership and legal form		38,62
102-6	Markets served		15–23
102-7	Scale of the organization		1
102-8	Information on employees and other workers		32–35
102-9	Supply chain		7, 49, 50
102-10	Significant changes to the organization and its supply chain		16–17,19,23,28, 31
102-11	Precautionary Principle or approach		8, 47–50
102-12	External initiatives		4,8,9,32,49
102-13	Membership of associations	No membership	
102-14	Statement from senior decision-maker		2–3
102-16	Values, principles, standards, and norms of behavior		7,32,33,48,66
102-17	Mechanisms for advice and concerns about ethics		34,42,43,50,68–69
102-18	Governance structure		62–66
102-40	List of stakeholder groups		47
102-41	Collective bargaining agreements		35
102-42	Identifying and selecting stakeholders		47
102-43	Approach to stakeholder engagement		4–8,17,21,24,29,32,34,47,50
102-44	Key topics and concerns raised		47
102-45	Entities included in the consolidated financial statements		108
102-46	Defining report content and topic Boundaries		8–9, 47–52
102-47	List of material topics		47
102-50	Reporting period		66
102-51	Date of most recent report		51
102-52	Reporting cycle		51
102-53	Contact point for questions regarding the report		51 and 137
102-54	Claims of reporting in accordance with the GRI Standards		51
102-55	GRI content index		51–52
102-56	External assurance		132

Management Approach

Disclosure	Title	Comment	Reference
103-1	Explanation of the material topic and its Boundary		2–4, 8, 25, 27, 28, 30, 32, 34, 40–42, 46, 48– 50, 66
103-2	The management approach and its components		27, 34, 42–43, 46, 48–50, 64, 66, 68
103-3	Evaluation of the management approach		46,50,68

Specific disclosures

Disclosure	Title	Comment	Reference
201-1	Direct economic value generated and distributed		1,5,7
201-3	Defined benefit plan obligations and other retirement plans		95–98, 111
205-1	Operations assessed for risks related to corruption		27
205-2	Communication and training about anti-corruption policies and procedures		27
205-3	Confirmed incidents of corruption and actions taken		50
302-1	Energy consumption within the organization		49
305-1	Direct (Scope 1) GHG emissions		49
305-2	Energy indirect (Scope 2) GHG emissions		49
305-3	Other indirect (Scope 3) GHG emissions		49
305-4	GHG emissions intensity		49
308-1	New suppliers that were screened using environmental criteria	New policy and guidelines to be implemented in 2018.	
401-1	New employee hires and employee turnover		35
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		34
404-1	Average hours of training per year per employee		34
405-1	Diversity of governance bodies and employees		34
405-2	Ratio of basic salary and remuneration of women to men	In 2018, we will initiate work to i ntroduce a Group-wide HR function.	
406-1	Incidents of discrimination and corrective actions taken		34–35
414-1	New suppliers that were screened using social criteria	Policy and guidelines in place in 2018.	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Improvements have been initiated with respect to the manner in which customer complaints are registered and followed up.	
419-1	Non-compliance with laws and regulations in the social and economic area		27
G4-FS14	Availability of financial services for disadvantaged groups	No disclosure in GRI Standards to date.	

In 2018, Hoist Finance will continue its efforts to further develop the platform for sustainable enterprise. This work may result in changes regarding the specific standard disclosures that are to be reported, depending on materiality.

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Administration Report

Business overview

Hoist Finance AB (publ), corporate identity number 556012-8489, is the Parent Company within the Hoist Finance Group. Hoist Finance is a registered credit market company under the supervision of the Swedish Financial Supervisory Authority.

Hoist Finance is a leading debt restructuring partner to international banks, with loan acquisition and management operations in nine countries across Europe. The Group specialises in the acquisition of non-performing loans (NPLs) originated by large international banks and other financial institutions with whom Hoist Finance has strong and long-term relationships. After purchasing a portfolio, Hoist Finance's primary method of collecting from its customers is through sustainable payment plan agreements. Most of Hoist Finance's recovery activities for its acquired portfolios are managed through its own call centres across Europe, supplemented in some cases by carefully selected external debt recovery partners. For over 20 years, the Group has focused exclusively on the acquisition of NPL portfolios. This distinguishes Hoist Finance from many of its competitors, which have evolved from being solely collection companies (i.e., collecting on behalf of a third party) and, therefore, have significantly shorter histories in acquiring claims. This long-term focus and the Group's flexible and tailored product offering have allowed Hoist Finance to develop the expertise to structure and execute complex transactions.

The Group has operated a traditional internet-based retail deposit product in Sweden since 2009 under the HoistSpar brand. In 2017, Hoist Finance also launched savings accounts in Germany, in partnership with one of the largest deposit savings platforms in Europe. As a regulated credit market company, Hoist Finance can offer the public a deposit service which is fully covered by the Swedish state deposit guarantee up to an amount of SEK 950,000 for each account. This gives the Group a cost-effective, flexible and reliable source of funding, which is primarily used for the acquisition of NPLs.

The market

Hoist Finance's geographic focus is Europe. The Group conducts operations in Belgium, France, Italy, the Netherlands, Poland, Spain, the UK, Germany and Austria. In Greece the Group, together with a consortium comprising Qualco S.A. and PricewaterhouseCoopers Business Solutions S.A., is assisting the Bank of Greece with the management of a portfolio of NPLs from 16 Greek banks in liquidation and overseeing the restructuring of these banks. By selling their NPLs, banks and other originators can focus on their core business, free up capital as well as management capacity and organisational resources, improve liquidity, limit the risk of doubtful payment profiles and improve key performance indicators. The European NPL market has grown in recent years, mainly as a result of the underlying market expansion of the consumer credit market and the new capital adequacy (Basel III) regulations. Hoist Finance's main competitors include debt acquisition and collection companies, integrated players offering a wide range of financial services and specialised investors.

Group structure and ownership

Hoist Finance was listed on the Nasdaq Stockholm Mid Cap list on 25 March 2015. At 29 December 2017, the number of shares totalled 81,184,546 and the share price closed at SEK 92.25, corresponding to a market capitalisation of SEK 7,489 million. See Hoist Finance's website, www.hoistfinance.com for additional information on the share and shareholders. The Articles of Association do not include any restrictions on the negotiability of the shares and there are no other circumstances that require disclosure under Chapter 6, 2a § 3–11 of the Swedish Annual Accounts Act.

Hoist Finance together with a number of subsidiaries acquire and hold loan portfolios for the Group. Day-to-day collection operations are mostly run by local branch offices and subsidiaries. Some of these companies also provide commission-based administration services to third parties.

Note 14, Group companies, sets out the Hoist Finance Group and its key subsidiaries and branch offices as of 31 December 2017.

Proposed Dividend

The Board of Directors proposes that the 2018 AGM resolve to distribute a dividend of SEK 1.90 (1.30) per share with a record date for the dividend of 18 May 2018. The total proposed dividend amounts to SEK 154 million (105). The dividend is scheduled to be distributed on 23 May 2018.

Proposed appropriation of profits

According to the Parent Company's balance sheet, the following unappropriated earnings are at the disposal of the Annual General Meeting:	SEK
Other contributed capital	1,722,091,568
Retained earnings	6,196,334
Net profit for the year	65,006,140
Total	**1,793,294,042**

The Board of Directors proposes that unappropriated earnings be distributed as follows:	SEK
Dividend to shareholders, SEK 1.90 per share	154,250,637
Carried forward to:	
Other contributed capital	1,722,091,568
Losses carried forward	–83,048,163
Total	**1,793,294,042**

The total proposed dividend, totalling SEK 154 million, is based on the number of shares as at 31 December 2017. The Board's assessment is that the proposed dividend is justifiable given the requirements with respect to the size of the company's and the Group's equity, which are imposed by the nature, scope and risks associated with the business, as well as the Company's and Group's need for consolidation, liquidity and financial position in general.

Key events during the year

- Hoist Finance strengthened its position in the small and medium enterprise (SME) segment with the acquisition of additional portfolios from Banco BPM.
- Moody's Investors Service upgraded Hoist Finance's credit rating to Baa3 with a stable outlook.
- To further optimise its capital structure, Hoist Finance issued Tier 2 capital of EUR 80 million under its EMTN programme during the second quarter.
- Hoist Finance launched the deposits offering in EUR in Germany.
- Hoist Finance issued an EUR 250 million senior bond.
- Hoist Finance appointed Klaus-Anders Nysteen as the new CEO.
- Hoist Finance reported its largest acquisition volumes for a single quarter.
- To further increase organisational efficiency and to strengthen Hoist Finance's position in Europe, a decision was taken to centralise the German operations to the Duisburg office and to conduct operations in Belgium and the Netherlands from Amsterdam.

Developments during the 2017 financial year

Unless otherwise indicated, all comparative market, financial and operational information refers to the full-year 2016. The analysis below follows the operating income statement, unless otherwise specified.

Revenue

Due to continued high acquisition activity in 2017, gross collections on acquired loan portfolios increased 13 per cent to SEK 4,877 million (4,311). Portfolio amortisation and revaluation amounted to SEK –2,233 million (–1,906), of which portfolio revaluation totalled SEK 11 million (6). Based on the favourable revenue trend from, inter alia, operations in Italy, total Net revenue from acquired loan portfolios increased 10 per cent to SEK 2,649 million (2,411).

Fee and commission income totalled SEK 73 million (117). The change was mainly attributable to Poland, where a major service contract was terminated in early 2017.

Profit from shares and participations in joint ventures totalled SEK 76 million (86), where the lower contribution from Hoist Finance's Polish joint venture was offset by performance-based remuneration based on successful collections through Hoist Finance's Greek joint venture.

Total revenue increased to SEK 2,811 million (2,627) and Other income totalled SEK 13 million (14).

Operating expenses

Total operating expenses amounted to SEK –1,860 million (–1,692), and was impacted by SEK 36 million in restructuring costs related to the decision to coordinate Hoist Finance's operations in Germany, Belgium and the Netherlands to fewer offices. The aforementioned restructuring costs are allocated between personnel expenses (SEK 32 million) and other operating expenses (SEK 4 million). After adjustment for restructuring costs, personnel expenses rose 4 per cent.

Collection costs increased to SEK –672 million (–596), which was due to a large quantity of acquired claims and more extensive collection operations, primarily in Italy.

Other operating expenses increased to SEK –402 million (–371), mainly due to change initiatives related to regulatory changes and the expansion of operations in Spain.

In 2017, Hoist Finance increased the pace of investment with the aim of accelerating digitalisation and enhancing the efficiency of the Company's collection processes. This resulted in depreciation and amortisationof tangible and intangible assets rising to SEK –56 million (–53).

Financial expenses

Total financial items, comprising the net of interest income, interest expense and financial transactions excluding interest income from the run-off consumer loan portfolio, amounted to a total expense of SEK –370 million (–402).

To facilitate completed and anticipated acquisition volumes, Hoist Finance continued to build and maintain good liquidity during 2017 by increasing funding through the issuance of bonds and by establishing a deposit savings scheme in EUR in Germany. Low market interest rates resulted in continued negative interest income from the low-risk investments in the liquidity portfolio.

The net expense from financial transactions was SEK –50 million (–99). The outcome was impacted by an expense of SEK –58 million (–22) in conjunction with the restructuring of previous bond issues. Compared with last year, Hoist Finance was also impacted at the start of 2017 by the expanded application of hedge accounting, which entailed the majority of the result from currency changes being recognised in other comprehensive income.

Profit before tax and net income

Profit before tax increased to SEK 581 million (533) due to the Group's continued favourable performance. The reported tax expense totalled SEK –128 million (–116), corresponding to approximately 22 per cent of the Group's profit before tax. The tax expense for the year was negatively impacted by the change in the Income Tax Act that entered into force on 1 January 2017, whereby interest on subordinated debt that may be included in own funds is not deductible. This impact was offset by dividends from subsidiaries.

Total comprehensive income, including translation differences, totalled SEK 407 million (392).

Balance sheet

Assets

Total assets increased SEK 3,387 million year-on-year and totalled SEK 22,537 million (19,150). The change mainly comprised acquired loan portfolios, which increased SEK 2,380 million and were primarily attributable to acquisitions in Italy and the UK. Bonds and other securities increased SEK 1,150 million and lending to credit institutions increased SEK 620 million, while treasury bills and treasury bonds decreased SEK –784 million.

Liabilities

Total liabilities amounted to SEK 19,308 million (16,225). Deposits from the public increased SEK 1,378 million. Senior debt increased SEK 1,229 million due to the issuance of bonds. The net increase in subordinated debt was SEK 462 million as a result of the issue of EUR 80 million in Tier 2 capital and the repurchase of previous subordinated debt.

Cash flow

SEK million	2017	2016	Change %
Cash flow from operating activities	2,495	2,977	–16
Cash flow from investing activities	–5,439	–4,605	18
Cash flow from financing activities	2,751	1,032	>100
Cash flow for the year	**–193**	**–597**	**68**

Cash flow from operating activities totalled SEK 2,495 million (2,977). Due to larger portfolio volumes, cash flow from gross collections increased to SEK 4,877 million (4,311). Gross collections were also positively affected by the divestment of a Polish loan portfolio.

Cash flow from investing activities totalled SEK –5,439 million (–4,605), where the main part of the outflow pertained to acquired loan portfolios, SEK 4,253 million (3,329). Hoist Finance made a net investment in bonds and other interest-bearing securities in 2017 of SEK –1,150 million (–1,233). Investments in intangible assets increased year-on-year at SEK –71 million compared with SEK –36 million in 2016. The increase was mainly related to investments in the Group's IT environment, which are expected to be implemented in operations during 2018.

Cash flow from financing activities totalled SEK 2,751 million (1,032). The inflow from deposits from the public during the year amounted to SEK 1,407 million (–958), of which the newly started German deposits in EUR, converted into SEK, accounted for SEK 976 million. Inflows from financing activities were also positively impacted from the issuance of senior debt under the EMTN programme established in 2016, reduced by the repurchase of senior debt issued in previous years, and totalled SEK 1,073 million net. During the year, Hoist Finance issued EUR 80 million in new Tier 2 capital to refinance a similar outstanding subordinated bond, which was bought back as part of the transaction. The dividend decided by the AGM of SEK –105 million was distributed during the year.

Total cash flow for the year was an outflow of SEK –193 million, compared with an outflow of SEK –597 million in 2016.

Funding and capital structure

SEK million	2017	2016	Change, %
Cash and interest-bearing assets	6,861	5,877	17
Other assets[1]	15,676	13,273	18
Total assets	**22,537**	**19,150**	**18**
Deposits from the public	13,227	11,849	12
Senior debt	4,355	3,126	39
Subordinated debt	803	342	>100
Total interest-bearing liabilities	**18,386**	**15,317**	**20**
Other liabilities[1]	923	908	2
Equity	3,228	2,925	10
Total liabilities and equity	**22,537**	**19,150**	**18**
CET1 ratio, %	11.70	12.46	–0.8 pp
Total capital ratio, %	17.71	16.76	0.9 pp
Liquidity reserve	6,800	5,789	17

1) This item does not correspond to an item of the same designation in the balance sheet, but instead includes additional items.

Hoist Finance funds its operations through deposits in Sweden and in Germany as well as through the international bond markets. Deposits from the public totalled SEK 13,227 million (11,849) as at 31 December 2017. In Sweden, deposits from the public under the HoistSpar brand amounted to SEK 12,242 million (11,849), of which SEK 4,569 million (4,266) is attributable to fixed term deposits of 12, 24 and 36 months duration. In Germany, deposits in EUR for retail customers have been offered since September 2017 under the Hoist Finance name. At 31 December 2017, deposits from the public in Germany were SEK 985 million, of which SEK 78 million is attributable to fixed term deposits of 12 and 24 months duration.

At 31 December 2017, the outstanding bond debt totalled SEK 5,158 million (3,468), of which SEK 4,355 million (3,126) was senior debt. During the year, through Hoist Kredit AB (publ), Hoist Finance issued EUR 250 million in senior unsecured debt with a 4-year duration under the Company's EMTN programme. The bond carries a fixed annual coupon of 1.125 per cent and is listed on the Dublin Stock Exchange. In conjunction with the issue, EUR 100 million of previously issued senior bonds maturing in December 2019 were repurchased through a public offering. All repurchased bonds have been cancelled. During the year, through Hoist Kredit AB (publ), Hoist Finance also issued new Tier 2 capital to refinance a similar outstanding subordinated bond, which was repurchased as part of the transaction. A total of EUR 80 million in Tier 2 capital was issued under Hoist Finance's EMTN programme. The bond has a tenor of ten years with possibility for early redemption after five years and carries a fixed coupon rate of 3.875 per cent. The bond is listed on the Dublin Stock Exchange. In conjunction with the issue, previously issued subordinated bonds of SEK 350 million were repurchased through a public offering. All repurchased bonds have been cancelled. As a result of the successful transaction, Hoist Kredit AB's (publ) rating was upgraded to investment grade Baa3/Prime-3.

Equity totalled SEK 3,228 million (2,925). The increase was mainly attributable to profit for the year.

The total capital ratio improved to 17.71 per cent (16.76) and the CET1 ratio was 11.70 per cent (12.46). Hoist Finance is thus well capitalised for further expansion.

Hoist Finance's liquidity reserve, presented in accordance with the Swedish Bankers' Association's template, totalled SEK 6,800 million (5,789).

Basic earnings per share totalled SEK 5.10 (5.07). Accrued unpaid interest on AT1 capital is included in the calculation.

Acquired loans

SEK million	2017	2016	Change, %
Acquired loan portfolios	4,253	3,329	28
Carrying amount, acquired loan portfolios [1]	15,024	12,658	19

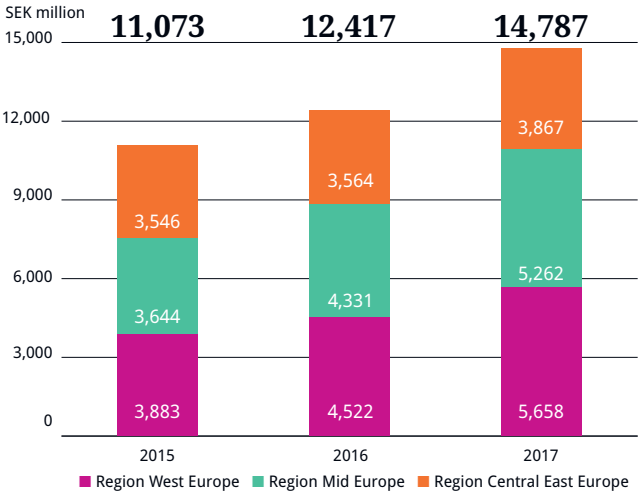
1) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.

In 2017, Hoist Finance's continued active acquisition of loan portfolios resulted in further geographic diversification in current markets. The total acquisition volume in 2017 was SEK 4,253 million (3,329). The carrying amount of acquired loan portfolios totalled SEK 15,024 million (12,658) as at 31 December 2017, a year-on-year increase of SEK 2,366 million.

Significant portfolio acquisitions were also conducted in Hoist Finance's current markets. The rate of acquisition activity was particularly high during the fourth quarter, with major acquisitions carried out in Italy, Spain and the UK.

To fund expansion during the year, Hoist Finance utilised contributions from the issuance of senior debt and Tier 2 capital during the year as well as cash flow generated by operations.

Geographic distribution of carrying amounts of acquired loan portfolios[1]



1) Excluding portfolios held in the Polish joint venture.

Segment overview

Hoist Finance has operated under a new organisational structure since 1 January 2016, broken down based on geographic presence. Operations in Europe are divided into three segments – Region West Europe, Region Mid Europe and Region Central East Europe – with each region responsible for acquisitions of loan portfolios and customer relationships with pan-European banks.

The table below shows the earnings trend for each operating segment, based on operating income statement exclusive of the segments' central functions and eliminations. See Note 1 for additional details.

Region West Europe

France, Spain and the UK

SEK million	2017	2016	Change, %
Gross collections on acquired loan portfolios	1,588	1,297	22
Portfolio amortisation and revaluation	–669	–488	37
Net revenue from acquired loan portfolios	**919**	**809**	**14**
Fee and commission income	54	66	–17
Other income	0	–	>100
Total revenue	**974**	**875**	**11**
Personnel expenses	–232	–232	0
Collection costs	–205	–246	–17
Other operating expenses	–113	–112	0
Depreciation and amortisation of tangible and intangible assets	–11	–12	–6
Total operating expenses	**–561**	**–602**	**–7**
EBIT	**413**	**273**	**51**
EBIT margin, %	42	31	11 pp
Return on book, %	8.2	6.5	1.7 pp
Expenses/gross collections on acquired loan portfolios, %	32	41	–9 pp
Carrying amount of acquired loan portfolios, SEK million	5,658	4,522	25

Revenue

Gross collections on acquired loan portfolios increased 22 per cent during the year to SEK 1,588 million (1,297). The increase in gross collections on acquired loan portfolios was due to portfolio acquisitions during the year, mainly in the UK and Spain. Portfolio amortisation and revaluation during the year amounted to SEK –669 million (–488), where the increase was attributable to the above portfolio growth. Portfolio revaluations amounted to SEK –21 million (–43) for the year and pertained to a number of portfolios in France and Spain that were collected later than expected and therefore adjusted for future collections. Fee and commission income, comprised of services to third parties, decreased to SEK 54 million (66), which was in line with Hoist Finance's strategy to focus on the acquisition and management of its own portfolios.

Operating expenses

Operating expenses decreased 7 per cent in 2017 to SEK –561 million (–602), which overall, is below the expected cost level related to portfolio growth in the region. The lower year-on-year increase in expenses was primarily due to 2016 being a relatively costly year in terms of collection costs, at the same time as the company noted certain efficiency gains in the region, related to digital transformation among other areas, during the year.

Profitability

EBIT

The region's EBIT totalled SEK 413 million (273), with a corresponding EBIT margin of 42 per cent (31). The improvement was due to increased revenue related to strong collection volumes in all markets and to the results generated by the collection activities implemented in the region in 2016. Moreover, EBIT increased across the region as a result of efficiency gains and the aforementioned, relatively speaking lower revaluations compared with the previous year.

Return on book

The region's return on book was 8.2 per cent (6.5), with a major share of the improvement attributable to EBIT for the year, which was due to improved margins in all markets in the region and lower negative year-on-year revaluations.

Acquisitions

In 2017, acquisitions amounted to SEK 1,793 million (1,462) and pertained mainly to acquisitions in the UK and Spain. The carrying amount of acquired loan portfolios totalled SEK 5,658 million (4,552) as at 31 December 2017.

Region Mid Europe

Belgium, Greece, Italy and the Netherlands

SEK million	2017	2016	Change, %
Gross collections on acquired loan portfolios	1,822	1,575	16
Portfolio amortisation and revaluation	–904	–763	18
Net revenue from acquired loan portfolios	**918**	**812**	**13**
Fee and commission income	5	5	–4
Profit from shares and participations in joint ventures	25	1	>100
Other income	2	2	17
Total revenue	**950**	**819**	**16**
Personnel expenses	–125	–111	13
Collection costs	–309	–221	40
Other operating expenses	–50	–54	–7
Depreciation and amortisation of tangible and intangible assets	–8	–7	8
Total operating expenses	**–492**	**–394**	**25**
EBIT	**458**	**425**	**8**
EBIT margin, %	48	52	–4 pp
Return on book, %	10.1	10.7	–0.6 pp
Expenses/gross collections on acquired loan portfolios, %	27	25	2 pp
Carrying amount of acquired loan portfolios, SEK million	5,262	4,331	21

Revenue

Gross collections on acquired loan portfolios increased 16 per cent in 2017 to SEK 1,822 million (1,575). Higher gross collections on acquired loan portfolios pertained primarily to Italy, where major portfolio acquisitions were completed over the last few years and in 2017. Portfolio amortisation and revaluation amounted to SEK –904 million (–763), where the increase was attributable to the above portfolio growth. During the year, portfolio revaluations totalled SEK 38 million (–7) and pertained mainly to a number of Italian portfolios, where future collection levels were adjusted up to reflect expectations of higher collections moving forward. Profit from shares and participations in joint ventures pertained to the operations in Greece, which recognised performance-based remuneration as a result of successful collections in 2016 and 2017.

Operating expenses

Operating expenses amounted to SEK –492 million (–394). The increase was mainly due to increased collection costs in Italy, where growth has been healthy, and to the adjustment of previous cost accruals. As the company has expanded into new asset classes, for example portfolios of SME claims, demands have risen for new skills, which resulted in increased personnel expenses during the year. At the end of the year, operating expenses were also impacted by restructuring costs in Belgium and the Netherlands, where the operations are to be centralised in Amsterdam to achieve increased cost efficiency.

Profitability

EBIT

The region's EBIT totalled SEK 458 million (425), with a corresponding EBIT margin of 48 per cent (52). The improvement is primarily attributable to strong growth in Italy.

Return on book

The region's return on book was 10.1 per cent (10.7). The decline was due to increased operating expenses and the large portfolio acquisitions completed in the fourth quarter, which have accordingly, not yet had time to have an effect on revenue.

Acquisitions

The carrying amount of acquired loan portfolios totalled SEK 5,262 million (4,331) as at 31 December 2017. The increase was mainly attributable to strong growth in Italy, where acquisitions amounted to SEK 1,582 million in 2017.

Other

The market in Greece displayed a positive trend, and Hoist Finance continues to strengthen its position with the intention of enabling future acquisitions of loan portfolios in 2018.

Region Central East Europe

Poland, Germany and Austria

SEK million	2017	2016	Change, %
Gross collections on acquired loan portfolios	1,467	1,440	2
Portfolio amortisation and revaluation	–660	–655	1
Interest income from run-off consumer loan portfolio	5	6	–22
Net revenue from acquired loan portfolios	**812**	**790**	**3**
Fee and commission income	14	46	–69
Other income	13	15	–12
Total revenue	**839**	**851**	**–1**
Personnel expenses	–208	–182	15
Collection costs	–158	–129	23
Other operating expenses	–65	–50	30
Depreciation and amortisation of tangible and intangible assets	–8	–7	3
Total operating expenses	**–439**	**–368**	**19**
EBIT	**400**	**483**	**–17**
EBIT margin, %	48	57	–9 pp
Return on book, %	11.2	13.6	–2.4 pp
Expenses/gross collections on acquired loan portfolios, %	28	21	7 pp
Carrying amount of acquired loan portfolios, SEK million[1)]	3,867	3,564	9

1) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.

Revenue

Gross collections on acquired loan portfolios increased 2 per cent to SEK 1,467 million (1,440). The increase was mainly due to earlier than expected collections on Polish portfolios and to the divestment of one portfolio for strategic reasons. Portfolio revaluations amounted to SEK –7 million (55) and pertained mainly to Poland, where the portfolios collected early were adjusted for future collections. Fee and commission income declined 69 per cent to SEK 14 million (46), where the decline was due to a service contract being terminated early in Poland.

Operating expenses

Operating expenses amounted to SEK –439 million (–368). The increase is largely attributable to increased collection costs in Poland, which related to a cost-intense year with collection activities being adapted to expected regulatory changes. The cost increase was also due to non-recurring restructuring costs in Germany. The restructuring pertained to the centralisation of operations to Duisburg with the aim of improving efficiency moving forward.

Profitability

EBIT

The region's EBIT totalled SEK 400 million (483), with a corresponding EBIT margin of 48 per cent (57). The decrease pertained mainly to the increased costs in conjunction with the restructuring in Germany and lower revenue in terms of fees and commissions.

Return on book

Return on book for the region decreased to 11.2 per cent (13.6), with the decrease due to the above costs in Germany and lower revenue from fees and commissions.

Acquisitions

Acquisitions amounted to SEK 771 million (596) and pertained to acquisitions in Germany and Poland. The acquisitions were mainly in the latter part of the year and accordingly, had no material impact on revenue. The carrying amount of acquired loan portfolios totalled SEK 3,867 million (3,564) as at 31 December 2017.

Other

Implementation of the new collection system in Germany is ongoing and will be completed in 2018.

Sustainability Report

Hoist Finance has prepared a Sustainability Report in accordance with the Annual Accounts Act. The Sustainability Report is included in the Annual Report on pages 6–8, 24–37 and 46–50. The auditor's assurance on the Sustainability Report can be found on page 134.

Other disclosures

Parent Company disclosures

The Parent Company serves as a holding and purchasing company for the operating subsidiary Hoist Kredit AB (publ) and its subgroup. Parent Company net profit totalled SEK 65 million (117). The Parent Company's net sales consist of intra-Group transactions. Both net sales and external expenses increased in line with the continued expansion of the Group's operations. The increase in invoicing of services was mainly due to higher costs for projects in the accounting area for adaptation to new, forthcoming regulatory frameworks and for meeting requirements in terms of new asset classes. Strategic investments were also made during the year in IT, including the completion and implementation of a cash pool and the upgrade of accounting systems in subsidiaries. These IT investments were the primary reason for the increase in other external expenses, together with costs linked to the merger between Hoist Kredit AB (publ) and Hoist Finance AB (publ).

The Parent Company received a group contribution of SEK 180 million (210) during 2017 and made a SEK –24 million (–36) provision to the tax allocation reserve; this also impacted the company's tax expense, which totalled SEK –19 million (–29).

The Parent Company's assets decreased in a net amount of SEK 56 million, mainly due to a SEK 38 million increase in non-current assets and a SEK 94 million decrease in current assets. The increase in non-current assets pertained mainly to increased investments in a new collection system as well as investments in savings deposits systems to manage EUR deposits. In 2017, Hoist Finance entered the German savings market to increase the Group's EUR funding. The decrease in current assets pertained to reduced receivables of SEK 41 million and a decrease in cash and bank balances of SEK 54 million.

Significant risks and uncertainties

The Group is governed by many regulations due to the status of subsidiary Hoist Kredit AB (publ) as a credit market company. Since new and amended regulations may have an impact on the Group, Hoist Finance carefully monitors regulatory developments. Hoist Finance is exposed to a number of uncertainties through its business operations and due to its broad geographic presence. New and amended bank and credit market company regulations may affect Hoist Finance directly, for example, through Basel IV capital and liquidity regulations, and indirectly through the impact of these regulations on the market supply of loan portfolios. Due to Hoist Finance's substantial deposits from the public, changes to the deposit guarantee scheme, for instance, may also impact the Group. In other areas such as consumer protection, new regulations may require the company to adjust the way in which it operates its collection activities. Hoist Finance's loan portfolios are valued based on anticipated future collection levels. Therefore, factors that affect the capacity to sustainably and cost efficiently achieve forecast collection levels are uncertainty factors.

In 2016, the UK held a national referendum on EU membership, with the results indicating that the UK will be withdrawing from the EU. This could affect Hoist Finance due to the company's extensive operations in the UK and gives rise to increased uncertainty, for example, in relation to free trade agreements and legal issues.

A report on Hoist Finance's risk management, including the most material risks is presented in the Risk management section on pages 44 and 45, and in Note 31, Risk management.

Development of risks

During the year, Hoist Finance posted improved financial results and risk levels developed in line with business volumes. However, the risk level in terms of liquidity risk has declined due to increased diversification of funding sources.

Credit risk from acquired loan portfolios is deemed to have increased proportionally with the acquisition volume. Hoist Finance reviewed its estimated cash flows and, where necessary, revalued its loan portfolios in 2017. The liquidity portfolio's credit risk remains low, as investments are made in government, municipal and covered bonds of high credit quality. However, credit risk in the liquidity portfolio increased slightly during the year due to a nominally larger portfolio.

Operational risk remained a prioritised area for the company's risk management and risk control during the year, and a number of initiatives were taken to improve procedures and processes within the Group. The Group works continuously to improve the quality of its internal processes in order to limit operational risks. Hoist Finance has limited these risks through project management, strict guidelines for incident reporting, risk identification and improved management of operational risks.

Market risks were low during the year, as Hoist Finance continuously hedges both interest rate risk and FX risk. Hoist Finance reduced interest rate risk during the year by increased hedging of its funding costs. This was achieved by issuing fixed interest bonds. FX risk was low during the year, as the company's open FX exposure is continuously hedged with currency derivatives and due to the launch of EUR savings deposits during the year.

Capitalisation for Hoist Finance was strengthened during the year. Own funds increased from SEK 2,814 million to SEK 3,487 million, and the CET1 ratio declined from 12.46 per cent to 11.70 per cent, which was in line with Hoist Finance's capital target. Hoist Finance is therefore better able to absorb unanticipated events without jeopardising its solvency, and the Group is well capitalised for continued growth.

Liquidity risk was low during the year, mainly due to the liquidity portfolio that was strengthened during the year. The portfolio comprises highly liquid instruments that are available to withstand disruptions to liquidity. Risk was also low due to the extension of funding tenors and by the launch of EUR deposits. Due to its strong liquidity position, Hoist Finance is well equipped for future acquisitions and growth.

Remuneration to senior executives

Information on the most recent guidelines for remuneration to senior executives is presented in Note 5. A new remuneration policy was adopted by the Board of Directors in April 2017. At the May 2018 AGM, the Board of Directors will propose that the AGM approve the following guidelines. The guidelines are essentially unchanged from previous years.

The complete proposed guidelines for senior executive remuneration of the Board of Directors of Hoist Finance AB (publ), reg. no. 556012-8489

The term "senior executives" shall in this context mean the CEO of Hoist Finance AB (publ) ("Hoist Finance") and the executives who are members of the executive management team, and Board Members, to the extent they receive remuneration for services performed outside of their Board duties.

Remuneration for senior executives is comprised of fixed base salary, variable remuneration, pension and other benefits. Remuneration is designed to encourage the senior executive to deliver results in line with the company's targets, strategy and vision and to act in accordance with the company's ethical code of conduct and basic principles. It is also designed to enable Hoist Finance to attract, retain and motivate employees who have the requisite skills. Remuneration is structure to encourage good performance, prudent behaviour and risk-taking aligned with customer and shareholder expectations. Salaries are age- and gender-neutral and anti-discriminatory. Hoist Finance views remuneration from a comprehensive perspective and, accordingly, takes all remuneration components into account. Remuneration is weighted in favour of fixed salary, which is based on the position's complexity and level of responsibility, prevailing market conditions and individual performance.

Variable remuneration for senior executives shall not exceed 50 per cent of the fixed salary. Variable remuneration is based on various financial and non-financial criteria, and is linked to the performance of the Hoist Finance group of companies (the "Group") respectively the relevant business unit and to individual targets.

Variable remuneration takes into account the risks involved in the company's operations and is proportional to the Group's earning capacity, capital requirements, profit/loss and financial position. The payment of variable remuneration must not undermine the Group's long-term interests and is contingent upon the recipient's compliance with internal rules and procedures, including the policy regulating conduct with respect to customers and investors. Variable remuneration is not paid to a senior executive who has participated in or been responsible for any action resulting in significant financial loss for the Group or the relevant business unit.

For senior executives, payment of 60 per cent of the variable remuneration is deferred for a period of at least three years. Variable remuneration, including deferred remuneration, is only paid to the extent warranted by the Group's financial situation and the performance of the Group and the relevant business unit, and the senior executive's achievements.

Pension and insurance are offered pursuant to national laws, regulations and market practices and are structured as collective agreements, company-specific plans or a combination of the two. Hoist Finance has defined-contribution pension plans and does not apply discretionary pension benefits. A few senior executives receive gross salary; in these instances, the company does not make

pension contributions. Other benefits are designed to be competitive in relation to similar operations in the respective country.

Remuneration for new hires ("sign-on bonuses") are only offered in exceptional cases and then only to compensate for the lack of variable remuneration in the senior executive's previous employment contract. Sign-on bonuses are paid during the year in which the senior executive begins to work. Decisions on exceptional cases are made in accordance with the decision-making process for variable remuneration.

Issuing loans to senior executives is not permitted.

Upon the Group's termination of an employment contract, the maximum notice period is twelve months and no redundancy payment is made.

Board Members, elected at General Meetings, in certain cases may receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services shall be paid at market terms and be approved by the Board. Remuneration may be payable up to SEK 50,000 for a Board Member's work in the board of a subsidiary.

The Board of Directors shall have the right to deviate from the guidelines decided at the Annual General Meeting if there are specific reasons in a particular case.

Report on the most important elements of the system for internal control and risk management for financial reporting

The Board's report on the most important elements of the system for internal control and risk management for financial reporting for the 2017 financial year is presented as a separate section in the Corporate Governance Report.

Subsequent events

Hoist Kredit AB (publ) and Hoist Finance completed a merger as of 2 January 2018. Through the merger, all of Hoist Kredit's assets and liabilities have been transferred to Hoist Finance at the same time as Hoist Kredit was liquidated. The previously announced simplification of the corporate structure has been completed and Hoist Finance transitions from a holding company into the operational Parent Company of the Group. The merger has no material financial effects for Hoist Finance. Just as Hoist Kredit, Hoist Finance is a credit market company under the supervision of the Swedish FSA.

Hoist Finance entered in March 2018 into a significant forward flow agreement in Italy. The total investment under the agreement is approximately 90 MEUR and spans over up to 18 months.

On 15 March 2018, Klaus-Anders Nysteen took over as the new CEO of Hoist Finance.

Hoist Finance entered in March 2018 into an agreement to acquire a UK mortgage portfolio. The portfolio consists of non-performing and performing secured loans on residential and commercial property. The commercial property loans are mainly to small enterprises.

Otherwise, no significant events affecting the business occurred after the end of the reporting period.

Outlook

With stricter capital adequacy requirements, inefficient NPL management and expanded requirements regarding provisions for credit losses, European banks will continue to have a great need to divest non-performing credit portfolios to generate return on invested capital. Return requirements cannot be achieved with large portfolios of non-performing loans on the balance sheet, which is the situation for many international banks. Market conditions are therefore deemed to remain favourable moving forward. With its strong financial position and geographic presence, Hoist Finance is well positioned to capitalise on market growth potential – in the years ahead.

The goal for 2018 is to maintain the growth strategy that has been the foundation of Hoist Finance's success to date – high efficiency, good cost control and a sustained high rate of acquisition. Moreover, Hoist Finance will also continue to actively evaluate opportunities to enter new geographic markets and new asset classes in Europe. Hoist Finance will also work to further strengthen its position to ensure that Hoist Finance is the leading partner of international banks and financial institutions in Europe.

Five-year overview

Consolidated income statement

SEK thousand	2017	2016	2015	2014	2013
Total operating income	2,365,411	2,140,164	1,807,826	1,290,775	1,062,563
of which net interest income	2,329,155	2,107,225	1,681,433	1,143,053	906,129
Total operating expenses	–1,860,403	–1,691,848	–1,572,236	–1,130,948	–948,938
Profit before tax	581,146	533,098	285,131	218,489	150,031
Net profit for the year	**452,760**	**417,149**	**230,522**	**180,103**	**116,916**

Consolidated balance sheet

SEK thousand	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
Cash and lending to credit institutions	1,681,660	1,064,359	858,797	1,293,051	3,926,883
Treasury bills and treasury bonds	1,490,152	2,273,903	3,077,827	2,316,110	–
Lending to the public	37,455	35,789	77,994	157,232	328,951
Acquired loan portfolios	14,765,989	12,385,547	11,014,699	8,586,782	5,997,935
Bonds and other securities	3,689,021	2,538,566	1,303,214	1,951,241	1,297,677
Shares and participations in joint ventures	237,586	241,276	205,557	215,347	192,230
Fixed assets	329,432	284,156	277,255	203,048	99,062
Other assets	305,269	326,330	636,134	339,018	194,493
Total assets	**22,536,564**	**19,149,926**	**17,451,477**	**15,061,829**	**12,037,231**
Deposits from the public	13,227,450	11,848,956	12,791,377	10,987,289	9,701,502
Other liabilities and provisions	6,080,809	4,375,673	2,371,340	2,677,350	1,520,287
Shareholder's equity	3,228,305	2,925,297	2,288,760	1,397,190	815,442
Total liabilities and equity	**22,536,564**	**19,149,926**	**17,451,477**	**15,061,829**	**12,037,231**

Key ratios, Group

SEK million	2017	2016	2015	2014	2013
Gross collections on acquired loan portfolios	4,877	4,311	3,631	2,541	1,641
Total revenues	2,811	2,627	2,247	1,661	1,275
EBIT	951	935	675	530	326
EBIT margin, %	34	36	30	32	26
EBITDA, adjusted	3,251	2,921	2,408	1,794	1,144
Return on book, %	9.9	10.6	10.1	10.2	10.3
Acquired loan portfolios	4,253	3,329	4,370	3,227	3,266
Carrying amount, acquired loan portfolios[1)]	15,024	12,658	11,279	8,921	6,400
Return on equity, %[2)]	15	17	11	16	16
Return on assets, %	2.2	2.3	1.4	1.3	1.2
Total capital ratio, %	17.71	16.76	15.21	12.17	11.62
CET1 ratio, %	11.70	12.46	12.32	9.35	5.69
Number of employees (FTEs)[3)]	1,335	1,285	1,349	1,077	881

1) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.
2) In conjunction with the December 2016 issue of Additional Tier 1 capital, the definition of return on equity was changed to exclude accrued, unpaid interest on AT1 capital and the carrying amount of AT1 capital in equity.

Corporate Governance Report

Good corporate governance aims to create favourable conditions for shareholder involvement. This is done through well-defined and well-balanced assignment of responsibilities between the company's executive and shareholder functions. This ensures that accurate information is being presented to the market.

The aim of corporate governance is to ensure that the company is run as efficiently and effectively as possible in the interest of its shareholders, and that Hoist Finance complies with corporate governance and other rules prescribed by regulatory and supervisory authorities. Corporate governance also aims to create order and a systematic approach for the Board and management. With a clear structure and well-defined rules and procedures, the Board can ensure that management and employees are focused on developing the business and, accordingly, on creating shareholder value.

Hoist Finance is a Swedish public limited liability company with corporate identification number 556012-8489. The company has its registered office and headquarters in Stockholm, Sweden.

Application of Swedish Corporate Governance Code

All companies with shares listed on Nasdaq Stockholm or NGM Equity, regardless of market capitalisation, have been required since 1 July 2008 to apply the Swedish Corporate Governance Code. The Code is based on the "comply or explain" principle, meaning that a company's deviation from the Code's provisions is not deemed a breach thereof if the company explains its reason for doing so. Hoist Finance currently complies with all Code provisions. Hoist Finance complies with and in 2017 complied with all Code provisions. It should be noted that, under the Code's provisions, no more than one AGM-elected Board member may be employed as a member of the management team of the company or any of the company's subsidiaries. Two AGM-elected Board members were Hoist Finance Group employees in 2017: Jörgen Olsson and Costas Thoupos. Jörgen Olsson is CEO of the company and a member of the Executive Management Team. Costas Thoupos has an operational role and chairs the company's Management Investment Committee (which is otherwise comprised of people with operational roles). For 2017, the company is therefore in compliance with the Code provision stipulating that only one Board member may be a member of the Executive Management Team. The Corporate Governance Report is part of the company's Administration Report and is reviewed by the company's auditors.

Corporate governance within Hoist Finance

Hoist Finance is subject to external and internal control systems.

The external control systems, which serve as the framework for Hoist Finance's corporate governance, are the Swedish Companies Act, Annual Accounts Act, Banking and Financing Business Act, the Swedish Financial Supervisory Authority's regulations and general guidelines, Nasdaq Stockholm's Rule Book for Issuers, other relevant laws and regulations, and the Swedish Corporate Governance Code. Governance, management and control are allocated between the shareholders at the Annual General Meeting (AGM), the Board and the CEO pursuant to Swedish corporate law, the Swedish Corporate Governance Code and the Articles of Association.

The internal control systems include the Hoist Finance Articles of Association adopted by the AGM. The Board has also adopted policies and instructions that clarify the division of responsibilities within the Group.

The following are of particular importance in this context:

- Rules of procedure for the Board;
- Instructions for the CEO;
- Policy for internal governance and control;
- Remuneration policy;
- Instruction for the Risk and Audit Committee;
- Instructions for the Remuneration Committee;
- Instructions for the Investment Committee.

Articles of Association

The Articles of Association are adopted by the general meeting of shareholders and contain basic compulsory information about the company.

The Articles of Association specify the type of business activities the company will operate, limits on share capital and the number of shares, and the number of Board members allowed. The Articles of Association include no special provisions for amendments thereto or for the appointment or dismissal of Board members. The Articles of Association are available in their entirety at www.hoistfinance.com.

Governance structure

Shareholders

As at 31 December 2017, the total number of shares was 81,184,546 and the share capital was SEK 27,061,515.33. Each share carries one vote. The company had 3,248 shareholders at year-end. The fifteen largest shareholders held an aggregate of 65.2 per cent of total share capital at the end of 2017. Read more about the company's largest shareholders at www.hoistfinance.com.

Annual General Meeting

The Annual General Meeting (AGM) is the Hoist Finance Group's highest decision-making body. All shareholders have an opportunity at the AGM to influence the company by exercising their voting rights. The Companies Act and Hoist Finance's Articles of Association include rules that govern general meetings and its agenda.

Hoist Finance's financial year runs from 1 January to 31 December. Pursuant to the Companies Act, notice must be given no more than six weeks and no fewer than four weeks prior to the AGM. The AGM resolves on adoption of the year's balance sheet and income statement, appropriation of profits, election of Board members and auditors, fees to Board members and auditors, and other items of business as prescribed by the Companies Act and the Articles of Association. All shareholders listed in the shareholders' register on the day prior to the AGM who have provided timely notification of their participation are entitled to participate at the AGM, either in person or by proxy, and vote in relation to their holdings.

Every shareholder is entitled to request that a matter be addressed by the AGM. A shareholder who wishes to do so must submit a written request to the Board no later than one week before the earliest date on which notice of the meeting may be published (i.e., the request must be received no later than seven

weeks prior to the AGM). Pursuant to Chapter 7, Section 32 of the Companies Act, all shareholders are entitled to ask the Board and CEO questions about matters addressed during the AGM and about the financial situation of the company and the Group.

2017 Annual General Meeting

The most recent AGM was held on 28 April 2017 in Stockholm. 91 shareholders, representing 46.5 per cent of the shares and votes in the company, were present at the AGM. The CEO, the majority of Board members, the company's auditor, the Chairman of the Nomination Committee and the CFO also participated in the AGM.

In accordance with recommendations from the Board and the Nomination Committee, the AGM resolved, among other things:

- To adopt the balance sheet and income statements;
- To distribute a dividend of SEK 1.30 per share;
- To discharge Board members and the CEO from liability;
- To re-elect Board members Ingrid Bonde, Liselotte Hjorth, Jörgen Olsson, Costas Thoupos and Gunilla Öhman. Cecilia Daun Wennborg, Malin Eriksson and Joakim Rubin were elected new Board members. The AGM re-elected Ingrid Bonde as Chairman of the Board. Former Board members Annika Poutiainen and Magnus Uggla resigned from the Board at the AGM
- On fees for the Chairman of the Board and other Board members;
- To re-elect KPMG, represented by Anders Bäckström, as auditor for the period until the close of the next AGM and to pay auditor's fees based on approved invoice;
- On instructions for the Nomination Committee;
- To adopt guidelines for remuneration of senior executives;
- To authorise the Board to issue shares;
- To amend the Hoist Finance Articles of Association.

The complete minutes of the 2017 AGM are available at www.hoistfinance.com.

2018 Annual General Meeting

The 2018 AGM will be held at GT30, Grev Turegatan 30 in Stockholm, on Wednesday, 16 May 2018, at 3:00 p.m.

Nomination Committee

The Nomination Committee is comprised of representatives of the three largest shareholders, as recorded in the shareholders' register as at the final banking day in August of each year, and the Chairman of the Board. The Chairman is also responsible for convening the Committee's first meeting. If a shareholder who is offered to serve on the Nomination Committee declines, the inquiry shall instead be offered to the largest shareholder in line. The Committee's composition will be changed to reflect any changes to shareholder structure.

The Nomination Committee submits proposals for the election of the AGM Chairman, members of the Board of and Chairman of the Board, fees to Board members and proposals for the election of and fees to auditors. The Committee conducts its work in the interest of all shareholders. Instructions for the Nomination Committee and options for submitting proposals to the Committee are available on the company's website, www.hoistfinance.com.

The Nomination Committee is comprised of the following members: Ingrid Bonde (Board Chairman of Hoist Finance), Jan Andersson (representing Swedbank Robur Fonder AB), Per Josefsson (representing Carve Capital AB) and Rickard Wilson (representing Zeres Capital). The Committee held three minuted meetings ahead of the 2018 AGM and maintained regular contact between meetings. The Committee also held individual interviews with current and proposed Board members.

The Nomination Committee's proposals, report on Committee work performed in preparation for the 2018 AGM, and information on proposed Board members and auditors are published in conjunction with the AGM notice.

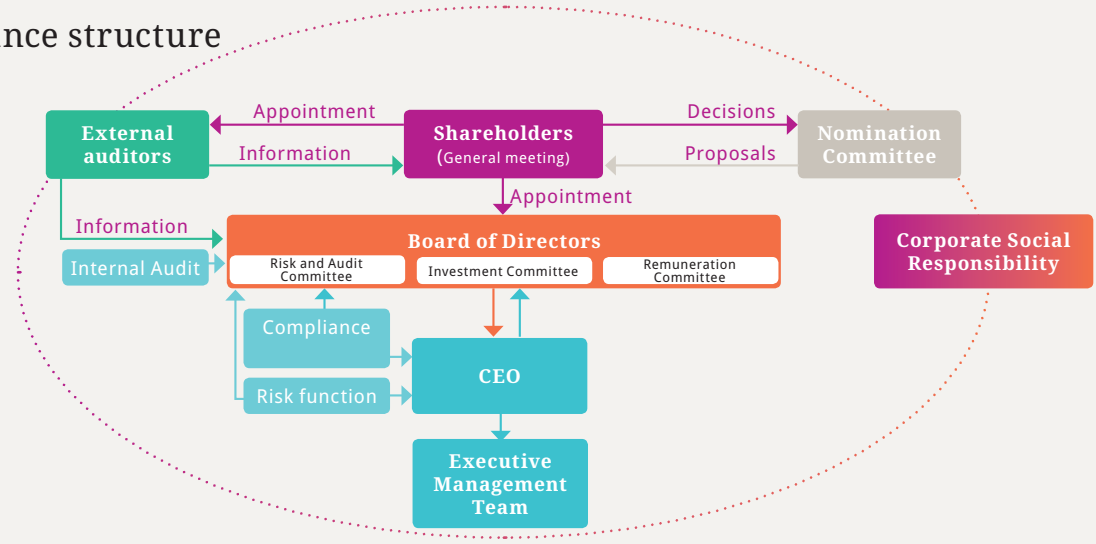
Board of Directors

Pursuant to the Articles of Association, Hoist Finance's Board shall be comprised of at least three and no more than nine members. Members of the Board are appointed by the AGM for a one-year term. In accordance with the resolution of the 2017 AGM, the Board is comprised of Ingrid Bonde (Chairman), Cecilia Daun Wennborg, Malin Eriksson, Liselotte Hjorth, Jörgen Olsson, Joakim Rubin, Costas Thoupos and Gunilla Öhman. Former Board members Annika Poutiainen and Magnus Uggla resigned from the Board at the AGM.

At the end of the financial year, the Board had five female and three male members. Two of the eight Board members – Jörgen Olsson and Costas Thoupos – were employed by the Group in 2017. Jörgen Olsson is CEO of the company and a member of the Executive Management Team. Costas Thoupos has an operational role and chairs the company's Management Investment Committee (which is otherwise comprised of people with operational roles). All Board members, with the exception of these two, were independent in relation to the company's major shareholders (as defined in item 4.4 of the Swedish Corporate Governance Code), the company and the Executive Management Team in 2017. For further information on the Board members, see the section on the company's Board of Directors and Executive Management team and the company's website, www.hoistfinance.com.

See Note 5 for details on the remuneration of the Board of Directors.

Governance structure



Diversity policy

The company's Board as a whole is to have collective expertise, experience and background in the company's business operations and the capacity to identify and understand the risks such operations entail. The objective is to have a Board comprised of members of varying ages, genders, geographic origins, and educational and professional backgrounds that, taken together, is conducive to independent and critical reflection. The company's Board has adopted a Diversity Policy applicable to the Board. To achieve a diverse Board, in preparing its proposal to the AGM, the Nomination Committee takes into consideration item 4.1 of the Swedish Corporate Governance Code, the Board's Diversity Policy and the European Banking Authority's guidelines on eligibility assessments for Board members. The company continuously evaluates the composition of the Board and believes that its composition was satisfactory in 2017.

Work of the Board

The primary task of the Board is to serve the interests of the shareholders and the company. The Board is responsible for the company's organisation and management of the company's affairs, and for ensuring that the Group is suitably structured to enable the company to optimally exercise its ownership responsibilities with respect to Group subsidiaries. The Board is responsible for ensuring that the company complies with applicable laws and regulations, the Articles of Association and the Swedish Corporate Governance Code. The Board is obliged to regularly assess the company and Group's financial situation and ensure that the company's organisation is structured to enable satisfactory monitoring of its accounting, management of assets, and general financial situation.

The Board adopts financial targets for the company, decides on the company's strategy and business plans and ensures good internal control and risk management.

The Board's duties and working methods are regulated by the Companies Act, the Articles of Association and the Swedish Corporate Governance Code. The Banking and Financing Business Act also regulates the duties and work of the Board.

The Board has adopted written rules of procedure and instructions on internal reporting for the Board that deal with:

1. The Board's duties and responsibility
2. Members of the Board;
3. Chairman of the Board;
4. Board meetings; and
5. Board Committees.

Board meetings in 2017

A total of 14 minuted Board meetings were held in 2017: seven ordinary meetings, one statutory meeting and six extraordinary meetings. All Board members attended these meetings, with exception of the Board meetings held on 26 April 2017 and 28 April 2017 in which Costas Thoupos did not participate. The CFO and the Board's secretary participated in Board meetings. Hoist Finance employees also participated in Board meetings to reports on specific issues.

The Board's work follows an annual plan. This may be adjusted, however, depending on the year's events and projects. Ordinary Board meetings are held in conjunction with the company's reporting: the annual accounts and proposed divided were addressed in February, the Annual Report and issued related to the AGM in March, the interim accounts in April, July and October, strategy in June, and the budget and business plan for the coming year in December. As a rule, governance documentation and instructions are adopted at the statutory Board meeting and at ordinary meetings the Board receives regular reports from its Committee and control functions.

The matters addressed by the Board in 2017 included the following: the recruitment of Klaus-Anders Nysteen as the new Managing Director and CEO, changes to the legal structure, sustainability, safety and remuneration issues, and the issue of new debt instruments. The Board also held a meeting with the external auditors without the Executive Management Team in attendance.

Training for the Board

The Board received training in varying subjects during 2017, for example, risk management, regulatory compliance, insider rules, requirements concerning the disclosure of information concerning the operations (Pillar 3), new and changed rules, and particular focus on the company's operations and investment process.

Board Committees

Risk and Audit Committee

The Risk and Audit Committee serves in an advisory capacity and prepares issues for consideration and decision by Hoist Finance's Board. The Risk and Audit Committee also had a mandate to make decisions in matters regarding the procurement of non-audit-related services from external auditors. The Committee is responsible for motioning and ensuring the quality of financial reporting and the effectiveness of the company's internal control and tasks performed by the Internal Audit, Risk Control and Compliance func-

Work of the Board in 2017

February
- Year-end report, including proposed dividend
- Committees, update
- Report from external audit, Internal Audit, Risk and Compliance
- Security work, update
- Meeting with external auditor
- Evaluation of Executive Management Team
- Remuneration issues
- Business-related issues

April
- Quarterly report
- General discussion of risk
- ICAAP
- ILAAP
- Committees, update
- Report from Internal Audit, Risk and Compliance, and complaints manager
- Approval of merger plan
- Business-related issues
- AGM
- Statutory meeting
- Annual review of policies and instructions
- Dates for upcoming ordinary Board meetings, AGM and reporting dates

July
- Quarterly report
- Strategy, update
- Committees, update
- Report from external audit, and Risk and Compliance
- Annual plan for external audit
- Business-related issues

September
- Strategy, update
- Issue of debt instruments
- Business-related issues

December
- Budget/business plan
- Committees, update
- Annual Board evaluation
- Report from Internal Audit, Risk and Compliance, and complaints manager
- Board training plan
- Business-related issues

January
- Business-related issues

March
- Annual Report 2016
- Notice and proposals for AGM
- Committees, update
- Nomination Committee, update
- Sustainability issues
- Remuneration issues
- Pillar 3 report
- Issue of debt instruments
- IT-related work, update
- Business-related issues

May
- Business-related issues

June
- Strategy
- Business-related issues
- Preparations for departure of Managing Director and CEO

August
- Business-related issues

October
- Quarterly report
- Committees, update
- Report from External Audit, Internal Audit, Risk and Compliance, and complaints manager
- Annual plan for Internal Audit, and Risk and Compliance
- Nomination Committee, update
- Business-related issues
- Legal structure-related issues
- Klaus-Anders Nysteen appointed new Managing Director and CEO

tions. The Committee also discusses valuation issues and other assessments pertaining to the annual accounts. In matters relating to the external audit, the Risk and Audit Committee is, notwithstanding the Board's other responsibilities and duties, to regularly meet with and reviews reports from the company's external auditors in order to remain informed about the focus and scope of the audit and to discuss the coordination of the external and internal audit with the external auditor. The Risk and Audit Committee is to inform the Board about audit results, the manner in which the audit contributed to the reliability of financial reporting, and the role played by the Committee in the process. The Committee is to also remain informed about Swedish Inspectorate of Auditors' quality control of the company's external auditors and is responsible for the auditors' independence and impartiality and the selection procedure for auditor recommendation. The Committee is required to meet at least four times per financial year.

The Risk and Audit Committee has at least three members appointed by the Board on an annual basis. Committee members may not be employed by the company. One member is elected Committee Chairman. The Chairman may not be the Board Chairman of Hoist Finance. Since the 2017 AGM, the Risk and Audit Committee members have been Cecilia Daun Wennborg (Chairman), Ingrid Bonde and Gunilla Öhman. Annika Poutiainen was Chairman of the Committee until 28 April 2017. The company's employees and the external auditors may be summoned to Committee meetings to provide details on specific reports or issues. Committee meeting minutes are recorded and available to all Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed and proposed at Committee meetings. The Committee held seven meetings in 2017, with all members in attendance at these meetings.

Remuneration Committee

The Remuneration Committee's primary task is to prepare the Board to make decisions on remuneration policies, remuneration and other terms of employment for Executive Management Team members and control function employees. The Committee is to monitor and evaluate ongoing variable remuneration programmes for the Executive Management Team and those completed during the year, as well as the application of the remuneration guidelines for senior executives resolved on by the AGM and the Group's remuneration structure and remuneration levels.

The Remuneration Committee is to have at least two members appointed by the Board on an annual basis. All members must be independent in relation to the company, the company's management and the company's major shareholders. The Remuneration Committee meets at least twice per financial year. Since 28 April 2017, the Board's Remuneration Committee members have been Ingrid Bonde (Chairman) and Gunilla Öhman. Company employees may be summoned to Committee meetings to provide details on specific reports or issues. Remuneration Committee meeting minutes are recorded and available to Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed and proposed at Committee meetings. The Committee held seven meetings in 2017, with all members in attendance at these meetings.

Investment Committee

The Investment Committee is a preparatory and decision-making committee. Its responsibilities include evaluating and approving standard portfolio acquisitions valued at EUR 50 million or more, portfolio acquisitions not considered to be standard valued at EUR 15 million or more, and investments that require approval of the Swedish Financial Supervisory Authority. The Investment Committee is to have at least three members appointed by the Board on an annual basis. The Chairman must be independent in relation to the company and the company's management, and may not be the Board Chairman of Hoist Finance. The Committee meets at least four times per financial year and whenever a Committee decision or recommendation is required as per the company's Investment Policy. Since 28 April 2017, the Board's Investment Committee has been comprised of Liselotte Hjorth (Chairman), Malin Eriksson, Jörgen Olsson, Joakim Rubin and Costas Thoupos. Magnus Uggla was a member of the Committee until 28 April 2017. Company employees may be summoned to Committee meetings to provide details on investment data. Committee meeting minutes are recorded and available to all Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed, proposed and decided on at Committee meetings. The Committee held 10 meetings in 2017, with all members in attendance at these meetings with the exception of the meeting on 7 February, when Jörgen Olsson and Magnus Uggla were not in attendance, the meeting on 2 April, when Jörgen Olsson and Costas Thoupos were not in attendance, and the meetings of 15 May and 9 June, when Jörgen Olsson was not in attendance.

With respect to standard investments valued at less than EUR 50 million or non-standard investments valued at less than EUR 15 million, provided such investments do not require the Swedish Financial Supervisory Authority's approval, the Investment Committee may delegate decision-making authority to the Management Investment Committee comprised of employed executives.

Chairman of the Board

Ingrid Bonde was re-elected Chairman of the Board of Hoist Finance by the AGM held on 28 April 2017. Ingrid Bonde has served in this capacity since 16 November 2014.

The Chairman of the Board supervises the Board's work and fulfilment of its duties, and has specific responsibility for ensuring that the Board's work is well-organised, efficiently run and aligned with operational developments. The Chairman of the Board verifies that Board decisions are effectively executed, and ensures that the Board's work is evaluated annually and that the Nomination Committee is informed of the evaluation results. The purpose of the evaluation is to gain an understanding of the Board members' views on the Board's performance and the measures that can be taken to make the Board's work more efficient.

The Chairman's particular duties are to:

- in consultation with the CEO, decide the matters to be considered by the Board, prepare meeting agendas and issue meeting notices when needed;
- organise and lead the Board's work, while overseeing that the Board addresses the matters that rest with the Board pursuant to law, the Articles of Association and the Swedish Corporate Governance Code;
- serve as the Board's spokesperson towards Hoist Finance's shareholders; and
- ensure that the CEO provides sufficient information for Board decisions and oversee that Board decisions are executed.

Board evaluation

In accordance with the Board's rules of procedure, the Chairman of the Board initiates an evaluation of the Board's performance once per year. For the 2017 evaluation, all Board members were able to give their views on issues including working methods, Board material, work performed by the Board and management during the year, and Board and management structure through interviews with the Chairman. The purpose of the evaluation is to gain an understanding of the Board members' views on the Board's performance and the measures that can be taken to make the Board's work more efficient. The purpose is also to gain an understanding of the type of issues the Board believes should be given more scope and areas that may require additional Board expertise. The results of the evaluation were reported and discussed at the Board meeting held on 15 December 2017 and were provided to the Nomination Committee.

CEO and Executive Management Team

The CEO is appointed by the Board and runs the business in accordance with instructions adopted by the Board. The CEO is responsible for the company and Group's day-to-day administration pursuant to the Companies Act. The CEO also works with the Chairman of the Board to decide on matters that will be addressed at each Board meeting. The Board adopts instructions for the CEO each year and evaluates the CEO's duties on a regular basis.

Jörgen Olsson was CEO of Hoist Finance from 2012 until 14 March 2018. Klaus-Anders Nysteen will become the new CEO of Hoist Finance on 15 March 2018. For additional information on the CEO and the CEO's shareholdings, see the section on the company's Board and Executive Management Team and the company's website www.hoistfinance.com.

Hoist Finance's CEO heads the Executive Management Team, which meets regularly and under the forms set by the CEO. Alongside the CEO, the Executive Management Team comprises members appointed by the CEO. The Executive Management Team's role is to prepare and implement strategies, manage corporate governance and organisational issues and monitor the company's financial performance.

The CEO is responsible for ensuring that Board members receive essential information and decision data and for presenting reports and proposals at Board meetings on issues dealt with by the company. The CEO keeps the Board and Chairman updated on the company and Group's financial position and performance. The CEO's work is evaluated by the Board on a continuous basis.

The CEO's main duties include:

- assuming responsibility for the financial reporting by ensuring that the company's financial reporting is carried out in accordance with applicable law and that assets are managed prudently;
- serving as Chief Executive Office, which involves managing and coordinating Group companies in accordance with the Board's guidelines and instructions; and
- ensuring that Board resolutions are executed and keeping the Board updated on the performance of the company and Group's operations, earnings and financial position.

Executive Management Team

Pontus Sardal has been CFO and Deputy CEO of Hoist Finance since 2011 and 2014, respectively. Pontus Sardal will step down as CFO and Deputy CEO in June 2018 at the latest. For information on the CEO, CFO and other members of the Executive Management Team, see the section on the company's Board and Executive Management Team and the company's website www.hoistfinance.com

See Note 5 for details on the remuneration of the CEO and Executive Management Team.

Sustainability guidelines

The company's CSR policy is applied throughout the Group, and Group-wide and local goals and measures are incorporated into day-to-day operations. The CSR governance structure is composed of a framework for internal governance and control that includes a functional organisational structure with clear division of responsibilities between management, operations and quality control functions, as well as principles, policies and processes. The Executive Management Team is responsible for the CSR strategy and, while the Group Head of HR has overall responsibility for implementation of the strategy, day-to-day responsibility for achievement of individual targets rests with each regional manager.

Ethical guidelines

The company's ethical guidelines, comprised of an umbrella document and several ancillary documents, are designed to be applied by both employees and partners. The umbrella document specifies fundamental values and principles and provides information on some of the ancillary documents. All employees receive regular training on ethical issues, and training statistics are monitored on a monthly basis to ensure that all employees receive regular training on ethical issues.

Policies

Hoist Finance has well-established policies in place for governing and managing various risk areas, such as conflicts of interest, inside information, bribes, money laundering and outsourcing agreements. Specific policies are also in place for the management of acquired loan portfolio customers. Policy documents and training are customised for the company's various functions to achieve the highest possible levels of compliance. To further support policy application and relevance, each policy is assigned to a "document owner" – often the person responsible for the policy's specific area.

Anti-money laundering measures

The company's measures to prevent money laundering and terrorist financing are integrated into core operational processes, and include risk analyses, policies, customer due diligence procedures, monitoring procedures, employee training and transaction monitoring. The company also has well-established procedures for reporting suspecting money laundering to the competent authorities.

Auditors

The 2017 AGM re-elected registered public accounting firm KPMG AB as the company's auditor for the period until the close of the next AGM. Authorised Public Accountant Anders Bäckström is Auditor in Charge.

Financial reporting

The Board is responsible for ensuring that the company's organisation is structured in a way that enables its financial situation to be satisfactorily monitored, and that financial statements, such as interim reports and annual accounts, are prepared in accordance with applicable law, accounting standards and other requirements. Interim reports are initially handled by the Risk and Audit Committee and are then issued by the Board as a whole. The Board and Risk and Audit Committee address not only the Group's financial statements and material accounting issues, but also issues concerning internal control, compliance, significant uncertainty in carrying amounts, events after the balance-sheet date, changes in estimates and assessments, and other conditions affecting the quality of the financial statements. The CEO is responsible for ensuring that the company's accounting is prepared in compliance with applicable law and that assets are managed prudently. The company and Group prepare accounts each month. The Board and the Executive Management Team continuously receive information on the company's and Group's financial situation. The Board ensures the quality of financial reporting through its Risk and Audit Committee.

To safeguard financial reporting within the Group, monthly reports are issued directly to a joint inter-Group accounting system that includes quality controls. Detailed analyses and reconciliations are performed in connection with the periodic reporting. The consolidation process also includes a number of specific reconciliation controls. Hoist Finance has developed internal accounting and reporting guidelines, the "Hoist Finance Financial Framework."

Internal reports

The Board monitors the Group's financial performance, ensures the quality of financial reporting and internal control, and follows up and evaluates the operations on a regular basis. Internal reports, such as consolidated financial statements are regularly prepared and submitted to the Board. An income statement, balance sheet and investment budget are prepared for each financial year and are adopted at the ordinary Board meeting held in December.

Guidelines for remuneration of senior executives, etc.

Guidelines for remuneration of senior executives were adopted by the AGM on 28 April 2017. Remuneration of senior executives is comprised of fixed salary, variable remuneration, pension and other benefits. Remuneration is designed to encourage senior executives to deliver results in line with the company's targets, strategy and vision and to act in accordance with the company's ethical code of conduct and core values.

Variable remuneration for senior executives may not exceed 50 per cent of the fixed salary. Variable remuneration is based on various financial criteria determined by the Board of Directors, non-financial criteria and linked to the performance of the Hoist Finance Group and the respective business unit as well as to individual targets.

Variable remuneration takes into account the risks involved in the company's operations and is proportional to the Group's earning capacity, capital requirements, earnings and financial position. The payment of variable remuneration must not undermine the Group's long-term interests. The payment of variable remuneration is contingent on the senior executive having acted in compliance with internal rules and procedures, including policies regulating behaviour toward customers and investors. Variable remuneration is not paid to a senior executive who has participated in or been responsible for any action resulting in significant financial loss for the Group or the relevant business unit.

For senior executives, payment of 60 per cent of the variable remuneration is deferred for a period of at least three years. Variable remuneration, including deferred remuneration, is only paid to the extent warranted by the Group's financial situation and the performance of the Group and the relevant business unit, and the senior executive's achievements.

Pension and insurance are offered under national laws, regulations and market practices in the form of either collective or company-specific plans, or a combination of the two. Hoist Finance has defined-contribution pension plans and does not apply discretionary pension benefits. Remuneration guidelines are presented in their entirety in Note 5. The Board's proposed new guidelines for 2018 are presented in the Administration Report. Information on salaries and other remuneration of senior executives is presented in Note 5.

Internal control over financial reporting

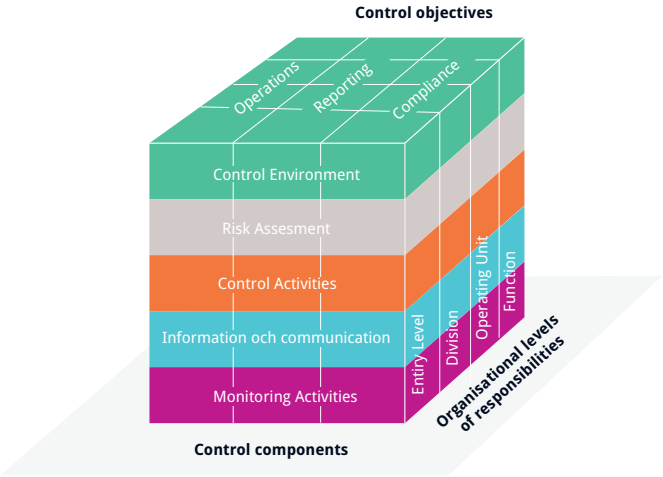
Internal governance and control

The internal governance and control process is governed by law and regulations and supervised by the Board. In Sweden, where the company has its registered office, internal governance and control are regulated primarily by the Companies Act, Banking and Financing Business Act, the Swedish Financial Supervisory Authority's regulations and guidelines, the Corporate Governance Code and stock exchange regulations.

Hoist Finance has an internal governance and control framework aimed at creating the environment necessary to enable the entire organisation to promote effective, high quality corporate governance by providing clear definitions, assignments of roles and responsibilities and Group-wide tools and procedures.

Hoist Finance applies the COSO-model for internal control over financial reporting.

COSO focuses on developing a framework that can be directly used by a company's management team to evaluate and improve risk management in three interrelated areas: enterprise risk management (ERM), internal control, and fraud deterrence.



Roles and responsibilities

The Board is ultimately responsible for limiting and overseeing Hoist Finance's risk exposure. The Board and the Risk and Audit Committee are responsible for establishing the main rules and guidelines for internal control.

The Risk and Audit Committee assists the Board by continuously monitoring the risks that may affect financial reporting and by producing manuals, policies and accounting policies. The Risk and Audit Committee interacts directly with the external auditors.

The CEO is responsible for the effective design and implementation of internal control within the Group. The CFO is responsible for the design, implementation and correct application of the internal control framework at the central level. Local management is responsible for design, implementation and correct application at the local level.

Hoist Finance roles and responsibilities with respect to internal control and risk management are structured in three lines of defence.

The **first line of defence**, comprised of the Board, CEO and business organisation, is responsible for conducting operations in accordance with the adopted risk exposure and internal control framework and pursuant to rules and regulations applicable to Hoist Finance.

The first line of defence has a well-functioning governance structure and effective processes to identify, measure, assess, monitor, minimise and report risks.

The **second line of defence** is comprised of the Risk Control function and the Compliance function, independent units that are not involved in business operations and that report independently of each other to the Board and the CEO.

The **third line of defence** is the Internal Audit function that conducts independent audits and reviews and provides the Board with evaluations of Hoist Finance's internal control and risk management processes.

The three lines of defence jointly form the internal control framework, which is designed to develop and maintain systems that ensure:

- Effective and efficient business operations;
- Satisfactory risk control;
- Business management;
- Reliable reporting of financial and non-financial information (internally and externally); and
- Compliance with laws, regulations, supervisory authority requirements and internal policies and procedures.

Areas of responsibility

Risk Control function

The Risk Control function is responsible for providing relevant and independent analyses, advice and expert opinions on the company's risks. It is also responsible for the ongoing evaluation and development of the company's risk management framework to ensure its functionality. This involves:

- Verifying that all material risks that the company is exposed to are identified, analysed and managed by the appropriate functions.
- Identifying and reporting on risks arising from deficiencies in the company's risk management. Providing recommendations on correcting deficiencies and thereby avoiding or minimising these risks in future.
- Providing information, analyses and advice on the company's risks to the Board and CEO on a regular basis.
- Providing all relevant information that may constitute decision data when the company develops or changes its risk strategy and risk propensity, and evaluating proposed risk strategies and providing recommendations before decisions are made.
- Evaluating whether company proposals or decisions that may give rise to a significant increase in risk are compatible with the company's risk appetite.
- Identifying, verifying and reporting risks of error in the company's estimates and assumptions that form the basis of the financial statements.
- Evaluating risks prior to company decisions on new or substantially changed products, services, markets, processes or IT systems and in the event of major changes to the company's operations and organisation, and evaluating the anticipated impact on the company's aggregate risk propensity.

Compliance function

The Compliance function is responsible for supporting the company's compliance with all legal, regulatory and other requirements for its licensed operations.
This involves:

- Identifying existing risks of the company's failure to comply with its legal, regulatory and other duties with respect to its licensed operations, and monitoring and verifying that these risks are managed by the relevant functions
- Overseeing and monitoring compliance with laws, regulations and other rules, as well as with relevant internal regulations.
- Reviewing and evaluating the functionality and effectiveness of the company's procedures on a regular basis.
- Providing recommendations to relevant persons based on the function's findings.

- Providing counsel and support to the company's personnel, CEO and Board regarding the laws, regulations and other rules applicable to the licensed operation, and regarding internal regulations.
- Informing and training relevant persons regarding new or amended regulations.
- Ensuring the quality of and continuously updating the company's internal rules, policies and instructions.
- Verifying that new or substantial changes to products, services, markets, processes and IT systems and major changes to the company's operations and organisation comply with legal, regulatory and other requirements applicable to the company's licensed operation.
- Advising and reporting to the Board and the CEO on a regular basis.

Internal Audit function

The Internal Audit function is responsible for ensuring the independent review and supervision of work performed by the first and second lines of defence. Accordingly, the Internal Audit function follows an updated, risk-based audit plan adopted by the Board, under which it reviews and regularly evaluates:

- Whether the company's organisation, governance processes, IT systems, models and procedures are appropriate and effective.
- Whether the company's internal control is appropriate and effective and whether the operations are conducted in accordance with the company's internal regulations.
- Whether the company's internal regulations are adequate and consistent with laws, regulations and other rules.
- The reliability of the company's financial reporting, including off-balance sheet commitments.
- The reliability and quality of the work performed within the company's various control functions.
- The company's risk management based on adopted risk strategy and risk appetite.
- The Internal Audit function also provides recommendations to relevant persons, based on the function's findings, and monitors whether the measures are subsequently implemented; and reports to the Board on a regular basis.

Internal control process

The Board of Directors has ultimate responsibility for ensuring that internal control functions efficiently. The internal control and risk management systems for financial reporting are designed to achieve reasonable assurance regarding the reliability of external financial reporting and to ensure that the financial statements are prepared in compliance with generally accepted accounting policies, applicable laws and ordinances and other requirements for listed companies.

Hoist Finance's internal control process follows the COSO model, which is based on the following components:

- Control environment;
- Risk assessment;
- Control activities;
- Information & Communication; and
- Monitoring.

The control environment is the foundation of the company's system of internal control for financial reporting. The control environment is primarily based on the corporate culture and the values that have been established by the Board of Directors and the Executive Management Team, as well as the organisational structure with distinct authorities and responsibilities. Policies and instructions are documented and evaluated continuously. These steering documents, and well-conceived process descriptions, are made available to the personnel concerned.

Risk assessment includes processes for identifying, analysing and evaluating risks arising in financial reporting. This component assesses and prioritises the areas that each business area believes to be the most relevant in the company based on a risk analysis. This risk analysis takes into account both the probability and consequence of a risk materialising. The risk analysis is conducted at Group level to identify and create understanding of the risks arising in the Group, in terms of both materiality and complexity. The risk analysis is then used as the starting point for determining the areas that are to be assigned priority and how the risks in these areas are to be limited and managed.

Control activities are the activities designed to limit the risks and ensure the reliability of the company's organisation. The main purpose of the control activities, which can be of both a manual and automated character, is to uncover and prevent errors and thereby assure the quality of financial reporting. Examples of control activities include authorisation manuals, payment instructions, payment vouchers, reconciliations, business performance reviews, general IT controls and division of responsibilities. Control activities exist at both subsidiary and Group level.

Information & Communication is both an internal tool to strengthen the internal control environment and a process to ensure that correct external information is communicated. Policies and instructions have been adopted and the company's financial manual (Hoist Finance Financial Framework) includes instructions and guidance for accounting and financial reporting. The policies, instructions and financial manual are updated continuously and are available to the entire organisation. Regular meetings are also held with accounting staff and local CFOs to provide information on new or updated rules and regulations applicable to Hoist Finance, and on internal control responsibility. The Group's intranet is another important communication channel. The Board also receives information regarding risk management, internal controls and financial reporting from the control functions and the Risk and Audit Committee. A communication and information policy has been established to ensure that the information disclosed externally is correct and complete.

Monitoring occurs at all levels in the Group. The company regularly evaluates the internal controls for financial reporting. Work on the internal control is reported to the Board of Directors and the Risk and Audit Committee. This reporting forms the foundation for the Board's evaluation and assessment of the efficiency of the internal control of financial reporting and also constitutes a basis for decisions about potential improvement measures.

Financial reporting competencies

The quality of financial reporting is largely controlled by the organisation's expertise in accounting matters and the way in which the Finance, Accounting and Treasury Departments are staffed and organised. The Executive Management Team is continuously involved in ongoing financial reporting and therefore always has insight into the preparation of financial information. The Finance Department is organised and staffed based on the need to ensure that the Group maintains high accounting standards and complies with accounting laws, regulations and standards. The Executive Management Team works actively to ensure that the Group has employees with the necessary expertise in all key positions and that there are procedures in place to ensure that employees have the requisite knowledge and skills.

Board of Directors

Ingrid Bonde

Chair of the Board

Board member since 2014.

Born: 1959.

Education: Master of Business Administration, Stockholm School of Economics and studies at New York University.

Internal assignments:

Executive assignment: –

Non-executive assignments:
The Board, Chair
Remuneration Committee, Chair
Risk and Audit Committee, member

External assignments:

Executive assignment: –

Non-executive assignments:
Loomis AB, Board member
Securitas AB, Board member
I.Bonde AB, Board member
Danske bank A/S, Board member

Assignments in organisations performing mainly non-commercial business:
The Swedish Corporate Governance, Board member
Swedish Climate Policy Council, Chair

Previous experience: CFO and Deputy CEO of Vattenfall, president and CEO of AMF, Director General of the Swedish FSA, Deputy Director General of the Swedish National Debt Office, Vice President Finance of SAS, Vice President foreign currency funding and debt management at the Swedish National Debt Office

Independent in relation to the company and management and to major shareholders.

Shareholding: 15,600 shares.

Cecilia Daun Wennborg

Board member

Board member since 2017.

Born: 1963.

Education: Bachelor of Business Administration, Stockholm University.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Risk and Audit Committee, Chair

External assignments:

Executive assignment: –

Non-executive assignments:
Getinge AB, Board member
ICA Gruppen AB, Board member
Loomis AB, Board member
Bravida Holding AB; Board member
Hotell Diplomat AB, Board member
Atvexa AB, Board member
Oncopeptides AB, Board member
CDW Konsult AB, Board member

Assignments in organisations performing mainly non-commercial business:
Sophiahemmet AB, member
Association, Board member
The Swedish Securities Council, member
Oxfam Foundation in Sweden, Board member

Previous experience: VP, CFO and Head of Strategy and Corporate Governance at Ambea, CEO and CFO at Carema, Acting CEO at Skandiabanken, Head of Swedish Operations Skandia Group and CEO at SkandiaLink.

Independent in relation to the company and management and to major shareholders.

Shareholding: 3,500 shares.

Malin Eriksson

Board member

Board member since 2017.

Born: 1971.

Education: Bachelor of Science in Business, Ithaca College, New York.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Investment Committee member

External assignments:

Executive assignment:
Credigy, Founder and Partner

Non-executive assignments:
TIMJ AB, Board member

Assignments in organisations performing mainly non-commercial business: –

Previous experience: Board member and Head of Investment Committee in Lindorff Group, CEO at Rio Branco Aquisição e Administração de Creditos and Senior Consultant at Monitor

Independent in relation to the company and management and to major shareholders.

Independent: 6,500 shares.

Liselotte Hjorth

Board member

Board member since 2015.

Born: 1957.

Education: Bachelor of Science in Business Administration and Economics, Lund University.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Investment Committee, Chair

External assignments:

Executive assignment: –

Non-executive assignments:
Ativo Finans AB, Board member, Chair of the Board
White Intressenter AB, Chair of the Board
Eastnine AB (publ), Board member
Rikshem AB (publ), Board member
Kungsleden AB (publ), Board member

Assignments in organisations performing mainly non-commercial business: –

Previous experience: Various positions at SEB Group including Group Credit Officer and Executive VP, and most recently Global Head of Commercial Real Estate and Member of the Management Board SEB AG. Board member of the Swedish National Debt Office, the German-Swedish Chamber of Commerce in Stockholm and the Swedish Chamber of Commerce in Düsseldorf.

Independent in relation to the company and management and to major shareholders.

Shareholding: 4,700 shares.

Jörgen Olsson

Board member

Board member since 2010.

Born: 1961.

Education: Bachelor of Science in Business and Economics, Luleå University.

Internal assignments:

Executive assignment: Managing Director until 14 March 2018

Non-executive assignments:
Board member
Investment Committee member
Hoist Finance SAS,
Chair of the Board
Hoist Italia S.r.l., Chair of the Board
Hoist Kredit Ltd., Board member

External assignments:

Executive assignment: –

Non-executive assignments:
Deciso AB
Deciso Holding AB

Assignments in organisations performing mainly non-commercial business: –

Previous experience: Head of Corporate Banking at Kaupthing Bank Sweden, senior positions at SEB/Enskilda Corporate and Group Treasurer at Elekta AB

Not independent in relation to the company and management.

Shareholding: 3,292,369 shares through Deciso AB and own holding.

Joakim Rubin

Board member

Board member since 2017.

Born: 1960.

Education: Master of Science Industrial Engineering and Management, Linköping Institution of Technology.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Investment Committee member

External assignments:

Executive assignment:
Zeres Capital, Founding Partner

Non-executive assignments:
Cramo Plc, Board member
Capio AB (publ), Board member
ÅF AB, Board member

Assignments in organisations performing mainly non-commercial business: –

Previous experience: Senior Partner and Head of CapMan Public Market, and different positions at Handelsbanken inter alia, Head of Corporate Finance and Debt Capital Markets. Board member in Sanitec Plc, B&B Tools, Intrum Justitia, Proffice and Nobia.

Independent in relation to the company and management and to major shareholders.

Shareholding: 0 shares, Zeres Public Market Fund own 7,012,354 shares.

Costas Thoupos

Board member

Board member since 2013.

Born: 1969.

Education: GCE Advanced Level, Storbritannien.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Investment Committee member
Hoist Kredit Ltd., Board member

External assignments:

Executive assignment: –

Non-executive assignments: –

Assignments in organisations performing mainly non-commercial business: –

Previous experience: CEO (until late 2012) and Group Commercial Director at Hoist Finance. Background in structured finance and investment banking from Barclays Debt Capital Markets and Barclays Capital focusing on the specialty finance sector and in particular strategic funding for the debt purchase area

Not independent in relation to the company and management

Shareholding: 2,440,698 shares.

Gunilla Öhman

Board member

Board member since 2014.

Born: 1959.

Education: Master of Business Administration, Stockholm School of Economics.

Internal assignments:

Executive assignment: –

Non-executive assignments:
Board member
Risk and Audit Committee member
Remuneration Committee member

External assignments:

Executive assignment:
Edgeware AB, Head of IR

Non-executive assignments:
AMF Fonder AB, Board member
Carrara Communication AB,
Board member
Tiferna AB, Deputy member
Gunilla Wikmans enskilda firma, owner
IR and communications consultant

Assignments in organisations performing mainly non-commercial business: –

Previous experience: Board member of HMS Networks, Oatly, Proffice and SJ. Previous positions at SEB, the Swedish Central Bank and the Deposit Guarantee Board as Head of Communication.

Independent in relation to the company and management and to major shareholders

Shareholding: 4,000 shares through Carrara Communication AB.

Anders Bäckström

Auditor in Charge

Authorised Public Accountant KPMG AB

Born: 1966.

Independent: 0 shares.

Executive Management Team

Jörgen Olsson

Former CEO

Hoist Finance employee from 2012 until 14 March 2018.

Born: 1961.

Education: Bachelor of Science in Business and Economics, Luleå University.

Previous experience: Head of Corporate Banking at Kaupthing Bank Sweden, senior positions at SEB/Enskilda Corporate and Group Treasurer at Elekta AB.

Shareholding: 3,292,369 shares through Deciso AB and own holding.

Anders Carlsson

Head of Group Legal

Hoist Finance employee since 2014.

Born: 1983.

Education: Master of Laws (LL.M.), Stockholm University.

Previous experience: Attorney at a larger Swedish law firm.

Shareholding: 81,879 shares.

Ulf Eggefors

Head of CEO Office, Head of Group HR and Acting Regional Director Region West Europe

Hoist Finance employee since 2017.

Born: 1961.

Education: Economic studies at Stockholm University.

Previous experience: Global Head of Trade Finance Services at Swedbank, CFO at Cell Mark and a number of senior positions with SEB in Stockholm and London.

Shareholding: 3,100 shares through closely related persons' holding.

Stephan Ohlmeyer

Chief Investment Officer

Hoist Finance employee since 3 January 2018.

Born: 1968.

Education: PhD and Diploma in Physics, University of Hamburg, Germany.

Previous experience: Managing Director at Lone Star, Chief Investment Officer at Intrum, Investment Professional at Och-Ziff and Värde, Managing Director at Goldman Sachs and Associate at Morgan Stanley and Chase Manhattan.

Shareholding: 0 shares.

Klaus-Anders Nysteen

New CEO

Hoist Finance employee since 15 March 2018.

Born: 1966.

Education: Master of Business administration from Norwegian school of economics and business administration (NHH).

Previous experience: CEO Lindorff Group, CEO Entra Eiendom AS, CFO Statoil Fuel & Retail ASA, CEO Storebrand Bank ASA.

Other assignments: Chairman of Webstep ASA and Board member in Asset Buyout Partner AS.

Shareholding: 32,870 shares.

Henrik Gustafsson

Regional Director Central East Europe

Hoist Finance employee since 2014.

Born: 1976.

Education: Bachelor of Science i Management, London School of Economics.

Previous experience: Group Head of Sales and Investments at Hoist Finance, Head of Strategy and M&A of Dometic Group AB (publ), Head of M&A of Sandvik Material Technology.

Shareholding: 98,733 shares.

Charles de Munter

Regional Director Mid Europe

Hoist Finance employee since 2013.

Born: 1973.

Education: International Management Program, Vlerick Business School and higher education in Business Management, Mercator Gent, Belgium.

Previous experience: Regional Director of France, Benelux, Italy and Poland at Hoist Finance. Various positions at Intrum Justitia, General Manager for Krebes NV, chairman of EOS Netherlands, board member of the supervisory board of EOS Credirec (France) and Regional Director Benelux and France for EOS Holding.

Shareholding: 52,592 shares.

Pontus Sardal

Chief Financial Officer and Deputy CEO

Hoist Finance employee since 2011. Will step down in June 2018 at the latest.

Born: 1967.

Education: Bachelor of Science in Business and Economics, Karlstad University.

Previous experience: Various positions at SEB, including CFO of SEB Group Retail, Head of Business Support at SEB Finans, Head of Finance SEB BoLån and CFO of the Latvian bank, Latvijas Unibanka.

Shareholding: 50,100 shares through Yasli Investments Ltd and closely related persons' holding.

Anders Wallin

Chief Information Officer

Hoist Finance employee since 2012.

Born: 1964.

Education: Master of Business Administration, Stockholm School of Economics.

Previous experience: CIO at UC AB, Head of UC Decision Solutions at UC AB and CEO of Numenor Consulting Group AB.

Shareholding:154,578 shares.

Financial statements

Consolidated income statement

SEK thousand	Note	2017	2016
Net revenue from acquired loan portfolios	1,2	2,644,027	2,404,955
Interest income	2	–9,806	2,558
Interest expense	2	–305,066	–300,288
Net interest income		**2,329,155**	**2,107,225**
Fee and commission income		73,301	116,817
Net financial income	3	–50,324	–97,529
Other income		13,279	13,651
Total operating income		**2,365,411**	**2,140,164**
General administrative expense			
Personnel expenses	5	–730,005	–672,355
Other operating expenses	6	–1,074,455	–966,697
Depreciation and amortisation of tangible and intangible assets	15,16	–55,943	–52,796
Total operating expenses		**–1,860,403**	**–1,691,848**
Profit before credit losses		**505,008**	**448,316**
Net credit losses	7	–	–1,260
Profit from shares and participations in joint ventures	8	76,138	86,042
Profit before tax		**581,146**	**533,098**
Income tax expense	10	–128,386	–115,949
Net profit for the year		**452,760**	**417,149**
Profit attributable to:			
Owners of Hoist Finance AB (publ)		452,760	417,149
Basic earnings per share, SEK[1)]	11	5.10	5.07
Diluted earnings per share, SEK [1) 2)]	11	5.09	4.97

1) Following the 1:3 share split, each warrant entitles the holder to subscribe for three new shares.
2) Includes effect of 5,000 outstanding warrants.

Consolidated statement of comprehensive income

SEK thousand	2017	2016
Net profit for the year	**452,760**	**417,149**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of defined pension benefit plans	927	–1,941
Revaluation of remuneration after terminated employment	–782	–617
Tax attributable to items that will not be reclassified to profit or loss	–204	654
Total items that will not be reclassified to profit or loss	**–59**	**–1,904**
Items that may be reclassified subsequently to profit or loss		
Translation differences, foreign operations	89,611	–21,872
Translation differences, joint venture	18,215	1,489
Hedging of currency risk in foreign operations	–179,855	–
Hedging of currency risk in joint venture	–26,592	–7,421
Transferred to the income statement during the year	7,444	–
Tax attributable to items that may be reclassified to profit or loss	45,418	4,803
Total items that may be reclassified subsequently to profit or loss	**–45,759**	**–23,001**
Other comprehensive income	**–45,818**	**–24,905**
Total comprehensive income	**406,942**	**392,244**
Profit attributable to:		
Owners of Hoist Finance AB (publ)	406,942	392,244

Consolidated balance sheet

SEK thousand	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Cash		202	3,073
Treasury bills and Treasury bonds	12,28	1,490,152	2,273,903
Lending to credit institutions	12,28	1,681,458	1,061,285
Lending to the public	12,28	37,455	35,789
Acquired loan portfolios	12,13,28	14,765,989	12,385,547
Bonds and other securities	12,28	3,689,021	2,538,566
Participations in joint ventures	8	237,586	241,276
Intangible assets	15	287,038	243,340
Tangible assets	16	42,394	40,815
Other assets	17	198,832	193,470
Deferred tax assets	10	21,241	47,269
Prepaid expenses and accrued income	18	85,196	85,593
Total assets		**22,536,564**	**19,149,926**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	12,22,28	13,227,450	11,848,956
Tax liabilities	10	84,091	52,887
Other liabilities	19	393,370	432,865
Deferred tax liabilities	10	147,523	163,264
Accrued expenses and deferred income	20	210,541	203,442
Provisions	21	87,027	55,504
Senior debt	12,22,28	4,355,000	3,125,996
Subordinated debts	12,22,28	803,257	341,715
Total liabilities		**19,308,259**	**16,224,629**
Equity	23		
Share capital		27,061	26,906
Other contributed equity		2,101,668	2,073,215
Reserves		–112,854	–67,095
Retained earnings including profit for the period		1,212,430	892,271
Total equity		**3,228,305**	**2,925,297**
Total liabilities and equity		**22,536,564**	**19,149,926**

Consolidated statement of changes in equity

SEK thousand	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2017	**26,906**	**2,073,215**	**–67,095**	**892,271**	**2,925,297**
Comprehensive income for the year					
Profit for the year				452,760	452,760
Other comprehensive income			–45,759	–59	–45,818
Total comprehensive income for the year			**–45,759**	**452,701**	**406,942**
Transactions reported directly in equity					
Dividend				–104,935	–104,935
New share issue	155	28,675			28,830
Warrants, repurchased and cancelled		–222			–222
Interest paid on capital contribution				–27,607	–27,607
Total transactions reported directly in equity	**155**	**28,453**		**–132,542**	**–103,934**
Closing balance 31 Dec 2017	**27,061**	**2,101,668**	**–112,854**	**1,212,430**	**3,228,305**

SEK thousand	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2016	**26,178**	**1,755,676**	**–44,094**	**551,000**	**2,288,760**
Comprehensive income for the year					
Profit for the year				417,149	417,149
Other comprehensive income			–23,001	–1,904	–24,905
Total comprehensive income for the year			**–23,001**	**415,245**	**392,244**
Transactions reported directly in equity					
Dividend				–58,974	–58,974
New share issue	728	34,568			35,296
Additional Tier 1 capital instruments		283,335[1)]			283,335
Warrants, repurchased and cancelled		–2,066			–2,066
Interest paid on capital contribution				–15,000	–15,000
Tax effect on items reported directly in equity		1,702			1,702
Total transactions reported directly in equity	**728**	**317,539**		**–73,974**	**244,293**
Closing balance 31 Dec 2016	**26,906**	**2,073,215**	**–67,095**	**892,271**	**2,925,297**

1) Nominal amount of SEK 291 million has been reduced by transactions costs of SEK 8 million.

Consolidated cash flow statement

SEK thousand	Note	2017	2016
OPERATING ACTIVITIES			
Profit before tax		581,146	533,097
of which, paid-in interest		*4,540*	*5,841*
of which, interest paid		*–356,255*	*–288,713*
Adjustment for items not included in cash flow	30	2,024,490	2,139,110
Realised profit from divestment of shares and participations in joint ventures		–62,410	–42,546
Income tax paid		–51,995	–49,000
Total		**2,491,231**	**2,580,661**
Increase/decrease in lending to the public		–1,666	42,681
Increase/decrease in other assets		10,566	221,233
Increase/decrease in other liabilities		–4,814	131,956
Total		**4,086**	**395,870**
Cash flow from operating activities		**2,495,317**	**2,976,531**
INVESTING ACTIVITIES			
Acquired loan portfolios		–4,252,869	–3,329,382
Investments in intangible assets		–71,431	–35,756
Investments in tangible assets		–16,398	–18,360
Investments in/divestments of bonds and other securities		–1,149,630	–1,232,503
Investments in subsidiaries		–21,815	–40,788
Acquired shares and participations in joint ventures		–	–74
Divested shares and participations in joint ventures		72,942	51,891
Cash flow from investing activities		**–5,439,201**	**–4,604,972**
FINANCING ACTIVITIES			
Deposits from the public		1,407,244	–957,707
Issued bonds		1,350,022	2,771,876
Repurchase of issued bonds		–276,867	–976,570
Buy-back of issued bonds		–	–58,000
Issued Tier 2 capital		781,328	–
Repurchase of subordinated debt		–399,550	–
Issued Additional Tier 1 capital		–	285,396
Interest paid on AT1 capital		–35,107	–7,500
New share issue		28,830	35,296
Warrants, repurchased and cancelled		–222	–2,066
Dividend paid		–104,935	–58,974
Cash flow from financing activities		**2,750,743**	**1,031,751**
Cash flow for the year		**–193,141**	**–596,690**
Cash at beginning of the year		3,338,261	3,936,624
Translation difference		26,692	–1,673
Cash at end of the year	30	**3,171,812**	**3,338,261**

Parent Company income statement

SEK thousand	Note	2017	2016
Net sales	4	**242,544**	**195,846**
Other external expenses	6	–331,102	–219,855
Personnel expenses	5	–5,282	–7,100
Depreciation and amortisation	15,16	–5,538	–4,891
Total operating expenses		**–341,922**	**–231,846**
Operating profit		**–99,378**	**–36,000**
Other interest income	2	31,916	10,555
Interest expense and similar expenses	2	–4,731	–1,602
Total income from financial items		**27,185**	**8,953**
Earnings from participations in Group companies	9	180,000	210,000
Appropriations (tax allocation reserve)		–24,000	–36,483
Profit before tax		**83,807**	**146,470**
Income tax expense	10	–18,801	–29,150
Net profit for the year [1]		**65,006**	**117,320**

1) Profit for the year corresponds to Comprehensive income for the year.

Parent Company balance sheet

SEK thousand	Note	31 Dec 2017	31 Dec 2016
ASSETS			
Non-current assets			
Licences and software	15	64,329	25,169
Total intangible assets		**64,329**	**25,169**
Equipment	16	1,403	2,417
Total tangible assets		**1,403**	**2,417**
Shares and participations in subsidiaries	14	1,687,989	1,687,989
Total financial assets		**1,687,989**	**1,687,989**
Total non-current assets		**1,753,721**	**1,715,575**
Current assets			
Receivables, Group companies		193,239	257,501
Other receivables		23,543	402
Prepaid expenses and accrued income	18	8,570	8,506
Total current receivables		**225,352**	**266,409**
Cash and bank balances	12	274,833	328,457
Total current assets		**500,185**	**594,866**
Total assets		**2,253,906**	**2,310,441**

Parent Company balance sheet, continued

SEK thousand	Note	31 Dec 2017	31 Dec 2016
EQUITY AND LIABILITIES			
Equity	23		
Restricted equity			
Share capital		27,061	26,906
Statutory reserve		3,098	3,098
Development expenditure fund		6,131	1,215
Total restricted equity		**36,290**	**31,219**
Non-restricted equity			
Other contributed equity		1,722,091	1,693,638
Retained earnings		6,197	–1,272
Profit/loss for the period		65,006	117,320
Total non-restricted equity		**1,793,294**	**1,809,686**
Total shareholders' equity		**1,829,584**	**1,840,905**
Untaxed reserves		**83,995**	**59,995**
Provisions			
Pension provisions	21	34	24
Total provisions		**34**	**24**
Non-current liabilities			
Intra-Group loans	34	–	65,000
Total non-current liabilities		**–**	**65,000**
Current liabilities			
Accounts payable		20,822	12,863
Tax liabilities		34,680	27,157
Liabilities, Group companies		280,496	298,153
Other current liabilities		–	3,506
Accrued expenses and deferred income	20	4,295	2,838
Total current liabilities		**340,293**	**344,517**
Total equity, provisions and liabilities		**2,253,906**	**2,310,441**

Parent Company statement of changes in equity

SEK thousand	Restricted equity			Non-restricted equity			Total shareholders' equity
	Share capital	Statutory reserve	Development expenditure fund	Other contributed capital	Retained earnings	Profit for the year[1]	
Opening balance 1 Jan 2017	**26,906**	**3,098**	**1,215**	**1,693,638**	**–1,272**	**117,320**	**1,840,905**
Transfer of previous year's net profit/loss					117,320	–117,320	
Comprehensive income for the year							
Profit for the year						65,006	65,006
Total comprehensive income for the year						**65,006**	**65,006**
Transactions reported directly in equity							
Dividend					–104,935		–104,935
New share issue	155			28,675			28,830
Warrants, repurchased and cancelled				–222			–222
Transfer between restricted and non-restricted equity			4,916		–4,916		0
Total transactions reported directly in equity	**155**		**4,916**	**28,454**	**–109,852**		**–76,327**
Closing balance 31 Dec 2017	**27,061**	**3,098**	**6,131**	**1,722,091**	**6,197**	**65,006**	**1,829,584**

1) Profit/loss for the year corresponds to "comprehensive income for the year".

SEK thousand	Restricted equity			Non-restricted equity			Total shareholders' equity
	Share capital	Statutory reserve	Development expenditure fund	Other contributed capital	Retained earnings	Profit for the year[1]	
Opening balance 1 Jan 2016	**26,178**	**3,098**		**1,661,136**	**–18,775**	**77,692**	**1,749,329**
Transfer of previous year's net profit/loss					77,692	–77,692	
Comprehensive income for the year							
Profit for the year						117,320	117,320
Total comprehensive income for the year						**117,320**	**117,320**
Transactions reported directly in equity							
Dividend					–58,974		–58,974
New share issue	728			34,568			35,296
Warrants, repurchased and cancelled				–2,066			–2,066
Transfer between restricted and non-restricted equity			1,215		–1,215		0
Total transactions reported directly in equity	**728**		**1,215**	**32,502**	**–60,189**	**0**	**–25,744**
Closing balance 31 Dec 2016	**26,906**	**3,098**	**1,215**	**1,693,638**	**–1,272**	**117,320**	**1,840,905**

1) Profit/loss for the year corresponds to "comprehensive income for the year".

Parent Company cash flow statement

SEK thousand	Note	2017	2016
OPERATING ACTIVITIES			
Profit before appropriations, earnings from participations in Group companies and tax		–72,195	–27,048
of which, paid-in interest		*30,009*	*10,555*
of which, interest paid		*–4,731*	*–1,603*
Adjustment for items not included in cash flow	30	5,070	5,417
Income tax paid		–11,278	–15,727
Total		**–78,403**	**–37,358**
Increase/decrease in other assets		11,965	–21,374
Increase/decrease in other liabilities		68,624	79,816
Total		**80,589**	**58,442**
Cash flow from operating activities		**2,186**	**21,084**
INVESTING ACTIVITIES			
Investments in intangible assets		–43,747	–12,116
Investments in tangible assets		–106	–491
Group contribution received		145,000	47,153
Cash flow from investing activities		**101,147**	**34,546**
FINANCING ACTIVITIES			
New share issue		28,830	35,296
Warrants, repurchased and cancelled		–222	–2,066
Dividend paid		–104,935	–58,974
Cash flow from financing activities		**–76,327**	**–25,744**
Cash flow for the year		**27,006**	**29,886**
Cash at the beginning of the year		41,994	12,108
Cash at the end of the year	30	**69,000**	**41,994**

Accounting principles

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1 Corporate information

The Annual Report is issued as of 31 December 2017 by Hoist Finance AB (publ), CIN 556012-8489, the Parent Company of the Hoist Finance Group. The Parent Company is a Swedish public limited company, registered in Stockholm, Sweden.

The address of the head office is Box 7848, 103 99 Stockholm. The Group is licensed and supervised by the Swedish Financial Supervisory Authority.

The consolidated accounts for financial year 2017 were approved by the Board of Directors on 26 March 2018 and will be presented for adoption at the Annual General Meeting on 16 May 2018.

2 Statement of compliance

The Annual report for Hoist Finance AB (publ) were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and interpretations issued by the IFRS Interpretation Committee as adopted by the EU. The Annual Report was prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the Swedish Financial Supervisory Authority's regulations and guidelines on annual accounts in credit institutions and securities companies (FFFS 2008:25) including applicable amendments and the Swedish Financial Reporting Board's recommendations RFR 1 "Supplementary Accounting Rules for Groups".

The Parent Company applies the Swedish Annual Accounts Act but otherwise the same accounting policies as the Group, except in cases where the application of IFRS for legal entities is not permitted by Swedish accounting regulations. Please refer to the section below for Parent Company accounting principles.

Unless otherwise indicated, the accounting principles specified below were applied consistently to all periods presented in these financial reports.

3 Changed accounting principles

New and amended standards adopted in the financial statements

The accounting principles, bases for calculations and presentation are, in all material aspects, unchanged in comparison with the 2016 Annual Report. No changes to IFRS or IFRIC that came into effect in 2017 had a significant impact on the Group's financial reporting or capital adequacy.

From 1 January 2017, Hoist Finance has chosen to increase the scope of hedge accounting in cases where currency derivatives are used to hedge foreign net investments. The increase in hedge accounting means that a larger share of the exchange rate fluctuations recognised in Net income from financial transactions is now recognised in Other comprehensive income.

From 2017, Hoist Finance has elected to present the cash flow statement using the indirect method, to better reflect how the Group monitors cash flow. Accordingly, as per 31 December 2016, the comparative figures were adjusted as a result of this change.

In all other material aspects, the Group's and the Parent Company's accounting policies, bases of calculation and presentation are unchanged compared with the 2016 Annual Report.

4 New standards, amendments and interpretations that have not yet been applied

A number of new or amended IFRS that will come into effect during the coming financial years were not applied in advance as at the issuance of these financial statements. Hoist Finance does not intend to apply new or amended standards in advance. For detailed information, see below.

IFRS 9 FINANCIAL INSTRUMENTS

Group

IASB has finalised the new standard for financial instruments, IFRS 9 "Financial instruments". The standard is endorsed by the EU Commission. IFRS 9 "Financial Instruments" covers the reporting of financial assets and liabilities (classification and measurement, impairment and hedge accounting), and will replace IAS 39 "Financial instruments: Recognition and Measurement". IFRS 9, like IAS 39, will classify financial assets into different categories but will also introduce new measurement categories, classified at amortised cost, fair value through profit or loss, or fair value through comprehensive income. Classification is determined by the characteristics of the contractual cash flow generated by the assets and are also dependent on the company's business model.

IFRS 9 also introduces a new model for impairment of financial assets. The aim of the new model is to recognise expected credit losses at an earlier stage.

Upon transitioning to IFRS 9, the Group has the option of continuing to apply IAS 39 for hedge accounting or applying IFRS 9 hedging rules, and has decided to continue applying IAS 39 hedge accounting.

IFRS 9 "Financial Instruments" is effective as from annual periods beginning on or after 1 January 2018. Hoist Finance will apply the standard in the Parent Company and the Group as from 1 January 2018. Comparative figures will not be restated.

During 2017, Hoist Finance evaluated the effects of applying IFRS 9 on its accounting. In total, no significant impact on the Group's accounting or capital adequacy is anticipated.

IFRS 9 includes increased disclosure requirements under IFRS 7, which will expand the content of note disclosure. The assessments of effects described below are based

on information that is currently known or anticipated, but may change due to information that becomes available during 2018.

Effects on the balance sheet

Classification and measurement

All financial assets currently classified at fair value are expected to remain so classified, with the exception of acquired loan portfolios reclassified at amortised cost.

Liquidity portfolio

Hoist Finance's surplus liquidity is invested in a liquidity portfolio comprised of Bonds and other securities and Treasury bills and treasury bonds. The liquidity portfolio will continue to be valued at fair value through profit or loss. Consequently, there will be no transition effect.

Acquired loan portfolios

Hoist Finance's acquired loan portfolios are classified at amortised cost under IFRS 9. The acquired loan portfolios currently measured at fair value are reclassified and measured at amortised cost under IFRS 9. As it is impracticable to retrospectively recalculate the portfolios to amortised cost, the fair value at year-end 2017 will be the initial amortised cost amount under IFRS 9. The run-off consumer loan portfolio, SEK 21 million at year-end, will be included in Acquired loan portfolios.

Other assets

The Group has concluded that trade receivables and other current and non-current receivables meet the criteria to be classified at amortised cost. Derivatives remain recognised at fair value.

Impairments

Under IFRS 9, impairments follow an impairment model based on expected credit losses rather than on actual losses (as under the current model). Hoist Finance will report a loss allowance for expected credit losses on financial assets valued at amortised cost.

Lending to credit institutions

Lending to credit institutions is comprised of cash at bank and, under IFR 9, is subject to loss allowances. The expected credit loss is not material, however, and a loss allowance will, therefore, not be reported.

Acquired loan portfolios

Hoist Finance's acquired loan portfolios are defined under IFRS 9 as Purchased Credit-Impaired financial assets. Under the standard, a loss allowance is reported which corresponds to expected credit losses for the entire remaining duration at first recognition.

The portfolios are recognised at amortised cost according to the effective interest method.

The credit-adjusted effective interest rate, established at inception, is determined based on expected future cash flows for the remaining duration.

Prior to the introduction of IFRS 9, the portfolios' carrying value was based on expected cash flows and revaluation effects were reported under income statement item Net revenue from acquired loan portfolios. This method corresponds in large part with the calculation of loss allowance under IFRS 9; consequently, the transition impact in the opening balance is immaterial. However, some changes have been made, as described below.

Under IFRS 9, Hoist Finance will determine the credit-adjusted effective interest rate and calculate future expected credit losses based on an anticipated 15-year lifetime. Currently, a 10-year lifetime is applied for portfolio valuations. Hoist Finance does not include any collection costs in the calculation of the initial credit-adjusted effective interest rate under IFRS 9.

Projected cash flows and the credit-adjusted effective interest have been recalculated for all acquired loan portfolios as a result of the changes made.

Other assets

Trade receivables and other current and non-current receivables are subject to loss allowance under IFRS 9. The Group will apply the simplified method for calculating expected credit losses on trade receivables. The expected credit loss is not material, however, and a credit loss allowance will, therefore, not be reported.

Other adjustments

In addition to the above-mentioned amendments, other reported items in the financial reports may be affected, including taxes, participation in joint ventures and translation differences.

Liabilities

Hoist Finance has remeasured the modified senior unsecured liabilities according to the initial effective interest rate with consideration to transaction costs. This has led to a lower amortised cost on the liability.

The Group assumes that IFRS 9 does not have any other effects on the classification and measurements of financial liabilities as at 1 January 2018.

Transition effects

Effects on retained earnings opening balance in consolidated equity on 1 January 2018.

	SEK million
Lending to credit institutions	0
Liquidity portfolio	–
Acquired loan portfolios	11
Other assets	0
Total assets	**11**
Taxes	–3
Senior debts	8
Total liabilities	**5**
Net effect on equity	16
Retained earnings	**16**

Effects on capital adequacy

The current assessment is that the transition effects of IFRS 9 will not have any significant impact on capital adequacy or large exposures for the Hoist Finance consolidated situation or for Hoist Kredit AB (publ).

Effects on the income statements

Following the transition to IFRS 9, Hoist Finance will report interest income in accordance with the effective interest method, under which interest income essentially refers to all income from acquired loan portfolios reported at amortised cost.

In reporting acquired loan portfolios in accordance with the effective interest method, Hoist Finance will calculate the period's interest income based on recognised amortised cost in the opening balance multiplied by the credit-adjusted effective interest. Recognised amortised cost is the gross carrying amount, less the loss allowance. Changes in the loss allowance are reported in a separate income statement item, Impairment gains and losses. This represents a change to previous reporting practices, under which profit/loss from changes in acquired loan portfolios was reported under income statement item Net revenue from acquired loan portfolios.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IASB has published a new standard, IFRS 15 "Revenue from Contracts with Customers" The new standard specifies a single comprehensive reporting model for revenues from customer contracts, and replaces all previously published standards and interpretations for revenue reporting under IFRS. The purpose of the standard is to have one single principle-based standard for all businesses to replace existing standards for revenue recognition. The standard does not apply to financial instruments, insurance contracts or lease contracts.

The new standard is effective as from annual periods beginning on or after 1 January 2018. Earlier application is permitted. The standard will be applied by the Hoist Finance Group and the Parent Company as from 1 January 2018.

The new revenue standard specifies the accounting treatment for all revenue arising from contracts with customers, and is based on recognising the revenue when or as the entity satisfies a performance obligation by transferring control of a promised good or service to a customer, which can be satisfied over time or at a specific point in time.

The revenue comprises the amount the company expects to receive as compensation for the good or service transferred. Variable remuneration is recognised as revenue to the extent it is highly likely that there will not be a significant reversal of previously reported accumulated revenue in a later period. In Hoist Finance, the transfer of services and the revenue will remain to be accounted for at a point in time. Consequently, comparable figures will not be restated.

The principles in IFRS 15 will be applied using the following five steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation

There are three transition methods: full retrospective approach, modified retrospective approach and retrospectively with a cumulative effect, where existing contracts which follow the old regulation (IAS 11/ IAS 18) are subject to an adjustment to the opening balance of retained earnings for the annual reporting period that includes the date of initial application.

Hoist Finance has completed its analysis of the impact IFRS 15 will have on its accounting and deems that the new standard will not have any significant impact on Hoist Finance's accounting, financial reporting, capital adequacy or large exposures during the initial application period.

The assessments of effects described below are based on information that is currently known or anticipated.

Within the Hoist Finance Group, fee and commission income will be affected by the new standard.

Companies in the Hoist Finance Group provide collection services for third parties. In such agreements the counterparty selects the receivables to be included in the contract and transfers those to the Group, while retaining ownership of the receivables. In such contracts the Group is generally entitled to remuneration corresponding to a fixed percentage of the successful collections.

The assessment is that the transfer of existing services and revenue recognition essentially occurs as services are performed, and this does not entail any change to the way in which revenues were reported in previous periods. To date, variable remuneration based on results not yet known at the close of the reporting period represents only an insignificant amount. There are, therefore, no effects on reported revenues for 2017. Variable remuneration of uncertain amounts at the close of the reporting period will likely also be insignificant in 2018, for which period the choice of transition method is also insignificant.

Finally, IFRS 15 includes increased disclosure requirements regarding revenue, which will expand the content of note disclosures.

IFRS 16 LEASES

IASB has published a new standard, IFRS 16 "Leases". The standard was endorsed by the EU Commission in 2017. The new standard replaces existing IFRS (including IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease") related to the reporting of lease contracts. IFRS 16 primarily affects reporting requirements for lessees. All lease contracts will initially be reported as an asset with right of use and a liability (i.e. future lease payments) in the lessee's balance sheet. Asset depreciation is reported in the income statement, with lease payments allocated as interest expense in the income statement and as amortisation in the balance sheet. However, the standard includes two recognition exemptions for reporting the lease as an asset and a liability respectively – short-term leases (i.e. leases with a lease terms of 12 months or less) and leases of low-value assets.

Reporting requirements for lessors remain mostly unchanged. The new standard includes increased disclosure requirements, which will expand the content of note disclosures. The new standard is effective as from annual periods beginning on or after 1 January 2019. Earlier application is permitted. Hoist Finance does not intend to apply IFRS 16 in advance. The standard is to be applied using either the full retrospective approach, which requires entities to retrospectively apply the new standard to each prior reporting period, or the modified retrospective approach, recognising the cumulative effect as an adjustment to the opening balance of equity. The Group intends to apply the modified retrospective approach, i.e. recognising the cumulative effect of IFRS 16 in retained earnings in the opening balance of equity as at 1 January 2019. There will be no restatement of comparative figures.

Hoist Finance is in the process of analysing the financial effects of the new standard. Calculations of the monetary effect of IFRS 16 have not been conducted. The final transition effect of IFRS 16 in the financial reports will be affected by future economic conditions, including the funding rate in the Group as at 1 January 2019, the composition of the lease portfolio at that date and the Group's latest assessment of whether options prolonging a lease contract will be used. Hoist Finance's assessment is that the new standard will entail changes to accounting and that the Group will account for new assets and liabilities for leases.

The information provided in Note 27 on operating leases is an indication of the type and scope of current agreements.

OTHER IFRS AMENDMENTS

Other new and amended IFRSs that will be applied in future (listed below) are not expected to have any significant impact on Hoist Finance's financial reporting, capital adequacy or major exposures in the initial application period.

- Amendments to IAS 1 – Presentation of Financial Statements
- Amendments to IFRS 7 – Financial instruments: Disclosures

No other IFRS or IFRIC Interpretations that are not yet effective are expected to have any significant impact on the Group.

5 Assumptions

The preparation of financial reports in accordance with IFRS requires the Management to make estimates and assumptions that affect the application of the accounting principles and the carrying value of assets, liabilities, revenue and expenses. Estimates and assumptions are based on historical experience and a number of other factors that are deemed reasonable in the prevailing circumstances. The result of these estimates and assumptions is then used to assess the carrying values of assets and liabilities that are not otherwise clearly indicated by other sources. Actual outcomes may deviate from these estimates and assumptions.

Estimates and assumptions are reviewed regularly, and the effect on carrying values is recognised through profit or loss. Changes in estimates are reported in the period in which the change is made, provided the change has affected only this period, or the period the change was made and future periods if the change affects both current and future periods.

Estimates made by the Management that have a significant impact on the consolidated financial statements and which may affect the consolidated financial statements in subsequent years are described in more detail in Note 33.

6 Consolidation

Subsidiaries

Subsidiaries are entities over which the Parent Company has controlling influence. Controlling influence exists when the Parent Company can exert influence over an investment, is exposed to or has the right to receive variable returns as a result of the investment, and is able to use its influence over the investment to affect returns.

The Group uses the acquisition method of accounting to report business acquisitions. The consolidated acquisition value is determined by an acquisition analysis conducted in connection with the acquisition. The analysis determines the acquired identifiable assets, acquired liabilities and contingent liabilities. The acquisition value of subsidiary shares and operations is comprised of their fair value as at acquisition date for assets, liabilities that arise or are transferred, and issued equity instruments transferred as consideration in exchange for the acquired net assets. Transaction costs directly attributable to the acquisition are expensed as incurred.

In business combinations where acquisition cost exceeds the net value of the acquired assets, liabilities and contingent liabilities, the difference is reported as goodwill. When the difference is negative, it is reported directly in the income statement. The contingent purchase price is reported in the consolidated accounts at fair value through profit or loss. Intra-group receivables and liabilities, revenue and expenses, and unrealised gains and losses that arise from intra-group transactions are eliminated in their entirety in the consolidated financial statements.

Joint ventures

For accounting purposes, joint ventures are entities over which the Group has joint controlling influence through contractual arrangements with one or several parties and has a right to the net assets as opposed to a direct right to assets and assumption of liabilities. In the consolidated accounts, joint

venture holdings are consolidated in accordance with the equity method, under which the asset is initially reported at acquisition value. The carrying value is subsequently increased or decreased to reflect the owner company's profit share in the investment after the acquisition date. Changes attributable to exchange differences are reported in 'Other comprehensive income'. In the BEST III Sec Fund joint venture, the acquired loan portfolios are reported at fair value.

7 Segment reporting

An operating segment is a part of the Group that operates a business from which it can generate revenue and incur expenses and for which independent financial information is available. This information serves as a governance tool and is reviewed on a regular basis by chief operating decision makers to evaluate performance and allocate resources to the segment.

For Hoist Finance, geographic regions – comprised of individual countries and groups of comparable countries – are the main basis for division into segments. Geographic segments are an accurate reflection of the Group's business activities, as loan portfolios are acquired on a country-by-country basis. The Company's chief operating decision maker is responsible for defining the segment. Hoist Finance operates in three segments – Region West Europe, Region Mid Europe and Regional Central East Europe.

See Note 1 for additional information on the operating segments.

8 Foreign currency translation

Functional currency

SEK is the functional currency of the Parent Company and the presentation currency of the Group and the Parent Company. Group companies and branches prepare their accounts in the functional currency of the country in which they operate. For consolidation purposes, all transactions in other currencies are converted into SEK at balance sheet date. All amounts, unless indicated otherwise, are rounded to the nearest thousand.

Transactions in foreign currency

Transactions in a currency other than the local functional currency are translated at the exchange rate in effect on the transaction date. When such transactions are settled, the exchange rate may deviate from the transaction date rate, in which case a realised exchange difference arises. Monetary assets and liabilities in foreign currency are also translated to functional currency at the balance sheet date exchange rate, which gives rise to unrealised exchange differences. Both realised and unrealised exchange differences of this type are reported in the consolidated income statement.

Translation of foreign operations' financial statements

Assets and liabilities in foreign operations, including goodwill and other consolidated surplus and deficit values, are translated from the operation's functional currency to the Group's reporting currency at the balance sheet date exchange rate. Revenues and expenses are translated at the yearly average rate, which serves as an approximation of the rate that was applied on each transaction date.

Translation differences arise in the translation of subsidiaries' accounts because the balance sheet date exchange rate changes each period and because the average rate deviates from the balance sheet date exchange rate. Translation differences are reported in 'Other comprehensive income' as a separate component of equity.

Information on the most important exchange rates is disclosed in the separate section 23 "Exchange rates".

9 Financial assets and liabilities

Recognition and de-recognition

A financial asset or liability is reported in the balance sheet when the company becomes a party to the contractual provisions of the instrument. A receivable is reported in the balance sheet when the company is contractually liable to pay, even if an invoice has not been sent.

Loan receivables, deposits, issued securities and subordinated liabilities are reported in the balance sheet at the settlement day.

A spot purchase or sale of financial assets is reported and removed from the statement of financial position on the trade date.

A financial asset is removed from the balance sheet when contractual rights to cash flow from the financial asset cease or when the financial asset is transferred and the company simultaneously transfers essentially all risks and advantages associated with ownership of the financial asset. A financial liability or portion thereof is de-recognised when the obligation is discharged, cancelled, expired or otherwise extinguished.

An exchange between the company and an existing lender, or an existing borrower of debt instruments with essentially different terms and conditions, is reported as an extinguishment of the old financial liability or asset, respectively, and as a new financial instrument.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legal right to offset transactions and an intention to settle net or realise the asset and settle the liability simultaneously.

Classification and measurement

Financial instruments are recognised at fair value plus transaction costs at initial recognition, with the exception of derivatives and instruments from the category 'Financial asset at fair value through profit or loss', which are reported at fair value exclusive of transaction costs.

Financial instruments are classified on initial recognition based on the purpose of the acquisition of the instrument and on the options provided in IAS 39.

The financial instrument is measured upon initial recognition based on the classification, see below.

Financial assets and liabilities at fair value through profit or loss

Financial assets classified by the company as 'Financial assets at fair value through profit or loss' are financial assets held for trading (derivatives with positive value not designated as hedging instruments, treasury bills and bonds and other held-for-trading securities) as well as loan portfolios acquired prior to 1 July 2011 that were on initial recognition reported at fair value through profit or loss through application of the fair value option. Financial liabilities classified as "Financial liabilities at fair value through profit or loss" are derivatives with negative value not designated as hedging instruments (held for trading). Loan portfolios acquired thereafter, are classified as acquired loans (see below) and are measured at amortised cost.

The difference between a "fair value measurement" and an "amortised cost measurement" for acquired loan portfolios is that the former uses a discount rate corresponding to the market's IRR for similar assets at a given time.

Derivatives are initially recognised at fair value at the date of the derivatives contract, and are subsequently measured at fair value at the end of each reporting period. Derivatives are always classified as held for trading provided they are not identified as hedge instruments.

Changes in fair value for financial assets and liabilities recognised at fair value through profit or loss are reported in the income statement item 'Net financial income', except for acquired loan portfolios, for which revaluations are reported in the item 'Net revenue from acquired loans'.

Financial assets available for sale

The company uses the 'Financial assets available for sale' category for equity instruments for which fair value cannot be reliably determined and which are thus reported at acquisition value and, when applicable, net of impairment.

Calculation of fair value

The fair value of financial instruments traded on an active market (level 1) is determined for financial assets based on the current bid price. Assets measured by the company at fair value in the balance sheet and traded on an active market are comprised of investments in treasury bills and treasury bonds, and bonds and other securities. Financial instruments that are not traded on an active market but which can be measured using other valuation methods, with observable market information as input (level 2), are comprised of currency hedges and interest derivatives. In cases where assets and liabilities have conflicting market risks, the mid-market price is used to determine fair value. See Note 28.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. Loan receivables and accounts receivable are measured at amortised cost

using the effective interest method, under which the carrying value of each acquired portfolio corresponds to the present value of all projected future cash flows discounted by an initial effective rate determined on the acquisition date, based on the relation between acquisition cost and projected future cash flows. Changes are reported in the income statement. A cash flow projection is made when each portfolio is acquired. Projected cash flows take into account the loan amount and other fees which, based on a probability assessment, are expected to be received from debtors, less projected collection costs.

Balance sheet items classified as loans and receivables refer to 'Lending to credit institutions', 'Lending to the public', and 'Acquired loan portfolios' (with the exception of loan portfolios acquired prior to 1 July 2011), as well as 'Other assets' (excluding derivatives with positive value).

"Acquired loan portfolios" are comprised of non-performing consumer loans acquired at a substantial discount relative to the nominal claim.

For loan portfolios recognised at amortised cost, an initial effective interest rate is determined using the initial cash flow projection and acquisition price, including transaction costs, as the basis for each portfolio. This initial effective rate is then used for discounting cash flows over a ten-year period. A new carrying value as at balance sheet date is calculated for the portfolios based on the updated cash flow projections and the initial effective interest rate as determined. Net collection forecasts for the portfolios are monitored continuously during the year and are updated regularly based on factors such as collection results achieved and instalment agreements with debtors. A new carrying value for the loan portfolios is calculated based on the updated forecasts. The variance is reported as income under 'Net revenue from acquired loans' in the income statement.

Impairment losses are reported together with positive revaluations in the income statement. Consequently, separate provisions for impairments are not reported in the balance sheet.

Other liabilities

The Group's 'Other liabilities' are specified in note 19 and are comprised of 'Deposits from the public' and 'Other liabilities' in the consolidated balance sheet. Other liabilities are initially recognised at fair value including transaction costs directly attributable to acquisition or issuance of the debt instrument. Subsequent to acquisition, they are carried at amortised cost in accordance with the effective interest method. Borrowings from credit institutions, current liabilities and other liabilities are reported as 'Current liabilities'. Non-current liabilities have an expected maturity exceeding one year, and current liabilities have a maturity of less than one year. Financial liabilities at fair value through profit or loss include financial liabilities held for trading (derivatives).

Unidentified income and payments

The Group receives large volumes of payments from debtors on its own behalf and on behalf of Group customers. In cases where the sender's reference information is missing or incorrect, it is difficult to assign payment to the correct account. Payments are also sometimes received on closed accounts. In such instances a reasonable search is conducted and an attempt is made to contact the payment sender. Unidentified payments are treated as 'Other liabilities'. The amounts are recorded as revenue in accordance within a predefined time frame.

10 Hedge accounting

Derivatives are used to hedge (for the purpose of neutralising) interest rate and exchange rate exposure for the Parent Company or the Group.

The company applies hedge accounting in cases where currency hedges are used to limit exchange rate exposure in foreign net investments. When hedge accounting is used for foreign net investments and the hedge has proven 80–125 per cent effective, changes in the hedging instrument's fair value are reported in 'Other comprehensive income' and accumulated (as are translation effects of net investments) in the translation reserve. In cases where the hedge is 101–125 per cent effective, the ineffectiveness is reported in the income statement in the item 'Net financial income'. Other derivatives to which hedge accounting does not apply report changes in fair value under 'Net financial income'.

11 Leasing

Lease contracts in which a significant share of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight line basis over the lease term. Operating leases relate primarily to leases of office premises and office equipment for the company's normal business operations.

Lease contracts in which a significant share of the risks and rewards of ownership are retained by the Group are classified as finance leases. Finance leases are reported as assets and liabilities in the balance sheet at the amount equal to the leased assets' fair value or, if lower, the present value of future minimum leasing fees as at inception of the lease. Lease payments are allocated between interest and amortisation of the outstanding debt. Interest is distributed over the lease term so that each accounting period is charged with an amount corresponding to a fixed interest rate for the liability reported during that period. The depreciation policy for assets acquired under financial leases is consistent with that for comparable own assets.

12 Intangible assets

Intangible assets are identifiable, non-monetary assets that lack physical substance and are under Hoist Finance's control.

Capitalised expenses for IT development

Expenditures for IT development and maintenance are generally expensed as incurred. Expenditures for software development that can be attributed to identifiable assets that are under the Group's control and that have anticipated future economic benefits are capitalised and reported as intangible assets.

Additional costs for previously developed software, etc. are reported as assets in the consolidated balance sheet if they increase the anticipated future economic benefits of the specific asset to which they are attributable – eg, by improving or extending a computer programme's functionality beyond its original use and estimated useful life.

IT development costs reported as intangible assets are amortised using the straight-line method over their useful lives, though not more than seven years. The asset is reported at cost less accumulated amortisation and impairment losses. Costs associated with the maintenance of existing computer software are continuously expensed as incurred.

For capitalisation of self-generated development expenditures, the corresponding amount is transferred from unrestricted equity to restricted equity in the Parent Company.

Goodwill

When the purchase price, any non-controlling interest and fair value at the acquisition date of previous shareholdings exceed the fair value of identifiable net assets acquired, the exceeding amount is reported as goodwill. Goodwill from acquisitions of subsidiaries is reported as intangible assets. Goodwill is tested annually, or more often if so indicated, to identify any impairment requirements and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Profit or loss on disposal of an entity includes the remaining carrying value of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Allocation is made to the cash generating units, or groups of cash generating units, determined in accordance with the Group's operating segments that are expected to benefit from the business combination in which the goodwill arose.

Other intangible assets

Other intangible assets are amortised on a straight-line basis over their useful lives, but not over a longer period than five years.

Impairments

An impairment test is conducted upon indication of depreciation in value, or at least

annually when each asset's residual value and remaining period of use are determined.

The recoverable value of the asset is estimated if there are indications of an impairment requirement. For goodwill and other intangible assets with indeterminate periods of use and for intangible assets that have not yet come into use, recoverable values are calculated on an annual basis. If independent cash flows cannot be determined for individual assets, the assets are grouped at the lowest level at which independent cash flows can be identified – a cash-generating unit.

An impairment is reported when the carrying value of an asset or a cash generating unit exceeds its recoverable value. Impairments are reported in the income statement. Impairments attributable to a cash generating unit are primarily allocated to goodwill and are subsequently distributed proportionally among other assets in the unit.

The recoverable value for cash generating units is the fair value less divestment costs or the useful value, whichever is greater. Useful value is calculated by discounting future cash flows using a discounting factor that takes into account the risk-free interest rate and the risk associated with that particular asset.

Goodwill impairment is not reversed. Impairment of other assets is reversed if there have been changes in the underlying assumptions that were used to determine recoverable value. Impairments are reversed only to the extent that the carrying value of the assets following the reversal does not exceed the carrying value of the assets if the impairment had not been reported.

13 Tangible assets

Tangible assets are comprised of IT equipment, improvements to leased premises, and equipment.

Tangible assets are reported as assets in the balance sheet if it is likely that the future economic benefits will accrue to the company and the cost of the asset can be reliably estimated. Tangible assets are reported at cost less accumulated depreciation and impairments.

Principles for depreciation/amortisation of assets

Assets are depreciated/amortised using the straight-line method over estimated useful life and applying the following periods:

- Equipment 2–5 years
- Investments in leased premises 5 years
- Intangible assets 3–7 years

14 Provisions

Provisions are recognised for existing legal or informal obligations arising from past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation and where the amount can be reliably estimated. The amount must be able to be reliably estimated in order to for recognition to occur. The provision is measured at the amount corresponding to the best estimate of the expenditure required to settle the obligation at the balance sheet date.

The expected future date of the settlement is taken into account in the estimate.

15 Income and expenses

Net revenue from acquired loan portfolios

All income from acquired loan portfolios is reported under 'Net revenue from acquired loan portfolios' in the income statement.

Income from acquired loan portfolios are carried at fair value through profit or loss include: (i) the effect of discount rate changes, (ii) changes to expected future cash flow, and (iii) the discrepancy between expected cash flow and actual cash flows. Income from acquired loans reported at amortised cost include (ii) and (iii).

For acquired portfolios measured at amortised cost, the discount rate remains constant when a projected cash flow curve for the portfolio is determined. Consequently, revaluation effects only occur when the projected cash flow curves are adjusted in arrears.

Interest income

Interest income in the income statement is reported under 'Net revenue from acquired loan portfolios' and 'Interest income' and is disclosed in a note. 'Net revenue from acquired loan portfolios' is comprised of interest income calculated based on the effective interest method and of payments received on acquired loan portfolios, which may exceed or fall below expected amounts. Interest income calculated using the effective interest method is calculated based on the original effective interest rate, when the loans are recognised at amortised cost. 'Other interest income' is generated through lending to credit institutions and to the public and through investments in 'Treasury bills and treasury bonds' as well as 'Bonds and other securities'.

Interest expense

Interest expense is mainly comprised of expenses associated with the Group's funding via deposits from the public and issued bonds.

Fee and commission income

Fee and commission income is reported when (i) the revenue can be reliably measured, (ii) it is probable that the economic benefits associated with the translation will accrue to the company, (iii) the degree of completion as at the balance sheet date can be reliably calculated, and (iv) the expenses incurred and the expenses required to complete the transaction can be reliably calculated. Revenue is measured at the fair value of the received or due consideration.

Fees and commissions related to financial services carried out on an ongoing basis and for which the services' degree of completion is achieved progressively are reported and expensed as revenue over the period during which the services are rendered.

Net financial income

Net financial income includes realised and unrealised exchange rate fluctuations, unrealised changes in the value of assets and liabilities classified as 'Assets at fair value through profit or loss', amortised cost (with the exception of acquired loan portfolios) or held for trading, and the inefficient part of hedge accounting.

Other operating expenses

Various types of costs directly related to loan portfolio administration are grouped under 'Other operating expenses'. For the Group, 'Other operating expenses' are mainly direct costs for external collection services. 'Fee and commission income' refers to income for these external services and is recognised when fee and commission amounts can be reliably measured.

Net credit losses

In the event an impairment is deemed to be permanent, it is reported as a realised loss and the value of the asset is removed from the balance sheet. Impairments related to 'Other assets' are reported as 'Net credit losses'.

16 Employee benefits

All forms of remuneration provided to employees as compensation for services rendered constitute employee benefits.

Short-term benefits

Short-term benefits to employees are settled within twelve months following the close of the reporting period during which the services were rendered. Short-term benefits are mainly comprised of fixed and variable salary, both of which are accounted for during the period in which the related services are rendered. Post-employment benefits in Hoist Finance cover only pensions. Benefits that are not expected to be fully settled within twelve months are reported as long-term benefits.

Redundancy payments

Remuneration expense in connection with termination of personnel is reported either when the company is no longer able to withdraw the redundancy offer or when the company reports restructuring costs, whichever occurs sooner. Payments that are expected to be settled after twelve months are reported at present value.

Pensions

Group companies operate various pension schemes, which are generally funded through payments determined by periodic actuarial calculations to insurance companies or trustee-administered funds.

The Group has both defined-benefit and defined-contribution plans:

- Defined-benefit plans normally specify the pension rate to be received by the employee upon retirement, usually dependent on one or several factors, such as age, years of service and salary.

» Under defined-contribution plans, the Group pays fixed contributions into a separate entity. The Group has no legal or informal obligation to pay further contributions if the fund does not hold sufficient assets to pay all benefits to employees relating to employee service during the current and prior periods.

The liability reported in the consolidated balance sheet with respect to defined-benefit pension plans is the present value of the defined-benefit obligation as at the balance sheet date less the fair value of plan assets. The defined-benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The net present value of the defined-benefit obligation is determined by discounting estimated future cash flows using interest rates of high-quality corporate bonds denominated in the currency in which the benefits will be paid and with durations approximating the durations of the related pension liability.

Net interest expense/income for the defined-benefit pension obligation/asset is reported in "Net interest income". Net interest income is based on the discount rate used in calculating the net obligation – ie, the interest on the obligation, plan assets and interest on effects of any asset restrictions. Other components are recognised in net operating income.

Revaluation effects are comprised of actuarial gains and losses, discrepancies between actual return on plan assets and the amount included in net interest income, and any changes to effects of asset restrictions (exclusive of interest included in net interest income). Revaluation effects are reported in 'Other comprehensive income'.

Changes to or reductions of a defined-benefit plan are reported of the earliest either

a. when the change to or reduction in the plan occurs, or
b. when the company reports the associated restructuring costs and redundancy costs.

Changes/reductions are reported directly as personnel expenses in the profit and loss accounts.

The special employer's contribution is included in the actuarial assumptions and is reported as part of the net obligation/asset. The portion of the special employer's contribution that is calculated based on the Pension Obligations Vesting Act in the legal entity is reported as an accrued cost rather than as part of the net obligation/asset.

Tax on returns from pension funds is reported in profit or loss for the period the tax relates to, and is thus not included in the liability projection. For funded pension plans, the tax is charged to 'Return on plan assets' and is reported in 'Other comprehensive income'. For unfunded or partially unfunded plans, the tax is charged to 'Net profit for the year'.

For defined-contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are reported as employee benefit expense when they fall due. Prepaid contributions are reported as an asset to the extent that a cash refund or a reduction in the future payments is available.

Warrant programme

Warrants have been sold at market price (fair value) to employees. The transactions fall within the scope of IFRS 2 "Share-based payments", as the future value of the warrants are affected by continued employment. There is no expense to report due to the fact that the employees paid market price for the warrants; however, IFRS 2 disclosure requirements are applied when applicable. See Note 5 for additional details.

17 Taxes

Taxes are comprised of current tax and deferred tax. Taxes are reported through profit or loss unless the underlying transaction is directly reported in 'Equity' or in 'Other comprehensive income', in which case the attributable tax effect is also reported in 'Equity' or 'Other comprehensive income', respectively.

Current tax refers to tax paid or received for the current year, using tax rates that apply as at balance sheet date, including adjustments for current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method based on temporary differences between the carrying value of assets and liabilities and their value for tax purposes. The following temporary differences are not taken into account:

» Temporary differences that arise in the initial recognition of goodwill.
» The initial recognition of assets and liabilities in a transaction other than a business combination and which, at the time of the transaction, does not affect either the reported or taxable profit.
» Temporary differences attributable to participations in subsidiaries and associated companies that are not expected to be reversed within the foreseeable future.

The measurement of deferred tax is based on how the carrying values of assets or liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been set or essentially set as of the balance sheet date.

Deferred tax assets from deductible temporary differences and tax losses carryforwards are only recognised if it is likely that they will be utilised within the foreseeable future. The value of deferred tax assets is reduced when they are utilised or when it is no longer deemed likely that they will be utilised.

Current tax, deferred tax, and tax attributable to the previous year are reported under 'Income tax expense'.

18 Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to Hoist Finance AB (publ) shareholders, adjusted for interest on capital instruments recorded in equity, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, consisting of rights to performance shares in the long-term warrant programmes.

Potential ordinary shares are only considered to be dilutive on the balance sheet date if a conversion to ordinary shares would reduce the earnings per share. The rights are further considered dilutive only when the exercise price, plus of future services, is lower than the period's average share price.

19 Equity

When a financial instrument is issued in the Group it is reported as a financial liability or as an equity instrument, in accordance with the financial implications of the instrument's terms. These instruments or sections thereof are reported as liabilities when the company has an irrevocable obligation to pay cash. Issued financial instruments that do not irrevocably oblige the company to pay cash on interest and nominal amounts are reported as equity.

Return to investors is reported as a dividend to equity with respect to equity instruments and as an interest expense in profit or loss with respect to debt instruments.

Dividend

Proposed dividends are reported as a liability after having been approved by the Annual General Meeting.

20 Related-party transactions

Hoist Finance defines related parties as:

» Shareholders with significant influence
» Group companies
» Associated companies and joint venture
» Key senior management
» Other related parties

All intra-Group transactions between legal entities and transactions with other related parties are conducted pursuant to the arm's length principle in accordance with OECD requirements. Intra-Group transactions are eliminated in the consolidated accounts.

Shareholders with significant influence

Shareholders with significant influence are entitled to take part in decisions on Hoist Finance's financial and operational strategies, but do not have controlling influence over such strategies.

Group companies and associated companies

A company is defined as a related party if the company and its reporting entity are part of the Hoist Finance Group.

See section 6, Consolidation, for the definition of "subsidiaries and joint ventures". Further information on Hoist Finance Group companies is presented in Note 14, Group companies.

Key senior management

Key senior executives includes:

- The Board of Directors
- The Chief Executive Officer (CEO)
- The Executive Management Team

See Note 5 for details on compensation, pensions and other transactions with key senior executives.

Other related parties

Other related parties comprise close relatives and family members of key senior management, if that or those person(s) has or have controlling influence, severally or jointly, over the reporting entity.

Other related parties are also companies over which Hoist Finance Group key management personnel, or their close relatives, have significant influence.

Information on transactions between Hoist Finance and other related parties is presented in Note 34, Related-party transactions.

21 Cash flow statement

The cash flow statement includes changes in the balance of cash and cash equivalents. The Group's cash and cash equivalents is comprised of cash, treasury bills and treasury bonds and lending to credit institutions. Cash flow is divided into cash flow from operating activities, investment activities and financing activities. The indirect method is used to report cash flow.

Cash flow from investing activities includes only actual disbursements for investments made during the year.

Foreign subsidiaries' transactions are translated in the cash flow statement at the average exchange rate for the period. Acquired and divested subsidiaries are reported as 'Cash flow from investing activities, net', after deducting cash and cash equivalents in the acquired or divested company. For acquired and divested subsidiaries that hold debt portfolios, acquired and divested loan portfolios are reported in 'Operating activities'.

22 Parent Company accounting principles

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the regulatory code issued by the Swedish Financial Supervisory Authority on Annual Reports in Credit institution and Securities Companies (FFFS 2008:25), including applicable amendments. The Swedish Financial Board's RFR 2 "Accounting for legal entities" requires the Parent Company to use the same accounting principles as the Group (ie, IFRS) to the extent allowed by Swedish accounting legislation. However, the exception in RFR 2 is applied with respect to guarantee agreements benefiting subsidiaries. Mergers are accounted for in accordance with BFNAR 1999:1.

The differences between the Group's and the Parent Company's accounting principles are stated below.

22.1 New standards, amendments and interpretations that have not yet been applied

IFRS 9 FINANCIAL INSTRUMENTS

Parent Company

The Parent Company will apply IFRS 9 in its entirety as of 1 January 2018. However, the RFR 2 exception will be applied with respect to guarantee agreements benefiting subsidiaries.

The Parent Company's financial assets will continue to be classified at amortised cost and, accordingly, the transition to IFRS 9 will have no effect.

The Parent Company's financial assets recognised at amortised cost are subject to a loss allowance. The calculated credit loss for Hoist Finance is not significant and no loss allowance is presented.

22.2 Group contributions and dividends

Group contributions

Hoist Finance applies the main rule in RFR2 IAS 27.2. Group contributions received from Group companies are reported in the income statement. The net of Group contributions paid or received for optimising the Group's tax expense is reported as appropriation in the Parent Company. Group contributions from the Parent Company to subsidiaries are reported as an increase in participations in Group companies, net of tax.

Dividends

Dividends paid to Hoist Finance AB (publ) shareholders are reported as a liability following the approval of the Annual General Meeting. Dividends from subsidiaries and associated companies are reported as 'Dividends received'.

22.3 Subsidiaries

Parent Company shareholdings and participations in Group companies are reported based on cost of acquisition. Holdings are carried at cost and only dividends are reported in the income statement. Impairment tests are conducted in accordance with IAS 36 "Impairments of assets" and write-downs are made when permanent decline in value is established.

Transaction costs are included in the carrying value of the holding in the subsidiary. Transaction costs attributable to subsidiaries are reported directly in profit or loss in the consolidated accounts when incurred.

Contingent purchase prices are valued based on probability of payment. Any changes to the provision/receivable is added to/reduced from the cost of acquisition.

Low-priced acquisitions that match anticipated losses and expenses are reversed during the periods in which the losses and expenses are expected to arise. Low-priced acquisitions resulting from other factors are reported as provisions to the extent they do not exceed the fair values of acquired identifiable non-monetary assets. The portion exceeding this amount is directly taken up as income. The portion that does not exceed the fair value of acquired identifiable non-monetary assets is reported as income systematically over a period of time that is based on the remaining weighted average useful life of the acquired identifiable depreciable assets. In the consolidated accounts, low-priced acquisitions are reported directly in profit or loss.

22.4 Development expenditure fund

Capitalisation of self-generated development expenditures is limited by the option of distributing capital. The amount corresponding to capitalised self-generated development expenditure is transferred from retained earnings to a special restricted fund. The rule applies to capitalisation of expenditures for financial years beginning immediately after 31 December 2015. The fund is reduced in the event of amortisation, impairment or divestment.

22.5 Untaxed reserves

In the Parent Company, untaxed reserves are reported as a separate item in the balance sheet. In the consolidated financial statements, untaxed reserves are divided into a 'deferred tax liability' component and an 'equity' component.

23 Exchange rates

	2017	2016
1 EUR = SEK		
Income statement (average)	9.6331	9.4622
Balance sheet (at end of the period)	9.8497	9.5669
1 GBP = SEK		
Income statement (average)	10.9991	11.5849
Balance sheet (at end of the period)	11.1045	11.1787
1 PLN = SEK		
Income statement (average)	2.2629	2.1688
Balance sheet (at end of the period)	2.3606	2.1662

24 Accounting policies applicable from 1 January 2018

FINANCIAL ASSETS AND LIABILITIES

Recognition in and derecognition from the balance sheet

A financial asset or liability is recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument. A receivable is recognised in the balance sheet when the company is contractually liable to pay, even if an invoice has not been sent. Loan receivables, deposits, issued securities and subordinated debt are recognised in the balance sheet at the settlement date. A spot purchase or sale of financial assets is recognised in and derecognised from the statement of financial position on the trade date. A financial asset is derecognised from the balance sheet when the contractual rights to receive cash flows from the financial asset expire or when the financial asset is transferred and the company simultaneously transfers essentially all of the risks and rewards of ownership of the financial asset. A financial liability or portion thereof is derecognised when the obligation is discharged or otherwise extinguished. An exchange between the company and an existing lender, or an existing borrower of debt instruments with essentially different terms and conditions, is recognised as an extinguishment of the old financial liability or asset, respectively, and recognised as a new financial instrument. Financial assets and liabilities are offset and the net amount recognised in the balance sheet only when there is a legal right to offset the amounts and an intention to settle the items net or to concurrently realise the asset and settle the liability.

With regard to "Acquired loan portfolios," changes in instalment agreements do not comprise grounds for derecognition from the balance sheet or for recognition of modifications of loan receivables. Debtor instalment agreements are completed on a regular basis for receivables in "Acquired loan portfolios" and in some countries, the instalment agreements are established through legal processes pursuant to insolvency rules. Changes in expected cash flows as a result of instalment agreements have an impact on the portfolios' amortised cost and are recognised in profit or loss as "Impairment gains and losses."

Earnings effects arising from balance sheet derecognitions, for example on the write-off or sale of financial assets or liabilities, are recognised in profit or loss under "Net income from financial transactions", or, where applicable, under a separate item in profit or loss.

Modified assets and liabilities

Modified assets and liabilities are recalculated based on the original effective interest rate, and modification gains/losses are recognised in profit or loss. The earnings effect is presented under "Net income from financial transactions".

Classification and measurement

Financial instruments are initially recognised at fair value plus transaction costs, with the exception of derivatives and instruments from the "Financial asset at fair value through profit or loss" category, which are recognised at fair value in profit or loss. These are recognised at fair value exclusive of transaction costs. Financial instruments are classified on initial recognition. The classification of a financial asset is based on the underlying reason in the entity's business model for acquiring the asset and the nature of the contractual cash flows generated by the financial asset. Financial liabilities are classified at amortised cost, except for derivative liabilities, which are classified at fair value through profit or loss. The classification determines how the financial instrument is measured after initial recognition, as described below.

Financial assets and liabilities at fair value through profit or loss

The financial assets recognised by the Group at fair value through profit or loss (FVTPL) are derivatives with positive values where hedge accounting is not applied as well as "Eligible treasury bills" and "Bonds and other securities." In addition to derivatives, financial assets recognised at FVTPL are managed pursuant to a fair-value-based business model primarily aimed at providing liquidity for the acquisition of loan portfolios. The financial liabilities recognised at FVTPL are derivatives with negative values to which hedge accounting does not apply. Derivatives are initially recognised at fair value at the date the derivative is contracted, and are subsequently measured at fair value at the end of each reporting period. Changes in fair value are recognised in the "Net income from financial transactions" item.

Fair value measurement

The fair value of financial instruments traded on an active market (level 1) is determined for financial assets based on the current bid price. Assets measured at fair value in the balance sheet and traded on an active market comprise investments in eligible treasury bills, and bonds and other securities. Financial instruments that are not traded on an active market but which can be measured using other valuation methods, with observable market information as input (level 2), are comprised of currency hedges and interest derivatives. In cases where assets and liabilities have conflicting market risks, the mid-price is used to determine fair value. See the note disclosures.

Acquired loan portfolios

"Acquired loan portfolios" comprise of performing loans and credit-impaired assets acquired at a substantial discount relative to the nominal claim. The portfolios are held within the framework of a business model with the objective of collecting contractual cash flows comprising repayments of capital and interest on the capital outstanding. The loan portfolios are measured at amortised cost using the effective interest method, under which the carrying amount of each acquired portfolio corresponds to the present value of all projected future cash flows discounted by an initial credit-adjusted effective interest rate determined on the acquisition date. The initial credit-adjusted effective interest rate is based on the relationship between cost, in other words fair value and transaction costs, and projected future cash flows. A 15-year cash flow projection is made in conjunction with the acquisition of each portfolio. The projected cash flows are based on a probability assessment of what can be expected to be received from debtors. Projected cash flows take into consideration the value of any underlying collateral, net of sales proceeds and related costs. Ongoing collection costs are not included in the projections.

A new, balance-sheet-date carrying amount is calculated for the portfolios based on the updated cash-flow projections and the initially determined, credit-adjusted effective interest rate. The net of the portfolios gross book value and loss allowances is presented in the "Acquired loan portfolios" balance-sheet item, which can be seen in the notes. The loss allowance comprises the difference between the present value of current and initially projected cash flows and the difference between realised and initially projected cash flows. The valuation of the loss allowance reflects an objective probability-weighted amount that takes into account several possible scenarios based on reasonable and verified projections. Collection projections for the portfolios are followed up continuously during the year and are updated based on factors such as collection results achieved and instalment agreements with debtors, as well as for other forward-looking factors that impact projected cash flows. Macroeconomic factors are not assessed as having any material impact on total cash flows from "Acquired loan portfolios."

Changes in the loss allowance can be both positive and negative and are recognised under "Impairment gains and losses" in profit or loss. For credit-impaired assets, the interest income is calculated by applying the initial credit-adjusted effective interest rate on the portfolio's amortised cost at the start of the period and is recognised under "Interest income" in profit or loss.

Seized assets

Seized assets are assets taken over to protect a claim. Hoist Finance may refrain from a loan receivable and instead seize the asset that served as collateral for the loan. Seized assets may consist of financial assets, properties and other tangible assets. Seized asset are recognised on the same line item in the balance sheet as similar assets that have been acquired otherwise. Seized assets which consist of tangible assets are measured as inventories in accordance with IAS 2. At inception seized assets are measured at fair value. The fair value at initial recognition becomes the acquisition value.

Subsequently seized assets are measured according to type of asset with the exception of impairment on tangible seized assets that is reported as Gains less losses from tangible and intangible assets rather than as Depreciation, amortisation and impairment of tangible and intangible assets. The purpose is to better reflect the similar character of impairment of assets that are taken over to protect claims on counterparties and credit losses.

Financial assets at amortised cost

Financial assets at amortised cost encompasses "Lending to credit institutions," as well as accounts receivable and other financial assets reported under "Other assets" (excluding derivatives with positive values). The assets are held within the framework of a business model with the objective of holding assets to collect contractual cash flows comprising repayments of capital and interest on the capital outstanding. On initial recognition, accounts receivable are recognised at the transaction price and other financial assets are recognised at fair value exclusive of transaction costs. Thereafter, the effective interest method is used to measure amortised cost. The items provide the basis for the loss allowance for expected credit losses (ECLs).

The loss allowance for accounts receivable is calculated using the simplified approach. The ECL allowance is prepared on initial recognition and on subsequent balance-sheet dates, and takes into consideration the remaining term of the receivable.

The loss allowance for "Lending to credit institutions" and other financial assets is based on allocation of the assets in three different stages that reflect changes in credit risk. On initial recognition, the asset is allocated to stage 1 and, on initial recognition and on subsequent balance-sheet dates, a loss allowance is reported for the next 12 months. If the credit risk for the financial asset has increased significantly since initial recognition, the asset is allocated to stage 2 and the loss allowance is calculated for the entire remainder of the term. While a loss allowance continues to be calculated for the entire remainder of the term for stage 3 credit deteriorated assets, interest income according to the effective interest method is calculated on the amortised cost, in other words after taking into account the loss allowance. Should the credit risk decline, the asset can once again be allocated to stages 1 or 2. The allocation criteria for the various stages are determined by the Group, and material amounts are presented in the notes.

The recognised balance-sheet items comprise the net of gross amounts and the loss allowance. Consequently, no separate provision for the loss allowance is reported in the balance sheet. Changes in the loss allowance are recognised under "Impairment gains and losses" in profit or loss.

Other liabilities and senior debt

The Group's "Other liabilities" comprise other liabilities in the consolidated balance sheet and are specified in the notes. "Other liabilities" and "Senior debt" are initially recognised at fair value including transaction costs directly attributable to the acquisition or issue of the debt instrument. Subsequent to acquisition, they are carried at amortised cost in accordance with the effective interest method. Financial liabilities at FVTPL include financial liabilities held for trading (derivatives).

Unidentified revenue and payments

The Group receives large volumes of payments from debtors on its own behalf and on behalf of Group customers. In cases where the sender's reference information is missing or incorrect, it is difficult to assign the payment to the correct account. Payments are also sometimes received on closed accounts. In such instances, a reasonable search is conducted and an attempt is made to contact the payment sender. Unidentified payments are treated as "Other liabilities." The amounts are recognised as revenue in accordance within a predefined time frame.

Hedge accounting

The Group applies hedge accounting in accordance with IAS 39.

Derivatives are used to hedge (for the purpose of neutralising) any risk of interest-rate and exchange-rate exposure for the Parent Company or the Group. The company applies hedge accounting in cases where currency derivatives or foreign currency debts are used to hedge net investments in foreign operations. When hedge accounting is used for foreign net investments and the hedge has proven 80–125 % effective, changes in the hedging instrument's fair value are recognised in "Other comprehensive income" and accrued (as are the translation effects of net investments) in the translation reserve. In cases where the hedge is 101–125 % effective, the ineffectiveness is recognised in the income statement in the item "Net income from financial transactions." For other derivatives to which hedge accounting does not apply, changes are recognised in fair value under the item "Net income from financial transactions."

Income and expenses

Interest income

Interest income encompasses interest income according to the effective interest method from "Acquired loan portfolios," from "Lending to credit institutions" and investments in "Eligible treasury bills" and "Bonds and other securities."

Interest income pertaining to credit-impaired assets is based on the initial credit-adjusted effective interest rate and the portfolio's amortised cost at the start of the period. Interest income pertaining to "Other financial instruments" is based on the initial effective interest rate and the instrument's gross value at the start of the period. However, if an asset has suffered credit deterioration, the interest income is calculated on the amortised cost, that is, the net of the gross value and the ECL loss allowance.

Interest expense

Interest expense is mainly comprised of expenses associated with the Group's funding via deposits from the public and issued debt instruments.

Fee and commission income

For the Group, the services are transferred and income recognised at a given time. Variable payments are recognised as income to the extent it is highly probable that no material provision of previously recognised accumulated income is likely to arise in later periods. Revenue consists of the amount which is expected to be received for services rendered.

Net income from financial transactions

"Net income from financial transactions" includes realised and unrealised exchange rate fluctuations, gains/losses on financial assets and liabilities recognised at FVTPL, liabilities recognised at amortised cost and the ineffective portion of hedges of foreign net investments. The item can also include modification gains/losses. Earnings effects that are not recognised as separate earnings items that pertain to financial assets recognised at amortised cost can, when derecognised from the balance sheet and on reclassification, be recognised under "Net income from financial transactions."

Other operating expenses

Various types of costs directly related to loan portfolio administration are grouped under "Other operating expenses." For the Group, "Other operating expenses" are mainly direct costs for external collection services. "Fee and commission income" refers to income for these external services and is recognised when fee and commission provisions can be reliably measured.

Impairment gains and losses

The earnings item comprises loss allowance changes pertaining to "Acquired loan portfolios." Where applicable, modification gains/losses attributable to "Acquired loan portfolios" are included. The item also encompasses a loss allowance for other financial assets recognised at amortised cost. Both positive and negative remeasurements can be recognised under this item. If no reasonable expectation exists of recovering the remaining receivables in a portfolio, an impairment loss is recognised and the carrying amount of the asset derecognised from the balance sheet.

General description of changes in 2018 compared with previous years

A general description follows of the income statement and balance sheet items recognised pursuant to IFRS 9 in 2018, for which changes will occur compared with last year's reporting under IAS 39.

Net revenue from acquired loan portfolios

This item is eliminated from the income statement from 2018.

Interest income is calculated using the effective interest method and recognised in "Interest income" and increases the amortised cost of "Acquired loan portfolios." Cash flows from customers are recognised as capital repayments on receivables. Realised cash flows that deviate from projected cash flows are recognised under "Net credit losses." The change in net present value of projected future cash flows are also recognised in "Net credit losses."

Interest income

From 2018, interest income pertaining to "Acquired loan portfolios" is also recognised under this item.

The interest income on "Acquired loan portfolios" is based on the credit-adjusted, effective interest rate established on initial recognition of the portfolios comprised of credit impaired assets. For acquired performing loans the effective interest income is is based on the gross value of the asset. The effective interest rate is established based on 15-year projected cash flows excluding collection costs. Previously, projected cash flows excluding collection costs applied a ten-year horizon. The credit-adjusted effective interest rate was recalculated for all portfolios on the transition to IFRS 9.

Impairment gains and losses

From 2018, changes in the loss allowance for "Acquired loan portfolios" and recognised expected credit losses pertaining to other financial assets classified at amortised cost are also recognised under this item.

For purchased performing loan assets, IFRS 9 outlines a 'three-stage' model for impairment based on the changes in credit quality since initial recognition as summarised below:

- All financial assets that are not credit impaired at initial recognition are classified at 'Stage 1';
- 'Stage 2' financial assets are those with a significant increase in credit risk;
- 'Stage 3' financial assets are those which are credit impaired.

Notes

Note 1 Segment rapportering

Consolidated income statement

SEK thousand	2017	2016
Net revenue from acquired loan portfolios	2,644,027	2,404,955
Of which, gross collections on acquired loan portfolios	*4,877,171*	*4,311,162*
Of which, portfolio amortisation and revaluation	*–2,233,144*	*–1,906,207*
Interest income	–9,806	2,558
of which, interest income from run-off consumer loan portfolio	*4,540*	*5,841*
Of which, interest income excl. run-off consumer loan portfolio[1]	*–14,346*	*–3,283*
Interest expense	–305,066	–300,288
Net interest income	**2,329,155**	**2,107,225**
Fee and commission income	73,301	116,817
Net income from financial transactions	–50,324	–97,529
Other income	13,279	13,651
Total operating income	**2,365,411**	**2,140,164**
General administrative expenses		
Personnel expenses	–730,005	–672,355
Other operating expenses	–1,074,455	–966,697
Depreciation and amortisation of tangible and intangible assets	–55,943	–52,796
Total operating expenses	**–1,860,403**	**–1,691,848**
Profit before credit losses	**505,008**	**448,316**
Net credit losses	–	–1,260
Profit from shares and participations in joint ventures	76,138	86,042
Profit before tax	**581,146**	**533,098**

1) Including financing costs.

Operating income statement based on segment reporting

SEK thousand	2017	2016
Gross collections on acquired loan portfolios	4,877,171	4,311,162
Portfolio amortisation and revaluation	–2,233,144	–1,906,207
Interest income from run-off consumer loan portfolio	4,540	5,841
Net revenue from acquired loan portfolios	**2,648,567**	**2,410,796**
Fee and commission income	73,301	116,817
Profit from shares and participations in joint ventures	76,138	86,042
Other income	13,279	13,651
Total revenue	**2,811,285**	**2,627,306**
Personnel expenses	–730,005	–672,355
Collection costs	–672,108	–595,915
Other operating expenses	–402,347	–370,782
Depreciation and amortisation of tangible and intangible assets	–55,943	–52,796
Total operating expenses	**–1,860,403**	**–1,691,848**
EBIT	**950,882**	**935,458**
Interest income excl. run-off consumer loan portfolio[2]	–14,346	–3,283
Interest expense	–305,066	–300,288
Net income from financial transactions[1]	–50,324	–98,789
Total financial items	**–369,736**	**–402,360**
Profit before tax	**581,146**	**533,098**

Segment reporting has been prepared based on the manner in which executive management monitors operations. This differs from statutory account preparation; the material differences are as follows:

- Revenue includes income from
  - acquired loan portfolios
  - run-off consumer loan portfolio
  - fee and commission income from third parties
  - profit from shares and participations in joint ventures
  - other income
- Total financial items include interest income from sources other than acquired loan portfolios, interest expense and net financial income.

Group costs for central and supporting functions are not allocated to the operating segments but are reported as Central Functions and Eliminations.

A financing cost is allocated to the operating segments based on the acquired loan portfolio assets. The difference between the actual financing cost and the standardised cost is included in Central Functions and Eliminations.

With respect to the balance sheet, only acquired loan portfolios are monitored. Other assets and liabilities are not monitored on a segment-by-segment basis.

Note 1 *Segment reporting, cont*

Income statement 2017

SEK thousand	Region West Europe [1]	Region Mid Europe [2]	Region Central East Europe [3]	Central Functions and Eliminations	Group
Gross collections on acquired loan portfolios	1,588,291	1,821,592	1,467,288	–	4,877,171
Portfolio amortisation and revaluation	–668,970	–904,006	–660,168	–	–2,233,144
Interest income from run-off consumer loan portfolio	–	–	4,540	–	4,540
Net revenue from acquired loan portfolios	**919,321**	**917,586**	**811,660**	**–**	**2,648,567**
Fee and commission income	54,387	4,796	14,118	–	73,301
Profit from shares and participations in joint ventures	–	25,354	–	50,784	76,138
Other income	154	2,067	12,762	–1,704	13,279
Total revenue	**973,862**	**949,803**	**838,540**	**49,080**	**2,811,285**
Personnel expenses	–231,925	–125,531	–208,484	–164,065	–730,005
Collection costs	–204,900	–308,955	–158,248	–5	–672,108
Other operating expenses	–112,823	–49,827	–64,730	–174,967	–402,347
Depreciation and amortisation of tangible and intangible assets	–11,294	–7,790	–7,516	–29,343	–55,943
Total operating expenses	–560,942	**–492,103**	**–438,978**	**–368,380**	**–1,860,403**
EBIT	**412,920**	**457,700**	**399,562**	**–319,300**	**950,882**
Interest income excl. run-off consumer loan portfolio	–	–	1,291	–15,637	–14,346
Interest expense	–	–112	–520	–304,434	–305,066
Net income from financial transactions [4]	–250,874	–218,741	–176,083	595,374	–50,324
Total financial items	**–250,874**	**–218,853**	**–175,312**	**275,303**	**–369,736**
EBT	**162,046**	**238,847**	**224,250**	**–43,997**	**581,146**

1) Total revenue of SEK 756 million for the UK is included in the revenue of Region West Europe.
2) Total revenue of SEK 671 million for Italy is included in the revenue for Region Mid Europe.
3) Total revenue of SEK 461 million for Germany is included in the revenue of Region Central East Europe.
4) Including financing costs.

Note 1 *Segment reporting, cont*

Income statement 2016

SEK thousand	Region West Europ [1]	Region Mid Europe [2]	Region Central East Europe [3]	Central Functions and Eliminations	Group
Gross collections on acquired loan portfolios	1,296,766	1,574,731	1,439,665	–	4,311,162
Portfolio amortisation and revaluation	–487,587	–763,410	–655,210	–	–1,906,207
Interest income from run-off consumer loan portfolio	–	–	5,841	–	5,841
Net revenue from acquired loan portfolios	**809,179**	**811,321**	**790,296**	**–**	**2,410,796**
Fee and commission income	65,629	5,006	46,182	–	116,817
Profit from shares and participations in joint ventures	–	616	–	85,426	86,042
Other income	–	1,769	14,502	–2,620	13,651
Total revenue	**874,808**	**818,712**	**850,980**	**82,806**	**2,627,306**
Personnel expenses	–231,502	–111,301	–181,875	–147,677	–672,355
Collection costs	–246,005	–221,228	–128,682	–	–595,915
Other operating expenses	–112,356	–53,821	–49,924	–154,681	–370,782
Depreciation and amortisation of tangible and intangible assets	–11,977	–7,210	–7,299	–26,310	–52,796
Total operating expenses	**–601,840**	**–393,560**	**–367,780**	**–328,668**	**–1,691,848**
EBIT	**272,968**	**425,152**	**483,200**	**–245,862**	**935,458**
Interest income excl. run-off consumer loan portfolio	101	–	3,513	–6,897	–3,283
Interest expense	–3	–102	–1,347	–298,836	–300,288
Net income from financial transactions [4]	–207,219	–182,721	–181,453	472,604	–98,789
Total financial items	**–207,121**	**–182,823**	**–179,287**	**166,871**	**–402,360**
EBT	**65,847**	**242,329**	**303,913**	**–78,991**	**533,098**

1) Total revenue of SEK 789 million for the UK is included in the revenue of Region West Europe.
2) Total revenue of SEK 500 million for Italy is included in the revenue for Region Mid Europe.
3) Total revenue of SEK 474 million for Germany is included in the revenue of Region Central East Europe.
4) Including financing costs.

Acquired loan portfolios, 31 Dec 2017

SEK thousand	Region West Europe	Region Mid Europe	Region Central East Europe	Central Functions and Eliminations	Group
Run-off consumer loan portfolio	–	–	21,325	–	21,325
Acquired loan portfolios	5,658,134	5,262,229	3,845,626	–	14,765,989
Shares and participations in joint ventures [1]	–	–	–	236,635	236,635
Acquired loan portfolios	**5,658,134**	**5,262,229**	**3,866,951**	**236,635**	**15,023,949**

1) Refers to the value of shares and participations in joint ventures in Poland with acquired loan portfolios and is therefore not equivalent to corresponding item in the balance sheet.

Acquired loan portfolios, 31 Dec 2016

SEK thousand	Region West Europe	Region Mid Europe	Region Central East Europe	Central Functions and Eliminations	Group
Run-off consumer loan portfolio	–	–	32,194	–	32,194
Acquired loan portfolios	4,522,429	4,331,437	3,531,681	–	12,385,547
Shares and participations in joint ventures [1]	–	–	–	240,580	240,580
Acquired loan portfolios	**4,522,429**	**4,331,437**	**3,563,875**	**240,580**	**12,658,321**

1) Refers to the value of shares and participations in joint ventures in Poland with acquired loan portfolios and is therefore not equivalent to corresponding item in the balance sheet.

Note 2 Net interest income

	GROUP		PARENT COMPANY	
SEK thousand	**2017**	**2016**	**2017**	**2016**
Interest income from acquired loan portfolios				
of which, at amortised cost	2,416,719	2,300,190	–	–
of which, at fair value	227,308	104,765	–	–
Net revenue from acquired loan portfolios	**2,644,027**	**2,404,955**	**–**	**–**
Interest income, banks	3,298	6,038	1,311	952
Interest-bearing securities	–17,643	–9,321	–	–
Loan receivables	4,539	5,841	1,907	–667
Intra-Group loan receivables	–	–	28,698	10,270
Interest income	**–9,806**	**2,558**	**31,916**	**10,555**
Interest expense, deposits from the public	–122,069	–134,199	–	–
Other interest expense, financial liabilities				
of which, at amortised cost	–168,868	–155,716	–	–
of which, at fair value	–14,129	–10,373	–4,731	–1,602
Interest expense	**–305,066**	**–300,288**	**–4,731**	**–1,602**
Net interest income	**2,329,155**	**2,107,225**	**27,185**	**8,953**

	GROUP		PARENT COMPANY	
%	**2017**	**2016**	**2017**	**2016**
Average interest rate, deposits (incl. deposit guarantee scheme expenses)	1.11	1.23	–	–

Note 3 Net income from financial transactions

	GROUP	
SEK thousand	**2017**	**2016**
Exchange rate fluctuations	2,922	–71,460
Profit/Loss from financial assets and liabilities at fair value through profit/loss, net	3,602	–22,579
Profit/Loss from financial assets and liabilities measured at amortised cost	–59,488	11,599
Profit/Loss from financial assets and liabilities held for trading, net	2,640	–15,089
Total	**–50,324**	**–97,529**

Note 4 Net sales

	PARENT COMPANY	
SEK thousand	**2017**	**2016**
Intra-Group income	242,544	195,846
Other	0	–
Total	**242,544**	**195,846**

Note 5 Personnel expenses

Total personnel expenses and remuneration[1]	GROUP		PARENT COMPANY	
SEK thousand	2017	2016	2017	2016
Salaries and remuneration[2)3)]	–560,971	–516,758	–7,351	–7,883
Pension expenses	–21,966	–21,933	–	–
Social fees	–101,145	–93,498	–351	–792
Other personnel-related expenses	–53,156	–45,718	–4,788	–3,845
Total	**–737,238**	**–677,907**	**–12,490**	**–12,520**

1) The table also includes costs for severance pay and similar items in connection with organisational changes.
2) The amount includes fixed and variable remuneration.
3) Invoiced remuneration from senior executives is specified in the note for related parties. The total amounts to SEK 7,210 thousand (5,553) in the Group. The amount is included in "Consultancy services" in note 6 "Other operating expenses".

Of which, salaries and other compensation to senior executives	GROUP		PARENT COMPANY	
SEK thousand	2017	2016	2017	2016
To senior executives [1)]				
Fixed salaries and benefits	–35,177	–33,828	–7,351	–7,368
Performance-based compensation	–6,719	–5,231	–	–
Total	**–41,896**	**–39,059**	**–7,351**	**–7,368**

1) Senior executives include Board members, the President/CEO and the Executive Management Team. Former Board members are included. One member of the Executive Management Team invoices via an own company; see Note 34. 7 Board members invoiced fees via own companies during 2017; see Note 34. Senior executives during the year included 17 (13) individuals, of which Board members accounted for 9 (7) and the CEO for one (one).

Remuneration to Members of the Board and Executive Management Team

Approved guidelines for remuneration for executive officers, resolved on the AGM on 28 April 2017

In this context, the term "senior executives" means the CEO of Hoist Finance AB (publ) ("Hoist Finance") and other members of the Executive Management Team (EMT), and Board members, insofar as they receive remuneration for services performed outside of their Board duties.

Remuneration of senior executives comprises fixed salary, variable remuneration, pension and other benefits. Remuneration is designed to encourage the senior executives to deliver results in line with the company's targets, strategy and vision and to act in accordance with the company's ethical code of conduct and core values. It is also designed to enable Hoist Finance to attract, retain and motivate employees who have the requisite skills. Remuneration is structured to encourage good performance, sound behaviour and risk-taking aligned with customer and shareholder expectations. Salaries are age- and gender-neutral and non-discriminatory. Hoist Finance views remuneration from a comprehensive perspective and, accordingly, takes all remuneration components into account. Remuneration is weighted in favour of fixed salary, which is based on the position's complexity and level of responsibility, prevailing market conditions and individual performance.

Variable salary for senior executives shall not exceed 50 per cent of fixed salary. Variable remuneration is based on various financial and non-financial criteria determined by the Board of Directors, and is linked to the performance of the Hoist Finance Group and the respective business unit as well as to individual targets.

Variable remuneration takes into account the risks involved in the company's operations and is proportional to the Group's earning capacity, capital requirements, earnings and financial position. The payment of variable remuneration must not undermine the Group's long-term interests. The payment of variable remuneration is contingent on the senior executive having acted in compliance with internal rules and procedures, including policies regulating behaviour toward customers and investors. Variable remuneration is not paid to a senior executive who has participated in or been responsible for any action resulting in significant financial loss for the Group or the relevant business unit.

For senior executives in the EMT, payment of 60% of the variable remuneration is deferred for a period of at least three years. Variable remuneration, including deferred remuneration, is only paid to senior executives insofar as it is defensible in view of the Group's financial situation and if it is warranted by the target achievement of the Group, the relevant business unit, the employee and the senior executive.

Pension and insurance are offered pursuant to national laws, regulations and market practices and are structured as collective agreements, company-specific plans or a combination of the two. Hoist Finance has defined-contribution pension plans and does not apply discretionary pension benefits. A few senior executives receive gross salary; in these instances, the company does not make pension contributions. Other benefits are designed to be competitive in relation to similar operations in the respective country.

Sign-on bonuses are only offered in exceptional cases and then only to compensate for the lack of variable remuneration in the senior executive's previous employment contract. Sign-on bonuses are paid during the year in which the senior executive begins to work. Decisions on exceptional cases are made in accordance with the decision-making process for variable remuneration.

Issuing loans to senior executives is not permitted.

Upon the Group's termination of an employment contract, the maximum notice period is twelve months and no redundancy payment is made.

AGM-elected Board Members may in certain cases receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services is paid at market terms and approved by the Board. Directors' fees may not exceed SEK 50,000 to a Board Member for work on the board of a subsidiary.

In particular cases, the Board of Directors may deviate from the guidelines adopted and resolved by the AGM if warranted by special circumstances.

Note 5 *Personnel expenses, cont*

Remuneration to the Board of Directors[1]	GROUP		PARENT COMPANY	
SEK thousand	**2017**	**2016**	**2017**	**2016**
Chairman of the Board:				
Ingrid Bonde[2]	1,500	1,633	1,500	1,633
Other Board members:				
Liselotte Hjorth[3]	625	675	600	608
Annika Poutiainen[4]	200	667	200	600
Per-Eric Skotthag	–	200	–	200
Gunilla Öhman[5]	600	633	600	600
Magnus Uggla	183	367	183	367
Jörgen Olsson[6]	–	–	–	–
Costas Thoupos[7]	–	–	–	–
Joakim Rubin[8]	367	–	367	–
Cecilia Daun Wennborg[9]	400	–	400	–
Malin Eriksson[10]	367	–	367	–
Total	**4,242**	**4,175**	**4,217**	**4,008**

1) Directors' and Committee member fees comprise a fixed annual amount, excluding social security contributions. SEK 25 thousand (100) was paid in fees for subsidiaries pursuant to an AGM resolution.
2) Ingrid Bonde became Board chair as of the extraordinary general meeting on 16 November 2014. As of November 2016 and through June 2017, the fee was invoiced via I. Bonde AB; see Note 34. As of July 2017, Ingrid Bonde receives salary instead.
3) Liselotte Hjorth was elected as new Board member at the 29 December 2014 extraordinary general meeting and joined the Board on 1 January 2015. As of July 2016, director fees have been invoiced; see Note 34. Liselotte Hjorth also invoices subsidiaries and this remuneration amounted to SEK 25 thousand (67).
4) Annika Poutiainen stepped down from the Board in connection with the 28 April 2017 Annual General Meeting. Annika Poutiainen's director fee was paid to Alpha Leon AB, a company that is related to her; see Note 34.
5) Gunilla Wikman joined the Board as per the 22 October 2014 extraordinary general meeting. As of December 2016, Gunilla Wikman's director fee has been paid to Carrara AB, a company that is related to her; see Note 34. Gunilla Öhman stepped down from the subsidiary board of directors in May 2016.
6) Jörgen Olsson does not receive a director fee. He is employed by both the Parent Company and Hoist Kredit, and is remunerated by Hoist Kredit.
7) Costas Thoupos does not receive a director fee. He is employed by a subsidiary and receives remuneration of SEK 4,718 thousand (4,968).
8) Joakim Rubin joined the Board as per the Annual General Meeting on 28 April 2017. As of 1 May 2017, director fees have been paid to J&S Rubin AB, a company that is related to him; see Note 34.
9) Cecilia Daun Wennborg joined the Board as per the Annual General Meeting on 28 April 2017. Since 1 May 2017, director fees have been paid to CDW Konsult AB, a company that is related to her; see Note 34.
10) Malin Eriksson joined the Board as per the Annual General Meeting on 28 April 2017.

Salaries and benefits[1]	Fixed salary		Performance based compensation		Benefits[3]		Pension benefits[5]		Total	
SEK thousand	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Chief Executive Officer:										
Jörgen Olsson	7,765	7,531	–	–	–	–	2,268	2,414	10,033	9,945
Executive Management Team[2] (EMT)										
8 (6) people[4] excluding the CEO	16,452	15,483	6,719	5,231	2,000	1,671	1,457	1,401	26,628	23,786
Total	**24,217**	**23,014**	**6,719**	**5,231**	**2,000**	**1,671**	**3,725**	**3,815**	**36,661**	**33,731**

1) Excluding social security contributions.
2) Najib Nathoo stepped down from the EMT during the year. Remuneration during the contractual 12-month period of notice totals SEK 6,436 thousand. The amount was dispensed in 2017, apart from a portion that comprises deferred variable remuneration.
3) Benefits have been included in the taxable fringe benefit, excluding social security contributions. Benefits primarily comprise a company car, housing, health insurance and other benefits associated with foreign posting.
4) Karin Beijer's remuneration is included and was paid to Co Go Consulting AB, a company that is related to her; see Note 34.
5) The amounts pertain to pension costs during the year for senior executives. Pension costs comprise pension premiums for defined-contribution pension plans expensed during the year (costs for services rendered during the current and previous years and settlements as defined by IAS 19). 100% of total pension costs is attributable to defined-contribution pension plans.

Directors' remuneration

The Board

Board members of the Parent Company and its subsidiary Hoist Kredit received remuneration in 2017 from Hoist Finance for overlapping work performed for the boards of both companies.

The AGM of Hoist Finance held on 28 April 2017 resolved that annual directors' fees are to be paid as follows:[1]

Chair of the Board	1,350,000 SEK
Board member	450,000 SEK
Chair, Risk and Audit Committee	150,000 SEK
Members, Risk and Audit Committee	100,000 SEK
Chair, Remuneration Committee	50,000 SEK
Members, Remuneration Committee	50,000 SEK
Chair, Investment Committee	150,000 SEK
Members, Investment Committee	100,000 SEK

1) For the period through the next AGM, unchanged compared with the preceding year's AGM resolution.

Board members employed by Hoist Finance (Jörgen Olsson and Costas Thoupos) do not receive specific remuneration for their work on the Board.

There is no outstanding redundancy payment or similar owed to any Board members.

CEO

The CEO's basic salary, participation in the warrant programme, and other terms of employment are proposed by the Board's Remuneration Committee and adopted by the Board of Directors.

The CEO's salary amounted to TSEK 7,765 (7,531), in line with Hoist Finance's remuneration policy. The CEO's salary is paid in Swedish kronor. The CEO does not receive any performance based compensation. The CEO acquired 296,192 warrants within the framework of the company's warrant programme, which were exercised during 2016. The CEO has a 12-month notice period. There is no agreement in place on redundancy payments.

CEO pension

The pension premium is 32 per cent (32) of fixed salary. It is a defined-contribution pension.

Executive Management Team (EMT)

The Board's Remuneration Committee prepares for the Board's decision changes to remuneration rates and bonus programme results and other changes to EMT compensation agreements.

Like the CEO, other EMT members participated in the first warrant programme. The warrants were exercised during 2016. During 2017, six EMT members had agreements concerning variable salary increments capped at 50% of fixed salary. Benefits primarily comprise a company car and housing and health insurance benefits associated with foreign posting.

As of 31 December, EMT consisted of 7 people (6), exclusive of the CEO.

Note 5 *Personnel expenses, cont*

Notice period

The members of the EMT have the following notice periods: One member has nine months, four members have six months and two person has three months.

Pensions benefits, EMT

Four EMT members have during the year followed Hoist Finance's pre-determined pension scheme, for which fixed salary is the pensionable compensation amount. One member receives 7 per cent of fixed salary.

Three members of the EMT receive gross compensation, which is why no pension provisions are posted in the company.

Lending to senior executives

SEK thousand	31 Dec 2017	31 Dec 2016
Outstanding at beginning of the period	468	468
Loans during the period	–468	–
Outstanding at end of the period	**–**	**468**

One Executive Management Team member held a loan of EUR 50,000 at 31 December 2016. The loan was paid in full in January 2017. Interest accrued at 5 per cent. The credit was given in 2014, when issuing loans to employees was permitted

Warrant programme

Hoist Finance issued warrants in 2013 and 2014 that were acquired by key management personnel within the Group. See the table below::

Number of cash-settled optionsr

	Number of options 2017	Number of options 2016
Outstanding at beginning of the period		
– 2013 warrant programme	–	737,189
– 2014 warrant programme	164,993	192,438
Bought back or exercised (–)/ allotted (+) during the period		
– 2013 warrant programme	–	–737,189
– of which, to senior executives	–	–671,368
– to other employees	–	–65,821
– 2014 warrant programme	–164,993	–27,445
– of which, to senior executives	–27,293	–
– to other employees	–137,700	–27,445
Outstanding at end of the period		
– 2013 warrant programme	–	–
– of which, to senior executives	–	–
– to other employees	–	–
– 2014 warrant programme	–	164,993
– of which, to senior executives	–	–
– to other employees	–	164,993

An extraordinary general meeting in the company held on 6 December 2013 resolved to introduce a warrant programme under which a total of 819,465 warrants were issued. A total of 11 selected senior executives and key employees acquired all of these warrants at market price (fair value) calculated according to Black & Scholes. Each warrant entitled the original holder to subscribe for one new share in the company, at a subscription price of SEK 48.42 per share. In accordance with the warrants' terms and conditions, the subscription price as well as the number of shares each warrant entitles the holder to subscribe for, has been recalculated in line with the 1:3 share split that was resolved at the AGM on 25 February 2015. Accordingly, each warrant entitles the holder to subscribe for three new shares at a subscription price of 16.14 SEK per share. Up to 31 December 2016, 728,961 warrants were exercised and the number of issued shares totalled 2,186,883.

The extraordinary general meeting held on 22 October 2014 resolved to issue additional warrants to key Group employees. Twenty-six key employees acquired a total of 222,041 warrants under the warrant programme at market price (fair value) as calculated by Black & Scholes. Thereafter, a total of 62,048 of these warrants were bought back from seven holders and cancelled by the company. In 2017, SEK 222 thousand was paid for these repurchased warrants, as well as SEK 1,854 thousand in prior years, which is recognised in shareholders' equity. Each warrant originally entitled the holder to subscribe for one new share in the company at a subscription price of SEK 190.20 per share for all warrants, except for 27,293 warrants which entitled the holder to subscribe one new share at a subscription price of SEK 166.40. The subscription price and number of shares to which each warrant conferred subscription entitlement was recalculated in accordance with the warrants' terms and conditions. Accordingly, each warrant entitled the holder to subscribe for three new shares at a subscription price of SEK 63.40 per share, with exception of 27,293 warrants which entitled the holder to subscribe for three new shares at a subscription price of SEK 55.47. The warrants were exercisable through 31 December 2017 and, like the first warrant programme, the holders were, under certain circumstances, obliged to offer the company the option to repurchase some or all of the warrants or shares issued through exercise of the warrants.

Up to 31 December 2017, a total of 154,993 warrants had been exercised. The number of warrants not exercised totalled 5,000. A total of 464,979 shares were issued. The company's share capital increased by SEK 154,993. Warrant proceeds are recognised in Shareholders' equity.

Note 5 *Personnel expenses, cont*

Average number of employees during the year, Group

	2017			2016		
	Men	Women	Total	Men	Women	Total
Sweden	38	27	65	34	20	54
Germany	97	184	281	98	195	293
France	38	69	107	39	68	107
Belgium	9	8	17	10	8	18
Netherlands	15	13	28	17	12	29
UK	211	193	404	216	203	419
Italy	85	98	183	76	92	168
Poland	68	109	177	83	152	235
Jersey	1	–	1	1	–	1
Spain	7	16	23	1	2	3
Greece	1	1	2	–	–	–
Total	**570**	**718**	**1,288**	**575**	**752**	**1,327**

The average number of employees is calculated based on full-time employees (FTEs). The Group also has contracted consultants, the number of which varies during the year depending on requirements.

As at 31 December 2017 the Group had 1,335 FTEs (1,285).

Gender distribution, senior executives

	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
%	Men	Women	Men	Women
Senior executives	60	40	62	38
Boards of Directors	74	26	75	25
Of whom, Parent Company	37	63	43	57

Note 6 Other operating expenses

	GROUP		PARENT COMPANY	
SEK thousand	**2017**	**2016**	**2017**	**2016**
Collection costs	–672,108	–595,933	–	–
Consultancy services[1)]	–165,441	–141,844	–67,394	–43,125
Intra-Group consultancy services	–	–	–216,992	–136,232
Other intra-Group expenses	–	–	–13,643	–7,547
IT expenses	–78,562	–76,159	–17,801	–13,816
Telecom expenses	–8,717	–12,536	–139	–174
Premises costs	–64,732	–62,817	–9,211	–8,310
Travel expenses	–30,396	–26,741	–1,077	–520
Restructuring costs	–3,795	–106	–	–
Bank charges	–11,400	–16,544	–99	–92
Sales and marketing expenses	–5,014	–4,461	–583	–410
Other expenses	–34,290	–29,556	–4,163	–9,629
Total	**–1,074,455**	**–966,697**	**–331,102**	**–219,855**

1) Consultancy services also include fees invoiced by Senior executives, specified in note 5 Personnel expenses.

Note 7 Credit losses

SEK thousand	GROUP 2017	2016
Specific impairment for individually measured loan receivables		
Write-offs for stated credit losses for the year	–	–1,260
Net costs of credit losses for the year	**–**	**–1,260**

Note 8 Shares and participations in joint ventures

Shares and participations in joint ventures relate to Hoist Kredit AB's (publ) holdings in BEST III (50 per cent) and PQH Single Special Liquidation S.A (33 per cent). BEST III, is a Polish closed-end fund located in Gdynia and designated for the acquisition of individual loan portfolios. The initial investment was PLN 40 million (SEK 90 M). During the year 2016 Hoist Kredit acquired, along with Qualco S.A. and Pricewaterhouse Coopers Business Solutions S.A., the Greek company PQH. PQH is based in Athens and offers advisory services. All joint ventures are consolidated pursuant to the equity method.

Profit from shares and participations in joint venture

SEK thousand	GROUP 1 Jan–31 Dec 2017	1 Jan–31 Dec 2016
Shares in the joint ventures' earnings according to equity method	48,517	85,719
Performance-based compensation	25,124	–
FX	2,497	323
Total profit	**76,138**	**86,042**

SEK thousand	BEST III 31 dec 2017	31 dec 2016
Assets		
Acquired loan portfolios	473,269	483,879
Cash	19,831	16,227
Total assets	**493,100**	**500,106**
Liabilities		
Current liabilities	19,831	18,938
Total liabilities	**19,831**	**18,938**
Net assets	**473,269**	**481,168**
Interest income	143,520	223,484
Other expenses	–46,947	–53,277
Net profit for the year	**96,573**	**170,207**

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

SEK thousand	GROUP 31 Dec 2017	31 Dec 2016
Opening balance	241,276	205,557
Acquisitions	–	74
Redemption of fund units	–72,769	–51,153
Shares and participations in the joint ventures' earnings according to equity method	48,517	85,719
Reversal from shareholders' equity	–3,376	–
Exchange rate differences	23,938	1,079
Closing balance	**237,586**	**241,276**

SEK thousand	PQH 31 Dec 2017	31 Dec 2016
Assets		
Current assets	42,990	4,402
Cash	2,784	8,578
Total assets	**45,774**	**12,980**
Liabilities		
Current liabilities	42,628	10,883
Total liabilities	**42,628**	**10,883**
Net assets	**3,146**	**2,097**
Interest income	89,446	57,286
Other expenses	–88,097	–55,439
EBT	**1,349**	**1,847**
Income tax expense	–656	–
Net profit for the year	**693**	**1,847**

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

Note 9 Earnings from participations in Group companies

Group contributions totalling SEK 180 (210) million were paid by subsidiary Hoist Kredit AB (publ) to Hoist Finance AB (publ) during the year

Note 10 Tax

SEK thousand	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Current tax expense/revenue				
Tax expense/revenue for the year	–96,943	–73,510	–18,801	–31,471
Tax adjustment attributable to previous years	–23,323	–93	–	2,321
Total	**–120,266**	**–73,417**	**–18,801**	**–29,150**
Deferred tax expense/revenue				
Deferred tax attributable to temporary differences	–8,120	–42,532	–	–
Total	**–8,120**	**–42,532**	**–**	**–**
Total recognised tax expense	**–128,386**	**–115,949**	**–18,801**	**–29,150**

SEK thousand	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
EBT	**581,147**	**533,098**	**83,807**	**146,470**
Tax calculated at 22% (Swedish) tax rate	–127,850	–117,307	–18,437	–32,223
Effect of different tax rates in different countries	4,330	5,944	–	–
Non-taxable revenue	41,374	45,280	–	26
Non-deductible expenses	–24,474	–25,332	–285	–90
Adjustments with reference to previous years	–23,323	93	–	2,321
Utilisation of previously uncapitalised loss carry-forwards	–	9,432	–	–
Decrease in capitalised loss carry-forwards not expected to be utilised	–	–12,046	–	–
Other	1,557	–22,013	–79	816
Total tax expense	**–128,386**	**–115,949**	**–18,801**	**–29,150**

The Group's effective tax rate was 22.09 per cent (21.75) at 31 December 2017.

For the Parent Company, no current tax was recognised directly in equity during 2017. In 2016, current tax on items recognised directly in equity in the Group totalled SEK 2 million and referred to tax on transaction costs in connection with the issue of AT1 capital. Other comprehensive income includes tax in an amount of SEK 45 million (5) related to the hedging of currency risk in foreign operations, a revaluation of defined-benefit pension plans and a revaluation of post-service remuneration.

SEK thousand	GROUP 31 Dec 2017	GROUP 31 Dec 2016
Deferred tax		
Deferred tax assets	21,241	47,269
Deferred tax liabilities	–147,523	–163,264
Total	**–126,282**	**–115,995**

SEK thousand	Opening balance	Income statement	Other comprehensive income	Translation differences	Closing balance
	GROUP, 31 December 2017				
Change in deferred tax					
Loss carry-forwards	55,200	–28,614		–21	26,565
Joint ventures	–42,802	2,535			–40,267
Defined-benefit pension schemes and other employee benefits	3,517		–204	221	3,534
Acquired loan portfolios	–87,153	12,744		1,202	–73,207
Untaxed reserves	–30,964	–5,280			–36,244
Other	–13,793	10,495		–3,365	–6,663
Total	**–115,995**	**–8,120**	**–204**	**–1,963**	**–126,282**

Note 10 *Tax, cont*

	GROUP, 31 December 2016					
SEK thousand	**Opening balance**	**Income statement**	**Other comprehensive income**	**Acquired through business combinations**	**Translation differences**	**Closing balance**
Change in deferred tax						
Loss carry-forwards	65,732	–8,736			–1,796	55,200
Joint ventures	–33,382	–9,420				–42,802
Defined-benefit pension schemes and other employee benefits	2,728		654		135	3,517
Acquired loan portfolios	–136,802	2,867		34,030	12,752	–87,153
Untaxed reserves	–18,750	–12,214				–30,964
Other	–836	–15,029		3,170	–1,098	–13,793
Total	**–121,311**	**–42,532**	**654**	**37,200**	**9,933**	**–115,995**

The Group's deferred tax assets attributable to loss carry-forwards are expected to be fully utilised during the next four years. Deferred tax assets are only reported as a tax loss carry-forwards to the extent that a related tax benefit is likely to be realised. Deferred tax assets and liabilities are offset to the extent there is a legal right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The Group has no Unreported loss carry-forwards .

Note 11 Earnings per share

Basic earnings per share

SEK thousand	**2017**	**2016**
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, before dilution		
Net profit for the year attributable to Parent Company shareholders	452,760	417,149
Interest on capital contribution	–40,371	–15,688
Profit attributable to Parent Company shareholders, before dilution	412,389	401,461
Weighted average number of shares outstanding, before dilution	80,836,767	79,188,675

Diluted earnings per share

SEK thousand	**2017**	**2016**
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, after dilution		
Profit attributable to Parent Company shareholders, before dilution	412,389	401,461
Profit attributable to Parent Company shareholders, after dilution	**412,389**	**401,461**
Weighted average number of shares outstanding, after dilution		
Basic weighted average number of shares during the year, before dilution	80,836,767	79,188,675
Effect of options	119,528	1,526,704
Weighted average number of shares during the year, after dilution	**80,956,295**	**80,715,379**
The weighted average number of shares was affected by new share issues in 2015 and 2016.		
Basic earnings per share, SEK	**5.10**	**5.07**
Diluted earnings per share, SEK	**5.09**	**4.97**

Instruments which may result in future dilution and changes after the balance sheet date
The company has two long-term warrant programmes; see Note 5 for details.

Note 12 Maturity analysis

GROUP, 31 December 2017

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		1,154,257	188,098	145,048			1,487,403	145,048
Lending to credit institutions								
Swedish banks	775,727						775,727	
foreign banks	844,854	60,877					905,731	
Lending to the public		19,456	6,930	14,524	884		41,794	15,408
Bonds and other securities		198,227	1,135,676	2,368,163			3,702,066	2,368,163
Total assets with fixed/ contractual maturities	**1,620,581**	**1,432,817**	**1,330,704**	**2,527,735**	**884**		**6,912,721**	**2,528,619**
Acquired loan portfolios[1]		948,967	2,758,434	11,057,098	6,011,227		20,775,726	17,068,325
Total assets with no fixed/ anticipated maturities		**948,967**	**2,758,434**	**11,057,098**	**6,011,227**		**20,775,726**	**17,068,325**
Liabilities								
Deposits from the public[2]								
retail	8,483,345	1,307,247	2,228,121	1,159,950			13,178,663	1,159,950
corporate	97,143						97,143	
Total deposits from the public	**8,580,488**	**1,307,247**	**2,228,121**	**1,159,950**			**13,275,806**	**1,159,950**
Issued bonds			89,263	4,577,032			4,666,295	4,577,032
Subordinated debt			30,534	122,136	940,646		1,093,316	1,062,782
Total liabilities with fixed/ contractual maturities	**8,580,488**	**1,307,247**	**2,347,918**	**5,859,118**	**940,646**		**19,035,417**	**6,799,764**

GROUP, 31 December 2016

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		704,411	1,189,795	397,991			2,292,197	397,991
Lending to credit institutions								
Swedish banks	508,248						508,248	
foreign banks	528,501	43,296					571,797	
Lending to the public		1,406	10,924	22,298	2,809	4,874	42,311	27,172
Bonds and other securities		86,250	632,643	1,809,328			2,528,221	1,809,328
Total assets with fixed/ contractual maturities	**1,036,749**	**835,363**	**1,833,362**	**2,229,617**	**2,809**	**4,874**	**5,942,774**	**2,234,491**
Acquired loan portfolios[1]		868,850	2,507,413	9,402,984	5,374,317		18,153,565	14,777,301
Total assets with no fixed/ anticipated maturities		**868,850**	**2,507,413**	**9,402,984**	**5,374,317**		**18,153,565**	**14,777,301**
Liabilities								
Deposits from the public[2]								
retail	7,433,281	1,140,504	1,778,623	1,401,202			11,753,610	1,401,202
corporate	149,573						149,573	
Total deposits from the public	**7,582,854**	**1,140,504**	**1,778,623**	**1,401,202**			**11,903,183**	**1,401,202**
Issued bonds		2,588	370,893	3,064,112			3,437,593	3,064,112
Subordinated debt			42,000	381,150			423,150	381,150
Total liabilities with fixed/ contractual maturities	**7,582,854**	**1,143,092**	**2,191,516**	**4,846,464**			**15,763,926**	**4,846,464**

1) Maturity analysis for acquired loan portfolios is based on anticipated net cash flows. See Note 31 for additional details on the Group's management of credit risk.
2) Deposits in SEK and EUR are payable on demand, although a fee is assessed for premature withdrawals from fixed-term deposits.

See Note 31 for information on the Group's management of liquidity risk.

Note 12 *Maturity analysis, cont*

PARENT COMPANY, 31 December 2017

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Lending to credit institutions								
Swedish banks	274,833						274,833	
Receivables, Group companies		193,239					193,239	
Total assets with fixed maturities	**274,833**	**193,239**					**468,072**	
Liabilities								
Liabilities, Group companies	205,833	65,035					270,868	
Total liabilities with fixed maturities	**205,833**	**65,035**					**270,868**	

PARENT COMPANY, 31 December 2016

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Lending to credit institutions								
Swedish banks	328,457						328,457	
Receivables, Group companies		257,501					257,501	
Total assets with fixed maturities	**328,457**	**257,501**					**585,958**	
Liabilities								
Intra-Group loans		199	597	65,398			66,194	65,398
Liabilities, Group companies	286,463	10,726					297,189	
Total liabilities with fixed maturities	**286,463**	**10,925**	**597**	**65,398**			**363,383**	**65,398**

Note 13 Acquired loan portfolios

	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Opening balance	12,385,547	11,014,699
Acquisitions	4,252,869	3,329,382
Adjustment of acquisition analysis	–	–29,536
Translation differences	360,717	–22,785
Change in value		
Based on opening balance forecast (amortisation)	–2,244,134[1)]	–1,911,916
Based on revised estimates (revaluation)	10,990	5,703
Carrying amount	**14,765,989**	**12,385,547**
Changes in carrying amount recognised in profit or loss	**–2,233,144**	**–1,906,213**

1) Includes SEK –108 million attributable to a partial divestment of a Polish loan portfolio.

Of which, fair value	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Opening balance	1,044,660	1,177,808
Translation differences	28,067	52,874
Change in value		
Based on opening balance forecast (amortisation)	–119,616	–186,090
Based on revised estimates (revaluation)	–13,299	68
Carrying amount	**939,812**	**1,044,660**
Changes in carrying amount recognised in profit or loss	**–132,915**	**–186,022**

The Group acquires portfolios of financial assets primarily from banks, insurance companies and other companies and institutions. These receivables mainly comprise unsecured consumer loans and also include consumer invoices. These loan portfolios were acquired at a significant discount relative to the capital claim, corresponding to the discounted value of anticipated collections and the Group's required rate of return.

The fair value measurement principle is applied to portfolios acquired prior to 1 July 2011 (SEK 940 million, 6 per cent) while portfolios acquired after that date (SEK 13,826 million, 94 per cent) are measured at amortised cost. For additional information on accounting policies in accordance with the IFRS, refer to Accounting principles.

Note 13 *Acquired loan portfolios, cont*

Portfolio overview

The portfolios comprise a large number of loans. The debtors have varying characteristics, such as payers, partial payers and non-payers. There is some degree of mobility between debtor categories, with non-payers becoming payers and vice versa. The Group divides its portfolios into different categories, defined as follows:

Countries:	Countries in which portfolio seller and debtors are located.
Age:	Primary claims are acquired by the Group up to 180 days following withdrawal of credit by the seller, secondary claims between 180 and 720 days, and tertiary claims after 720 days.
Asset class:	The type of contract under which the claim against the debtor originated.
Acquisition type:	A spot portfolio is a one-time acquisition, while a forward flow portfolio involves regular monthly acquisitions; a framework agreement is signed at inception and deliveries subject to a defined model are purchased.

Classification into primary, secondary and tertiary portfolios reflects the portfolios' characteristics as at time of acquisition.

Net collection forecast

The Group evaluates portfolios by estimating future net cash flows for the next ten years. Collection costs are monitored, and forecast costs are based on actual cost curves per portfolio that reflect forecast collections derived from the loans' nature and age. These are subsequently used to calculate the value of all portfolios.

Cash flow forecasts are regularly monitored during the year and updated based on factors such as achieved collection results and instalment plan agreements with debtors. A new carrying amount is calculated for the loan portfolios based on the updated forecasts. The difference, which is reported as income or expense in the income statement, totalled SEK –2,233 million in 2017 (–1,906).

Portfolios at fair value through profit or loss

The Group has chosen to categorise portfolios acquired prior to 1 July 2011 as measured at fair value through profit or loss, as these financial assets are managed and their performance evaluated on a fair value basis in accordance with the Group's risk management policies. Information on the portfolios is provided internally to the Group's Executive Management Team on that basis. The underlying concept for the method of fair value measurement is to determine an asset's carrying amount by using the best available price for the asset. Because loan portfolios are not normally traded publicly, no market prices are available. However, most industry players apply similar pricing methods for portfolio acquisitions and calculate the present value of future cash flows – this corresponds to the portfolio's market price.

The three main influencing factors in calculating fair value are: (i) the gross collections forecast, (ii) the cost level and (iii) the market discount rate. Each month, the Group considers the forward ten years' net collection forecasts for all portfolios and discounts the forecasts to present value, which serves as the basis for calculating the recognised fair value for each portfolio.

The insights that Hoist Finance, as one of the industry's largest players, gains from the many portfolio transactions the company participates in or has knowledge of form an important component in estimating a market discount rate. The discount rate corresponding to the market's required return is updated regularly and reflects actual return on relevant and comparable transactions in the market. Portfolios are currently valued at an IRR of 12 per cent (12) over a ten-year period.

The estimated market discount rate is only applied to the portion of the portfolios measured at fair value; for the portfolios measured at amortised cost, the IRR at which the original acquisition was effected is applied and the revenue is expensed at this effective interest rate.

Revaluations

The Group monitors and regularly evaluates actual collections in relation to the forecast that served as the basis for portfolio valuation during the same period. In the event of negative deviations, the Group first takes additional operational actions to reduce the risk of deviation in future periods. If additional operational measures do not have or are not anticipated to have the intended effect, a revised forecast is done for future collections. The forecast is adjusted upwards in cases where portfolio collections are regularly determined to exceed the current forecast. Forecast adjustments are analysed in consultation with the Investment Committee, and are determined at the Group Management level. Forecast revisions are implemented by the resources directly subordinate to the Chief Financial Officer. Forecast adjustments and their impact on earnings are disclosed internally and externally. The portfolio valuation is independently audited by the Risk Control function.

Sensitivity analysis

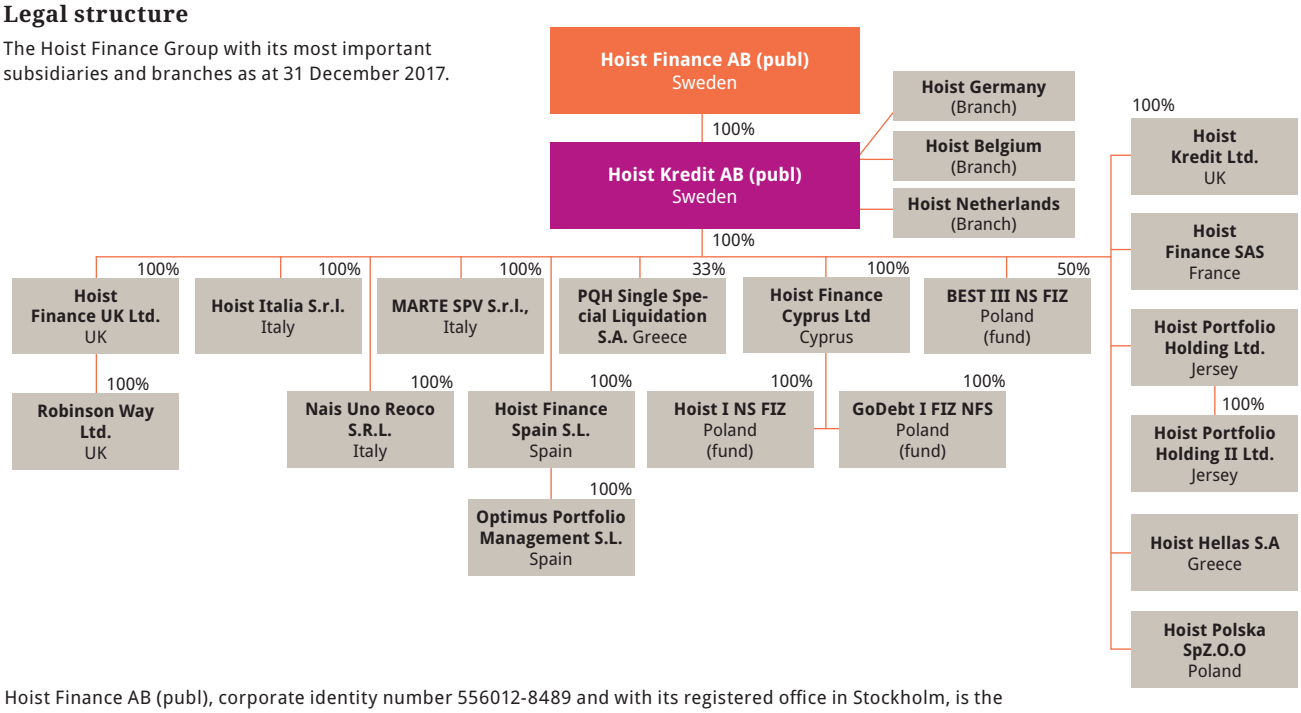
While Hoist Finance considers the assumptions made in assessing fair value to be reasonable, the application of other methods and assumptions may produce a different fair value. For Level 3 fair value, a reasonable change in one or several assumptions would have the following impact on earnings:

	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Carrying amount of loan portfolios	**14,765,989**	**12,385,547**
A 5% increase in estimated cash flow over the forecast period (10 years) would increase the carrying amount by	721,425	558,977
of which, measured at fair value	46,994	51,685
A 5% decrease in estimated cash flow over the forecast period would reduce the carrying amount by	–721,425	–558,977
of which, measured at fair value	–46,994	–51,685
Carrying amount of loan portfolios acquired prior to 1 July 2011	**939,812**	**1,044,660**
A 1% decrease in the market interest rate would increase the carrying amount by	28,304	31,174
A 1% increase in the market interest rate would reduce the carrying amount by	–26,770	–29,483
Shortening the forecast period by 1 year would reduce the carrying amount by	–26,700	–26,534
Lengthening the forecast period by 1 year would increase the carrying amount by	21,324	20,938

Note 14 Group companies

Legal structure

The Hoist Finance Group with its most important subsidiaries and branches as at 31 December 2017.



Hoist Finance AB (publ), corporate identity number 556012-8489 and with its registered office in Stockholm, is the Parent Company of the Group. The list of Group subsidiaries is provided below.

SEK thousand	Corp. ID no.	Registered office	Ownership, %	Total operating income	EBT	Tax on earnings
Swedish						
Hoist Kredit AB (publ)[4]	556329–5699	Stockholm	100	765,387	268,872	–85,783
Hoist Finance Services AB[1]	556640–9941	Stockholm	100	–0	–107	74
Foreign						
Hoist Finance SAS	444611453	Lille	100	118,326	8,159	–1,454
HECTOR Sicherheiten-Verwaltungs GmbH	HRB 74561	Duisburg	100	–	–103	–
Hoist Portfolio Holding Ltd.	101438	St. Helier	100	455,050	132,990	–22,907
Hoist Portfolio Holding II Ltd.	111085	St. Helier	100	363,174	92,649	–
HOIST I NS FIZ[2]	RFI702	Warsaw	100	354,461	204,331	–
Hoist Kredit Ltd.	7646691	London	100	38,264	1,148	–204
Hoist Finance UK Ltd.	8303007	London	100	112,391	69,012	–1,708
C L Finance Ltd.[1]	01108021	West Yorkshire	100	–	–	–
Robinson Way Ltd.	6976081	Manchester	100	206,454	–15,420	442
The Lewis Group Ltd.[1]	SC127043	Glasgow	100	–11,295	–11,295	2,485
Compello Holdings Ltd.[1]	8045571	Milton Keynes	100	–	–	–
Compello Operations Ltd.[1]	98045559	Milton Keynes	100	–	–	78
MKE (UK) Ltd.[1]	7042157	Milton Keynes	100	–	2,198	–
MKDP LLP[1]	OC349372	Milton Keynes	100	–	27,980	–
Marte SPV S.R.L	4634710265	Conegliano	100	355,627	–3,357	714
Hoist Italia S.R.L	12898671008	Rome	100	201,819	–5,423	–392
Hoist Finance Cyprus Ltd.	HE 338570	Nicosia	100	–71,139	183,611	–
Hoist Polska SpZ.O.O	0000536257	Wroclaw	100	67,373	–3,966	3,260
Hoist Finance Spain S.L.	B87547659	Madrid	100	90,361	4,521	–1,130
Optimus Portfolio Management S.L.	B86959285	Madrid	100	7,786	4,871	–1,218
Hoist Hellas S.A	137777901000	Athens	100	25	–3,176	–
Nais Uno Reoco S.R.L.[3]	14564684007	Rome	100	–	–	–
GoDebt1 FIZ NFS[2] [3]	292229	Warsaw	100	1,998	2,337	–

1) The company is being liquidated.
2) Polish Sec. fund.
3) Companies added during the year.
4) A merger of Hoist Finance and Hoist Kredit was carried out on 2 January 2018, whereby Hoist Finance is the surviving entity.

Note 14 *Group companies, cont*

Ownership percentage corresponds to share of voting power. All shares are unlisted. Hoist Kredit AB (publ) is a registered credit market company. Information on the number of shares in Group companies is available upon request.

SEK thousand	31 Dec 2017	31 Dec 2016
Hoist Kredit AB (publ)	1,687,989	1,687,989
Total carrying amount	**1,687,989**	**1,687,989**
Accumulated cost		
Opening balance		
Shareholders' contribution	1,687,989	1,687,989
Closing balance	**1,687,989**	**1,687,989**

Merger

Hoist GmbH with Hoist Kredit AB (publ)

On 30 June 2017, the subsidiary Hoist GmbH, company registration number HRB 7736, was merged with Hoist Kredit AB (publ), following which the German operations are conducted through the branch called Hoist Kredit AB (publ) Niederlassung Deutschland. The income statement and balance sheet of Hoist GmbH, as of the effective date of the merger, 30 June, are presented below.

The merged company's income statement and balance sheet

SEK thousand	
Total operating income	158,204
EBT	–1,740
Cash and interest-bearing securities	17,718
Other assets	119,285
Total assets	**137,003**
Other liabilities	58,681
Equity	78,322
Total liabilities and equity	**137,003**

The merger result in Hoist Kredit AB (publ), which is recognised in equity, amounts to profit of SEK 7,149 thousand.

Business combinations

Optimus Portfolio Management S.L.

On 7 September 2016, one hundred per cent of the shares in the Madrid-based credit management company Optimus Portfolio Management S.L. were acquired through the newly formed, wholly owned subsidiary Hoist Finance Spain S.L. This acquisition is a key investment, as Optimus offers a platform for the management of NPLs on the Spanish market. The total purchase price of SEK 16 million[1] was paid in cash in connection with the acquisition. Acquisition-related costs totalled SEK 719 thousand and are included in administrative expenses in the consolidated income statement. During the year, revenue and operating profit for Optimus were SEK 9 million and SEK 7 million, respectively, through the date of acquisition and SEK 10 million and SEK 7 million, respectively, for the full year.

The acquisition balance sheet includes SEK 6 million in net assets, including SEK 435 thousand in cash and cash equivalents. The acquisition gave rise to SEK 10 million in goodwill. The goodwill is primarily attributable to the Group's acquisition of a well-suited organisation that, with its knowledge of the market, is expected to support further expansion in the Spanish market. No adjustments have been made to acquired net assets. The company has been consolidated into Hoist Finance Group since September 2016.

1) Together with earn-outs of SEK 25 million, the total net outflow of cash and cash equivalents for investments in business combinations corresponds to amounts recognised in the cash flow statement. Earn-outs are attributable to the acquisition of the subsidiary Hoist Polska SpZ.O.O.

Final acquisition balance sheet, Optimus Portfolio Management S.L.

SEK thousand	
Cash and cash equivalents	435
Tangible assets	476
Accounts receivables and other receivables	23
Accounts payable and other liabilities	8,680
Non-current liabilities to Group companies	–3,371
Total identifiable net assets	**6,243**

Note 15 Intangible assets

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Goodwill				
Acquisition value, opening balance	190,491	181,453	–	–
Acquired companies	–	9,518	–	–
Translation differences	11,225	–480	–	–
Acquisition value, closing balance	**201,716**	**190,491**	**–**	**–**
Accumulated depreciation, opening balance	–57,292	–58,490	–	–
Translation differences	169	1,198	–	–
Accumulated depreciation, closing balance	**–57,123**	**–57,292**	**–**	**–**
Carrying amount	**144,593**	**133,199**	**–**	**–**
Licences and software				
Acquisition value, opening balance	258,804	226,211	52,295	42,927
Investments for the year	71,431	35,756	43,747	12,116
Divestments and disposals	–249	–5,044	–169	–2,748
Translation differences	4,250	1,882	–	–
Cost, closing balance	**334,236**	**258,804**	**95,873**	**52,295**
Accumulated amortisation, opening balance	–148,663	–113,542	–27,126	–23,452
Depreciation for the year	–40,518	–35,836	–4,418	–3,674
Divestments and disposals	68	1,703	–	–
Translation differences	–2,678	–988	–	–
Accumulated amortisation, closing balance	**–191,791**	**–148,663**	**–31,544**	**–27,126**
Carrying amount	**142,445**	**110,141**	**64,329**	**25,169**
Intangible assets	**287,038**	**243,340**	**64,329**	**25,169**

Licences and software include capitalised expenditure for internally developed intangible assets with a value of SEK 8,634 million (5,264) in the Group and SEK 6,131 million (1,215) in the Parent Company.

Note 15 *Intangible assets, cont*

Impairment testing of goodwill

The Group impairment tested goodwill in an amount of SEK 145 million (133) in 2017. This was identified as belonging to the cash-generating units in Poland (SEK 135 million) and Spain (SEK 10 million). The impairment tests of goodwill were based on the cash-generating units' useful value.

Based on adopted business plans, management produced estimated cash flows for the cash-generating units. Cash flows for the first three years are based on anticipated distributable funds as per the business plan, following which the model does not anticipate any growth, whereby cash flow for year three has been extrapolated up to 100 years. Thereafter, the cash flow forecasts covering 100 years have been discounted using the discount interest rate. The discount interest rate is in the range of 10–14 per cent depending on the segment being impairment tested, and represents the Group's minimum requirement for return on equity for the businesses concerned.

The following cash generating units were impairment tested:

Poland

The Polish business was tested with regard to the part of the cash-generating unit of the Hoist Finance Group operations that manages acquired loan portfolios in Poland.

Term: Three-year dividend model with a useful value of 100 years.
Tax rate: Polish.
Growth: Anticipated growth and margins are adapted to the relevant entity's business plan for the first three years; no growth in subsequent years.
Impairment: There is no impairment requirement for goodwill, since the useful value of the Polish business well exceeds the contribution of the Polish operations to Group equity.

The Polish operations performed in line with the plans established when Hoist Polska SpZ.O.O ("Hoist Polska") was acquired and the acquisition of goodwill arose. Collections from loan portfolios and expenses are both in line with plans. The anticipated collection forecast therefore justifies the surplus that arose upon the acquisition of Hoist Polska, and there is no impairment requirement.

Spain

The Spanish business was tested with regard to the part of the cash-generating unit of the Hoist Finance Group operations that manages acquired loan portfolios in Spain.

Term: Three-year dividend model with a useful value of 100 years.
Tax rate: Spanish.
Growth: Anticipated growth and margins are adapted to the relevant entity's business plan for the first three years; no growth is expected in subsequent years.
Impairment: There is no impairment requirement for goodwill, since the useful value of the Spanish business well exceeds the contribution of the Spanish operation's contribution to Group equity.

The Spanish operations are being developed in accordance with plans presented when Optimus Portfolio Management S.L. ("Optimus") was acquired and the acquisition of goodwill arose. There are good opportunities on the Spanish market for Hoist Finance to acquire additional portfolios, and Optimus is central to these future transactions. There is no impairment requirement.

Note 16 Tangible assets

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Equipment				
Acquisition value, opening balance	144,141	128,808	6,954	6,463
Investments for the year	16,398	18,360	106	491
Investments for the year, acquired companies	–	23	–	–
Divestments and disposals	–605	–2,042	–	–
Translation differences	2,850	–1,009	–	–
Acquisition value, closing balance	**162,784**	**144,141**	**7,060**	**6,954**
Accumulated depreciation, opening balance	–103,326	–87,185	–4,537	–3,321
Divestments and disposals	459	250	–	–
Depreciation of the year	–15,425	–16,960	–1,120	–1,216
Translation differences	–2,098	569	–	–
Accumulated depreciation, closing balance	**–120,390**	**–103,326**	**–5,657**	**–4,537**
Carrying amount	**42,394**	**40,815**	**1,403**	**2,417**
Tangible assets	**42,394**	**40,815**	**1,403**	**2,417**

Note 17 Other assets

	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Non-current financial assets	347	322
Non-current receivables	1,450	1,371
Derivatives[1)]	10,546	29,167
Current financial assets	17,449	–
Preliminary tax paid	22,789	9,068
VAT receivables	27,952	20,802
Accounts receivable	50,918	30,354
Advance payments to suppliers	42,994	60,807
Other current receivables	24,387	41,579
Total other assets	**198,832**	**193,470**

1) See Note 29.

Note 18 Prepaid expenses and accrued income

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Prepaid expenses	32,160	49,463	8,570	8,506
Other accrued income	53,036	36,130	–	–
Total	**85,196**	**85,593**	**8,570**	**8,506**

Note 19 Other liabilities

	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Non-current liabilities	2,187	20,580
Accounts payable	72,953	55,981
Unpaid purchase consideration, portfolios	134,330	31,232
Derivatives[1)]	10,392	5,397
Employee withholding tax on deposit interest	47,110	35,168
Employee withholding tax	18,668	17,231
Collateral received	–	151,300
Other current liabilities	107,730	115,976
Total	**393,370**	**432,865**

1) See Note 29.

Note 20 Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Accrued personnel expenses	58,159	44,944	54	253
Accrued interest expenses	1,778	33,446	–	–
Accrued commission expenses	5,109	2,572	–	–
Accrued transaction costs	8,754	22,945	–	–
Accrued legal costs	28,237	18,394	–	–
Accrued collection costs	21,939	9,716	–	–
Other accrued expenses	86,565	71,425	4,241	2,585
Total	**210,541**	**203,442**	**4,295**	**2,838**

Note 21 Provisions

	Pension provision		Restructuring reserve		Other non-current employee benefits		Other provisions		GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Opening balance	27,219	24,402	3,537	7,037	16,449	15,311	8,299	5,366	55,504	52,116
Provision	193	–	35,537	4,232	3,981	3,388	16,450	2,788	56,161	10,408
Amount released	–444	–295	–3,561	–8,023	–4,216	–3,595	–18,422	–137	–26,643	–12,050
Change in value	–300	3,112	823	291	1,281	1,345	201	282	2,005	5,030
Closing balance	**26,668**	**27,219**	**36,336**	**3,537**	**17,495**	**16,449**	**6,528**	**8,299**	**87,027**	**55,504**

Restructuring

Restructuring costs in 2017 related to costs resulting from the decision to coordinate Hoist Finance's operations in Germany, Belgium and the Netherlands to fewer offices. This provision is expected to be utilised in 2018. The restructuring provision for 2016 refers mainly to downsizing expenses at Hoist Finance SAS. At year-end 2017, most of the provision had been utilised and the remainder is expected to be utilised in 2018.

Pensions

The Group has defined-benefit pension schemes for Hoist Finance AB (publ) and the German branch Hoist Kredit AB (publ) Niederlassung, based on the employees' pensionable remuneration and length of service. Pension commitments are determined using the Projected Unit Credit Method, which includes current pensions, vested rights and future increases in these parameters in the valuation.

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Net pension provision, recognised in the balance sheet				
Defined-benefit commitment	30,043	30,456	34	24
Fair value of plan assets	3,375	3,237	–	–
Net pension provision	**26,668**	**27,219**	**34**	**24**
Pension commitments				
Opening balance	30,456	27,330	24	35
Expenses for services performed during current period	–1	10	–1	10
Interest expense	535	669	0	0
Pension payments	–924	–901	–9	–12
Actuarial gains (–)/losses (+)	–943	2,037	–	–
Currency effects, etc.	900	1,320	–	–
Other	20	–9	20	–9
Closing balance	**30,043**	**30,456**	**34**	**24**
Assets under management				
Opening balance	3,237	2,928	–	–
Interest income	58	72	–	–
Employer-contributed funds	915	889	–	–
Benefits paid	–915	–889	–	–
Actuarial gains (+)/losses (–)	–16	96	–	–
Currency effects	96	141	–	–
Closing balance	**3,375**	**3,237**	**–**	–

All plan assets are invested in investment funds.

Note 22 Funding

	GROUP	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Deposits from the public	13,227,450	11,848,956
Senior debt	4,355,000	3,125,996
Subordinated debt	803,257	341,715
Total issued securities	**5,187,257**	**3,467,711**
Total interest-bearing debt	**18,385,707**	**15,316,667**

Terms and conditions and repayment periods

				31 Dec 2017		31 Dec 2016	
SEK thousand	**Currency**	**Nominal interest rate**	**Maturity**	**Nominal value**	**Carrying amount**	**Nominal value**	**Carrying amount**
Deposits from the public	SEK	0.60–1.70 %	2017–2020	12,172,898	12,242,919	11,741,263	11,848,956
Deposits from the public	EUR	0.60–0.85 %	2017–2019	984,440	984,531	–	–
Senior debt	EUR	3m EURIBOR + 3.75 %	2017	–	–	271,700	267,054
Senior debt	EUR	3.125 %	2019	1,969,940	1,996,282	2,870,070	2,858,942
Senior debt	EUR	1.125 %	2021	2,462,425	2,388,718	–	–
Subordinated debt	SEK	12 %	2023	–	–	350,000	341,715
Subordinated debt	EUR	3.875 %	2027	787,976	803,257	–	–
Total interest-bearing liabilities				**18,377,679**	**18,385,707**	**15,233,033**	**15,316,667**

Funding, retail

Deposits from the public

Hoist Kredit AB (publ) launched its first deposit savings scheme for retail customers in 2009 in Sweden. The second deposit savings scheme was established in 2017, this time in Germany and in EUR. Hoist Finance offers both current account and fixed-term deposits in both countries, of which the majority (99 per cent) is covered by the Swedish deposit insurance scheme from the Swedish National Debt Office. At year-end 2017, Hoist Kredit AB (publ) had SEK 7,673 million and SEK 4,569 million in current account and fixed-term deposits in SEK, respectively, and SEK 907 million and SEK 78 million in current account and fixed-term deposits in EUR, respectively.

Market funding

Senior debt

In 2016, Hoist Kredit AB (publ) issued an EMTN of EUR 300 million of senior unsecured debt, at a fixed interest rate of 3.125 per cent and a maturity of 9 December 2019. During 2017, Hoist Kredit AB (publ) repurchased EUR 100 million of the Eurobonds maturing in 2019, and thus had EUR 200 million of bonds outstanding from the issuance. In addition to the repurchase, additional senior unsecured debt (EMTN EUR 250 million) were issued at a fixed interest rate of 1.125 per cent and a maturity of 4 October 2021. Hoist Kredit AB (publ) repays the nominal amount (including any accrued interest) for all senior debt on the maturity date.

Subordinated debt

In 2013, Hoist Kredit AB (publ) issued EUR 350 million of unsecured debt, with a maturity of 27 September 2023. This subordinated debt was included in own funds as Tier 2 capital. The annual fixed interest rate was 12 per cent and the bond was repurchased in its entirety and annulled in 2017 due to changes in tax legislation. Hoist Kredit AB (publ) issued a T2 EMTN of EUR 80 million in the second quarter of 2017, with a maturity of 19 May 2027. The annual fixed interest rate is 3.875 per cent. Hoist Kredit AB (publ) repays the nominal amount (including any accrued interest) for all subordinated debts on the maturity date.

Note 23 Equity

Share capital. The Articles of Association of Hoist Finance AB (publ) specify that the company's share capital shall total a minimum of SEK 15 million and a maximum of SEK 60 million.

	GROUP	
Number of shares	**2017**	**2016**
Opening balance	80,719,567	78,532,684
New share issue	464,979	2,186,883
Closing balance	**81,184,546**	**80,719,567**

The quota value is SEK 0.33 per share.

The total number of shares as per 31 December 2016 was 80,719,567, all of which were ordinary shares. Additional shares were issued in 2017 through the exercise of warrants. The total number of shares as per 31 December 2017 was 81,184,546. All shares are fully paid.

The translation reserve comprises all exchange differences arising through translation of foreign operations less hedging effects.

Other contributed equity refers to equity, other than share capital, contributed by the shareholders. Hoist Kredit AB (publ) issued Additional Tier 1 (AT1) capital during the year for a nominal amount totalling EUR

Note 23 *Equity, cont*

30 million. Since 2013, Hoist Kredit AB (publ) has issued AT1 capital with share conversion options (as specified in Chapter 15 of the Companies Act, 2005:551). Pursuant to 2016 adjustments to the instruments' terms and conditions, the conversion option is no longer available. The nominal value of outstanding AT1 capital as per 31 December 2016 was SEK 100 million and EUR 30 million, respectively.

The outstanding AT1 capital instruments are perpetual non-amortisable loans and can only be repaid in the event of liquidation of Hoist Kredit, and only after all other debts are settled. The instruments carry a 15 per cent and 8.625 per cent annual interest rate, respectively, to be paid from equity, not from the company's profit. However, as of 23 April 2018 and 21 June 2023, respectively, Hoist Kredit, with approval from the Swedish Financial Supervisory Authority, is entitled to redeem the instruments and repay the outstanding capital.

Hoist Finance AB (publ) has issued warrants as resolved at the extraordinary general meetings held on 6 December 2013 and 22 October 2014. During 2017, 464,979 new shares were issued through the exercise of warrants. The company's share capital thus increased by SEK 0.15 million. No warrants remained as per 31 December 2017.

Retained earnings comprise accrued earnings in the Parent Company, subsidiaries and joint ventures. For the 2017 financial year, the Board has decided to propose to the AGM distribution of a dividend of SEK 1.90 per share, corresponding to a total of SEK 154 million.

Note 24 Audit fee

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
KPMG				
Audit engagements	–6,871	–8,189	–2,498	–3,957
Audit-related engagements	–1,708	–846	–468	–846
Tax-related services	–3,324	–1,870	–	–
Other non-audit-related engagements	–1,262	–426	–340	–425
Total	**–13,165**	**–11,331**	**–3,306**	**–5,228**

Expenses specified above are included in 'Consultancy services' in Note 6.

Note 25 Pledged assets

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Pledges and equivalent collateral to secure own liabilities and commitments recognised as provisions	246	478	–	–

Note 26 Contingent liabilities

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Commitments	697,816	1,565,944	–	–

Forward flow contracts

In forward flow contracts, a pre-determined volume (fixed or range) of NPLs is acquired at a pre-defined price during a certain time period.

Note 27 Leases

The Group leases office space, office and IT equipment and vehicles under financial and operating lease contracts.

Most of the leases cover:

– Equipment, furniture and leased premises: 2–5 years
– IT hardware: 2–3 years
– Vehicles: 3 years

Finance leasing	GROUP			
	Nominal value	Present value	Nominal value	Present value
SEK thousand	31 Dec 2017	31 Dec 2017	31 Dec 2016	31 Dec 2016
Future minimum lease payments				
Within 1 year	130	118	187	174
Years 1–5	173	164	279	261
Total	**303**	**282**	**466**	**436**
Less financial expenses	–21		–30	–
Net present value	**282**	**282**	**436**	**436**

The carrying amount of leased non-current assets was SEK 0.3 million as per the balance-sheet date.
No variable fees were charged to net profit for the year.

Operating leasing	GROUP		PARENT COMPANY	
SEK thousand	31 Dec 2017	31 Dec 2016	31 Dec 2017	31 Dec 2016
Payment obligations under noncancellable lease contracts				
Within 1 year	33,180	30,872	6,204	6,097
Years 1–5	63,454	67,446	43	6,132
Year 5 and thereafter	32,679	32,887	–	–
Total	**129,313**	**131,225**	**6,247**	**12,229**

The Group's lease expenses total SEK 36 million (30). The corresponding figure for the Parent Company is SEK 5 million (7).
No variable fees were charged to net profit for the year.

Note 28 Financial instruments

Carrying amount and fair value of financial instruments

GROUP, 31 December 2017

SEK thousand	Assets/liabilities recognised at fair value through profit or loss: Held for trading	Assets/liabilities recognised at fair value through profit or loss: Identified	Loans and receivables	Investments held to maturity	Derivative hedging instruments	Other liabilities	Total carrying amount	Fair value
Cash			202				202	202
Treasury bills and treasury bonds		1,490,152					1,490,152	1,490,152
Lending to credit institutions			1,681,458				1,681,458	1,681,458
Lending to the public			37,455				37,455	37,455
Acquired loan portfolios								
of which, at fair value		*939,812*					*939,812*	*939,812*
of which, at amortised cost			*13,826,177*				*13,826,177*	*13,425,810*
Bonds and other securities		3,689,021					3,689,021	3,689,021
Derivatives[1]	3,512				7,034		10,546	10,546
Other financial assets			136,088				136,088	136,088
Prepaid expenses and accrued income			53,036				53,036	53,036
Total	**3,512**	**6,118,985**	**15,734,416**		**7,034**		**21,863,947**	**21,463,580**
Deposits from the public						13,227,450	13,227,450	13,227,450
Derivatives[1]	4,488				5,904		10,392	10,392
Other financial liabilities						325,423	325,423	325,423
Accrued expenses and deferred income						210,541	210,541	210,541
Senior debt						4,355,000	4,355,000	4,532,397
Subordinated debt						803,257	803,257	810,885
Total	**4,488**				**5,904**	**18,921,671**	**18,932,063**	**19,117,088**

1) See Note 29.

Carrying amount and fair value of financial instruments

GROUP, 31 December 2016

SEK thousand	Assets/liabilities recognised at fair value through profit or loss: Held for trading	Assets/liabilities recognised at fair value through profit or loss: Identified	Loans and receivables	Investments held to maturity	Derivative hedging instruments	Other liabilities	Total carrying amount	Fair value
Cash			3,073				3,073	3,073
Treasury bills and treasury bonds		2,273,903					2,273,903	2,273,903
Lending to credit institutions			1,061,285				1,061,285	1,061,285
Lending to the public			35,789				35,789	35,789
Acquired loan portfolios								
of which, at fair value		*1,044,660*					*1,044,660*	*1,044,660*
of which, at amortised cost			*11,340,887*				*11,340,887*	*11,459,565*
Bonds and other securities		2,474,849		63,717			2,538,566	2,538,566
Derivatives[1]	28,971				196		29,167	29,167
Other financial assets			133,070				133,070	133,070
Prepaid expenses and accrued income			36,130				36,130	36,130
Total	**28,971**	**5,793,412**	**12,610,234**	**63,717**	**196**		**18,496,530**	**18,615,208**
Deposits from the public						11,848,956	11,848,956	11,848,956
Derivatives[1]	5,397						5,397	5,397
Other financial liabilities						355,472	355,472	355,472
Accrued expenses and deferred income						203,442	203,442	203,442
Senior debt						3,125,996	3,125,996	3,291,549
Subordinated debt						341,715	341,715	398,125
Total	**5,397**					**15,875,581**	**15,880,978**	**16,102,941**

1) See Note 29.

Note 28 *Financial instruments, cont*

Fair value measurement

Group

The Group uses observable data to the greatest possible extent when determining the fair value of an asset or liability. Fair values are categorised in different levels based on the input data used in the measurement approach, as per the following:

Level 1) Quoted prices (unadjusted) on active markets for identical instruments.

Level 2) Based on directly or indirectly observable market inputs not included in Level 1. This category includes instruments valued based on quoted prices on active markets for similar instruments, quoted prices for identical or similar instruments traded on markets that are not active, or other valuation techniques in which all important input data is directly or indirectly observable in the market.

Level 3) According to inputs that are not based on observable market data. This category includes all instruments for which the valuation technique is based on data that is not observable and has a substantial impact on the valuation.

GROUP, 31 December 2017

SEK thousand	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	1,490,152	–	–	1,490,152
Acquired loan portfolios				
of which, at fair value	–	–	*939,812*	*939,812*
of which, at amortised cost	–	–	*13,425,810*	*13,425,810*
Bonds and other securities	3,689,021	–	–	3,689,021
Derivatives	–	10,546	–	10,546
Total assets	**5,179,173**	**10,546**	**14,365,622**	**19,555,341**
Derivatives	–	10,392	–	10,392
Senior debt	–	4,532,397	–	4,532,397
Subordinated debt	–	810,885	–	810,885
Total liabilities	–	**5,353,674**	–	**5,353,674**

GROUP, 31 December 2016

SEK thousand	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	2,273,903	–	–	2,273,903
Acquired loan portfolios				
of which, at fair value	–	–	*1,044,660*	*1,044,660*
of which, at amortised cost	–	–	*11,459,565*	*11,459,565*
Bonds and other securities	2,474,849	–	–	2,474,849
Derivatives	–	29,167	–	29,167
Total assets	**4,748,752**	**29,167**	**12,504,225**	**17,282,144**
Derivatives	–	5,397	–	5,397
Senior debt	–	3,291,549	–	3,291,549
Subordinated debt	–	398,125	–	398,125
Total liabilities	**–**	**3,695,071**	**–**	**3,695,071**

Cash flow forecasts are discounted at the market rate when calculating the carrying amount of acquired loan portfolios recognised at amortised cost. As regards the market rate, IRR is calculated based on an established WACC (Weighted Average Cost of Capital) model with a final conservative adjustment. For acquired loan portfolios recognised at fair value, the valuation approach, key input data and valuation sensitivity to material changes are described in the Accounting Principles section and in Note 13.

Derivatives used for hedging (see Note 29) were model-valued using interest and currency market rates as input data.

Treasury bills and treasury bonds, and bonds and other securities, are valued based on quoted rates.

The fair value of liabilities in the form of issued bonds and other subordinated debt was determined with reference to observable market prices quoted by external market players/places. In cases where more than one market price observation is available, fair value is determined at the arithmetic mean of the market prices.

Carrying amounts for accounts receivable and accounts payable are deemed approximations of fair value. The fair value of current loans corresponds to their carrying amount due to the limited impact of discounting.

Note 29 Derivative instruments

The Group continuously hedges its assets denominated in foreign currencies. As per 31 December 2017, the Group had exposures in EUR, GBP and PLN, all of which are hedged using currency forward contracts. All outstanding derivatives are measured at fair value and gains/losses are recognised in the income statement for each annual statement.

2017

GROUP, 31 December 2017

SEK thousand	Nominal amount up to 1 year	Nominal amount 1–5 years	Nominal amount >5 years	Nominal amount	Positive market value	Negative market value
Derivatives for fair value hedging						
Interest-related contracts						
Swaps	1,000,000	2,500,000		3,500,000		3,991
Currency-related contracts						
Currency forwards	2,241,535			2,241,535	3,512	497
Total	**3,241,535**	**2,500,000**		**5,741,535**	**3,512**	**4,488**

Note 29 *Derivative instruments, cont*

2017

SEK thousand	Nominal amount up to 1 year	Nominal amount 1–5 years	Nominal amount >5 years	GROUP, 31 December 2017 Nominal amount	Positive market value	Negative market value
Derivatives for hedge accounting						
Currency-related contracts						
Currency forwards	8,026,791			8,026,791	7,034	5,904
Total	**8,026,791**			**8,026,791**	**7,034**	**5,904**

2017

SEK thousand	GROUP, 31 December 2017 Positive market value	Negative market value
Market value, currency distribution		
SEK		3,991
EUR	6,442	
GBP	4,104	14
PLN		6,387
Total	**10,546**	**10,392**

2016

SEK thousand	Nominal amount up to 1 year	Nominal amount 1–5 years	Nominal amount >5 years	GROUP, 31 December 2016 Nominal amount	Positive market value	Negative market value
Derivatives for fair value hedging						
Interest-related contracts						
Swaps	1,287,007	2,000,000		3,287,007		5,397
Currency-related contracts						
Currency forwards	10,362,981			10,362,981	28,971	
Total	**11,649,988**	**2,000,000**		**13,649,988**	**28,971**	**5,397**

2016

SEK thousand	Nominal amount up to 1 year	Nominal amount 1–5 years	Nominal amount >5 years	GROUP, 31 December 2016 Nominal amount	Positive market value	Negative market value
Derivatives for hedge accounting						
Currency-related contracts						
Currency forwards	238,082			238,082	196	
Total	**238,082**			**238,082**	**196**	

2016

SEK thousand	GROUP, 31 December 2016 Positive market value	Negative market value
Market value, currency distribution		
SEK		5,238
EUR	2,408	159
GBP	23,785	
PLN	2,975	
Total	**29,167**	**5,397**

Note 30 Specifications to the cash flow statement

Cash and cash equivalents

SEK thousand	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Cash	202	3,073	274,833	328,457
Treasury bills and treasury bonds	1,490,152	2,273,903	–	–
Lending to credit institutions	1,681,458	1,061,285	–	–
Liabilities to Group companies, group account	–	–	–205,833	–286,463
Total	**3,171,812**	**3,338,261**	**69,000**	**41,994**

Adjustment for items not included in cash flow

SEK thousand	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Portfolio amortisation and revaluation	2,233,144	1,906,207	–	–
Depreciation and amortisation of tangible and intangible assets	55,943	52,796	5,538	4,891
Realised and unrealised component of net income from financial transactions	–293,167	199,385	–	–
Unrealised exchange rate gains/losses	–	–	–1,906	667
Net credit losses	–	1,260	–	–
Unrealised gains on shares and participations in joint ventures	11,627	–43,496	–	–
Increase/decrease in accrued interest income and interest expense	–10,332	29,045	–	–
Increase/decrease in provisions	29,352	–1,641	10	–11
Other items	–2,077	–4,446	1,428	–130
Total	**2,024,490**	**2,139,110**	**5,070**	**5,417**

Reconciliation of liabilities from funding activities

			Non-cash changes		
SEK thousand	**31 Dec 2016**	**Cash flow**	**Accrued expenses**	**Exchange rate fluctuations**	**31 Dec 2017**
Deposits from the public	11,848,956	1,407,244	–37,581	8,831	13,227,450
Senior debt	3,125,996	1,073,155	27,369	128,480	4,355,000
Subordinated debt	341,715	381,778	72,979	6,785	803,257
Total liabilities from funding activities	**15,316,667**	**2,862,177**	**62,767**	**144,096**	**18,385,707**

Note 31 Risk management

Introduction

The risks that originate from the Group's operational activities are primarily attributable to Group assets in the form of acquired loan portfolios and thus the payment capacity of Hoist Finance's debtors. These risks are mitigated by a historically strong and predictable cash flow and through the continuous monitoring and evaluation of portfolio development. The Group is also exposed to operational risks as part of its daily operational activities and those associated with the Group's rapid growth. These risks are managed using a framework for managing operational risks that is based on continuous improvements to procedures and processes, risk awareness in the organisation, duality in all important transactions and analyses, and a clear division of responsibilities. The Group is also exposed to exchange rate and interest-rate fluctuations. These two market risks are managed through the ongoing use of derivatives to hedge exchange rates and interest rates.

The Group has adopted policies, regulations and instructions governing the management, analysis, evaluation and monitoring of risks. The Group has also adopted risk management strategies built on the principle that the company, based on its extensive experience and expertise of acquired loan portfolios, actively seeks to increase its volumes in this business area while minimising other exposures and risks (such as market, liquidity and operational risks) as far as is financially justifiable.

The Group's Risk Control function is responsible for working independently from Management to analyse, monitor and report all significant risks to the CEO and Board of Directors. The Risk Control function also serves as an advisor to the Board on issues concerning risk management, risk appetite and risk strategies. This ensures that duality is achieved, as all significant risks are analysed, reported and monitored by the business operations as well as the independent Risk Control function. Risks within the Group are managed and limited in accordance with policies and instructions adopted by the Board. The Risk Control function is responsible for reporting and escalating deviations from the limits to the CEO and the Board.

Risk exposures are calculated, analysed and compared with anticipated revenue to ensure achievement of an attractive risk-adjusted return. Once defined, the Group's risk profile is assessed and evaluated. Assessment and evaluation include the following steps:

1) Assessment of each risk category

Each risk category is individually assessed. The risk assessment is documented and always results in a qualitative assessment of the risk as well as a quantifiable amount.

Note 31 *Risk management, cont*

2) Stress testing: Assessment of unforeseen events

Unforeseen events are defined as events that are possible but highly unlikely. Such events may be designated as "stress test events" and their consequences simulated and documented. Simulation results are reviewed against the Group's capital and liquidity. Unforeseen events may be based on historical experience, academic theory or hypothetical scenarios.

3) Assessment of how risks can be managed and controlled

Although not all risks can be quantified in an adequate way, an analysis is done to detail the way in which risks can be managed and controlled. When appropriate, measures are implemented to improve the management and control of the risk.

The most significant risks identified by the Group as relevant to its business are: (i) credit risk, (ii) operational risk, (iii) market risk (FX risk and interest rate risk) and (iv) liquidity risk.

Credit risk

Credit risk is the risk to revenue and/or capital arising from a counterparty's failure to repay principal or interest at the stipulated time or failure to otherwise perform as agreed.

Credit risk on the Group's balance sheet relates mainly to:

- Acquired loan portfolios
- Bonds and other securities
- Deposits in credit institutions
- Counterparty risk exposure to institutions with which the Group conducts derivative transactions to hedge the Group's FX and interest rate exposure

The NPLs are acquired in portfolios at prices that typically vary between 5 and 35 per cent of the nominal value outstanding at the acquisition date. The price depends on the portfolios' specific characteristics and composition in terms of, inter alia, size, age and type of loans as well as debtor age, location, type, etc. Credit risk in the portfolios relates primarily to the Group overpaying for a portfolio — that is, recovering less from the portfolio than expected — resulting in higher than expected portfolio carrying amount impairments and lower revenue. Total credit risk exposure is equal to the carrying amount of the assets. The year-end carrying amount of Hoist Finance's portfolios was SEK 14,766 million (12,386).The majority of these loans are unsecured, although a limited number of portfolios have real properties as collateral. These portfolios had a carrying amount of SEK 261 million (226).

Information on the loan portfolios' geographic distribution is presented in Note 1. Other information on acquired loan portfolios is presented in Note 13. Hoist does not disclose any age analyses of the NPLs because such information is not particularly relevant from a risk perspective, considering that essentially all of Hoist Finance's portfolios are non-performing. A more important parameter for Hoist Finance's credit risk management is net cash flow forecasts, as presented in Note 12.

The risk of loan portfolios failing to pay as expected is regularly monitored by the business operations and the Risk Control function, by comparing actual outcome against forecasts. This analysis is also used to assess the potential need to impair portfolio values.

The credit risk associated with exposures in Hoist Finance's liquidity reserve is managed in accordance with the Group's Treasury Policy, which regulates the share that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures given counterparty credit rating.

The table to the right shows S&P's credit rating for the Group's exposures in the liquidity reserve as per 31 December 2017 compared with 31 December 2016.

Rating

%	31 Dec 2017	31 Dec 2016
AAA	69.8	69.2
AA+	6.3	12.9
AA	0.0	0.0
AA–	8.0	0.5
A+	0.0	0.0
A	12.2	13.9
A–	1.0	0.6
BBB+	1.9	0.8
BBB	0.0	0.0
BBB–	0.1	1.1
BB+	0.1	0.1
BB	0.1	0.0
BB–	0.6	0.7
B+	0.0	0.0
B	0.0	0.0
B–	0.0	0.0
N/A	0.0	0.1
Total, SEK thousand	**6,799,957**	**5,788,573**
of which, in the liquidity portfolio	**5,179,173**	**4,748,752**

As per 31 December 2017, the weighted average maturity for liquidity portfolio assets was 1.49 years (1.43) and the modified duration was 0.37 years (0.38). Maturity and modified duration are important measures for evaluating the Hoist Finance's credit spread risks and interest-rate risks.

Credit risks arising from bond holdings or derivative transactions are treated in the same way as other credit risks, that is, they are analysed, managed, limited and controlled.

Note 31 *Risk management, cont*

Counterparty risk

The Group uses FX and interest-rate derivatives to hedge its exchange-rate and interest-rate exposure (see Note 29). To avoid counterparty risks associated with these derivatives, the Group uses ISDA and CSA agreements for all derivative counterparties. These agreements allow for netting and daily settlement of credit risk and, accordingly, counterparty risk with derivative counterparties corresponds at most to a one-day fluctuation of the derivative's value. The CSA agreement is backed by cash collateral. Derivative transactions are only conducted with stable counterparties with a minimum credit rating of A-, which also serves to limit the counterparty risk.

The tables below shows financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

Information per type of financial instrument

Financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

31 Dec 2017

			Related amounts not offset in the balance sheet		
SEK thousand	**Gross amount of financial assets and liabilities**	**Amount offset in the balance sheet**	**Net amount presented in the balance sheet**	**Cash collateral**	**Net amount**
Assets					
Derivatives	10,546	–	10,546	–	10,546
Liabilities					
Derivatives	10,392	–	10,392	–10,392	–
Total	**154**	**–**	**154**	**–10,392**	**10,546**

See also Note 29, Derivatives.

31 Dec 2016

			Related amounts not offset in the balance sheet		
SEK thousand	**Gross amount of financial assets and liabilities**	**Amount offset in the balance sheet**	**Net amount presented in the balance sheet**	**Cash collateral**	**Net amount**
Assets					
Derivatives	29,167	–	29,167	–29,167	–
Liabilities					
Derivatives	5,397	–	5,397	–	5,397
Total	**23,770**	**–**	**23,770**	**–29,167**	**–5,397**

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, IT systems or from external events, including legal and compliance risk.

The operational risk that Hoist Finance is mainly exposed to is divided into the following seven categories:

- Unauthorised activities and internal fraud
- External fraud
- Employment practices and workplace safety
- Clients, products and business practices
- Damage to physical assets
- Business disruption and system failures
- Execution, delivery and process management

The Group manages operational risk by continuously improving its internal procedures and day-to-day controls, and by training employees in risk management and risk management techniques. The Group also applies the dual-control principle, that is the principle that a business flow or transaction must always be managed by at least two independent units/individuals. Hoist Finance also applies segregation of duties to ensure that a transaction is never managed from start to finish by one single person.

To identify and mitigate operational risks within the Group, the risk control function in each country has established routines, including the following:

1. All employees are required to submit incident reports via a Group-wide risk management system, where incidents and actions taken are monitored by the risk control function. Significant reported incidents are included in the risk report submitted to the Board and the management in the relevant country.
2. Annual evaluation and identification of operational risks and controls to reduce risks. This is a process to identify, quantify, analyse and thereby determine measures to reduce operational risks at Hoist Finance to an acceptable level. The analysis includes an assessment of a given risk's probability of occurrence and what its consequences (impact) would be, lists the steps taken by Hoist Finance to manage the risks and details additional measures that need to be taken. Assessments are not made by a single person – they are done in groups, because discussion and different perspectives are vital to the identification of relevant risks.
3. The process for approval and quality assurance of new and amended products, services, markets, processes, IT systems and major changes in Hoist Finance's operations and organisation.
4. Business Continuity Management (BCM) provides a framework for planning for and responding to events and business disruptions to ensure the continuation of business operations at an acceptable predefined level. The Group's BCM comprises disruption and crisis management:
   - Disruptions are managed by having business continuity plans in place.
   - Crises are managed by predefined crisis management teams.
5. Key risk indicators are reported to Management and the Board on a regular basis in order to follow up measurable operational risks and provide early warning when risks have increased.
6. Regular training in operational risks is conducted in key areas.

Market risk

Market risk is defined as the risk that FX and interest-rate fluctuations may negatively affect a company's results or equity level.

Note 31 *Risk management, cont*

Currency/FX risk

The FX risk that has an adverse impact on the Group's income statement, balance sheet and/or cash flow arises primarily as a result of:

- Certain income and expense items arising in different currencies, resulting in a transaction risk.
- The translation of assets and liabilities in currencies other than the Group's presentation currency into the presentation currency each month, resulting in a translation risk.

Group Treasury has overall responsibility for continuous management of these risks.

Transaction risk

In each country, all revenue and most operating expenses are in local currency. Currency fluctuations therefore have only a limited impact on the company's operating profit in local currency. Revenue and expenses in national currency are therefore hedged in a natural way, which limits the transaction risk exposure.

Translation risk

The Group's presentation currency is SEK, while its three main functional currencies are EUR, GBP and PLN. The Group's loan portfolios (assets) are mainly denominated in foreign currency, while the Group's deposits from the public (liabilities) are denominated in SEK, which gives rise to a translation risk (balance-sheet risk). To manage translation risk, the Group calculates its unhedged exposure to the aggregate value of net assets denominated in currencies other than SEK. The Group's translation exposure is then managed through linear derivative contracts.

The Group's uses hedge accounting for the net investment in foreign operations, which pertains to the Polish joint venture BEST III.

The tables below show the Group's exposure per currency. The Group has no significant positions in currencies other than EUR, GBP and PLN. The tables also present the translation risk expressed as sensitivity to a movement of 10 per cent in the exchange rate between SEK and each currency.

Group FX risk in EUR	31 Dec 2017	Impact on equity	31 Dec 2016	Impact on equity
Net assets on the balance sheet, EUR M	325		501	
Currency forwards, EUR M	–315		–502	
Net exposure, EUR M	10		–1	
A 10% increase in the EUR/SEK FX rate impacts Group results by (SEK thousand)	10,482	0.32%	–241	–0.01%
A 10% decrease in the EUR/SEK FX rate impacts Group results by (SEK thousand)	–10,482	–0.32%	241	0.01%

Group FX risk in GBP	31 Dec 2017	Impact on equity	31 Dec 2016	Impact on equity
Net assets on the balance sheet, GBP M	404		329	
Currency forwards, GBP M	–406		–327	
Net exposure, GBP M	–2		2	
A 10% increase in the GBP/SEK FX rate impacts Group results by (SEK thousand)	–1,524	–0.05%	1,854	0.06%
A 10% decrease in the GBP/SEK FX rate impacts Group results by (SEK thousand)	1,524	0.05%	–1,854	–0.06%

Group FX risk in PLN	31 Dec 2017	Impact on equity	31 Dec 2016	Impact on equity
Net assets on the balance sheet, PLN M	988		872	
Currency forwards, PLN M	–984		–867	
Net exposure, PLN M	4		5	
A 10 % increase in the PLN/SEK FX rate impacts Group results by (SEK thousand)	827	0.03%	1,032	0.04%
A 10 % decrease in the PLN/SEK FX rate impacts Group results by (SEK thousand)	–827	–0.03%	–1,032	–0.04%

Hoist Finance has strict limits for exposure to each currency. The limits for an open FX position are 4–5 per cent of the gross currency exposure.

Interest rate risk

The Group's interest-rate risk originates from changes in interest rates that may affect the company's revenues and expenses to varying extents. Changes in interest rates could affect the company's revenues from loan portfolios as well as the liquidity reserve, while the cost of funding these assets may also change.

A sudden and permanent interest-rate increase may adversely impact the Group's profit to the extent interest rates and interest expense for loans and deposits from the public are affected more by the increase than are revenues from loan portfolios and the liquidity reserve. To ensure that the exposure is within the company's risk appetite, Group Treasury manages and reduces these interest-rate risks by continuously hedging the Group's interest-rate exposure over the next three years through linear interest-rate derivatives denominated in SEK and EUR.

Pursuant to accounting policies, however, the effects of interest-rate changes are taken up as income at different times. For instance, the Group's liquidity reserve and interest derivatives are measured at fair value, so changes in interest rates have an instantaneous impact on Group results. Loan portfolios, on the other hand, are generally valued under the amortised cost principle, so changes in interest rates have an impact over time (rather than an instantaneous impact) on asset value and Group results. The Group's liabilities are not marked to market (unless a derivative should have a negative value), so changes in interest rates have an impact over time rather than an instantaneous impact on Group results.

Note 31 *Risk management, cont*

The table below shows the effect on various assets and liabilities of a sudden and permanent parallel shift of 100 basis points in market interest rates.

Total impact on net interest income over 3 years

Total impact on net interest income over 3 years, SEK thousand	Impact on profit/loss 31 Dec 2017		Impact on equity	Impact on profit/loss 31 Dec 2016		Impact on equity
	–100 bps	+100 bps		–100 bps	+100 bps	
Impact on net interest income (over 3 years)	101,163	–98,820		89,788	–77,422	
Impact on derivatives (instantaneous impact)	–50,000	50,000		–53,935	53,935	
Total impact of change in short-term interest rate	**51,163**	**–48,820**	**+/–1.51%**	**35,853**	**–23,487**	**+/-0.80%**

The table below shows the instantaneous impact on profit/loss of a parallel shift of 100 basis points in market interest rates.

Group interest-rate risk, items at fair value

Total items measured at fair value incl. derivatives, SEK thousand	Impact on profit/loss 31 Dec 2017		Impact on equity	Impact on profit/loss 31 Dec 2016		Impact on equity
	–100 bps	+100 bps		–100 bps	+100 bps	
Liquidity portfolio	18,943	–18,943		18,145	–18,145	
Interest-rate swaps	–50,000	50,000		–53,935	53,935	
Total	**–31,057**	**31,057**	**+/–0.96%**	**–35,790**	**35,790**	**+/-1.22%**

A discount-rate sensitivity analysis for portfolios measured at fair value is presented in Note 13.

Hoist Finance has strict limits for maximum allowed interest-rate exposure. These regulate the maximum impact on earnings that can be tolerated given a parallel shift of 100 basis points of the interest-rate curve.

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funding, and thus not being able to meet payment obligations at maturity without a significant increase in the cost of obtaining means of payment.

Because the Group's revenues and expenses are relatively stable, liquidity risk is primarily associated with the Group's funding which is based on deposits from the public and the risk of major outflows of deposits at short notice.

The overall objective of the Group's liquidity management is to ensure that the Group maintains control over its liquidity risk situation, with sufficient funds in liquid assets or immediately saleable assets to ensure timely discharge of its payment obligations without incurring high additional costs.

The Group has a diversified funding base with a diversified maturity structure[1]. Funding is mainly raised in the form of deposits from the public and through the capital markets through the issuance of senior unsecured debts, own funds instruments and equity. The majority of deposits from the public are payable on demand (current account), while approximately 35 per cent (36) of the Group's deposits from the public are locked into longer maturities (fixed-term deposits) ranging from 12 to 36 months.

Details of the Group's funding base are presented in the table below.

Funding

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Deposits from the public, flexible	8,580,487	7,582,909	8,580,487	7,582,909
Deposits from the public, fixed	4,646,963	4,266,047	4,646,963	4,266,047
Senior debt	4,355,000	3,125,996	4,355,000	3,125,996
Additional Tier 1 capital	379,577	379,577	379,577	379,577
Subordinated debt	803,257	341,715	803,257	341,715
Equity	2,848,728	2,545,719	2,100,176	2,077,009
Other	922,552	907,963	612,823	695,522
Balance sheet total	**22,536,564**	**19,149,926**	**21,478,283**	**18,468,775**

1) Maturity analysis tables of the Group's liabilities are not discounted. See Note 12 for assets and liabilities.

Note 31 *Risk management, cont*

In addition to having a diversified funding structure with respect to funding sources and maturity structure, the Group has implemented a number of measures to minimise liquidity risk:

- **Centralised liquidity management:** Management of liquidity risk is centralised and handled by Group Treasury.
- **Independent analysis:** The Group's Risk Control function serves as a central unit for independent liquidity analysis. Internal Audit is responsible for inspecting the Group's liquidity control tools.
- **Continuous monitoring:** The Group uses short and long-term liquidity forecasts to monitor the liquidity position and reduce liquidity risk. These forecasts are presented to Management and the Board.
- **Stress testing:** The Group conducts stress tests of the liquidity situation. These tests vary in nature to demonstrate the risk from multiple angles and to preclude negative results due to defects in stress test methodology.
- **Interest-rate adjustment:** The size of deposits from the public can be managed by adjusting quoted interest rates.
- **Well-diversified deposit portfolio with no concentration risks:** The highest savings deposit is limited to SEK 950,000.
- **Liquidity portfolio:** Liquidity investments are made in low-risk, high-liquidity interest-bearing securities, which allows for rapid cash conversion if needed. The risk of large outflows is further reduced through the coverage of 99 per cent of deposits by the national deposit insurance.

Hoist Finance's liquidity reserve mainly comprises bonds issued by the Swedish government and Swedish municipalities, and covered bonds in mortgage institutions; see table below.

Liquidity reserve

SEK thousand	31 Dec 2017	31 Dec 2016
Cash and holdings in central banks	202	3,073
Deposits in other banks available overnight	1,620,581	1,036,749
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,060,775	1,528,116
Securities issued or guaranteed by municipalities or other public sector entities	429,377	745,786
Covered bonds	3,689,021	2,474,849
Securities issued by non-financial corporates	–	–
Securities issued by financial corporates	–	–
Other	–	–
Total	**6,799,956**	**5,788,573**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 6,800 million (5,789) as per 31 December, exceeding the limit and the target level by a significant margin.

Hoist Finance has a liquidity contingency plan for managing liquidity risk. This identifies specific events that may trigger the contingency plan and actions to be taken. These events may include:

- An outflow from HoistSpar of more than 10 per cent of total deposits over a 30-day period.
- A lowering or removal of Hoist Finance's credit rating by an official rating institute.

Internal capital and liquidity adequacy assessment processes

The internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are ongoing processes carried out by the Executive Management Team, which reviews, evaluates and quantifies risks to which the Group is exposed in carrying out its business operations. This risk analysis forms the basis for ensuring that the Group has sufficient capital and liquidity to cover the regulatory requirements and to ensure a comfortable financial margin vis-à-vis the regulatory requirements.

The capital and liquidity assessment process is developed and reviewed at least once per year. The annual review focuses on ensuring that the process is always relevant to the current risk profile and the Group's operations. The Board decides on any changes to the process, and Internal Audit verifies that the process is carried out pursuant to the Board's instructions.

The processes start with the management's business plan and budget for the coming three years. These are formalised into a forecast. The ICAAP and ILAAP use these forecasts as a starting point and, as a first step, evaluate the risks inherent in the forecasts.

ICAAP

ICAAP is Hoist Finance's internal evaluation to ensure that Hoist has sufficient capital to meet the risks in both normal and stressed scenarios.

Credit and market risks are rigorously stress-tested to determine the extent of losses Hoist Finance is capable of withstanding under extremely adverse circumstances. This loss figure is then compared to the statutory capital requirement calculated according to Pillar 1. If the simulated losses exceed this amount, the excess is covered by additional Pillar 2 capital.

Operational risks are evaluated based on the company's reported incidents statistics. Once the operational risks have been quantified, the next step is calculation of the amount of capital required to cover all potential unexpected losses arising from the operational risks. The company must be able to withstand even extremely serious operational incidents. Here as well, the calculated capital requirement is compared to the statutory Pillar 1 capital requirement and any excess loss risk is covered by additional Pillar 2 provisions.

Hoist Finance conducts stress tests and sensitivity analyses of the business plan, under ICAAP and on an ongoing basis in the operations, to ensure that the Group maintains a strong financial position in relation to regulatory capital requirements under extremely adverse internal and external market conditions.

The capital requirement produced by ICAAP is used by management as a decision-making tool when making future plans for the Group. ICAAP thus adds a further dimension to the Group's decision-making above and beyond strategic and daily planning. Before being implemented, strategic plans, forecasts and immediate management decisions are always reviewed against the background of capital requirements.

The conclusions from this year's ICAAP are that Hoist Finance has sufficient capacity to withstand unexpected events without risking its solvency, and that Hoist Finance is well-capitalised for continued growth.

ILAAP

ILAAP is Hoist Finance's internal evaluation to ensure that the Group maintains sufficient levels of liquidity buffers and sufficient funding in light of the liquidity risks that exist. The process identifies, verifies, plans and stress-tests Hoist Finance's future funding and liquidity requirements.

Hoist Finance uses ILAAP to define the size of the liquidity buffer the Group needs to maintain to prevent identified liquidity risks from affecting the Group's capacity to achieve its business plan and meet regulatory requirements (LCR/NSFR) and the limits set by the Board of Directors.

Results from this year's ILAAP show that Hoist Finance has sufficient capacity to meet unexpected liquidity risks without risking refinancing problems, and that Hoist Finance maintains a liquidity reserve sufficient to maintain continued growth.

Note 32 Capital adequacy

The information in this Note includes information that is required to be disclosed pursuant to FFFS 2008:25 regarding annual reports for credit institutions and FFFS 2014:12 concerning supervisory requirements and capital buffers. The information refers to the consolidated situation for Hoist Finance AB (publ) ("Hoist Finance") and Hoist Kredit AB (publ) ("Hoist Kredit"), the regulated entity. For additional information on the legal entities included in the consolidated situation, see Note 14. The only difference between the consolidated accounts and the consolidated situation for adequacy purposes is that joint ventures are consolidated using the equity method in the consolidated accounts, whereas proportional consolidation is used for the consolidated situation in the capital adequacy reporting. The following laws and regulations were applied when establishing the company's statutory capital requirements: Regulation (EU) No 575/2013 of the European Parliament and Council on prudential requirements for credit institutions and investment firms; Swedish law 2014:968, Supervision of credit institutions and securities companies; and Swedish law 2014:966 on capital buffers.

These laws are aimed at ensuring that the regulated entity and its consolidated situation manage their risks and protect the Group's customers.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own funds or debt repayment between companies and their subsidiaries.

Additional information on capital adequacy is presented in the company's Pillar 3 report, which is available on the Group's website: www.hoistfinance.com.

Own funds

The table below shows own funds used to cover the capital requirements for Hoist Finance and the regulated entity Hoist Kredit.

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Own funds, SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Capital instruments and the related share premium accounts	1,286,805	1,286,805	482,963	482,963
Retained earnings	744,837	472,965	402,218	307,205
Accumulated other comprehensive income and other reserves	282,494	331,293	1,081,441	1,081,949
Independently reviewed interim profits net of any foreseeable charge or dividend[1]	298,510	292,004	183,089	267,191
Intangible assets (net of related tax liability)	–287,038	–243,340	–44,343	–37,647
Deferred tax assets that rely on future profitability	–21,241	–47,268	–2,581	–2,734
Common Equity Tier 1 capital	**2,304,367**	**2,092,459**	**2,102,787**	**2,098,927**
Capital instruments and the related share premium accounts	379,577	379,577	379,577	379,577
Additional Tier 1 capital	**379,577**	**379,577**	**379,577**	**379,577**
Tier 1 capital	**2,683,944**	**2,472,036**	**2,482,364**	**2,478,504**
Capital instruments and the related share premium accounts	803,257	341,715	803,257	341,715
Tier 2 capital	**803,257**	**341,715**	**803,257**	**341,715**
Total own funds	**3,487,201**	**2,813,751**	**3,285,621**	**2,820,219**

1) Dividend deduction is calculated on the basis of the proposed dividend for the year.

As presented in the above table, issued Tier 1 capital instruments and Tier 2 capital instruments are both used in calculating the Group's own funds. These instruments are outlined below.

Additional Tier 1 capital

Additional Tier 1 capital comprises two issues of write-down instruments with a nominal amount of SEK 100 million and EUR 30 million, respectively, and with coupon rates of 15 per cent and 8.625 per cent, respectively. The instruments were issued to improve Hoist Finance's capital structure. The instruments have no scheduled maturity date, although the issuer may redeem the instruments in full at specified dates. The first possible redemption dates are April 2018 for the SEK-denominated instrument and June 2023 for the EUR-denominated instrument.

Tier 2 capital instruments

In May 2017, Hoist Finance issued a subordinated loan of EUR 80 million. This subordinated loan was included in Tier 2 capital in own funds for Hoist Finance. The subordinated loan matures on 19 May 2027 with the possibility of early redemption after five years and carries a fixed coupon rate of 3.875 per cent. The instrument is listed on the Dublin stock exchange. In conjunction with the issue, the then existing subordinated loan of SEK 350 million was repurchased.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own funds or debt repayment between companies and their subsidiaries.

Additional information on capital adequacy is presented in the company's Pillar 3 report, which is available on the Group's website: www.hoistfinance.com.

Revaluation reserve

The own funds for Hoist Kredit include a revaluation reserve of SEK 64 million in other reserves relating to a revaluation of shares in the subsidiary Hoist Finance UK Ltd in 2013.

Note 32 *Capital adequacy, cont*

Capital requirement

The tables below show the risk-weighted exposure amounts and own funds requirements per risk category for Hoist Finance and the regulated entity Hoist Kredit AB (publ).

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Risk-weighted exposure amounts, SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions	380,984	261,882	150,270	78,060
of which, counterparty credit risk	54,333	29,036	54,333	29,036
Exposures to corporates	135,760	199,920	10,934,711	10,238,303
Retail exposures	15,994	24,146	15,994	24,146
Exposures in default	15,348,907	13,270,498	2,496,093	2,646,432
Exposures in the form of covered bonds	368,902	247,485	368,902	247,485
Equity exposures	–	–	2,142,880	570,038
Other items	145,310	132,315	44,323	6,116
Credit risk (standardised approach)	**16,395,857**	**14,136,246**	**16,153,173**	**13,810,580**
Market risk (foreign exchange risk – standardised approach)	**113,090**	**28,858**	**113,090**	**28,858**
Operational risk (standardised approach)	**3,158,430**	**2,622,373**	**1,127,520**	**893,024**
Credit valuation adjustment (standardised approach)	**27,430**	**0**	**27,430**	**0**
Total risk-weighted exposure amount	**19,694,807**	**16,787,477**	**17,421,213**	**14,732,462**

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Capital requirements, SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Pillar 1				
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities or agencies	0	0	0	0
Exposures to institutions	30,479	20,951	12,022	6,245
of which, counterparty credit risk	4,347	2,323	4,347	2,323
Exposures to corporates	10,861	15,994	874,777	819,064
Retail exposures	1,279	1,932	1,279	1,932
Exposures in default	1,227,913	1,061,640	199,687	211,715
Exposures in the form of covered bonds	29,512	19,799	29,512	19,799
Equity exposures	–	–	171,430	45,603
Other items	11,625	10,583	3,546	489
Credit risk (standardised approach)	**1,311,669**	**1,130,899**	**1,292,253**	**1,104,847**
Market risk (FX risk – standardised approach)	**9,047**	**2,309**	**9,047**	**2,309**
Operational risk (standardised approach)	**252,674**	**209,790**	**90,203**	**71,442**
Credit valuation adjustment (standardised approach)	**2,194**	**0**	**2,194**	**0**
Total own funds requirement – Pillar 1	**1,575,584**	**1,342,998**	**1,393,697**	**1,178,598**
Pillar 2				
Concentration risk	130,774	101,991	130,774	101,991
Interest-rate risk in the banking book	36,203	30,000	36,203	30,000
Pension risk	3,000	4,106	3,000	–
Other Pillar 2 risks	25,909	794	25,909	794
Total own funds requirement – Pillar 2	**195,886**	**136,891**	**195,886**	**132,785**
Capital buffers				
Capital conservation buffer	492,370	419,686	435,530	368,312
Countercyclical buffer	10,569	6,370	8,459	10,770
Total own funds requirement – Capital buffers	**502,939**	**426,056**	**443,989**	**379,082**
Total capital requirements	**2,274,409**	**1,905,945**	**2,033,572**	**1,690,465**

Own funds for the company's consolidated situation totalled SEK 3,487 million (2,814) as per 31 December 2017, exceeding the own funds requirements by a comfortable margin.

Note 32 *Capital adequacy, cont*

Capital ratios and capital buffers

Regulation (EU) No 575/2013 of the European Parliament and the Council requires credit institutions to maintain Common Equity Tier 1 capital of at least 4.5 per cent, Tier 1 capital of at least 6 per cent and a total capital ratio (capital in relation to risk-weighted exposure amount) of 8 per cent. Credit institutions are also required to maintain specific capital buffers. Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk-weighted exposure amount and an institutional specific countercyclical buffer of 0.05 per cent of the total risk-weighted exposure amount. The table below shows CET1 capital, Tier 1 capital and the total capital ratio in relation to the total risk-weighted exposure amount for Hoist Finance and for the regulated entity Hoist Kredit. It also shows the total regulatory requirements under each pillar and the institution-specific CET1 capital requirements.

All capital ratios exceed the minimum requirements and capital buffer requirements by a healthy margin.

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Capital ratios and capital buffers, %	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
CET1 ratio	11.70	12.46	12.07	14.25
Tier 1 capital ratio	13.63	14.73	14.25	16.82
Total capital ratio	17.71	16.76	18.86	19.14
Institution-specific CET1 requirements	7.05	7.04	7.05	7.07
of which, capital conservation buffer requirement	2.50	2.50	2.50	2.50
of which, countercyclical buffer requirement	0.05	0.04	0.05	0.07
CET1 capital available to meet buffers[1)]	**7.20**	**7.96**	**7.57**	**9.75**

1) CET1 ratio as reported, less minimum requirement of 4.5 per cent (excluding buffer requirements) and less any CET1 items used to meet the Tier 1 and total capital requirements.

Internally assessed capital requirement

As per 31 December 2017, the internally assessed capital requirement for Hoist Finance was SEK 1,771 million (1,480), of which SEK 196 million (137) was attributable to Pillar 2.

Note 33 Critical estimates and assumptions

The Management and the Board of Directors have discussed the developments, choices and disclosures regarding the Group's critical accounting policies and estimates as well as the application of these policies and estimates. They have also discussed and assessed future assumptions and other important sources of uncertainty in the assumptions as per the balance-sheet date that may represent a substantial risk for material restatements of the carrying amounts in the financial statements in the coming financial years. Certain critical estimates have been made through the application of the Group's accounting policies described below.

Measurement of acquired loan portfolios

As indicated in Note 13, Acquired loan portfolios, the recognition of acquired loans is based on the Group's own forecast of future cash flows from acquired portfolios. Although the Group has historically had reasonably correct forecast accuracy with regard to cash flows, future deviations cannot be ruled out. The Group applies internal rules and a formalised decision-making process for the adjustment of previously adopted cash flow forecasts. The internal rules are based on a constant 10-year period. For portfolios acquired prior to 1 June 2011, the IRR is determined based on observations of the market's required rate of return for comparable transactions. Currently a 12 per cent IRR is applied. This entails, among other things, that cash flow forecasts during the first year a portfolio is owned are only adjusted in exceptional cases. Portfolios acquired after 1 July 2011 are measured at amortised cost and the IRR is based on the initial cash flow projection defined at the acquisition date for specific portfolios. All amendments in cash flow forecasts are subject to final decisions. For a sensitivity analysis, refer to Note 13.

Changes in tax expenses

Hoist Finance operates cross-border and manages its consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is therefore exposed to potential tax risks arising from varying interpretation and application of existing laws, treaties, regulations, and guidance in areas including income tax and VAT (Value Added Tax).

Additional Tier 1 capital

Hoist Finance's additional Tier 1 capital (AT1 capital) comprises depreciable perpetual debt instruments. Hoist Finance has no obligation to pay cash or other financial assets to the holders of the instruments, in other words, Hoist Finance has a unilateral and unconditional right to choose not to make payments. Therefore, AT1 capital does not comprise a financial liability, and is instead recognised as equity.

Note 34 Related-party transactions

The information below, presented from Hoist Finance's perspective, shows the way in which Hoist Finance's financial information has been affected by transactions with related parties.

	GROUP Other related parties Senior executives	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**
Assets		
Other assets	–	515
Liabilities		
Other liabilities	–	–

	GROUP Other related parties Senior executives	
SEK thousand	**2017**	**2016**
Operating income		
Interest income	–	36
Operating expenses		
Other expenses[1)]	–7,210	–5,553

	PARENT COMPANY			
	Group companies		**Other related parties**	
SEK thousand	**31 Dec 2017**	**31 Dec 2016**	**31 Dec 2017**	**31 Dec 2016**
Current receivables				
Receivables, Group companies	193,239	257,501	–	–
Non-current liabilities				
Intra-Group loans	–	65,000	–	–
Current liabilities				
Liabilities, Group companies	280,496	298,153	–	–

	PARENT COMPANY			
	Group companies		**Other related parties Senior executives**	
SEK thousand	**2017**	**2016**	**2017**	**2016**
Net sales	242,544	195,846	–	–
Operating expenses				
Other expenses[1)]	–217,304	–143,779	–7,210	–5,419
Profit from financial items				
Interest income	28,698	10,270	–	–
Interest expense	–3,832	–1,354	–	–
Earnings from participations in Group companies				
Group contribution	180,000	210,000	–	–

[1)] Specification of other expenses	GROUP Other related parties Senior executives	
SEK thousand	**2017**	**2016**
Alpha Leon AB	–263	–855
Carrara Communication AB	–789	–66
CDW Konsult AB	–526	–
Co Go Consulting AB	–3,134	–3,360
I. Bonde AB	–986	–329
J&S Rubin AB	–482	–
Firma Liselotte Hjorth	–812	–461
Uggla Advisory AB	–241	–482
Total	**–7,233**	**–5,553**

The above amounts comprise fees including social security contributions.

Note 35 Subsequent events

Hoist Kredit AB (publ) and Hoist Finance AB (publ) completed a merger as of 2 January 2018. Through the merger, all of Hoist Kredit's assets and liabilities have been transferred to Hoist Finance at the same time as Hoist Kredit was liquidated. The previously announced simplification of the corporate structure has been completed and Hoist Finance transitions from a holding company into the operational Parent Company of the Group. The merger has no material financial effects for Hoist Finance. Like Hoist Kredit, Hoist Finance is a credit market company under the supervision of the Swedish FSA.

Hoist Finance entered in March 2018 into a significant forward flow agreement in Italy. The total investment under the agreement is approximately 90 MEUR and spans over up to 18 months.

On 15 March 2018, Klaus-Anders Nysteen took over as the new CEO of Hoist Finance.

Hoist Finance entered in March 2018 into an agreement to acquire a UK mortgage portfolio. The portfolio consists of non-performing and performing secured loans on residential and commercial property. The commercial property loans are mainly to small enterprises.

To the best of the Board's knowledge, no other significant events that are expected to have a material impact on business operations have occurred after the balance-sheet date.

Hoist Kredit AB (publ) with Hoist Finance AB (publ)

SEK thousand	
Cash and interest-bearing securities	5,786,794
Other assets	15,566,100
Total assets	**21,352,894**
Deposits from the public	13,227,450
Senior debt	4,355,000
Subordinated debt	803,257
Total interest-bearing liabilities	18,385,707
Other liabilities	406,683
Untaxed reserves	80,752
Equity	
Restricted equity	143,422
Non-restricted equity	2,336,330
Total liabilities and equity	**21,352,894**

The merger result in Hoist Finance AB (publ), which is recognised in equity, amounts to profit of SEK 790 million.

Note 36 Reconciliation of alternative performance measures

Return on book

SEK thousand	2017	2016
EBIT	950,882	935,458
+ Operating expenses, Central Functions	368,380	328,668
EBIT excl. operating expenses, Central Functions	1,319,262	1,264,126
Average carrying amount, acquired loans[1)]	13,342,942	11,968,471
Return on book, %	**9.9**	**10.6**

1) Calculated as average carrying amount at the start of the year.

Note 36 *Reconciliation of alternative performance measures, cont*

EBITDA, adjusted

SEK thousand	2017	2016
Net profit for the year	452,760	417,149
+ Income tax expense	128,386	115,949
+ Portfolio revaluation	–10,990	–5,703
– Interest income (excl. interest income from run-off consumer loan portfolio)	14,345	3,283
+ Interest expenses	305,066	300,288
+/– Net income from financial transactions, incl. loan losses, net	50,324	98,789
+ Depreciation and amortisation of tangible and intangible assets	55,943	52,796
EBITDA	**995,834**	**982,551**
+ Amortisation, run-off consumer loan portfolio	10,869	26,171
+ Amortisation, acquired loan portfolios	2,244,134	1,911,916
EBITDA, adjusted	**3,250,837**	**2,920,638**
Carrying amount, run-off consumer loan portfolio	21,325	32,194

Return on equity

SEK thousand	2017	2016
Equity	3,228,303	2,925,295
AT1 capital	–379,577	–379,577
Reversal of interest expense paid for AT1 capital	27,607	15,000
Total equity	2,876,333	2,560,718
Total equity (quarterly average)	**2,705,828**	**2,361,949**
Net profit for the year	452,760	417,149
Interest adjustment, AT1 capital	–40,486	–15,688
Adjusted annual earnings	**412,274**	**401,461**
Return on equity, %	15	17

Note 37 Appropriation of profits, 2017

According to the Parent Company's balance sheet, the following unappropriated earnings are at the disposal of the Annual General Meeting:

SEK	
Other contributed capital	1,722,091,568
Retained earnings	6,196,334
Net profit for the year	65,006,140
Total	**1,793,294,042**

The Board of Directors proposes that unappropriated earnings be distributed as follows:

SEK	
Dividend to shareholders, SEK 1.90 per share	154,250,637
Carried forward to: Other contributed capital	1,722,091,568
Losses carried forward	-83,048,163
Total	**1,793,294,042**

The proposed dividend, totalling SEK 154 million, is based on the number of shares as per 31 December 2017. The total dividend amount may change during the period preceding the record date, depending on warrant redemption. It is the Board's assessment that the proposed dividend is justifiable in view of the requirements imposed on consolidated equity by the Group's operations, scope and risks, and in the view of the Group's need for consolidation, liquidity and financial position in other respects.

Certification of the Board of Directors

The Board of Directors and the CEO certify that the Annual Report has been prepared in accordance with generally accepted accounting policies in Sweden, and the consolidated accounts in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated accounts provide a true and fair presentation of the Parent Company's and the Group's financial position and performance. The Parent Company's and the Group's Administration Reports provide a true and fair account of the development of the respective entities' business, financial position and performance, and accurately describe the significant risks and uncertainties faced by the Parent Company and Group companies.

Stockholm, 26 March 2018

Ingrid Bonde
Chair of the Board

Cecilia Daun Wennborg
Board member

Malin Eriksson
Board member

Liselotte Hjorth
Board member

Jörgen Olsson
Board member

Joakim Rubin
Board member

Costas Thoupos
Board member

Gunilla Öhman
Board member

Klaus-Anders Nysteen
CEO

Our audit report was submitted on 26 March 2018.

KPMG AB

Anders Bäckström
Authorised Public Accountant
Auditor in charge

Auditor's Report

To the general meeting of the shareholders of Hoist Finance AB (publ), corp. id 556012-8489

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hoist Finance AB (publ) for the year 2017, except for the corporate governance statement on pages 62–73 and the sustainability report on pages 6–8, 24–37 and 46–50. The annual accounts and consolidated accounts of the company are included on pages 6–8, 24–37, 46–50 and 54–131 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 62–73 and sustainability report on pages 6–8, 24–37 and 46–50. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Assessment of future collections from acquired loan portfolios / valuation and revenue recognition of acquired loan portfolios
See note 1, note 12, note 13, note 28, note 31 and note 33 and accounting principles on pages 86, 87 and 88 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter
The carrying value of acquired loan portfolios amounts to SEK 14,766 million per December 31, 2017, which is equivalent to 66 percent of the Group's total assets. Loan portfolios acquired before July 1, 2011 are valued at fair value and carried at SEK 940 million; portfolios acquired subsequently are measured at amortized cost and are carried at SEK 13 826 million. This represent 6 percent and 94 percent of the acquired asset portfolios respectively.

For portfolios measured at amortized cost, revenue is recognized using the effective interest method. The effective interest rate and any future adjustments to income is calculated based on projected future cash flows from loan portfolios over a ten year period.

The Group uses cash flow models to estimate the value of acquired loan portfolios. Given the nature of the loan portfolios significant judgment is required to estimate future cash flows. The projections include assumptions about the amounts that are possible to collect, the timing of collection and the costs to collect. The latter is dependent on management's chosen strategy of collection. If management changes its assessment or strategy, cash flow models are adjusted.

For portfolios acquired before July 1, 2011, which are measured at fair value, significant assumptions are projected future cash flows as described above, as well as estimates of market discount rates.

In view of the large element of complexity and assumptions in the cash flow models as well as in the assessment of the discount rate, this represents a key audit matter.

Response in the audit
We have read the descriptions and assessed the appropriateness of the Group's policies, procedures and key controls related to valuations and revaluations as well as tested these controls on a sample basis to assess the effectiveness of applied procedures. We have thereby also tested compliance to the Group's controls for determining important assumptions applied in the cash flow models.

We have read analysis made of the accuracy of the forecasted cash flows in comparison with actual outcomes of cash flows taking into account cash collected, costs and timing of collections. We have also on a sample basis performed own analysis. When discrepancies were noted, we followed up on how this affected the Group's assessment of future projected cash flows. We have also reviewed and assessed whether these analyses and calibrations were carried out by management at the appropriate level and were appropriately approved.

We have, on a sample basis, tested the calculations made in the Group's system used for the accounting of portfolios and of the transfer of data between central systems.

For portfolios carried at fair value we have assessed whether the discount rate used is based on market terms by assessing comparable transactions.

Furthermore, we have considered the circumstances disclosed in the notes to the financial statements and evaluated whether the information provided is sufficiently detailed to understand management's assessments and the key assumptions used.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–53 and 135–137. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hoist Finance AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 62–73 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act and the Annual Accounts Act for Credit Institutions and Securities Companies.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 6–8, 24–37 and 46–50 and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Hoist Finance AB (publ) by the general meeting of the shareholders on the 28 April 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2013.

Stockholm 26 March 2018
KPMG AB
Anders Bäckström
Authorized Public Accountant

Guide to reading our financial statements

Operating income statement, Group

SEK thousand	2017	2016
Gross collections on acquired loan portfolios	4,877,171	4,311,162
Portfolio amortisation and revaluation	–2,233,144	–1,906,207
Interest income from run-off consumer loan portfolio	4,540	5,841
Net revenue from acquired loan portfolios	**2,648,567**	**2,410,796**
Fee and commission income	73,301	116,817
Profit from shares and participations in joint ventures	76,138	86,042
Other income	13,279	13,651
Total revenue	**2,811,285**	**2,627,306**
Personnel expenses	–730,005	–672,355
Collection costs	–672,108	–595,915
Other operating expenses	–402,347	–370,782
Depreciation and amortisation of tangible and intangible assets	–55,943	–52,796
Total operating expenses	**–1,860,403**	**–1,691,848**
EBIT	**950,882**	**935,458**
Funding		
Interest income excl. run-off consumer loan portfolio	–14,346	–3,283
Interest expense	–305,066	–300,288
Net income from financial transactions	–50,324	–98,789
Total financial items	**–369,736**	**–402,360**
EBT	**581,146**	**533,098**

Statutory income statement, Group

SEK thousand	2017	2016
Net revenue from acquired loan portfolios	2,644,027	2,404,955
Interest income	–9,806	2,558
Interest expense	–305,066	–300,288
Net interest income	**2,329,155**	**2,107,225**
Fee and commission income	73,301	116,817
Net income from financial transactions	–50,324	–97,529
Other income	13,279	13,651
Total operating income	**2,365,411**	**2,140,164**
General administrative expenses		
Personnel expenses	–730,005	–672,355
Other operating expenses	–1,074,455	–966,697
Depreciation and amortisation of tangible and intangible assets	–55,943	–52,796
Total operating expenses	**–1,860,403**	**–1,691,848**
Profit before credit losses	**505,008**	**448,316**
Net credit losses	–	–1,260
Profit from shares and participations in joint ventures	76,138	86,042
Profit before tax	**581,146**	**533,098**

Hoist Finance supplements its statutory presentation of the financial income statement with an operating income statement in order to assess the operational performance of the debt purchasing and collection operations and to facilitate comparisons with competitors.

The operating income statement does not include any amendments or adjustments as compared with the statutory income statement. The same accounting and valuation policies are applied in both versions.

Hoist Finance regards the acquisition and management of acquired loan portfolios as the Group's core operational activity. Deposit-taking in HoistSpar is thus part of the Group's financing activity.

An outline guide is presented to the left in order to assist understanding of our financial performance presented in the statutory income statement as compared with the operating income statement.

The statutory income statement complies with the Swedish Financial Supervisory Authority's general recommendations FFFS 2008:25.

Operating profit, EBIT in the operating income statement

In an analysis of Hoist Finance's operating profit (EBIT), income and expenses attributable to the acquisition and management of loan portfolios, run-off consumer loan portfolios, fee and commission income, profit from joint ventures as well as general administration are regarded as our operational activity.

Interest expenses for deposit-taking are regarded as financing expenses.

Definitions

Alternative performance measures
Alternative performance measures (APMs) are financial measures of past or future earnings trends, financial position or cash flow that are not defined in the applicable accounting regulatory framework (IFRS), in the Capital Requirements Directive (CRD IV), or in the EU's Capital Requirement Regulation number 575/2013 (CRR). APMs are used by Hoist Finance, along with other financial measures, when relevant for monitoring and describing the financial situation and for providing additional useful information to users of the financial statements. These measures are not directly comparable with similar performance measures that are presented by other companies. Estimated remaining collections, Return on book and Adjusted EBITDA are three APMs that are used by Hoist Finance. Moreover, during the period, Hoist Finance has chosen to present as APMs: Return on equity and Diluted earnings per share, both of which are presented excluding nonrecurring items. Alternative performance measures are described below.

Number of employees (FTEs)
Number of employees at the end of the period converted to full-time posts (FTEs).

Return on equity
Net profit for the period adjusted for accrued unpaid interest on AT1 capital, divided by equity adjusted for AT1 capital reported in equity, calculated as an average for the financial year based on a quarterly basis.

Return on assets
Net result for the year as a percentage of total assets at the end of the year.

Gross 120-month ERC
"Estimated Remaining Collections" – the company's estimate of the gross amount that can be collected on the loan portfolios currently owned by the company. The assessment is based on estimates for each loan portfolio and extends from the following month through the coming 120 months. The estimate for each loan portfolio is based on the company's extensive experience in processing and collecting over the portfolio's entire economic life.

EBIT
Earnings before Interest and Tax. Operating profit before financial items and tax.

EBIT margin
EBIT (operating earnings) divided by total revenue.

EBITDA, adjusted
EBIT (operating earnings), less depreciation/impairments and amortisation for run-off consumer loan portfolio and depreciation of acquired loan portfolios.

Non-performing loans (NPLs)
An originator's loan is non-performing as at the balance-sheet date if it is past due or will be due shortly.

Acquired loans
Total of acquired loan portfolios, run-off consumer loan portfolios and participations in joint ventures.

Acquired loan portfolios
An acquired loan portfolio consists of a number of defaulted consumer loans and SME loans that arise from the same originator.

Average number of employees
Average number of employees during the year converted to full-time posts (FTEs). The calculation is based on the total average number of FTEs per month divided by the year's twelve months.

Gross collections on acquired loan portfolios
Gross cash flow on acquired loan portfolios comprises payments from the Group's customers on loans included in Group's acquired loan portfolios.

Fee and commission income
Fees for providing debt management services to third parties.

Nonrecurring items
Nonrecurring items are defined as items that disturb comparison in the sense that their occurrence and/or scale has an irregularity that does not apply to other items.

Own funds
Sum of Tier 1 capital and Tier 2 capital.

Capital requirements – Pillar 1
Minimum capital requirements for credit risk, market risk and operational risk.

Capital requirements – Pillar 2
Capital requirements beyond those stipulated in Pillar 1.

Expenses/Gross collections on acquired loan portfolios
Operating expenses less fee and commission income, divided by the sum of gross collections on acquired loan portfolios and interest income from the run-off consumer loan portfolio. The expenses related to fee and commission income are calculated with reference to commission income costs related to other income and actual profit margin.

CET1 capital
Capital instruments and the related share premium accounts that fulfil the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council, and other equity items that may be included in CET1 capital, less regulatory dividend deduction and deductions for items such as goodwill and deferred tax assets.

CET1 ratio
CET1 capital in relation to the total risk exposure amount.

Legal collection
Legal collections relate to gross collections following the initiation of Hoist Finance's litigation process. This process assesses customers' solvency and follows regulatory and legal requirements.

Net revenue from acquired loans
The sum of collections from acquired loan portfolios and income from the run-off consumer loan portfolio, less portfolio amortization and revaluation.

Return on book
EBIT (operating profit) on a full-year basis, exclusive of Central Functions operating expenses, divided by average the carrying amount of acquired loan portfolios. In the financial statements, calculation of the average carrying amount is based on the opening balance at the beginning of the year and the closing balance at the end of the year. For the full year, the average value id based on the quarterly values during the financial year.

Portfolio amortisation
The share of gross collections that will be used for amortising the carrying amount of acquired loan portfolios.

Portfolio revaluation
Changes in the portfolio value based on revised estimated remaining collections for the portfolio.

Portfolio growth
Changes in the carrying amount of acquired loan portfolios over the last 12 months (LTM).

Tier 1 capital
The sum of CET1 capital and additional Tier 1 capital.

Tier 1 capital ratio
Tier 1 capital as a percentage of the total risk exposure amount.

Additional Tier 1 capital
Capital instruments and associated share premium reserves that fulfil the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council and that may accordingly be included in the Tier 1 capital.

Diluted earnings per share
Net profit for the year, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares after full dilution.

Basic earnings per share
Net profit for the year, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares.

Risk exposure amount
The risk weight of each exposure multiplied by the exposure amount.

SMEs
A company that employs fewer than 250 people and has either annual sales of EUR 50 million or less or a balance sheet total of EUR 43 million or less.

Tier 2 capital
Capital instruments and the related share premium accounts that meet the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council and that may accordingly be included in own funds.

Total revenue
Total of net revenue from acquired loan, fee and commission income, profit from joint ventures and other income.

Total capital ratio
Own funds as a percentage of the total risk exposure amount.

Weighted average number of shares outstanding
Weighted number of shares outstanding plus potential dilutive effect of warrants outstanding.

Shareholder information

Investor Relations

Hoist Finance's Investor Relations department is responsible for providing relevant information to – and being available for talks and meetings with – shareholders, investors, analysts and the media.

During the year Hoist Finance conducted a number of international road shows and participated in numerous capital market activities. The company also held regular analyst meetings.

Analysts who continuously monitor Hoist Finance

Carnegie	Viktor Lindeberg
Citibank	Owen Jones
Macquire	Hugh Miller
Morgan Stanley	Anil Sharma
Nordea	Ermin Keric
Pareto Securities	Vegard Toverud

Annual General Meeting

The AGM of the shareholders of Hoist Finance AB (publ) will be held on Wednesday 16 May 2018, at 3:00 p.m. CET, at GT30, Grev Turegatan 30, Stockholm, Sweden. Registration will open at 2:30 p.m. CET.

Notification of attendance

Shareholders who wish to attend the AGM must be listed in the shareholders' register maintained by Euroclear Sweden AB by no later than Wednesday 9 May 2018 and notify the company of their intention to attend no later than Wednesday 9 May 2018. The notification must include the shareholder's name, address, phone number, the number of shares held and the number of assistants attending (maximum of two). The notification should be sent to:

Hoist Finance AB (publ)
Annual General Meeting
Box 7848
SE-103 99 Stockholm, Sweden or
arsstamma2018@hoistfinance.com

Nominee shareholders wishing to vote at the AGM must temporarily register the shares in their own names in the shareholders' register maintained by Euroclear Sweden AB. Registration should be completed in good time prior to Wednesday 9 May 2018.

Proposed dividend

The Board of Directors proposes a dividend of SEK 1.90 (1.30) per share with the record date of 18 May 2018. If the proposal is adopted by the AGM, the dividend is expected to be distributed by Euroclear Sweden AB on 23 May 2018.

Annual report

Printed versions of the Annual Report are available to shareholders on request. Distribution will be around six weeks before the AGM. Hoist Finance's annual reports and other financial information are available at www.hoistfinance.com

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Financial calendar 2018

Interim reports:

January–March, 15 May 2018

January–June, 27 July 2018

January–September, 25 October 2018

Every care has been taken in the translation of this annual report to English. However, in the event of discrepancies, the Swedish original will supersede the English translation.

Production: Addira/Hallvarsson & Halvarsson.
Photo: Przemyslaw Jasinski, Bjorn Tesch, Shutterstock, Johnér.
Print: Åtta45

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