Interim report Q2 2018

Continued expansion into new asset classes and good progress with the operational agenda

April – June 2018

- Total operating income increased 22 per cent to SEK 648 million (530).
- Items affecting comparability before tax totalled SEK -24 million. Items affecting comparability attributable to a cost linked to the take-over of a previously externally managed loan portfolio as well as provisions for proposed restructuring to consolidate the British operations to Manchester.
- Profit before tax excluding items affecting comparability totalled SEK 165 million.
- Profit before tax increased 36 per cent to SEK 141 million (104).
- Diluted earnings per share amounted to SEK 1.12 (0.83).
- Return on equity excluding items affecting comparability was 15 per cent.
- Return on equity was 12 per cent (10).
- Carrying value on acquired loan portfolios totalled SEK 17,763 million (15,024).
- The total capital ratio was 17.96 per cent (17.71) and the CET1 capital ratio was 11.13 per cent (11.70).

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

Events during the quarter

- Single best quarter in terms of portfolio acquisitions. Portfolio acquisitions totalled SEK 2,341 million; well diversified between both countries and asset classes.
- Hoist Finance issued EUR 40 million in Additional Tier 1 capital and repurchased SEK 100 million AT1 capital issued in 2013.

Development after the quarter

- Hoist Finance acquires portfolios with non-performing secured loans in France.

33%
EBIT margin excluding items affecting comparability
Target 40%

11.13%
CET1 ratio

37%
Portfolio growth over the last 12-month period

75%
C/I ratio excluding items affecting comparability

15%
Return on equity excluding items affecting comparability
Target: 20%

Hoist Finance AB (publ) (the "Company" or the "Parent ") is the parent company of the Hoist Finance group of companies ("Hoist Finance"). The company is a regulated credit market company. Hence, Hoist Finance produces financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

The information in this interim report has been published by Hoist Finance AB (publ) pursuant to the EU's Financial Instruments Trading Act and Securities Market Act. This information was submitted by Michel Fischier for publication on 27 July 2018 at 8:00 AM CET.

Continued expansion into new asset classes and good progress with the operational agenda

> Helping people keep their commitments

Introduction

It is now nineteen weeks ago since I joined Hoist Finance. Now, reporting my first full quarter as CEO, the timing is good to share some of my thoughts on the business and our priorities going forward.

Industry dynamics

The Credit Management Services (CMS) industry has an important role to play in society. Now, ten years after the financial crisis, the level of Non-Performing Loans (NPL) on the bank's balance sheets are still 2.5 times the level it was pre-crisis. New regulations have been put in place, and more regulations are under way. To bring the level of Non Performing Exposures (NPE) down is a very important objective for the regulators of the financial systems.

The market for divesting NPL has become more professional and harmonised. Today, most banks have sophisticated sales processes and the data quality of the portfolios is better than ever. This means that the risks are reduced and the sellers are more certain that they will achieve the correct market price. Having started divesting defaulted unsecured consumer loans, the banks are now comfortable sellers of other kinds of NPL. The CMS companies are in the process of building advanced, industrialised and "fit for purpose" processes also for these assets classes.

As the CMS industry has matured and developed, it is clear that the industry adds value to the financial value chain. The buyers of NPL are of course providing capital, but on top of this, the most professional companies are now deploying best practices across borders, they can use sophisticated IT-systems and have an approach to collection that is more advanced than most banks have themselves. Having an amicable approach to collection that has the best interests of the customers as the highest priority is the very foundation for having a relevant and sustainable value proposition. We strongly believe that the importance of our services will increase in the years to come.

Hoist Finance is regulated as a bank and consequently has first-hand experience in the regulations impacting the financial institutions in our markets. New regulation is coming, and we welcome more regulations. At Hoist Finance we take pride in being a relevant partner for other banks, and we abide by the highest possible standards as far as ethics and compliance are concerned.

At this point in the time, the key factors impacting profitability are the cost of funding and the cost of operations. At Hoist Finance we are confident that our business model of having a diversified funding structure with retail deposits as the most important contributor, represents a strong and sustainable competitive advantage. Now, our most important priority is to bring cost of operations down.

Q2 – outpacing the market growth by further expansion into new asset classes

The long-term growth outlook is strong, and in the second quarter our acquisitions of SEK 2,341 million was all time high. Hoist Finance identified the growth in adjacent asset classes already some time ago, and has spent time and resources to invest in people and systems to be ready to capture this growth. During the quarter we announced an acquisition of a performing retail mortgage loan portfolio in Poland and shortly after the quarter ended we announced an acquisition of a secured non-performing loan portfolio in France.

Job number one – operational efficiency

Several steps have already been taken in the second quarter to bring down costs. We have internally launched a cost savings programme that will address our challenge, and we are already seeing the very first positive effects.

Having worked with cost savings in various industries over the last 20 years, experience has taught me that we need to have the necessary willpower and stamina to deliver.

There are obviously different sources for cost savings, and some can be labelled as quick wins while others require changes in systems and structures. As our work is ongoing, it is too early for us to lay out the full details of the scope and timeline at this point, but let me assure you that we are committed to do what it takes to bring costs down to a significantly lower level. However, I would like to take this opportunity to mention a few of the decisions already taken:

Organisation and operating model

- Removed regional level and moved towards functional organisation
- Implementing revised legal structure and converting subsidiaries to branches
- Started process to establish shared services in low cost jurisdiction
- First steps taken to identify savings from Procurement

Projects

- Reviewed project portfolio and cancelled a number of initiatives

Site Consolidation

- Faster shut-down of Bremen site and consolidation to Duisburg, Germany, with full cost savings moved forward from Q4 to Q3
- Evaluated closing Milton Keynes and consolidating all operations in the UK to Manchester

Digital

- Installed new cloud-based dialer system in Poland, and additional markets will benefit from same system already in 2018
- Ramped up self-service portal in the UK
- Decision to close down a number of functional systems and to standardise to one platform

Even though we will bring our costs down, and consequently improve our Cost/Income ratio, we also recognise that we will sometimes need to take on new costs for business reasons. This can for instance be related to new skills or capacity as was the case for preparing for new asset classes.

Later this year we will hold a Capital Markets Day where we look forward to present our ambitions and long-term plan.

Strengthening of the Executive Management Team

During the quarter and shortly after the quarter ended, I had the pleasure of announcing three new names to be part of our Executive Management Team and drive our agenda of continued growth and increased operational efficiency: Christer Johansson as our new CFO, Viktoria Aastrup as our new Head of Business development and Communications and Emanuele Reale as our Chief Sales Officer. Together with the rest of our team we are ready to take on our intense agenda for continued growth and increased efficiency on all levels.

Financial development

During the quarter we issued Additional Tier 1 capital (AT1) to promote further growth of our business. EUR 40 million was issued at a coupon of 8 per cent which demonstrates our investors' positive view of our solid financial position and growth opportunities going forward. Furthermore, to strengthen and diversify our funding structure we also launched a commercial paper programme and issued nearly SEK 1 billion with maturities of three, six and nine months.

During the quarter we also took over the management of a buy and leave portfolio acquired in Poland 2013. By managing the portfolio in-house we will have better control and improved servicing capabilities. For that reason, a fee amounting to SEK 16 million was payed to the seller to exit the existing contract. Furthermore restructuring cost associated with the consolidation of UK operations together with other restructuring charges amount to SEK 8 million affecting the quarter negatively but will make it possible to realise approximately the same amount in lower costs on an annual basis. These costs sum the items affecting comparability to SEK 24 million in the quarter.

Excluding these items, profit before tax amounted to SEK 165 million. Our costs in relation to our income are too high end and we will continue our work to increase operational efficiency during the second half of the year.

Outlook

The market outlook is positive, with strong underlying market growth and our ambition is to outpace this growth over the coming years. We remain committed to our financial target of a return on equity of 20 per cent but this will require additional efforts. As mentioned, returns have declined over the last few years and therefore our highest priority is to become more effective and efficient. The restructuring of our UK and German operations will have a positive impact on costs during the second half of 2018 but our work will not stop there. In terms of harmonised ways of working, digital processes and automation we still have much work to do. Our initial review indicates cost saving in the range of SEK 150–200 million over the next three years taking us to a C/I ratio below 70 per cent.

Klaus-Anders Nysteen
CEO
Hoist Finance AB (publ)

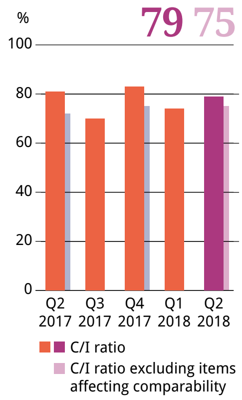
Key ratios

SEK million	Quarter 2 2018	Quarter 2 2017	Change, %	Jan–Jun 2018	Jan–Jun 2017	Change, %	Full year 2017
Net operating income	648	530	22	1,332	1,133	18	2,365
Profit before tax	141	104	36	326	289	13	581
Net profit	103	77	34	243	222	10	453
Basic earnings per share, SEK	1.12	0.84	33	2.71	2.50	8	5.10
Diluted earnings per share, SEK[1]	1.12	0.83	35	2.71	2.50	8	5.09
Net interest income margin, %[2]	14			14			
C/I ratio, %[3]	79	81	–2 pp	76	75	1 pp	76
EBIT margin, %	30	35	–5 pp	32	37	–5 pp	34
Return on equity, %[4]	12	10	2 pp	15	15	0 pp	15
Portfolio acquisitions	2,341	786	>100	3,244	1,397	>100	4,253

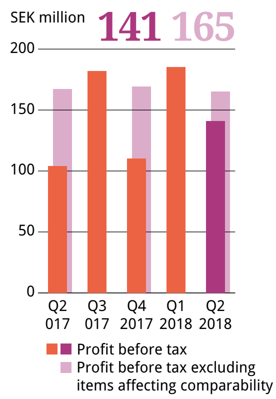
SEK million	30 Jun 2018	31 Dec 2017	Change, %
Carrying value on acquired loan portfolios[5]	17,763	15,024	18
Gross 180-month ERC[6),7]	28,009		
Gross 120-month ERC[6]	25,652	23,991	7
Total capital ratio, %	17,96	17.71	0,3 pp
CET1 ratio, %	11,13	11.70	–0,6 pp
Liquidity reserve	7,440	6,800	9
Number of employees (FTEs)	1,402	1,335	5

1) Comparative figures 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 differ 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) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.
6) Excluding run-off consumer loan portfolio and portfolios held in the Polish joint venture.
7) From 1 January 2018, Hoist Finance has decided 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.

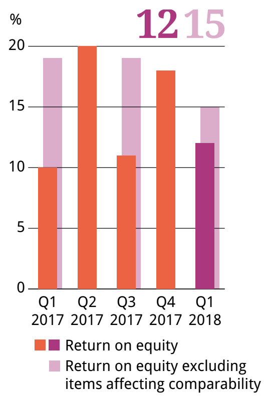
C/I ratio



Profit before tax



Return on equity



Development during second quarter 2018

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

Operating income

Interest income from acquired loan portfolios for the second quarter totalled SEK 672 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 646 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 –1 SEK million (–2). Interest expense for the quarter decreased to SEK –79 million (–85), enabled by Hoist Finance's long-term financing strategy via which the company is able to issue debt at attractive levels. Interest expense from deposits from the public was unchanged overall, but the underlying volume decreased in Sweden while increasing in Germany. The comparative quarter also included expenses of SEK –9 million attributable to the restructuring of outstanding bonds.

Impairment gains and losses totalled SEK 46 million. SEK 5 million of this amount is attributable to portfolio revaluations resulting from adjusted collection projections for future periods, while SEK –3 million is attributable to credit reserves for acquisitions of non-performing loans. The remaining amount comprises realised collections in excess of projections for the same period. The strong collection level corresponds to 103 per cent of the projected level for the quarter.

Net financial income from financial transactions totalled SEK –8 million (–49). 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 –9 million (–3). The comparative quarter entailed expenses of SEK –58 million in relation to the restructuring of outstanding bonds carried out.

Total operating income increased 22 per cent to SEK 648 million (530), mainly due to portfolio growth in Spain, Italy and Poland, which entailed a significant increase in secured loans and portfolios with non-performing loans.

Operating expenses

Personnel expenses increased 24 per cent during the quarter to SEK –212 million (–171), mainly influenced by 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. The quarter also included provisions for proposed restructuring of SEK –6 million that are attributable to the UK and Central functions, and should lead to a better cost level over time.

Collection costs increased 6 per cent during the quarter to SEK –167 million (–157). A large part of this increase pertains to Italy, where portfolio growth has remained strong, and an expense of SEK –16 million in Poland attributable to the take-over of a previously externally managed loan portfolio.

Administrative expenses increased to SEK –135 million (–100). This increase was largely attributable to Central function-related costs concerning digital transformation and strategic initiatives. In addition, there were also provisions for proposed restructuring of SEK –2 million attributable to the UK, which should be viewed in relation to more cost-effective operations in the long term.

Depreciation and amortisation of tangible and in-tangible assets increased somewhat and totalled SEK –15 million (–14). This does not however reflect the increased rate of investment that includes, for example, investments in new collection systems that have not yet become operational.

Total operating expenses increased 20 per cent to SEK –529 million (–442).

Net profit for the period

Profit from participations in joint ventures increased 39 per cent to SEK 22 million (16), which is due to increased return over the year from the joint venture in Poland and a performance-based remuneration for the joint venture in Greece that was somewhat better than expected.

Income tax expense totalled SEK –38 million (–27). This represents an effective tax rate of 27 per cent (26), with this higher effective tax rate being influenced by realised tax expenses attributable to previous years.

Net profit totalled SEK 103 million (77).

Balance sheet

Total assets increased SEK 3,399 million compared with 31 December 2017 and amounted to SEK 25,936 million (22,537). The change is primarily due to acquired loan portfolios that increased SEK 2,745 million, with the growth mainly attributable to acquisitions in Italy, Poland, Germany and the UK.

Funding and capital structure

SEK million	30 Jun 2018	31 Dec 2017	Change, %
Cash and interest-bearing securities	7,518	6,861	10
Acquired loan portfolios	17,511	14,766	19
Other assets[1]	907	910	0
Total assets	**25,936**	**22,537**	**15**
Deposits from the public	15,057	13,227	14
Unsecured debt	5,626	4,355	29
Subordinated liabilities	834	803	4
Total interest-bearing liabilities	**21,517**	**18,385**	**17**
Other liabilities[1]	818	924	–11
Equity	3,601	3,228	12
Total liabilities and equity	**25,936**	**22,537**	**15**

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

Total liabilities amounted to SEK 22,335 million (19,309). This change was mainly attributable to deposits from the public, which increased SEK 1,830 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 11,758 million (12,242), of which SEK 4,592 million (4,569) is attributable to fixed term deposits of 12, 24, and 36 months duration. In Germany, deposits for retail customers have been offered since September 2017 under the Hoist Finance name. At 30 June 2018, deposits from the public in Germany totalled SEK 3,299 million (985), of which SEK 272 million is attributable to fixed term deposits of 12 and 24 months duration.

At 30 June 2018, the outstanding bond debt totalled SEK 6,460 million (5,158), of which SEK 5,626 million (4,355) was unsecured debt. During the second quarter, Hoist Finance carried out its first issues during a newly established commercial paper programme with a size of SEK 2,500 million. In total, EUR 93 million was issued (corresponding to SEK 942 million) during the programme.

Group equity totalled SEK 3,601 million (3,228). The increase is mainly attributable to net profit for the period and the fact that Hoist Finance issued AT1 capital amounting to EUR 40 million during the second quarter. This instrument has a perpetual term with a redemption option after 5.25 years and carries a fixed coupon rate of 8.0 per cent. The instrument is listed on Euronext Dublins Main Securities Market. Simultaneously, Hoist Finance repurchased SEK 100 million AT1 capital issued in 2013.

Cash flow

Comparative figures refer to second 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 2 2018	Quarter 2 2017	Full year 2017
Cash flow from operating activities	1,039	648	2,495
Cash flow from investing activities	–1,784	–484	–5,439
Cash flow from financing activities	1,735	106	2,751
Cash flow for the period	**990**	**270**	**–193**

Cash flow from operating activities totalled SEK 1,039 million (648). Amortisation of acquired loan portfolios is a new item as of 1 January 2018 and is presented in operating activities. This amortisation totalled SEK 741 million during the second quarter. Increase/decrease in other assets and liabilities amounted to SEK 190 million (–44), with the majority relating to collateral posted for derivatives.

Cash flow from investing activities totalled SEK –1,784 million (–484). Portfolio acquisitions increased during the quarter as compared with Q2 2017, totalling SEK –2,341 million (–786). A net total of SEK 538 million (331) in bonds and other securities were sold during the quarter.

Cash flow from financing activities totalled SEK 1,735 million (106). Deposits from the public amounted to SEK 671 million (126), with deposits from Germany accounting for SEK 967 million of the inflow, which was counteracted by a net outflow from deposits in Sweden of SEK –296 million. The majority of cash flow from deposits from the public related to deposits with variable interest rates. Issues under Hoist Finance's new commercial paper programme increased cash flow by SEK 942 million, and a new issue and repurchase of AT1 capital increased net cash flow by SEK 310 million. Other cash flow from financing activities refer to dividends to shareholders totalling SEK –154 million and paid interest on AT1 capital totalling SEK –34 million.

Total cash flow for the quarter amounted to SEK 990 million, as compared with SEK 270 million for second 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 second quarter Hoist took a further step into the market for functioning loans by purchasing a major portfolio of mortgages in Poland. From a risk perspective, the portfolio of functioning 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.

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.

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 233 million (6) during the second 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 second quarter, interest income related to acquired non-credit-impaired loan portfolios amounted to SEK 6 million. The portfolio was purchased at the end of the first quarter. Interest income from credit-impaired acquired loan portfolios totalled SEK 152 million (–). Other interest income totalled SEK 157 million (7), with the increase due to higher revenues generated by internal loans to subsidiaries. Interest expense totalled SEK –81 million (–1). Compared to the second quarter 2017 at Hoist Kredit, interest expense decreased SEK –11 million, which is mainly attributable to interest expense on the internal cash pool. Interest expense for deposits was in line with the second quarter of 2017, where an increase in deposits in Euros was counteracted by a reduction in deposits in Swedish kronor.

Total operating income totalled SEK 855 million (58), with dividends from subsidiaries positively affecting profit in the amount of SEK 562 million (–). Other income is for management fees invoiced to subsidiaries totalling SEK 95 million and the change in market value of FX derivatives accounting for SEK –36 million.

Operating expenses totalled SEK –240 million (–76). 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 decreased SEK 20 million in comparison with the second quarter 2017 at Hoist Kredit, mainly explained by the consolidation of the German operations. Other administrative expenses increased SEK 13 million. This increase is attributable to expenses related to internal business process improvements, recruitment costs and management of new asset types in the form of consumer credit.

Operating profit totalled SEK 647 million (–18). Impairment gains and losses of SEK 13 million mainly pertain to differences between actual and expected cash collections. Shares in participating interests totalled SEK 19 million.

Net profit for the period totalled SEK 612 million (–14), with tax expenses amounting to SEK –35 million (–4). 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 associated companies. On the liability side, the major items taken over by the Parent Company are deposits from the public and issued 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. Like Hoist Kredit, 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 totalled 81,184,546 at 30 June 2018, unchanged from 31 December 2017.

The share price closed at SEK 65.50 on 29 June 2018. A breakdown of the ownership structure is presented in the table below. As at 30 June 2018 the Company had 3,359 shareholders, compared with 3,248 at 31 December 2017.

Ten largest shareholders, 30 June 2018	**Share of capital and votes, %**
Swedbank Robur Funds	9.7
Carve Capital AB	9.7
Zeres Capital	8.6
Handelsbanken Funds	8.5
Didner & Gerge Funds	6.2
Jörgen Olsson privately and through companies	4.1
Danske Invest Funds	3.4
AFA Insurance	2.8
Costas Thoupos	2.7
Carnegie Funds	2.7
Ten largest shareholders	**58.4**
Other shareholders	41.6
Total	**100**

Sources: Modular Finance AB, 30 June 2018; ownership statistics from Holdings, Euroclear Sweden AB; and changes confirmed and registered by the Company.

Review

This interim report has been reviewed by the Company's auditors.

Subsequent events

Hoist Finance acquires portfolios with non-performing secured loans in France.

Quarterly review

SEK million	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017	Quarter 3 2017	Quarter 2 2017
Net revenues from aquired loan portfolios			700	634	646
Interest income acquired loan portfolios	672	645			
Other interest income	–1	–4	–3	–3	–2
Interest expense	–79	–75	–75	–68	–85
Net interest income	**592**	**566**	**622**	**563**	**559**
Impairment gains and losses	46	103			
Fee and commission income	17	17	17	17	18
Net result from financial transactions	–8	–5	0	7	–49
Derecognition gains and losses	–2	–	–	–	–
Other operating income	3	3	5	2	2
Net operating income	**648**	**684**	**644**	**589**	**530**
General and administrative expenses					
Personnel expenses	–212	–194	–219	–171	–171
Collection costs	–167	–194	–203	–143	–157
Administrative expenses	–135	–112	–118	–90	–100
Depreciation and amortisation of tangible and intangible assets	–15	–14	–14	–14	–14
Total operating expenses	**–529**	**–514**	**–554**	**–418**	**–442**
Net operating profit	**119**	**170**	**90**	**171**	**88**
Profit from participations in joint ventures	22	15	21	11	16
Profit before tax	**141**	**185**	**111**	**182**	**104**
Income tax expense	–38	–45	–25	**–37**	**–27**
Net profit	**103**	140	86	**145**	**77**

Key ratios

SEK million	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017	Quarter 3 2017	Quarter 2 2017
Net interest income margin, %[1)]	14	15			
C/I ratio, %[2)]	79	74	83	70	81
C/I ratio adjusted for items affecting comparability, %[2)3)]	75	–	75	–	72
EBIT margin, %	30	34	25	37	35
EBIT margin, adjusted for items affecting comparability, %[3)]	33	–	33	–	–
Return on equity, %[4)]	12	18	11	20	10
Return on equity, adjusted for items affecting comparability, %[3),4)]	15	–	19	–	19
Portfolio acquisitions	2,341	904	2,075	781	786

SEK million	30 Jun 2018	31 Mar 2017	31 Dec 2017	30 Sep 2017	30 Jun 2017
Carrying value on acquired loan portfolios[5)]	17,763	16,112	15,024	13,170	13,079
Gross 180-month ERC[6),7)]	28,009	26,932			
Gross 120-month ERC[6)]	25,652	24,700	23,991	21,421	21,417
Total capital ratio, %	17.96	17.15	17.71	19.43	19.73
CET1 ratio, %	11.13	11.35	11.70	12.72	12.99
Liquidity reserve	7,440	7,003	6,800	5,702	5,605
Number of employees (FTEs)	1,402	1,384	1,335	1,308	1,267

1) New key ratio as of 2018; see Definitions for calculation of Net interest income margin. As the calculation 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 due to a cost linked to the take-over of a previously externally managed loan portfolio and restructuring costs.
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) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.
6) Excluding run-off consumer loan portfolio 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.

Financial statements

Consolidated income statement

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net revenues from acquired loan portfolios		646		1,310	2,644
Interest income acquired loan portfolios	672		1,317		
Other interest income	–1	–2	–5	–3	–10
Interest expense	–79	–85	–154	–162	–305
Net interest income	**592**	**559**	**1,158**	**1,145**	**2,329**
Impairment gains and losses	46		149		
Fee and commission income	17	18	34	39	73
Net result from financial transactions	–8	–49	–13	–58	–50
Derecognition gains and losses	–2	–	–2	–	–
Other operating income	3	2	6	7	13
Total operating income	**648**	**530**	**1,332**	**1,133**	**2,365**
General and administrative expenses					
Personnel expenses	–212	–171	–406	–340	–730
Collection costs	–167	–157	–361	–326	–672
Administrative expenses	–135	–100	–247	–194	–402
Depreciation and amortisation of tangible and intangible assets	–15	–14	–29	–28	–56
Total operating expenses	**–529**	**–442**	**–1,043**	**–888**	**–1,860**
Net operating profit	**119**	**88**	**289**	**245**	**505**
Profit from participations in joint ventures	22	16	37	44	76
Profit before tax	**141**	**104**	**326**	**289**	**581**
Income tax expense	–38	–27	–83	–67	–128
Net profit	**103**	**77**	**243**	**222**	**453**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	103	77	243	222	453
Basic earnings per share SEK	1.12	0.84	2.71	2.50	5.10
Diluted earnings per share SEK	1.12	0.83	2.71	2.50	5.09

Consolidated statement of comprehensive income

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net profit for the period	**103**	**77**	**243**	**222**	**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	7	–12	124	19	90
Translation difference, joint ventures	–7	1	0	11	18
Hedging of currency risk in foreign operations	–33	–16	–164	–56	–180
Hedging of currency risk in joint ventures	4	–4	–5	–16	–26
Transferred to the income statement during the year	4	3	5	4	7
Tax attributable to items that may be reclassified to profit or loss	5	1	37	16	45
Total items that may be reclassified subsequently to profit or loss	**–20**	**–27**	**–3**	**–22**	**–46**
Other comprehensive income for the period	**–20**	**–27**	**–3**	**–22**	**–46**
Total comprehensive income for the period	**83**	**50**	**240**	**200**	**407**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	83	50	240	200	407

Consolidated balance sheet

SEK million	30 Jun 2018	31 Dec 2017	30 Jun 2017
ASSETS			
Cash	0	0	3
Treasury bills and Treasury bonds	2,901	1,490	1,905
Lending to credit institutions	1,724	1,681	1,026
Lending to the public	20	37	27
Acquired loan portfolios	17,511	14,766	12,810
Bonds and other securities	2,893	3,689	2,728
Shares and participations in joint ventures	233	238	242
Intangible assets	317	287	258
Tangible assets	54	42	43
Other assets	208	200	243
Deferred tax assets	31	21	37
Prepayments and accrued income	44	86	84
Total assets	**25,936**	**22,537**	**19,406**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	15,057	13,227	11,975
Tax liabilities	106	84	72
Other liabilities	309	394	252
Deferred tax liabilities	153	148	158
Accrued expenses and deferred income	176	211	183
Provisions	74	87	53
Senior debt	5,626	4,355	2,939
Subordinated debts	834	803	774
Total liabilities	**22,335**	**19,309**	**16,406**
Equity			
Share capital	27	27	27
Other contributed equity	2,410	2,102	2,073
Reserves	–116	–113	–89
Retained earnings including profit for the period	1,280	1,212	989
Total equity	**3,601**	**3,228**	**3,000**
Total liabilities and equity	**25,936**	**22,537**	**19,406**

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				243	243
Other comprehensive income			–3		–3
Total comprehensive income for the period			**–3**	**243**	**240**
Transactions reported directly in equity					
Dividend				–154	–154
Reclassification		–3		3	–
Additional Tier 1 capital instrument[1]		311		–7	304
Interest paid on capital contribution				–34	–34
Tax effect on items reported directly in equity		0			0
Total transactions reported directly in equity		**308**		**–192**	**116**
Closing balance 30 Jun 2018	**27**	**2,410**	**–116**	**1,280**	**3,601**

1) 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				222	222
Other comprehensive income			–22		–22
Total comprehensive income for the period			**–22**	**222**	**200**
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 Jun 2017	**27**	**2,073**	**–89**	**989**	**3,000**

Consolidated cash flow statement summary

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Profit before tax	141	104	326	289	581
– of which, paid-in interest	*682*	*1*	*1,326*	*3*	*5*
– of which, interest paid	*–72*	*–45*	*–124*	*–121*	*–356*
Portfolio amortisation and revaluation		552		1,075	2,233
Adjustment for other items not included in cash flow	11	88	–27	122	122
Realised result from divestment of loan portfolios	1	–	1	–	–
Realised result from divestment of shares and participations in joint ventures	–16	–18	–32	–35	–62
Income tax paid	–29	–34	–60	–45	–52
Total	**108**	**692**	**208**	**1,406**	**2,822**
Amortisations on acquired loan portfolios	741		1,390		
Increase/decrease in other assets and liabilities	190	–44	–511	–314	–327
Cash flow from operating activities	**1,039**	**648**	**1,087**	**1,092**	**2,495**
Acquired loan portfolios	–2,341	–786	–3,244	–1,397	–4,253
Disposed loan portfolios	66	–	66	–	–
Investments in/divestments of bonds and other securities	538	331	786	–185	–1,150
Other cash flows from investing activities	–47	–29	–61	–18	–36
Cash flow from investing activities	**–1,784**	**–484**	**–2,453**	**–1,600**	**–5,439**
Deposits from the public	671	126	1,713	125	1,407
Issued debts	942	781	942	781	2,131
Repurchase of issued debts	–	–676	–	–676	–676
Additional Tier 1 capital	310	–	310	–	–
Other cash flows from financing activities	–188	–20	–188	–133	–111
Cash flow from financing activities	**1,735**	**106**	**2,777**	**97**	**2,751**
Cash flow for the period	**990**	**270**	**1,411**	**–411**	**–193**
Cash at beginning of the period	3,631	2,661	3,172	3,338	3,338
Translation difference	4	3	42	7	27
Cash at end of the period[1)]	**4,625**	**2,934**	**4,625**	**2,934**	**3,172**

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

Parent Company income statement

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Interest income	314	7	581	15	30
Interest expense	–81	–1	–156	–2	–5
Net interest income	**233**	**6**	**425**	**13**	**25**
Dividends received	562	–	562	–	180
Fee and commission income	1	–	3	–	–
Net result from financial transactions	–32	1	–176	1	2
Derecognition gains and losses	–1	–	–1	–	–
Other operating income	92	51	157	130	243
Total operating income	**855**	**58**	**970**	**144**	**450**
General administrative expenses					
Personnel expenses	–94	–1	–181	–2	–5
Other administrative expenses	–138	–74	–268	–142	–331
Depreciation and amortisation of tangible and intangible assets	–8	–1	–16	–3	–6
Total operating expenses	**–240**	**–76**	**–465**	**–147**	**–342**
Profit before credit losses	**615**	**–18**	**505**	**–3**	**108**
Impairment gains and losses	13		41		
Profit from participations in joint ventures	19	–	38	–	–
Net operating profit	**647**	**–18**	**584**	**–3**	**108**
Appropriations	–	–	–	–	–24
Taxes for the period	–35	4	–41	1	–19
Net profit	**612**	**–14**	**543**	**–2**	**65**

Parent company statement of comprehensive income

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full-year 2017
Net profit	**612**	**–14**	**543**	**–2**	**65**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss					
Translation difference, foreign operations	2	–	3	–	–
Total items that may be reclassified subsequently to profit or loss	**2**	**–**	**3**	**–**	**–**
Other comprehensive income for the period	**2**	**–**	**3**	**–**	**–**
Total comprehensive income for the period	**614**	**–14**	**546**	**–2**	**65**
Profit attributable to:					
Owners of Hoist Finance AB (publ)	614	–14	546	–2	65

Parent Company balance sheet

SEK million	30 Jun 2018	31 Dec 2017	30 Jun 2017
ASSETS			
Cash	0	–	–
Treasury bills and Treasury bonds	2,901	–	–
Lending to credit institutions	989	275	549
Lending to the public	23	–	–
Acquired loan portfolios	3,791	–	–
Receivables, Group companies	12,509	193	21
Bonds and other securities	2,893	–	–
Shares and participations in subsidiaries	2,158	1,688	1,688
Shares and participations in joint ventures	26	–	–
Intangible assets	137	64	37
Tangible assets	28	1	2
Other assets	118	24	0
Deferred tax assets	7	–	1
Prepayments and accrued income	25	9	7
TOTAL ASSETS	**25,605**	**2,254**	**2,305**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	15,057	–	–
Tax liabilities	80	35	19
Other liabilities	435	301	484
Deferred tax liabilities	2	–	–
Accrued expenses and deferred income	73	4	9
Provisions	40	0	0
Senior debt	5,626	–	–
Subordinated debts	834	–	–
Total liabilities and provisions	**22,147**	**340**	**512**
Untaxed reserves	**165**	**84**	**60**
Equity			
Restricted equity			
Share capital	27	27	27
Statutory reserve	13	3	3
Revaluation reserve	64	–	–
Development expenditure fund	5	6	4
Total restricted equity	**109**	**36**	**34**
Non-restricted equity			
Other contributed equity	2,410	1,722	1,693
Reserves	3	–	–
Retained earnings	229	7	8
Profit for the period	542	65	–2
Total non-restricted equity	**3,184**	**1,794**	**1,699**
Total equity	**3,293**	**1,830**	**1,733**
TOTAL LIABILITIES AND EQUITY	**25,605**	**2,254**	**2,305**

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 Jun 2018	30 Jun 2017	Full-year 2017
1 EUR = SEK			
Income statement (average)	10.1451	9.5924	9.6331
Balance sheet (at end of the period)	10.4213	9.6734	9.8497
1 GBP = SEK			
Income statement (average)	11.5297	11.1530	10.9991
Balance sheet (at end of the period)	11.7518	11.0144	11.1045
1 PLN = SEK			
Income statement (average)	2.4051	2.2467	2.2629
Balance sheet (at end of the period)	2.3910	2.2843	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 2, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Eliminations	Group
Total operating income	**158**	**176**	**85**	**76**	**104**	**632**[1)]	**–583**	**648**
of which, internal funding costs	*–49*	*–33*	*–16*	*–26*	*–17*	*141*	*–*	*0*
Total operating expenses	**–92**	**–100**	**–66**	**–59**	**–81**	**–132**	**1**	**–529**
Profit from participations in joint ventures	–	–	–	–	2	20	–	22
Profit before tax	**66**	**76**	**19**	**17**	**25**	**520**	**–582**	**141**

1) Dividend from subsidiaries SEK 562m.

Income statement, Quarter 2, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Eliminations	Group
Total operating income	**134**	**130**	**91**	**72**	**84**	**25**	**–6**	**530**
of which, internal funding costs	*–49*	*–38*	*–25*	*–19*	*–28*	*159*	*–*	*0*
Total operating expenses	**–87**	**–80**	**–59**	**–28**	**–83**	**–106**	**1**	**–442**
Profit from participations in joint ventures	–	–	–	–	0	16	–	16
Profit before tax	**47**	**50**	**32**	**44**	**1**	**–65**	**–5**	**104**

Income statement, Jan–Jun, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Eliminations	Group
Total operating income	**309**	**352**	**183**	**175**	**216**	**684**[1)]	**–587**	**1,332**
of which, internal funding costs	*–95*	*–62*	*–31*	*–49*	*–36*	*273*	*–*	*0*
Total operating expenses	**–183**	**–191**	**–137**	**–120**	**–164**	**–250**	**2**	**–1,043**
Profit from participations in joint ventures	–	–	–	–	6	31	–	37
Profit before tax	**126**	**161**	**46**	**55**	**58**	**465**	**–585**	**326**

1) Dividend from subsidiaries SEK 562m.

Income statement, Jan–Jun, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Eliminations	Group
Total operating income	**275**	**241**	**194**	**155**	**181**	**94**	**–7**	**1,133**
of which, internal funding costs	*–95*	*–76*	*–50*	*–38*	*–56*	*315*	*–*	*0*
Total operating expenses	**–187**	**–153**	**–120**	**–71**	**–159**	**–199**	**1**	**–888**
Profit from participations in joint ventures	–	–	–	–	13	31	–	44
Profit before tax	**88**	**88**	**74**	**84**	**35**	**–74**	**–6**	**289**

Note 1 *Segment reporting, cont.*

Income statement, Full-year 2017

SEK million	Great Britain	Italy	Germany	Poland	Other segments	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 Jun 2018

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Group
Run-off consumer loan portfolio			20				20
Acquired loan portfolios	5,099	4,823	2,249	2,848	2,492		17,511
Shares and participations in joint ventures[1]						232	232
Acquired loans	**5,099**	**4,823**	**2,269**	**2,848**	**2,492**	**232**	**17,763**

Acquired loans, 31 Dec 2017

SEK million	Great Britain	Italy	Germany	Poland	Other segments	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 Jun 2017

SEK million	Great Britain	Italy	Germany	Poland	Other segments	Central Functions	Group
Run-off consumer loan portfolio			27				27
Acquired loan portfolios	4,056	3,032	1,890	1,519	2,313		12,810
Shares and participations in joint ventures[1]						242	242
Acquired loans	**4,056**	**3,032**	**1,917**	**1,519**	**2,313**	**242**	**13,079**

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 Jun 2018**	**31 Dec 2017**	**30 Jun 2017**	**30 Jun 2018**	**31 Dec 2017**	**30 Jun 2017**
Gross carrying amount	17,360	14,766	12,810	3,754	–	–
Loss allowance	151	n.a	n.a	37	n.a	n.a
Net carrying amount	**17,511**	**14,766**	**12,810**	**3,791**	**–**	**–**

Note 2 Acquired loan portfolios, cont.

Acquired credit-impaired loan portfolios

SEK million	GROUP Gross carrying amount	Loss allowance	Net carrying amount
Opening balance 1 Jan 2018	14,766	–	14,766
IFRS 9 transition effects	11	–	11
Acquisitions	2,233	–	2,233
Interest income	1,311	–	1,311
Gross collections	–2,689	–	–2,689
Impairment losses and gains	–	152	152
Disposal	–66	0	–66
Translation differences	795	2	797
Closing balance 30 Jun 2018	**16,361**	**154**	**16,515**

Acquired credit-impaired loan portfolios

SEK million	PARENT COMPANY 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	1,239	–	1,239
Interest income	275	–	275
Gross collections	–652	–	–652
Impairment losses and gains	–	36	36
Translation differences	139	1	140
Closing balance 30 Jun 2018	**3,472**	**37**	**3,509**

Acquired performing loan portfolios

SEK million	GROUP Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions	1,011	–	–	–	–	1,011
Interest income	6	–	–	–	–	6
Amortisations and interest payments	–18	–	–	–	–	–18
Changes in risk parameters	–	–2	0	–	–2	–2
Translation differences	0	0	–	–	0	0
Closing balance 30 Jun 2018	**999**	**–2**	**0**	**–**	**–2**	**997**

Note 2 Acquired loan portfolios, cont.

Acquired performing loan portfolios

SEK million	PARENT COMPANY Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions	288	–	–	–	–	288
Interest income	6	–	–	–	–	6
Amortisations and interest payments	–15	–	–	–	–	–15
Changes in risk parameters	–	0	0	–	0	0
Translation differences	3	0	–	–	0	3
Closing balance 30 Jun 2018	**282**	**0**	**0**	**–**	**0**	**282**

Acquired loan portfolios

SEK million	GROUP 31 Dec 2017	GROUP 30 Jun 2017
Opening balance	**12,386**	**12,386**
Acquisitions	4,253	1,397
Translation differences	361	103
Changes in value		
Based on opening balance forecast (amortisation)	–2,244[1]	–1,081
Based on revised estimates (revaluation)	10	5
Carrying value	**14,766**	**12,810**
Changes in carrying value reported in the income statement	**–2,233**	**–1,075**

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

Of which, designated at fair value

SEK million	GROUP 31 Dec 2017	GROUP 30 Jun 2017
Opening balance	**1,045**	**1,045**
Translation differences	28	11
Changes in value		
Based on opening balance forecast (amortisation)	–120	–63
Based on revised estimates (revaluation)	–13	–7
Carrying value	**940**	**986**
Changes in carrying value reported in the income statement	**–133**	**–70**

Note 3 Financial instruments

Carrying amount and fair value of financial instruments

GROUP, 30 JUN 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 instrument	Amortised cost	Total carrying amount	Fair value
Cash				0	0	0
Treasury bills and treasury bonds		2,901			2,901	2,901
Lending to credit institutions				1,724	1,724	1,724
Lending to the public				20	20	20
Acquired loan portfolios				17,511	17,511	18,887
Bonds and other securities		2,893			2,893	2,893
Derivatives	8		6		14	14
Other financial assets				140	140	140
Total	**8**	**5,794**	**6**	**19,395**	**25,203**	**26,579**
Deposits from the public				15,057	15,057	15,057
Derivatives	9		7		16	16
Senior debt				5,626	5,626	5,810
Subordinated debt				834	834	841
Other financial debts				443	443	443
Total	**9**		**7**	**21,960**	**21,976**	**22,167**

GROUP, 31 DEC 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			0			0	0
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 JUN 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		1,905				1,905	1,905
Lending to credit institutions			1,026			1,026	1,026
Lending to the public			27			27	27
Acquired loan portfolios							
of which, at fair value		*986*				*986*	*986*
of which, at amortised cost			*11,825*			*11,825*	*11,846*
Bonds and other securities		2,728				2,728	2,728
Derivatives	12			63		75	75
Other financial assets			139			139	139
Total	**12**	**5,619**	**13,020**	**63**		**18,714**	**18,735**
Deposits from the public					11,975	11,975	11,975
Derivatives	5					5	5
Senior debt					2,939	2,939	3,073
Subordinated debt					774	774	776
Other financial debts					394	394	394
Total	**5**				**16,082**	**16,087**	**16,223**

PARENT COMPANY, 30 JUN 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
Cash				0	0	0
Treasury bills and treasury bonds		2,901			2,901	2,901
Lending to credit institutions				989	989	989
Lending to the public				23	23	23
Acquired loan portfolios				3,791	3,791	4,228
Receivables, Group companies				12,509	12,509	12,509
Bonds and other securities		2,893			2,893	2,893
Derivatives	8		6		14	14
Other financial assets				76	76	76
Total	**8**	**5,794**	**6**	17,388	**23,196**	**23,633**
Deposits from the public				15,057	15,057	15,057
Derivatives	9		7		16	16
Senior debt				5,626	5,626	5,810
Subordinated debt				834	834	841
Other financial debts				476	476	476
Total	**9**		**7**	**21,993**	**22,009**	**22,200**

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.

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.

Fair value measurements

	GROUP, 30 JUN 2018			
SEK million	**Level 1**	**Level 2**	**Level 3**	**Total**
Treasury bills and Treasury bonds	2,901			2,901
Acquired loan portfolios			18,887	18,887
Bonds and other securities	2,893			2,893
Derivatives		14		14
Total assets	**5,794**	**14**	**18,887**	**24,695**
Derivatives		16		16
Senior debts		5,810		5,810
Subordinated debts		841		841
Total liabilities		**6,667**		**6,667**

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
Acquired loan portfolios				
of which, carried at fair value			*940*	*940*
of which, carried at amortised cost			*13,426*	*13,426*
Bonds and other securities	3,689			3,689
Derivatives		11		11
Total assets	**5,179**	**11**	**14,366**	**19,556**
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 JUN 2017 Level 1	Level 2	Level 3	Total
Treasury bills and Treasury bonds	1,905			1,905
Acquired loan portfolios				
of which, carried at fair value			*986*	*986*
of which, carried at amortised cost			*11,846*	*11,846*
Bonds and other securities	2,728			2,728
Derivatives		75		75
Total assets	**4,633**	**75**	**12,832**	**17,540**
Derivatives		5		5
Senior debts		3,073		3,073
Subordinated debts		776		776
Total liabilities		**3,854**		**3,854**

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 Kredit AB (publ) ("Hoist Kredit"), 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 and the regulated entity Hoist Finance.

	Hoist Finance consolidated situation			Hoist Finance AB (publ)		
SEK million	30 Jun 2018	31 Dec 2017	30 Jun 2017	30 Jun 2018	31 Dec 2017	30 Jun 2017
Capital instruments and related share premium accounts	1,355	1,287	1,287	1,355	483	483
Retained earnings	1,033	745	765	229	402	562
Accumulated comprehensive income and other reserves	275	282	309	604	1,081	1,084
Independently reviewed interim profits net of any foreseeable charge or dividend[1]	171	299	155	469	183	–
Intangible assets (net of related tax liability)	–317	–287	–258	–137	–44	–45
Deferred tax assets that rely on future profitability	–31	–21	–37	–7	–3	–2
Common Equity Tier 1	**2,486**	**2,305**	**2,221**	**2,513**	**2,102**	**2,082**
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	**3,176**	**2,685**	**2,601**	**3,200**	**2,482**	**2,462**
Capital instruments and the related share premium accounts	834	803	774	834	803	774
Tier 2 capital	**834**	**803**	**774**	**834**	**803**	**774**
Total own funds	**4,010**	**3,488**	**3,375**	**4,037**	**3,285**	**3,236**

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 and the regulated entity Hoist Finance.

Risk-weighted exposure amounts	**Hoist Finance consolidated situation**			**Hoist Finance AB (publ)**		
SEK million	**30 Jun 2018**	**31 Dec 2017**	**30 Jun 2017**	**30 Jun 2018**	**31 Dec 2017**	**30 Jun 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	392	381	266	226	150	56
of which, counterparty credit risk	*28*	*54*	*38*	*28*	*54*	*38*
Exposures to corporates	141	136	139	12,614	10,935	10,675
Retail exposures	44	16	20	37	16	20
Secured by immovable property	429	–	–	96	–	–
Exposures in default	17,700	15,349	13,530	3,738	2,496	2,497
Exposures in the form of covered bonds	289	369	273	289	369	273
Equity exposures	–	–	–	2,158	2,143	500
Other items	104	145	132	53	44	29
Credit risk (standardised approach)	**19,099**	**16,396**	**14,360**	**19,212**	**16,153**	**14,050**
Market risk (foreign exchange risk – standardised approach)	**46**	**113**	**118**	**46**	**113**	**118**
Operational risk (standardised approach)	**3,158**	**3,158**	**2,623**	**1,128**	**1,128**	**893**
Credit valuation adjustment (standardised approach)	**24**	**27**	**0**	**24**	**27**	**0**
Total risk-weighted exposure amount	**22,327**	**19,694**	**17,101**	**20,410**	**17,421**	**15,061**

Note 4 *Capital adequacy, cont.*

Capital requirements	Hoist Finance consolidated situation			Hoist Finance AB (publ)		
SEK million	30 Jun 2018	31 Dec 2017	30 Jun 2017	30 Jun 2018	31 Dec 2017	30 Jun 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	31	30	21	18	12	4
of which, counterparty credit risk	*2*	*4*	*3*	*2*	*4*	*3*
Exposures to corporates	11	11	11	1,009	875	854
Retail exposures	4	1	2	3	1	2
Secured by immovable property	34	–	–	8	–	–
Exposures in default	1,416	1,228	1,082	299	200	200
Exposures in the form of covered bonds	23	30	22	23	30	22
Equity exposures	–	–	–	173	171	40
Other items	8	12	11	4	4	2
Credit risk (standardised approach)	**1,527**	**1,312**	**1,149**	**1,537**	**1,293**	**1,124**
Market risk (foreign exchange risk – standardised approach)	**4**	**9**	**9**	**4**	**9**	**9**
Operational risk (standardised approach)	**253**	**253**	**210**	**90**	**90**	**71**
Credit valuation adjustment (standardised approach)	**2**	**2**	**0**	**2**	**2**	**0**
Total own funds requirement – Pillar 1	**1,786**	**1,576**	**1,368**	**1,633**	**1,394**	**1,204**
Pillar 2						
Concentration risk	138	131	110	138	131	110
Interest rate risk in the banking book	60	36	47	60	36	47
Pension risk	3	3	3	3	3	3
Other Pillar 2 risks	27	26	24	27	26	24
Total own funds requirement – Pillar 2	**228**	**196**	**184**	**228**	**196**	**184**
Capital buffers						
Capital conservation buffer	558	492	428	510	436	377
Countercyclical buffer	39	11	8	29	8	17
Total own funds requirement – Capital buffers	**597**	**503**	**436**	**539**	**444**	**394**
Total own funds requirements	**2,611**	**2,275**	**1,988**	**2,400**	**2,034**	**1,782**

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 Jun 2018	31 Dec 2017	30 Jun 2017	Hoist Finance AB (publ) 30 Jun 2018	31 Dec 2017	30 Jun 2017
Common Equity Tier 1 capital ratio	11.13	11.70	12.99	12.31	12.07	13.82
Tier 1 capital ratio	14.22	13.63	15.21	15.69	14.25	16.34
Total capital ratio	17.96	17.71	19.73	19.78	18.86	21.48
Institution-specific buffer requirements for CET1 capital	7.18	7.05	7.05	7.14	7.05	7.11
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*	0.14	*0.05*	*0.11*
Common Equity Tier 1 capital available to meet buffers[1]	**6.63**	**7.20**	**8.49**	**7.81**	**7.57**	**9.32**

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 June 2018, the internally assessed capital requirement for Hoist Finance was SEK 2,014 million (1,771), of which SEK 228 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 Jun 2018	31 Dec 2017	30 Jun 2017	Hoist Finance AB (publ) 30 Jun 2018	31 Dec 2017	30 Jun 2017
Current account deposits	10,193	8,580	7,686	10,193	8,580	7,686
Fixed-term deposits	4,864	4,647	4,289	4,864	4,647	4,289
Senior debts	5,626	4,355	2,939	5,626	4,355	2,939
Convertible debt instruments	690	380	380	690	380	380
Subordinated debts	834	803	774	834	803	774
Equity	2,911	2,849	2,620	2,603	2,100	2,100
Other	818	923	719	795	613	367
Balance sheet total	**25,936**	**22,537**	**19,407**	**25,605**	**21,478**	**18,535**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 7,440 million (6,800) as per 30 June, 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 Jun 2018	31 Dec 2017	30 Jun 2017
Cash and holdings in central banks	0	0	3
Deposits in other banks available overnight	1,646	1,621	969
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,370	1,061	1,671
Securities issued or guaranteed by municipalities or other public sector entities	1,531	429	234
Covered bonds	2,893	3,689	2,728
Securities issued by non-financial corporates	–	–	–
Securities issued by financial corporates	–	–	–
Other	–	–	–
Total	**7,440**	**6,800**	**5,605**

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 Jun 2018	31 Dec 2017	30 Jun 2017	30 Jun 2018	31 Dec 2017	30 Jun 2017
Pledges and comparable collateral for own liabilities and for reported commitments for provisions	68	49	43	13	–	–

Note 7 Contingent liabilities

	Group			Parent Company		
SEK million	30 Jun 2018	31 Dec 2017	30 Jun 2017	30 Jun 2018	31 Dec 2017	30 Jun 2017
Commitments	2,363	698	1,272	471	–	–

Note 8 Reconciliation alternative performance measures

EBIT margin

SEK million	Quarter 2 2018	Quarter 2 2017	Jan–Jun 2018	Jan–Jun 2017	Full year 2017
Profit before tax	141	104	326	289	581
Net income financial transactions	8	49	13	58	50
Interest expense	79	85	154	162	305
Interest income excl. run-off consumer loan portfolio	3	3	9	6	15
EBIT	**231**	**241**	**502**	**515**	**951**
Net revenues from acquired loan portfolios		646		1,310	2,644
Interest income acquired loan portfolios	672		1,317		
Interest income from run-off consumer loan portfolio	3	1	3	2	5
Impairment gains and losses	46		149		
Fee and commission income	17	18	34	39	73
Profit from shares and participations in joint ventures	22	16	37	44	76
Other operating income	3	2	6	7	13
Total revenue	**763**	683	**1,546**	1,402	2,811
EBIT margin	30	35	32	37	34

Note 8 *Reconciliation alternative performance measures, cont.*

EBITDA, adjusted

SEK million	Quarter 2 2018	Quarter 2 2017	Full year 2017
Profit for the period	103	77	453
+ Income tax expense	38	27	128
+/– Net result from financial transactions	8	48	50
+ Interest expense	79	85	305
– Interest income (excl. interest from run-off performing portfolio)	–3	3	14
+ Portfolio revaluations		0	–11
+/– Impairment gains and losses	–49		
+ Depreciation and amortisation of tangible and intangible assets	15	14	56
EBITDA	**191**	**254**	**995**
+ Amortisation on run-off portfolio		3	11
+ Amortisation on acquired loan portfolios		553	2,244
+ Gross cash collections on acquired loan portfolios	1,395		
– Interest income on acquired loan portfolios	–672		
EBITDA, adjusted	**914**	**810**	**3 250**

Return on equity, adjusted for items affecting comparability

SEK thousand	Quarter 2 2018	Quarter 2 2017	Full year 2017
Equity	3,600	3,000	3,228
Additional Tier 1 capital	–690	–380	–380
Reversal of interest expense paid for AT1 capital	34	20	28
Reversal of items affecting comparability[1]	23	63	102
Total equity	**2,967**	**2,704**	**2,978**
Total equity (quarterly average)	**2,995**	**2,699**	**2,752**
Profit for the period	103	77	453
Reversal of items affecting comparability[1]	23	63	102
Estimated annual profit	502	563	555
Adjustment of interest on AT1 capital	–53	–40	–40
Adjusted annual profit	**449**	**523**	**515**
Return on equity, %	**15**	**19**	**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 26 July 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 Wikman
Board member

Jörgen Olsson
Board member

Klaus-Anders Nysteen
CEO

Review report

Hoist Finance AB (publ.)
Corp. id. 556012-8489

Introduction

We have reviewed the condensed interim financial information (interim report) of Hoist Finance AB (publ.) as of 30 June 2018 and the six-month period then ended. The Board of Directors and the Managing Director are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act for Credit Institutions and Securities Companies, and for the Parent Company in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 26 July 2018
KPMG AB

Anders Bäckström
Authorized Public Accountant

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

- 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

- Deeper and at scale in select priority markets
- Extensive local know-how and data providing competitive advantage and ability to capture future growth
- Diversified product and service offering in priority markets

- 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

- Maintain competitive advantage of unique deposit funding
- Offer unique value proposition and offering to customers enabled through bank license
- Leading stability and best equipped to weather capital constrained environments

- 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

- 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

Financial calendar

Interim report Q2 2018	27 July 2018
Interim report Q3 2018	25 October 2018

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

Every care has been taken in the translation of this report. In the event of any discrepancy, the Swedish original will supersede the English translation.