Hoist Finance

Interim report Q3 2018

Focus on growth and efficiency improvements

Q3

July – September 2018

- Total operating income increased 24 per cent to SEK 731 million (589).
- Item affecting comparability before tax totalled SEK 42 million and is attributable to bond restructuring effects.
- Profit before tax increased 33 per cent to SEK 243 million (182).
- Profit before tax excluding item affecting comparability totalled SEK 201 million.
- Diluted earnings per share amounted to SEK 1.87 (1.68).
- Return on equity excluding items affecting comparability was 16 per cent.
- Return on equity was 20 per cent (20).
- Carrying value of acquired loans totalled SEK 19,189 million (14,766).
- The total capital ratio was 17.19 per cent (17.71) and the CET1 capital ratio was 10.79 per cent (11.70). If the new share issue had been included in the calculation, the CET1 capital ratio would have been 13.13 per cent.

Figures in brackets refer to the third quarter of 2017 for profit comparisons and to 31 December 2017 closing balance for balance sheet items.

Events during the quarter

- Björn Hoffmeyer appointed COO of Hoist Finance.
- Strong volume growth with portfolio acquisitions of SEK 2,606 million, well diversified between countries and asset classes.
- Hoist Finance strengthened its equity through a directed new share issue of SEK 568 million.
- Hoist Finance issued senior bonds totalling EUR 250 million and repurchased EUR 186 of senior bonds issued in 2016.

Subsequent events

- Hoist Finance entered into an agreement to acquire the operations in the Italian credit management companies of Maran Group, thereby broadening its offer to the Italian banking sector.

37%
EBIT margin excluding item affecting comparability
Target 40%

10.79%
CET1 ratio

49%
Portfolio growth over the last 12-month period

71%
C/I ratio excluding item affecting comparability

16%
Return on equity excluding item affecting comparability
Target: 20%

Pursuing growth and increased efficiency

Helping people keep their commitments

Positive market fundamentals drive growth

Hoist Finance continues to enjoy a positive market outlook. The European banking sector is still working to reduce their Non Performing Exposures (NPE). In 2017, distressed debt amounted to EUR 900 billion or about five per cent of all outstanding loans. The level of Non-Performing Loans (NPL) is still more than two times higher than what was the level before the financial crises 10 years ago. Even though both European regulators and changes in accounting principles have required banks to recognize non-performing loans earlier and to reduce their exposures, in reality the NPL-reduction has progressed at a slow pace. Hence, looking ahead we see strong underlying dynamics in favour of the services that Hoist Finance provide.

Hoist Finance offers value added services to banks in Europe by reducing tied-up capital and enabling them to focus on their core banking business. Through our amicable approach to collections we offer our customers support and a way forward to settle their debt and to re-enter the financial ecosystem. In many ways, the latter is even more important than the former. Our customers remain with Hoist Finance, typically for up to 10 years. Our “licence to operate” is to ensure that collection practices always have the customers best interest in mind. Recovering NPLs through payment plans and negotiations requires a long-term perspective, analytics, highly qualified agents and a values-based approach. We are proud to progress towards our vision; “helping people keep their commitments”. By always striving to do our work slightly better, we also increase our relevance and importance of being a trusted partner to other banks in our markets.

Continued strong growth and expansion into newer asset classes

In the quarter we have seen continued strong growth with SEK 2,606 million in portfolio acquisitions. Equally important is that we are making headway with our expansion into new asset classes, with acquisitions of secured non-performing loan portfolios in France and Italy and performing loans in Germany and the UK during the quarter. The expansion into new asset classes follows a period of building up capacity, both in terms of competence and systems, which now allows us to enter other asset classes in a disciplined way. This ongoing broadening of our product offering provides significant intangible benefits as it increases our reliability as a one-stop partner to banks and financial institutions. We expect that portfolios in the performing, mortgage, and secured space will be an increasingly important ingredient in our business mix going forward.

On October 11 we announced that we entered into an agreement to acquire Maran, a reputable servicer in Italy with longstanding relationships with important institutions in the Italian market. We are pleased to expand both our capacity and offering in one of the most important markets in Europe.

Looking ahead we also see acquisition and consolidation opportunities in other countries, for example in the Polish market where we intend to place a firm bid for assets held by the company GetBack.

Financial development - Major steps forward to increase efficiency paying off

After 6 months of intense efforts to increase operational efficiency we are now beginning to see some positive signs. Two important contributors to this development have been the site consolidations in Germany and the UK, where the accelerated shut-down of our site in Bremen and consolidation to Duisburg, enabled expected cost savings to materialise in Q3, as opposed to Q4 as initially expected. The consolidation of all our UK operations to Manchester is another major step in the right direction. Our self-service platform in the UK is delivering above our expectations, and now approximately 25 percentage of monthly collections comes through this digital channel. The roll-out of our Hoist Finance standardized solution to other markets continues.

The strong portfolio growth over the last 12 months combined with our initial steps towards an increased operational efficiency is now starting to show in bottom-line profitability. Excluding the item affecting comparability, profit before tax amounted to SEK 201 million, an increase of 10 percentage compared to the same quarter last year. Looking ahead we will continue on our growth journey as well as improve our efficiency and improve our cost/income ratio.

Strengthening of funding structure with directed share issue and new EUR notes

The strong market outlook offering portfolio investment opportunities at attractive returns has also prompted us to strengthen our financial position to finance larger portfolio investments. To finance future larger portfolio investments or acquisitions of companies we made a directed share issue of SEK 568 million during the quarter. We also issued EUR 250 million of 4.5-year senior unsecured notes at attractive terms, following the tender of our senior unsecured. The transaction improves our maturity profile as well as our preparedness to capture further growth in our markets.

Furthermore we entered into a revolving credit facility amounting to 150 MEUR. With a solid and diversified funding structure, with a stable base of retail deposits at its core, we are now better equipped than ever to pursue our growth agenda.

Management team in place for the Capital markets Day in November

I am very pleased that the whole Executive Management Team now is in place in advance of our Capital Markets Day on the 15th of November. Since I joined on the 15th of March, it has been a very high priority to build a very competent and professional management team in Hoist Finance, and I am very pleased that Björn Hoffmeyer joined us as our new COO during the third quarter and that Viktoria Aastrup started as our Head of Business Development and Communication in October.

I am convinced that we now have the right team in place to deliver on our goals, and we are all looking forward to welcoming investors, financial analysts and media to our Capital Markets Day in Stockholm. Here we will have the opportunity to go into further detail on our view of the market, our strategy, operations and financial targets, as well as provide a chance to getting to know the members of our management team.

While we already see some positive effects of cost saving in the third quarter numbers, the management team and I remain committed to a continued high activity on all fronts to bring down costs, capture growth and increase efficiency on all levels going forward.

Klaus-Anders Nysteen
CEO
Hoist Finance AB (publ)

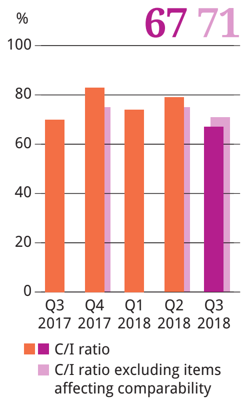
Key ratios

SEK million	Quarter 3 2018	Quarter 3 2017	Change, %	Jan–Sep 2018	Jan–Sep 2017	Change, %	Full year 2017
Total operating income	731	589	24	2,063	1,723	20	2,365
Profit before tax	243	182	33	569	472	21	581
Net profit	182	145	25	425	368	16	453
Basic earnings per share, SEK	1.87	1.68	11	4.33	4.18	4	5.10
Diluted earnings per share, SEK[1]	1.87	1.68	11	4.33	4.17	4	5.09
Net interest income margin, %[2]	14			14			
C/I ratio, %[3]	67	70	–3 pp	73	73	0	76
EBIT margin, %	37	37	0 pp	34	37	–3 pp	34
Return on equity, %[4]	20	20	0 pp	16	17	–1 pp	15
Portfolio acquisitions	2,546[5]	781	>100 pp	5,791	2 178	>100 pp	4,253

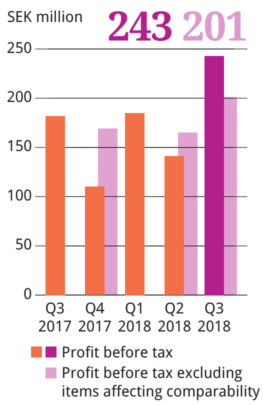
SEK million	30 Sep 2018	31 Dec 2017	Change, %
Carrying value of acquired loans	19,189	14,766	30
Gross 180-month ERC[6,7]	30,676		
Gross 120-month ERC[6]	28,178	23,991	17
Total capital ratio, %	17.19	17.71	–0.5 pp
CET1 ratio, %	10.79	11.70	–0.9 pp
Liquidity reserve	7,334	6,800	8
Number of employees (FTEs)	1,366	1,335	2

1) Comparative period includes effect of outstanding warrants. Following the 1:3 share split conducted in 2015, each warrant entitles the holder to subscribe for three new shares.
2) New key ratio as of 2018; see Definitions for calculation of Net interest income margin. As the calculation of Net interest income differs between IFRS 9 and IAS 39, comparative figures for Net interest income margin have not been calculated.
3) New key ratio as of 2018; see Definitions for calculation of C/I ratio.
4) The definition of Return on equity has changed from 1 January 2018; see Definitions. Comparative figures have been adjusted for all periods in 2017.
5) The acquisition price of a performing loan portfolio in Poland, acquired during Q2, was adjusted downward by SEK 60 million.
6) Excluding run-off consumer loan portfolio, performing loan portfolios, and portfolios held in the Polish joint venture.
7) From 1 January 2018, Hoist Finance has elected to extend the future cash flow forecast horizon for acquired loan portfolios to 180 months, as compared with the previous horizon of 120 months. Comparative figures have not been restated.
8) Excluding issue of new share capital in September 2018.

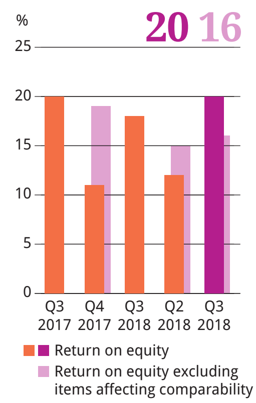
C/I ratio



Profit before tax



Return on equity



Developments during third quarter 2018

Unless otherwise indicated, all comparative market, financial and operational information refers to third quarter 2017.

Operating income

Interest income from acquired loan portfolios for the second quarter totalled SEK 718 million. As previously reported, net revenues from acquired loan portfolios were calculated as gross collections from acquired loan portfolios less portfolio amortisation and revaluation. These revenues totalled SEK 634 million for the comparative quarter; this figure includes the effects of actual collections exceeding projected collections and of portfolio revaluations. As of 1 January 2018, portfolio revaluations are recognised in income statement item Impairment gains and losses, after Net interest income.

Other interest income amounted to SEK –3 million (–3). Interest expense for the quarter increased to SEK –93 million (–68), with the continued strong portfolio growth enabled in large part through debt financing. Deposits from the public volumes remain relatively unchanged, with continued inflows from the German market offset by outflows from the Swedish market.

Impairment gains and losses totalled SEK 51 million. SEK –21 million of this amount is attributable to portfolio revaluations resulting from adjusted collection projections for future periods. These revaluations are primarily attributable to Italy, where collections received earlier than forecast resulted in a negative adjustment of future collections, and to Spain, where lower-than-expected collections during the year resulted in an adjustment of future expectations. The negative portfolio revaluation effects are somewhat offset by collections in Poland, which were significantly better than forecast and resulted in a positive revaluation of future expectations. The remaining amount is attributable to loss allowance for acquisition of non-performing loans, totalling SEK –1 million, and realised collections in excess of projections for the same period. The strong collection level corresponds to 105 per cent of the projected level for the quarter.

Net financial income totalled SEK 40 million (7). The result of the change in value of interest rate hedging instruments and change in market value of bonds in the liquidity portfolio was limited. Earnings from currency risk hedging amounted to SEK –6 million (7). Net financial income also includes an item affecting comparability, a modification gain of SEK 42 million, attributable to the repurchase and issue of senior bonds. The modification gain is an accounting effect arising due to the fact that the repurchased bond does not need to be derecognised, as the newly issued bond meets certain predefined criteria. In this situation, IFRS stipulates that the modified bond's present value, discounted by the original bond's effective interest rate, shall be set against the present value of the repurchased bond. The difference comprises a modification gain or loss which, due to the new bond's lower level of interest, produces a gain for the Group.

Total operating income increased 24 per cent to SEK 731 million (589), mainly due to continued growth in Italy, Poland and the UK, and to the above-referenced modification gain of SEK 42 million.

Operating expenses

Personnel expenses increased 12 per cent during the quarter to SEK –192 million (–171), mainly due to the aforementioned portfolio growth. Personnel expenses continued to increase in the Polish market, which can be attributed to the shift in focus from legal collection activities to voluntary repayment plans, which over time should be viewed in relation to a projected fall in the proportion of legal collection expenses. Portfolio growth also led to continued efforts to expand competence within the new asset classes, resulting in increased personnel expenses. These were offset somewhat by lower personnel expenses in the UK, where a greater proportion of collections is now managed through the digital platform.

Collection costs increased 17 per cent during the quarter to SEK –180 million (–143). This increase is primarily related to Italy, where portfolio growth has remained strong, and to Germany, where successful collections on a number of portfolios resulted in an extra third-party collection cost.

Administrative expenses increased to SEK –112 million (–90). This increase was largely attributable to Central function-related costs concerning digital transformation and strategic initiatives which, as previously mentioned, are starting to produce results through cost savings in certain areas.

Depreciation and amortisation of tangible and intangible assets increased somewhat and totalled SEK –15 million (–14). This, however, does not reflect the increased rate of investment that includes investments in new collection systems scheduled to be put into operation during the fourth quarter.

Total operating expenses increased 19 per cent to SEK –499 million (–418).

Net profit for the period

Profit from participations in joint ventures was unchanged year-on-year, with profit from the joint venture in Poland and performance-based remuneration for the joint venture in Greece in line with expectations.

Income tax expense totalled SEK –61 million (–37).

Net profit for the period totalled SEK 182 million (145).

Balance sheet

Total assets increased SEK 5,113 million compared with 31 December 2017 and amounted to SEK 27,650 million (22,537). The change is primarily due to acquired loan portfolios, which increased SEK 4,423 million. The increase is due to acquisitions, mainly in Italy, the UK and Poland, of performing and non-performing loan portfolios.

Funding and capital structure

SEK million	30 Sep 2018	31 Dec 2017	Change, %
Cash and interest-bearing securities	7,417	6,861	8
Acquired loan portfolios	19,189	14,766	30
Other assets[1]	1,045	910	14
Total assets	**27,650**	**22,537**	**23**
Deposits from the public	15,511	13,227	17
Unsecured debt	6,039	4,355	39
Subordinated liabilities	832	803	4
Total interest-bearing liabilities	**22,382**	**18,385**	**22**
Other liabilities[1]	967	924	5
Equity	4,301	3,228	33
Total liabilities and equity	**27,650**	**22,537**	**23**

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

Total interest-bearing liabilities amounted to SEK 22,382 million (18,385). This change was mainly attributable to deposits from the public, which increased SEK 2,284 million, and to unsecured debt, which increased SEK 1,684 million. Hoist Finance funds its operations through deposits in Sweden and Germany as well as through the international bond markets. In Sweden, deposits from the public, which are carried out under the HoistSpar brand, totalled SEK 11,352 million (12,243), of which SEK 4,591 million (4,569) is attributable to fixed term deposits of 12-, 24-, and 36-month durations. In Germany, deposits for retail customers have been offered since September 2017 under the Hoist Finance name. At 30 September 2018, deposits from the public in Germany totalled SEK 4,160 million (985), of which SEK 311 million is attributable to fixed term deposits of 12- and 24-month durations. At 30 September 2018, the outstanding bond debt totalled SEK 6,871 million (5,158), of which SEK 6,039 million (4,355) was unsecured debt. During the third quarter, Hoist Finance issued a senior unsecured bond loan of EUR 250 million with a 4.5-year duration under the Company's EMTN programme. In conjunction with the issue, EUR 186 million of previously issued bonds falling due in December 2019 were repurchased through a public offering. All repurchased bonds have been cancelled. A total of EUR 90 million (corresponding to SEK 926 million) had been issued under the Company's commercial paper programme as at 30 September.

Group equity totalled SEK 4,301 million (3,228). The increase is mainly attributable to net profit for the period and the fact that Hoist Finance conducted a directed new share issue of 8,118,454 shares during the third quarter at an issue price of SEK 70 per share, resulting in a gross settlement for the Company of SEK 568 million. The issue produced a dilution effect of approximately 10 per cent to the number of shares and votes in the Company. The number of shares and votes in Hoist Finance increased to 89,303,000 (81,184,546) through the issue, and the share capital increased SEK 3 million, from SEK 27 million to SEK 30 million.

Cash flow

Comparative figures refer to third quarter 2017. Hoist Finance has elected not to restate comparative figures following the effective date of IFRS 9 (1 January 2018). Presentation of cash flows within operating activities are therefore not entirely comparable.

SEK million	Quarter 3 2018	Quarter 3 2017	Full year 2017
Cash flow from operating activities	976	584	2,495
Cash flow from investing activities	–2,713	–1,202	–5,439
Cash flow from financing activities	1 543	321	2,751
Cash flow for the period	**–194**	**–297**	**–193**

Cash flow from operating activities totalled SEK 976 million (584). Amortisation of acquired loan portfolios is a new item as of 1 January 2018 and is presented in operating activities. This amortisation totalled SEK 742 million during the third quarter. Increase/decrease in other assets and liabilities amounted to SEK 88 million (–148).

Cash flow from investing activities totalled SEK –2,713 million (–1,202). Portfolio acquisitions increased during the quarter as compared with Q3 2017, totalling SEK –2,606 million (–781). A net total of SEK –92 million (–415) in bonds and other securities was invested during the quarter.

Cash flow from financing activities totalled SEK 1,543 million (321). Deposits from the public amounted to SEK 494 million (321). Deposits in Germany accounted for SEK 855 million of the inflow, which was counteracted by a new outflow from deposits in Sweden of SEK –416 million. The majority of cash flow from deposits from the public related to deposits with variable interest rates. Net cash flow from the bond issue and buy-back conducted during the quarter totalled SEK 489 million, and cash flow from the issue of new shares totalled SEK 558 million. Other cash flow from financing activities refers to paid interest on AT1 capital totalling SEK –8 million.

Total cash flow for the quarter amounted to SEK –194 million, as compared with SEK –297 million for third quarter 2017.

Significant risks and uncertainties

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 (e.g. via Basel IV capital and liquidity regulations) and indirectly through the impact of similar regulations on the market's supply of loan portfolios. Hoist Finance's cross-border operations entail consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is, therefore, exposed to potential tax risks arising from varying interpretations and applications of existing laws, treaties, regulations, and guidance.

Development of risks

Credit risk for Hoist Finance's loan portfolios is deemed to have remained virtually unchanged during the quarter. Credit risk in the liquidity portfolio remains low, as investments are made in government, municipal and covered bonds of high credit quality.

During the third quarter Hoist conducted its first acquisition of a portfolio of non-performing secured loans in France. From a risk perspective, the portfolio of performing loans diversifies the existing stock of assets in a positive way.

The Group works continuously to improve the quality of its internal procedures to minimise operational risks.

Market risks remain low, as Hoist Finance continuously hedges interest rate and FX risks in the short- and medium-term.

Hoist Finance strengthened its equity in September 2018 through a directed new share issue of SEK 568 million. Inclusion of the capital contribution as CET1 capital requires the approval of the Swedish Financial Supervisory Authority. The Company expects to receive this approval in November 2018. Hoist Finance's CET1 ratio was 10.79 per cent at 30 September. The CET1 ratio would have been 13.13 per cent if the new share issue were included in the calculation, representing an increase of 2.3 percentage points. Capitalisation for Hoist Finance remains strong and the capital ratios exceed regulatory requirements by a healthy margin. Hoist Finance is, therefore, better able to absorb unanticipated events without jeopardising its solvency.

Liquidity risk was low during the quarter. Hoist Finance's liquidity reserve exceeds the Group's target by a good margin. Due to its strong liquidity position, Hoist Finance is well equipped for future acquisitions and growth.

Hoist Finance's financing risk was reduced during the quarter due to a successful issue and repurchase of senior unsecured bonds and the signing of an agreement for a syndicated revolving credit facility with a framework amount of EUR 150 million.

Regulatory risk is deemed to have increased during the period due to the EU Commission's proposal to adjust the Supervisory Ordinance. The proposal is currently under consideration by the European Parliament and Council of Ministers, and there is still uncertainty as to what its final wording will include. Briefly put, the proposal's original wording includes a requirement for credit institutions to make a deduction from own funds for NPL exposures over a 2–8 year time horizon depending on asset class. The Company is participating in discussions with the responsible authorities, institutions and other stakeholders in Sweden and on the EU level. Hoist Finance hopes that the wording of the final legislative text will not have any negative consequences for the Company, given that it not the objective of the proposal to treat actors on secondary markets unfairly.

Other disclosures

Parent Company

The subsidiary Hoist Kredit AB (publ) ("Hoist Kredit") was merged into the Parent Company Hoist Finance AB (publ) on 2 January 2018. Accordingly, from 2 January and forward the Parent Company's financial position includes operations that were previously part of Hoist Kredit.

Net interest income for the Parent Company totalled SEK 260 million (6) during the third quarter. This increase is attributable to former operations within Hoist Kredit and comprises interest income from acquired loan portfolios and internal loans, as well as interest expense from deposits and issued bonds. During the third quarter, interest income related to acquired performing loan portfolios amounted to SEK 6 million. Three performing loan portfolios were purchased during the year. Interest income from credit-impaired acquired loan portfolios totalled SEK 167 million (–). Other interest income totalled SEK 181 million (7), with the increase due to higher revenues generated by internal loans to subsidiaries. Interest expense totalled SEK –94 million (–1). Compared with third quarter 2017 at Hoist Kredit, interest expense decreased SEK –19 million, which is mainly related to expenses for issued bonds. Interest expense for deposits was in line with third quarter 2017, where an increase in deposits in euros was counteracted by a reduction in deposits in Swedish kronor.

Total operating income amounted to SEK 341 million (78). Net financial income totalled SEK 13 million and is attributable to changes in interest derivatives, exchange rate fluctuations in assets and liabilities and a modification gain of SEK 42 million, attributable to the repurchase and issue of senior bonds. Other income refers primarily to management fees invoiced to subsidiaries totalling SEK 65 million.

Operating expenses totalled SEK –230 million (–69). In conjunction with the merger, Hoist Kredit staff moved to Hoist Finance AB (publ). This had an impact on operating expenses, as Hoist Finance had no staff prior to the merger. Personnel expenses increased SEK 7 million in comparison with third quarter 2017 at Hoist Kredit. Other administrative expenses increased SEK 28 million as compared with Q3 administrative expenses for the two merged companies. This increase is attributable to an SEK 22 million increase in collection expenses resulting from greater portfolio volumes. Expenses were also increased by internal business process improvements and management of new asset types.

Operating profit totalled SEK 111 million (9). Impairment gains of SEK 19 million mainly pertain to differences between actual and expected collections. Profit from participations in joint ventures totalled SEK 17 million.

Net profit for the period totalled SEK 88 million (7), with tax expenses amounting to SEK –59 million (2). The tax expense includes income from CFC subsidiaries that are taxed in Sweden.

Assets and liabilities were transferred from Hoist Kredit in the merger, which increased balance sheet items in the Hoist Finance AB (publ) balance sheet. On the asset side, these items primarily comprise the liquidity portfolio, acquired loan portfolios, and loans to subsidaries. On the liability side, the major items taken over by the Parent Company are deposits from the public and issued bonds.

A directed share issue was conducted in September, which increased the share capital SEK 3 million and non-restricted equity SEK 556 million. The liability side was also affected by a issue and repurchase of bonds.

Related-party transactions

The nature and scope of related-party transactions are described in the Annual Report.

Group structure

Hoist Finance AB (publ), corporate identity number 556012-8489, is the Parent Company in the Hoist Finance Group. Hoist Finance is a Swedish publicly traded limited liability company headquartered in Stockholm, Sweden. Hoist Finance AB (publ) has been listed on NASDAQ Stockholm since March 2015.

Hoist Finance AB (publ) and Hoist Kredit AB (publ) were merged on 2 January 2018. All of Hoist Kredit's assets and liabilities were transferred to Hoist Finance through the merger, and Hoist Kredit was dissolved. The previously announced simplification of the corporate structure has thus been completed and Hoist Finance has transitioned from a holding company into the operational Parent Company of the Group. The merger has no material financial effects on Hoist Finance. Hoist Finance is a credit market company under the supervision of the Swedish FSA. The operating Parent Company, including its subgroup, acquires and holds loan portfolios, which are managed by the Group's subsidiaries or foreign branch offices. These units also provide provision-based administration services to third parties.

For a more detailed description of the Group's legal structure, please refer to the 2017 Annual Report.

The share and shareholders

The number of shares increased as a result of the directed new share issue conducted in September and totalled 89,303,000 at 30 September 2018, an increase of 8,118,454 in the number of shares as compared with 81,184,546 at 31 December 2017.

The share price closed at SEK 74.60 on 28 September 2018. A breakdown of the ownership structure is presented in the table below. As at 30 September 2018 the Company had 3,776 shareholders, compared with 3,248 at 31 December 2017.

Ten largest shareholders, 30 September 2018	Share of capital and votes,
Swedbank Robur Fonder	9.4
EQT	8.6
Carve Capital AB	7.8
Handelsbanken Funds	7.2
Didner & Gerge Funds	6.5
Odin Funds	3.9
Jörgen Olsson privately and through companies	3.7
SEB Funds	3.0
Danske Invest Funds	2.8
Confederation of Swedish Enterprise	2.7
Ten largest shareholders	**55.6**
Other shareholders	44.4
Total	**100**

Source: Modular Finance AB, 30 September 2018; ownership statistics from Holdings, Euroclear Sweden AB; and changes confirmed and/or registered by the Company.

Nomination Committee

In accordance with adopted instructions, the Nomination Committee shall be comprised of the three largest shareholders and the Chairman of the Board of Directors. The Nomination Committee is currently comprised of the Chair of the Board and members appointed by Swedbank Robur Funds, Carve Capital AB, and EQT. The Committee's mandate period extends until a new Nomination Committee is appointed. For the period preceding the 2019 Annual General Meeting, the composition of the Nomination Committee has been based on shareholder statistics as at the final business day of August 2018 as well as taking into account changes thereafter in the ownership structure in connection with the directed new share issue that was conducted in September 2018.

Review

This interim report has not been reviewed by the Company's auditors.

Subsequent events

Hoist Finance has entered into an agreement to lease and subsequently acquire the business going concern of the Italian debt collection companies Maran S.p.A. and R&S S.r.l. ("Maran Group") in a multistep process, in the context of their compostion with creditors pursuant to Italian insolvency law. The agreement also includes a non-controlling interest in a Romanian platform that supports Maran Group. The transaction will not have any significant impact on Hoist Finance's financial position.

Quarterly review

SEK million	Quarter 3 2018	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017	Quarter 3 2017
Net revenues from acquired loan portfolios				700	634
Interest income acquired loan portfolios	718	672	645		
Other interest income	–3	–1	–4	–3	–3
Interest expense	–93	–79	–75	–75	–68
Net interest income	**622**	**592**	**566**	**622**	**563**
Impairment gains and losses	51	46	103		
Fee and commission income	15	17	17	17	17
Net financial income	40	–8	–5	0	7
Derecognition gains and losses	–	–2	–	–	–
Other operating income	3	3	3	5	2
Total operating income	**731**	**648**	**684**	**644**	**589**
General and administrative expenses					
Personnel expenses	–192	–212	–194	–219	–171
Collection costs	–180	–167	–194	–203	–143
Administrative expenses	–112	–135	–112	–118	–90
Depreciation and amortisation of tangible and intangible assets	–15	–15	–14	–14	–14
Total operating expenses	**–499**	**–529**	**–514**	**–554**	**–418**
Net operating profit	**232**	**119**	**170**	**90**	**171**
Profit from participations in joint ventures	11	22	15	21	11
Profit before tax	**243**	**141**	**185**	**111**	**182**
Income tax expense	–61	–38	–45	–25	–37
Net profit for the period	**182**	**103**	**140**	**86**	**145**

Key ratios

SEK million	Quarter 3 2018	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017	Quarter 3 2017
Net interest income margin, %[1]	14	14	15		
C/I ratio, %[2]	67	79	74	83	70
C/I ratio adjusted for items affecting comparability, %[2] [3]	71	75	–	75	–
EBIT margin, %	37	30	34	25	37
EBIT margin adjusted for items affecting comparability, %[3]	–	33	–	33	–
Return on equity, %[4]	20	12	18	11	20
Return on equity adjusted for items affecting comparability, %[3] [4]	16	15	–	19	–
Portfolio acquisitions	2 ,546[5]	2,341	904	2,075	781

SEK million	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017
Carrying value on acquired loan portfolios	19,431	17,763	16,112	15,024	13,170
Gross 180-month ERC[6] [7]	30,676	28,009	26,932		
Gross 120-month ERC[6]	28,178	25,652	24,700	23,991	21,421
Total capital ratio, %	17.19	17.96	17.15	17.71	19.43
CET1 ratio, %[8]	10.79	11.13	11.35	11.70	12.72
Liquidity reserve	7,334	7,440	7,003	6,800	5,702
Number of employees (FTEs)	1,366	1,402	1,384	1,335	1,308

1) New key ratio as of 2018; see Definitions for calculation of Net interest income margin. As the calculations of Net interest income differ between IFRS 9 and IAS 39, comparative figures for Net interest income margin have not been calculated.
2) New key ratio as of 2018; see Definitions for calculation of C/I ratio.
3) Key figures have been adjusted for items affecting comparability, for third quarter attributable to a modification gain taken up as income in conjunction with the repurchase and issue of senior bonds.
4) The definition of Return on equity has changed from 1 January 2018; see Definitions. Comparative figures have been adjusted for all periods in 2017.
5) During the third quarter, the acquisition price of a performing loan portfolio in Poland, acquired during Q2, was adjusted downward by SEK 60 million.
6) Excluding run-off consumer loan portfolio, performing loan portfolios, and portfolios held in the Polish joint venture.
7) From 1 January 2018, Hoist Finance has elected to extend the future cash flow forecast horizon for acquired loan portfolios to 180 months, as compared with the previous horizon of 120 months. Comparative figures have not been restated.
8) Excluding issue of new share capital in September 2018.

Financial statements

Consolidated income statement

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net revenues from acquired loan portfolios		634		1,944	2,644
Interest income acquired loan portfolios	718		2,035		
Other interest income	–3	–3	–8	–6	–10
Interest expense	–93	–68	–247	–230	–305
Net interest income	**622**	**563**	**1,780**	**1,708**	**2,329**
Impairment gains and losses	51		200		
Fee and commission income	15	17	49	57	73
Net result from financial transactions	40	7	27	–50	–50
Derecognition gains and losses	–		–2		–
Other operating income	3	2	9	8	13
Total operating income	**731**	**589**	**2,063**	**1,723**	**2,365**
General and administrative expenses					
Personnel expenses	–192	–171	–598	–511	–730
Collection costs	–180	–143	–541	–469	–672
Administrative expenses	–112	–90	–359	–284	–402
Depreciation and amortisation of tangible and intangible assets	–15	–14	–44	–42	–56
Total operating expenses	**–499**	**–418**	**–1,542**	**–1,306**	**–1,860**
Net operating profit	**232**	**171**	**521**	**417**	**505**
Profit from participations in joint ventures	11	11	48	55	76
Profit before tax	**243**	**182**	**569**	**472**	**581**
Income tax expense	–61	–37	–144	–104	–128
Net profit	**182**	**145**	**425**	**368**	**453**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	182	145	425	368	453
Basic earnings per share SEK	1.87	1.68	4.33	4.18	5.10
Diluted earnings per share SEK	1.87	1.68	4.33	4.17	5.09

Consolidated statement of comprehensive income

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net profit for the period	**182**	**145**	**425**	**368**	**453**
Other comprehensive income					
Items that will not be reclassified to profit or loss					
Revaluation of defined benefit pension plan	–	–	–	–	1
Revaluation of remuneration after terminated employment	–	–	–	–	–1
Tax attributable to items that will not be reclassified to profit or loss	–	–	–	–	0
Total items that will not be reclassified to profit or loss	–	–	–	–	**0**
Items that may be reclassified subsequently to profit or loss					
Translation difference, foreign operations	–23	–6	102	13	90
Translation difference, joint ventures	0	–8	0	4	18
Hedging of currency risk in foreign operations	–11	–26	–175	–82	–180
Hedging of currency risk in joint ventures	–3	5	–9	–11	–26
Transferred to the income statement during the year	4	2	7	5	7
Tax attributable to items that may be reclassified to profit or loss	2	4	40	20	45
Total items that may be reclassified subsequently to profit or loss	**–31**	**–29**	**–35**	**–51**	**–46**
Other comprehensive income for the period	**–31**	**–29**	**–35**	**–51**	**–46**
Total comprehensive income for the period	**151**	**116**	**390**	**317**	**407**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	151	116	390	317	407

Consolidated balance sheet

SEK million	30 Sep 2018	31 Dec 2017	30 Sep 2017
ASSETS			
Cash	0	0	3
Treasury bills and Treasury bonds	2,730	1,490	1,490
Lending to credit institutions	1,692	1,681	1,135
Lending to the public	17	37	32
Acquired loan portfolios	19,189	14,766	12,917
Bonds and other securities	2,994	3,689	3,132
Shares and participations in joint ventures	226	238	230
Intangible assets	333	287	262
Tangible assets	53	42	41
Other assets	349	200	507
Deferred tax assets	24	21	33
Prepayments and accrued income	43	86	56
Total assets	**27,650**	**22,537**	**19,838**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	15,511	13,227	12,301
Tax liabilities	121	84	85
Other liabilities	439	394	213
Deferred tax liabilities	146	148	164
Accrued expenses and deferred income	193	211	202
Provisions	68	87	53
Senior debt	6,039	4,355	2,930
Subordinated debts	832	803	773
Total liabilities	**23,349**	**19,309**	**16,721**
Equity			
Share capital	30	27	27
Other contributed equity	2,966	2,102	2,073
Reserves	–148	–113	–118
Retained earnings including profit for the period	1,453	1,212	1,135
Total equity	**4,301**	**3,228**	**3,117**
Total liabilities and equity	**27,650**	**22,537**	**19,838**

Consolidated statement of changes in equity

SEK million	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2018	**27**	**2,102**	**–113**	**1,212**	**3,228**
Transition effects IFRS 9				17	17
Adjusted opening balance 1 Jan 2018	**27**	**2,102**	**–113**	**1,229**	**3,245**
Comprehensive income for the period					
Profit for the period				424	424
Other comprehensive income			–35		–35
Total comprehensive income for the period			**–35**	**424**	**389**
Transactions reported directly in equity					
Dividend				–154	–154
New share issue	3	553[1)]			556
Reclassification		–3		3	0
Additional Tier 1 capital instrument		311[2)]		–7	304
Interest paid on capital contribution				–42	–42
Tax effect on items reported directly in equity		3			3
Total transactions reported directly in equity	**3**	**864**		**–200**	**667**
Closing balance 30 Sep 2018	**30**	**2,966**	**-148**	**1,453**	**4,301**

1) Nominal amount of SEK 566m was reduced by transaction costs of SEK 13m.
2) Nominal amount of SEK 410m was reduced by transaction costs of SEK 6m and repurchased nominal amount of SEK 100m was reduced by transaction costs of SEK 7m.

SEK million	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2017	**27**	**2,073**	**–67**	**892**	**2,925**
Comprehensive income for the period					
Profit for the period				453	453
Other comprehensive income			–46		–46
Total comprehensive income for the period			**–46**	**453**	**407**
Transactions reported directly in equity					
Dividend				–105	–105
New share issue	0	29			29
Warrants, repurchased and cancelled		0			0
Interest paid on capital contribution				–28	–28
Total transactions reported directly in equity	**0**	**29**		**–133**	**–104**
Closing balance 31 Dec 2017	**27**	**2,102**	**–113**	**1,212**	**3,228**

SEK million	Share capital	Other contributed capital	Translation reserve	Retained earnings including profit for the year	Total equity
Opening balance 1 Jan 2017	**27**	**2,073**	**–67**	**892**	**2,925**
Comprehensive income for the period					
Profit for the period				368	368
Other comprehensive income			–51		–51
Total comprehensive income for the period			**–51**	**368**	**317**
Transactions reported directly in equity					
Dividend				–105	–105
Warrants, repurchased and cancelled		0			0
Interest paid on capital contribution				–20	–20
Total transactions reported directly in equity		**0**		**–125**	**–125**
Closing balance 30 Sep 2017	**27**	**2,073**	**–118**	**1,135**	**3,117**

Consolidated cash flow statement summary

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Profit before tax	243	182	569	472	581
– of which, paid-in interest	*704*	*1*	*2,030*	*3*	*5*
– of which, interest paid	*–77*	*–51*	*–201*	*–172*	*–356*
Portfolio amortisation and revaluation		499		1,574	2,233
Adjustment for other items not included in cash flow	–69	57	–96	178	122
Realised result from divestment of loan portfolios	–	–	1	–	–
Realised result from divestment of shares and participations in joint ventures	–16	–13	–48	–48	–62
Income tax paid	–12	7	–72	–38	–52
Total	**146**	**732**	**354**	**2,138**	**2,822**
Amortisations on acquired loan portfolios	742		2,132		
Increase/decrease in other assets and liabilities	88	–148	–483	–462	–327
Cash flow from operating activities	**976**	**584**	**2,003**	**1,676**	**2,495**
Acquired loan portfolios	–2,606	–781	–5,791	–2,178	–4,253
Disposed loan portfolios	–	–	66	–	–
Investments in/divestments of bonds and other securities	–92	–415	694	–600	–1,150
Other cash flows from investing activities	–15	–6	–75	–24	–36
Cash flow from investing activities	**–2,713**	**–1,202**	**–5,106**	**–2,802**	**–5,439**
Deposits from the public	494	321	2,207	446	1,407
Issued debts	2,760	–	3,702	781	2,131
Repurchase of issued debts	–2,271	–	–2,271	–676	–676
Additional Tier 1 capital	–	–	310	–	–
New share issue	568	–	568	–	–
Other cash flows from financing activities	–8	–	–196	–133	–111
Cash flow from financing activities	**1,543**	**321**	**4,320**	**418**	**2,751**
Cash flow for the period	**–194**	**–297**	**1,217**	**–708**	**–193**
Cash at beginning of the period	4,625	2,934	3,172	3,338	3,338
Translation difference	–9	–9	33	–2	27
Cash at end of the period[1)]	**4,422**	**2,628**	**4,422**	**2,628**	**3,172**

1) Comprised of Cash, Treasury bills and Treasury bonds and Lending to credit institutions.

Parent Company income statement

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Interest income	354	7	935	23	30
Interest expense	–94	–1	–250	–3	–5
Net interest income	**260**	**6**	**685**	**20**	**25**
Dividends received	–	–	562		180
Fee and commission income	1	–	4	–	–
Net result from financial transactions	13	–	–164	–	2
Derecognition gains and losses	–	–	–1	1	–
Other operating income	67	72	224	202	243
Total operating income	**341**	**78**	**1 310**	**223**	**450**
General administrative expenses					
Personnel expenses	–81	–2	–262	–4	–5
Other administrative expenses	–141	–66	–408	–208	–331
Depreciation and amortisation of tangible and intangible assets	–8	–1	–24	–4	–6
Total operating expenses	**–230**	**–69**	**–694**	**–216**	**–342**
Profit before credit losses	**111**	**9**	**616**	**7**	**108**
Impairment gains and losses	19		60		
Profit from participations in joint ventures	17	–	54	–	–
Net operating profit	**147**	**9**	**730**	**7**	**108**
Appropriations	–	–	–	–	–24
Taxes	–59	–2	–100	–2	–19
Net profit	**88**	**7**	**630**	**5**	**65**

Parent company statement of comprehensive income

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full-year 2017
Net profit	**88**	**7**	**630**	**5**	**65**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Translation difference, foreign operations	0	–	3	–	–
Total items that may be reclassified subsequently to profit or loss	0	–	3	–	–
Other comprehensive income for the period	0	–	**3**	–	–
Total comprehensive income for the period	**88**	**7**	**633**	**5**	**65**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	88	7	633	5	65

Parent Company balance sheet

SEK million	30 Sep 2018	31 Dec 2017	30 Sep 2017
ASSETS			
Cash	0	–	–
Treasury bills and Treasury bonds	2,730	–	–
Lending to credit institutions	939	275	409
Lending to the public	20	–	–
Acquired loan portfolios	4,406	–	–
Receivables, Group companies	13,851	193	42
Bonds and other securities	2,994	–	–
Shares and participations in subsidiaries	2,143	1,688	1,688
Shares and participations in joint ventures	24	–	–
Intangible assets	151	64	49
Tangible assets	26	1	2
Other assets	257	24	–
Deferred tax assets	1	–	–
Prepayments and accrued income	26	9	7
TOTAL ASSETS	**27,568**	**2,254**	**2,197**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	15,511	–	–
Tax liabilities	98	35	19
Other liabilities	878	301	372
Deferred tax liabilities	2	–	–
Accrued expenses and deferred income	77	4	5
Provisions	34	0	–
Senior debt	6,039	–	–
Subordinated debts	832	–	–
Total liabilities and provisions	**23,471**	**340**	**396**
Untaxed reserves	**165**	**84**	**60**
Equity			
Restricted equity			
Share capital	30	27	27
Statutory reserve	13	3	3
Revaluation reserve	64	–	–
Development expenditure fund	5	6	5
Total restricted equity	**112**	**36**	**35**
Non-restricted equity			
Other contributed equity	2,966	1,722	1,694
Reserves	3	–	–
Retained earnings	221	7	7
Profit for the period	630	65	5
Total non-restricted equity	**3,820**	**1,794**	**1,706**
Total equity	**3,932**	**1,830**	**1,741**
TOTAL LIABILITIES AND EQUITY	**27,568**	**2,254**	**2,197**

Accounting principles

This interim report was prepared in accordance with IAS 34, Interim Financial Reporting. The consolidated accounts were prepared in accordance with the International Financial Reporting Standards (IFRS) and interpretations thereof as adopted by the European Union. The accounting follows the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the regulatory code issued by the Swedish Financial Supervisory Authority on Annual Reports in Credit Institutions and Securities Companies (FFFS 2008:25), including applicable amendments. The Swedish Financial Reporting Board's RFR 1, Supplementary Accounting Rules for Groups, has also been applied.

As from 2 January 2018 – the merger date of Parent Company Hoist Finance AB (publ) and its subsidiary Hoist Kredit AB (publ) – Parent Company Hoist Finance AB (publ) prepares its interim reports in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559) and the regulatory code issued by the Swedish Financial Supervisory Authority on Annual Reports in Credit Institutions and Securities Companies (FFFS 2008:25), including applicable amendments. As a result of the merger, the Parent Company transitioned from a holding and purchasing company into an operating company, and all assets and liabilities of Hoist Kredit AB (publ) were transferred to Hoist Finance AB (publ). Comparative figures in the Parent Company's accounts have been restated to align presentation with FFFS 2008:25 for the income statement and with 1995:1559 for the balance sheet. The Swedish Financial Board's RFR 2, Accounting for Legal Entities, was also applied.

Change in accounting principles 2018

Hoist Finance began to apply a number of new or amended IFRSs in 2018. The effects of the implementation of IFRS 9 were first reported in the 2017 year-end report, and subsequently in the 2017 annual report and a press release of 23 April 2018. The following is a general description of changes to income statement and balance sheet items under IFRS 9, as compared with previous years' reporting under IAS 39, as well as other IFRS amendments.

IFRS 9 Financial instruments

The new standard covers classification and measurement, impairment, and general hedge accounting, and replaces the previous requirements in these areas imposed by IAS 39. Hoist Finance began to apply IFRS 9 requirements for classification, measurement and impairment as from 1 January 2018. Hoist Finance continues to follow IAS 39 for hedge accounting.

The aggregate effect on the Group's opening retained earnings as at 1 January 2018 was SEK 16 million. For additional details, see Note 9.

Net revenue from acquired loan portfolios

This item is deleted from the income statement as from 2018.

Interest income

From 2018, interest income pertaining to "Acquired loan portfolios" is recognised under "Interest income." Interest income is calculated using the effective interest method and is capitalised under "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 "Impairment gains/losses." Changes in the present value of projected future cash flows are also recognised in "Impairment gains/losses."

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 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 10-year horizon. The credit-adjusted effective interest rate was recalculated for all portfolios on the transition to IFRS 9.

Impairment gains/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 acquired loan portfolios, IFRS 9 outlines a three-stage model for impairment based on 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

Hoist Finance has not restated any comparative figures for 2017. Comparative items, that have not been restated, are marked in grey in the tables, financial statements and notes to the interim report.

IFRS 15 Revenue from contracts with customers

The new standard took effect on 1 January 2018 and introduces a five-step model for determining how and when revenue is to be recognised. The purpose of the standard is to have one single principle-based standard for all sectors. The standard does not apply to financial instruments, insurance contracts or lease contracts.

The transition to IFRS 15 has not had any significant impact on Hoist Finance's financial reports, capital adequacy or large exposures.

Changed presentation in income statement and balance sheet

Revaluations were previously presented in "Net revenue from acquired loan portfolios". As from 1 January 2018, revaluations are presented in "Impairment gains/losses".

The run-off consumer loan portfolio that was reported as Lending to the public at year-end has not been reclassified.

For additional details, see the Accounting Principles section of the 2017 annual report.

Hoist Finance introduced a new segment reporting model as a result of the new organisation that took effect 27 March 2018. Operations are no longer classified into three regions; rather, segment reporting is presented by country and central functions, in accordance with IFRS 8, Operating segments. Comparative figures for 2017 have been restated.

As of 1 April 2018, Parent Company Hoist Finance AB (publ) has chosen to apply hedge accounting of the carrying value of participations in foreign subsidiaries as well as participations in foreign joint ventures. In hedge accounting, exchange rates influence the carrying value of participations in subsidiaries and participations in joint ventures. This change in value is reported in "Net financial income", as is the change in value of hedging instruments. Hedge accounting thus shows a net effect in "Net financial income" compared to previous reports, when reported changes in value of hedging instruments did not correspond to any reported changes in value of participations in subsidiaries or joint ventures.

Other IFRS amendments

No other IFRS or IFRIC Interpretations that came into effect in 2018 had any significant impact on the Group's financial reports or capital adequacy.

In all other material respects, the Group's and Parent Company's accounting principles, bases for calculation and presentation remain unchanged from those applied in the 2017 annual report.

Future regulatory changes

IFRS 16 Leases

IASB has published a new standard, IFRS 16 ”Leases”, which was endorsed by the EU Commission in 2017. 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 need to account for new assets and liabilities for leases.

Revaluation reserve

The Swedish Accounting Standards Board (BFN) responded to the Financial Supervisory Authority in June on the question of revaluation rules contained in the Swedish Annual Accounts Act (1995:1554) regarding financial assets classified as purchased or issued credit-impaired loans. The response of the BFN specifies that in cases where the Parent Company makes a new assessment that leads to an upward revision of future cash flow compared with the cash flow that formed the basis of the calculation of the effective interest rate at the time of acquisition, it must report these revaluations in a revaluation reserve for restricted equity. The transfer between free and restricted equity will have an effect on distributable funds, but as Hoist Finance has not yet been able to evaluate these effects, the Parent Company has chosen not to amend its reporting principles governing revaluation. Hoist Finance intends to correct any effects on equity in the Parent Company when its reporting principles for revaluation have been defined.

	30 Sep 2018	30 Sep 2017	Full-year 2017
1 EUR = SEK			
Income statement (average)	10.2303	9.5803	9.6331
Balance sheet (at end of the period)	10.2945	9.5668	9.8497
1 GBP = SEK			
Income statement (average)	11.5721	10.9844	10.9991
Balance sheet (at end of the period)	11.5746	10.8669	11.1045
1 PLN = SEK			
Income statement (average)	2.4091	2.2460	2.2629
Balance sheet (at end of the period)	2.4110	2.2189	2.3606

Notes

Note 1 Segment reporting

Segment reporting has been prepared based on the manner in which executive management monitors operations. This follows statutory account preparation, with the exception of internal funding cost. The internal funding cost is included in total operating income and allocated to the segments based on acquired loan portfolio assets in relation to a fixed internal monthly interest rate for each portfolio. The difference between the external financing cost and the internal funding cost is reported in Central Functions under total operating income. This Central Functions item pertains to the net income for intra-group financial transactions.

Group costs for central and supporting functions are not allocated to the operating segments but are reported as 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.

Income statement, Quarter 3, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**140**	**195**	**80**	**124**	**91**	**89**	**12**	**731**
of which, internal funding costs	*–51*	*–37*	*–16*	*–33*	*–20*	*157*	*0*	*0*
Total operating expenses	**–88**	**–98**	**–83**	**–43**	**–82**	**–108**	**3**	**–499**
Profit from participations in joint ventures	–	–	–	–	1	10	–	11
Profit before tax	**52**	**97**	**–3**	**81**	**10**	**–9**	**15**	**243**

Income statement, Quarter 3, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**125**	**147**	**87**	**64**	**71**	**91**	**4**	**589**
of which, internal funding costs	*–54*	*–36*	*–24*	*–19*	*–27*	*160*	*0*	*0*
Total operating expenses	**–80**	**–69**	**–63**	**–34**	**–82**	**–90**	**0**	**–418**
Profit from participations in joint ventures	–	–	–	–	0	11	–	11
Profit before tax	**45**	**78**	**24**	**30**	**–11**	**12**	**4**	**182**

Income statement, Jan–Sep, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**450**	**547**	**263**	**299**	**307**	**773**[1)]	**–576**	**2,063**
of which, internal funding costs	*–148*	*–99*	*–47*	*–82*	*–56*	*432*	*0*	*0*
Total operating expenses	**–272**	**–289**	**–220**	**–162**	**–245**	**–358**	**4**	**–1,542**
Profit from participations in joint ventures	–	–	–	–	7	41	–	48
Profit before tax	**178**	**258**	**43**	**137**	**69**	**456**	**–572**	**569**

1) Dividend from subsidiaries SEK 562m.

Income statement, Jan–Sep, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**400**	**388**	**280**	**219**	**252**	**186**	**–2**	**1,723**
of which, internal funding costs	*–149*	*–112*	*–74*	*–57*	*–83*	*475*	*0*	*0*
Total operating expenses	**–268**	**–223**	**–182**	**–105**	**–241**	**–289**	**2**	**–1,306**
Profit from participations in joint ventures	–	–	–	–	13	42	–	55
Profit before tax	**132**	**165**	**98**	**114**	**24**	**–61**	**0**	**472**

Note 1 *Segment reporting, cont.*

Income statement, Full-year 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**551**	**518**	**369**	**294**	**360**	**460**[1]	**–187**	**2,365**
of which, internal funding costs	*–205*	*–153*	*–99*	*–78*	*–111*	*646*	*–*	*0*
Total operating expenses	**–361**	**–333**	**–287**	**–144**	**–335**	**–402**	**2**	**–1,860**
Profit from participations in joint ventures	–	–	–	–	25	51	–	76
Profit before tax	**190**	**185**	**82**	**150**	**50**	**109**	**–185**	**581**

1) Dividend from subsidiaries SEK 180m.

Acquired loans, 30 Sep 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Group
Run-off consumer loan portfolio			17				17
Acquired loan portfolios	5,546	5,659	2,267	2,811	2,906		19,189
Shares and participations in joint ventures[1]						225	225
Acquired loans	**5,546**	**5,659**	**2,284**	**2,811**	**2,906**	**225**	**19,431**

Acquired loans, 31 Dec 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Group
Run-off consumer loan portfolio			21				21
Acquired loan portfolios	4,499	4,028	1,937	1,879	2,423		14,766
Shares and participations in joint ventures[1]						237	237
Acquired loans	**4,499**	**4,028**	**1,958**	**1,879**	**2,423**	**237**	**15,024**

Acquired loans, 30 Sep 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Group
Run-off consumer loan portfolio			27				27
Acquired loan portfolios	4,056	3,032	1,890	1,519	2,314		12,811
Shares and participations in joint ventures[1]						242	242
Acquired loans	**4,056**	**3,032**	**1,917**	**1,519**	**2,314**	**242**	**13,080**

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 Acquired loan portfolios

	GROUP			PARENT COMPANY		
SEK million	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2017**	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2017**
Gross carrying amount	18,988	14 766	12,917	4,351	–	–
Loss allowance	201	n.a	n.a	55	n.a	n.a
Net carrying amount	**19,189**	**14 766**	**12,917**	**4,406**	**–**	**–**

Note 2 Acquired loan portfolios, cont.

Acquired credit-impaired loan portfolios

	GROUP		
SEK million	Gross carrying amount	Loss allowance	Net carrying amount
Opening balance 1 Jan 2018	14,766	–	14,766
IFRS 9 transition effects	11		11
Acquisitions	4,668		4,668
Interest income	2,011		2,011
Gross collections	–4,093		–4,093
Impairment losses and gains	–	204	204
Disposal	–67	0	–67
Translation differences	625	0	625
Closing balance 30 Sep 2018	**17,921**	**204**	**18,125**

Acquired credit-impaired loan portfolios

	PARENT COMPANY		
SEK million	Gross carrying amount	Loss allowance	Net carrying amount
Openning balance 1 Jan 2018	–	–	–
Merger	2,464	–	2,464
IFRS 9 transition effects	7	–	7
Acquisitions	1,963	–	1,963
Interest income	442	–	442
Gross collections	–1,058	–	–1,058
Impairment losses and gains	–	57	57
Translation differences	100	0	100
Closing balance 30 Sep 2018	**3,918**	**57**	**3,975**

Undiscounted acquired loss allowances

As at 30 September 2018, the undiscounted acquired loss allowances at initial recognition totaled SEK 12,801 million for credit-impaired loan portfolios acquired by the Group during January to September, of which SEK 3,594 million is attributable to Parent Company acquisitions.

Acquired performing loan portfolios

	GROUP					
SEK million	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions[1]	1,123	–	–	–	–	1,123
Interest income	24	–	–	–	–	24
Amortisations and interest payments	–75	–	–	–	–	–75
Changes in risk parameters	–	–3	0	0	–3	–3
Translation differences	–5	0	0	–	0	–5
Closing balance 30 Sep 2018	**1,067**	**–3**	**0**	**0**	**–3**	**1,064**

1)) During the third quarter, the acquisition price of a performing loan portfolio in Poland, acquired during the second quarter, was adjusted downward by SEK 60 million.

Note 2 Acquired loan portfolios, cont.

Acquired performing loan portfolios

	PARENT COMPANY					
SEK million	**Gross carrying amount**	**Stage 1 12M ECL**	**Stage 2 LECL**	**Stage 3 LECL**	**Loss allowance**	**Net carrying amount**
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions	460	–	–	–	–	460
Interest income	12	–	–	–	–	12
Amortisations and interest payments	–35	–	–	–	–	–35
Changes in risk parameters	–	–2	0	0	–2	–2
Translation differences	–4	0	0	–	0	–4
Closing balance 30 Sep 2018	**433**	**–2**	**0**	**0**	**–2**	**431**

Acquired loan portfolios

	GROUP	
SEK million	**31 Dec 2017**	**30 Sep 2017**
Opening balance	**12,386**	**12,386**
Acquisitions	4,253	2,178
Translation differences	361	–73
Changes in value		
Based on opening balance forecast (amortisation)	–2,244[1)]	–1,588
Based on revised estimates (revaluation)	10	14
Carrying value	**14,766**	**12,917**
Changes in carrying value reported in the income statement	**–2,233**	**–1,574**

1) Including SEK –108 million related to a partial disposal of a Polish loan portfolio.

Of which, designated at fair value[2)]

	GROUP	
SEK million	**31 Dec 2017**	**30 Sep 2017**
Opening balance	**1,045**	**1,045**
Translation differences	28	0
Changes in value		
Based on opening balance forecast (amortisation)	–120	–91
Based on revised estimates (revaluation)	–13	–7
Carrying value	**940**	**947**
Changes in carrying value reported in the income statement	**–133**	**–97**

2) The carrying value of acquired loan portfolios is calculated by discounting cash flow forecasts at the average effective interest rate for purchased loan portfolios from the past 24 months in each jurisdiction.

Note 3 Financial instruments

Carrying amount and fair value of financial instruments

GROUP, 30 SEP 2018

	Assets/liabilities recognised at fair value through profit or loss					
SEK million	**Held for trading**	**Mandatorily**	**Hedging instrument**	**Amortised cost**	**Total carrying amount**	**Fair value**
Treasury bills and treasury bonds		2,730			2,730	2,730
Lending to credit institutions				1,692	1,692	1,692
Lending to the public				17	17	17
Acquired loan portfolios				19,189	19,189	20,762
Bonds and other securities		2,994			2,994	2,994
Derivatives	6		33		39	39
Other financial assets				254	254	254
Total	**6**	**5,724**	**33**	**21,152**	**26,915**	**28,488**
Deposits from the public				15,511	15,511	15,511
Derivatives	3				3	3
Senior debt				6,039	6,039	6,044
Subordinated debt				832	832	830
Other financial debts				603	603	603
Total	**3**			**22,985**	**22,988**	**22,991**

GROUP, 31 DEC 2017

	Assets/liabilities recognised at fair value through profit or loss						
SEK million	**Held for trading**	**Designated**	**Loans and receivables**	**Hedging instruments**	**Other liabilities**	**Total carrying amount**	**Fair value**
Treasury bills and treasury bonds		1,490				1,490	1,490
Lending to credit institutions			1,681			1,681	1,681
Lending to the public			37			37	37
Acquired loan portfolios							
of which, at fair value		*940*				*940*	*940*
of which, at amortised cost			*13,826*			*13,826*	*13,426*
Bonds and other securities		3,689				3,689	3,689
Derivatives	4			7		11	11
Other financial assets			189			189	189
Total	**4**	**6,119**	**15,733**	**7**		**21,863**	**21,463**
Deposits from the public					13,227	13,227	13,227
Derivatives	4			6		10	10
Senior debt					4,355	4,355	4,532
Subordinated debt					803	803	811
Other financial debts					536	536	536
Total	**4**			**6**	**18,921**	**18,931**	**19,116**

Note 3 *Financial instruments, cont.*

GROUP, 30 SEP 2017

SEK million	Assets/liabilities recognised at fair value through profit or loss: Held for trading	Assets/liabilities recognised at fair value through profit or loss: Designated	Loans and receivables	Hedging instruments	Other liabilities	Total carrying amount	Fair value
Cash			3			3	3
Treasury bills and treasury bonds		1,490				1,490	1,490
Lending to credit institutions			1,135			1,135	1,135
Lending to the public			32			32	32
Acquired loan portfolios							
of which, at fair value		*947*				*947*	*947*
of which, at amortised cost			*11,969*			*11,969*	*11,882*
Bonds and other securities		3,132				3,132	3,132
Derivatives	5			37		42	42
Other financial assets			442			442	442
Total	**5**	**5,569**	**13,581**	**37**		**19,192**	**19,106**
Deposits from the public					12,301	12,301	12,301
Derivatives	3			0		3	3
Senior debt					2,930	2,930	3,098
Subordinated debt					773	773	780
Other financial debts					380	380	380
Total	**3**				**16,384**	**16,387**	**16,562**

PARENT COMPANY, 30 SEP 2018

SEK million	Assets/liabilities recognised at fair value through profit or loss: Held for trading	Assets/liabilities recognised at fair value through profit or loss: Mandatorily	Hedging instruments	Amortised cost	Total carrying amount	Fair value
Treasury bills and treasury bonds		2,730			2,730	2,730
Lending to credit institutions				939	939	939
Lending to the public				20	20	20
Acquired loan portfolios				4,406	4,406	4,799
Receivables, Group companies				13,851	13,851	13,851
Bonds and other securities		2,994			2,994	2,994
Derivatives	6		33		39	39
Other financial assets				178	178	178
Total	**6**	**5,724**	**33**	**19,394**	**25,157**	**25,550**
Deposits from the public				15,511	15,511	15,511
Derivatives	3				3	3
Senior debt				6,039	6,039	6,044
Subordinated debt				832	832	830
Other financial debts				933	933	933
Total	**3**			**23,315**	**23,318**	**23,321**

Note 3 *Financial instruments, cont.*

Fair value measurements

Group

The Group uses observable data to the greatest possible extent when assessing the fair value of an asset or liability. Fair values are categorised in different levels based on the input data used in the valuation 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) Based on inputs that are not observable on the market. This category includes all instruments for which the valuation technique is based on data that is not observable and has a substantial impact upon the valuation.

Fair value measurements

	GROUP, 30 SEP 2018			
SEK million	**Level 1**	**Level 2**	**Level 3**	**Total**
Treasury bills and Treasury bonds	2,730			2,730
Bonds and other securities	2,994			2,994
Derivatives		39		39
Total assets	**5,724**	**39**		**5,763**
Derivatives		3		3
Senior debts		6,044		6,044
Subordinated debts		830		830
Total liabilities		**6,877**		**6,877**

Fair value measurements

	GROUP, 31 DEC 2017			
SEK million	**Level 1**	**Level 2**	**Level 3**	**Total**
Treasury bills and Treasury bonds	1,490			1,490
Bonds and other securities	3,689			3,689
Derivatives		11		11
Total assets	**5,179**	**11**		**5,190**
Derivatives		10		10
Senior debts		4,532		4,532
Subordinated debts		811		811
Total liabilities		**5,353**		**5,353**

Note 3 *Financial instruments, cont.*

SEK million	GROUP, 30 SEP 2017 Level 1	Level 2	Level 3	Total
Treasury bills and Treasury bonds	1,490			1,490
Bonds and other securities	3,132			3,132
Derivatives		42		42
Total assets	**4,622**	**42**		**4,664**
Derivatives		3		3
Senior debts		3,098		3,098
Subordinated debts		780		780
Total liabilities		**3,881**		**3,881**

Note 4 Capital adequacy

This note provides information required to be disclosed under the provisions of FFFS 2008:25, including applicable amendments, regarding annual accounts for credit institutions and FFFS 2014:12, including applicable amendments, regarding prudential requirements and capital buffers. The information relates to Hoist Finance on a consolidated basis ("Hoist Finance") and Hoist Finance AB (publ) ("Hoist Finance"), the regulated entity. The difference in the basis for consolidation between the consolidated accounts and the consolidated situation is that joint ventures are consolidated using the equity method in the consolidated accounts, whereas proportional consolidation is used for the consolidated situation. When establishing the company's statutory capital requirements, EU regulation No 575/2013 and the Swedish law (2014:966) on capital buffers primarily apply.

Comparative figures for Hoist Finance AB (publ) refer to the merged company Hoist Kredit AB (publ), which was the regulated entity within the Hoist Finance Group up until the merger on 2 January 2018. As a result of the merger, all assets and liabilities of Hoist Kredit AB (publ) were transferred to Hoist Finance AB (publ) and Hoist Kredit was dissolved.

Own funds

The table below shows own funds used to cover the capital requirements for Hoist Finance consolidated situation and the regulated entity Hoist Finance.

SEK million	Hoist Finance consolidated situation 30 Sep 2018	31 Dec 2017	30 Sep 2017	Hoist Finance AB (publ) 30 Sep 2018	31 Dec 2017	30 Sep 2017
Capital instruments and related share premium accounts	1,355	1,287	1,287	1,355	483	483
Retained earnings	1,018	745	755	212	402	553
Accumulated comprehensive income and other reserves	244	282	280	604	1,081	1,081
Independently reviewed interim profits net of any foreseeable charge or dividend[1)]	297	299	156	503	183	0
Intangible assets (net of related tax liability)	–333	–287	–262	–151	–44	–43
Deferred tax assets that rely on future profitability	–20	–21	–33	–1	–3	–4
Other transitional arrangements	3	–	–	1	–	–
Common Equity Tier 1	**2,564**	**2,305**	**2,183**	**2,523**	**2,102**	**2,070**
Capital instruments and the related share premium accounts	690	380	380	690	380	380
Additional Tier 1 capital	**690**	**380**	**380**	**690**	**380**	**380**
Tier 1 capital	**3,254**	**2,685**	**2,563**	**3,213**	**2,482**	**2,450**
Capital instruments and the related share premium accounts	832	803	773	832	803	773
Tier 2 capital	**832**	**803**	**773**	**832**	**803**	**773**
Total own funds	**4,086**	**3,488**	**3,336**	**4,045**	**3,285**	**3,223**

1) Regulatory dividend deduction is calculated at 30 per cent of net profit for the year, the maximum dividend allowed under the Group's internal Dividend Policy.

Note 4 *Capital adequacy, cont.*

Risk-weighted exposure amounts and capital requirements

The tables below shows the risk-weighted exposure amounts and minimum capital requirements per risk category for Hoist Finance consolidated situation and the regulated entity Hoist Finance.

Risk-weighted exposure amounts	**Hoist Finance consolidated situation**			**Hoist Finance AB (publ)**		
SEK million	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2017**	**30 Sep 2018**	**31 Dec 2017**	**30 Sep 2017**
Exposures to central governments or central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0
Exposures to institutions	399	381	335	222	150	137
of which, counterparty credit risk	*34*	*54*	*57*	*34*	*54*	*57*
Exposures to corporates	254	136	154	14,056	10,935	9,260
Retail exposures	92	16	17	87	16	17
Exposures secured by mortgages on immovable property	421	–	–	120	–	–
Exposures in default	18,970	15,349	13,557	4,155	2,496	2,473
Exposures in the form of covered bonds	299	369	313	299	369	313
Equity exposures	–	–	–	2,143	2,143	1,924
Other items	95	145	104	52	44	26
Credit risk (standardised approach)	**2,530**	**16,396**	**14,480**	**21,134**	**16,153**	**14,150**
Market risk (foreign exchange risk – standardised approach)	**60**	**113**	**22**	**60**	**113**	**22**
Operational risk (standardised approach)	**3,158**	**3,158**	**2,623**	**1,128**	**1,128**	**893**
Credit valuation adjustment (standardised approach)	**33**	**27**	**36**	**33**	**27**	**36**
Total risk-weighted exposure amount	**23,781**	**19,694**	**17,161**	**22,355**	**17,421**	**15,101**

Note 4 *Capital adequacy, cont.*

Capital requirements

SEK million	Hoist Finance consolidated situation 30 Sep 2018	31 Dec 2017	30 Sep 2017	Hoist Finance AB (publ) 30 Sep 2018	31 Dec 2017	30 Sep 2017
Pillar 1						
Exposures to central governments or central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0
Exposures to institutions	32	30	27	18	12	11
of which, counterparty credit risk	*3*	*4*	*5*	*3*	*4*	*5*
Exposures to corporates	20	11	12	1,125	875	741
Retail exposures	7	1	1	7	1	1
Exposures secured by mortgages on immovable property	34	–	–	10	–	–
Exposures in default	1,518	1,228	1,085	332	200	198
Exposures in the form of covered bonds	24	30	25	24	30	25
Equity exposures	–	–	–	171	171	154
Other items	8	12	8	4	4	2
Credit risk (standardised approach)	**1,643**	**1,312**	**1,158**	**1,691**	**1,293**	**1,132**
Market risk (foreign exchange risk – standardised approach)	**5**	**9**	**2**	**5**	**9**	**2**
Operational risk (standardised approach)	**253**	**253**	**210**	**90**	**90**	**71**
Credit valuation adjustment (standardised approach)	**3**	**2**	**3**	**3**	**2**	**3**
Total own funds requirement – Pillar 1	**1,904**	**1,576**	**1,373**	**1,789**	**1,394**	**1,208**
Pillar 2						
Concentration risk	153	131	132	153	131	132
Interest rate risk in the banking book	41	36	37	41	36	37
Pension risk	3	3	3	3	3	3
Other Pillar 2 risks	34	26	23	34	26	23
Total own funds requirement – Pillar 2	**231**	**196**	**195**	**231**	**196**	**195**
Capital buffers						
Capital conservation buffer	595	492	429	559	436	378
Countercyclical buffer	43	11	8	35	8	11
Total own funds requirement – Capital buffers	**638**	**503**	**437**	**594**	**444**	**389**
Total own funds requirements	**2,773**	**2,275**	**2,005**	**2,614**	**2,034**	**1,792**

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 0.18 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 Finance. 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.

Note 4 *Capital adequacy, cont.*

Capital ratios and capital buffers, %	Hoist Finance consolidated situation 30 Sep 2018	31 Dec 2017	30 Sep 2017	Hoist Finance AB (publ) 30 Sep 2018	31 Dec 2017	30 Sep 2017
Common Equity Tier 1 capital ratio	10.79	11.70	12.72	11.28	12.07	13.70
Tier 1 capital ratio	13.69	13.63	14.93	14.36	14.25	16.22
Total capital ratio	17.19	17.71	19.43	18.09	18.86	21.33
Institution-specific buffer requirements for CET1 capital	7.18	7.05	7.05	7.15	7.05	7.07
of which, capital conservation buffer requirement	*2.50*	*2.50*	*2.50*	*2.50*	*2.50*	*2.50*
of which, countercyclical capital buffer requirement	*0.18*	*0.05*	*0.05*	0.15	*0.05*	*0.07*
Common Equity Tier 1 capital available to meet buffers[1)]	**6.29**	**7.20**	**8.22**	**6.78**	**7.57**	**9.20**

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 30 September 2018, the internally assessed capital requirement for Hoist Finance was SEK 2,135 million (1,771), of which SEK 231 million (196) was attributable to Pillar 2.

Note 5 Liquidity risk

This note provides information required to be disclosed under the provisions of FFFS 2010:7, including applicable amendments, regarding the management of liquidity risks in credit institutions and investment firms.

Liquidity risk is the risk of difficulties in obtaining funding, and thus being unable to meet payment obligations, without a significant increase in the cost of obtaining means of payment.

Because the Group's revenues and costs 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 on 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 amounts of liquid assets or immediately divestible assets to ensure timely satisfaction of its payment obligations without incurring significantly higher costs.

Funding primarily takes the form of deposits from the public and the issuance of senior unsecured debt and own funds instruments, as well as equity. The majority of deposits from the public are payable on demand (variable deposits – "floating"), while about 32 per cent (35) of the Group's deposits from the public are tied to longer maturities ("fixed deposits") ranging from 12 to 36 months. About 99 per cent of deposits are backed by the deposit guarantee scheme.

Comparative figures for Hoist Finance AB (publ) refer to the merged company Hoist Kredit AB (publ), which was the regulated entity within the Hoist Finance Group up until the merger on 2 January 2018. As a result of the merger, all assets and liabilities of Hoist Kredit AB (publ) were transferred to Hoist Finance AB (publ) and Hoist Kredit was dissolved.

Funding

SEK million	Hoist Finance consolidated situation 30 Sep 2018	31 Dec 2017	30 Sep 2017	Hoist Finance AB (publ) 30 Sep 2018	31 Dec 2017	30 Sep 2017
Current account deposits	10,609	8,580	7,915	10,609	8,580	7,915
Fixed-term deposits	4,902	4,647	4,386	4,902	4,647	4,386
Senior debts	6,039	4,355	2,930	6,039	4,355	2,930
Convertible debt instruments	690	380	380	690	380	380
Subordinated debts	832	803	773	832	803	773
Equity	3,611	2,849	2,736	3,242	2,100	2,136
Other	967	923	718	1,254	613	388
Balance sheet total	**27,650**	**22,537**	**19,838**	**27,568**	**21,478**	**18,908**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 7,334 million (6,800) as per 30 September, exceeding the limit and the target level by a significant margin.

Hoist Finance's liquidity reserve, presented below pursuant to the Swedish Banker's Association's template, primarily comprises bonds issued by the Swedish government and Swedish municipalities, as well as covered bonds.

Note 5 *Liquidity risk, cont.*

Liquidity reserve

SEK million	30 Sep 2018	31 Dec 2017	30 Sep 2017
Cash and holdings in central banks	0	0	0
Deposits in other banks available overnight	1,610	1,621	1,077
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,570	1,061	1,361
Securities issued or guaranteed by municipalities or other public sector entities	1,160	429	129
Covered bonds	2,994	3,689	3,132
Securities issued by non-financial corporates	–	–	–
Securities issued by financial corporates	–	–	–
Other	–	–	–
Total	**7,334**	**6,800**	**5,702**

Hoist Finance has a contingency funding plan for managing liquidity crises. This identifies specific events that may trigger the contingency plan and actions to be taken.

Note 6 Pledged assets

	Group			Parent Company		
SEK million	30 Sep 2018	31 Dec 2017	30 Sep 2017	30 Sep 2018	31 Dec 2017	30 Sep 2017
Pledges and comparable collateral for own liabilities and for reported commitments for provisions	69	49	46	13	–	–

Note 7 Contingent liabilities

	Group			Parent Company		
SEK million	30 Sep 2018	31 Dec 2017	30 Sep 2017	30 Jun 2018	31 Dec 2017	30 Sep 2017
Commitments	2,065	698	1,042	360	–	–

Note 8 Reconciliation alternative performance measures

EBIT margin

SEK million	Quarter 3 2018	Quarter 3 2017	Jan–Sep 2018	Jan–Sep 2017	Full year 2017
Profit before tax	243	182	568	472	581
Net income financial transactions	–40	–7	–27	50	50
Interest expense	93	68	247	230	305
Interest income excl. run-off consumer loan portfolio	3	4	12	10	15
EBIT	**299**	**247**	**800**	**762**	**951**
Net revenues from acquired loan portfolios		634		1,944	2,644
Interest income acquired loan portfolios	718		2,036		
Interest income from run-off consumer loan portfolio	0	1	3	2	5
Impairment gains and losses	51		200		
Fee and commission income	16	17	49	57	73
Profit from shares and participations in joint ventures	11	11	49	55	76
Derecognition gains and losses	–		–2		
Other operating income	3	2	9	9	13
Total revenue	**799**	665	**2,344**	2,067	2,811
EBIT margin	37	37	34	37	34

Note 8 *Reconciliation alternative performance measures, cont.*

EBITDA, adjusted3

SEK million	Quarter 3 2018	Quarter 3 2017	Full year 2017
Profit for the period	182	145	453
+ Income tax expense	61	37	128
+/– Net result from financial transactions	–40	–7	50
+ Interest expense	93	68	305
– Interest income (excl. interest from run-off performing portfolio)	3	4	14
+ Portfolio revaluations		–8	–11
–/+ Impairment gains and losses	–51	–	–
+ Depreciation and amortisation of tangible and intangible assets	15	14	56
EBITDA	**263**	**253**	**995**
+ Amortisation on run-off portfolio		4	11
+ Amortisation on acquired loan portfolios		508	2,244
+ Gross cash collections on acquired loan portfolios	1,404	–	–
– Interest income on acquired loan portfolios	–718	–	–
EBITDA, adjusted	**949**	**765**	**3,250**

Return on equity, adjusted for items affecting comparability

SEK thousand	Quarter 3 2018	Quarter 3 2017	Full year 2017
Equity	4,301	3,116	3,228
Additional Tier 1 capital	–690	–380	–380
Reversal of interest expense paid for AT1 capital	42	20	28
Reversal of items affecting comparability[1) 2)]	–10	–	102
Total equity	3,643	2,756	2,978
Total equity (quarterly average)	**3,305**	**2,730**	**2,752**
Profit for the period	182	145	453
Reversal of items affecting comparability[1) 2)]	–33	–	102
Estimated annual profit	596	580	555
Adjustment of interest on AT1 capital	–60	–40	–40
Adjusted annual profit	**534**	**540**	**515**
Return on equity, %	**16**	**20**	**19**

1) Items affecting comparability 2018 refer to a cost linked to the take-over of a previously externally managed loan portfolio and restructuring costs, including tax.
2) Items affecting comparability 2017 refer to costs which arose in connection with the repurchase of subordinated debts and outstanding bonds during second quarter 2017 and with restructuring costs and adjustment of previous cost accruals during fourth quarter 2017, including tax.

Note 9 Classification and Measurement IFRS 9

Comparison between IAS 39 closing balance as at 31 Dec 2017 and IFRS 9 opening balance as at 1 Jan 2018, Group

SEK million	Original measurement category under IAS 39	Original carrying value under IAS 39	New measurement category under IFRS 9	Reclassification	Remeasure-ment	Net carrying value under IFRS 9
Cash	Loans and receivables	0	Amortised cost	–	–	0
Treasury bills and treasury bonds	FVPL identified	1,490	FVPL mandatorily	–	–	1,490
Lending to credit institutions	Loans and receivables	1,681	Amortised cost	–	–	1,681
Lending to the public	Loans and receivables	37	Amortised cost	–	–	37
Acquired loan portfolios	FVPL identified	940	Amortised cost	–940	–	–
Acquired loan portfolios	Loans and receivables	13,826	Amortised cost	940	11	14,777
Bonds and other securities	FVPL identified	3,689	FVPL mandatorily	–	–	3,689
Derivatives	FVPL Held for trading	4	FVPL Held for Trading	–	–	4
Derivatives	Hedging instruments	7	Hedging instruments	–	–	7
Other financial assets	Loans and receivables	189	Amortised cost	–	–	189
Deposits from the public	Other liabilities	13,227	Amortised cost	–	–	13,227
Derivatives	FVPL Held for trading	4	FVPL Held for Trading	–	–	4
Derivatives	Hedging	6	Hedging instruments	–	–	6
Senior unsecured liabilities	Other liabilities	4,355	Amortised cost	–	8	4,363
Subordinated liabilities	Other liabilities	803	Amortised cost	–	–	803
Other financial liabilities	Other liabilities	536	Amortised cost	–	–	536

Loss allowance

Acquired loan portfolios – 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.

Other financial assets valued at amortised cost – the expected credit loss at transition to IFRS 9 was not material, and therefore, was not reported.

Acquired loan portfolios reclassified from fair value through profit or loss under IAS 39 to amortised cost under IFRS 9

SEK million	
Fair value of the reclassified acquired loan portfolios as of 31 Dec 2017	940
Fair value as at reporting date, if the acquired loan portfolio would not have been reclassified	922
Fair value gain/loss during the period, if the acquired loan portfolio would not have been reclassified	–18
Effective interest rate of reclassified acquired loans on date of initial application, %	21
Interest revenue recorded during the period Jan–Jun 2018	88

Assurance

The Board of Directors and the CEO hereby give their assurance that the interim financial statements provide a true and fair view of the business activities, financial position and results of operations of the Group and the Parent Company, and describes the significant risks and uncertainties to which the Parent Company and Group companies are exposed.

Stockholm 24 October 2018

Ingrid Bonde
Chair of the Board

Cecilia Daun Wennborg
Board member

Malin Eriksson
Board member

Liselotte Hjorth
Board member

Marcial Portela
Board member

Joakim Rubin
Board member

Gunilla Öhman
Board member

Jörgen Olsson
Board member

Klaus-Anders Nysteen
CEO

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).

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.

Return on equity
Net profit for the period adjusted for accrued unpaid interest on AT1 capital calculated on annualised basis, 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 120/180-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 120/180 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 ("EBITDA"), adjusted for 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.

C/I ratio
Total operating expenses in relation to Total operating income and Profit from shares and participations in joint ventures.

Fee and commission income
Fees for providing debt management services to third parties.

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.

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.

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 interest income margin
Net interest income for the period, calculated on a full-year basis, in relation to the period's average Acquired loan portfolios, calculated as the period average based on quarterly values during the period.

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 is 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 period, 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 period, 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.

Internal funding cost
The internal funding cost is determined per portfolio applying the following monthly interest rate: (1+annual interest)^(1/12)-1.

Vision, mission and strategy

Our Mission – Your Trust

Our Vision

Helping people keep their commitments.

Financial targets

Profitability

Achieve an operating margin of over 40 per cent in the medium term horizon by leveraging our operational scale advantages.

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

Capital structure

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.

Dividend policy

Pursuant to our dividend policy, we will initially pay a dividend of 25–30 per cent of the Group's net profit in the medium-term horizon. In light of the strong cash flow that our business has generated historically, our long-term goal is to pay a dividend of 50 per cent of our annual net profit.

Strategy

One Hoist Finance

- Operating as one company
- Collaboration instead of duplication
- Strengthened functional capabilities and sharing of best practices
- Engaging, open, and rewarding place to work, with a clear sense of purpose

Market leadership

- Market leading position in prioritised markets
- Extensive local know-how and data providing competitive advantage and ability to capture future growth
- Diversified product and service offering in priority markets

Financial Institutions

- Specialized leader in FI originated debt
- Diversified and deep relationships across markets
- Expand services (DP and 3PC) to meet the full spectrum of client needs

Unique funding

- Maintain competitive advantage of unique funding model providing stability in capital constrained environments
- Offer unique value proposition and offering to customers enabled through bank license

Knowledge driven

- Best in class ways of working in terms efficiency and effectiveness
- Ways of working harmonized across the organization and based on in-house expertise and learnings
- Creating value by leveraging all of our tacit knowledge, both internal and external

Digital leader

- Spearhead industry development and use of digital and analytics
- Leverage cutting edge digital capabilities that will enable us to offer unique value to our partners

Financial calendar

Capital Markets Day 2018	15 November 2018
Year-end report 2018	12 February 2019
Interim report Q1 2019	14 May 2019
Interim report Q2 2019	30 July 2019
Interim report Q3 2019	5 November 2019

Contact

Investor Relations
Michel Fischier
Group Head of Investor Relations

Ph: +46 (0) 8-555 177 45
E-post: info@hoistfinance.com

Hoist Finance AB (publ)
Corp. ID no. 556012-8489
Box 7848,
103 99 Stockholm
Ph: +46 (0) 8-555 177 90
www.hoistfinance.com

The interim report and investor presentation are available at www.hoistfinance.com