Hoist Finance

Year-end report 2018

Strengthened business and navigating through regulatory changes

October – December 2018

Q4

- Total operating income increased 19 per cent to SEK 766 million (643).
- Items affecting comparability before tax totalled SEK –24 million and are attributable to restructurings and costs related to a business acquisition in Italy.
- Profit before tax increased 69 per cent to SEK 186 million (110).
- Profit before tax excluding items affecting comparability totalled SEK 210 million, a year-on-year increase of 24 per cent.
- Diluted earnings per share amounted to SEK 1.59 (0.92).
- Return on equity excluding items affecting comparability was 18 per cent.
- Return on equity was 16 per cent (11).
- Carrying value of acquired loan portfolios totalled SEK 20,605 million (14,766).
- The total capital ratio was 14.14 per cent (17.71) and the CET1 capital ratio was 9.66 per cent (11.70).

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

Events during the quarter

- Hoist Finance is evaluating alternatives in response to the FSA's new interpretation of the capital adequacy regulation for risk weights for non-performing loans, and is adopting measures for continued growth.
- Strong volume growth with portfolio acquisitions of SEK 2,246 million, with the first Greek portfolio of non-performing consumer loans and SME loans followed by continued growth focused on Italy and Great Britain.
- Increased digitalization and improved operational efficiency.
- Hoist Finance signed an agreement to lease and subsequently acquire operations in Italian credit management companies Maran S.p.A and R&S S.r.I (the "Maran Group") in a multi-stage process under compulsory administrative proceedings in accordance with Italian insolvency law.

9.66%
CET1 ratio

40%
Portfolio growth over the last 12-month period

73%
C/I ratio excluding items affecting comparability
Target 65%

18%
Return on equity excluding items affecting comparability
Target 15%

Subsequent events

- The European Parliament and the Council of the European Union has comprised, as published 3 January 2019, that non-performing loans will likely start to be affected by NPL regulation from 2021. Hoist Finance has identified mitigating actions with ongoing implementation.
- Revised financial targets.
- Hoist Finance has entered into an agreement to acquire assets held by Polish debt management and collection company GetBack.

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 Market Abuse Regulation. This information was submitted by Julia Ehrhardt for publication on 12 February 2019 at 8:30 AM CET.

Strengthened business and navigating through regulatory changes

Hoist Finance has delivered a solid financial performance in 2018. We have achieved strong growth in portfolio acquisitions and are broadening our product and geographic spread. We have implemented a new operating model and are making progress towards becoming more effective and efficient. Our market has become materially more attractive over the year as yields are rising and new regulation is encouraging supply. As a bank operating in the secondary market, this same regulation has presented us with some challenges in the short term. We are committed to implementing mitigating actions in the coming year to reduce the impact of these challenges.

"Helping people keep their commitments"

Beneficial market dynamics intact

Following the financial crisis more than 10 years ago, the level of Non-Performing Loans (NPLs) in banks is still very high. The regulators have taken various initiatives and introduced new regulations to push banks to divest their NPLs to make their balance sheets healthier. These regulations are stricter than before and aim to ensure real risk transfer. Driven by the regulatory and accounting changes, as well as the commercial benefits of selling NPLs, the secondary market for acquiring NPLs is developing in a very positive way. The regulators also recognize the need for a well-functioning secondary market as an important and relevant part of the financial value chain.

While regulation itself has been an important factor explaining the growth of the Credit Management Services (CMS) industry, recent years' supply of cost-efficient funding through the high yield bond market has increased demand, competition and margin pressure. In 2018 the CMS industry experienced increased cost of funding and lower access to new financing to finance growth. With no signs of any material improvement in the funding market, the industry is now focusing on reducing leverage, finding alternative sources of funding (e.g. co-investment or asset management structures), and improving operational efficiency.

Strengthening our business

The winners in the industry will be those companies that have the best operations and the lowest cost of capital. In 2018, Hoist Finance took numerous steps to improve performance and operations. We implemented a new operating model across all markets, which is more agile, with fewer management layers. The model is completely standardised, harmonised across markets and it allows for rapid knowledge transfer. We are implementing new company-wide digital solutions that make performance management, analytics and customer interaction easier and more cost efficient. Through site consolidation and the use of centers of expertise and shared service centers we are committed to bringing down our costs and improving our performance.

Our growth in 2018 has been the highest ever, more than the portfolio investments in 2017 and 2016 combined. Broadly speaking, the NPL markets consists of unsecured and secured assets for retail, small and medium sized companies and larger corporates. While the NPLs within the unsecured consumer segment are only around 11 per cent of the total NPL market, this has traditionally been Hoist Finance's core business. To address a larger portion of the NPL market, and even acquire performing loans, has been a very important strategic priority for Hoist Finance. Our ambition is still to grow within the historic core, and also to expand further into the secured consumer segment which is more than twice the size of the unsecured segments. Last year, 59 per cent of portfolio investments were in unsecured consumer NPLs, 27 per cent in secured NPLs and 14 per cent in performing loans.

Regulatory changes

Hoist Finance has been regulated as a bank since 1996 and this has served us well. The access to low cost funding through bank deposits represents a clear cost advantage, and our regulated status has also proved its value in many commercial situations. Over the years, many regulatory changes have been implemented for European banks, and Hoist Finance has always, and will at all times, fully comply with regulations.

Regulatory changes have recently been put in place to reduce the risks on European banks' balance sheets. For the CMS market as a whole, this is positive. But it also entails unintended negative consequences for Hoist Finance, as we operate in the secondary market with a banking license.

The revised interpretations of required risk weights for purchased unsecured NPLs of 150 per cent do not reflect any change in risk of the underlying assets. However, we have fully implemented these new risk weightings and, we continue to have a CET1 ratio above regulatory requirements and within our stated Board risk appetite for a buffer over regulatory requirements as at 31 December 2018.

Unrelated to this change in risk weights, the European Parliament and the Council of the European Union is expected to publish a new legislation by early Q2 2019, which will impact the timeline over which banks are required to provide for new formation of NPLs (NPL Backstop). The NPL Backstop will regulate how the book value for future unsecured NPLs should be treated in capital adequacy calculations. For unsecured debt that is originated after implementation of this regulation and then defaults, the NPL Backstop will require these NPLs to be provided for in a bank's capital adequacy after the end of year three following default.

This regulation only applies to future unsecured NPLs and does not have an impact on Hoist Finance's existing portfolios at the time of entry into force. The unsecured debt that we acquire from banks, has typically been in default for three to five years before being sold. Whilst this period may shorten following the new rules, this regulation will not have an adverse effect on Hoist Finance's capital ratios for the next two to three years. Longer term, and without mitigating actions, the NPL Backstop will become more challenging for Hoist Finance as the requirement to write-down the value of unsecured NPLs to zero for capital adequacy by end of year three after default will materially impact the required capital for future unsecured NPL purchases. The effect of the NPL Backstop is counterintuitive and has unintended negative consequences for companies operating in the secondary unsecured NPL market with a banking license.

In response to these regulatory changes we are now reviewing various market-standard mechanisms, processes and products such as: introducing more sophisticated risk models (IRB), securitisation, and various alternative investment fund structures leveraging third-party capital.

By introducing more sophisticated risk modelling, Hoist Finance will seek to move from the standardised method of calculating Risk Weighted Assets (RWA) to an Internal Rating-Based model (IRB). With IRB, validated and approved, our own internal risk modelling methodology would apply, effectively reducing our applied risk weights from the standardised 150 per cent. To get an IRB model approved typically takes at least two to three years.

By securitising NPLs through market standard processes, Hoist Finance may be able to achieve significant risk transfer, enabling a reduction in RWAs, reduced effect of NPL Backstop and thereby strengthen the CET1 ratio. Securitisation is a well proven concept for performing loans, and in recent years, also for NPLs, for example in the Italian market. We are now exploring our options for NPL securitisation and will update the market on our progress.

In order to keep optionality with the overall aim of optimising our capital efficiency and maximising return on capital for our shareholders, we also continue to consider other risk mitigation measures, such as establishing fund structures, in order to leverage third party capital.

Working with regulators is a core competence for Hoist Finance, and the business model has been pressure-tested over time and through multiple changes to regulation. While adjusting to these changes comes at a cost, our firm belief is that by adjusting to the new requirements Hoist Finance will preserve the competitive strengths we have.

Updated Financial targets

As a consequence of the new regulatory requirements, our financial targets have been revised. These revised financial targets represent our 'base case', assuming no positive effects from mitigating actions. However, through our mitigating actions we are targeting reduced risk weights, improved capital ratios, increased capacity for further growth and consequently improved operational leverage.

As a result of the changes to our RWAs which we announced in December, our CET1 ratio is 9.66 per cent for 31 December 2018. Without implementing mitigating actions, this constrains our near term capital flexibility and our expected purchasing volume for 2019. We now expect portfolio investments totalling approximately SEK 5 billion in 2019, broadly in line with the average purchasing volume for Hoist Finance over the last 3 years. We expect purchasing volumes to grow thereafter.

In the 'base case', our CET1 ratio target and dividend policy remain unchanged per our announcement in December. CET1 ratio target is 1.75–3.75 per cent over regulatory requirement and, as stated, dividends will not be paid for 2018 and 2019. Longer term dividend policy is 25–30 per cent of net profits per annum. Our commitment to operational improvement, gives us confidence that despite slower top line growth, we will still achieve our cost/income ratio target of 65 per cent by 2021. Our new 15 per cent RoE target is a reduction but still well in excess of our cost of capital. We believe our new 10 per cent EPS CAGR target remains attractive.

In summary, Hoist Finance operates in a growing and profitable market, and our operating model is becoming much more efficient. While the new regulations are challenging, we are encouraged by the fact that there are several different countermeasures available to ensure a continued profitable development for Hoist Finance.

Klaus-Anders Nysteen
CEO
Hoist Finance AB (publ)

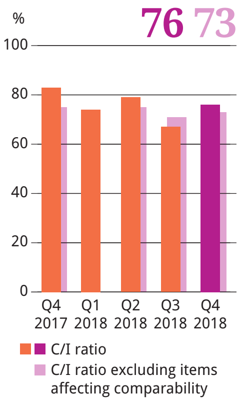
Key ratios

MSEK	Quarter 4 2018	Quarter 4 2017	Change, %	Full-year 2018	Full-year 2017	Change, %
Total operating income	766	643	19	2,829	2,365	20
Profit before tax	186	110	69	755	581	30
Net profit	165	86	92	590	453	30
Basic earnings per share, SEK	1.59	0.92	73	6.29	5.10	23
Diluted earnings per share, SEK[1)]	1.59	0.92	73	6.29	5.09	23
Net interest income margin, %[2)]	13			14		
C/I ratio, %[3)]	76	83	–7 pp	74	76	–2 pp
Return on equity, %[4)]	16	11	5 pp	16	15	1 pp
Portfolio acquisitions	2,246	2,075	8	8,037	4,253	89

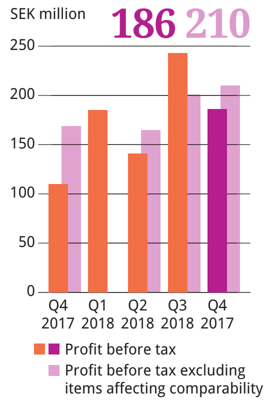
MSEK	31 Dec 2018	31 Dec 2017	Change, %
Carrying value of acquired loans[5)]	20,834	15,024	39
Gross 180-month ERC[6),7)]	33,602		
Gross 120-month ERC[6)]	30,733	23,991	28
Total capital ratio, %	14.14	17.71	–3.6 pp
CET1 ratio, %	9.66	11.70	–2.0 pp
Liquidity reserve	7,399	6,800	8
Number of employees (FTEs)	1,556	1,335	17

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

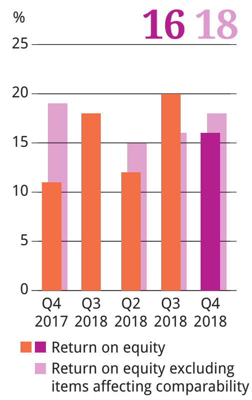
C/I ratio



Profit before tax



Return on equity



Developments during fourth quarter 2018

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

Operating income

Interest income from acquired loan portfolios for the fourth quarter totalled SEK 764 million. Net revenues from acquired loan portfolios were calculated as gross collections from acquired loan portfolios less portfolio amortisation and revaluation. These revenues totalled SEK 700 million for the comparative quarter; this figure includes the effects of actual collections exceeding projected collections and of portfolio revaluations. As of 1 January 2018, portfolio revaluations are recognised in income statement item Impairment gains and losses, after Net interest income.

Other interest income amounted to SEK –5 million (–4). Interest expense for the quarter increased to SEK –104 million (–75), with the continued strong portfolio growth enabled in large part through debt financing. Deposits from the public volumes increased mainly in the German market, with a positive interest on deposits adjustment contributing to the increase.

Impairment gains and losses totalled SEK 61 million. SEK 16 million of this amount is attributable to portfolio revaluations resulting from adjusted collection projections for future periods. These revaluations are primarily attributable to a secured portfolio in France, for which collections have been somewhat delayed. Collections in the Netherlands were somewhat better than forecast, resulting in a positive revision of future expectations. Loss allowance for acquisition of non-performing loans was neutral during the quarter. The remaining amount is attributable to realised collections in excess of projections for the same period. The collection level corresponds to 103 per cent of the projected level for the quarter.

Fee and commission income increased 77 per cent during the quarter to SEK 30 million (17), with the increase entirely attributable to the business acquisition conducted in Italy during the current quarter.

Net financial income totalled SEK 16 million (1). 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. The positive net income for the quarter is due to profit from FX hedging, which totalled SEK 14 million (2).

Total operating income increased 19 per cent to SEK 766 million (643), mainly due to growth in Italy and France and to good collection levels on existing portfolios in the Netherlands.

Operating expenses

Personnel expenses increased 4 per cent during the quarter to SEK –228 million (–219). The interim period and comparative quarter both included restructuring costs for redundancy, which will result in a more cost-effective structure in the long term. Restructuring costs during the fourth quarter totalled SEK –19 million (–32). Adjusted for restructuring costs, the year-on-year increase is mainly attributable to the above-referenced business acquisition in Italy and to expansion within Central Functions. This expansion mainly involves digital investments and the centralisation of certain functions, which is counteracted by lower costs in those countries.

Collection costs increased 3 per cent during the quarter to SEK –209 million (–203). The comparative quarter included an adjustment to a previous cost allocation in Italy. The increased collection costs during the quarter are due to strong portfolio growth and acquisition of the business in Italy.

Administrative expenses increased to SEK –150 million (–118) and include items affecting comparability of SEK –4 million related to the Italian business acquisition. Cleared of these costs, the increase is mainly attributable to Central Functions where investments in digital transformation and other strategic initiatives continued. As previously mentioned, these investments have started to produce results through cost savings in certain areas, including digital collections.

Depreciation and amortisation of tangible and intangible assets increased somewhat to SEK –17 million (–14). This, however, does not fully reflect the increased rate of investment that includes investments in new collection systems scheduled to be put into operation during the first quarter of next year.

Total operating expenses increased 9 per cent to –604 million (–554).

Net profit for the period

Profit from participations in joint ventures increased marginally year-on-year, totalling SEK 24 million (21). Profit from the joint venture in Poland and performance-based remuneration for the joint venture in Greece were in line with expectations.

Income tax expense totalled SEK –21 million (–24).

Net profit for the period totalled SEK 165 million (86).

Balance sheet

Total assets increased SEK 6,718 million compared with 31 December 2017 and amounted to SEK 29,255 million (22,537). The change is primarily due to acquired loan portfolios, which increased SEK 5,839 million. The increase is due to acquisitions, mainly in Italy, the UK and Poland, of performing and non-performing loan portfolios.

Funding and capital structure

SEK million	31 Dec 2018	31 Dec 2017	Change, %
Cash and interest-bearing securities	7,476	6,861	9
Acquired loan portfolios	20,605	14,766	40
Other assets[1]	1,174	910	29
Total assets	**29,255**	**22,537**	**30**
Deposits from the public	17,093	13,227	29
Unsecured debt	5,950	4,355	37
Subordinated liabilities	839	803	4
Total interest-bearing liabilities	**23,882**	**18,385**	**30**
Other liabilities[1]	960	924	4
Equity	4,413	3,228	37
Total liabilities and equity	**29,255**	**22,537**	**30**

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

Total interest-bearing liabilities amounted to SEK 23,882 million (18,385). This change was mainly attributable to deposits from the public, which increased SEK 3,865 million, and to unsecured debt, which increased SEK 1,595 million. Hoist Finance funds its operations through deposits in Sweden and Germany as well as through the international bond market and Swedish money market. In Sweden, deposits from the public, which are carried out under the HoistSpar brand, totalled SEK 11,292 million (12,243), of which SEK 4,324 million (4,569) is attributable to fixed term deposits of 12-, 24-, and 36-month durations. In Germany, deposits for retail customers have been offered since September 2017 under the Hoist Finance name. At 31 December 2018, deposits from the public in Germany totalled SEK 5,801 million (985), of which SEK 1,728 million is attributable to fixed term deposits of 12- and 24-month durations.

At 31 December 2018, the outstanding bond debt totalled SEK 6,789 million (5,158), of which SEK 5,950 million (4,355) was unsecured debt. The change in unsecured debt is attributable to the issue conducted during the third quarter, concurrent with the repurchase and cancellation of previously issued senior bond loans, and to issues of money market instruments under Hoist Finance's Swedish certificate programme.

Group equity totalled SEK 4,413 million (3,228). The increase is attributable to the new issue conducted during the third quarter and to net profit for the period.

Cash flow

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

SEK million	Quarter 4 2018	Quarter 4 2017	Full-year 2018	Full-year 2017
Cash flow from operating activities	799	819	2,804	2,495
Cash flow from investing activities	–2,937	–2,636	–8,044	–5,439
Cash flow from financing activities	1,554	2,332	5,874	2,751
Cash flow for the period	**–584**	**515**	**634**	**–193**

Cash flow from operating activities totalled SEK 799 million (819). Amortisation of acquired loan portfolios is a new item as of 1 January 2018 and is presented in operating activities. This amortisation totalled SEK 737 million during the fourth quarter. Increase/decrease in other assets and liabilities amounted to SEK –30 million (136).

Cash flow from investing activities totalled SEK –2,937 million (–2,636). Portfolio acquisitions increased during the quarter as compared with Q4 2017, totalling SEK –2,246 million (–2,075). A net total of SEK –629 million (–550) in bonds and other securities was invested during the quarter.

Cash flow from financing activities totalled SEK 1,554 million (2,332). Deposits from the public amounted to SEK 1,625 million (961). Deposits in Germany accounted for SEK 1,644 million of the inflow, with most of the inflow made to fixed interest accounts. The net outflow from deposits in Sweden was limited. Cash flow from issue of commercial paper during the quarter totalled SEK –71 million.

Total cash flow for the quarter amounted to SEK –584 million, as compared with SEK 515 million for fourth quarter 2017.

Significant risks and uncertainties

Hoist Finance is exposed to a number of uncertainties through its business operations and as a result of its broad geographical presence. New and amended bank and credit market company regulations may affect Hoist Finance both 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 considered to be 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.

In order to diversify the existing stock of assets in a positive way from a risk perspective, Hoist Finance will continue to assess upcoming opportunities to acquire portfolios of non-performing secured loans as well as portfolios of performing loans.

The Group is committed to continuously improving 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.

The Swedish Financial Supervisory Authority approved in November 2018 the inclusion of, in Hoist Finance's CET1 capital, of the capital contribution resulting from its new share issue of SEK 568 million in September 2018. The new share issue has strengthened the Company's equity. However, on 18 December 2018 the SFSA acknowledged the EBA's interpretation of risk weights for purchased non-performing loans, meaning that unsecured NPLs will now be assigned a 150per cent risk weight instead of 100 per cent. Hoist Finance has therefore engaged in mitigating actions in order to support a sustainable growth.

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

During 2018 Hoist Finance has carefully followed the development of the proposed changes to the Supervisory Ordinance regarding minimum loss coverage for non-performing exposures. The final draft of the proposal was finalised in December 2018 and will almost certainly enter into force during second quarter 2019. The proposal will affect Hoist Finance and will involve making a deduction from own funds for exposures classified as non-performing. The deduction will be gradually increased based on the amount of time elapsed since the exposure entered default, with full deduction required to be made after three years. The new regulations apply to loans issued after the regulations' effective date and, accordingly, do not affect Hoist Finance's current loan portfolios. However, Hoist Finance expects the regulations to affect capitalisation in coming years as new non-performing loans issued after second quarter 2019 are acquired. Over the long term, Hoist Finance's current business model and product mix will not be compatible with the new regulatory regime and a new, more suitable business model is therefore under development.

New EBA interpretations of the measure of the interest rate risk in the banking book will be under scrutiny during the next quarter.

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 2018 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 298 million (6) during the fourth 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.

Three performing loan portfolios were acquired during the year. During the fourth quarter, interest income related to acquired performing loan portfolios amounted to SEK 13 million. Interest income from credit-impaired acquired loan portfolios totalled SEK 195 million (–). Other interest income is mainly attributable to interest income from internal loans to subsidiaries.

Interest expense increased SEK 23 million as compared with fourth quarter 2017 at Hoist Kredit and is related to larger volumes of euro deposits and to increased costs for bonds and lower interest expense, as Hoist Kredit AB was funded by Hoist Finance AB.

Total operating income amounted to SEK 1,738 million (227). The Parent Company received dividends from subsidiaries totalling SEK 1,386 million during the quarter. Net financial income totalled SEK –32 million and is attributable to interest derivative changes and to exchange rate fluctuations for other assets and liabilities. Other income totalled SEK 85 million and refers to management fees invoiced to subsidiaries.

Operating expenses totalled SEK –295 MSEK (–126). 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 12 million in comparison with fourth quarter 2017 at Hoist Kredit. The cost decrease is due the fact that remuneration-related expenses for Hoist Kredit executive management were taken in 2017.

Other administrative expenses increased SEK 85 million to –185 million as compared with fourth quarter 2017 at Hoist Kredit. The cost increase pertains to operations that were formerly part of Hoist Kredit and were related to collections on portfolios from subsidiaries, totalling SEK –52 million. During the fourth quarter, Hoist Finance AB (publ) internally acquired a large volume of portfolios in France from subsidiary Hoist Portfolio Holding Ltd. Apart from this, other administrative expenses were somewhat lower year-on-year.

Operating profit totalled SEK 40 million (101). Revaluations of SEK 23 million were mainly attributable to the difference between projected and actual collections. Impairment of financial assets totalled SEK –1,454 million and refer to the write-down of shares in subsidiaries in conjunction with liquidation. Shares in participating Interests totalled SEK 28 million and were in line with remuneration previously received at Hoist Kredit, which totalled SEK 26 million.

Net profit for the period totalled SEK 17 million (60), with tax expenses amounting to SEK –34 million (17).

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 subsidiaries. On the liability side, the major items taken over by the Parent Company are deposits from the public and issued bonds.

Acquired loan portfolios totalled SEK 5,593 million as at 31 December 2018, a year-on-year increase of SEK 3,129 million. Deposits increased SEK 3,866 million during the year due to interest rate increases on Hoist Finance deposit products.

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 merger had no material financial effects on Hoist Finance. Hoist Finance is a credit market company under the supervision of the Swedish FSA. The operating Parent Company, including its subgroup, acquires and holds loan portfolios, which are managed by the Group's subsidiaries or foreign branch offices. These units also provide provision-based administration services to third parties.

Two Hoist Finance subsidiaries – Hoist Portfolio Holding Ltd. and Hoist Portfolio Holding II Ltd – were liquidated during the fourth quarter. The operations of these portfolio-holding companies were sold internally within the Group, and the liquidation therefore had no significant effect on Hoist Finance.

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

The share price closed at SEK 43.15 SEK on 28 December 2018. A breakdown of the ownership structure is presented in the table below. As at 31 December 2018 the company had 4,302 shareholders, compared with 3,248 at 31 December 2017.

Ten largest shareholders, 31 Dec 2018	**Share of capital and votes, %**
Swedbank Robur Fonder	8.8
EQT	8.0
Carve Capital AB	7.8
SEB Fonder	5.6
Handelsbanken Funds	5.4
Didner & Gerge Funds	4.9
Odin Funds	3.5
Jörgen Olsson privately and through companies	2.9
Confederation of Swedish Enterprise	2.7
Per Josefsson privately and through companies	2.2
Ten largest shareholders	**51.8**
Other shareholders	48.2
Total	**100**

Source: Modular Finance AB per 2018-12-31, ownership statistics from Holdings, Euroclear Sweden AB; and changes confirmed and/or registered by the company.

Proposed dividend

The Board of Directors proposes that the 2019 AGM resolve to distribute a dividend of SEK 0.00 (1.90) per share.

Review

This year-end report has not been reviewed by the Company's auditors.

Annual General Meeting

The AGM will be held on Thursday, 16 May 2019, in Stockholm.

Subsequent events

Hoist Finance SAS and Hoist Finance AB (publ) were merged on 2 January 2019. All assets and liabilities of Hoist Finance SAS were transferred to Hoist Finance AB (publ) through the merger, and are now part of the new branch office Hoist Finance AB (publ) France.

Quarterly review

SEK million	Quarter 4 2018	Quarter 3 2018	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017
Net revenues from acquired loan portfolios					700
Interest income acquired loan portfolios	764	718	672	645	
Other interest income	–5	–3	–1	–4	–4
Interest expense	–104	–93	–79	–75	–75
Net interest income	**655**	**622**	**592**	**566**	**621**
Impairment gains and losses	61	51	46	103	
Fee and commission income	30	15	17	17	17
Net financial income	16	40	–8	–5	1
Derecognition gains and losses	–3	–	–2	–	–
Other operating income	7	3	3	3	4
Total operating income	**766**	**731**	**648**	**684**	**643**
General and administrative expenses					
Personnel expenses	–228	–192	–212	–194	–219
Collection costs	–209	–180	–167	–194	–203
Administrative expenses	–150	–112	–135	–112	–118
Depreciation and amortisation of tangible and intangible assets	–17	–15	–15	–14	–14
Total operating expenses	**–604**	**–499**	**–529**	**–514**	**–554**
Net operating profit	**162**	**232**	**119**	**170**	**89**
Profit from participations in joint ventures	24	11	22	15	21
Profit before tax	**186**	**243**	**141**	**185**	**110**
Income tax expense	–21	–61	–38	–45	–24
Net profit for the period	**165**	**182**	**103**	**140**	**86**

Key ratios

SEK million	Quarter 4 2018	Quarter 3 2018	Quarter 2 2018	Quarter 1 2018	Quarter 4 2017
Net interest income margin, %[1]	13	14	14	15	
C/I ratio, %[2]	76	67	79	74	83
C/I ratio adjusted for items affecting comparability, %[2] [3]	73	71	75	–	75
Return on equity, %[4]	16	20	12	18	11
Return on equity adjusted for items affecting comparability, %[3] [4]	18	16	15	–	19
Portfolio acquisitions	2,246	2,546[5]	2,341	904	2,075

SEK million	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
Carrying value on acquired loans[6]	20,834	19,431	17,763	16,112	15,024
Gross 180-month ERC[7),8]	33,602	30,676	28,009	26,932	
Gross 120-month ERC[7]	30,733	28,178	25,652	24,700	23,991
Total capital ratio, % [9]	14.14	17.19	17.96	17.15	17.71
CET1 ratio, %[9]	9.66	10.79	11.13	11.35	11.7
Liquidity reserve	7,399	7,334	7,440	7,003	6,800
Number of employees (FTEs)	1,556	1,366	1,402	1,384	1,335

1) New key ratio as of 2018; see Definitions for calculation of Net interest income margin. As the calculations of Net interest income differ between IFRS 9 and IAS 39, comparative figures for Net interest income margin have not been calculated.
2) New key ratio as of 2018; see Definitions for calculation of C/I ratio.
3) Key figures have been adjusted for items affecting comparability, for fourth quarter attributable to intra-group restructurings and costs related to a business acqusition in Italy.
4) The definition of Return on equity has changed from 1 January 2018; see Definitions. Comparative figures have been adjusted for all periods in 2017.
5) During the third quarter, the acquisition price of a performing loan portfolio in Poland, acquired during Q2, was adjusted downward by SEK 60 million.
6) Including run-off consumer loan portfolio, performing loan portfolios, and portfolios held in the Polish joint venture.
7) Excluding run-off consumer loan portfolio, performing loan portfolios, and portfolios held in the Polish joint venture.
8) 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.
9) Excluding issue of new share capital in September 2018.

Financial statements

Consolidated income statement

SEK million	Quarter 4 2018	Quarter 4 2017	Full-year 2018	Full-year 2017
Net revenues from acquired loan portfolios		700		2,644
Interest income acquired loan portfolios	764		2,799	
Other interest income	–5	–4	–13	–10
Interest expense	–104	–75	–351	–305
Net interest income	**655**	**621**	**2,435**	**2,329**
Impairment gains and losses	61		261	
Fee and commission income	30	17	79	73
Net result from financial transactions	16	1	43	–50
Derecognition gains and losses	–3		–5	–
Other operating income	7	4	16	13
Total operating income	**766**	**643**	**2,829**	**2,365**
General and administrative expenses				
Personnel expenses	–228	–219	–826	–730
Collection costs	–209	–203	–750	–672
Administrative expenses	–150	–118	–509	–402
Depreciation and amortisation of tangible and intangible assets	–17	–14	–61	–56
Total operating expenses	**–604**	**–554**	**–2,146**	**–1,860**
Net operating profit	**162**	**89**	**683**	**505**
Profit from participations in joint ventures	24	21	72	76
Profit before tax	**186**	**110**	**755**	**581**
Income tax expense	–21	–24	–165	–128
Net profit	**165**	**86**	**590**	**453**
Profit attributable to:				
Owners of Hoist Finance AB (publ)	165	86	590	453
Basic earnings per share SEK	1.59	0.92	6.29	5.10
Diluted earnings per share SEK	1.59	0.92	6.29	5.09

Consolidated statement of comprehensive income

SEK million	Quarter 4 2018	Quarter 4 2017	Full–year 2018	Full–year 2017
Net profit for the period	**165**	**86**	**590**	**453**
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Revaluation of defined benefit pension plan	1	1	1	1
Revaluation of remuneration after terminated employment	1	–1	1	–1
Tax attributable to items that will not be reclassified to profit or loss	0	0	0	0
Total items that will not be reclassified to profit or loss	2	0	2	**0**
Items that may be reclassified subsequently to profit or loss				
Translation difference, foreign operations	–6	77	96	90
Translation difference, joint ventures	–4	15	–4	18
Hedging of currency risk in foreign operations	–56	–99	–233	–180
Hedging of currency risk in joint ventures	0	–15	–8	–26
Transferred to the income statement during the year	2	2	10	7
Tax attributable to items that may be reclassified to profit or loss	10	25	50	45
Total items that may be reclassified subsequently to profit or loss	**–54**	**5**	**–89**	**–46**
Other comprehensive income for the period	**–52**	**5**	**–87**	**–46**
Total comprehensive income for the period	**113**	**91**	**503**	**407**
Profit attributable to:				
Owners of Hoist Finance AB (publ)	113	91	503	407

Consolidated balance sheet

SEK million	31 dec 2018	31 Dec 2017
ASSETS		
Cash	0	0
Treasury bills and Treasury bonds	2,653	1,490
Lending to credit institutions	1,187	1,681
Lending to the public	14	37
Acquired loan portfolios	20,605	14,766
Bonds and other securities	3,635	3,689
Shares and participations in joint ventures	215	238
Intangible assets	387	287
Tangible assets	59	42
Other assets	425	200
Deferred tax assets	22	21
Prepayments and accrued income	53	86
Total assets	**29,255**	**22,537**
LIABILITIES AND EQUITY		
Liabilities		
Deposits from the public	17,093	13,227
Tax liabilities	92	84
Other liabilities	380	394
Deferred tax liabilities	188	148
Accrued expenses and deferred income	232	211
Provisions	68	87
Senior debt	5,950	4,355
Subordinated debts	839	803
Total liabilities	**24,842**	**19,309**
Equity		
Share capital	30	27
Other contributed equity	2,965	2,102
Reserves	–202	–113
Retained earnings including profit for the period	1,620	1,212
Total equity	**4,413**	**3,228**
Total liabilities and equity	**29,255**	**22,537**

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				590	590
Other comprehensive income			–89		–89
Total comprehensive income for the period			**–89**	**590**	**501**
Transactions reported directly in equity					
Dividend				–154	–154
New share issue	3	552[1)]			555
Reclassification		–3		3	0
Additional Tier 1 capital instrument		311[2)]		–7	304
Interest paid on capital contribution				–41	–41
Tax effect on items reported directly in equity		3			3
Total transactions reported directly in equity	**3**	**863**		**–199**	**667**
Closing balance 31 dec 2018	**30**	**2,965**	**-202**	**1,620**	**4,413**

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

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

Consolidated cash flow statement summary

SEK million	Quarter 4 2018	Quarter 4 2017	Full-year 2018	Full-year 2017
Profit before tax	186	109	755	581
– *of which, paid-in interest*	*749*	*1*	*2,778*	*5*
– *of which, interest paid*	*–88*	*–185*	*–289*	*–356*
Portfolio amortisation and revaluation		659		2,233
Adjustment for other items not included in cash flow	–40	–57	–134	122
Realised result from divestment of loan portfolios	–	–	1	–
Realised result from divestment of shares and participations in joint ventures	–17	–14	–65	–62
Income tax paid	–37	–14	–109	–52
Total	**92**	**683**	**448**	**2,822**
Amortisations on acquired loan portfolios	737		2,869	
Increase/decrease in other assets and liabilities	–30	136	–513	–327
Cash flow from operating activities	**799**	**819**	**2,804**	**2,495**
Acquired loan portfolios	–2,246	–2,075	–8,037	–4,253
Disposed loan portfolios	–	–	66	–
Investments in/divestments of bonds and other securities	–629	–550	64	–1,150
Other cash flows from investing activities	–62	–11	–137	–36
Cash flow from investing activities	**–2,937**	**–2,636**	**–8,044**	**–5,439**
Deposits from the public	1,625	961	3,832	1,407
Issued debts	289	1,350	3,991	2,131
Repurchase of issued debts	–360	–	–2,631	–676
Additional Tier 1 capital	–	–	310	–
New share issue	–	–	**568**	–
Other cash flows from financing activities	–	21	–196	–111
Cash flow from financing activities	**1,554**	**2,332**	**5,874**	**2,751**
Cash flow for the period	**–584**	**515**	**634**	**–193**
Cash at beginning of the period	4,422	2,628	3,172	3,338
Translation difference	2	27	34	27
Cash at end of the period[1)]	**3,840**	**3,172**	**3,840**	**3,172**

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

Parent Company income statement

SEK million	Quarter 4 2018	Quarter 4 2017	Full-year 2018	Full-year 2017
Interest income	403	8	1,338	30
Interest expense	–105	–2	–355	–5
Net interest income	**298**	**6**	**983**	**25**
Dividends received	1,386	180	1,947	180
Fee and commission income	2	–	6	–
Net result from financial transactions	–32	1	–196	2
Derecognition gains and losses	–1	–	–2	–
Other operating income	85	40	310	243
Total operating income	**1,738**	**227**	**3,048**	**450**
General administrative expenses				
Personnel expenses	–102	–2	–364	–5
Other administrative expenses	–185	–123	–593	–331
Depreciation and amortisation of tangible and intangible assets	–8	–1	–32	–6
Total operating expenses	**–295**	**–126**	**–989**	**–342**
Profit before credit losses	**1,443**	**101**	**2,059**	**108**
Impairment gains and losses	23		83	
Amortisation of financial fixed assets	–1,454	–	–1,454	–
Profit from participations in joint ventures	28	–	82	–
Net operating profit	**40**	**101**	**770**	**108**
Appropriations	–57	–24	–57	–24
Taxes	34	–17	–66	–19
Net profit	**17**	**60**	**647**	**65**

Parent company statement of comprehensive income

SEK million	Quarter 4 2018	Quarter 4 2017	Full-year 2018	Full-year 2017
Net profit	**17**	**60**	**647**	**65**
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss				
Translation difference, foreign operations	**0**	–	0	–
Total items that may be reclassified subsequently to profit or loss	0	–	0	**–**
Other comprehensive income for the period	0	–	**0**	**–**
Total comprehensive income for the period	**17**	**60**	**647**	**65**
Profit attributable to:				
Owners of Hoist Finance AB (publ)	17	60	647	65

Parent Company balance sheet

SEK million	31 dec 2018	31 Dec 2017
ASSETS		
Cash	0	–
Treasury bills and Treasury bonds	2,653	–
Lending to credit institutions	365	275
Lending to the public	17	–
Acquired loan portfolios	5,593	–
Receivables, Group companies	15,182	193
Bonds and other securities	3,635	–
Shares and participations in subsidiaries	722	1,688
Shares and participations in joint ventures	22	–
Intangible assets	177	64
Tangible assets	24	1
Other assets	340	24
Deferred tax assets	1	–
Prepayments and accrued income	27	9
TOTAL ASSETS	**28,758**	**2,254**
LIABILITIES AND EQUITY		
Liabilities		
Deposits from the public	17,093	–
Tax liabilities	65	35
Other liabilities	524	301
Deferred tax liabilities	5	–
Accrued expenses and deferred income	68	4
Provisions	41	0
Senior debt	5,950	–
Subordinated debts	839	–
Total liabilities and provisions	**24,585**	**340**
Untaxed reserves	**221**	**84**
Equity		
Restricted equity		
Share capital	30	27
Statutory reserve	13	3
Revaluation reserve	66	–
Development expenditure fund	4	6
Total restricted equity	**113**	**36**
Non-restricted equity		
Other contributed equity	2,965	1,722
Reserves	3	–
Retained earnings	224	7
Profit for the period	647	65
Total non-restricted equity	**3,839**	**1,794**
Total equity	**3,952**	**1,830**
TOTAL LIABILITIES AND EQUITY	**28,758**	**2,254**

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 accounting standards according to IFRS 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 10.

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 new revenue 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 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 fair 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". The standard was endorsed by the EU Commission in 2017. The new standard replaces existing IFRS (including IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease") related to the reporting of lease contracts. IFRS 16 primarily affects reporting requirements for lessees. All lease contracts will initially be reported as an asset with right of use and a liability (i.e. future lease payments) in the lessee's balance sheet. Asset depreciation is reported in the income statement, with lease payments allocated as interest expense in the income statement and as amortisation in the balance sheet. However, the standard includes two recognition exemptions for reporting the lease as an asset and a liability respectively – short-term leases (i.e. leases with a lease terms of 12 months or less) and leases of low-value assets. Reporting requirements for lessors remain mostly unchanged. The new standard includes increased disclosure requirements, which will expand the content of note disclosures. The new standard is effective as from annual periods beginning on or after 1 January 2019. Earlier application is permitted. Hoist Finance has elected not 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 has elected to apply the modified retrospective approach, i.e. recognising the cumulative net 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. During 2018 the Group analysed the effects of the transition to IFRS 16, and no significant impact on the Group's financial position or capital adequacy is anticipated. The analysis is based on the information currently available and may change due to information that becomes available during 2019. Anticipated effects are summarised and explained below.

Effects of transition to IFRS 16

The transition to IFRS 16 will not have any effect on the Group's opening balance of equity on 1 January 2019. The Group's right-of-use assets and lease liabilities at time of transition are estimated at SEK 171 million.

Effects on the balance sheet

Following the transition to IFRS 16, the Hoist Finance Group will, at the beginning of the lease term, report a right-of-use as an asset in the balance sheet in Tangible assets and will report lease liabilities in Other liabilities at the amount corresponding to the present value of the remaining lease fees at the start of the lease agreement, discounted by application of the Group's marginal lending rate. An asset is depreciated on a straight-line basis over its useful life. Lease payments are allocated between interest and amortisation of outstanding debt. Interest is allocated over the lease period, with each reporting period charged with an amount corresponding to a fixed interest rate for the liability reported during that period.

Effects on the income statement

Following the transition to IFRS 16, the Hoist Finance Group will report interest expense for lease liabilities in Interest expense and report right-of-use depreciation in Depreciation and amortisation of tangible and intangible assets in the income statement. The consolidated income statement will therefore be affected due to a reduction in Other operating expenses and an increase in Interest expense as compared with the previous application of IAS 17.

Effects on the cash flow statement

Following the transition to IFRS 16, the Hoist Finance Group will report amortisation of lease liabilities in Cash flow from financing activities, while interest payments will be reported in Cash flow from operating activities.

Effects on capital adequacy

The current assessment is that the effects of the transition to IFRS 16 will not have a significant impact on capital adequacy or large exposures when the standard is applied for the first time to the Hoist Finance consolidated situation.

Revaluation reserve, Parent Company

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 BFN's response 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 therefore has an effect on distributable funds, until upward adjustments to cash flows are realised or reduced and amounts in the revaluation reserve are reversed. Revaluations and their reversals have no effect on earnings. In the Parent Company, the present value of the upwardly adjusted portion of future cash flows are reported in the revaluation reserve, with respect to acquired unsecured credit-impaired loans pursuant to collective valuation. Reporting is done prospectively as from 1 October 2018. The BFN's response is also taken into account for acquired secured credit-impaired loans in cases where cash flows are adjusted upward.

	31 dec 2018	31 dec 2017
1 EUR = SEK		
Income statement (average)	10.2522	9.6331
Balance sheet (at end of the period)	10.2753	9.8497
1 GBP = SEK		
Income statement (average)	11.5870	10.9991
Balance sheet (at end of the period)	11.3482	11.1045
1 PLN = SEK		
Income statement (average)	2.4072	2.2629
Balance sheet (at end of the period)	2.3904	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.

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 4, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**147**	**229**	**87**	**79**	**153**	**–6[1)]**	**77**	**766**
of which, internal funding costs	*–55*	*–38*	*–16*	*–33*	*–21*	*163*	*–*	*0*
Total operating expenses	**–109**	**–142**	**–76**	**–36**	**–101**	**–142**	**2**	**–604**
Profit from participations in joint ventures	–	–	–	–	11	13	–	24
Profit before tax	**38**	**87**	**11**	**43**	**63**	**–135**	**79**	**186**

1) Dividend from subsidiaries SEK 1,386 m and write down of shares in subsidiaries SEK 1,454 m.

Income statement, Quarter 4, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**151**	**130**	**89**	**75**	**108**	**274[1)]**	**–184**	**643**
of which, internal funding costs	*–56*	*–41*	*–25*	*–21*	*–28*	*171*	*–*	*0*
Total operating expenses	**–94**	**–111**	**–105**	**–39**	**–94**	**–112**	**1**	**–554**
Profit from participations in joint ventures	–	–	–	–	13	8	–	21
Profit before tax	**57**	**19**	**–16**	**36**	**27**	**170**	**–183**	**110**

1) Dividend from subsidiaries SEK 180 m.

Income statement, Full-year 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Eliminations	Group
Total operating income	**597**	**776**	**350**	**378**	**461**	**767[1)]**	**–500**	**2,829**
of which, internal funding costs	*–203*	*–137*	*–63*	*–115*	*–77*	*595*	*–*	*0*
Total operating expenses	**–381**	**–431**	**–296**	**–199**	**–347**	**–500**	**8**	**–2,146**
Profit from participations in joint ventures	–	–	–	–	17	55	–	72
Profit before tax	**216**	**345**	**54**	**179**	**131**	**322**	**–492**	**755**

1) Dividend from subsidiaries SEK 1,947 m and write down of shares in subsidiaries SEK 1,454 m.

Income statement, Full-year 2017

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

1) Dividend from subsidiaries SEK 180m.

Note 1 *Segment reporting, cont.*

Acquired loans, 31 Dec 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central Functions	Group
Run-off consumer loan portfolio			14				14
Acquired loan portfolios	5,671	5,935	2,190	2,757	4,052		20,605
Shares and participations in joint ventures[1)]						215	215
Acquired loans	**5,671**	**5,935**	**2,204**	**2,757**	**4,052**	**215**	**20,834**

Acquired loans, 31 Dec 2017

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

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	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Gross carrying amount	20,346	14 766	5,533	–
Loss allowance	259	n.a	61	n.a
Net carrying amount	**20,605**	**14 766**	**5,594**	**–**

Note 2 Acquired loan portfolios, cont.

Acquired credit-impaired loan portfolios

	GROUP		
SEK million	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Opening balance 1 Jan 2018	14,766	–	14,766
IFRS 9 transition effects	11	–	11
Acquisitions	6,925	–	6,925
Interest income	2,744	–	2,744
Gross collections	–5,533	–	–5,533
Impairment losses and gains	–	264	264
Disposal	–66	0	–66
Translation differences	487	–2	485
Closing balance 31 Dec 2018	**19,334**	**262**	**19,596**

Acquired credit-impaired loan portfolios

	PARENT COMPANY		
SEK million	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Openning balance 1 Jan 2018	–	–	–
Merger	2,464	–	2,464
IFRS 9 transition effects	7	–	7
Acquisitions	3,532	–	3,532
Interest income	637	–	637
Gross collections	–1,509	–	–1,509
Impairment losses and gains	–	64	64
Translation differences	2	–1	1
Closing balance 31 Dec 2018	**5,133**	**63**	**5,196**

Undiscounted acquired loss allowances

As at 31 December 2018, the undiscounted acquired loss allowances at initial recognition totaled SEK 43,261 million for credit-impaired loan portfolios acquired by the Group during January to December, of which SEK 24,689 million is attributable to Parent Company acquisitions.

Acquired performing loan portfolios

	GROUP					
SEK million	**Gross carrying amount**	**Stage 1 12M ECL**	**Stage 2 LECL**	**Stage 3 LECL**	**Loss allowance**	**Net carrying amount**
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions	1,111	–	–	–	–	1,111
Interest income	56	–	–	–	–	56
Amortisations and interest payments	–136	–	–	–	–	–136
Changes in risk parameters	–	–2	0	–1	–3	–3
Derecognitions	–3	–	–	–	–	–3
Translation differences	–16	0	0	0	0	–16
Closing balance 31 Dec 2018	**1,012**	**–2**	**0**	**–1**	**–3**	**1,009**

Note 2 Acquired loan portfolios, cont.

Acquired performing loan portfolios

SEK million	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
	PARENT COMPANY					
Opening balance 1 Jan 2018	–	–	–	–	–	–
Acquisitions	449	–	–	–	0	449
Interest income	24	–	–	–	–	24
Amortisations and interest payments	–63	–	–	–	–	–63
Changes in risk parameters	–	–1	0	–1	–2	–2
Derecognitions	–1	–	–	–	–	–1
Translation differences	–10	0	0	0	0	–10
Closing balance 31 Dec 2018	**399**	**–1**	**0**	**–1**	**–2**	**397**

Acquired loan portfolios

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

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

Of which, designated at fair value[2]

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

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

Note 3 Financial instruments

Carrying amount and fair value of financial instruments

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
	GROUP, 31 DEC 2018					
Treasury bills and treasury bonds		2,653			2,653	2,653
Lending to credit institutions				1,187	1,187	1,187
Lending to the public				14	14	14
Acquired loan portfolios				20,605	20,605	22,309
Bonds and other securities		3,635			3,635	3,635
Derivatives	11		117		128	128
Other financial assets				233	233	233
Total	**11**	**6,288**	**117**	**22,039**	**28,455**	**30,159**
Deposits from the public				17,093	17,093	17,093
Derivatives	5		14		19	19
Senior debt				5,950	5,950	5,922
Subordinated debt				839	839	826
Other financial debts				544	544	544
Total	**5**		**14**	**24,426**	**24,445**	**24,404**

Note 3 *Financial instruments, cont.*

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
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**

PARENT COMPANY, 31 DEC 2018

SEK million	Assets/liabilities recognised at fair value through profit or loss: Held for trading	Assets/liabilities recognised at fair value through profit or loss: Mandatorily	Hedging instruments	Amortised cost	Total carrying amount	Fair value
Treasury bills and treasury bonds		2,653			2,653	2,653
Lending to credit institutions				365	365	365
Lending to the public				17	17	17
Acquired loan portfolios				5,593	5,593	6,156
Receivables, Group companies				15,182	15,182	15,182
Bonds and other securities		3,635			3,635	3,635
Derivatives	11		117		128	128
Other financial assets				172	172	172
Total	**11**	**6,288**	**117**	**21,329**	**27,745**	**28,308**
Deposits from the public				17,093	17,093	17,093
Derivatives	5		14		19	19
Senior debt				5,950	5,950	5,922
Subordinated debt				839	839	826
Other financial debts				539	539	539
Total	**5**		**14**	**24,421**	**24,440**	**24,399**

Note 3 *Financial instruments, cont.*

Fair value measurements

Group

The Group uses observable data to the greatest possible extent when assessing the fair value of an asset or liability. Fair values are categorised in different levels based on the input data used in the valuation approach, as per the following:

Level 1) Quoted prices (unadjusted) on active markets for identical instruments.

Level 2) Based on directly or indirectly observable market inputs not included in Level 1. This category includes instruments valued based on quoted prices on active markets for similar instruments, quoted prices for identical or similar instruments traded on markets that are not active, or other valuation techniques in which all important input data is directly or indirectly observable in the market.

Level 3) Based on inputs that are not observable on the market. This category includes all instruments for which the valuation technique is based on data that is not observable and has a substantial impact upon the valuation.

Fair value measurements

	GROUP, 31 DEC 2018			
SEK million	**Level 1**	**Level 2**	**Level 3**	**Total**
Treasury bills and Treasury bonds	2,653			2,653
Bonds and other securities	3,635			3,635
Derivatives		128		128
Total assets	**6,288**	**128**		**6,416**
Derivatives		19		19
Senior debts		5,922		5,922
Subordinated debts		826		826
Total liabilities		**6,767**		**6,767**

Fair value measurements

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

Note 4 Capital adequacy

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

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

Transitional rules, IFRS 9

After obtaining FSA approval, Hoist Finance has decided to apply the transitional rules regarding IFRS 9 for the period 30 April 2018 through 31 December 2022. Application of these transitional rules allow the gradual phase-in of expected credit losses to capital adequacy.

Risk weights for non-performing loans

From 18 December 2018, Hoist Finance assigns a risk weight of 150 per cent for unsecured non-performing loans, following the Swedish Financial Supervisory Authority's new interpretation of the capital adequacy regulation.

Own funds

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

	Hoist Finance consolidated situation		Hoist Finance AB (publ)	
SEK million	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2018**	**31 Dec 2017**
Capital instruments and related share premium accounts	1,913	1,287	1,913	483
Retained earnings	1,005	745	199	402
Accumulated comprehensive income and other reserves	191	282	649	1,081
Independently reviewed interim profits net of any foreseeable charge or dividend[1]	590	299	647	183
Intangible assets (net of related tax liability)	–387	–287	–177	–44
Deferred tax assets that rely on future profitability	–18	–21	–1	–3
Other transitional arrangements	3	–	2	–
Common Equity Tier 1	**3,297**	**2,305**	**3,232**	**2,102**
Capital instruments and the related share premium accounts	690	380	690	380
Additional Tier 1 capital	**690**	**380**	**690**	**380**
Tier 1 capital	**3,987**	**2,685**	**3,922**	**2,482**
Capital instruments and the related share premium accounts	839	803	839	803
Tier 2 capital	**839**	**803**	**839**	**803**
Total own funds	**4,826**	**3,488**	**4,761**	**3,285**

1) The Board of Directors will propose that no dividend be paid for 2018, which is why no dividend deduction has been included. For the comparative year, regulatory dividend deduction was calculated at 30 per cent of period's reviewed profit after tax, which is the maximum dividend per the Group's internal dividend policy.

Note 4 *Capital adequacy, cont.*

Risk-weighted exposure amounts and capital requirements

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

Risk-weighted exposure amounts

SEK million	Hoist Finance consolidated situation 31 Dec 2018	Hoist Finance consolidated situation 31 Dec 2017	Hoist Finance AB (publ) 31 Dec 2018	Hoist Finance AB (publ) 31 Dec 2017
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0
Exposures to institutions	355	381	161	150
of which, counterparty credit risk	*48*	*54*	*48*	*54*
Exposures to corporates	142	136	15,286	10,935
Retail exposures	75	16	69	16
Exposures secured by mortgages on immovable property	402	–	112	–
Exposures in default	28,919	15,349	7,667	2,496
Exposures in the form of covered bonds	363	369	363	369
Equity exposures	–	–	722	2,143
Other items	117	145	51	44
Credit risk (standardised approach)	**30,373**	**16,396**	**24,431**	**16,153**
Market risk (foreign exchange risk – standardised approach)	**25**	**113**	**25**	**113**
Operational risk (standardised approach)	**3,670**	**3,158**	**1,430**	**1,128**
Credit valuation adjustment (standardised approach)	**53**	**27**	**53**	**27**
Total risk-weighted exposure amount	**34,121**	**19,694**	**25,939**	**17,421**

Note 4 *Capital adequacy, cont.*

Capital requirements

SEK million	Hoist Finance consolidated situation 31 Dec 2018	Hoist Finance consolidated situation 31 Dec 2017	Hoist Finance AB (publ) 31 Dec 2018	Hoist Finance AB (publ) 31 Dec 2017
Pillar 1				
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0
Exposures to institutions	28	30	13	12
of which, counterparty credit risk	*4*	*4*	*4*	*4*
Exposures to corporates	11	11	1,223	875
Retail exposures	6	1	6	1
Exposures secured by mortgages on immovable property	32	–	9	–
Exposures in default	2,313	1,228	613	200
Exposures in the form of covered bonds	29	30	29	30
Equity exposures	–	–	58	171
Other items	9	12	4	4
Credit risk (standardised approach)	**2,428**	**1,312**	**1,955**	**1,293**
Market risk (foreign exchange risk – standardised approach)	**2**	**9**	**2**	**9**
Operational risk (standardised approach)	**294**	**253**	**114**	**90**
Credit valuation adjustment (standardised approach)	**4**	**2**	**4**	**2**
Total own funds requirement – Pillar 1	**2,728**	**1,576**	**2,075**	**1,394**
Pillar 2				
Concentration risk	215	131	215	131
Interest rate risk in the banking book	54	36	54	36
Pension risk	3	3	3	3
Other Pillar 2 risks	31	26	31	26
Total own funds requirement – Pillar 2	**303**	**196**	**303**	**196**
Capital buffers				
Capital conservation buffer	853	492	649	436
Countercyclical buffer	103	11	73	8
Total own funds requirement – Capital buffers	**956**	**503**	**722**	**444**
Total own funds requirements	**3,987**	**2,275**	**3,100**	**2,034**

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.

Note 4 *Capital adequacy, cont.*

Capital ratios and capital buffers, %	Hoist Finance consolidated situation 31 Dec 2018	Hoist Finance consolidated situation 31 Dec 2017	Hoist Finance AB (publ) 31 Dec 2018	Hoist Finance AB (publ) 31 Dec 2017
Common Equity Tier 1 capital ratio	9.66	11.70	12.45	12.07
Tier 1 capital ratio	11.68	13.63	15.11	14.25
Total capital ratio	14.14	17.71	18.34	18.86
Institution-specific buffer requirements for CET1 capital	7.30	7.05	7.28	7.05
of which, capital conservation buffer requirement	*2.50*	*2.50*	*2.50*	*2.50*
of which, countercyclical capital buffer requirement	*0.30*	*0.05*	*0.28*	*0.05*
Common Equity Tier 1 capital available to meet buffers[1)]	**5.16**	**7.20**	**7.95**	**7.57**

1) CET1 ratio as reported, less minimum requirement of 4.5 per cent (excluding buffer requirements) and less any CET1 items used to meet the Tier 1 and total capital requirements.

Internally assessed capital requirement

As per 31 December 2018, the internally assessed capital requirement for Hoist Finance was SEK 3,031 million (1,771), of which SEK 303 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 35 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 31 Dec 2018	Hoist Finance consolidated situation 31 Dec 2017	Hoist Finance AB (publ) 31 Dec 2018	Hoist Finance AB (publ) 31 Dec 2017
Current account deposits	11,041	8,580	11,041	8,580
Fixed-term deposits	6,052	4,647	6,052	4,647
Senior debts	5,950	4,355	5,950	4,355
Convertible debt instruments	690	380	690	380
Subordinated debts	839	803	839	803
Equity	3,723	2,849	3,262	2,100
Other	960	923	924	613
Balance sheet total	**29,255**	**22,537**	**28,758**	**21,478**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 7,399 million (6,800) as per 31 December, 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	31 Dec 2018	31 Dec 2017
Cash and holdings in central banks	0	0
Deposits in other banks available overnight	1,111	1,621
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,622	1,061
Securities issued or guaranteed by municipalities or other public sector entities	1,031	429
Covered bonds	3,635	3,689
Securities issued by non-financial corporates	–	–
Securities issued by financial corporates	–	–
Other	–	–
Total	**7,399**	**6,800**

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	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Pledges and comparable collateral for own liabilities and for reported commitments for provisions	70	49	12	–

Note 7 Contingent liabilities

	Group		Parent Company	
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	30 Sep 2017
Commitments	1,116	698	367	–

Note 8 Reconciliation alternative performance measures

EBITDA, adjusted

SEK million	Quarter 4 2018	Quarter 4 2017	Full year 2018	Full year 2017
Profit for the period	165	86	590	453
+ Income tax expense	21	24	165	128
+/– Net result from financial transactions	–16	–1	–43	50
+ Interest expense	104	75	351	305
– Interest income (excl. interest from run-off performing portfolio)	4	4	15	14
+ Portfolio revaluations		3		–11
–/+ Impairment gains and losses	–61		–261	–
+ Depreciation and amortisation of tangible and intangible assets	17	14	61	56
EBITDA	**234**	**205**	**878**	**995**
+ Amortisation on run-off portfolio		2		11
+ Amortisation on acquired loan portfolios		656		2,244
+ Gross cash collections on acquired loan portfolios	1,440		5,533	–
– Interest income on acquired loan portfolios	–765		–2,800	–
EBITDA, adjusted	**909**	**863**	**3,611**	**3,250**

Note 8 *Reconciliation alternative performance measures, cont.*

Return on equity, adjusted for items affecting comparability

SEK thousand	Quarter 4 2018	Quarter 4 2017	Full year 2018	Full year 2017
Equity	4,413	3,228	4,413	3,228
Additional Tier 1 capital	–690	–380	–690	–380
Reversal of interest expense paid for AT1 capital	42	28	42	28
Reversal of items affecting comparability[1) 2)]	9	102	9	102
Total equity	3,774	2,978	3,774	2,978
Total equity (quarterly average)	**3,709**	**2,868**	**3,277**	**2,752**
Profit for the period	166	85	590	453
Reversal of items affecting comparability[1) 2)]	19	58	9	102
Estimated annual profit	740	572	599	555
Adjustment of interest on AT1 capital	–59	–40	–59	–40
Adjusted annual profit	**681**	**532**	**540**	**515**
Return on equity, %	**18**	**19**	**16**	**19**

1) Items affecting comparability 2018 refer to a cost linked to the take-over of a previously externally managed loan portfolio and to restructuring costs during second quarter, a modification gain taken up as income in conjunction with new share issue and repurchase of senior bonds during third quarter, and restructuring and acquisition costs during fourth quarter, 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 Acquisitions

On 11 October 2018, Hoist Finance signed an agreement to lease and subsequently acquire the existing operations in Italian credit management companies Maran S.p.A and R&S S.r.I (the “Maran Group”) in a multi-stage process under compulsory administrative proceedings (concordato preventivo) in accordance with Italian insolvency law. The acquisition of Maran Group’s operations will add capacity and expertise to the current operations in Italy and create an integrated service platform, establishing Hoist Finance as a credit management partner with a comprehensive solution for the Italian finance industry.

The acquisition of net assets was conducted through the newly formed, wholly owned subsidiary Nuova Maran S.r.I. and the entire acquisition has been 100 per cent consolidated since the agreement date. The purchase price of SEK 39 million has been reported as a purchaser liability until settlement is concluded pursuant to compulsory administrative proceedings in accordance with Italian insolvency law. Merger-related expenses totalled SEK 4 million and are included in administrative expenses in the consolidated income statement.

The acquired net assets of SEK 39 million included goodwill of SEK 6 million, reported in intangible assets. Goodwill is mainly attributable to the expertise received by the Group via the acquired service platform.

The net assets were consolidated in the Hoist Finance Group as from October 2018.

Det förvärvade nettotillgångar vid förvärvstidpunkten:[1)]

MSEK	2018
Immateriella anläggningstillgångar	38
Materiella anläggningstillgångar	1
Summa identifierbara nettotillgångar	**39**

1) Förvärvsbalansen är preliminär.

Note 10 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	788
Fair value gain/loss during the period, if the acquired loan portfolio would not have been reclassified	–162
Effective interest rate of reclassified acquired loans on date of initial application, %	21
Interest revenue recorded during the period Jan–Dec 2018	171

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 11 February 2019

Ingrid Bonde
Chair of the Board

Cecilia Daun Wennborg
Board member

Malin Eriksson
Board member

Liselotte Hjorth
Board member

Marcial Portela
Board member

Joakim Rubin
Board member

Gunilla Öhman
Board member

Jörgen Olsson
Board member

Klaus-Anders Nysteen
CEO

Definitions

Alternative performance measures

Alternative performance measures (APMs) are financial measures of past or future earnings trends, financial position or cash flow that are not defined in the applicable accounting regulatory framework (IFRS), in the Capital Requirements Directive (CRD IV), or in the EU's Capital Requirement Regulation number 575/2013 (CRR). APMs are used by Hoist Finance, along with other financial measures, when relevant for monitoring and describing the financial situation and for providing additional useful information to users of the financial statements. These measures are not directly comparable with similar performance measures that are presented by other companies. Estimated remaining collections, Return on book and Adjusted EBITDA are three APMs that are used by Hoist Finance. Moreover, during the period, Hoist Finance has chosen to present as APMs: Return on equity and Diluted earnings per share, both of which are presented excluding nonrecurring items. Alternative performance measures are described below.

Acquired loan portfolios
An acquired loan portfolio consists of a number of defaulted consumer loans and SME loans that arise from the same originator.

Acquired loans
Total of acquired loan portfolios, run-off consumer loan portfolios and participations in joint ventures.

Additional Tier 1 capital
Capital instruments and associated share premium accounts 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.

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.

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.

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

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.

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.

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

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.

Gross collections on acquired loan portfolios (refers to comparative periods)
Gross cash flow on acquired loan portfolios comprises payments from the Group's customers on loans included in Group's acquired loan portfolios.

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

Items affecting comparability
Items that interfere with comparison due to the irregularity of their occurrence and/or size as compared with other items.

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 (refers to comparative periods)
The sum of collections from acquired loan portfolios and income from the run-off consumer loan portfolio, less portfolio amortisation and revaluation calculated as per IAS 39.

Non-performing loans (NPL)
An originator's loan is non-performing as at the balance-sheet date if it is past due or will be due shortly.

Number of employees (FTEs)
Number of employees at the end of the period converted to full-time posts.

Own funds
Sum of Tier 1 capital and Tier 2 capital.

Portfolio growth
Changes in the carrying amount of acquired loan portfolios over the last 12 months (LTM).

Portfolio revaluation
Changes in the portfolio value based on revised estimated remaining collections for the portfolio.

Return on assets
Net result for the year as a percentage of total assets at the end of the year.

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.

Risk-weighted exposure amount
The risk weight of each exposure multiplied by the exposure amount.

SME
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 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-weighted exposure amount.

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 capital ratio
Own funds as a percentage of the total risk-weighted exposure amount.

Total revenue
Total of net revenue from acquired loan, fee and commission income, profit from joint ventures and other income.

Weighted average number of shares outstanding
Weighted number of shares outstanding plus potential dilutive effect of warrants outstanding.

Vision, mission and strategy

Financial targets

Profitability

By leveraging on operational efficiency efforts to become more cost-effective, we aim to reduce the cost-to-income ratio to 65 per cent in the medium term.

By ensuring the right balance between growth, profitability and capital efficiency we aim to achieve a return on equity of 15 per cent in the medium term.

Capital structure

Under normal conditions, the CET1 ratio should be 1.75–3.75 percentage points above overall CET1 requirements specified by the Swedish Financial Supervisory Authority.

Growth

EPS (adjusted for AT1 costs) should by 2021 have grown by an average annual growth rate of 10 per cent compared to 2018, excluding IAC's.

Dividend policy and dividend

The Board will for the years of 2018 and 2019 recommend to the Annual General Meeting (AGM) to deviate from the established dividend policy. The Board recommends not to pay any dividend for 2018 nor any dividend with respect to 2019.

In the long term, the aim is to follow the dividend policy outlines a dividend of 25–30 per cent of the Group's net profit over the medium term.

Our Mission – Your Trust

Our Vision

Helping people keep their commitments.

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

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

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

- 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

Annual Report	4 April 2019
Interim report Q1 2019	14 May 2019
Interim report Q2 2019	30 July 2019
Interim report Q3 2019	5 November 2019

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