







Contents

- 1 The year in brief
- 2 About Hoist Finance
- 4 Statement by the CEO
- 6 Our vision, mission and targets
- 8 Strategies
- 10 Business model
- 12 Transaction market
- 14 Preferred partner
- 18 Amicable agreements
- 21 Best place to work
- 26 Efficient funding
- 28 Attractive to investors
- 32 Risk management
- 36 Sustainable enterprise

Financial review

- 46 Administration Report
- **51** Five-year overview
- **52** Corporate Governance Report
- **60** Board of Directors
- **62** Excecutive Management Team
- **64** Financial statements
- **74** Accounting principles
- 83 Notes
- **127** Certification of the Board of Directors
- 128 Auditor's Report
- **131** Definitions
- **132** Shareholder information, financial calendar and IR contact

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

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

We earn the trust of banks through our expertise and strict regulatory compliance. We earn the trust of our customers through respect, honesty and fair treatment. Together with our partners, we strive to promote positive developments for our customers and society as a whole.





Hoist Finance AB (publ) is a regulated credit market company and parent company of the Group, and prepares its financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL). Hoist Finance AB (publ) merged with its wholly owned subsidiary Hoist Kredit AB (publ) on 2 January 2018, where Hoist Finance AB (publ) absorbed its subsidiary. The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS).

Reference to statutory annual report and sustainability report:

The statutory annual report comprises pages 10–11, 21–24, 36–42 and 46–127. The statutory sustainability report in accordance with the Swedish Annual Accounts Act (ÅRL) is included in the statutory annual report and comprises pages 10–11, 21–24 and 36–42.

The year in brief

Quarter

1

- Finalisation of Hoist Finance and Hoist Kredit merger, simplifying the corporate structure.
-)) Major forward flow contract signed in the Italian market.
-)) Klaus-Anders Nysteen new CEO of Hoist Finance.
- » Hoist Finance continued to expand into new asset classes, acquiring secured loans in the UK. The loans are comprised of non-performing and performing secured loans on residential and commercial property. The commercial property loans are mainly to small enterprises.
-)) Introduction of new organisation to increase growth and improve operational efficiency.

2

- The AGM approved a dividend of SEK 1.90 per share.
-)) Issue of EUR 40 million in Additional Tier 1 capital (AT1) and repurchase of SEK 100 million AT1 capital issued in 2013.
- » Further expansion into new asset classes through acquisition of a performing mortgage loan portfolio in Poland.

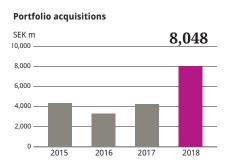
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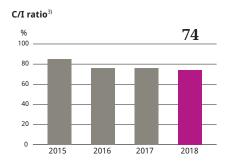
-)) Acquisition of portfolio of non-performing mortgage loans in France.
-) Directed share issue of SEK 568 million.
-)) Issue of a EUR 250 million senior bond. Repurchase of senior bond amounting to EUR 186 million.

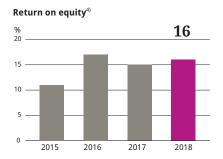
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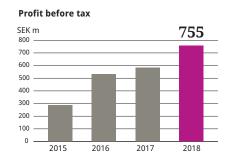
- » Agreement signed to lease and subsequently acquire operations in the Italian credit management companies Maran S.p.A. and R&S S.r.l.
- » Presentation of new financial targets and strategies. The Swedish FSA changes risk weights for NPLs to 150 per cent.
- » Acquisition of first portfolio in the Greek market, comprised of non-performing B2C loans and SME loans.

2018 in figures









Key figures

SEK million	2018	2017	2016
Total operating income	2,829	2,365	2,139
Profit before tax	755	581	533
Net profit	590	453	417
Basic earnings per share, SEK ¹⁾	6,29	5,10	5,07
Diluted earnings per share, SEK ¹⁾	6,29	5,09	4,97
Net interest income margin, % ²⁾	14	ET	ET
C/I ratio, % ³⁾	74	76	76
Return on equity, % ⁴⁾	16	15	17
Portfolio acquisitions	8,048	4,253	3,329
Carrying value of acquired loans ⁵⁾	20,834	15,024	12,658
Gross 120-month ERC ^{6), 7)}	30,733	23,991	21,375
Gross 180-month ERC ^{6), 7)}	33,602	ET	ET
Total capital ratio, %	14.14	17.71	16.76
CET1 capital ratio, %	9.66	11.70	12.46
Liquidity reserve	7,399	6,800	5,789
Number of employees (FTEs)	1,556	1,335	1,285

- 1) Comparative period includes effect of outstanding warrants. Following the 1:3 share split in 2015, each warrant entitled the holder to subscribe for three new shares.
- 2) New key ratio as from 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 ration as from 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.
- 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) As 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.

About Hoist Finance

>20

- years' experience

)) Structured data from more than 2,500 loan portfolios that enable correct pricing and appropriate strategy for reaching sustainable repayment plans with our customers.

The Hoist Way-amicable agreements

)) Open, solution-oriented customer dialogue.



VISION Helping people keep their commitments

Stable funding model

» An effective and diversified funding model provides strategic flexibility. Funding is to a large extent, based on a mix of deposits from the public and bonds.



Hoist Finance has long and close relation with Europe's largest banks

» Hoist Finance is a leading partner to international banks and financial institutions and is experienced in complex transactions. Hoist Finance's customer base is broad and diversified, and its credit market licence is a key competitive advantage.

Scalable business model

)) A scalable business model provides opportunities for good financial returns.

A pan-European platform

With a pan-European platform across eleven countries, Hoist Finance can follow its business partners into different markets and spread geographic risks, while also leveraging economies of scale.



History

Hoist Finance established as a credit market company

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

Start of geographic expansion

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

Diversified funding

>> Introduction of Hoist-Spar, a deposit offer in Sweden.

Continued expansion

- Carrying value on loan portfolios increases from SEK 2.0 billion to SEK 8.9 billion.
- Operations established in Italy, Poland, the UK and Austria.

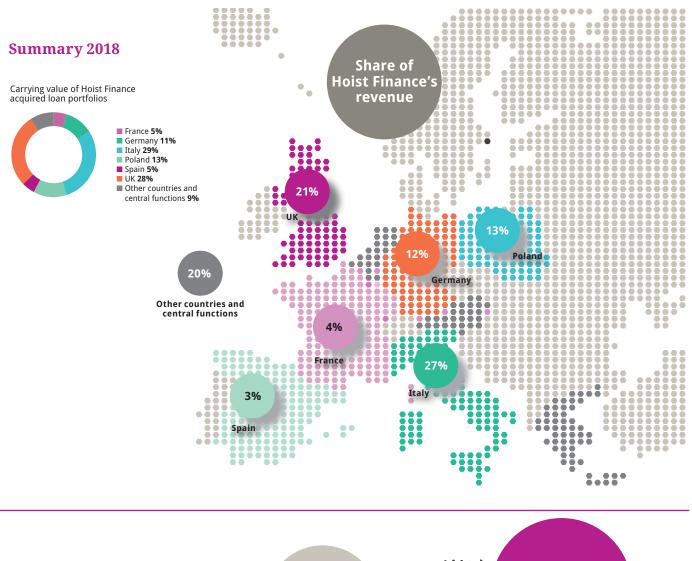
1994–1996

1997-2008

2009

2010-2014

Hoist Finance's markets





Stock-exchange listing

-) Hoist Finance listed on the stock exchange.
-) Entry into new asset class: SME loans in Italy.

Partnership with European central bank and continued geographic expansion

-)) Operations established in Spain.
- Strategic partnership with the Central Bank of Greece covering 16 banks in liquidation.
- >>> Expansion within SME loans.

Expansion into new asset classes

- » Acquisition of several portfolios of secured loans as well as performing loans.
- New financial targets and strategies. Read more on page 7-11.

Good market and strengthened organisation

The market was considerably more attractive in 2018, with higher returns and new regulation that has stimulated supply. This was instrumental in Hoist Finance delivering its best financial performance to date. We have achieved strong growth in portfolio acquisitions and are broadening our product and geographical spread. We have implemented a new operating model to become more effective and efficient.

Beneficial market dynamics

Following the financial crisis more than 10 years ago, the level of Non-Performing Loans (NPLs) in banks is still very high. Broadly speaking, the NPL market consists of unsecured and secured assets for retail, small- and medium-sized companies and larger corporates. The regulators have taken various initiatives and introduced new regulations to push banks to divest their NPLs to make their balance sheets healthier.

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 recognise the need for a well-functioning secondary market as an important and relevant part of the financial value chain.

Meanwhile, the recent years' supply of cost-efficient funding through the high yield bond market has increased demand for NPLs, competition and margin pressure in the industry. However, the cost of market funding increased significantly during 2018. With no signs of any near-term material improvement in the market funding costs, the industry is now focusing on reducing leverage, finding alternative sources of funding and improving operational efficiency. The winners in the industry will be those companies that have the best operations and the lowest cost of funding.

2018 - great results

I am very pleased with the 2018 results. Hoist Finance's portfolio growth in 2018 was the highest ever, exceeding total portfolio investments in 2016 and 2017.

Total operating income rose 20 per cent to SEK 2,829 million (2,365) and profit before tax increased 30 per cent to

SEK 755 million (581). During the year Hoist Finance acquisition of loan portfolios amounted to SEK 8,048 million, an increase by nearly 90 per cent, as compared with SEK 4,253 million in 2017. Our collections delivered 105 per cent of the portfolio value, representing the best outcome in five years.

The C/I ratio is a new key metric for Hoist Finance that was introduced to increase our internal focus on cost efficiency.

A stronger organisation

In 2018, Hoist Finance took numerous steps to improve operations. We have a new strong, experienced and committed Executive Management Team, and I am convinced that we now have the right team in place to deliver on our goals.

We implemented a new operating model across all markets, with fewer management layers. The model is identical in all of our markets and allows for rapid knowledge transfer. We are implementing new company-wide digital solutions that make performance management, analysis and customer interaction easier and more cost efficient. We are bringing down our costs and improving efficiency through site consolidation and resource sharing at our centres of expertise and shared service centres.

Expanded offering

Although 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. Addressing a larger portion of the NPL market, and also acquiring performing loans has, therefore, been a very important strategic priority for Hoist Finance in 2018.



One example of this is the acquisition of the business in the Italian credit management company Maran. The well-respected Maran Group was founded in 1993 and has major Italian banks and financial institutions as customers. With this acquisition we can offer a comprehensive solution in the Italian market, including third-party servicing and portfolio acquisitions of all asset classes, or a combination of both. The acquisition is expected to be finalised during the first half of 2019.

In early 2019 we signed an agreement to acquire mainly unsecured consumer NPLs corresponding to approximately SEK 900 million (PLN 400

million) from the Polish debt restructuring company GetBack. The transaction is expected to be concluded in the spring of 2019.

The ambition is still to grow within our historic core and to expand into the adjacent segments where we have experience and where we can achieve operational leverage. In 2018, 59 per cent of portfolio investments were in the unsecured consumer segment, 27 per cent in secured NPLs and 14 per cent in performing loans.

Regulatory changes

Hoist Finance has been regulated since 1996 and this has served us well. The access to low-cost funding through deposits from the public represents a clear cost advantage, and our regulated status has also proved its value in many commercial situations.

Regulatory changes have recently been put in place to reduce the risks on European banks' balance sheets. For the credit management services market as a whole, this is positive. But it also entails unintended negative consequences for Hoist Finance, as we operate in the secondary market under the supervision of the Swedish Financial Supervisory Authority (SFSA).

The Swedish FSA announced in mid-December its revised interpretation of the EU's Capital Requirements Regulation regarding risk weights for acquired NPLs. The regulation specifies a risk weight of 100 per cent for non performing exposures written down by more than 20 per cent and a risk weight of 150 per cent in other cases. Practically speaking, this means that Hoist Finance will need to apply a risk weight of 150 per cent for unsecured NPLs.

Unrelated to this change in risk weights, the European Parliament and the Council of the European Union are expected to enact new legislation early in the second quarter 2019 that will impact the timeline over which banks are required to provide for new formation of NPLs (NPL Backstop). The NPL Backstop will regulate treatment of the book value for future unsecured NPLs in capital adequacy calculations. For unsecured debt that is originated after implementation of this regulation and subsequently 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.

In response to these recent regulatory changes we are reviewing various market standard processes and products, including introducing more sophisticated risk models (IRB), securitisation, and alternative investment fund structures.

By introducing more sophisticated risk modelling, Hoist Finance will move from the standardised method of calculating Risk Weighted Assets (RWA) to an Internal Rating-Based model (IRB).

By securitising NPLs, Hoist Finance would look to achieve regulatory capital relief through divesting of risk to third parties. Securitisation is a well-proven concept for performing loans and, in recent years, has also successfully been structured and sold based on NPLs.

While adapting to regulatory changes come a cost, our firm belief is that by adjusting to the new requirements Hoist Finance will preserve the competitive strengths we have.

As a consequence of the new regulatory requirements, our financial targets were revised in early 2019. The new targets represent our 'base case' and do not include positive effects from our mitigating actions.

In the 'base case', our CET1 ratio target and dividend policy remain unchanged from our announcement in December. The 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. The longer-term dividend policy is 25 – 30 per cent of net profits per annum.

Through operational improvements we will achieve our cost/income ratio target of 65 per cent by 2021, despite slower top-line growth. We will do this by, among other things, becoming the digital leader in the industry. Our new 15 per cent RoE target is a reduction but still well above our cost of capital. We believe our new 10 per cent earnings per share CAGR target remains attractive.

We are now taking forceful action to counter the effects of the regulatory changes. Through the actions we are planning, we are targeting reduced risk weights, improved capital ratios, increased capacity for further growth and consequently improved operational leverage.

Outlook for 2019

As a result of the changes to our RWAs which we announced in December, our CET1 ratio fell to 9.66 per cent (11.70) as at 31 December 2018. This constrains our capital flexibility and our expected purchasing volume for 2019. In our 'base

case' we expect portfolio investments totalling approximately SEK 5 billion in 2019, broadly in line with the average purchasing volume for Hoist Finance over the last three years. We expect purchasing volumes to continue to grow.

The regulatory changes in 2018 resulted in changes for our business. In a longer-term perspective, the most important consideration is that we continue to create value by being more efficient in our core business. We proudly continue to develop in line with our vision, 'Helping people keep their commitments'.

With our amicable and holistic approach to collection, we help indebted households meet their commitments so that they can re-enter the financial ecosystem. Customers are often with Hoist Finance for up to ten years, so it is essential to our business that we always have customers' best interests in mind. Sustainable collection of non-performing loans calls for a long-term perspective, analysis, high-quality case managers and a value-based approach.

In summary, Hoist Finance operates in a growing and profitable market. We are committed to becoming more effective and efficient. Based on our new operating model, we will harmonise our key processes and leverage the benefits of skills and scale. Through our product and service offering, we will continue to develop our position as the trusted restructuring partner for European banks and financial institutes in our prioritised markets.

Stockholm in April 2019

Klaus-Anders Nysteen

CEO

Hoist Finance AB (publ)



Long-term overall goals



Leverage our strengths and be among the top 3 in markets we prioritise – currently France, Germany, Italy, Poland, Spain and the UK.



Offer attractive returns for investors and saving products customers.



Achieve greater operational efficiency than our competitors by working effectively, leveraging our economies of scale and learning from each another.

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 by 2021.

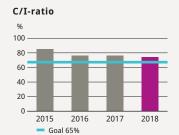
2018:

74 per cent (76).

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

2018:

16 per cent (15).



Return on equity



Growth

Earnings per share (adjusted for Additional Tier 1 Capital costs) should by 2021 have grown by an average annual growth rate of 10 per cent compared to 2018, excluding items affecting comparability.



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.

2018:

9.66 per cent (11.70).



Dividend policy and dividend

Under Hoist Finance dividend policy, the aim is to distribute 25–30 per cent of the Group's net profit to the shareholders.

The Board of Directors will for the years 2018 and 2019 propose to deviate from the established dividend policy and not distribute any dividend.

A sustainable business strategy

Preferred Partner

- Description End of the partners by implementing a stable evaluation process.
- Transparent reporting on anti-corruption measures.

Read more on page 16.

Preferred by customers

- » Respect customers' privacy.
- >>> Ethical and fair treatment of customers.
- >>> Ensure customer satisfaction.

Read more on page 20.

Best place to work

-)) Create a workplace hallmarked by diversity and equal opportunity.
- Take steps to ensure that all forms of discrimination are eliminated.

Read more on page 23.

Attractive to Investors

- >>> Ensure strong financial and sustainable earnings.
-)) Compliance with laws and regulations combined with an ethical approach.

Read more on page 30.

Contribution to society

- Reduces environmental impact through
- Neduce energy and fuel consumption.
- » Recycling or safe disposal of electronic waste.

Read more on page 38.

Strategies for profitable growth

Market trends

Several major trends have been identified in Hoist Finance's markets:

- Strong growth in the transaction market
-) Consolidation
- >> Increased regulation
- » Digitalisation and greater focus on operational efficiency

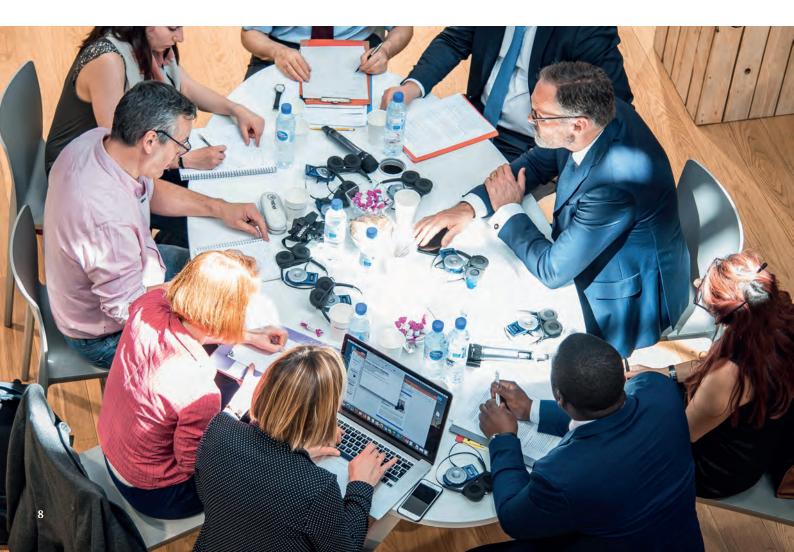
Value-creating initiatives

During the year, the Board of Directors and senior management prepared a new strategy to address market trends based on the following value-creating initiatives.

- » Capture the strong growth in the company's six prioritised markets (France, Germany, Italy, Poland, Spain and the UK).
- >> Extend the product offering to meet more of the needs of the European financial sector.
- » Expand into new asset classes, including SME Unsecured, B2C Unsecured, SME Secured, and Performing loans, through a disciplined investment process.
- » Improve operational efficiency to deliver SEK 300 million of cost savings on an annual basis and a C/I ratio of 65 per cent by 2021.

This is formulated in the following strategies:





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.
- » 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.
- "Utilise digital tools in order to make it possible for us interact with our customers in muliple channels and touch points.

Market

Market leadership

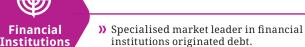
One Hoist Finance

Unique funding

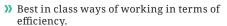
Hoist Finance #



- >> 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 offerings on priority markets including unsecured loans to SMEs, unsecured consumer loans, secured loans to SMEs and performing loans.



- Diversified and deep relationships across markets.
- Expand services to meet the full spectrum of client needs.



- Ways of working harmonised across the organisation and based on in-house expertise and learnings.
-)) Creating value by leveraging all of our tacit knowledge.

Initiatives in 2018

-)) Developed expertise and set up working groups for new asset classes.
-)) Continued to develop capacity for pricing and evaluating new asset classes.
- » Expanded offering to the financial sector to include more asset classes and credit management services.
- >> Further developed deposit offering.
-)) Continuously reinforced Code of Conduct policy and regulatory compliance
- >> Introduced cloud-based dialling in all countries.
-) Introduced a uniform collection platform in all countries.

-)) Simplified the legal organisation, with branches rather than subsidiaries.
-)) Centralised operations in Germany and the UK.
-)) Implemented processes to create shared service centres in low-cost countries.
- >> Implemented a group-wide procurement process.
- >> Created one organisational function for IT.
- » Created competency centres for secured and unsecured NPLs aimed at increasing expertise within Hoist Finance.
- » Implemented a new operational model in all countries with fewer management levels.
-)) Initiated a strategy for customer contacts.

Business model for value creation

Hoist Finance's business model and strategies are focused on delivering value to all stakeholders. This solution-oriented model, built on trust, creates value for business partners, customers, employees, shareholders and society as a whole.

Resources

Business model

Relationship capital – preferred partner

- » Experience gained from more than 2,500 NPL portfolios over more than 20 years.
- » More than 200 business partners among banks and financial institutions, including all of Europe's largest banks.
- **»** Credit market company under the supervision of the Swedish FSA.

Relationship capital – amicable settlements

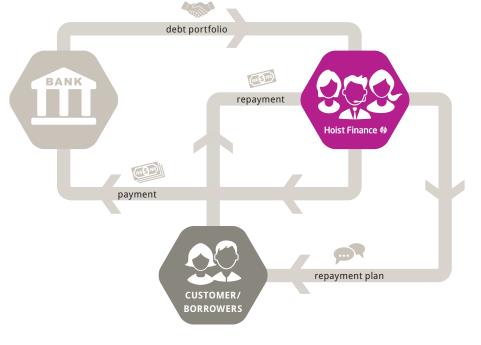
- » Debt restructuring partner with own operations in nine countries.
- » Over 20 years' experience in reaching amicable settlements through effective solutions.

Human capital – best place to work

- » Strong core values and sound corporate culture.
- » 1,556 skilled and committed employees.

Financial capital

- » SEK 17.1 billion in deposits.
- » SEK 6.0 billion in bond loans.
- » SEK 4.4 billion in equity.



Hoist Finance is a specialist in the management of NPLs and is an important, transparent and reliable partner to international banks and financial institutions. Hoist Finance focuses on creating long-term, sustainable repayment plans with its customers. Our methods are based on transparency, dialogue and mutual respect. The goal is for customers to be satisfied and, given time, to be able to re-enter the financial ecosystem.



Hoist Finance contributes to

a healthy financial ecosystem by enabling borrowers with payment difficulties to re-enter the financial ecosystem over time, and by allowing banks to focus on their core business. This boosts economic growth and is instrumental in improving household financial security.

Value for stakeholders

European banks and financial institutions

- » Reduced risk exposure, which strengthens capital relationships
- » Increased cash flow, strengthening liquidity
- » Higher return on equity
- » Increased focus on core business

Customers

- » Respectful dialogue
- » Realistic repayment plan
- » Gain the opportunity to sort out their finances

Employees

- » A long-term employer that offers a stimulating environment
- » An equal opportunity workplace that promotes diversity
- » Opportunities for personal development

Shareholders

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

Savers

- » Competitive interest rates
- » Competitive savings alternative

Suppliers

» Long-term, dynamic business relationship

Society

- >> Contribute to a healthy financial ecosystem
- » Contribute to economic development
- » Provide jobs, thereby increasing national tax revenues
- » Over time, customers can re-enter the financial ecosystem

Economic value distribution

Hoist Finance's operations generate economic values that benefit its stakeholders – in the form of salaries for employees, payments for goods and services to suppliers, and returns in various forms to shareholders, investors and savers – as well as society in the form of taxes, social security contributions, deposit guarantees and resolution fees



 excl. resolution fee and fees to the deposit guarantee scheme, incl. profit from shares and participations in joint ventures

Transaction market for non-performing loans

The European NPL market continued to grow in 2018. This trend is expected to remain positive, with annual transaction volume growth of over 10 per cent through 2020.

Non-performing loans are part of the lending business

The risk of non-repayment of loans is an inherent component of the lending business. Risk of loss is part of the credit rating banks assign to borrowers and is, therefore, included in the cost of borrowing. Loan losses and NPLs generally encompass non-performing loans, insolvency proceedings and debts where customers' payments fail to meet the contractual terms.

The probability that a loan will be repaid in full is substantially lower once the loan has been classified as non-performing. As a result, purchasers such as Hoist Finance can acquire NPL portfolios at a significant discount to the loans' nominal value.

Banks often have a different view of the value of their loans, which has hampered NPL divestments. Slow procedures and structural inefficiencies in debt recovery have been instrumental in limiting the transaction market.

Advantages of divesting NPLs from a banking perspective

- ») Reduce risk. NPL sales reduce the sellers' risk exposure, release credit reserves and strengthen capital ratios by reducing risk-weighted assets.
- » Release liquidity. NPL sales translate into up-front cash payments that improving the selling banks' liquidity positions.
- » Focus on core business. It takes time, resources and specialised expertise to recover NPLs. By selling NPLs, banks avoid the costs and challenges associated with maintaining an in-house debt recovery operation.
- >>> Return on equity. Divestment of NPLs contributes to an improved return

on equity, which is vital to meeting shareholder demands for continuously improved returns.

Mature markets

Most banks today have sophisticated sales processes, and the quality of portfolio data is improving. Risks have, therefore, been reduced and sellers can feel more certain that they will receive a correct market price. Having started by selling unsecured loans, banks have become more comfortable with selling other asset classes as well. This is part of the ongoing development trend. With fewer risks associated with selling and acquiring loans, the price of loan portfolios has risen. This trend has developed to varying degrees in different countries, with the UK among the markets where it has proceeded the farthest.

Stages of development in different markets

Undeveloped market

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

Growth market

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

Mature market

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

Competition for loan portfolios is a contributing factor to the price increase, which puts pressure on margins. This development has been driven over the past five or six years by lower borrowing costs, which appear to have bottomed out in 2018 and are on the way up again.

The total amount NPL is decreasing

In Europe, the volume of outstanding NPLs in the banking sector decreased to approximately SEK 7,143 billion as per Q3 2018, as compared with approximately SEK 10,000 billion in 2017. This amount represents around 3.4 per cent of all loans, as compared with 5 per cent in 2017. The decrease, while gradual, is partly due to legislation facilitating trade in receivables aimed at reducing the number of receivables in the European banking system.

Trends that affect the market

There are trends that affect market development and that Hoist Finance is planning for:

- >> Strong market growth.
- » Demand for increased operational efficiency is driving consolidation in the industry.

- >> Increasing funding costs.
- >> Continued regulation of the market and greater market maturity.
- >> Consolidation to fewer, larger players.

It is crucial to reduce the number of non-performing loans in Europe's financial system. Household and SME over-indebtedness causes banks to restrict their lending, and small businesses are unable to invest—which inhibits economic growth.

The transaction market is nevertheless growing, due partly to the fact that the market continues to develop and become more sophisticated.

New regulations and accounting rules

The introduction of IFRS 9 as from 2018 requires banks to calculate and make provisions for expected credit losses as early as initial recognition following the granting of new loans. The new rules have had some positive effects, in that banks are required to report their expected credit losses at an earlier stage. The purpose of the new accounting standard for classification and measurement of financial assets is to enable

earlier prediction of credit losses. Additional regulations in this area are to be expected in coming years.

Competition

A few well-respected companies have emerged as the European market matures, and Hoist Finance holds a strong position as a partner to international banks and financial institutions. The company is among the five largest in Europe measured by ERC (Estimated Remaining Collections). Efficiency and cost savings are high on the agenda for these companies and help fuel the consolidation trend. The degree of consolidation is greater in mature markets with lower prices.

Market consolidation is taking place in parallel with an increase in regulation. Several major and minor transactions have been conducted in recent years, and this trend is expected to continue. The need for efficiency improvements is a significant driving force behind this market consolidation.

Impact of economic cycle on NPL market

Affects Macroeconomic Affects **Debt collection** Supply of NPLs climate >> Lower unemployment.)) More consumer lending increases the general credit stock. >> Customers have greater payment >> Lower share of overdue loans. capacity. Strong economic climate Weak economic climate >> Customers' reduced payment capacity) Larger numbers and accumulated volumes partially offset by larger NPL volumes and outsourcing.)) Regulatory requirements press banks to sell NPLs.

Macroeconimic development

Certain elements of countercyclical effects are present in Hoist Finance's market. In the event of an economic downturn it may be more difficult for customers to repay their debts, while at the same time there is an increased supply of NPLs.

Hoist Finance's offering

During 2018, Hoist Finance broadened its offering to enhance its position as a fullservice partner to European banks and financial institutions. The offering is based on more than 20 years' experience in deriving value from over 2,500 acquired NPL portfolios. As a regulated credit market company, banks and financial institutions can be assured that Hoist Finance meets stringent requirements.

Customer in Italy

"The person I dealt with showed a lot of compassion, unlike some of your competitors. If more representatives were like your employees, more people would be more willing to solve their payment problems."

The company's success is based on longterm, stable relationships with a number of Europe's largest banks. As a regulated credit market company, Hoist Finance is regulated by the same authorities as the banks, which builds trust and an understanding of the challenges banks are facing.

Expansion into new asset classes

Hoist Finance continued its expansion into new asset classes during the year. This expansion was made possible by recent capacity and system developments, which have allowed a structured, step-by-step expansion of operations. The ongoing expansion of the company's product offering presents significant advantages, increasing Hoist Finance's attractiveness as a full-service supplier

to banks and financial institutions. The long-range goal is to be able to offer comprehensive service in most of the company's markets, including:

- Non-performing B2C loans secured and unsecured.
- » Secured Non-performing mortgage loans.
- » Non-performing SME loans secured and unsecured.
- » Performing loans.
- » Customer portfolio management on behalf of third parties.

Hoist Finance is primarily focused on unsecured B2C loans. This segment, however, represents only 10 per cent of the banks' current challenges. In view of this, Hoist Finance is planning a large-scale expansion into several asset classes in the company's prioritised markets.

Expansion into new asset classes





Loan acquisition strategies

Bank-originated loans

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

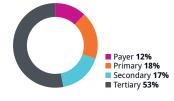
Carrying value by type of debt, 31 December 2018



Asset-class flexibility

-)) Flexibility to buy all types of financial institution-originated debt.
- >> Varying freshness of debt in different markets.
-)) Partner benefit: Hoist Finance as a one-stop-shop.
-)) High proportion of performing/fresh loans in recent years.

Carrying value by age of debt¹⁾, 31 December 2018

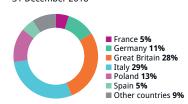


1) Excluding performing loans

Diversified geographic profile

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

Carrying value distribution per country, 31 December 2018



Acquisitions in 2018

Hoist Finance acquired several portfolios of various asset classes during 2018. The total acquisition volume amounted to SEK 8,048 million distributed as follows: 59 per cent unsecured loans, 27 per cent secured loans, and 14 per cent performing loans (mainly comprised of mortgage loans).

Among the major acquisitions can be mentioned:

- ») One mortgage loan portfolio acquired in Poland, sold by Danish bank Nykredit. The carrying amount of the portfolio was SEK 662 million, with the acquisition also including a small credit management team in Warsaw.
- » A so called forward flow agreement, see description below, for approximately EUR 90 million with an Italian financial institution. The agreement, which runs for up to 18 months, was one of the first major forward flow agreements in the Italian market.
- » An agreement to acquire operations in the Italian credit management companies Maran. Through the acquisition, Hoist Finance has a comprehensive solution for the Italian finance industry, offering credit management as well as portfolio acquisitions. The acqui-

sition of Maran and its staff of 200 is expected to be completed during the first half of 2019.

Hoist Finance's strong position rests on the following elements:

- **))** Good understanding of the regulated banking environment.
- » 20 years' experience as a specialised bank partner for managing acquired loans.
- » Operations managed internally signifying close customer contacts, good operational control (including compliance), ethical practices and better risk limitation.
- » Flexible and customised offering with presence in the major European markets.
- **))** Diversified funding with deposits from the public and the capital market.

Focused offering

Hoist Finance's focus is on Europe's major banks and financial institutions. By concentrating on a number of prioritised markets, the company is able to cover 75–80 per cent of its market. The offering is broad as regards asset classes and also includes servicing, i.e., Hoist Finance manages customer portfolios on behalf of third parties.

Long-term partnerships

Over the past ten years Hoist Finance has done business with all of Europe's ten largest banks. Several of these are among Hoist Finance's most important partners, with collaboration often involving multiple countries. One success factor has been offering flexible solutions and the capacity to manage complex acquisitions that simultaneously involve different types of asset classes.

When transferring a portfolio, it is important that the bank's customers are transferred as smoothly as possible and with optimal care for the customer relationship. Hoist Finance has strict procedures and processes for ensuring fair treatment of customers and compliance with the bank's compliance criteria. Optimal outcomes are achieved when the transfer process is planned and initiated well in advance.

Non-performing loan categories

Acquired loans are generally categorised according to how long they have been in default.

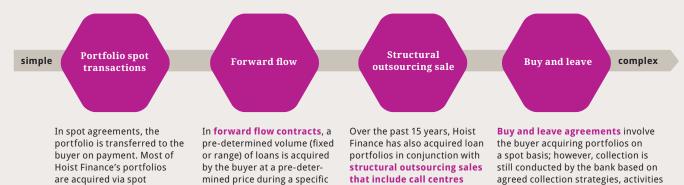
» Performing loans have been in default for between one day and three months and has normally a payment history of on-going payments.

and collection targets.

Various solutions

transactions.

Different models for acquiring portfolios



centres.

time period.

along with the employees and

portfolios managed by the call

- >> Primary loans have been in default for three to nine months.
- » Secondary loans have been in default for nine months to two years.
- » Tertiary loans have been in default for two to five years.
- "Garage loans" have been in default for five or more years, in most cases totally written off.

The majority of portfolios acquired by Hoist Finance have been tertiary loans, but the share of fresher loans has increased as markets become more mature.

Sales via panels

Banks and financial institutions often use panels to divest loan portfolios. Panels are comprised of reliable purchasers who place bids for the portfolio, in a procedure similar to an auction. A panel can have up to five participants, all of whom meet the seller's strict criteria and requirements.

These requirements may include documented experience in professional customer service and compliance with local and EU-level regulations in areas such as IT security and customer relations. Hoist Finance's broad geographic presence in Europe is also a significant factor in the selection of panel participants.

Asset sales can also be conducted through bilateral agreements, which also tend to happen with participants the bank has collaborated with in the past.

Valuation and pricing of acquired loans

Loan portfolio valuation and pricing is based on historical data and future cash flows. With its exhaustive time-series database of portfolio acquisitions dating back to the year 2000, Hoist Finance is able to offer counterparties reasonable prices for their assets with a high degree of accuracy.

Based on the database, Hoist Finance has developed a powerful set of tools for examining and analysing potential acquisition opportunities. The database contains detailed information on measures taken, costs and recoveries for all loan portfolios the company has acquired and managed.

When evaluating a potential acquisition, Hoist Finance's debt recovery, investment and analysis team can work closely with the financial institution to forecast future cash flows and debt recovery costs at an early stage. Historical outcome data from older portfolios is valuable information in the calcula-

tion of future cash flows, which is done on a 15-year horizon. Taken together, this data facilitates the calculation of a reasonable price. Data-based pricing lays the foundation for Hoist Finance to offer market-based terms.

Anti-money laundering measures

Hoist Finance works actively to prevent money laundering and financing of terrorism. The company conducts a risk assessment every year and, based on this, takes any measures that are necessary. Employee training is a key element in managing money laundering risks. Preventive measures also include knowyour-customer assurance, transaction monitoring and separate inspections of politically exposed persons (PEPs), and sanction list checks. Any suspicious transactions are reported to the relevant authorities.



Helping customers keep their commitments

Hoist Finance's vision is to help as many customers as possible to keep their commitments. This requires having good relationships and sensitivity to what is often a challenging situation for the customer. Hoist Finance has many years' experience in debt recovery based on good customer relationships.



A great majority of customers want to reduce their debt burden, which makes it easier for Hoist Finance to reach agreement on voluntary repayment solutions.

A responsive and respectful customer dialogue is, and has always been, of major importance to Hoist Finance. It lays the ideal foundation for jointly reaching a solution satisfactory to all parties. A realistic repayment plan is often a decisive factor in this solution. If a repayment plan is to be successful over time, it needs to be based on the customer's specific situation. In practice, this often means small monthly payments of perhaps 20–25 euro.

Good customer relationships

Hoist Finance's customers are often in financially vulnerable situations, so fair and ethical treatment of customers is essential. All employees who have any form of customer contact, therefore, receive training in listening and asking the relevant questions to gain understan-

ding of the customer's perspective, with the aim of developing a realistic and appropriate repayment plan. Empathy and good social skills among employees and well-organised internal training are key success factors.

Local harmonisation

Work methods vary across markets due to legal and regulatory differences between countries. The regulatory landscape tends to be more extensive in more mature markets. Among Hoist Finance's main markets, the UK has the most comprehensive customer contact regulations. Selected local partners are sometimes used for customer contacts for reasons that include these regulatory differences.

Continuous follow-up

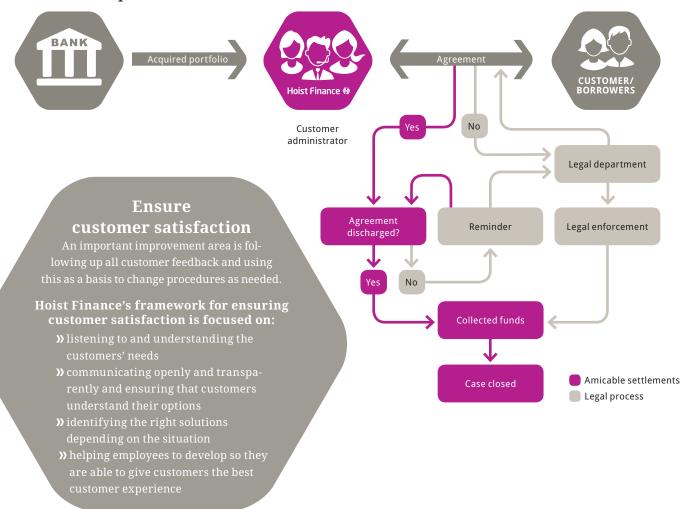
The customer's personal financial situation is monitored regularly to enable an assessment of any changes to repayment conditions. Customer dialogue has been mainly conducted by phone, but is increasingly moving towards e-mail and other digital channels. Digital communication channels make things easier for customers, giving them direct access to their personal profile and data. Many customers prefer to manage their own accounts, without needing to go through the company's call centre.

Legal action is taken only as a very last resort, so only a small percentage of claims are settled in this manner.

Privacy

Hoist Finance has processes in place to protect customers' personal information. These include systems and procedures to withstand various forms of IT crime and to ensure that customer data is managed prudently and in accordance with applicable regulations.

Collection process overview



Customer satisfaction targets for 2020

A project was launched in 2018 aimed at achieving and maintaining high customer satisfaction and quality assurance throughout the Group. As part of this project, a standard framework was developed to measure customer satisfaction and to ensure that all of Hoist Finance works toward a common goal.

The framework was previously incorporated into the company's system in the UK with good results, and was launched in Poland, France and Italy in 2018. Belgium, the Netherlands and Germany were added in late 2018/early 2019.

Following up and, when necessary, acting on customer feedback is essential to ensuring high-quality and reliable service. By aiming to provide the highest possible quality in its customer contacts, the company contributes to a long-term sustainable financial ecosystem—including prospects for a brighter financial future for its customers.

In the countries that conducted customer follow-ups, 79 per cent of survey respondents were positive about Hoist

Finance's model for amicable settlements. Because the framework was recently launched, there are no relevant comparative figures for 2017.

Customer complaints process

For best results, follow-up is done locally in accordance with local regulations and circumstances. Those responsible for customer feedback report regularly to the local management team and the Group's COO. There is also a separate procedure for customer complaints in each country, under which each country specifies the number of complaints received and the way these were handled. The reports are then sent to the Group's complaints manager, who prepares a groupwide report each quarter and reports to the Executive Management Team and the Board's Risk and Audit Committee.

Digital channels

Hoist Finance's digital solutions make it possible for customers to decide for themselves as to how and when they choose to meet their financial commitments and subsequently create their own repayment plans. This allows customers to more easily take control of their personal financial situation.

Hoist Finance in the UK has been a digital pioneer and proven that there is significant efficiency potential in self-service via the internet or Hoist Finance apps. Hoist Finance's cost for these channels is estimated at 1/15 of the cost of providing corresponding services manually. The digital solutions will be introduced by stages in Hoist Finance's markets.

Digital solutions also facilitate efficiency improvements in management and analysis of customer data, customer behaviour and customer needs, and thus also what the customer base looks like at an aggregate level. With continuous improvements to Hoist Finance's data management and interfaces, customer processing will become more efficient and customer-oriented. All data is secured through limited access, automatic monitoring and sensitive data encryption in accordance with applicable data protection regulations.



Customer case – Claudia

Responsive and respectful dialogue

A few years ago, Claudia's life was not so easy. She felt ill at ease whenever the phone rang ... was it a debt collector phoning again?

A messy divorce and a newborn to care for were all that was needed for her to fall behind on her credit card payments. A lunch, a film or a couple of drinks in town a few times a month shouldn't be too much to ask – especially not for someone like Claudia, who works two jobs and has never taken a sick day. But things add up, and one credit card became three and then five.

Claudia was losing hope, and soon the debt collectors started contacting her. Aggressive and insensitive voices, who didn't care about her situation or her life. Her mother's bad hip, her lost work shifts, her daughter's chicken pox ... they were entirely uninterested in hearing about it. It was only about the money. The people calling her had no procedure for adding Claudia's personal circumstances into the equation.

But one day there was suddenly a new tone of voice. With a credit administrator from Hoist Finance, aggressiveness was replaced with courteousness, insensitivity with respectfulness. Demands were replaced with solutions – solutions that gave Claudia the chance to regain a foothold in life. Various options were presented that allowed Claudia to get rid of all but one of her credit cards. With each successful repayment, Claudia began to regain hope and her personal dignity.

Hoist Finance's model for amicable settlements is founded on employees who are responsive and focused on finding a solution favourable to both the customer and Hoist Finance.

Best place to work

Hoist Finance strives to be the industry's best place to work. Our employees are the heart of the company. We want to give our employees the best work environment and equal opportunities to develop.

Customer in the UK

"The representative was friendly and professional and listened to what I had to say, and immediately followed through by sending a text as promised. I have only positive things to say about her conduct. Thank you."

Organisational structure	Governance	Processes	Employees and competencies
Market- and customer oriented organisation.	Clear roles, responsibilities and specification of responsibilities.	Harmonisation between all countries.	Encourage innovation and continuous improvement.
Flexible and scalable organisation ready for growth.	Cooperation and trans- parency throughout the organisation.	Well-defined processes and channels with specified objectives.	Attract and retain top talent.
Flat organisation with fewest possible hierarchical levels.	Structured meetings and information exchange.		Encourage internal career development and diversity.
Eliminate functional imbalance.			

Corporate culture

Hoist Finance adopted a new strategy during 2018 aimed at, among other things, organisational optimisation, efficiency and productivity improvements, and equipping the organisation with a flexible platform for growth. A scalable organisational structure is a prerequisite for Hoist Finance's achievement of its overall goal of being among the top three in prioritised markets. Continuing to work with digitalised methods in future calls for an entirely new structure. In order to make development and innovation advances, employees need to collaborate and share diverse skills across the organisation. Harmonised, more efficient work methods have, therefore, been introduced throughout the organisation. The new organisation was implemented on 1 January 2019.

Shared Service Center

A Shared Service Centre has also been established in Poland as a central support function to support the entire Group with administrative processes.

One Hoist Finance

The new organisational structure, clearly-defined processes, and clear roles and responsibilities are focused on one thing: working effectively together as a unified company – One Hoist Finance – that always puts the customer first. Helping our customers re-enter the financial ecosystem through amicable settlements is what distinguishes Hoist Finance. With this well-defined purpose, a clear structure and a strong, healthy corporate culture, our ambition is to work together to create the best workplace.

Great Place to Work

A collaboration with the company "Great Place to Work" was initiated in 2016 to measure the development of corporate culture and work environment over time. "Great Place to Work" conducts one of the world's largest employee survey and ranking programmes and provides tools to support and prioritise development areas. An employee survey that measures TRUST is a key tool, providing

information about employee perceptions of the company.

The employee survey also measures how far Hoist Finance has come in implementing its values. The result for 2018 was an index of 61 per cent (61). Harmonised follow-up plans will be implemented in 2019 to improve this result. Hoist Finance's objective is to improve the internal processes in order for Hoist Finance to achieve a "Best place to work" rating in each country.

Sweden and Italy both received Great Place to Work certification in 2018. This gives Hoist Finance a high rank in comparison with companies of similar size in each market.

Ethical guidelines

The company's ethical guidelines are comprised of an umbrella document and several ancillary documents that are designed to be applied by both employees and partners. The umbrella document specifies fundamental values and principles and provides information on some



Corporate culture and values

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

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

With energy, enthusiasm and direction, we will deliver on our commitments and produce sus-tainable growth.

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

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

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





Hoist Finance's Stockholm office, for the second consecutive year, was certified as Great Place to Work. The Italian offices in Lecce and Rome were also certified as Great Place to Work 2018. Hoist Finance can thus compete to become one of the best workplaces in both Sweden and Italy. The evaluation is made by Great Place to Work, a neutral and outside party, which ensures an independent evaluation.

Great Place to Work results, Group

People have been treated fairly	2018	2017
irrespective of age	80%	79%
irrespective of ethnic origin	92%	93%
irrespective of gender	86%	86%
irrespective of sexual orientation	93%	93%
irrespective of disability	87%	91%

of the ancillary documents. All employees receive regular training on ethical issues

Training statistics are monitored on a monthly basis to ensure that all employees receive regular training on ethical issues. The ethical guidelines not only require compliance with laws and regulations, but also provide guidance in ethical employee behaviour in line with Hoist Finance's values. Hoist Finance closely monitors the company's compliance with applicable legal requirements in operating countries.

Work environment and well-being

Hoist Finance works continuously to ensure that all employees have a good physical and psychosocial work environment. Continuous operational improvements are made to guarantee employee well-being and ensure that employees reach their full potential. Hoist Finance works systematically with work environment and health issues, with a focus on creating a workplace that can accommodate at an early stage any employees needing extra support. This focus creates an inspiring environment for employees and customers—a workplace where employees feel comfortable and are happy to continue working.

Career and skills development

Continuous skills development is a key element in Hoist Finance's ability to adapt to new circumstances and offer innovative solutions. Communication with financially vulnerable customers requires empathy and understanding of

a complicated situation. Hoist Finance employees are, therefore, trained in conducting dialogue with customers with the aim of reaching an agreement that is satisfactory to both parties.

The company's employee survey showed development potential within skills development and employee perceptions that there are career paths within the Group. As part of this improvement work, external and internal training is used for employee development. Training topics include IT security, methods used by the Group to discover and prevent money laundering and corruption, and coaching in guiding customers through difficult situations. In several operating countries, self-developed training and internal course leaders are supplemented with external trainers and coaches. This ensures the company's success and employees' personal development.

Essential to Hoist Finance's business is its employees' ability to handle potential problems in drawing boundaries between regulatory compliance and having good personal contact with customers. Working based on established training plans in combination with ad hoc training facilitates learning and allows training sessions to be created based on employees' current needs, which strengthens their professional skills. During 2018, training hours per employee amounted to 28.

Leadership development

It is essential to Hoist Finance's business that the Group's managers are inspiring

and able to develop the company in accordance with the company's strategy. This requires offering managers the opportunity to grow.

The company's 2018 employee survey showed development potential in a number of areas. Several initiatives in 2019 will, therefore, focus on creating a management programme based on cooperation, clarity and dialogue. To improve results and uniformity, a Centre of Excellence was established in Salford during 2018 under the Hoist Finance Academy name.

Leaders are developed by identifying key positions in the business and recognising and developing colleagues who are appropriate for these positions. Hoist Finance applies the same principle when replacing people in senior positions. Hoist Finance also arranges annual leadership conferences as part of developing the company's corporate culture. Issues addressed at this year's conference included digitalisation and One Hoist Finance – two highly relevant issues for Hoist Finance.

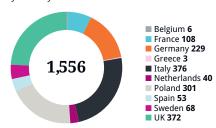
Diversity and equal opportunity

Hoist Finance endeavours to offer the best place to work. The company's continued success is based on Hoist Finance creating a diverse work environment with equal opportunities for all employees. Hoist Finance aims to be a place where people respect each other and understand the individual needs of others. It is self-evident that everyone should have the same rights and obligations.

Hoist Finance's approach to diversity is clearly formulated in the company's

Number of employees (FTE) 2018

by country







Number of employees	Women 2018	Women 2017	Men 2018	Men 2017	Total 2018	Total 2017
Total number of employees, 31 December 2018	1,001	823	702	620	1,703	1,443
Full-time employees (FTEs), 31 December 2018	888	738	668	597	1,556	1,335
Average number of employees	872	718	659	570	1,531	1,288

Percentage women, %	2018	2017
Senior executives	32%	40%
Parent Company Board of		
Directors	63%	63%
Full-time employees (FTEs)	57%	55%

diversity policy that was adopted and implemented in 2017. The organisation has worked continuously since then to achieve these goals. Diversity is the area with the highest rating in the employee survey, with a full 85 per cent of employees responding that they are treated respectfully.

At Hoist Finance, equality and fairness form the basis for employees' salaries, and the diversity policy is applied when setting salaries. Employee salaries are determined based on local salary levels, market practices and collective agreements where these are in place. The remuneration policy is reviewed at least once per year and is updated as needed.

Whistleblowing

Hoist Finance has empowered its employees to report observations of behaviour considered to be unethical or illegal. Hoist Finance has developed a whistleblowing procedure through which employees can openly or anonymously notify the company of wrongdoings in the business. Cases of discrimination can also be reported through the whistleblowing procedure.

To raise awareness of employees' responsibility in this area, an E-learning

course on the whistleblowing procedure was introduced for all employees in 2016, and all new hires since then have completed the course. Less than ten cases were reported through the whistleblower procedure in 2018, none of which were deemed to involve improprieties. Hoist Finance will further strengthen the whistleblowing process by adding the option of a fully anonymous, web-based whistleblowing solution. The E-learning course will be updated and re-launched for all employees in conjunction with this.

Our employees

At 31 December 2018, Hoist Finance had 1,703 employees (1,443), including temporary employees, in 11 (11) countries. Thirty-eight per cent (27) of the employees are covered by collective agreements. Of these, 93 per cent (92) were permanent employees and 7 per cent (8) were temporary employees. Recalculated as full-time employees (FTEs), there were 1,556 employees (1,335) at year-end, of which 888 (738) were women and 668 (597) were men. The year-end increase is mainly due to the agreement with the Italian credit management company Maran in late 2018. The average number

of employees in 2018 was 1,531 (1,228), of which 872 (718) were women and 659 (570) were men.

Calculated based on average number of employees, 57 per cent (57) of employees were women. At year-end, 13 per cent (13) of the members of the Executive Management Team were women. At 31 December 2018, 21 per cent (26) of the members of the Group Boards of Directors were women, and 63 per cent (63) of the members of the Parent Company's board were women. Within the Group, 39 per cent (45) of managers were women during the same period.

Employee turnover and sick leave

In 2018, 556 (462) new employees were recruited and staff turnover was 31.32 per cent (28.81). Short-term absence due to illness was 3.46 per cent (4.51), which we believe corresponds to that of other businesses with a high percentage of customer centre jobs.

During the year, operations in Bremen were relocated to Duisburg, the operational activities in Brussels were moved to Amsterdam and the operational activities in Milton Keynes were moved to Manchester. All employees were offered the opportunity to relocate with their jobs.



Efficient funding

lays the foundation for strong growth

Hoist Finance continued to work during the year to improve the efficiency of the company's funding structure. A stable deposit programme in both SEK and EUR, diversified capital market borrowing, and a bilateral loan facility collectively generate well-diversified, cost-efficient funding and lay the foundation for continued growth.

The Group's funding is comprised of deposits from the public and the issue of bond loans and money market instruments.

Deposits from the public in Sweden decreased SEK 951 million during the year to SEK 11,292 million. Euro deposits increased EUR 465 million in 2018 to EUR 565 million. Capital market borrowing totalled EUR 677 million at year-end, of which EUR 83 million is attributable to money market instruments and EUR 594 million to bond loans. Hoist Finance issued short- and long-term debt during the year amounting to EUR 83 million and EUR 64 million respectively.

Tier 1 capital (AT1) was strengthened during the year through an issue of EUR 40 million.

Moody's awarded Hoist Finance a long-term senior borrowing rating of Baa3 with a stable outlook. The short-term credit rating is P-3. The credit rating signifies the company's credit profile and impacts its financing costs.

Deposits

Since 2009 in Sweden and 2017 in Germany, Hoist Finance has offered accounts with fixed and flexible interest rates at competitive terms.

In Sweden, HoistSpar offers savings options to retail customers and corporates and customers are allowed to save up to SEK 950,000.

The proportion of savings accounts with 12-month or longer maturities increased during the year. As per

31 December 2018, Swedish deposits had decreased 7.8 per cent to SEK 11,292 million (12,243), distributed over 54,025 active accounts (63,271).

A similar offer has been available in Germany since 2017, with customers allowed to save up to EUR 100,000.

As per 31 December 2018, deposits in Germany amounted to EUR 565 million (100), an increase of 465 per cent, distributed over 17,774 accounts (4,462). Euro deposits strengthen and diversity the Group's funding.

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

» European deposit guarantee

Deposits in Hoist Finance are covered by the deposit guarantee scheme, which in Sweden corresponds to SEK 950,000.

» Regulated credit market company

Hoist Finance is a regulated credit market company under the supervision of the Swedish FSA.

) Good credit rating

The company's credit rating is Baa3/ Prime-3 for its long- and short-term borrowing, which corresponds to investment grade.

Capital market funding

During the year, Hoist Finance established a Swedish commercial paper programme with a framework amount of SEK 2,500 million and with the option to conduct issues in SEK as well as EUR. Outstanding issues under the programme amounted to EUR 83 million at year-end.

Due to the company's good credit rating it was able to issue unsecured and subordinated debt at favourable terms, in 2018. During the third quarter the company issued a senior unsecured bond of EUR 250 million under its Euro Medium Term Note (EMTN) Programme, and in conjunction with this conducted a partial repurchase of a bond maturing in December 2019.

At year-end the company had issued EUR 594 million under the EMTN programme, represented by three senior unsecured bond loans and one subordinated bond loan.

During the second quarter, Hoist Finance issued EUR 40 million in Additional Tier 1 capital (AT1) with special temporary write-down conditions.

Bilateral funding

During the third quarter, Hoist Finance established a revolving credit facility of EUR 150 million with a maximum duration of four years. The facility can be drawn on in different currencies and at varying durations. The loan facility was unutilised at year-end.

Moody's credit rating Baa3

Funding structure, 31 dec 2018



- Demand deposits 38%

- 1-3 year fixed-interest deposits 21%
 Senior unsecured bond loans 17%
 Equity, including Additional Tier 1 capital 15%

- Other liabilities 3%
 Subordinated bond loans 3%
 Money Market instruments 3%

Deposit accounts

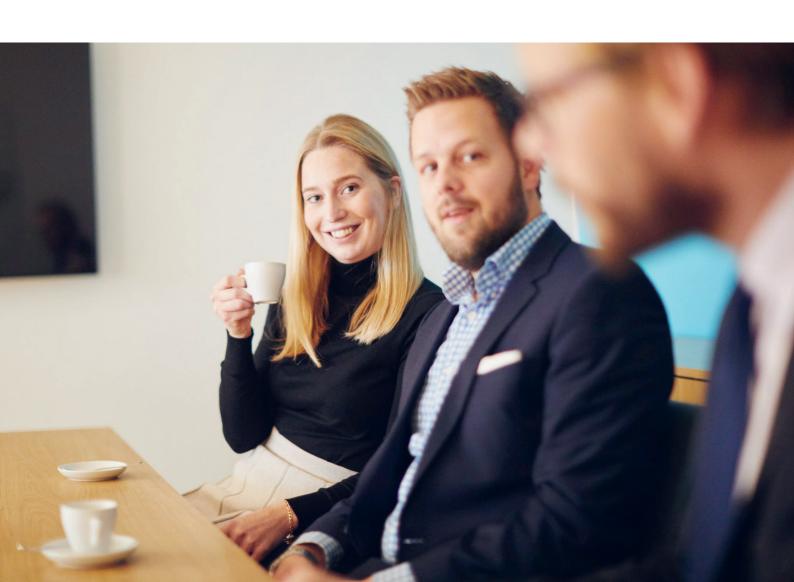
71,799 (67,733)

Capital structure, 31 dec 2018



- CET1 capital 68,3%
- Additional Tier 1 capital 17,4%
 Tier 2 capital 14,3%

SEK 17,093 million deposits



The share

Hoist Finance's market capitalisation was SEK 3,853 million based on the last price paid on 28 December 2018, which was SEK 43.15 per share.

Share performance in 2018

Hoist Finance's share price fell 53.7 per cent in 2018, while the total OMX Stockholm PI index fell 7.8 per cent. The highest closing price quoted during the year was SEK 99.20, on 1 February 2018, and the lowest closing price was SEK 39.75, on 27 December 2018.

Trading volume

A total of 78.7 million Hoist Finance shares1) were traded on all trading platforms during 2018, while the average daily trading volume was 314,880 shares. Trading on Nasdaq Stockholm accounted for 77.9 per cent (49.0) of total trading volume in the Hoist Finance share.

Beta value and volatility

The beta value of the Hoist Finance share was 1.21 in 2018 (0.77). The beta value shows the way in which a share price fluctuates in relation to the market as a whole – in this case, as compared with OMX Stockholm Pi. A beta value of 1.00 indicates that the share price has developed in line with the rest of the market. Share price volatility was 45.3 per cent (23.5) in 2018. This figure shows the daily share price movements in relation to its average value.

Share capital

At year-end, Hoist Finance's share capital amounted to SEK 29,767,666.66 divided among 89,303,000 shares. All shares carry equal entitlement to the

company's earnings and equity, and equal voting rights.

In September, as authorised by the AGM, Hoist Finance conducted a directed share issue of 8,118,454 shares at an issue price of SEK 70 per share and accordingly received gross proceeds of approximately SEK 568 million. The intention is to utilise the issue proceeds to finance major future portfolio investments or the acquisition of companies or businesses.

The reason for the irregularity as regards shareholders' preferential rights was to broaden and strengthen the shareholder base among Swedish and international institutional investors while at the same time raising capital in a timely, cost-efficient manner.

Hoist Finance share data 2018

Closing low, SEK	39.75
Closing high, SEK	99.20
VWAP	66.33
Share turnover	78,720,029
Daily turnover, shares	314,880
Number of trades	217,971
Average per day, trades	871.9
Average value per trade, SEK	23,954
Average daily turnover, SEK million	20.9
Daily turnover rel. MCAP, %	0.34
On Nasdaq (ordinary trading), %	77.9
Transactions on other trading platforms, %	21.5
Dark pools (Nasdaq), %	0.6
1) Source: Modular Finance AP	

1) Source: Modular Finance AB.

Ownership structure, 31 December 2018

Size	Number of shares	Capital, %	Votes, %	share- holders	Share- holders, %
1-500	406,674	0.5	0.5	2,542	59.1
501–1,000	474,857	0.5	0.5	559	13.0
1,001-2,000	620,159	0.7	0.7	382	8.9
2,001-5,000	1,436,500	1.6	1.6	407	9.5
5,001–10,000	1,209,511	1.3	1.3	156	3.6
10,001–20,000	1,320,505	1.5	1.5	88	2.1
20,001–50,000	2,452,347	2.8	2.8	75	1.7
50,001–100,000	2,139,276	2.4	2.4	30	0.7
100,001-	75,191,815	84.2	84.2	62	1.4
Owned anonymously	4,051,356	4.5	4.5	n/a	n/a
Total	89,303,000	100.0	100.0	4,301	100.0

Source: Modular Finance AB



Ownership structure

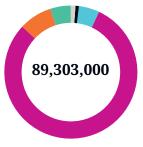
The number of shareholders was 4,301 at year-end 2018, an increase of 32 per cent. Of Hoist Finance's share capital, 79.7 per cent (80) is owned by Swedish investors1). The US and Norway account for the largest share of foreign ownership. The Hoist Finance share has been listed on Nasdaq Stockholm's Mid Cap list since 25 March 2015.

Dividend

The Board of Directors is proposing that an exception be made for financial year 2018 to the current dividend policy, and that no dividend be distributed for 2018 or 2019. The non-payment of dividends has a positive impact of 0.52 percentage points on the CET1 capital ratio as at 31 December 2018.

1) Source: Modular Finance AB.

Geographic distribution of shareholders per cent of total number of shares 89,303,000





Source: Modular Finance AB

Shareholder categories





Foreign 16%
Fund management 15%
Other foreign 1%
Anonymous shareholders 5%

Source: Modular Finance AB

Hoist Finance, 25 March 2015 - 30 December 2018



Source: Financial Information

Ownership structure, 31 December 2018

	capital and votes, %
Swedbank Robur Funds	8.8
EQT	8.0
Carve Capital AB	7.8
SEB Funds	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
Total 10 largest shareholders	51.8
Other shareholders	48.2
Total	100.0

Source: Modular Finance AB

Share of

Seven reasons to invest in Hoist Finance

easons to invest in moist i mance

1.

The transaction market for non-performing loans is growing strongly.

Investment motive

Underlying reasons

Hoist Finance considers there to be a number of long-term factors that will continue to increase sales volumes in coming years.

- » Regulatory pressure on banks to sell NPLs.
-)) Growing outsourcing trend among European banks.

2.

Good risk-adjusted return on portfolio investments made possible through a disciplined, well-supported acquisition process.

Hoist Finance has strict financial requirements for investments and carries out standardised and disciplined acquisition processes. This means that the company's portfolios generate healthy cash flow and deliver significant returns. Analysis and data processing are fundamental requirements and are fully integrated in pricing and collection.

3.

Hoist Finance is one of Europe's foremost partners to international banks in the restructuring of loans, with the know-how and expertise to carry out complex transactions.

Hoist Finance has a strong market position and long-term relationships with leading international banks. As a regulated credit market company, Hoist Finance has profound understanding of banking operations, and its licensed operations are a stamp of approval that distinguishes the company from other industry operators. Hoist Finance has partnered with all of Europe's ten largest banks by total assets within the past ten years.

4.

In-house collection platforms focused on constructive solutions based on sensitivity towards customers.

The overall goal of Hoist Finance's working method is to achieve long-term, sustainable repayment plans that generate good results for customers as well as the company.

5.

Operational efficiency. Hoist Finance focuses on six prioritised European countries that have high market growth. Over many years, Hoist Finance has built a strong position in selected European NPL markets. Profitability will be improved by leveraging operational economies of scale.

6.

Hoist Finance's business is underpinned by an efficient funding model.

Hoist Finance's operations are funded through deposits from the public and through capital and money market borrowing. In combination with a bilateral loan facility, this generates well-diversified, cost-efficient funding.

7.

Sustainable business practices.

Hoist Finance integrates all significant aspects of sustainability into its business model. This is done in cooperation with our employees, customers and partners.

Progress in 2018

Hoist Finance strengthened its position in existing markets and continued to expand into new asset classes.

Continuous investment strategy improvements to achieve the company's target of 15 per cent return on equity.

3) 2018 return on equity, excluding items affecting comparability, was 16 per cent.

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

-) Expanded collaboration with new and existing partners due to increased requirements for regulatory compliance and value chain control.
-)) A group-wide partner satisfaction survey is conducted after each agreement is signed.

Hoist Finance moved closer to end customers and improved its customer service.

-)) Takeover of loan portfolio in Poland provides closer customer contact.
-)) Organisation broken down by regions replaced with directly reporting country managers, moving us closer to end customers.

Improved operational efficiency and continued digitalisation.

-) Centralisation of IT operations in Duisburg, Germany and Manchester, UK, Amsterdam, The Netherlands.
- >> Continued digitalisation and development of self-service solutions (e.g., in the UK).

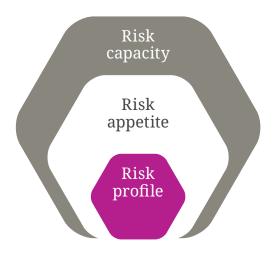
Maintained and developed strong funding base.

- >> Work to more clearly integrate the UN Sustainable Development Goals into the business.
- » Annual stakeholder dialogue process in all countries, concluding with a joint materiality analysis.
- >> Continuous quality assurance and follow-up of customer interactions through a group-wide customer satisfaction survey.
- » Proactive work to create a sound, ethical corporate culture that is measured and monitored through an annual employee survey.



Risk management

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



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

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

Risk management framework

Risk management at Hoist Finance aims to:

- » Increase certainty regarding the achievement of the company's objectives through identification, analysis, measurement, governance, control and reporting of associated risks; and
- » Secure the company's survival by maintaining adequate capital and liquidity levels.

This creates and maintains confidence in Hoist Finance among its stakeholders, thereby enabling sustainable shareholder value.

To fulfil these goals, the Board has adopted policies and strategies for the management, analysis, control and

reporting of risks in day-to-day operations, which together comprise a risk management framework.

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

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

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

Three lines of defence

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

Hoist Finance's risk management allocates roles and responsibilities in accordance with three lines of defence, described in the Corporate Governance Report.

Risk culture

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

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



Promoting a balanced risk culture is a long-term and continuous endeavour that permeates everything that Hoist Finance does. Internal rules, remuneration systems, incentives, ethical guidelines, formal educational initiatives and other governing mechanisms within the company are designed to ensure that the risk culture develops in a positive direction.

Security

Hoist Finance's operations are regulated by the Swedish FSA, which imposes requirements in areas including the management of operational risks, security issues and information security. The company is positive to more stringent security requirements, and works pro-actively to deliver on high internal security standards to safeguard the business, the customers and the owners. To further improve these efforts, the Security function has produced a new security policy and new security strategy during the year and has increased the unit's number of employees.

Information and IT security

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

Regulatory changes

Article 127 of the EU's Capital Requirement Regulation specifies a risk weight of 100 per cent for non-performing exposures written down by more than 20 per cent, and a risk weight of 150 per cent in other cases. Hoist Finance has historically interpreted the regulations to mean that, if an acquired asset's purchase price reflects a write-down of more than

20 per cent, a 100 per cent risk weight is to be applied. This has also been the interpretation of the financial industry as a whole and has been in line with the specific recommendations of the Swedish Financial Supervisory Authority (SFSA).

On 21 September 2018, the European Banking Authority (EBA) published its final response concerning consideration of specific credit adjustments (writedowns) for non-performing loans from a capital perspective, referencing Article 127 of the regulation.

The EBA's response indicates an alternative interpretation which only takes into account own write-downs that have impacted equity, not previous write-downs done by previous creditors (the selling banks). Since write-downs for most non-performing loans have impacted the seller's, not the purchaser's, balance sheet, the EBA's new interpretation requires Hoist Finance to apply a risk weight of 150 per cent for unsecured NPLs.

Hoist Finance does not agree with the EBA's interpretation, as it contradicts Article 127 principles indicating that risk reduction through write-downs shall be reflected in lower risk weights. In this context, it is irrelevant who does the write-down. The SFSA's previous specific recommendation to Hoist Finance has been to apply 100 per cent risk weights for these loans and, accordingly, the EBA's response appeared to Hoist Finance to be an interpretation that would not be supported by the SFSA.

On 18 December 2018, however, the SFSA announced its endorsement of the EBA's response, thereby modifying its previous interpretation. Although Hoist Finance is surprised by the SFSA's vacillation on this issue and despite Hoist Finance's disagreement with the new interpretation, the necessary risk weights have been adjusted as from 18 December 2018.

To be clear, Hoist Finance emphasises that the application of risk weights of 150

per cent does not signify any change to the risk level of the underlying asset.

Hoist Finance has closely monitored developments on the EU level during the latter half of 2018 regarding the change to the Capital Requirements Regulation 575/2013, concerning minimum loss coverage for non-performing exposures (also known as the NPL Backstop). The final proposal was published in early January 2019 and Hoist Finance expects the regulation to come into effect during Q2 2019. With the NPL Backstop, deductions to own funds must be made for non-performing exposures. The deduction amount will increase in proportion to the amount of time the exposures have been non-performing. Unsecured exposures, for example, will be deducted in their entirety after three years, and secured exposures after nine years. The regulation does not have an impact on Hoist Finance's existing exposures, but only affects loans originating after the regulation comes into force. Hoist Finance is currently working with a number of mitigating measures to minimise the effect of the new regulation. Read more in the Statement by the CEO.

Brexit

If the UK leaves the EU, the conditions for cross-border trade in financial services to and from the UK will change. During the year Hoist Finance investigated and evaluated the effects this will have on the Group and the direct and indirect impact of these effects on our operations. The areas that were analysed include legal structure, operational consequences, risk exposure, personal data management, funding, existing third-party agreements, and IT systems. Developments are monitored in a coordinated manner by a designated working group.

The Brexit issue has been taken into account in the Group's strategy work and its preparation of business plans and decisions. The UK is an important part of Hoist Finance's operations. A sharp economic downturn as a result of Brexit would most likely impact the Group's collections on current portfolios.

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

The risks to which Hoist Finance is exposed can be divided into two groups: strategic risks relating to Hoist Finance in the context of its macro environment, and business-related risks which are more linked to Hoist Finance's financial and operational activities.

Strategic risks

Risk type	Risk profile	Risk management
Competition The risk of increased competition in purchasing non-performing loans (NPL) or in offering savings accounts to the public could result in lower earnings for Hoist Finance.	As regards the purchasing of NPLs, Hoist Finance operates in ten countries within Europe and offers savings accounts in Sweden and Germany.	Hoist Finance strives to be competitive through cost-efficient borrowing and credit operations.
Regulatory framework The risk of new regulations negatively impacting Hoist Finance's business model or otherwise adversely affecting earnings.	As a credit market company, Hoist Finance is regulated by the Swedish FSA and, accordingly, is subject to the majority of Sweden's banking regulations.	Hoist Finance has a compliance function that works internationally across the jurisdictions in which the company operates. Forthcoming regulations are continuously monitored and subjected to risk analysis. Hoist Finance actively participates in dialogue with the regulator and makes statements on proposed regulatory frameworks.
Tax The risk that new or substantially altered products have not been properly assessed from a VAT or income tax perspective. The risk that appropriate processes are not in place, resulting in improper management of income tax and VAT. The risk that Hoist Finance will take over unknown tax liabilities in acquired companies.	Given that Hoist Finance operates in a large number of jurisdictions in Europe, tax issues are relatively complex. A high degree of complexity entails a risk that misinterpretations may have arisen.	There is ongoing work to ensure a sustainable structure includes analysing new tax rules and their impact on Hoist Finance's corporate structure. Hoist Finance also works continuously to ensure that the Group has the necessary processes in place and the expertise required to identify tax risks and clarify roles and responsibilities regarding income tax and VAT.
Macro-economic risks The risk that a change in economic trends could cause an unexpected drop in revenue.	Changes in GDP, unemployment levels and declines in European social welfare protection are assessed as having the greatest impact on Hoist Finance's revenue.	Hoist Finance expends considerable energy on developing and simulating the effects of stressed macro scenarios in order to ensure it is prepared in the event that these events occur. Based on the simulations, action plans have been prepared to counter the negative effects to the greatest extent possible.

Business-related financial risks

Risk type	Risk profile	Risk management
Credit risk The risk of loss arising from a customer's failure to repay principal or interest or otherwise meet a contractual obligation.	Credit risk refers mainly to acquired NPL portfolios and the risk that collection on these will be lower than forecasted. Credit risk also includes the risk of credit losses on acquired performing loans. Other credit risk exposures are: (i) cash deposits with banks; (ii) investments in interest bearing instruments; and (iii) counterparty risk related to hedging FX and interest-rate risk.	Credit risk in acquired loan portfolios is monitored, analysed and managed by the management in each country, and by the Group's Business Control unit. Other credit risks are analysed and managed by the Group's Treasury function. The Risk Control function analyses and monitors all credit risk exposures.
Market risk The risk arising from adverse movements in foreign exchange rates and interest rates.	The main FX risks arise from the fact that the loan portfolios (the assets) are denominated in EUR, PLN and GBP, while the reporting currency is SEK and the majority of liabilities are denominated in SEK. Interest-rate movements have an effect on net interest income.	Market risks are hedged continuously by the Group's Treasury function and are independently analysed by the Group's Risk Control function.
Liquidity risk The risk of difficulties in obtaining funding, and thus being unable to meet payment obligations when they fall due, without a significant increase in the cost of obtaining means of payment.	Liquidity risk is linked primarily to deposits from the public and the risk of large withdrawals occurring at short notice. Furthermore, increased requirements for funds pledged as collateral for derivative positions, and refinancing risk associated with existing market funding, could potentially impact liquidity in a negative way.	The Group has a significant liquidity reserve to cover potential outflows of liquidity. Hoist Finance also works pro-actively to diversify the number of funding sources.

Business-related operational risks

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

Risk type	Risk profile	Risk management
KISK LYPE	RISK Profile	KISK management

Model risk

This pertains to the risk that the models used by Hoist Finance to value assets and measure risk, for whatever reason, generate erroneous results or become irrelevant for the prevailing market conditions. The correct pricing and valuation of acquired NPLs is central to Hoist Finance's operations and is critical for profitability moving forward.

The company applies a focused and active approach to these issues. The models are continuously and rigorously evaluated to enable early identification of deviations that could indicate erroneous calibration or other faults with the models.

Outsourced operations

As part of the operational management of certain NPL portfolios, the company uses partners (known as debt collection agents) which, through outsourcing agreements, administer tasks such as customer contact, payments, arranging payment plans, etc. The risk that these partners do not act toward customers in accordance with the strict practices and high standards for which Hoist Finance is known.

Partners are used to a varying degree depending on the jurisdiction, but generally, only a minor portion of the total claims administration is handled by partners. Nevertheless, this risk is prioritised since a breach of practices regarding customer management could have considerable consequences for the company's reputation and brand.

Hoist Finance has rigorous controls in place to ensure that the partners we use act in the professional manner required by the company. These controls include assessments of financial strength and operational processes as well as internal governance and control.

Information security

The primary risk here concerns loss, leaks, changes to or theft of sensitive information and integrity breaches.

The information that would cause most damage if leaked, lost or stolen would be customer details or business secrets in the form of valuation data and risk models. Due to rigorous risk management measures, Hoist Finance views this risk as limited.

The company has a dedicated security department that continuously works with these issues and the IT department maintains a security focus. Reviews are carried out by The Risk Control function and Internal Audit.

Continuity risk

Hoist Finance's operations also include a risk of not being able to maintain operations in the case of an internal or external disruption.

Hoist Finance depends on the availability of personnel; infrastructure such as IT systems and telephony; and to a certain extent premises from which to conduct operations. The focus on continuity management has been within these areas.

The company conducts drill exercises on a regular basis in all jurisdictions to prepare for disruptive events and crises. Through these continuity drills, Hoist Finance reduces its vulnerability to disruptions in its critical processes and increases its capacity to regain critical processes within a tolerable time period.

Reputation risk

The primary reputation risk concerns damage to the brand.

The risk of Hoist Finance not acting toward customers in accordance with the strict practices and high standards for which Hoist Finance is known, resulting, in the worst case, in a decline in opportunities to acquire loans.

Ethical and fair treatment of customers is essential to Hoist Finance's business model for amicable settlements. Methods and working practices are based on laws and regulations.

Corruption and fraud

The primary risk here concerns breaches of the law.

The risk of losses due to fraudulent behaviour and corruption. Corruption risks can arise both intentionally and unintentionally due to a lack of understanding.

The risk of fraud is minimised through various dual-control measures in internal processes. For example, any transaction not deemed insignificant requires at least one extra signature.

Hoist Finance has an extensive anti-corruption programme and has set up ethical guidelines for how the company and its employees should conduct business in a responsible and ethical manner. Policies and regular training on the ethical guidelines are some examples of measures taken to combat all forms of corruption. Other measures include recurring internal surveys.

Money laundering and financing of terrorism

The primary risk here concerns involvement in money laundering and terrorism financing.

The risk of the company becoming involved in money laundering as a result of inadequate or failed internal processes or a lack of knowhow among staff.

Hoist Finance actively combats money laundering and terrorism financing. Business measures are adjusted to the findings of the annual risk analysis that is conducted. Preventive measures include know-your-customer processes, transaction monitoring and particular checks on politically exposed persons (PEPs), as well as checks against sanctions lists.

Labour law and work environment

The primary risk here concerns breaches of local labour law.

The risk that Hoist Finance does not treat its employees in accordance with laws and regulations.

Management training and developed policies form the basis of the strict practices and high standards for which Hoist Finance is known in terms of discrimination, trade union rights, work environment, collective agreements and remuneration.

Skills shortage

The primary risk here concerns being unable to attract and keep the best possible expertise.

The risk that Hoist Finance is not a sufficiently attractive employer to be able to attract and retain employees, thereby leading to inefficiency and high costs.

Considerable focus on developing the work environment and clear action plans for achieving better "Great Place to Work" results. During 2019 we will consolidate our management development in the Hoist Finance Academy.

Sustainable enterprise

Hoist Finance's social responsibility is well integrated into its business model. Through the Group's advanced expertise, Hoist Finance plays a key role in the financial ecosystem – meeting individuals who have become financially insolvent and helping them.

Hoist Finance contributes to sustainable development by ensuring that customers are satisfied by treating them ethically and fairly, while complying with applicable laws and regulations. Hoist Finance's social responsibility is also evident in its care for employees and goals for reducing its climate impact.

Hoist Finance strives to continuously raise the bar in its sustainability work by developing its efforts in the areas of customer relations, the environment, business ethics, working conditions and human rights. A process was introduced during the year for developing a new group-wide sustainability platform and KPIs, and will be finalised in 2019.

To coordinate its sustainability work, Hoist Finance has recruited a group-level Head of Sustainability responsible for the planning, implementation and follow-up of the sustainability programme. Hoist Finance's sustainability work is grounded in the Group's sustainability policy, which specifies the four guiding principles that underpin everything the Group does.

» Respect for customers and partners Safeguarding the integrity of our

Safeguarding the integrity of our customers and partners. Customers are treated with respect and dignity through a constructive and transparent dialogue.

» Respect for business ethics

Complying with all laws, regulations and internal company guidelines by acting ethically and with integrity.

» Respect for human and labour rights Demonstrating respect for the individual and our commitment to offer our employees professional growth and equal opportunity in a healthy and safe workplace.

» Respect for the environment Minimising the environmental footprint from our operations through increased awareness of our negative impact and by focusing on actions that make a difference.

Global sustainable development goals

The UN Global Sustainable Development Goals (SDG) were adopted by 193 UN member states along with representatives from governments, the business sector, researchers and civil society. The global goals are relevant for every country and company in the world, since the business community has been highlighted as crucial to achieving the goals.

During 2018, processes were initiated to identify, define and set targets for the direct goals the Group will be supporting, working with and following up during 2019. Selected goals will be integrated with the new sustainability platform. Hoist Finance's ambition is to be a responsible company contributing to the development of a sustainable society.































Materiality analysis

Stakeholder dialogue and materiality analysis

Part of Hoist Finance's overall strategy is creating an understanding of the sustainability work it does. The stakeholder dialogue is aimed at identifying on the issues that stakeholders think are most significant for Hoist Finance. One step in being more open and proactive is to expand direct dialogue with the company's stakeholders to identify prioritised issues. During 2019 Hoist Finance will review the process for conducting stakeholder dialogue, with an aim to increase engagement and number of respondents in the eleven operating countries.

Hoist Finance's stakeholders are groups and individuals who, directly or indirectly, are affected by the company's operations: employees, shareholders, business partners, customers and society at large. The management and the Board of Directors of Hoist Finance

have overall responsibility for balancing these interests while securing the company's survival. During 2018, Hoist Finance turned to the Group's stakeholders to find out what they thought was the company's most important sustainability issues. The selection process was conducted in dialogue between local units and the head office and with each country identifying appropriate participants. Questions were sent during 2018 to the company's stakeholders, including customers, banking partners, Debt Collection Agencies, employees and HoistSpar customers. The compiled results show that stakeholders consider four sustainability issues to be of particular importance to Hoist Finance's operations:

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



Materiality analysis, external stakeholders



The results of the dialogue are illuminated in the materiality assessment above. This shows that the stakeholders also consider other sustainability issues to be of importance to Hoist Finance. These areas will be followed up and addressed. Significant focus and resources will also be targeted at continuously making improvements in the most material aspects. Results from the stakeholder dialogue were analysed alongside results from the employee survey, described in the section "Best Place to Work".

Sustainability strategy and sustainability targets

Hoist Finance's sustainability work is divided into five strategic areas. Key metrics for each area were developed and set during the year (see table on page 41–42).

Preferred Partner

-)) Ensure satisfied partners by implementing a stable evaluation process.
- >>> Transparent reporting on anti-corruption measures.

Read more on page 14.

Preferred by customers

- » Respect customers' privacy.
- >>> Ethical and fair treatment of customers.
- Ensure customer satisfaction.

Read more on page 18.

Best place to work

- Create a workplace hallmarked by diversity and equal opportunity.
- Take steps to ensure that all forms of discrimination are eliminated.

Read more on page 21.

Attractive to Investors

- >>> Ensure sustainably strong financial earnings.
- Compliance with laws and regulations combined with an ethical approach.

Read more on page 28.

Contribution to society

Reduces environmental impact through

- » Reduce energy and fuel consumption.
- >>> Recycling or safe disposal of electronic waste.

Sustainability reporting

Hoist Finance's integrated 2018 Annual Report and Sustainability Report has been prepared pursuant to the GRI Standards: Core option. The GRI index is published on pages 43–44 and clarifies the scope of the Sustainability Report. The statutory sustainability report pursuant to the Annual Accounts Act is included in the statutory annual report: The business model is detailed on pages 10-11. A description of best place to work is detailed on pages 21-24. The sustainable enterprise section on pages 36-42 provides a more detailed description of Hoist Finance's key sustainability topics, organisation of sustainability efforts, and the goals and key metrics the company works with.

Key metrics	2018	2017
Customer satisfaction		
Customer satisfaction (%)	79	N/A
Anti-corruption		
Number of confirmed incidents	-	-
Reduce energy and fuel consumption		
Energy consumption within the organisation ¹⁾	2,688,076 kWh	2,258,212 kWh
Direct CO ₂ emissions	3 tonnes	70 tonnes
Indirect CO ₂ emissions ¹⁾	1,607 tonnes	1,346 tonnes
Indirect emissions per sq. m. office space	0.1 tonnes	0.1 tonnes
Other indirect GHG emissions ²⁾	1,023 tonnes	832 tonnes
Other indirect emissions per employee	0.7 tonnes	0.7 tonnes
Paper consumption ³⁾	53.8 tonnes	44.3 tonnes
Percentage of recycled wastepaper	59	72
Percentage of recycled computers ⁴⁾	99	91

- 1) London office, Belgium, the Netherlands, Greece and Spain are excluded.
- 2) Greece and Spain are excluded.
- 3) Greece is excluded.
- 4) Germany, Greece, Italy, Spain and Sweden are excluded.

Contribution to society

Reduced environmental impact

Climate issues are moving up on policy agendas across the globe, as the world at large gains more understanding of the effects of climate change on the global economy. The financial industry plays a key role in laying the foundation for long-term growth and a positive footprint on the planet. Responsible action is required to effectively curb resource use and CO₂ emissions that cause global warming.

Quarterly collections of CO₂ data were launched in 2017, along with a review to determine how the energy consumption and CO₂ emissions targets can be made more tangible. During 2018, Hoist Finance developed group-wide key metrics to ensure standardised, consistent reporting by all businesses. In 2019 targets will be set to reduce paper con-

sumption, ensure better management of electronic waste, and reduce energy and fuel consumption. Hoist Finance has also taken initial steps in a digital realignment that will reduce its amount of mail items over time. The Group's customers have the option of using apps and digital solutions to create their own repayment plans and cut down on paper use.

Sustainable purchasing process

Companies today are expected to take responsibility for human rights and labour law issues within their own operations and their supply chains. This includes evaluating risks, ensuring that human rights requirements are complied with, and providing options for suppliers to address labour law and environmental problems. With an effective procurement process, Hoist Finance

can ensure that the goods and services it buys meet the Group's standards. Hoist Finance imposes the same demands on consultants, contractors and suppliers as it does on its own operations. The Group promotes sustainable development by influencing and actively working with other companies, public authorities and organisations.

During 2018, Hoist Finance implemented an in-depth procurement process that features distinct sustainability requirements for purchased products and services. Due diligence processes for new business partners and suppliers have also been strengthened. All new suppliers are required to meet the procurement process requirements prior to contract formation.



Sustainability management and risks

The Board of Directors has overall responsibility for Hoist Finance's sustainability work. The Board also approves the overall sustainability policy and other policies governing Hoist Finance's sustainability work. The CEO and Executive Management Team decide on goals, development and implementation of the sustainability programme in line with the strategy adopted by the Board.

Hoist Finance's sustainability work is decentralised and is implemented where the company conducts business and has its operations. Activities encompass all of the company's operations and are coordinated and led by Hoist Finance's Head of Sustainability. The Group's Chief Business Development Officer (CBDO) is responsible for sustainability issues in the Executive Management Team. The country heads are responsible for ensuring that sustainability work is implemented and that procedures and instructions match applicable policies. They are also responsible for reporting the progress made by Hoist Finance.

Sustainability policy

Hoist Finance's sustainability policy forms the foundation for the company's sustainability programme and its daily sustainability work. The policy covers all employees of the Hoist Finance Group and all parts of Hoist Finance's operations. All initiatives and activities are guided by the company's four guiding principles for sustainability.

Hoist Finance's work on human rights is integrated into all policies that govern sustainability efforts. The ethical guidelines and sustainability policy provide the foundation for how human rights are to be observed. The diversity policy, personal data policy and the Group's anti-corruption policy provide details in more specific areas. By emphasising Hoist Finance's views on human rights, the Group can reduce the risk that violations will occur.

Anti-corruption and compliance

Hoist Finance has an extensive anti-corruption programme and has adopted guidelines specifying how the company and its employees are to conduct business in a responsible and ethical manner. Policies and regular training on the ethical guidelines are examples of measures taken to combat all forms of corruption. Other measures include recurring internal surveys in respect of compliance and internal control. The company's anti-corruption work is instrumental in keeping corruption risk at an absolute minimum.

Since 2017 the Compliance function has been conducting a more extensive survey regarding the risk of corruption in all business units. The survey's primary goal is to identify strengths and weaknesses in the area. Survey results for the past two years show that managers have a healthy understanding of what corruption comprises and the majority are very familiar with the internal rules and are well-trained on the subject. The survey also shows that work should continue with the anti-corruption framework in order to constantly lower the risk for corruption. During 2018, Hoist Finance was not subject to any financial or non-financial sanctions for compliance breach by any supervisory authority in any operating country.

Sustainability risks

Hoist Finance works continuously to assess risks within its business. Management of identified risks is based on the implementation of strict procedures throughout the organisation. Hoist Finance's capacity to influence and control these risks varies depending on whether the risks are located within or outside the organisation. A summary of Hoist Finance's risks is presented on pages 32–35.

Policies governing Hoist Finance's sustainability work in various ways

Linked to CSR at a central level	Partners	Customers	Employees	Risks
Sustainability policy	Investment policy	Policy for managing NPL portfolios	Remuneration policy	Risk management policy
Code of Conduct policy		Complaint management policy	Diversity policy	Operational risk policy
Internal governance and control policy		Instructions for incident reporting	Whistleblowing policy	IT policy
Anti-corruption policy		Outsourcing policy	Communication policy	Policy for conflicts of interest
		Personal data policy		Security policy
				Anti-money laundering policy
				Policy for new products
				Insider dealing policy

Overview of results in 2018

Strategy	Торіс	Key metrics	Activities with targets, 2018	Results 2018
Preferred partner page 14-17	Ensure busi- ness partners' satisfaction (%)	Percentage satisfied business partners.	Implement procedures for follow-up discussions with partners to measure partner satisfaction post-contract.	An automated partner follow-up was developed during 2018 and implementation will begin in 2019, starting in Germany. It measures partner satisfaction identically in all markets following each tender. By gaining understanding of how partners evaluate Hoist Finance, we can identify areas for improvement and improve our partner relationships.
	Transparent reporting of confirmed incidents of corruption and actions taken	Number of reported cases of corruption. Number of employees that have completed anti-corruption training.	Report number of confirmed cases of corruption. 95% of employees are to complete anti-corruption training.	There were no confirmed cases of corruption during the year. However, extensive surveys conducted by the Compliance function show that it is important that Hoist Finance continue to take anti-corruption measures. As part of these efforts, anti-corruption training has been separated out to form its own training module and is being implemented in all Group countries.
Amicable agreements page 18–20	Respect for customers' privacy	Number of reported inadequacies requiring notification to the customer or supervisory authority.	No reported inadequacies required notification to the customer or supervisory authority.	During the year there were no reported inadequacies that required notification to the customer or supervisory authority.
	Ethical and fair treatment of customers	Percentage of custo- mers who feel they are treated ethically and fairly.	80% of our customers feel they are treated ethically and fairly.	A customer satisfaction system was implemented during the year in the UK, France, Italy and Poland. The initial consolidated results for 2018 show that 78% of customers feel they are treated ethically and fairly.
	Ensure customer satisfaction	Percentage of customer satisfaction in all countries.	Achieve 80% customer satisfaction throughout the Group.	The initial consolidated results for customer satisfaction show 79% customer satisfaction for France, Italy, Poland and the UK in total.
Best place to work page 21–24	Create a work- place hallmar- ked by diversity and equal opportunity	Results in the Diversity category of the Great Place to Work ¹⁾ survey.	Final result of between 85% and 90% in the Diversity category of the Great Place to Work survey.	The result for the Diversity category is 85%.
	No discri- mination of identified stakeholders	Values and Ethics Score in Great Place to Work ¹⁾ survey. Number of reported cases of discrimination.	Create a baseline for "If I am unfairly treated, I believe I'll be given a fair hearing if I appeal." No reported cases of discrimination.	The consolidated result to the question "If I am unfairly treated, I believe I'll be given a fair hearing if I appeal" in the 2018 Great Place To Work survey was 58%. This will be the foundation for continued work to improve joint processes and internal communication. No cases of discrimination were reported during the year.
	Appropria- te terms of employment	TRUST index score in Great Place to Work ¹⁾ survey.	Final TRUST index score of between 61 and 66.	The consolidated TRUST index result is 61%.

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

Overview of results in 2018, cont.

Strategy	Topic	Key metrics	Activities with targets, 2018	Results 2018
Attractive to investors page 26–31	Ensure sus- tainable and strong financial earnings	Group financial targets.	See page 7.	See page 7.
	Comply with Number of laws and regu-for legal of lations		No sanctions for legal offences. 95% of employees have completed basic compliance training.	No sanctions for legal offences during the year. Development of the Group's E-training platform continued and has now been implemented in all operating countries. A group-wide framework has been adopted and new and existing employees participate in regular and frequent new training sessions. The new framework will make it easier to offer relevant training to existing and new employees.
	Establish sustainable procurement process	Number of suppliers that have been evaluated pursuant to sustainability criteria in the sustainability process.	Reduce costs. Reduce number of suppliers. Reduce internal procurement-related work by having a uniform, streamlining process.	Implemented a joint procurement process in all countries. Focus is on new purchases. A joint unit for all future purchases will be staffed during 2019.
Contribution to society page 36-40	Reduce en- ergy and fuel consumption	Percetage reduction of direct and indirect CO ₂ emissions (Scope 1 and 2).	5% reduction of CO ₂ emissions.	Total direct and indirect CO ₂ emissions increased to 2,633 tonnes (2,248). The aggregate increase is directly correlated to an increase in office space during the year. This correlation is confirmed by the fact that indirect CO ₂ emissions per square metre of office space remain unchanged year-on-year.
	Ensure reduction of paper consumption	Paper consumption in: 1. Office activities 2. Marketing and communication	Establish processes for data collection and initiate quarterly collection from all countries.	Increased paper consumption can be attributed to higher quality data collection from suppliers in various markets. This is an ongoing work effort that will continue in 2019 and 2020.
	Manage electronic waste as regards recycling and handling of personal data.	Percentage of electro- nic waste recycled and personal data destroyed. Percentage of functio- nal hardware donated to local schools or charities.	Establish processes for data collection and initiate quarterly collection from all countries.	The process for managing electronic waste as regards recycling and handling of personal data is now in place in all countries and was launched in four of eleven markets during the year. The data presented represents the four countries where the computer recycling process has been implemented.

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

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

The most recent sustainability report was presented on 11 April 2018. The table of contents below contains all standard disclosures and the specific disclosures that have been identified as the most relevant in view of Hoist Finance's long-term sustainability targets. The specific disclosures and other contents of the sustainability report have been selected based on Hoist Finance's materiality analysis on page 37. No limited review procedures according to GRI has been carried out.

Please contact Group Head of IR Julia Ehrhardt with questions concerning sustainability (see page 132).

Standard disclosures

102-1 Name of the organisation cover, page 46 102-2 Activities, brands, products, and services 10-11, 15-20, 26-37 102-3 Location of headquarters 2 102-4 Coation of operations 28, 52 102-5 Ownership structure and legal form 28, 52 102-6 Scale of the organisation 1 102-7 Scale of the organisation 1-24 102-8 Information on employees and other workers 11,39,42 102-9 Supply chain 11,45,9,14,16-17,19,21,24 102-10 Significant changes to the organisation and its supply chain 1,4-5,9,14,16-17,19,21,24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principle or approach 36-42 102-13 Membership of associations No membership 102-14 Statement by the EEO 4-5 102-15 Sudance and mechanisms for reporting unethical/filegal behaviour 24, 2-33, 41, 88-59 102-16 Values, principles, standards, code of conduct and ethical policy 7-7 102-17 Use of stakeholder groups <th>Disclosure</th> <th>Title</th> <th>Comment</th> <th>Reference</th>	Disclosure	Title	Comment	Reference
102-3 Location of headquarters 52 102-4 Location of operations 3 102-5 Ownership structure and legal form 28, 52 102-6 Markets served 3 102-7 Scale of the organisation 1 102-8 Information on employees and other workers 21-24 102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principles and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Suldance and mechanisms for reporting unethical/illegal behaviour 21-23, 40, 56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Governance structure 52-56 102-18 Governance structure 52-56 102-14 Number of employees with collective agreements 24	102-1	Name of the organisation		cover, page 46
102-4 Location of operations 3 102-5 Ownership structure and legal form 28, 52 102-6 Markets served 3 102-7 Scale of the organisation 1 102-8 Information on employees and other workers 21-24 102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 30-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/rillegal behaviour 24, 32-23, 41, 58-59 102-18 Ust of stakeholder groups 37 102-40 List of stakeholder groups 37 102-41 Number of employee	102-2	Activities, brands, products, and services		10-11, 15-20, 26-37
102-5 Ownership structure and legal form 28,52 102-6 Markets served 3 102-7 Scale of the organisation 1 102-8 Information on employees and other workers 21-24 102-9 Supply chain 11,39,42 102-10 Significant changes to the organisation and its supply chain 11,4-5,9,14,16-17,19,21,24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9,21,31,36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Values, principles, standards, code of conduct and ethical policy 21-23,40,56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23,40,56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33,41,58-59 102-18 Governance structure 52-56 102-24 List of stakeholder groups 47 102-24 Identifying and selecting stakeholders 37 102-24 Key topics and concer	102-3	Location of headquarters		52
102-6 Markets served 3 102-7 Scale of the organisation 1 102-8 Information on employees and other workers 21-24 102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/filegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 Ust of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43	102-4	Location of operations		3
102-7 Scale of the organisation 1 102-8 Information on employees and other workers 21-24 102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5-9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External stratutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/filegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37	102-5	Ownership structure and legal form		28, 52
102-8 Information on employees and other workers 21-24 102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-15 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-240 List of stakeholder groups 47 102-241 Number of employees with collective agreements 24 102-242 I dentifying and selecting stakeholders 37 102-243 Approach to stakeholder engagement 17-19, 21-23, 37 102-244 Key topics and concerns raised by stakeholders	102-6	Markets served		3
102-9 Supply chain 11, 39, 42 102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-240 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44	102-7	Scale of the organisation		1
102-10 Significant changes to the organisation and its supply chain 1, 4-5, 9, 14, 16-17, 19, 21, 24 102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37	102-8	Information on employees and other workers		21-24
102-11 Precautionary Principle or approach 36-42 102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reportin	102-9	Supply chain		11, 39, 42
102-12 External statutes, principals and initiatives 9, 21, 31, 36 102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle <t< td=""><td>102-10</td><td>Significant changes to the organisation and its supply chain</td><td></td><td>1, 4-5, 9, 14, 16-17, 19, 21, 24</td></t<>	102-10	Significant changes to the organisation and its supply chain		1, 4-5, 9, 14, 16-17, 19, 21, 24
102-13 Membership of associations No memberships 102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 <td>102-11</td> <td>Precautionary Principle or approach</td> <td></td> <td>36-42</td>	102-11	Precautionary Principle or approach		36-42
102-14 Statement by the CEO 4-5 102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-12	External statutes, principals and initiatives		9, 21, 31, 36
102-16 Values, principles, standards, code of conduct and ethical policy 21-23, 40, 56 102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-13	Membership of associations		No memberships
102-17 Guidance and mechanisms for reporting unethical/illegal behaviour 24, 32-33, 41, 58-59 102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-14	Statement by the CEO		4-5
102-18 Governance structure 52-56 102-40 List of stakeholder groups 47 102-41 Number of employees with collective agreements 24 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-16	Values, principles, standards, code of conduct and ethical policy		21-23, 40, 56
102-40List of stakeholder groups47102-41Number of employees with collective agreements24102-42Identifying and selecting stakeholders37102-43Approach to stakeholder engagement17-19, 21-23, 37102-44Key topics and concerns raised by stakeholders37102-45Entities included in the consolidated financial statements102102-46Defining report content and topic boundaries36-44102-47List of material topics37102-50Reporting period74102-51Date of most recent report43102-52Reporting cycle43102-53Contact point for questions regarding the report132102-54Alternative of reporting level43102-55GRI content index43-44	102-17	Guidance and mechanisms for reporting unethical/illegal behaviour		24, 32–33, 41, 58–59
Number of employees with collective agreements 102-42 Identifying and selecting stakeholders 37 102-43 Approach to stakeholder engagement 17-19, 21-23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-18	Governance structure		52-56
102-42Identifying and selecting stakeholders37102-43Approach to stakeholder engagement17-19, 21-23, 37102-44Key topics and concerns raised by stakeholders37102-45Entities included in the consolidated financial statements102102-46Defining report content and topic boundaries36-44102-47List of material topics37102-50Reporting period74102-51Date of most recent report43102-52Reporting cycle43102-53Contact point for questions regarding the report132102-54Alternative of reporting level43102-55GRI content index43-44	102-40	List of stakeholder groups		47
Approach to stakeholder engagement 17–19, 21–23, 37 102-44 Key topics and concerns raised by stakeholders 37 102-45 Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36–44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43–44	102-41	Number of employees with collective agreements		24
102-44Key topics and concerns raised by stakeholders37102-45Entities included in the consolidated financial statements102102-46Defining report content and topic boundaries36-44102-47List of material topics37102-50Reporting period74102-51Date of most recent report43102-52Reporting cycle43102-53Contact point for questions regarding the report132102-54Alternative of reporting level43102-55GRI content index43-44	102-42	Identifying and selecting stakeholders		37
Entities included in the consolidated financial statements 102 102-46 Defining report content and topic boundaries 36-44 102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-43	Approach to stakeholder engagement		17-19, 21-23, 37
102-46Defining report content and topic boundaries36-44102-47List of material topics37102-50Reporting period74102-51Date of most recent report43102-52Reporting cycle43102-53Contact point for questions regarding the report132102-54Alternative of reporting level43102-55GRI content index43-44	102-44	Key topics and concerns raised by stakeholders		37
102-47 List of material topics 37 102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-45	Entities included in the consolidated financial statements		102
102-50 Reporting period 74 102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-46	Defining report content and topic boundaries		36-44
102-51 Date of most recent report 43 102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-47	List of material topics		37
102-52 Reporting cycle 43 102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-50	Reporting period		74
102-53 Contact point for questions regarding the report 132 102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-51	Date of most recent report		43
102-54 Alternative of reporting level 43 102-55 GRI content index 43-44	102-52	Reporting cycle		43
102-55 GRI content index 43-44	102-53	Contact point for questions regarding the report		132
	102-54	Alternative of reporting level		43
102-56 External assurance 128	102-55	GRI content index		43-44
	102-56	External assurance		128

Management approach

Disclosure	Title	Comment	Reference
103-1	Limitation of material topics within the organisation		4-5, 9, 14-15, 18-19, 21, 23-24, 30-32, 38-42, 56
103-2	Information about sustainability governance		17, 23–24, 32–35, 38–42, 56, 58
103-3	Monitoring the sustainability governance		34-35, 41-42, 58

Specific disclosures

Disclosure	Title	Comment	Reference
201-1	Direct economic value generated and distributed		1, 7, 11
201-3	Defined benefit plan obligations and other retirement plans		86
205-1	Operations assessed for risks related to corruption		40
205-2	Communication and training about anti-corruption policies and procedures		40
205-3	Confirmed incidents of corruption and actions taken		41
302-1	Energy consumption within the organisation		38
305-1	Direct (Scope 1) GHG emissions		38
305-2	Energy indirect (Scope 2) GHG emissions		38
305-3	Other indirect (Scope 3) GHG emissions		38
305-4	GHG emissions intensity		38
308-1	New suppliers that were screened using environmental criteria	New policy implemented in 2018.	39
401-1	New employee hires and employee turnover		24
403-2	Types of injury and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities		24
404-1	Average hours of training per year per employee		23
405-1	Diversity of governance bodies and employees		24
405-2	Ratio of basic salary and remuneration of women to men	Work initiated in 2018 to be implemented in 2019, to introduce a group-wide HR	
406-1	Incidents of discrimination and corrective actions taken	function.	24
		Drosess in place in 2010	41
414-1	New suppliers that were screened using social criteria	Process in place in 2018.	39
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	Improvements have been initiated with respect to the manner in which customer complaints are registered and followed up.	41
419-1	Non-compliance with laws and regulations in the social and economic area		40

In 2019, Hoist Finance will continue its efforts to further develop the platform for sustainable enterprise. This work may result in changes regarding the specific standard disclosures that are to be reported, depending on materiality.

Contents financial information

age		Page		
46	Administration report		Not	tes
51	Five-year overview	83	1	Segment reporting
52	Corporate Governance Report	84	2	Net interest income
60	Board of Directors	84	3	Impairment gains and losses
62	Executive Management Team	85	4	Fee and commission income
	Financial statements	85	5	Net result from financial transactions
64	Consolidated income statement	85	6	Other operating income
66	Consolidated statement of comprehensive income	86	7	Personnel expenses
66	Consolidated balance sheet	89	8	Other operating expenses
67	Consolidated statement of changes in equity	90	9	Shares and participations in joint ventures
68	Consolidated cash flow statement	90	10	Appropriations
69	Parent Company income statement	91	11	Tax
69	Parent Company statement of comprehensive income	92	12	Earnings per share
70	Parent Company balance sheet	93	13	Financial instruments
72	Parent Company statement of changes in equity	96	14	Derivatives
73	Parent Company cash flow statement	99	15	Maturity analysis
74	Accounting principles	101	16	Acquired loan portfolios
		102	17	Shares and participations
		106	18	Intangible assets
		107	19	Tangible assets
		107	20	Other assets
		108	21	Prepaid expenses and accrued income
		108	22	Other liabilities
		108	23	Accrued expenses and deferred income
		109	24	Provisions
		110	25	Funding
		111	26	Equity
		111	27	Pledged assets
		111	28	Contingent liabilities
		112	29	Leases
		112	30	Specifications to the cash flow statement
		113	31	Risk management
		121	32	Capital adequacy
		122	33	Related-party transactions
		123	34	Reconciliation of alternative performance measures
		124	35	Classification and Measurement IFRS 9
		125	36	Critical estimates and assumptions
		126	37	Subsequent events
		126	38	Appropriation of profits
		127	Cer	tification of the Board of Directors
		128	Aud	litor's Report
		131	Def	initions
		122	Sha	reholder information, Financial calendar

and IR Contact

Administration Report

Business overview

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

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

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

The market

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

Group structure and ownership

Hoist Finance was listed on the Nasdaq Stockholm Mid Cap list on 25 March 2015. At 28 December 2018, the number of shares totalled 89,303,000 and the share price closed at SEK 43.15, corresponding to a market capitalisation of SEK 3,853 million. See Hoist Finance's website, www.hoistfinance.com, for additional information on the share and shareholders. The Articles of Association do not include any restrictions on the negotiability of the shares and there are no other circumstances that require disclosure under Chapter 6, 2a § 3–11 of the Swedish Annual Accounts Act.

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

Note 17 "Group companies", sets out the Hoist Finance Group and its key subsidiaries and branch offices as of 31 December 2018.

Proposed dividend

The Board of Directors proposes that the 2019 Annual General Meeting resolve not to distribute a dividend to the shareholders of Hoist Finance AB (publ) for financial year 1 January – 31 December 2018. The Board deems that this exception to the current dividend policy will be instrumental in strengthening the Company's CET1 capital ratio and will facilitate the Company's growth in 2019.

Proposed appropriation of profits

According to the Parent Company's balance sheet, the following unappropriated earnings are at the disposal of the Annual General Meeting:	SEK
Other contributed capital	2,964,067,323
Retained earnings	223,897,938
Other non-restricted reserves	2,611,246
Net profit for the year	646,744,036
Total	3,837,320,543
The Board of Directors proposes that unappropriated earnings be distributed as follows:	SEK
Carried forward to:	
Other contributed capital	2,964,067,323

873,253,220

3,837,320,543

Key events during the year

Retained earnings

- » Merger of Hoist Finance and Hoist Kredit was finalised.
- >> Klaus-Anders Nysteen took over as CEO.
- During the year Hoist Finance continued to actively acquire loan portfolios, mainly through growth in existing markets but also through its first acquisition in the Greek market. A major portion of this growth was in new asset classes such as secured NPLs and performing loans.
- » A new organisation was introduced to increase growth and improve operational efficiency.
-)> Issue of EUR 40 million of additional Tier 1 capital and repurchase of SEK 100 million of additional Tier 1 capital issued in 2013.
- » Hoist Finance strengthened equity with a directed new share issue of SEK 568 million.
- » Hoist Finance issued a EUR 250 million senior bond and repurchased EUR 186 million of senior bonds issued in 2016.
- » Agreement signed to acquire Italian credit management company Maran S.p.A.
- » Hoist Finance increased the rate of investment in digital solutions aimed at improving operational efficiency.
- » 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.

Developments during the 2018 financial year

Unless otherwise indicated, all comparative market, financial and operational information refers to full-year 2017.

Total operating income

Interest income from acquired loan portfolios totalled SEK 2,799 million in 2018. Previously, net revenue from acquired loans was calculated as gross collections on acquired loan portfolios less portfolio amortisation and revaluation. These revenues totalled SEK 2,644 million for the comparative year – an income measure that includes both the effects of gross collections exceeding collection forecasts, and portfolio revaluation. As from 1 January 2018, the portfolio revaluation is reported in the income statement item Impairment gains and losses.

Other interest income totalled SEK –13 million (–10). Interest expense increased to SEK –351 million (–305), with the continued strong portfolio growth made possible largely through debt financing. Deposits from the public volumes increased, mainly in the German market, accelerated by a positive adjustment to interest on deposits.

Impairment gains and losses totalled SEK 261 million. SEK 5 million of this amount is attributable to portfolio revaluations resulting from adjusted collection projections for future periods. These portfolio revaluations are partially attributable to Germany, where unfavourable timing resulted in collections somewhat below expectation in 2018, which led to a positive revision of future forecasts. The positive revaluations are largely offset by negative revaluations in Italy, where collections achieved earlier than forecast on portfolios of secured loans resulted in a negative revision of future forecasts, and to Spain, where less-than-expected collections during the year resulted in somewhat reduced expectations for future collections. Realised collections in excess of projections totalled SEK 259 million, representing 105 per cent of the projected level. This effect is mainly attributable to portfolios in Italy, where collections for a large share of portfolios were considerably higher than forecast, and to a number of portfolios in Poland and the Netherlands. Loss allowances on performing loan portfolios totalled SEK –3 million.

Fee and commission income increased 8 per cent during the year to SEK 79 million (73), due entirely to the Italian business acquisition conducted during the year.

Net financial income totalled SEK 43 million (–50) and was mainly driven by the modification gain attributable to repurchase and issue of senior bonds during the year. Results for changes in value for interest rate hedging instruments and changes in market value for bonds totalled SEK 1 million, and profit/loss from FX hedging totalled SEK –7 million (3).

Profit/loss on derecognition of financial assets included effects of SEK –5 million, attributable to depreciation on a number of performing loan receivables in the UK, Poland and Germany.

Total operating income increased 20 per cent to SEK 2,829 million (2,365) mainly due to continued growth and higher collections in Italy and Poland, and higher-than-forecast collections on existing portfolios in the Netherlands.

Total operating expenses

Personnel expenses increased 13 per cent to SEK –826 million (–730). The increase was mainly due to the above-referenced portfolio growth; more specifically, to grow within new asset classes, where expertise has been expanded as portfolios have been acquired. Personnel expenses continued to rise in the Polish market during the year due to the shift in focus from legal collection activities to mutually agreed repayment plans, which should be viewed over time in relation to the anticipated reduction in the share of legal collection costs. Investments in the previously announced digital transformation continued during the year, resulting in increased costs for Central Functions. In the long term, these investments will lead to lower personnel and collection costs on the country level.

Collection costs increased 12 per cent to SEK –750 million (–672), due primarily to the aforementioned portfolio growth and Germany, where successful collections on a number of portfolios resulted in additional third-party collection costs.

Administrative expenses increased to SEK –509 million (–402), mainly due to increased costs within Central Functions related to strategic initiatives and digital transformation. As previously announced, the digital transformation is starting to produce results through cost savings in other areas.

Depreciation and amortisation of tangible and intangible assets increased somewhat, totalling SEK –61 million (–56). However, this does not reflect the increased pace of investment, which includes investments in new collection systems that are expected to be operational during the first quarter of next year.

Total operating expense increased 15 per cent to SEK –2,146 million (–1,860).

Profit before tax and total comprehensive income

Profit from shares and participations in joint ventures was virtually unchanged year-on-year, with earnings from the joint venture in Poland and performance-based remuneration for the joint venture in Greece both in line with expectation.

The reported tax expense totalled SEK –165 million (–128). Net profit for the year totalled SEK 590 million (453) and total comprehensive income for the year totalled SEK –87 million (–46). The consolidated earnings impact from remuneration to employees and translation differences in foreign operations and joint ventures, as well as FX risk hedges in foreign operations and joint ventures, including tax effects, are recognised in Other comprehensive income.

Balance sheet

Total assets increased SEK 6,718 million year-on-year and totalled SEK 29,255 million (22,537). The change mainly comprised acquired loan portfolios, which increased SEK 5,839 million and were primarily attributable to acquisitions in Italy, the UK and Poland of performing and non-performing loan portfolios.

Funding and capital structure

SEK millions	2018	2017	Change, %
Cash and interest-bearing	7 476	6.061	0
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 debt	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 instead includes additional items.

Total interest-bearing debt amounted to SEK 23,882 million (18,385). The change is 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 in Germany as well as through the international bond market and the Swedish money market. In Sweden, deposits from the public under the HoistSpar brand amounted to SEK 11,292 million (12,242), of which SEK 4,324 million (4,569) is attributable to fixed term deposits of 12, 24 and 36 months

duration. In Germany, deposits in EUR for retail customers have been offered since September 2017 under the Hoist Finance name. At 31 December 2018, deposits from the public in Germany were SEK 5,801 million (985), of which SEK 1,728 million is attributable to fixed term deposits of 12 and 24 months duration.

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. During the year Hoist Finance issued a new senior bond loan of EUR 250 million and partially repurchased a previously issued senior bond loan. Money market instruments issued under Hoist Finance's newly established commercial paper programme totalled SEK 852 million at 31 December 2018.

During the third quarter Hoist Finance entered into an agreement for a syndicated revolving credit facility with a framework amount of EUR 150 million.

Group equity totalled SEK 4,413 million (3,228). The increase is partially attributable to net profit for the period. During the second quarter Hoist Finance issued EUR 40 million in Additional Tier 1 (AT1) capital and conducted an early redemption of SEK 100 million AT1 capital issued in 2013. Hoist Finance conducted a directed new share issue of 8,118,454 shares during the third quarter at an issue price of SEK 70 per share, resulting in a gross settlement for the Company of SEK 568 million. The number of shares and votes in Hoist Finance increased to 89,303,000 (81,184,546) through the issue and the share capital increased SEK 3 million, from SEK 27 million to SEK 30 million.

Acquired loans

SEK million	2018	2017	Change, %
Acquired loan portfolios	8,048	4,253	89
Carrying amount, acquired loans ¹⁾	20,834	15,024	39

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

Hoist Finance continued to actively acquire loan portfolios during 2018 through geographic diversification and expansion in existing markets. The total acquisition volume amounted to SEK 8,048 million (4,253) in 2018. The carrying value of acquired loans totalled SEK 20,834 million (15,024) at 31 December 2018, a year-on-year increase of SEK 5,810 million.

Significant portfolio acquisitions were conducted mainly between the second and fourth quarters and included, as in previous years, the acquisition of unsecured NPLs, but also a significant amount of secured NPLs and performing loans. Acquisition activity was high throughout the year, with major acquisitions conducted in Italy, the UK and Poland. The Company also conducted its first acquisition in the Greek market. To finance this expansion during the year, Hoist Finance utilised contributions from unsecured debt and additional Tier 1 capital instruments issued during the year, the new share issue conducted during the third quarter, and cash flow generated by the business.

Cash flow

Comparative figures refer to full-year 2017. Hoist Finance has elected not to recalculate comparative figures subsequent to IFRS 9 entering into force on 1 January 2018. The presentation of cash flows within operating activities is therefore not entirely comparable.

Cash flow

	2010		Change,
SEK million	2018	2017	<u>%</u>
Cash flow from operating activities	2,828	2,495	13
Cash flow from investing activities	-8,055	-5,439	-48
Cash flow from financing activities	5,861	2,750	>100
Cash flow for the year	634	-194	n/a

Cash flow from operating activities totalled SEK 2,828 million (2,495). Amortisation of acquired loan portfolios is a new item as of 1 January 2018 and is presented in operating activities. This amortisation totalled SEK 2,881 million during the year. Increase/decrease in other assets and liabilities amounted to SEK –513 million (–327), most of which is attributable to realised cash flows from FX hedging.

Cash flow from investing activities totalled SEK –8,055 million (–5,439). Portfolio acquisitions increased year-on-year to SEK –8,048 million (–4,253). A net total of SEK 64 million (–1,150) was invested in bonds and securities during the year.

Cash flow from financing activities totalled SEK 5,861 million (2,750). Deposits from the public amounted to SEK 3,832 million (1,407). Deposits in Germany accounted for SEK 4,813 million of the inflow, with most of the inflow made to accounts with variable interest rates. The net outflow from deposits in Sweden totalled SEK –936 million. Cash flow from the issue of new shares totalled SEK 555 million (29). The net cash flow from the issue of bonds during the year amounted to SEK 1,360 million (1,455), and issuance and repurchase of Additional Tier 1 capital instruments increased cash flow by SEK 310 million. Other cash flows from financing activities are attributable to distribution to shareholders, SEK –154 million, and interest paid on Additional Tier 1 capital, SEK –42 million.

Total cash flow for the year amounted to SEK 634 million, as compared with SEK –194 million in 2017.

Segment overview

Hoist Finance is working under a new organisational structure as from 1 January 2018, with a focus on building a stronger, more integrated company to improve operational efficiency and better capture market growth. The previous division of segments into regions has therefore been broken down and replaced with division based on country presence, which forms the basis for the Executive Management Team's monitoring of operations. See Note 1 "Segment reporting" for additional details.

Sustainability report

Hoist Finance has prepared a Sustainability Report in accordance with the Annual Accounts Act. The Sustainability Report is included in the Annual Report on pages 10–11, 21–24 och 36–42. The auditor's assurance on the Sustainability Report can be found on page 130.

Other disclosures

Parent Company disclosures

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

The Parent Company's net interest income totalled SEK 983 million (25) during 2018. The increase is attributable to former operations within Hoist Kredit and comprises interest income from acquired loan portfolios and intra-group loans, as well as interest expense from deposits and issued bonds.

Interest income related to acquired performing loan portfolios totalled SEK 24 million. Interest income from acquired NPL portfolios totalled SEK 637 million (–). Other interest income is mainly attributable to interest income generated from intra-group loans to Hoist Finance subsidiaries.

Compared with 2017 at Hoist Kredit, interest expense increased SEK 22 million due to greater volumes of euro deposits as well as increased costs for bonds and reduced interest expense, as Hoist Kredit AB (publ) was funded by Hoist Finance AB (publ).

Total operating income totalled SEK 3,048 million (450). Net financial income totalled SEK –196 million (2) and is attributable to changes in interest derivatives and exchange rate fluctuations in other assets and liabilities. Other operating income SEK 310 million (243) and is mainly attributable to management fees invoiced to subsidiaries.

Operating expenses totalled SEK –989 million (–342). In conjunction with the merger, Hoist Kredit staff moved to Hoist Finance AB (publ). This had an impact on operating expenses. Personnel expenses increased SEK 27 million compared with 2017 at Hoist Kredit due to increased payroll expenses, as the German branch office's payroll expenses were not merged into Hoist Kredit until July 2017 and therefore did not affect full-year 2017.

Other administrative expenses increased SEK 262 million year-on-year to SEK –593 million. The increase is attributable to operations previously part of Hoist Kredit and related to collection compensation on subsidiary portfolios totalling SEK –126 million.

Operating profit totalled SEK 770 million (108). Revaluations of SEK 83 million mainly pertain to differences between actual and projected collections. Amortisation on financial fixed assets amounted to SEK -1,454 million and refers to subsidiaries in liquidation. Shares in participating interests totalled SEK 82 million and were somewhat lower than 2017, when previous compensation received by Hoist Kredit amounted to SEK 86 million.

During the year Hoist Finance received dividends from subsidiaries totalling SEK 1,947 million, mainly attributable to net profit for the period of SEK 647 million (65). Tax expense totalled SEK –66 million (–19).

Assets and liabilities were transferred from Hoist Kredit in the merger, which increased balance sheet items in the Hoist Finance (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 at 31 December, a year-on-year increase of SEK 3,129 million. Hoist Finance continued to make acquisitions, mainly of NPL portfolios. Deposits increased SEK 3,865 million during the year. A directed share issue conducted in September increased share capital by SEK 3 million and non-restricted equity by SEK 552 million. The liability side was also impacted by the share issue and the repurchase of senior bonds.

Significant risks and uncertainties

Hoist Finance is exposed to a number of uncertainties through its business operations and due to its broad geographic presence. New and amended bank and credit market company regulations may affect Hoist Finance directly (e.g. via Basel IV capital and liquidity regulations) and indirectly through the impact of similar regulations on the market's supply of loan portfolios. Hoist Finance's cross-border operations entail consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is, therefore, exposed to potential tax risks arising from varying interpretations and applications of existing laws, treaties, regulations, and guidance.

Details on Hoist Finance's risk management and its most significant risks are presented in the Risk Management section on pages 32-35 and in Note 31 "Risk Management".

Development of risks

Credit risk for Hoist Finance's loan portfolios is deemed to have remained virtually unchanged during the year. 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 works continuously to improve the quality of its internal processes in order to limit operational risk.

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

In November 2018 the Swedish Financial Supervisory (SFSA) approved the inclusion of the SEK 568 million capital contribution from the new share issue conducted in September 2018 in Hoist Finance's CET1 capital. The new share issue strengthened the Company's equity.

On 18 December 2018 the SFSA acknowledged the European Banking Authority's (EBA) interpretation of risk weights for pur-

chased non-performing loans, meaning that unsecured NPLs will now be assigned a risk weight of 150 per cent rather than 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 Group targets by a healthy margin. Due to 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 published in January 2019 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 regarding measuring interest rate risk in the banking book will be under scrutiny during 2019.

Remuneration to senior executives

Information on the most recently approved guidelines for remuneration for senior executives is presented in Note 7 "Personnel expenses". A new remuneration policy was adopted by the Board at the AGM in May 2018. The Board will present the following proposed guidelines to the May 2019 AGM for approval. The guidelines have been updated to reflect the long-term share-based incentive scheme that the Board will propose to the AGM. The guidelines are otherwise unchanged from previous years.

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

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

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

Variable remuneration for senior executives shall be paid within the scope of a long-term share-based incentive programme, a so-called LTIP, and shall not exceed 100 per cent of the fixed salary. Variable remuneration is based on various financial and non-financial criteria, and is linked to the performance of the Hoist Finance group of companies (the "Group") respectively the relevant business unit and to individual targets.

Administration report

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

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

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

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

Issuing loans to senior executives is not permitted.

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

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

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

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

The Board's report on the most important elements of the system for internal control and risk management for financial reporting for the 2018 financial year is presented as a separate section in the Corporate Governance Report.

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.

No other significant events affecting operations took place.

Outlook

The market outlook for the Credit Management Services (CMS) industry is very positive. More than ten years after the financial crises, the banks in Europe still have very significant Non Performing Exposures. Driven by regulatory changes implemented in 2018 and 2019, the supply of Non-Performing Loans is expected to increase in the next few years.

At the same time, we observe that the market is more consolidated than before and that the cost of funding through the bond market is higher than in many years. Many companies in the CMS industry are aiming to reduce their leverage, which also impacts market demand. Margins improved in 2018, and going into 2019, the trend seems to continue.

Over the years, banks have become increasingly comfortable selling Non-Performing loans across various asset classes. As the CMS industry has proven to be a relevant restructuring partner, the outlook is positive for several NPL segments. We also believe that Forward Flow arrangements will become an even more important way to structure divestments of NPLs in the years to come.

Hoist Finance has in 2018 taken important steps in delivering on the strategy of acquiring NPLs in a number of assets classes in various markets. Hence, Hoist Finance is excellently positioned to continue this expansion going forward. The new regulations address the need to reduce NPEs on banks' balance sheets. Hence we see that the supply will increase which of course is positive for the CMS industry.

Five-year overview

Consolidated income statement

SEK million	2018	2017	2016	2015	2014
Total operating income	2,829	2,365	2,139	1,808	1,291
of which net interest income	2,435	2,329	2,107	1,681	1,143
Total operating expenses	-2,146	-1,860	-1,692	-1,572	-1,131
Profit before tax	755	581	533	285	218
Net profit for the year	590	453	417	231	180

Consolidated balance sheet

SEK million	2018	2017	2016	2015	2014
Cash and lending to credit institutions	1,187	1,681	1,064	859	1,293
Treasury bills and treasury bonds	2,653	1,490	2,274	3,078	2,316
Lending to the public	14	37	36	78	157
Acquired loan portfolios	20,605	14,766	12,386	11,015	8,587
Bonds and other securities	3,635	3,689	2,539	1,303	1,951
Shares and participations in joint ventures	215	238	241	206	215
Fixed assets	446	329	284	278	203
Other assets	500	307	326	634	340
Total assets	29,255	22,537	19,150	17,451	15,062
Deposits from the public	17,093	13,227	11,849	12,791	10,987
Other liabilities and provisions	7,749	6,082	4,376	2,371	2,678
Equity	4,413	3,228	2,925	2,289	1,397
Total liabilities and equity	29,255	22,537	19,150	17,451	15,062

Key ratios, Group

SEK million	2018	2017	2016	2015	2014
Net interest income margin, %1)	14				
C/I ratio, % ²⁾	74	76	76	85	84
Return on equity, % ³⁾	16	15	17	11	16
Return on assets, %	2.3	2.2	2.3	1.4	1.3
Portfolio acquisitions	8,037	4,253	3,329	4,370	3,227
Carrying value on acquired loans ⁴⁾	20,834	15,024	12,658	11,279	8,921
Gross 180-month ERC ⁵⁾⁶⁾	33,602				
Gross 120-month ERC ⁵⁾	30,733	23,991	21,375	19,367	15,576
Total capital ratio, %	14.14	17.71	16.76	15.21	12.17
CET1 ratio, %	9.66	11.70	12.46	12.32	9.35
Liquidity reserve	7,399	6,800	5,789	5,156	5,352
Number of employees (FTEs)	1,556	1,335	1,285	1,349	1,077

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⁾ The definition of Return on equity has changed from 1 January 2018; see Definitions. Comparative figures have been adjusted for all periods.

 ³⁾ The definition in Return of requiry has changed from Tanitary 2018, see Definitions. Comparative figures have been adjusted to an period of 1 inches 1 inches

Corporate Governance Report

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

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

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

Application of the Swedish Corporate Governance Code

All companies with shares listed on Nasdaq Stockholm or NGM Equity, regardless of market capitalisation, have been required since 1 July 2008 to apply the Swedish Corporate Governance Code. The Code is based on the "comply or explain" principle, meaning that a company's deviation from the Code's provisions is not deemed a breach thereof if the company explains its reason for doing so. Hoist Finance complies with and in 2018 complied with all provisions of the Code. It should be noted that, under the Code's provisions, no more than one AGM-elected Board member may be employed as a member of the management team of the company or any of the company's subsidiaries. Two AGM-elected Board members were Hoist Finance Group employees during the first part of 2018: Jörgen Olsson and Costas Thoupos. Jörgen Olsson was CEO of the company and a member of the Executive Management Team until 14 March 2018, Costas Thoupos had an operational role and chaired the company's Management Investment Committee (which is otherwise comprised of people with operational roles) during the period preceding the 2018 Annual General Meeting. For 2018, the company is therefore in compliance with the Code provision stipulating that only one Board member may be a member of the Executive Management Team. This Corporate Governance Report is part of the company's Administration Report and is reviewed by the company's auditors.

Corporate governance within the company

Hoist Finance is subject to external and internal control systems.

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

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

The following are of particular importance in this context:

- » Rules of procedure for the Board
- >> Instruction for the CEO
- » Policy for internal governance and control
- >> Instructions for the Risk and Audit Committee
- >> Instructions for the Remuneration Committee
- » Instructions for the Investment Committee
- >> Order of Authorisation

Articles of Association

The Articles of Association are adopted by the Annual General Meeting and contain basic compulsory information about the company.

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

Governance structure

Shareholders

As at 31 December 2018, the total number of shares was 89,303,000 and the share capital was SEK 29,767,666.66. Each share carries one vote. The company had 4,301 shareholders at year-end. The fifteen largest shareholders held an aggregate of 61.5 per cent of total share capital at the end of 2018. Read more about the company's largest shareholders at www.hoistfinance.com.

Annual General Meeting

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

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

Every shareholder is entitled to request that a matter be addressed by the AGM. A shareholder who wishes to do so must submit a written request to the Board no later than one week before the earliest date on which notice of the meeting may be published (i.e. the request must be received no later than seven weeks prior to the AGM). Pursuant to Chapter 7, Section 32 of the Companies Act, all shareholders are entitled to ask the Board and CEO questions about matters addressed during the AGM and about the financial situation of the Company and the Group.

2018 Annual General Meeting

The most recent AGM was held on 16 May 2018 in Stockholm. Eighty-eight shareholders, representing 37.6 per cent of the shares and votes in the company, were present at the AGM. The CEO, the majority of Board members, the company's auditor, the Chairman of the Nomination Committee and the CFO also participated in the AGM.

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

-)) To adopt the balance sheet and income statements.
- >> To distribute a dividend of SEK 1.90 per share.
-)) To discharge Board members and the CEO from liability.
- » To re-elect Board members Ingrid Bonde, Cecilia Daun Wennborg, Malin Eriksson, Liselotte Hjorth, Jörgen Olsson, Joakim Rubin and Gunilla Öhman. Marcial Portela was elected as a new Board member. The AGM re-elected Ingrid Bonde as Chairman of the Board. Former Board member Costas Thoupos resigned from the Board at the AGM.
-)) On fees for the Chairman of the Board and other Board members.
-)) To re-elect KPMG, represented by Anders Bäckström, as auditor for the period until the close of the next AGM and to pay auditor's fees based on an approved invoice.
-)) To adopt guidelines for remuneration of senior executives.
- >> To authorise the Board to issue shares.
- >> To authorise the Board to acquire own shares.

The complete minutes of the 2018 AGM are available at www.hoistfinance.com.

2019 Annual General Meeting

The 2019 AGM will be held at The Royal Coin Cabinet in Stockholm, on Thursday, 16 May 2019, at 11.00 a.m.

Nomination Committee

The Nomination Committee is comprised of representatives of the three largest shareholders, as recorded in the shareholders' register as at the final banking day in August of each year, together with the Chairman of the Board. The Chairman is also responsible for convening the Committee's first meeting. If a shareholder who is offered a place on the Nomination Committee declines, the offer shall

instead be made to next shareholder in order of size of holding. The Committee's composition will be changed to reflect any changes to the shareholder structure.

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

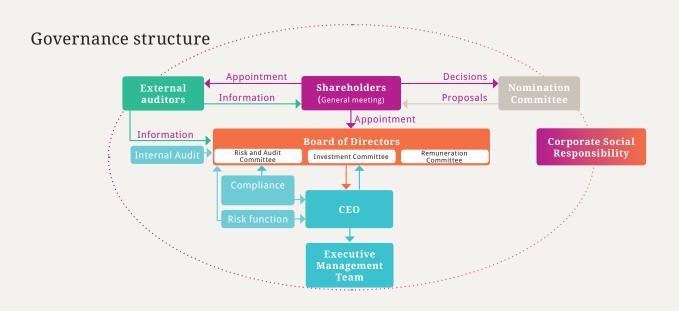
The Nomination Committee is comprised of the following members: Jan Andersson (representing Swedbank Robur Fonder AB), Niklas Ringby (representing EQT) Chairman of the Nomination Committee, Peter Thelin (representing Carve Capital AB) and and Ingrid Bonde (Chair of the Board of Hoist Finance). The Committee has held three minuted meetings ahead of the 2019 AGM and maintained regular contact between meetings. The Committee also held individual interviews with current and proposed Board members.

The Nomination Committee's proposals, its report on Committee work performed in preparation for the 2019 AGM, and information on proposed Board members and auditors are published in conjunction with the AGM notice.

Board of Directors

Pursuant to the Articles of Association, Hoist Finance's Board shall be comprised of at least three and no more than nine members. Members of the Board are appointed by the AGM for a one-year term. In accordance with the resolution of the 2018 AGM, the Board is comprised of Ingrid Bonde (Chairman), Cecilia Daun Wennborg, Malin Eriksson, Liselotte Hjorth, Jörgen Olsson, Marcial Portela, Joakim Rubin and Gunilla Öhman. Former Board member Costas Thoupos resigned from the Board at the AGM.

At the end of the financial year, the Board had five female and three male members. One of the eight Board members – Jörgen Olsson – was employed by the Group in 2018. Jörgen Olsson was CEO of the company and a member of the Executive Management Team until 14 March 2018. All Board members, with the exception of Jörgen Olsson, were independent in relation to the company's major shareholders (as defined in item 4.4 of the Swedish Corporate Governance Code), the company and the Executive Management Team in 2018. For further information on the Board members, see



the section on the company's Board of Directors and Executive Management Team and the company's website, www.hoistfinance.com.

See Note 7 "Personnel expenses" for details on the remuneration of the Board of Directors.

Diversity policy

The company's Board as a whole shall have the appropriate collective expertise, experience and background in the company's business operations, to enable identification and understanding of the risks such operations entail. The objective is to have a Board comprised of members with complementary experience and expertise and of varying ages, genders, geographic origins, and educational and professional backgrounds that, taken together, is conducive to independent and critical reflection. The company's Board has adopted a Diversity Policy applicable to the Board. To achieve a diverse Board, in preparing its proposal to the AGM, the Nomination Committee takes into consideration item 4.1 of the Swedish Corporate Governance Code, the Board's Diversity Policy and the European Banking Authority's guidelines on eligibility assessments for Board members. The company continuously evaluates the composition of the Board and believes that its composition was satisfactory in 2018.

Work of the Board

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

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

The Board's duties and working methods are regulated by the Companies Act, the Articles of Association and the Swedish Corpo-

rate Governance Code. The Banking and Financing Business Act also regulates the duties and work of the Board.

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

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

Board meetings in 2018

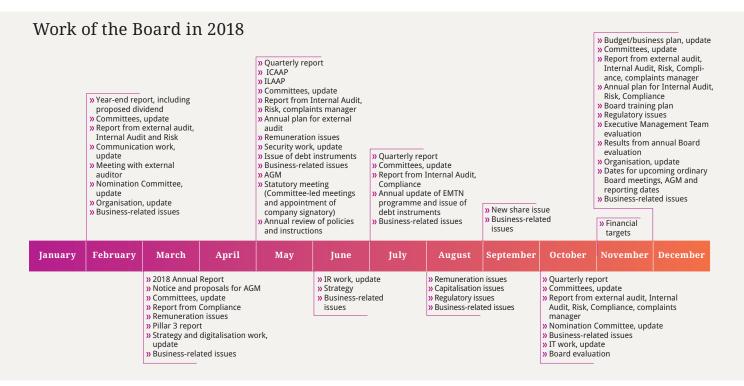
A total of 15 minuted Board meetings were held in 2018: seven ordinary meetings, one statutory meeting and seven extraordinary meetings. All Board members attended these meetings, with the exception of the Board meetings held on 16 May 2018, in which Malin Eriksson and Marcial Portela did not participate; 14 June 2018, in which Marcial Portela did not participate; and 14 November 2018, in which Joakim Rubin did not participate. The CFO and the Board's secretary participated in Board meetings. Company employees also participated in Board meetings to report on specific issues.

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

The matters addressed by the Board in 2018 included digitalisation, security and remuneration matters, and the issue of shares and debt instruments. The Board also held a meeting with the external auditors without the Executive Management Team in attendance.

Training for the Board

The Board received training in various subjects during 2018, including risk management, data protection, return on equity, IFRS 9, ICAAP/ILAAP, The Banking and Financing Business Act, new and amended rules, and a particular focus on the company's operations and investment process.



Board CommitteesRisk and Audit Committee

The Risk and Audit Committee serves in an advisory capacity and prepares issues for consideration and decision by Hoist Finance's Board. The Risk and Audit Committee also had a mandate to make decisions in matters regarding the procurement of non-audit-related services from external auditors. The Committee is responsible for monitoring and ensuring the quality of financial reporting; the effectiveness of the company's internal control; and the tasks performed by the Internal Audit, Risk Control and Compliance functions. The Committee also discusses valuation issues and other assessments pertaining to the annual accounts. In matters relating to external audit, the Risk and Audit Committee is, notwithstanding the Board's other responsibilities and duties, to regularly meet with and review reports from the company's external auditors in order to remain informed about the focus and scope of the audit and to discuss the coordination of the external and internal audit with the external auditor. The Risk and Audit Committee is to inform the Board about audit results, the manner in which the audit contributed to the reliability of financial reporting, and the role played by the Committee in the process. The Committee is to also remain informed about the Swedish Inspectorate of Auditors' quality control of the company's external auditors and is responsible for the auditors' independence and impartiality and the selection procedure ahead of the choice of auditor. The Committee is required to meet at least four times per financial year.

The Risk and Audit Committee has at least three members appointed by the Board on an annual basis. Committee members may not be employed by the company. One member is elected Committee Chairman. The Chairman may not be the Board Chairman of Hoist Finance. Since the 2018 AGM, the Risk and Audit Committee members have been Cecilia Daun Wennborg (Chair), Ingrid Bonde, Liselotte Hjorth and Gunilla Öhman. The CEO,CFO and the company's external auditors also attend the Committee's meetings. The company's employees may be summoned to Committee meetings to provide details on specific reports or issues. Committee meeting minutes are recorded and available to all Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed and proposed at Committee meetings. The Committee held seven meetings in 2018, with all members in attendance at these meetings.

Remuneration Committee

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

The Remuneration Committee is to have at least two members appointed by the Board on an annual basis. All members must be independent in relation to the company, the company's management and the company's major shareholders. The Remuneration Committee meets at least twice per financial year. Since the 2018 AGM, the Board's Remuneration Committee members have been Ingrid Bonde (Chairman), Joakim Rubin and Gunilla Öhman. The CEO and Chief People Officer also attend the Committee's meetings. Company employees may be summoned to Committee meetings to provide details on specific reports or issues. Remuneration Committee meeting minutes are recorded and are available to Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed and proposed at Committee meetings. The Committee held eight meetings in 2018, with all members in attendance at these meetings.

Investment Committee

The Investment Committee is both a preparatory and a decision-making committee. Its responsibilities include evaluating and

approving standard portfolio acquisitions valued at EUR 75 million or more; portfolio acquisitions not considered to be standard and valued at EUR 25 million or more; and investments that require the approval of the Swedish Financial Supervisory Authority. The Investment Committee is to have at least three members appointed by the Board on an annual basis. The Chairman must be independent in relation to the company and the company's management and may not be the Board Chairman of Hoist Finance. The Committee meets at least four times per financial year and whenever a Committee decision or recommendation is required as per the company's Investment Policy. Since the 2018 AGM, the Board's Investment Committee has been comprised of Malin Eriksson (Chairman), Liselotte Hjorth, Jörgen Olsson and Joakim Rubin. Costas Thoupos was a member of the Committee until 16 May 2018 and Liselotte Hiorth was Committee Chairman until 30 September 2018. Company employees may be summoned to Committee meetings to provide details on investment data. Committee meeting minutes are recorded and are available to all Board members. The Committee Chairman reports to the Board at all Board meetings concerning the issues discussed, proposed and decided on at Committee meetings. The Committee held 13 meetings in 2018, with all members in attendance at these meetings.

With regard to standard investments valued at less than EUR 75 million and non-standard investments valued at less than EUR 25 million, and provided such investments do not require the Swedish Financial Supervisory Authority's approval, the Investment Committee may delegate decision-making authority to the Management Investment Committee which is comprised of employed executives.

Chairman of the Board

Ingrid Bonde was re-elected Chairman of the Board of Hoist Finance by the AGM held on 16 May 2018. Ingrid Bonde has served in this capacity since 16 November 2014.

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

The Chairman's particular duties are to:

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

Board evaluation

In accordance with the Board's rules of procedure, the Chairman of the Board initiates an evaluation of the Board's performance once per year. For the 2018 evaluation all Board members were able to give their views, through joint discussions between Board members, on issues including working methods, Board meetings, work performed by the Board and management during the year, and Board and management structure. The purpose of the evaluation is to gain an understanding of the Board members' views on the Board's performance and the measures that can be taken to make the Board's work more efficient. The purpose is also to gain an understanding of the type of issues the Board believes should be given more scope and the areas that may require additional Board expertise. The results of the evaluation were reported and discussed at the Board meeting held on 13 December 2018 and were provided to the Nomination Committee.

CEO and Executive Management Team

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

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

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

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

The CEO's main duties include:

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

Executive Management Team

Christer Johansson has been the CFO (Chief Financial Officer) of Hoist Finance since 8 May 2018. For information on the CEO, CFO and other members of the Executive Management Team, see the section on the company's Board and Executive Management Team and the company's website, www.hoistfinance.com.

See Note 7 "Personnel expenses" for details on the remuneration of the CEO and Executive Management Team.

Important guidelines

The company's CSR policy is applied throughout the Group, and Group-wide and local goals and measures are incorporated into day-to-day operations. The CSR governance structure is composed of a framework for internal governance and control that includes a functional organisational structure with a clear division of responsibilities between management, operations and control functions, as well as principles, policies and processes. To further support policy application and relevance, each policy is assigned to a "document owner" – often the person responsible for the policy's specific area.The Executive Management Team is responsible for the CSR strategy, while the Chief Business Development Officer (CBDO)has overall responsibility for implementation of the strategy. Day-to-day responsibility for the achievement of individual targets rests with each relevant manager.

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

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

Auditors

The 2018 AGM re-elected registered public accounting firm KPMG AB as the company's auditor for the period until the close of the next AGM. Authorised Public Accountant Anders Bäckström is Auditor in Charge.

Financial reporting

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

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

Internal reports

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

Guidelines for remuneration of senior executives, etc.

Guidelines for remuneration of senior executives were adopted by the AGM on 16 May 2018. Remuneration of senior executives is comprised of fixed salary, variable remuneration, pension and other benefits. Remuneration is designed to encourage senior executives to deliver results in line with the company's targets, strategy and vision and to act in accordance with the company's ethical code of conduct and core values.

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

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

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

Pension and insurance are offered under national laws, regulations and market practices in the form of either collective or company-specific plans, or a combination of the two. Hoist Finance has defined-contribution pension plans and does not apply discretionary pension benefits. Remuneration guidelines are presented in their entirety in Note 7 "Personnel expenses". The Board's proposed new guidelines for 2019 are presented in the Administration Report. Information on salaries and other remuneration of senior executives is presented in Note 7 "Personnel expenses".

Internal control over financial reporting

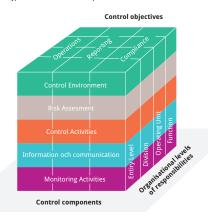
Internal governance and control

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

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

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

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



Roles and responsibilities

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

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

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

Hoist Finance roles and responsibilities with respect to internal control and risk management are structured in three lines of defence. These three lines of defence jointly form the internal control framework, which is designed to develop and maintain systems that ensure:

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

Areas of responsibility

Risk Control functionl

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

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

Compliance function

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

» Identifying risks of the company failing to comply with its legal, regulatory and other duties with respect to its licensed operations, and monitoring and verifying that these risks are managed by the relevant functions.

Three lines of defence for risk management and internal control

1st line of defence

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

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

2nd line of defence

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

3rd line of defence

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

- » Overseeing and monitoring compliance with laws, regulations and other rules, as well as with relevant internal regulations.
- » Reviewing and evaluating the functionality and effectiveness of the company's procedures on a regular basis.
- » Providing recommendations to relevant persons based on the function's findings.
- » Providing counsel and support to the company's personnel, CEO and Board regarding the laws, regulations and other rules applicable to the licensed operations, and regarding internal regulations.
- » Informing and training relevant persons regarding new or amended regulations.
- » Ensuring the quality of, and continuously updating, the company's internal rules, policies and instructions.
- » Verifying that new or substantial changes to products, services, markets, processes and IT systems and major changes to the company's operations and organisation comply with legal, regulatory and other requirements applicable to the company's licensed operations.
- » Advising and reporting to the Board and the CEO on a regular basis.

Internal Audit function

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

- Whether the company's organisation, governance processes, IT systems, models and procedures are appropriate and effective.
- Whether the company's internal control is appropriate and effective and whether the operations are conducted in accordance with the company's internal regulations.
- » Whether the company's internal regulations are adequate and consistent with laws, regulations and other rules.
-)) The reliability of the company's financial reporting, including off-balance sheet commitments.
- » The reliability and quality of the work performed within the company's various control functions.
- » The company's risk management based on the adopted risk strategy and risk appetite.

The Internal Audit function also provides recommendations to relevant persons based on the function's findings, monitors whether the measures are subsequently implemented, and reports to the Board on a regular basis.

Internal control process

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

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

- >> Control environment
-)) Risk assessment
- Control activities
-) Information & Communication
-)) Monitoring

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

steering documents, and well-conceived process descriptions, are made available to the relevant personnel.

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

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

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

Monitoring occurs at all levels in the Group. The company regularly evaluates the internal control of financial reporting. Work on the internal control is reported to the Board of Directors and the Risk and Audit Committee. This reporting forms the foundation for the Board's evaluation and assessment of the efficiency of the internal control of financial reporting and also constitutes a basis for decisions about potential improvement measures. The company has an incident reporting procedure in place, under which incidents are reported and analysed and actions taken to reduce risks as far as is economically justifiable.

The company also has an internal whistleblowing procedure through which employees can anonymously report suspicions of improprieties within the organisation.

Financial reporting competencies

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

Board of Directors









Ingrid Bonde

Chair of the Board

Board member since 2014.

Born: 1959.

Education:

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

Internal assignments:

The Board, Chair Remuneration Committee, Chair Risk and Audit Committee member

Other significant external assignments:

Loomis AB, Board member Securitas AB, Board member The Swedish Corporate Governance, Board member Swedish Climate Policy Council, Chair

Previous experience:

Danske bank A/S, Board member CFO and Deputy CEO of Vattenfall, president and CEO of AMF, Director General of the Swedish FSA, Deputy Director General of the Swedish National Debt Office, Vice President Finance of SAS, Vice President for foreign currency funding and debt management at the Swedish National Debt Office.

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

Shareholding: 22,600 shares.

Cecilia Daun Wennborg Malin Eriksson

Board member

Board member since 2017.

Born: 1963.

Education:

Bachelor of Business Administration, Stockholm University.

Internal assignments:

Board member Risk and Audit Committee, Chair

Other significant external assignments:

Getinge AB, Board member ICA Gruppen AB, Board member Loomis AB, Board member Bravida Holding AB, Board member Hotell Diplomat, Board member Atvexa AB, Board member Oncopeptides AB, Board member Sophiahemmet Non-Profit Association. Board member Sophiahemmet AB, Board member The Swedish Securities Council, Board member Oxfam Foundation in Sweden, Board member

Previous experience:

Vice President and CFO at Ambea, CEO and CFO at Carema Vård och Omsorg, Acting CEO at Skandiabanken, Head of Swedish Operations Skandia Group and CEO at SkandiaLink.

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

Shareholding:

3,500 shares.

Board member

Board member since 2017.

Born: 1971.

Education:

Bachelor of Science in Business, Ithaca College, New York

Internal assignments:

Board member Investment Committee, Chair

Other significant external assignments:

Klarna Inc., Head of US Market

Previous experience:

Partner and former Chief Investment Officer at Credigy. Board member and Head of Investment Committee in Lindorff Group, CEO at Rio Branco Aquisição e Administração de Creditos and Senior Consultant at Monitor.

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

Shareholding:

31,500 shares.

Liselotte Hjorth

Board member

Board member since 2015.

Born: 1957.

Education:

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

Internal assignments:

Board member Investment Committee member Risk and Audit Committee member

Other significant external assignments:

White arkitekter AB, Chair of the Board White Intressenter AB, Chair of the Board Eastnine AB (publ), Chair of the Board Rikshem AB (publ), Board member Kungsleden AB, Board member Ativo Finans AB, Board member BNP Paribas Real Estate Investment Management Germany Gmbh, Board member

Emilshus AB, Board member

Previous experience:

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

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

Shareholding:

4,700 shares.



Jörgen Olsson

Board member

Board member since 2010 and deputy Chairman since 2018.

Born: 1961.

Education:

Bachelor of Science in Business and Economics, Luleå University.

Internal assignments:

Board member Investment Committee member Hoist Finance SAS, Chair of the Board Hoist Italia S.r.l., Chair of the Board

Other significant external assignments:

Previous experience:

CEO (until 14 March 2018) at Hoist Finance, Head of Corporate Banking at Kaupthing Bank Sweden, senior positions at SEB/Enskilda Corporate and Group Treasurer at Elekta AB.

Not independent in relation to the company and management.

Independent in relation to major shareholders.

Shareholding:

2,603,369 shares through Deciso Holding AB and own holding.

Anders Bäckström



Marcial Portela

Board member

Board member since 2018.

Born: 1945.

Education:

Master of Arts in Political Science, Complutense University of Madrid, and Master of Arts in Sociology, University of Louvain.

Internal assignments:

Board member

Other significant external assignments:

KIDER S.L, Chairman of the Board Gaudea, Board member MRFactory, Board member

Previous experience:

CEO for Banco Santander (Brazil), CEO Telefónica International, various positions in Argentaria and BBVA and Board member of Lindorff Group.

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

Shareholding:







Joakim Rubin

Board member

Board member since 2017.

Born: 1960.

Education:

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

Internal assignments:

Board member Investment Committee member Remuneration Committee member

Other significant external assignments:

EQT AB, Partner and Chief **Investment Advisor of Public** Value advisory team Cramo Plc, Board member Capio AB (publ), Board member ÅF AB, Board member

Previous experience:

Senior Partner och Head of CapMan Public Market, samt olika positioner inom Handelsbankskoncernen däribland, Head of Corporate Finance och Debt Capital Markets. Styrelseledamot i Sanitec Plc, B&B Tools, Intrum Justitia, Proffice och Nobia.

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

Shareholding:

0 shares, EQT owns 5,558,523 shares.



Gunilla Öhman

Board member

Board member since 2014.

Born: 1959.

Education:

Master of Business Administration, Stockholm School of Economics.

Internal assignments:

Board member Risk and Audit Committee member Remuneration Committee member

Other significant external assignments:

NCAB Group AB, Head of IR Elekta AB, Head of IR (interim) Carrara Communication AB, Board member

Previous experience:

Board member of HMS Networks, Oatly, Proffice, SJ and AMF Fonder. Previous positions at SEB, the Swedish Central Bank and the Deposit Guarantee Board as Head of Communication. Head of IR at Resursbank, Eltel and at Edgeware.

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

Shareholding:

4,000 shares through Carrara Communications AB

Shareholding stated as at 29 March 2019

Auditor in Charge

Authorised Public Accountant KPMG AB

Born: 1966.

Independent: 0 shares.

Executive Management Team



Klaus-Anders Nysteen

CEO

Member of the Executive Management Team since March 2018.

Born: 1966.

Education:

Master of Business Administration, Norwegian School of Economics and Business Administration (NHH).

Other significant external assignments:

Webstep ASA, Chairman. Asset Buyout Partner, Board member

Previous experience:

Senior Advisor at Nordic Capital, CEO at Lindorff Group, Entra Eiendom AS and Storebrand Bank ASA. CFO at Statoil Fuel & Retail ASA. Board member of AFF, AIM Norway, Hinna Park, Oslo S Utvikling and Powerhouse.

Shareholding:

69,370 shares through Nysteen Invest AS and own holding.



Viktoria Aastrup

Chief Business Development Officer

Member of the Executive Management Team since October 2018.

Born: 1971.

Education:

Master of Science in Economics, University of Linköping and Authorised Financial Analyst (EFFAS), Stockholm School of Economics.

Previous experience:

Head of Compliance Retail Banking and Head of Branch Region Stockholm at Nordea, Deputy Director Division for State owned Enterprises at the Ministry of Industry at the Swedish Government Offices, CEO at Förvaltningsaktiebolaget Stattum, Board member in Vattenfall, Lernia, Svenska Rymdaktiebolaget, Sveriges Provnings- och Forskningsinstitut and Svenska Kraftnät.

Shareholding:

4,450 shares.



Anders Carlsson

Chief General Counsel

Member of the Executive Management Team since October 2017.

Born: 1983.

Education:

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

Previous experience:

Attorney at Hannes Snellman Advokatbyrå.

Shareholding:

81,879 shares.



Ulf Eggefors

Chief People Officer

Member of the Executive Management Team since August 2017.

Born: 1961.

Education:

Economic studies at Stockholm University.

Previous experience:

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

Shareholding:

7,000 shares through closely related persons' holding.



Christer Johansson

Chief Financial Officer

Member of the Executive Management Team since May 2018.

Born: 1979.

Education:

Master of Science, Royal Institute of Technology.

Previous experience:

Head of Group Finance and Business Control at Hoist Finance. Number of positions within business development, advisory and front office management at SEB. Management consultant at McKinsey & Company.

Shareholding:

3,200 shares.



Fabien Klecha

Chief Sales Officer

Member of the Excecutive Management Team since March 2019. Hoist Finance employee since 2012.

Born: 1984.

Education:

Bachelor Degree in Business Administration, Università Commerciale L. Bocconi (Italy). Master Degree in Management, HEC Paris (France).

Previous experience:

Hoist Finance Investment team, based in London, in 2012. Appointed Country Manager in France 2014.

Experience from the finance industry (M&A) and entrepreneurship in AgroGeneration from a start-up to be listed.

Shareholding:

0 shares.



Stephan Ohlmeyer

Chief Investment Officer

Member of the Executive Management Team since January 2018.

Born: 1968.

Education:

PhD and Diploma in Physics, University of Hamburg.

Previous experience:

Various positions within Lone Star, Intrum, Och-Ziff, Värde, Goldman Sachs, Morgan Stanley and Chase Manhattan.

Shareholding:

10,000 shares.



Emanuele Reale

Chief Operating Officer

Member of the Executive Management Team since May 2018.

Born: 1966.

Education:

Degree in Business Administration, London.

Previous experience:

CEO in TRC Spa and board member in TRC Call Srl. Chairman in 3 Erre Srl. Countdown Italia Srl and Ci.Gi.S Srl., board member.

Shareholding:

0 shares.

Björn Hoffmeyer was a member of the Executive Management Team at year-end 2018 and left Hoist Finance in March 2019.

Financial statements

Consolidated income statement

SEK million	Note	2018	2017
Net revenues from acquired loan portfolios	2		2,644
Interest income acquired loan portfolios	2	2,799	
Other interest income	2	-13	-10
Interest expense	2	-351	-305
Net interest income	2	2,435	2 329
Impairment gains and losses	3	261	
Fee and commission income	4	79	73
Net result from financial transactions	5	43	-50
Derecognition gains and losses		-5	
Other operating income	6	16	13
Total operating income		2,829	2 365
General and administrative expenses			
Personnel expenses	7	-826	-730
Collection costs	8	-750	-672
Administrative expenses	8	-509	-402
Depreciation and amortisation of tangible and intangible assets	18,19	-61	-56
Total operating expenses		-2,146	-1 860
Net operating profit		683	505
Profit from participations in joint ventures	9	72	76
Profit before tax		755	581
Income tax expense	11	-165	-128
Net profit		590	453
Profit attributable to:			
Owners of Hoist Finance AB (publ)		590	453
Basic earnings per share SEK	12	6.29	5.10
Diluted earnings per share SEK	12	6.29	5.091)

¹⁾ Includes effect of 5,000 outstanding warrants.

Consolidated statement of comprehensive income

SEK million	2018	2017
Net profit for the year	590	453
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of defined pension benefit plans	1	1
Revaluation of remuneration after terminated employment	1	-1
Tax attributable to items that will not be reclassified to profit or loss	0	0
Total items that will not be reclassified to profit or loss	2	0
Items that may be reclassified subsequently to profit or loss		
Translation differences, foreign operations	96	90
Translation differences, joint venture	-4	18
Hedging of currency risk in foreign operations	-233	-180
Hedging of currency risk in joint ventures	-8	-26
Transferred to the income statement during the year	10	7
Tax attributable to items that may be reclassified to profit or loss	50	45
Total items that may be reclassified subsequently to profit or loss	-89	-46
Other comprehensive income	-87	-46
Total comprehensive income	503	407
Profit attributable to:		
Owners of Hoist Finance AB (publ)	503	407

Consolidated balance sheet

SEK million	Note	31 Dec 2018	31 Dec 2017
ASSETS			
Cash		0	0
Treasury bills and Treasury bonds	13,15	2,653	1,490
Lending to credit institutions	13,15	1,187	1,681
Lending to the public	13,15	14	37
Acquired loan portfolios		20,605	14,766
Bonds and other securities	13,15	3,635	3,689
Participations in joint ventures	9	215	238
Intangible assets	18	387	287
Tangible assets	19	59	42
Other assets	20	425	200
Deferred tax assets		22	21
Prepaid expenses and accrued income	21	53	86
Total assets		29,255	22,537
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	13,15,25	17,093	13,227
Tax liabilities	11	92	84
Other liabilities	22	380	394
Deferred tax liabilities	11	188	148
Accrued expenses and deferred income	23	232	211
Provisions	24	68	87
Senior debt	13,15,25	5,950	4,355
Subordinated debts	13,15,25	839	803
Total liabilities		24,842	19,309
Equity	26		
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 year				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
Additional Tier 1 capital instrument		3112)		-7	304
Reclassification		-3		3	0
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 year					
Profit for the year				453	453
Other comprehensive income			-46		-46
Total comprehensive income for the year			-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

SEK million	Note	2018	2017
OPERATING ACTIVITIES			
Profit before tax		755	581
of which, paid-in interest		2,778	5
of which, interest paid		-289	-356
Net revenues from acquired loan portfolios			2,233
Adjustment for other items not included in cash flow	30	-122	122
Realised result from divestment of loan portfolios		1	_
Realised profit from divestment of shares and participations in joint ventures		-65	-62
Income tax paid		-109	-52
Total		460	2,822
Amortisations on acquired loan portfolios		2,881	
Increase/decrease in other assets and liabilities		-513	-327
Cash flow from operating activities		2,828	2,495
INVESTING ACTIVITIES			
Acquired loan portfolios		-8,048	-4,253
Disposed loan portfolios		66	_
Investments in/divestments of bonds and other securities		64	-1,150
Other cash flows from investing activities		-137	-36
Cash flow from investing activities		-8,055	-5,439
FINANCING ACTIVITIES			
Deposits from the public		3,832	1,407
New share issue		555	29
Issued debts		3,991	2,131
Repurchase of issued debts		-2,631	-676
Additional Tier 1 capital		310	_
Other cash flows from financing activities		-196	-141
Cash flow from financing activities		5,861	2,750
Cash flow for the year		634	-194
Cash at beginning of the year		3,172	3,338
Translation difference		34	27
Cash at end of the year	30	3,840	3,171

Parent Company income statement

SEK million	Note	2018	2017
Interest income	2	1,338	30
Interest expense	2	-355	-5
Net interest income		983	25
Dividends received		1,947	180
Fee and commission income	4	6	_
Net result from financial transactions	5	-196	2
Derecognition gains and losses		-2	
Other operating income	6	310	243
Total operating income		3,048	450
General administrative expenses			
Personnel expenses	7	-364	-5
Other administrative expenses	8	-593	-331
Depreciation and amortisation of tangible and intangible assets	18,19	-32	-6
Total operating expenses		-989	-342
Profit before credit losses		2,059	108
Impairment gains and losses	3	83	
Amortisation of financial fixed assets		-1,454	_
Profit from participations in joint ventures	9	82	_
Net operating profit		770	108
Appropriations	10	-57	-24
Taxes	11	-66	-19
Net profit		647	65

Parent company statement of comprehensive income

SEK million	 2018	2017
Net profit	 647	65
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Translation difference, foreign operations	3	
Total items that may be reclassified subsequently to profit or loss		
	3	
Other comprehensive income for the period	3	-
Total comprehensive income for the period	 650	65
Profit attributable to:		
Owners of Hoist Finance AB (publ)	 650	65

Parent Company balance sheet

SEK million	Note	31 Dec 2018	31 Dec 201 7
ASSETS			
Cash		0	-
Treasury bills and Treasury bonds	13,15	2,653	
Lending to credit institutions	13,15	365	275
Lending to the public	13,15	17	
Acquired loan portfolios	13,15,16	5,593	-
Receivables, Group companies		15,182	193
Bonds and other securities	13,15	3,635	-
Shares and participations in subsidiaries	17	722	1,688
Shares and participations in joint ventures	9	22	-
Intangible assets	18	177	64
Tangible assets	19	24	1
Other assets	20	340	24
Deferred tax assets	11	1	-
Prepayments and accrued income	21	27	9
TOTAL ASSETS		28,758	2,254

SEK million	Note	31 Dec 2018	31 Dec 201 7
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	13,15,25	17,093	-
Tax liabilities	11	65	35
Other liabilities	22	524	301
Deferred tax liabilities		5	_
Accrued expenses and deferred income	23	68	4
Provisions	24	41	0
Senior debt	13,15,25	5,950	_
Subordinated debts	13,15,25	839	-
Total liabilities and provisions		24,585	340
Untaxed reserves		221	84
Equity	26		
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

Parent Company statement of changes in equity

	Restricted equity				Non-restricted equity					
SEK million		Statutory reserves	Revaluation reserve	Development expenditure fund	Reserves Translation reserve	Other contribu- ted equity	Retained earnings	Profit for the year	Total equity	
Opening balance 1 Jan 2018	27	3		6		1,722	7	65	1,830	
Transition effects IFRS 9							13		13	
Adjusted opening balance 1 Jan 2018	27	3		6		1,722	20	65	1,843	
Transfer of previous year's net profit/loss							65	-65	0	
Total comprehensive income for the year										
Profit for the year								647	647	
Other comprehensive income					3				3	
Total comprehensive income for the year					3			647	650	
Transactions reported directly in equity										
Dividend							-154		-154	
New share issue	3					5521)			555	
Reclassification						-3	3			
Merger result		10	64	3		380	333		790	
Transfer between restricted and non-restricted equity				-5			5		0	
Additional Tier 1 capital instrument						3112)	-7		304	
Interest paid on capital contribution							-41		-41	
Portfolio revaluation reseve			2				-		2	
Tax effect on items reported directly in equity			0			3			3	
Total transactions reported directly in equity	3	10	66	-2		1,243	139		1,459	
Closing balance 31 Dec 2018	30	13	66	4	3	2,965	224	647	3,952	

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.

	1	Restricted equ	ity	N			
SEK million	Share capital	Statutory reserves	Development ex- penditure fund	Other contri- buted equity	Retained earnings	Profit for the year ¹⁾	Total equity
Opening balance 1 Jan 2017	27	3	1	1,694	-1	117	1,841
Comprehensive income for the year					117	-117	
Profit for the year							
Other comprehensive income						65	65
Total comprehensive income for the year						65	65
Transactions reported directly in equity							
Dividend					-105		-105
New share issue	0			29			29
Warrants, repurchased and cancelled				0			0
Transfer between restricted and non-restricted	-		5		-5		0
Total transactions reported directly in equity	0		5	29	-110		-76
Closing balance 31 Dec 2017	27	3	6	1,723	6	65	1,830

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

Parent Company cash flow statement

SEK million	Note	2018	2017
OPERATING ACTIVITIES			
Profit before appropriations and taxes		770	-72
of which, paid-in interest		629	30
of which, interest paid		-223	-5
Adjustment for items not included in cash flow	30		
Impairment of shares in subsidiaries		1,454	_
Other items		158	5
Adjustment for items included in investing activities			
Dividend from subsidiaries		-1,947	_
Realised profit from divestment of shares and participations in joint ventures		-65	_
Income tax paid		-66	-11
Total		304	-78
Amortisations on acquired loan portfolios		922	
Increase/decrease in other assets and liabilities		-425	80
Cash flow from operating activities		801	2
INVESTING ACTIVITIES			
Acquired loan portfolios		-3,992	_
Loans to Group companies		-4,626	_
Repaid loans, Group companies		2,170	
Investments in/divestments of bonds and other securities		64	_
Dividend from subsidiaries received		502	_
Group contribution received		_	145
Other cash flows from investing activities		-131	-44
Cash flow from investing activities		-6,013	101
FINANCING ACTIVITIES			
Deposits from the public		3,832	_
New share issue		555	29
Issued debts		3,991	
Repurchase of issued debts		-2,631	
Additional Tier 1 capital		310	_
Other cash flows from financing activities		-196	-105
Cash flow from financing activities		5,861	-76
Cash flow for the year		649	27
Cash at beginning of the year		69	42
Cash acquired through merger		1,973	- 42
Translation difference		-1	
Cash at end of the year	30	2,690	69

Accounting principles

- 1 Corporate information
- 2 Statement of compliance
- 3 Changed accounting principles
- 4 New standards, amendments and interpretations that have not yet been applied
- 5 Assumptions
- 6 Consolidation
- 7 Segment reporting
- 8 Foreign currency translation

- 9 Financial assets and liabilities
- 10 Hedge accounting
- 11 Leasing
- 12 Intangible assets
- 13 Tangible assets
- **14** Provisions
- 15 Income and expenses
- 16 Employee benefits
- 17 Taxes
- 18 Earnings per share

- 19 Equity
- 20 Related-party transactions
- 21 Cash flow statement
- 22 Parent Company accounting principles
- 23 Exchange rates
- 24 Accounting policies applicable from 1 January 2019
 -) IFRS 16 Leasingavtal

1 Corporate information

The Annual Report is issued as of 31 December 2018 by Hoist Finance AB (publ), CIN 556012-8489, the Parent Company of the Hoist Finance Group. The Parent Company is a Swedish public limited company, registered in Stockholm, Sweden.

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

The consolidated accounts for financial year 2018 were approved by the Board of Directors on 3 April 2019 and will be presented for adoption at the Annual General Meeting on 16 May 2019.

2 Statement of compliance Accounting principles of the Group

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

Accounting principles of the Parent Company

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. RFR 2 requires the Parent Company to use the same accounting principles as the Group (e.g. IFRS) to the extent allowed by Swedish accounting legislation. However, the exception in RFR 2 is applied with respect to guarantee agreements benefiting subsidiaries. Mergers are accounted for in accordance with BFNAR 1999:1. The differences between the Group's and the Parent Company's accounting principles are stated below. The Parent Company otherwise applies the same accounting principles as the Group, except in cases where opportunities to apply IFRS in legal entities are limited by Swedish accounting legislation.

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

3 Changed accounting principles New and amended standards adopted in the financial statements

Hoist Finance began to apply a number of new or amended accounting standards according to IFRS in 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, IASB's change to IAS 1 "Presentation of Financial Statements" as a consequence of IFRS 9 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 35 "Classification and Measurement IFRS 9".

Net revenue from acquired loan portfolios

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

Interest income

From 2018, interest income pertaining to "Acquired loan portfolios" is recognised under "Interest income". Interest income is calculated using the effective interest method and is capitalised under "Acquired loan portfolios". Cash flows from customers are recognised as capital repayments on receivables. Realised cash flows that deviate from projected cash flows are recognised under "Impairment gains/losses". Changes in the present value of projected future cash flows are also recognised in "Impairment gains/losses". Revaluations were previously presented in "Net revenue from acquired loan portfolios".

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.

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

Impairment gains and losses

From 2018, changes in the loss allowance for "Acquired loan portfolios" and recognised expected credit losses pertaining to other financial assets classified at amortised cost are also recognised under this item.

For acquired loan portfolios, IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition, as summarised below:

- 3) 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.

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.

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 all other material aspects, the Group's and the Parent Company's accounting policies, bases of calculation and presentation are unchanged compared with the 2017 Annual Report.

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

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

IFRS 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 a right-of-use asset 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 bal-

ance 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.

At the initial date of application, right-of-use assets are valued at an amount corresponding to the lease liability adjusted for any prepaid or accrued leasing fees related to lease contracts reported in the balance sheet immediately prior to the date of application. The lease liability is valued at an amount corresponding to the present value of remaining leasing fees discounted by applying the Group's marginal lending rate at the initial date of application. The Group's average marginal lending rate at transition is expected to be 3.74 per cent.

For lease contracts previously classified as finance leases under IAS 17, right-of-use assets and lease liabilities are reported on the initial date of application at an amount corresponding to the asset and lease liability as valued under IAS 17 immediately prior to the date of application.

Lease contracts that include both a lease component and associated non-lease components are accounted for separately if an observable stand-alone price is available; otherwise, non-lease components are not accounted for separately but rather reported as a single leasing component. Leases with lease terms ending within 12 months from the initial date of application are reported in the same manner as short-term leases.

Effects on the balance sheet

Following the transition to IFRS 16, Hoist Finance 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 Hoist Finance marginal lending rate. An asset is depreciated on a straightline 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, Hoist Finance 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, Hoist Finance will report amortisation of lease liabilities in "Cash flow from financing activities", while interest payments will be reported in "Cash flow from operating activities".

Transition effects IFRS 16

Original carrying value under IAS 17	Re- classification	Revaluation	New carrying value under IFRS 16
2	-0	171	173
1	-1	-	0
3	-1	171	173
2	-	171	173
1	-1	_	0
3	-1	171	173
	carrying value under IAS 17 2 1 3 2	carrying value under IAS 17 Reclassification 2 -0 1 -1 3 -1 2 -	carrying value under IAS 17 Re-classification Revaluation 2 -0 171 1 -1 - 3 -1 171 2 - 171 1 -1 - - 171 -

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.

Other IFRS amendments

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

5 Assumptions

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

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

Estimates made by the Management that have a significant impact on the consolidated financial statements and which may affect the consolidated financial statements in subsequent years are described in more detail in Note 36 "Critical estimates and assumptions".

6 Consolidation

Subsidiaries

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

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

In business combinations where acquisition cost exceeds the net value of the acquired assets, liabilities and contingent liabilities, the difference is reported as

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

Joint ventures

For accounting purposes, joint ventures are entities over which the Group has joint controlling influence through contractual arrangements with one or several parties and has a right to the net assets as opposed to a direct right to assets and assumption of liabilities. In the consolidated accounts, joint venture holdings are consolidated in accordance with the equity method, under which the asset is initially reported at acquisition value. The carrying value is subsequently increased or decreased to reflect the owner company's profit share in the investment after the acquisition date. Changes attributable to exchange differences are reported in "Other comprehensive income". In the BEST III Sec Fund joint venture, the acquired loan portfolios are reported at fair value

7 Segment reporting

An operating segment is a part of the Group that operates a business from which it can generate revenue and incur expenses and for which independent financial information is available. This information serves as a governance tool and is reviewed on a regular basis by chief operating decision makers to evaluate performance and allocate resources to the segment.

For Hoist Finance, geographic regions – comprised of individual countries and groups of comparable countries – are the main basis for division into segments.

Geographic segments are an accurate reflection of the Group's business activities, as loan portfolios are acquired on a country-by-country basis. The company's chief operating decision maker is responsible for defining the segment.

See Note 1 "Segment reporting" for additional information on the operating segments.

8 Foreign currency translation Functional currency

SEK is the functional currency of the Parent Company and the presentation currency of the Group and the Parent Company. Group companies and branches prepare their accounts in the functional currency of the country in which they operate. For consolidation purposes, all transactions in other currencies are converted into SEK at balance sheet date. All amounts, unless indicated otherwise, are rounded to the nearest million.

Transactions in foreign currency

Transactions in a currency other than the local functional currency are translated at the exchange rate in effect on the transaction date. When such transactions are settled, the exchange rate may deviate from

the transaction date rate, in which case a realised exchange difference arises. Monetary assets and liabilities in foreign currency are also translated to functional currency at the balance sheet date exchange rate, which gives rise to unrealised exchange differences. Both realised and unrealised exchange differences of this type are reported in the consolidated income statement.

Translation of foreign operations' financial statements

Assets and liabilities in foreign operations, including goodwill and other consolidated surplus and deficit values, are translated from the operation's functional currency to the Group's reporting currency at the balance sheet date exchange rate. Revenues and expenses are translated at the yearly average rate, which serves as an approximation of the rate that was applied on each transaction date.

Translation differences arise in the translation of subsidiaries' accounts because the balance sheet date exchange rate changes each period and because the average rate deviates from the balance sheet date exchange rate. Translation differences are reported in "Other comprehensive income" as a separate component of equity.

Information on the most important exchange rates is disclosed in the separate section 23 "Exchange rates".

9 Financial assets and liabilities Recognition in and derecognition from the balance sheet

A financial asset or liability is recognised in the balance sheet when the company becomes a party to the contractual provisions of the instrument. A receivable is recognised in the balance sheet when the company is contractually liable to pay, even if an invoice has not been sent. Loan receivables, deposits, issued securities and subordinated debt are recognised in the balance sheet at the settlement date. A spot purchase or sale of financial assets is recognised in and derecognised from the statement of financial position on the trade date. A financial asset is derecognised from the balance sheet when the contractual rights to receive cash flows from the financial asset expire or when the financial asset is transferred and the company simultaneously transfers essentially all of the risks and rewards of ownership of the financial asset. A financial liability or portion thereof is derecognised when the obligation is discharged or otherwise extinguished. An exchange between the company and an existing lender, or an existing borrower of debt instruments with essentially different terms and conditions, is recognised as an extinguishment of the old financial liability or asset, respectively, and recognised as a new financial instrument. Financial assets and liabilities are offset and the net amount recognised in the balance sheet only when there is a legal right to offset the amounts and an intention to settle the items net or to concurrently realise the asset and settle the liability.

With regard to "Acquired loan portfolios", changes in instalment agreements do not comprise grounds for derecognition

from the balance sheet or for recognition of modifications of loan receivables. Debtor instalment agreements are completed on a regular basis for receivables in "Acquired loan portfolios" and in some countries, the instalment agreements are established through legal processes pursuant to insolvency rules. Changes in expected cash flows as a result of instalment agreements have an impact on the portfolios' amortised cost and are recognised in profit or loss as "Impairment gains and losses".

Impact on earnings arising from derecognition upon, e.g., the write-off or sale of financial assets valued at amortised costs are reported in profit or loss as "Profit/loss on derecognition of financial assets".

Classification and measurement IAS 39 (comparative periods)

Financial instruments are recognised at fair value plus transaction costs at initial recognition, with the exception of derivatives and instruments from the category 'Financial asset at fair value through profit or loss', which are reported at fair value exclusive of transaction costs.

Financial instruments are classified on initial recognition based on the purpose of the acquisition of the instrument and on the options provided in IAS 39.

The financial instrument is measured upon initial recognition based on the classification, see below.

Financial assets and liabilities at fair value through profit or loss

Financial assets classified by the company as 'Financial assets at fair value through profit or loss' are financial assets held for trading (derivatives with positive value not designated as hedging instruments, treasury bills and bonds and other held-for-trading securities) as well as loan portfolios acquired prior to 1 July 2011 that were on initial recognition reported at fair value through profit or loss through application of the fair value option. Financial liabilities classified as "Financial liabilities at fair value through profit or loss" are derivatives with negative value not designated as hedging instruments (held for trading). Loan portfolios acquired thereafter, are classified as acquired loans (see below) and are measured at amortised cost.

The difference between a "fair value measurement" and an "amortised cost measurement" for acquired loan portfolios is that the former uses a discount rate corresponding to the market's IRR for similar assets at a given time.

Derivatives are initially recognised at fair value at the date of the derivatives contract, and are subsequently measured at fair value at the end of each reporting period. Derivatives are always classified as held for trading provided they are not identified as hedge instruments.

Changes in fair value for financial assets and liabilities recognised at fair value through profit or loss are reported in the income statement item 'Net financial income', except for acquired loan portfolios, for which revaluations are reported in the item 'Net revenue from acquired loans'.

Financial assets available for sale

The company uses the 'Financial assets available for sale' category for equity instruments for which fair value cannot be reliably determined and which are thus reported at acquisition value and, when applicable, net of impairment.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not listed in an active market. Loan receivables and accounts receivable are measured at amortised cost using the effective interest method, under which the carrying value of each acquired portfolio corresponds to the present value of all projected future cash flows discounted by an initial effective rate determined on the acquisition date, based on the relation between acquisition cost and projected future cash flows. Changes are reported in the income statement. A cash flow projection is made when each portfolio is acquired. Projected cash flows take into account the loan amount and other fees which, based on a probability assessment, are expected to be received from debtors, less projected collection costs.

Balance sheet items classified as loans and receivables refer to 'Lending to credit institutions', 'Lending to the public', and 'Acquired loan portfolios' (with the exception of loan portfolios acquired prior to 1 July 2011), as well as 'Other assets' (excluding derivatives with positive value).

"Acquired loan portfolios" are comprised of non-performing consumer loans acquired at a substantial discount relative to the nominal claim.

For loan portfolios recognised at amortised cost, an initial effective interest rate is determined using the initial cash flow projection and acquisition price, including transaction costs, as the basis for each portfolio. This initial effective rate is then used for discounting cash flows over a ten-year period. A new carrying value as at balance sheet date is calculated for the portfolios based on the updated cash flow projections and the initial effective interest rate as determined. Net collection forecasts for the portfolios are monitored continuously during the year and are updated regularly based on factors such as collection results achieved and instalment agreements with debtors. A new carrying value for the loan portfolios is calculated based on the updated forecasts. The variance is reported as income under 'Net revenue from acquired loans' in the income statement.

Impairment losses are reported together with positive revaluations in the income statement. Consequently, separate provisions for impairments are not reported in the balance sheet.

Classification and measurement IFRS 9

Financial instruments are initially recognised at fair value plus transaction costs, with the exception of derivatives and instruments from the "Financial asset at fair value through profit or loss" category, which are recognised at fair value in profit or loss. These are recognised at fair value exclusive of transaction costs. Financial instruments

are classified on initial recognition. The classification of a financial asset is based on the underlying reason in the entity's business model for acquiring the asset and the nature of the contractual cash flows generated by the financial asset. Financial liabilities are classified at amortised cost, except for derivative liabilities, which are classified at fair value through profit or loss. The classification determines how the financial instrument is measured after initial recognition, as described below.

Financial assets and liabilities at fair value through profit or loss

The financial assets recognised by the Group at fair value through profit or loss (FVTPL) are derivatives with positive values where hedge accounting is not applied, as well as "Eligible treasury bills" and "Bonds and other securities". In addition to derivatives, financial assets recognised at FVTPL are managed pursuant to a fair-value-based business model primarily aimed at providing liquidity for the acquisition of loan portfolios. The financial liabilities recognised at FVTPL are derivatives with negative values to which hedge accounting does not apply. Derivatives are initially recognised at fair value at the date the derivative is contracted, and are subsequently measured at fair value at the end of each reporting period. Changes in fair value are recognised in the "Net financial income" item.

Fair value measurement

The fair value of financial instruments traded on an active market (level 1) is determined for financial assets based on the current bid price. Assets measured at fair value in the balance sheet and traded on an active market comprise investments in eligible treasury bills, and bonds and other securities. Financial instruments that are not traded on an active market but which can be measured using other valuation methods, with observable market information as input (level 2), are comprised of currency hedges and interest derivatives. In cases where assets and liabilities have conflicting market risks, the mid-price is used to determine fair value. See the note 13 "Financial instruments".

Financial assets and liabilities recognised at amortised cost

Acquired loan portfolios

"Acquired loan portfolios" are comprised of loan receivables, some of which are credit-impaired receivables acquired at a price significantly below the nominal claim and some of which are performing loans. The portfolios are held within the framework of a business model focused on holding the receivables in order to collect contractual cash flows comprised of principal payments and interest payments on outstanding principal.

Measurement methods

The amortised cost is the amount at which the financial asset or liability was measured at initial recognition, decreased by amortisation using the effective interest method of any difference between that initial amount and the maturity amount and adjusted for any loss allowance. The effective interest

rate is the rate that exactly discounts the expected cash flows (including transaction costs) to the gross carrying amount of financial assets. For purchased performing loan portfolios, the calculation of the effective interest rate does not take into consideration expected credit losses.

When Hoist Finance revises estimates of future cash flows on acquired credit-impaired loans, the carrying amount of the financial asset is adjusted to reflect the new estimate discounted using the effective interest rate determined at initial recognition. Any changes are recognised in profit or loss.

Interest income

Interest income for credit-impaired loans is calculated by applying the effective interest rate to the loan's carrying value. For performing loans, interest income is calculated as the effective interest rate times the loan's gross value before loss allowance.

Impairment

Hoist Finance assesses on a forward-looking basis the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost. Loss allowances for ECL are recognised at each reporting date, where the measurement of ECL reflects:

- » An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- >> The time value of money
- » Reasonable and supportable information on current and future macroeconomic and non-macroeconomic conditions

For acquired performing loan assets, IFRS 9 outlines a three-stage model for impairment based on the changes in credit quality since initial recognition, as summarised below:

- » All financial assets that are not credit-impaired at initial recognition are classified as stage 1 and Hoist Finance continuously monitors their credit risk.
-)) Stage 2 financial assets are those which have experienced a trigger event for a significant increase in credit risk but are not yet deemed to be credit-impaired. Note 31 "Risk management" describes the criteria for the triggers for a significant increase in credit risk.
-)> Stage 3 financial assets are those which are credit-impaired. Note 31 "Risk management" describes the criteria for a financial asset to be considered credit-impaired or in default.

Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events in the next 12 months. Instruments in stage 2 and 3 have their ECL measured based on expected credit losses on a lifetime basis. The ECL modelling techniques utilised by Hoist Finance are described in the notes.

Write-offs

For acquired performing loan portfolios, Hoist Finance will, in whole or in part, derecognise assets where there is no reasonable expectation of recovery. Indicators of when there is no reasonable expectation of recovery include: (i) ceasing of enforcement activities; (ii) realisation of collateral; (iii) days past due and days since last payment was received (not used in isolation); and (iv) sudden change of debtor status indicating inability to meet any portion of its contractual obligations.

Unidentified revenue and payments

The Group receives large volumes of payments from debtors on its own behalf and on behalf of Group customers. In cases where the sender's reference information is missing or incorrect, it is difficult to assign the payment to the correct account. Payments are also sometimes received on closed accounts. In such instances, a reasonable search is conducted and an attempt is made to contact the payment sender. Unidentified payments are treated as "Other liabilities". The amounts are recognised as revenue in accordance within a predefined time frame.

Other financial assets at amortised cost

Other financial assets at amortised cost encompasses "Lending to credit institutions", as well as accounts receivable and other financial assets reported under "Other assets" (excluding derivatives with positive values). The assets are held within the framework of a business model with the objective of holding assets to collect contractual cash flows comprising repayments of capital and interest on the capital outstanding. On initial recognition, accounts receivable are recognised at the transaction price and other financial assets are recognised at fair value exclusive of transaction costs. Thereafter, the effective interest method is used to measure amortised cost. The items provide the basis for the loss allowance for expected credit losses (ECL).

The loss allowance for accounts receivable is calculated using the simplified approach. The ECL allowance is prepared on initial recognition and on subsequent balance-sheet dates, and takes into consideration the remaining term of the receivable.

The loss allowance for "Lending to credit institutions" and "Other financial assets" is based on allocation of the assets in three different stages that reflect changes in credit risk. On initial recognition, the asset is allocated to stage 1 and, on initial recognition and on subsequent balance-sheet dates, a loss allowance is reported for the next 12 months. If the credit risk for the financial asset has increased significantly since initial recognition, the asset is allocated to stage 2 and the loss allowance is calculated for the entire remainder of the term. Interest income under the effective interest method for financial assets in stages 1 and 2 is calculated on the gross carrying amount. While a loss allowance continues to be calculated for the entire remainder of the term for stage 3 credit-impaired assets, interest income according to the effective interest method is calculated on the amortised cost, i.e. after taking into account the loss allowance. Should the credit risk decline, the asset can once again be allocated to stages 1 or 2. The allocation criteria for the various stages are determined by the Group.

The recognised balance-sheet items comprise the net of gross amounts and the loss allowance. Consequently, no separate provision for the loss allowance is reported in the balance sheet. Changes in the loss allowance are recognised under "Impairment gains and losses" in profit or loss.

Seized assets

Seized assets are assets taken over to protect a claim. Hoist Finance may waive a loan receivable and instead seize the asset that served as collateral for the loan. Seized assets may consist of financial assets. properties and other tangible assets. Seized asset are recognised on the same line item in the balance sheet as similar assets that have been acquired otherwise. Seized assets comprised of tangible assets are measured as inventories in accordance with IAS 2. At initial recognition seized assets are measured at fair value. The fair value at initial recognition becomes the acquisition value. Subsequently seized assets are measured according to type of asset, with the exception of impairment on tangible seized assets which is reported as "Gains/losses from tangible and intangible assets" rather than as "Depreciation, amortisation and impairment of tangible and intangible assets". The purpose is to better reflect the similar character of impairment of assets that are taken over to protect claims on counterparties and credit losses.

Financial liabilities

The Group's financial liabilities are comprised of "Senior debt", "Subordinated debts" and "Other financial liabilities". Financial liabilities are initially recognised at fair value, including transaction costs directly attributable to the acquisition or issue of the debt instrument. Subsequent to acquisition, they are recognised at amortised cost pursuant to the effective interest method. Financial liabilities valued at fair value through comprehensive income include such financial liabilities held for trading (derivatives).

Modification of loans

For purchased performing loans, Hoist Finance does on occasion renegotiate or otherwise modify a loan's contractual cash flows. When this happens, Hoist Finance assesses whether or not the new terms are substantially different from the original terms. In doing so, Hoist Finance considers factors including:

- Change in interest rate or the denomination of the currency of the loan
- >> Extension of the loan term or changes in payment schedule
-)) Insertion of collateral or other security or credit enhancements that affect the credit risk associated with the loan

If the terms are substantially different, Hoist Finance derecognises the original financial asset and recognises a new asset at fair value according to the new contractual terms, and recalculates a new effective interest rate. The difference in gross carrying amount is recognised in profit or loss as a gain or loss on derecognition.

If the terms are deemed as not substantially different the modification does not

result in derecognition, and Hoist Finance recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss in "Net result from financial transactions". The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate determined by Hoist Finance at initial recognition.

A modification of contractual cash flows for acquired loans is considered a default trigger if the modification reduces the financial obligation towards Hoist Finance by more than 1 per cent. This implies that these loans will be considered credit-impaired and consequantly classified in Stage 3 where loss allowance is recognised on a lifetime basis.

10 Hedge accounting

The Group applies hedge accounting in accordance with IAS 39.

Derivatives are used to hedge (for the purpose of neutralising) any risk of interest-rate and exchange-rate exposure for the Parent Company or the Group. The Group applies hedge accounting in cases where currency derivatives or foreign currency debts are used to hedge net investments in foreign operations. When hedge accounting is used for foreign net investments and the hedge has proven 80-125 per cent effective, changes in the hedging instrument's fair value are recognised in "Other comprehensive income" and accrued (as are the translation effects of net investments) in the translation reserve. In cases where the hedge is 101-125 per cent effective, the ineffectiveness is recognised in the income statement in the item "Net financial income". For other derivatives to which hedge accounting does not apply, changes are recognised in fair value under the item "Net financial income".

For qualitative information on the Group's management of market risk, see Note 31 "Risk management". Quantitative information on the Group's derivative instruments for hedging purposes in presented in Note 14 "Derivatives".

11 Leasing

Lease contracts in which a significant share of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the lease term. Operating leases relate primarily to leases of office premises and office equipment for the company's normal business operations.

Lease contracts in which a significant share of the risks and rewards of ownership are retained by the Group are classified as finance leases. Finance leases are reported as assets and liabilities in the balance sheet at the amount equal to the leased assets' fair value or, if lower, the present value of future minimum leasing fees as at inception of the lease. Lease payments are allocated between interest and amortisation of the outstanding debt. Interest is distributed over the lease term so that each accounting period is charged with an amount corre-

sponding to a fixed interest rate for the liability reported during that period. The depreciation policy for assets acquired under finance leases is consistent with that for comparable own assets.

12 Intangible assets

Intangible assets are identifiable, non-monetary assets that lack physical substance and are under Hoist Finance's control.

Capitalised expenses for IT development

Expenditures for IT development and maintenance are generally expensed as incurred. Expenditures for software development that can be attributed to identifiable assets that are under the Group's control and that have anticipated future economic benefits are capitalised and reported as intangible assets.

Additional costs for previously developed software, etc. are reported as assets in the consolidated balance sheet if they increase the anticipated future economic benefits of the specific asset to which they are attributable – e.g. by improving or extending a computer programme's functionality beyond its original use and estimated useful life.

IT development costs reported as intangible assets are amortised using the straight-line method over their useful lives, though not more than seven years. The asset is reported at cost less accumulated amortisation and impairment losses. Costs associated with the maintenance of existing computer software are continuously expensed as incurred.

For capitalisation of self-generated development expenditures, the corresponding amount is transferred from unrestricted equity to restricted equity in the Parent Company.

Goodwill

When the purchase price, any non-controlling interest and fair value at the acquisition date of previous shareholdings exceed the fair value of identifiable net assets acquired, the excess amount is reported as goodwill. Goodwill from acquisitions of subsidiaries is reported as intangible assets.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Allocation is made to the cash-generating units, or groups of cash-generating units, determined in accordance with the Group's operating segments that are expected to benefit from the business combination in which the goodwill arose.

Goodwill is tested annually, or more often if so indicated, to identify any impairment requirements and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Profit or loss on disposal of an entity includes the remaining carrying value of goodwill relating to the entity sold.

Other intangible assets

Other intangible assets are amortised on a straight-line basis over their useful lives, but not over a longer period than five years.

Impairments

An impairment test is conducted upon indication of depreciation in value, or at least annually when each asset's residual value and remaining useful life are determined.

The recoverable value of the asset is estimated if there are indications of an impairment requirement. For goodwill and other intangible assets with indeterminate useful lives and for intangible assets that have not yet come into use, recoverable values are calculated on an annual basis. If independent cash flows cannot be determined for individual assets, the assets are grouped at the lowest level at which independent cash flows can be identified – a cash-generating unit.

An impairment is reported when the carrying value of an asset or a cash-generating unit exceeds its recoverable value. Impairments are reported in the income statement. Impairments attributable to a cash-generating unit are primarily allocated to goodwill and are subsequently distributed proportionally among other assets in the unit.

The recoverable value for cash-generating units is the fair value less divestment costs or the useful value, whichever is greater. Useful value is calculated by discounting future cash flows using a discounting factor that takes into account the risk-free interest rate and the risk associated with that particular asset.

Goodwill impairment is not reversed. Impairment of other assets is reversed if there have been changes in the underlying assumptions that were used to determine recoverable value. Impairments are reversed only to the extent that the carrying value of the assets following the reversal does not exceed the carrying value of the assets if the impairment had not been reported.

13 Tangible assets

Tangible assets are comprised of IT equipment, improvements to leased premises, and equipment.

Tangible assets are reported as assets in the balance sheet if it is likely that the future economic benefits will accrue to the company and the cost of the asset can be reliably estimated. Tangible assets are reported at cost less accumulated depreciation and impairments.

Principles for depreciation/ amortisation of assets

Assets are depreciated/amortised using the straight-line method over estimated useful life and applying the following periods:

>>> Equipment 2–5 years >>>> Investments in leased premises 5 years

>> Intangible assets 3–7 years

14 Provisions

Provisions are recognised for existing legal or informal obligations arising from past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation and where the amount can be reliably estimated. The amount must be able to be reliably estimated in order to for rec-

ognition to occur. The provision is measured at the amount corresponding to the best estimate of the expenditure required to settle the obligation at the balance sheet date.

The expected future date of the settlement is taken into account in the estimate.

15 Income and expenses Net revenue from acquired loan portfolios (comparative periods)

All income from acquired loan portfolios is reported under 'Net revenue from acquired loan portfolios' in the income statement.

Income from acquired loan portfolios are carried at fair value through profit or loss include: (i) the effect of discount rate changes, (ii) changes to expected future cash flow, and (iii) the discrepancy between expected cash flow and actual cash flows. Income from acquired loans reported at amortised cost include (ii) and (iii).

For acquired portfolios measured at amortised cost, the discount rate remains constant when a projected cash flow curve for the portfolio is determined. Consequently, revaluation effects only occur when the projected cash flow curves are adjusted in arrears.

Interest income

Interest income encompasses interest income according to the effective interest method from "Acquired loan portfolios", from "Lending to credit institutions" and investments in "Eligible treasury bills" and "Bonds and other securities".

Interest income pertaining to credit-impaired assets is based on the initial credit-adjusted effective interest rate and the portfolio's amortised cost at the start of the period. Interest income pertaining to "Other financial instruments" is based on the initial effective interest rate and the instrument's gross value at the start of the period. However, if an asset has been credit-impaired, the interest income is calculated on the amortised cost - i.e. the net of the gross value and the ECL loss allowance.

Interest expense

Interest expense is mainly comprised of expenses associated with the Group's funding via deposits from the public and issued debt instruments.

Impairment gains and losses

The earnings item comprises loss allowance changes pertaining to "Acquired loan portfolios". Where applicable, modification gains/losses attributable to "Acquired loan portfolios" are included. The item also encompasses a loss allowance for other financial assets recognised at amortised cost. Both positive and negative remeasurements can be recognised under this item. If no reasonable expectation exists of recovering the remaining receivables in a portfolio, an impairment loss is recognised and the carrying amount of the asset derecognised from the balance sheet.

"Impairment gains and losses" also includes the net of actual and projected collections.

Fee and commission income

Companies in the Hoist Finance Group provide collection services for third parties.

In such agreements the counterparty selects the receivables to be included in the contract and transfers those to the Group, while retaining ownership of the receivables. In such contracts the Group is generally entitled to remuneration corresponding to a fixed percentage of successful collections. The Group may also be entitled to bonus payments in the event collections during a specific period reach a certain level. A contract may also include provisions for a cancellation fee.

The Group reports fee and commission income in accordance with IFRS 15. Income is recognised when the performance obligation has been fulfilled and when control is transferred to the customer. Variable payments are recognised as income to the extent it is highly probable that no material provision of previously recognised accumulated income is likely to arise in later periods. For Hoist Finance, services are transferred and income is recognised at a given time, as the services are performed.

Net financial income

"Net financial income" includes realised and unrealised exchange rate fluctuations, gains/ losses on financial assets and liabilities recognised at FVTPL, liabilities recognised at amortised cost and the ineffective portion of hedges of foreign net investments. The item may also include modification gains/losses on financial instruments that are unrelated to acquired loan portfolios. Earnings effects that are not recognised as separate earnings items that pertain to financial assets recognised at amortised cost can, when derecognised from the balance sheet and on reclassification, be recognised under "Net financial income".

Other operating expenses

Various types of costs directly related to loan portfolio administration are grouped under "Other operating expenses". For the Group, "Other operating expenses" are mainly direct costs for external collection services. "Fee and commission income" refers to income for these external services and is recognised when fee and commission provisions can be reliably measured.

16 Employee benefits

All forms of remuneration provided to employees as compensation for services rendered constitute employee benefits.

Short-term benefits

Short-term benefits to employees are settled within twelve months following the close of the reporting period during which the services were rendered. Short-term benefits are mainly comprised of fixed and variable salary, both of which are accounted for during the period in which the related services are rendered. Post-employment benefits in Hoist Finance cover only pensions. Benefits that are not expected to be fully settled within twelve months are reported as long-term benefits.

Redundancy payments

Remuneration expense in connection with termination of personnel is reported either when the company is no longer able to withdraw the redundancy offer or when

the company reports restructuring costs, whichever occurs sooner. Payments that are expected to be settled after twelve months are reported at present value.

Pensions

Group companies operate various pension schemes, which are generally funded through payments determined by periodic actuarial calculations to insurance companies or trustee-administered funds.

The Group has both defined benefit and defined contribution plans:

- Defined benefit plans normally specify the pension rate to be received by the employee upon retirement, usually dependent on one or several factors, such as age, years of service and salary.
- Winder defined contribution plans, the Group pays fixed contributions into a separate entity. The Group has no legal or informal obligation to pay further contributions if the fund does not hold sufficient assets to pay all benefits to employees relating to employee service during the current and prior periods

The liability reported in the consolidated balance sheet with respect to defined benefit pension plans is the present value of the defined benefit obligation as at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The net present value of the defined benefit obligation is determined by discounting estimated future cash flows using interest rates of high-quality corporate bonds denominated in the currency in which the benefits will be paid and with durations approximating the durations of the related pension liability.

Net interest expense/income for the defined benefit pension obligation/asset is reported in "Net interest income". Net interest income is based on the discount rate used in calculating the net obligation – i.e. the interest on the obligation, plan assets and interest on effects of any asset restrictions. Other components are recognised in net operating income.

Revaluation effects are comprised of actuarial gains and losses, discrepancies between actual return on plan assets and the amount included in net interest income, and any changes to effects of asset restrictions (exclusive of interest included in net interest income). Revaluation effects are reported in "Other comprehensive income".

Changes or reductions to defined benefit plans are reported at the earlier of the following:

-)) when the change to or reduction in the plan occurs, or
-)) when the company reports the associated restructuring costs and redundancy costs, whichever occurs first

Changes/reductions are reported directly as personnel expenses in the profit and loss accounts.

The special employer's contribution is included in the actuarial assumptions and is reported as part of the net obligation/

asset. The portion of the special employer's contribution that is calculated based on the Pension Obligations Vesting Act in the legal entity is reported as an accrued cost rather than as part of the net obligation/asset.

Tax on returns from pension funds is reported in profit or loss for the period the tax relates to, and is thus not included in the liability projection. For funded pension plans, the tax is charged to "Return on plan assets" and is reported in "Other comprehensive income". For unfunded or partially unfunded plans, the tax is charged to "Net profit for the year".

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are reported as employee benefit expense when they fall due. Prepaid contributions are reported as an asset to the extent that a cash refund or a reduction in the future payments is available.

Warrant programme

Warrants have been sold at market price (fair value) to employees. The transactions fall within the scope of IFRS 2 "Share-based payments", as the future value of the warrants are affected by continued employment. There is no expense to report due to the fact that the employees paid market price for the warrants; however, IFRS 2 disclosure requirements are applied when applicable. All warrants were exercised as at 31 December 2017. See Note 7 "Personnel expenses" for additional details.

17 Taxes

Taxes are comprised of current tax and deferred tax. Taxes are reported through profit or loss unless the underlying transaction is directly reported in "Equity" or in "Other comprehensive income", in which case the attributable tax effect is also reported in "Equity" or "Other comprehensive income", respectively.

Current tax refers to tax paid or received for the current year, using tax rates that apply as at the balance sheet date, including adjustments for current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method based on temporary differences between the carrying value of assets and liabilities and their value for tax purposes. The following temporary differences are not taken into account:

- Temporary differences that arise in the initial recognition of goodwill.
- The initial recognition of assets and liabilities in a transaction other than a business combination and which, at the time of the transaction, does not affect either the reported or taxable profit.
- Temporary differences attributable to participations in subsidiaries and associated companies that are not expected to be reversed within the foreseeable future.

The measurement of deferred tax is based on how the carrying values of assets or liabilities are expected to be realised or settled.

Deferred tax is calculated by applying the tax rates and tax rules that have been set or essentially set as of the balance sheet date.

Deferred tax assets from deductible temporary differences and tax losses carry-forwards are only recognised if it is likely that they will be utilised within the foreseeable future. The value of deferred tax assets is reduced when they are utilised or when it is no longer deemed likely that they will be utilised.

Current tax, deferred tax, and tax attributable to the previous year are reported under "Income tax expense".

18 Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to Hoist Finance AB (publ) shareholders, adjusted for interest on capital instruments recorded in equity, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, consisting of rights to performance shares in the long-term warrant programmes.

Potential ordinary shares are only considered to be dilutive on the balance sheet date if a conversion to ordinary shares would reduce the earnings per share. The rights are further considered dilutive only when the exercise price, plus future services, is lower than the period's average share price.

19 Equity

When a financial instrument is issued in the Group it is reported as a financial liability or as an equity instrument, in accordance with the financial implications of the instrument's terms. These instruments or sections thereof are reported as liabilities when the company has an irrevocable obligation to pay cash. Issued financial instruments that do not irrevocably oblige the company to pay cash on interest and nominal amounts are reported as equity.

Return to investors is reported as a dividend to equity with respect to equity instruments and as an interest expense in profit or loss with respect to debt instruments.

Dividend

Proposed dividends are reported as a liability after having been approved by the Annual General Meeting.

20 Related-party transactions

Hoist Finance defines related parties as:

- Shareholders with significant influence
-) Group companies
- Associated companies and joint ventures
- >> Key senior management
- Other related parties

All intra-group transactions between legal entities and transactions with other related parties are conducted pursuant to the arm's length principle in accordance with OECD requirements. Intra-group transactions are eliminated in the consolidated accounts.

Shareholders with significant influence

Shareholders with significant influence are entitled to take part in decisions on Hoist Finance's financial and operational strategies, but do not have controlling influence over such strategies.

Group companies and associated companies

A company is defined as a related party if the company and its reporting entity are part of the Hoist Finance Group.

See section 6, Consolidation, for the definition of "subsidiaries and joint ventures". Further information on Hoist Finance Group companies is presented in Note 17 "Group companies".

Key senior management

Key senior executives include:

- The Board of Directors
- >> The Chief Executive Officer (CEO)
- >> The Executive Management Team

See Note 7 "Personnel expenses" for details on compensation, pensions and other transactions with key senior executives.

Other related parties

Other related parties comprise close relatives and family members of key senior management, if that or those person(s) has or have controlling influence, severally or jointly, over the reporting entity.

Other related parties are also companies over which Hoist Finance Group key management personnel, or their close relatives, have significant influence.

Information on transactions between Hoist Finance and other related parties is presented in Note 33 "Related-party transactions".

21 Cash flow statement

The cash flow statement includes changes in the balance of cash and cash equivalents. The Group's cash and cash equivalents is comprised of cash, treasury bills and treasury bonds and lending to credit institutions. Cash flow is divided into cash flow from operating activities, investment activities and financing activities. The indirect method is used to report cash flow.

Cash flow from investing activities includes only actual disbursements for investments made during the year.

Foreign subsidiaries' transactions are translated in the cash flow statement at the average exchange rate for the period. Acquired and divested subsidiaries are reported as "Cash flow from investing activities, net", after deducting cash and cash equivalents in the acquired or divested company. For acquired and divested subsidiaries that hold debt portfolios, acquired and divested loan portfolios are reported in "Operating activities".

22 Parent Company accounting principles

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act for Credit

Institutions and Securities Companies (1995:1559) and the regulatory code issued by the Swedish Financial Supervisory Authority on Annual Reports in Credit institution and Securities Companies (FFFS 2008:25), including applicable amendments. The Swedish Financial Board's RFR 2 "Accounting for legal entities" requires the Parent Company to use the same accounting principles as the Group (i.e. IFRS) to the extent allowed by Swedish accounting legislation. However, the exception in RFR 2 is applied with respect to guarantee agreements benefiting subsidiaries. Mergers are accounted for in accordance with BFNAR 1999:1.

The differences between the Group's and the Parent Company's accounting principles are stated below.

22.1

IFRS 9 Financial instruments Parent Company

The Parent Company will apply IFRS 9 in its entirety as of 1 January 2018. However, the RFR 2 exception will be applied with respect to guarantee agreements benefiting subsidiaries.

The Parent Company's financial assets will continue to be classified at amortised cost and, accordingly, the transition to IFRS 9 will have no effect.

The Parent Company's financial assets recognised at amortised cost are subject to a loss allowance. The calculated credit loss in the Parent Company is not significant and no loss allowance is presented.

22.2

Group contributions and dividends Group contributions

Hoist Finance applies the main rule in RFR2 IAS 27.2. Group contributions received from Group companies are reported in the income statement. The net of Group contributions paid or received for optimising the Group's tax expense is reported as appropriation in the Parent Company. Group contributions from the Parent Company to subsidiaries are reported as an increase in participations in Group companies, net of tax.

Dividends

Dividends paid to Hoist Finance AB (publ) shareholders are reported as a liability following the approval of the Annual General Meeting. Dividends from subsidiaries and associated companies are reported as "Dividends received".

22.3

Subsidiaries

Parent Company shareholdings and participations in Group companies are reported based on cost of acquisition. Holdings are carried at cost and only dividends are reported in the income statement. Impairment tests are conducted in accordance with IAS 36 "Impairments of assets" and write-downs are made when permanent decline in value is established.

Transaction costs are included in the carrying value of the holding in the subsidiary. Transaction costs attributable to subsidiaries are reported directly in profit or loss in the consolidated accounts when incurred.

Contingent purchase prices are valued based on probability of payment. Any changes to the provision/receivable are added to/reduced from the cost of acquisition.

Low-priced acquisitions that match anticipated losses and expenses are reversed during the periods in which the losses and expenses are expected to arise. Low-priced acquisitions resulting from other factors are reported as provisions to the extent they do not exceed the fair values of acquired identifiable non-monetary assets. The portion exceeding this amount is directly taken up as income. The portion that does not exceed the fair value of acquired identifiable non-monetary assets is reported as income systematically over a period of time that is based on the remaining weighted average useful life of the acquired identifiable depreciable assets. In the consolidated accounts, low-priced acquisitions are reported directly in profit or loss.

22.4

Revaluation reserve

The Swedish Accounting Standards Board (BFN) responded to the Financial Supervisory Authority in June on the question of revaluation rules contained in the Swedish Annual Accounts Act (1995:1554) regarding financial assets classified as purchased or issued credit-impaired loans. The 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. Revaluation may also be done for other non-current assets with a permanent value that significantly exceeds the carrying amount.

22.5

Development expenditure fund

Capitalisation of self-generated development expenditures is limited by the option of distributing capital. The amount corresponding to capitalised self-generated development expenditure is transferred from retained earnings to a special restricted fund. The rule applies to capitalisation of expenditures for financial years beginning immediately after 31 December 2015. The fund is reduced in the event of amortisation, impairment or divestment.

22.6

Untaxed reserves

In the Parent Company, untaxed reserves are reported as a separate item in the balance sheet. In the consolidated financial statements, untaxed reserves are divided into a 'deferred tax liability' component and an 'equity' component.

22.7

Hedge accounting

The Parent Company applies hedge accounting in accordance with IAS 39.

From 1 April 2018 the Parent Company applies hedge accounting to the fair value of participations in foreign subsidiaries as well as participations in the Polish joint venture. 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 with 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

23 Exchange rates

Ι

	2018	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

24 Accounting policies applicable from 1 January 2019

IFRS 16 Leases

Contracts that are deemed as at their start date to transfer right-of-use for an identified asset for a specified period in exchange for consideration are reported as lease contracts by the Hoist Finance Group, with the exception of lease contracts classified as short-term leases, leases of low-value assets, and leases of intangible assets.

Lease contracts that include both a lease component and associated non-lease components are accounted for separately if an observable stand-alone price is available; otherwise, non-lease components are not accounted for separately but rather reported as a single leasing component.

Accounting principles

Short-term leases and leases of low-value assets are charged to profit/loss on a straight-line basis over the leasing period and are reported as "Other operating expenses" in the income statement.

At a lease contract's start date, a right-ofuse asset and a lease liability are reported in the balance sheet. Right-of-use is initially valued at an amount corresponding to the lease liability's original value plus any prepaid leasing fees or initial direct costs, and is then written off on a straight-line basis over its useful life. The carrying value of the rightof-use asset is adjusted for any revaluations of the lease liability.

The lease liability is initially valued at the present value of remaining leasing fees at the start of the lease contract, discounted by applying the Group's marginal lending rate. After initial recognition, the lease liability is valued at amortised cost pursuant to the effective interest method. Lease payments are allocated between interest and amorti-

sation of the outstanding liability. Interest is allocated over the lease period so that every accounting period is charged with an amount corresponding to a fixed interest rate for the liability recognised during the respective period.

Lease contracts may include provisions for extending or terminating agreements included in the lease period only if it is deemed to be reasonably certain that such provisions will be exercised. The lease liability is revalued to reflect the new assessment of the lease period.

Lease contracts in the Hoist Group are classified in the following categories:

>> Equipment and furniture

)) Office premises

>> Vehicles

>> IT hardware

The majority of lease contracts relate primarily to leases of office premises for the company's normal business operations.

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 net interest 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 Function.

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, 2018

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central functions	Eliminations	Group
Net interest income	536	634	347	255	437	226	_	2,435
of which, internal funding costs	-203	-137	-63	-115	-77	595	-	0
Dividend income subsidiaries	-	-	-	-	-	1,947	-1,947	0
Impairment gains and losses	8	119	-13	124	23	-	-	261
Fee and commission income	53	19	6	1	1	_	-1	79
Net income financial transactions	-	-	-	-	-	-1,410 ¹⁾	1,453	43
Other operating income	0	4	10	-2	0	4	-5	11
Total operating income	597	776	350	378	461	767	-500	2,829
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) Write down of shares in subsidiaries SEK 1,454 m.

Income statement, 2017

SEK million	Great Britain	Italy	Germany	Poland	Other countries	Central functions	Eliminations	Group
Net interest income	498	511	351	285	359	326	-	2,330
of which, internal funding costs	-205	-153	-99	-78	-111	646	-	0
Dividend income subsidiaries	_	-	-	-	-	180	-180	0
Fee and commission income	53	5	6	8	1	0	0	73
Net income financial transactions	-	-	-	-	_	-46	-4	-50
Other operating income	0	2	12	1	0	0	-3	12
Total operating income	551	518	369	294	360	460	-187	2,365
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

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

Note 1 Segment reporting, cont.

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 Net interest income

	GRO	UP	PARENT COMPANY		
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Interest income/Net revenues					
Aquired loan portfolios calculated using effective interest rate method	2,799	n/a	662	-	
Net revenue from acquired loan portfolios ¹⁾					
of which at amortised cost	n/a	2,417	n/a	-	
of which at fair value	n/a	227	n/a	-	
Total interest income/net revenues from acquired loan portfolios	2,799	2,644	662	-	
Lending to credit institutions	7	3	4	1	
Lending to the public	2	5	2	-	
Bonds and other securities	-22	-18	-22	-	
Receivables, Group companies	-		692	29	
Total other interest income	-13	-10	676	30	
of which, interest income from financial items not valued at fair value	2,777	2,399	639	-	
Interest expense					
Deposits from the public	-146	-136	-146	-	
of which, deposit guarantee scheme expenses	-20	-14	-20	-	
Senior debt	-135	-110	-135	-	
Subordinated debts	-33	-44	-33	-	
Other interest expenses	-37	-14	-41	-5	
Total interest expenses	-351	-305	-355	-5	
of which, interest expense from financial items not valued at fair value	-168	-155	-168	-	
Net interest expenes	2,435	2,329	983	25	
Of which: interest income and expense calculated using effective interest rate method	2,808	8	668	1	
Financial assets measured at amortised cost	22,039	15,733	21,329	-	
Financial liabilities measured at amortised cost	24,426	18,921	24,421	-	
~	24 Dec 2049	24 Doc 2017	21 Dec 2049	24 Dec 2047	
<u>%</u>	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Average interest rate, deposits (incl. deposit guarantee scheme expenses)	0.9	11.1	0.9	11.1	

Note 3 Impairment gains and losses

	GROUP	PARENT COMPANY
SEK million	2018	2018
Portfolio revaluations LECL, acquired credit-impaired loan portfolios	5	50
Collection differences LECL, acquired credit-impaired loan portfolios	259	35
Impairment gains and losses, acquired credit-impaired loan portfolios	264	85
Impairment gains and losses 12M ECL stage 1, acquired performing loan portfolios	-2	-1
Impairment gains and losses LECL stage 2, acquired performing loan portfolios	0	0
Impairment gains and losses LECL stage 3, acquired performing loan portfolios	-1	-1
Impairment gains and losses, acquired performing loan portfolios	-3	-2
Total impairment gains and losses	261	83

Note 4 Fee and commission income

Fee and commission income pertains to revenue from contracts with customers. The Group provides collection services via call centres on behalf of third parties, with the majority of these customers coming from the financial sector. Under the terms of these contracts, the Group is entitled to receive compensation corresponding to a fixed percentage of amounts collected. The Group may also be entitled to bonus payments in the event collections during a specific period reach a certain level. A contract may also include provisions for a cancellation fee. Most of these contracts have no fixed end date, but rather run until further notice.

	GRO	UP	PARENT COMPANY		
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Revenues from servicing	77	73	6	-	
Bonus fees	3	0	-	-	
Total	80	73	6	-	
Service revenues for remaining performance obligations Expected service revenues for residual maturity, per year					
SEK million	2019	2020	2021	2022	
Revenues from servicing	136	157	164	108	
Total	136	157	164	108	

Service revenues for the Parent Company derive from the German branch office. See Note 1 "Segment reporting" for revenue distribution per segment.

Note 5 Net result from financial transactions

	GRO	UP	PARENT COMPANY	
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Exchange rate fluctuations	-7	3	-247	2
Profit/Loss from financial assets and liabilities manditorily at fair value through profit or loss, net	50	n/a	51	n/a
Profit/Loss from financial liabilities at amortised cost	0	-59	0	_
Profit/Loss from financial assets at fair value through profit or loss, net	n/a	3	n/a	_
Profit/Loss from financial assets and liabilities held for trading, net	n/a	3	n/a	_
Total	43	-50	-196	2

Note 6 Other operating income

	GROUP			PARENT COMPANY	
SEK million	2018	2017	2018	2017	
Intercompany transactions	-	-	301	243	
Other	16	13	9	0	
Total	16	13	310	243	

Note 7 Personnel expenses

Total personnel expenses and remuneration ¹⁾	GRO	OUP	PARENT COMPANY		
SEK million	2018	2017	2018	2017	
Salaries and remuneration ^{2/3)}	-620	-562	-263	-7	
Pension expenses	-28	-22	-22	-	
Social fees	-124	-101	-56	0	
Other personnel-related expenses	-61	-53	-24	-5	
Total	-833	-738	-365	-12	

- 1) The table also includes costs for redundancy payments and similar items in connection with organisational changes.
- 2) The amount includes fixed and variable remuneration.
- 3) Invoiced remuneration from senior executives is specified in the note for related parties. The total amounts to SEK 2 million (7) in the Group and SEK 2 million (7) in the Parent Company. The amount is included in "Consultancy services" in Note 8 "Other operating expenses".

Of which, salaries and other compensation to senior executives	GRO	UP	PARENT COMPANY		
SEK million	2018	2017	2018	2017	
To senior executives ¹⁾					
Fixed salaries and benefits	-38	-35	-26	-7	
Performance-based compensation	-8	-7	-5	-	
Total	-46	-42	-31	-7	

1) Senior executives include Board members, the President/CEO and the Executive Management Team. Former Board members are included. One member of the Executive Management Team has invoiced via an own company; see Note 33 "Related-party transactions". Four (7) Board members invoiced fees via own companies during 2018; see Note 33 "Related-party transactions". Senior executives during the year included 23 (17) individuals, of which Board members accounted for 8 (9) and the CEO for 2 (1).

Remuneration to Members of the Board and the Executive Management Team

Approved guidelines for remuneration for executive officers, resolved on by the AGM on 16 May 2018

In this context, the term "senior executives" means the CEO of Hoist Finance AB (publ) ("Hoist Finance") and other members of the Executive Management Team (EMT), and Board members, insofar as they receive remuneration for services performed outside of their Board duties.

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

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

Variable remuneration takes into account the risks involved in the company's operations and is proportional to the Group's earning capacity, capital requirements, earnings and financial position. The payment of variable remuneration must not undermine the Group's long-term interests. The payment of variable remuneration is contingent on the senior executive having acted in compliance with internal rules and procedures, including policies regulating behaviour toward customers

and investors. Variable remuneration is not paid to a senior executive who has participated in or been responsible for any action resulting in significant financial loss for the Group or the relevant business unit.

For senior executives in the EMT, payment of 60 per cent of the variable remuneration is deferred for a period of at least three years. Variable remuneration, including deferred remuneration, is only paid to senior executives insofar as it is defensible in view of the Group's financial situation and if it is warranted by the target achievement of the Group, the relevant business unit, the employee and the senior executive.

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

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

Issuing loans to senior executives is not permitted.

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

AGM-elected Board Members may in certain cases receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services is paid at market terms and approved by the Board. Directors' fees may not exceed SEK 50,000 to a Board Member for work on the board of a subsidiary.

In particular cases, the Board of Directors may deviate from the guidelines adopted and resolved by the AGM if warranted by special circumstances.

Note 7 Personnel expenses, cont.

Remuneration to the Board of Directors ¹⁾	GRO	UP	PARENT C	OMPANY
SEK thousand	2018	2018 2017		2017
Chair of the Board:				
Ingrid Bonde ²⁾	1,563	1,500	1,563	1,500
Other Board members:				
Liselotte Hjorth ³⁾	678	625	678	600
Annika Poutiainen ⁴⁾	-	200	-	200
Gunilla Öhman ⁵⁾	628	600	628	600
Magnus Uggla ⁶⁾	-	183	-	183
Jörgen Olsson ⁷⁾	450	-	450	-
Costas Thoupos ⁸⁾	-	-	-	-
Joakim Rubin ⁹⁾	594	367	594	367
Cecilia Daun Wennborg ¹⁰⁾	628	400	628	400
Malin Eriksson ¹¹⁾	747	367	747	367
Marcial Portela ¹²⁾	294	_	294	-
Total	5,582	4,242	5,582	4,217

- Director and Committee member fees comprise a fixed annual amount, excluding social security contributions. SEK – thousand (25) was paid in fees for subsidiaries pursuant to an AGM resolution.
- From November 2016 through June 2017, Ingrid Bonde invoiced the director fee via I. Bonde AB; see Note 33 "Related-party transactions". As of July 2017, her director fee is paid as salary.
- Liselotte Hjorth invoiced the director fee from July 2016 through 15 May 2018; see Note 33. A
 portion of this fee SEK thousand (25) was invoiced to subsidiaries. As of 16 May 2018, her
 director fee is paid as salary.
- 4) Annika Poutiainen stepped down from the Board in conjunction with the 28 April 2017 AGM. Her director fee was paid to Alpha Leon AB, a company that is related to her; see Note 33 "Related-party transactions".
- 5) From December 2016 through 15 May 2018, Gunilla Öhman's director fee was invoiced from Carrara AB; see Note 33 "Related-party transactions". Her director fee is now paid as salary.
- 6) Magnus Uggla stepped down from the Board in conjunction with the 28 April 2017 AGM. His director fee was paid to Uggla Advisory AB, a company that is related to him; see note 33 Related-party transactions".
- 7) Jörgen Olsson stepped down as CEO on 14 March 2018. He received fixed salary through June 2018. The 18 May 2018 AGM elected Jörgen Olsson as deputy chairman of the board. His director fee has been paid as salary since July 2018. During his tenure as CEO he was employed by Parent Company Hoist Finance AB (publ).
- 8) Costas Thoupos did not receive any director fee. He was employed by subsidiary Hoist Kredit Ltd through the 18 May 2018 AGM and received remuneration of SEK 422 thousand (4,718). He stepped down from the Board in conjunction with the 2018 AGM.
- 9) Joakim Rubin joined the Board as per the 28 April 2017 AGM. From 1 May 2017, his director fee was paid to J&S Rubin AB, a company that is related to him; see Note 33 "Related-party transactions". As of 16 May 2018, his director fee is paid as salary.
- 10) Cecilia Daun Wennborg joined the Board as per the 28 April 2017 AGM. From 1 May 2017, her director fee was paid to CDW Konsult AB, a company that is related to her; see Note 33 "Related-party transactions". As of 16 May 2018, her director fee is paid as salary.
- 11) Malin Eriksson joined the Board as per the 28 April 2017 AGM. In addition to the Board of Directors fee, Malin Eriksson received consultancy fee via via Malin Eriksson Consulting Services, a company that is related to her; see Note 33 "Related-party transactions".
- 12) Marcial Portela joined the Board as per the 15 May 2018 AGM.

Salaries and benefits ¹⁾	Fixed s	alary	Performano compens		Bene	fits ⁴⁾	Pension b	enefits ⁶⁾	Tot	al
SEK thousand	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Chief Executive Officer ²⁾										
Jörgen Olsson	4,064	7,765	-	-	-	-	1,234	2,268	5,298	10,033
Klaus-Anders Nysteen	5,181	-	2,317	-	-	-	1,653	-	9,151	-
Executive Management Team ³⁾										
13 (8) people ⁵⁾ excluding the CEO	21,540	16,452	5,758	6,719	1,228	2,000	2,311	1,457	30,837	26,628
Total	30,785	24,217	8,075	6,719	1,228	2,000	5,198	3,725	45,286	36,661

¹⁾ Excluding social fees.

Directors' remuneration

The Board

The AGM of Hoist Finance held on 16 May 2018 resolved that annual directors' fees are to be paid as follows:¹⁾

Chair of the Board	1,425,000 SEK
Deputy Chairman of the Board	800,000 SEK
Board member	470,000 SEK
Chair, Risk and Audit Committee	175,000 SEK
Member, Risk and Audit Committee	125,000 SEK
Chair, Remuneration Committee	50,000 SEK
Member, Remuneration Committee	50,000 SEK
Chair, Investment Committee	150,000 SEK
Member, Investment Committee	100,000 SEK

¹⁾ For the period through the next AGM.

Board members employed by the Hoist Finance Group (Jörgen Olsson through June 2018 and Costat Thoupos through March 2018) do not receive specific remuneration for their work on the Board.

There is no commitment for redundancy payment or similar owed to any Board members.

CEO

The CEO's basic salary, participation in the warrant programme, and other terms of employment are proposed by the Board's Remuneration Committee and adopted by the Board of Directors.

The outgoing CEO's salary amounted to SEK 4,064 thousand (7,765) and the newly appointed CEO's salary to SEK 5,181 thousand (–), in line with Hoist Finance's remuneration policy. The CEO's salary is paid in Swedish kronor. The performance-based compensation amounts to maximum 50 per cent of fixed salary. The CEO has a 12-month notice period. There is no agreement in place on redundancy payments.

CEO pension

The pension premium for Jörgen Olsson is 32 per cent (32) of fixed salary. The pension premium for Klaus-Anders Nysteen is 30 per cent (–) of fixed salary. They are defined-contribution pensions.

²⁾ Jörgen Olsson stepped down as CEO on 14 March 2018. He received fixed salary through June 2018. During his tenure as CEO he was employed by Parent Company Hoist Finance AB (publ). Klaus-Anders Nysteen took over as CEO on 14 March 2018.

³⁾ Najib Nathoo stepped down from the EMT during 2017. Remuneration during the contractual 12-month period of notice totals SEK 6,436 thousand in addition to the amount presented above. The amount was dispensed in 2017, apart from a portion that comprises deferred variable remuneration.

⁴⁾ Benefits have been included in the taxable fringe benefit, excluding social fees. Benefits primarily comprise a company car, housing, health insurance and other benefits associated with foreign posting.

⁵⁾ Karin Beijer's remuneration is included and was paid to Co Go Consulting AB, a company that is related to her; see Note 33 "Related-party transactions".

⁶⁾ The amounts pertain to pension costs during the year for senior executives. Pension costs comprise pension premiums for defined-contribution pension plans expensed during the year (costs for services rendered during the current and previous years and settlements as defined by IAS 19). 100 per cent of total pension costs is attributable to defined-contribution pension plans.

⁷⁾ Charles de Munter stepped down from the EMT during 2018. Remuneration during the contracted period of notice totals SEK 3,399 thousand in addition to the amount presented above. The amount was dispensed in 2018, apart from the portion that comprises deferred variable remuneration.

Note 7 Personnel expenses, cont.

Executive Management Team (EMT)

The Board's Remuneration Committee prepares for the Board's decision changes to remuneration rates and bonus programme results and other changes to EMT compensation agreements.

Like the CEO, other EMT members participated in the warrant programme which was exercisable through 31 December 2017. During 2018, six EMT members had agreements concerning variable salary increments capped at 50 per cent of fixed salary. One EMT member has had an agreement where the variable remuneration for a limited time exceeds 50 per cent of the fixed salary. Benefits primarily comprise a company car, housing and health insurance benefits.

As of 31 December 2018, the EMT was comprised of 7 people (7), exclusive of the CEO.

Notice period

EMT members have the following notice periods: six people have six months and one member have three months.

Pension benefits, EMT

As of 31 December 2018, four EMT members have followed Hoist Finance's predetermined pension scheme, for which fixed salary is the pensionable compensation amount.

One EMT member receives 10 per cent of fixed salary and one receives 13 per cent of fixed salary.

One EMT member receives gross compensation, which is why no pension provisions are posted in the company.

Lending to senior executives

SEK thousand	2018	2017
Outstanding at beginning of the period	-	468
Loans during period	-	-468
Outstanding at end of period	-	_

One Executive Management Team member held a loan of EUR 50,000 at 31 December 2016. The loan was paid in full in January 2017. Interest accrued at 5 per cent. The credit was given in 2014, when issuing loans to employees was permitted.

Warrant programme

Hoist Finance issued warrants in 2013 and 2014 that were acquired by key management personnel within the Group. See the table below:

Number of cash-settled options

	Number of options 2018	Number of options 2017
Outstanding at beginning of the period		
– 2014 warrant programme	-	164,993
Bought back or exercised (-)/allotted (+) during the period		
- 2014 warrant programme	-	-164,993
– of which, to senior executives	-	-27,293
– to other employees	-	-137,700
Outstanding at end of the period		
- 2014 warrant programme	-	-
– of which, to senior executives	-	-
- to other employees	-	-

The extraordinary general meeting held on 22 October 2014 resolved to issue warrants to key Group employees. Twenty-six key employees acquired a total of 222,041 warrants under the warrant programme at market price (fair value) as calculated by Black & Scholes. Thereafter, a total of 62,048 of these warrants were bought back from seven holders and cancelled by the company. In 2017, SEK 222 thousand was paid for these repurchased warrants, as well as SEK 1,854 thousand in prior years, which is recognised in shareholders' equity. Each warrant originally entitled the holder to subscribe for one new share in the company at a subscription price of SEK 190.20 per share for all warrants, except for 27,293 warrants which entitled the holder to subscribe one new share at a subscription price of SEK 166.40. The subscription price and number of shares to which each warrant conferred subscription entitlement was recalculated in accordance with the warrants' terms and conditions. Accordingly, each warrant entitled the holder to subscribe for three new shares at a subscription price of SEK 63.40 per share, with the exception of 27,293 warrants which entitled the holder to subscribe for three new shares at a subscription price of SEK 55.47. The warrants were exercisable through 31 December 2017 and the holders were, under certain circumstances, obliged to offer the company the option to repurchase some or all of the warrants or shares issued through exercise of the warrants.

Up to 31 December 2017, a total of 154,993 warrants had been exercised. The number of warrants not exercised totalled 5,000. A total of 464,979 shares were issued. The company's share capital increased by SEK 154,993. Warrant proceeds are recognised in shareholders' equity.

Note 7 Personnel expenses, cont.

Average number of employees during the year, Group

		2018			2017	
	Men	Women	Total	Men	Women	Total
Sweden	40	28	68	38	27	65
Germany	90	165	255	97	184	281
France	37	78	115	38	69	107
Belgium	5	4	9	9	8	17
Netherlands	16	17	33	15	13	28
UK	206	174	380	211	193	404
Italy	124	225	349	85	98	183
Poland	122	151	273	68	109	177
Jersey	1	_	1	1	-	1
Spain	17	28	45	7	16	23
Greece	1	2	3	1	1	2
Total	659	872	1,531	570	718	1,288

The average number of employees is calculated based on the number of full-time employees (FTEs) during the year. The Group also has contracted consultants, the number of which varies during the year depending on requirements. As at 31 December 2018 the Group had 1,556 FTEs (1,335).

Gender distribution, senior executives

	31 Dec 2018	31 Dec 2018	31 Dec 2017	31 Dec 2017
%	Men	Women	Men	Women
Senior executives	68	32	60	40
Board of Directors	79	21	74	26
of which, Parent Company	37	63	37	63

Note 8 Other operating expenses

	GROU	GROUP		PARENT COMPANY	
SEK million	2018	2017	2018	2017	
Collection costs	-750	-672	-205	-	
Consultancy services ¹⁾	-203	-165	-129	-67	
Intra-Group consultancy services	-	_	-40	-217	
Other intra-Group expenses	-	_	-75	-14	
IT expenses	-108	-79	-77	-18	
Telecom expenses	-8	-9	-2	-0	
Premises costs	-73	-65	-30	-9	
Travel expenses	-29	-30	-12	-1	
Restructuring costs	0	-4	-	_	
Bank charges	-14	-11	-5	-0	
Sales and marketing expenses	-10	-5	-1	-1	
Other expenses	-64	-34	-17	-4	
Total	-1,259	-1,074	-593	-331	

2018	2017
-9	-7
-2	-2
	-9

Total	-14	-13
Other non audit-related assignments	-1	-1
Tax services	-2	-3
Audit-related assignments	-2	-2
Audit assignments	-9	-7
KPMG		

Expenses for audit assignments are included in Consultancy services in the table above
--

2017

-3 -0

-0 -3

2018

-2 -1

Not 9 Shares and participations in joint ventures

Shares and participations in joint ventures relate to Hoist Finance AB's (publ) holdings in BEST III (50 per cent) and PQH Single Special Liquidation S.A (33 per cent). BEST III, is a Polish closed-end fund located in Gdynia and designated for the acquisition of individual loan portfolios. The initial investment was PLN 40 million (SEK 90 million). During the year 2016 Hoist Kredit acquired, along with Qualco S.A. and Pricewaterhouse Coopers Business Solutions S.A., the Greek company PQH. PQH is based in Athens and offers advisory services. All joint ventures are consolidated pursuant to the equity method.

Profit from shares and participations in joint ventures

GROUP	
-------	--

SEK million	2018	2017
Shares in the joint ventures' earnings according to equity method	47	49
Performance-based compensation	18	25
FX	7	2
Total profit	72	76

PARENT COMPANY

SEK million	2018	2017
Shares in the joint ventures' earnings according to equity method	64	_
Performance-based compensation	18	-
Total profit	82	-

	BEST III	
SEK million	31 dec 2018	31 dec 2017
Assets		
Acquired loan portfolios	435	473
Cash	9	20
Total assets	444	493
Liabilities		
Current liabilities	16	20
Total liabilities	16	20
Net assets	428	473
Interest income	137	144
Other expenses	-42	-47
Net profit for the year	95	97

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

	GROUP	
SEK million	31 Dec 2018	31 Dec 2017
Opening balance	238	241
Redemption of fund units	-73	-73
Shares and participations in the joint ventures' earnings according to equity method	47	49
Reversal from shareholders' equity	-7	-3
Exchange rate differences	10	24
Closing balance	215	238

PQH

SEK million	31 Dec 2018	31 Dec 2017
Assets		
Current assets	6	43
Cash	0	3
Total assets	6	46
Liabilities		
Current liabilities	5	43
Total liabilities	5	43
Net assets	2	3
Interest income	51	89
Other expenses	-52	-88
EBT	-1	1
Income tax expense	-1	0
Net profit for the year	-2	1

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

Not 10 Appropriations

The merger of Hoist Kredit AB (publ) and Hoist Finance AB (publ) was concluded on 2 January 2018. Hoist Finance AB (publ) therefore received no group contributions during the year. Last year, the company received SEK 180 million from subsidiary Hoist Kredit AB (publ).

Tax allocation reserve

PARENT COMPANY

SEK million	31 Dec 2018	31 Dec 2017
Opening balance	84	60
Acquired through merger	81	-
Provision to tax allocation reserve	75	24
Reversal of tax allocation reserve	-18	-
Closing balance	221	84

Note 11 Tax

	GRO	DUP	PARENT CO	PARENT COMPANY		
SEK million	2018	2017	2018	2017		
Current tax expense/income						
Tax expense/income for the year	-128	-97	-60	-19		
Tax adjustment attributable to previous years	-4	-23	-4	_		
Total	-132	-120	-64	-19		
Deferred tax expense/income						
Deferred tax attributable to temporary differences	-33	-8	-2	-		
Total	-33	-8	-2	-		
Total recognised tax expense	-165	-128	-66	-19		

	GRO	UP	PARENT C	OMPANY
SEK million	2018	2017	2018	2017
EBT	755	581	714	84
Tax calculated at 22% (Swedish) tax rate	-166	-128	-157	-19
Effect of different tax rates in different countries	11	4	8	-
Adjustment related to change in tax rate	-2	-	-	_
Non-taxable revenue	33	41	428	-
Non-deductible expenses	-17	-24	-333	0
Adjustments with reference to previous years	-4	-23	-4	-
Utilisation of previously uncapitalised loss carry-forwards	9	-	-	-
Decrease in capitalised loss carry-forwards not expected to be utilised	-30	-	-	-
Other	1	2	-8	0
Total tax expense	-165	-128	-66	-19

The Group's effective tax rate was 21.82 per cent (22.09) at 31 December 2018.

In 2018, current tax on items recognised directly in equity in the Group $\,$ totalled SEK 3 million (0) and referred to tax on transaction costs in connection with the new share issue. Other comprehensive income includes tax in an amount of SEK 50 million (45) related to the hedging of currency risk in foreign operations, a revaluation of defined-benefit pension plans and a revaluation of post-service remuneration.

	DUP	
SEK million	31 Dec 2018	31 Dec 2017
Deferred tax		
Deferred tax assets	22	21
Deferred tax liabilities	-188	-148
Total	-166	-127

SEK million	Opening balance	Income statement	Other comprehensive income	Translation differences	Closing balance
Change in deferred tax					
Loss carry-forwards	26	-16		-1	9
Joint ventures	-40	2		0	-38
Defined-benefit pension schemes and other employee benefits	4		0	0	4
Acquired loan portfolios	-73	13		-2	-62
Untaxed reserves	-36	-10			-46
Tax related to tax matters	-	-30			-30
Other	-8	8		-3	-3
Total	-127	-33	0	-6	-166

Note 11 Tax, cont

GROUP, 31 Dec 2017

SEK million	Opening balance	Income statement	Other comprehensive income	Translation differences	Closing balance
Change in deferred tax					
Loss carry-forwards	55	-29		0	26
Joint ventures	-43	3			-40
Defined-benefit pension schemes and other employee benefits	4		0	0	4
Acquired loan portfolios	-87	13		1	-73
Untaxed reserves	-31	-5			-36
Other	-14	10		-4	-8
Total	-116	-8	0	-3	-127

The Group's deferred tax assets attributable to loss carry-forwards are expected to be fully utilised during the next four years. Deferred tax assets are only reported as a tax loss carry-forwards to the extent that a related tax benefit is likely to be realised.

Deferred tax assets and liabilities are offset to the extent there is a legal right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The Group has no unreported loss carry-forwards.

Note 12 Earnings per share

Basic earnings per share

SEK million	2018	2017
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, before dilution		
Net profit for the year attributable to Parent Company shareholders	590	453
Interest on capital contribution	-54	-40
Profit attributable to Parent Company shareholders, before dilution	536	413
Weighted average number of shares outstanding, before dilution	85,277,137	80,836,767

Diluted earnings per share

SEK million	2018	2017
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, after dilution		
Profit attributable to Parent Company shareholders, before dilution	536	413
Profit attributable to Parent Company shareholders, after dilution	536	413
Weighted average number of shares outstanding, after dilution		
Basic weighted average number of shares during the year, before dilution	85,277,137	80,836,767
Effect of options	-	119,528
Weighted average number of shares during the year, after dilution	85,277,137	80,956,295
The weighted average number of shares was affected by new share issues in 2017.		
Basic earnings per share, SEK	6.29	5.10
Diluted earnings per share, SEK	6.29	5.09

Note 13 Financial instruments

Carrying amount and fair value of financial instruments

GROUP	31	December 2018

Assets/liabilities recognised at fair value through profit or loss				Total		
Held for trading	Mandatorily	Hedging instrument	Amortised cost	carrying amount	Fair value	
	2,653			2,653	2,653	
			1,187	1,187	1,187	
			14	14	14	
			20,605	20,605	22,309	
	3,635			3,635	3,635	
11		117		128	128	
			233	233	233	
11	6,288	117	22,039	28,455	30,159	
			17,093	17,093	17,093	
5		14		19	19	
			5,950	5,950	5,922	
			839	839	826	
			544	544	544	
5		14	24,426	24,445	24,404	
	recognithrous Held for trading 11 11	recognised at fair value through profit or loss Held for trading Mandatorily 2,653 3,635 11 11 6,288	recognised at fair value through profit or loss Hedging instrument	recognised at fair value through profit or loss Held for trading Mandatorily Hedging instrument Amortised cost 2,653 1,187 14 20,605 3,635 11 117 233 11 6,288 117 22,039 5 14 5,950 839 544 5,944	recognised at fair value through profit or loss Hedging instrument Amortised carrying amount 2,653 2,653 1,187 1,187 1,187 1,187 2,653 14 14 2,653 20,605 20,605 3,635 3,635 3,635 11 117 128 233 233 233 11 6,288 117 22,039 28,455 5 14 19 5,950 5,950 5,950 839 839 544 544	

GROUP, 31 December 2017

	recognis	Assets/liabilities recognised at fair value through profit or loss				Total	
SEK million	Held for trading	Identified	Loans and receivables	Hedging instrument	Other liabilities	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 liabilities					536	536	536
Total	4			6	18,921	18,931	19,116

Note 13 Financial instruments, cont

	PARENT COMPANY, 31 Dec 2018							
SEK million	recognis	Assets/liabilities recognised at fair value through profit or loss			Total			
	Held for trading	Mandatorily	Hedging instruments	Amortised cost	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 liabilities				539	539	539		
Total	5		14	24,421	24,440	24,399		

Note 13 Financial instruments, cont

Fair value measurement

Group

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

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

Level 2) Based on directly or indirectly observable market inputs not included in Level 1. This category includes instruments valued based on quoted prices on active markets for similar instruments, quoted prices for identical or similar instruments

traded on markets that are not active, or other valuation techniques in which all important input data is directly or indirectly observable in the market.

Level 3)

According to inputs that are not based on observable market data. This category includes all instruments for which the valuation technique is based on data that is not observable and has a substantial impact on the valuation.

Fair value measurement

GROUP, 31 DEC 2018

SEK million	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	2,653			2,653
Acquired loan portfolios			22,309	22,309
Bonds and other securities	3,635			3,635
Derivatives		128		128
Total assets	6,288	128	22,309	28,725
Derivatives		19		19
Senior debt		5,922		5,922
Subordinated debt		826		826
Total liabilities		6,767		6,767

Fair value measurement

GROUP, 31 DEC 2017

SEK million	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	1,490			1,490
Aquired loan portfolios			14,366	14,366
Bonds and other securities	3,689			3,689
Derivatives		11		11
Total assets	5,179	11	14,366	19,556
Derivatives		10		10
Senior debt		4,532		4,532
Subordinated debt		811		811
Total liabilities		5,353		5,353

For acquired loan portfolios, the valuation approach, key input data and valuation sensitivity to material changes are described in the Accounting Principles section and in Note 16 "Acquired loan portfolios".

Derivatives used for hedging (see Note 14 "Derivatives") were model-valued using interest and currency market rates as input data.

Treasury bills and treasury bonds, and bonds and other securities, are valued based on quoted rates.

The fair value of liabilities in the form of issued bonds and other subordinated debt was determined with reference to observable market prices quoted by external market players/places. In cases where more than one market price observation is available, fair value is determined at the arithmetic mean of the market prices.

Carrying amounts for accounts receivable and accounts payable are deemed approximations of fair value. The fair value of current loans corresponds to their carrying amount due to the limited impact of discounting.

Note 14 Derivatives

The Group continuously hedges its assets denominated in foreign currencies in order to reduce its exchange rate exposure. As per 31 December 2018, the Group had exposures in EUR, GBP and PLN, all of which are hedged using currency forward contracts. All outstanding derivatives are measured at fair value. Gains/losses on derivative instruments are recognised in the income statement for each annual statement. Gains/losses for hedge accounting in the Group are recognised in other comprehensive income for each annual statement.

The Group ceased its hedge accounting in EUR during 2018, as critical conditions for hedging net investments in foreign operations are no longer met.

The Parent Company Hoist Finance AB (publ) began applying hedge accounting during 2018 for the fair value of shares in subsidiaries and for shares and participations in joint ventures. Gains/losses on derivative instruments for hedge accounting in the Parent Company are recognised in shares in subsidiaries and in shares and participations in joint ventures.

Additional information on the Group's and the Parent Company's management of hedge accounting is presented in Accounting Policies sections 10 and 22.7 "Hedge accounting".

Derivatives held for trading

2018 GROUP

	Nominal amount/maturity				Positive	Nogativo
SEK million	Up to 1 year	1–5 years	Over 5 years	Nominal amount	market values	Negative market values
Interest rate-related contracts						
Swaps	2,000	-	-	4,500	-	1
Currency-related contracts						
Currency forwards	1,512	-	-	1,512	11	4
Total	3,512	2,500	-	6,012	11	5

SEK million	Positive market values	Negative market values
Currency breakdown of market values		
SEK	1	1
EUR	1	1
GBP	8	-
PLN	1	3
Total	11	5

Derivatives for hedge accounting

2018 GROUP

	Nomir	nal amount/ma	turity		Positive	Nagativa
SEK million	Up to 1 year	1–5 years	Over 5 years	Nominal amount	market values	Negative market values
Currency-related contracts						
Currency forwards	8,470	-	-	8,470	117	14
Total	8,470		-	8,470	117	14
	Avo	rage exchange	rate			
SEK million	Up to 1 year	1–5 years	Over 5 years		Positive market values	Negative market values
SEK IIIIIIOII	Op to 1 year	I-5 years	Over 5 years		illai ket values	illal ket values
Currency breakdown of market values						
SEK/GBP	11.58	-	-		117	_
SEK/PLN	2.37	-	-		_	14
Total			·		117	14

Note 14 Derivatives, cont

Derivatives held for trading

2017	GROUP

2017				GROUP		
	Nomi	nal amount/ma	turity		Da sidina na sulad	
SEK million	Up to 1 year	1–5 years	Over 5 years	Nominal amount	Positive market values	Negative market values
Interest rate-related contracts						
Swaps	1,000	2,500	_	3,500	_	4
Currency-related contracts						
Currency forwards	2,242	-	_	2,242	4	0
Total	3,242	2,500	-	5,742	4	4
SEK million					Positive market values	Negative market values
Currency breakdown of market values						
SEK					-	4
EUR					4	-
GBP					0	0
PLN				-	_	0
Total					4	4

Derivatives for hedge accounting

2017 GROUP

	Nomin	nal amount/ma	turity		Positive market	
SEK million	Up to 1 year	Up to 1 year 1–5 years		Nominal amount	values	Negative market values
Currency-related contracts						
Currency forwards	8,027	-	_	8,027	7	6
Total	8.027	_		8,027	7	6

	Ave	rage exchange	rate	Positive market	
SEK million	Up to 1 year	1–5 years	Over 5 years	values	Negative market values
Currency breakdown of market values					
SEK/EUR	9.87	-	_	3	
SEK/GBP	11.11	-	_	4	
SEK/PLN	2.35	-	_		6
Total				7	6

Hedging instruments and ineffectiveness in the hedge accounting

2018 GROUP

		Carrying a		Balance sheet item in which the hedging	Change in fair value used to calculate ineffec-	Change in value of the hedging instrument reco- gnised in other	Ineffec- tiveness recognised in	Income statement item which
SEK million	Nominal amount	Assets	Liabili- ties	instrument is included	tiveness for the period	comprehensive income	the income statement	include the ineffectiveness
Currency-related contracts								
EUR - Derivatives, positive values	-	_	_	Other assets	-89	-92	3	Net result from financial transactions
GBP - Derivatives, positive values	5,571	117	-	Other assets	-83	-84	1	Net result from financial transactions
Total	5,571	117	-		-172	-176	4	
PLN - Derivatives, negative values	2,899	-	14	Other liabilities	-63	-65	2	Net result from financial transactions
Total	2,899	-	14		-63	-65	2	

Note 14 Derivatives, cont

Hedging instruments and ineffectiveness in the hedge accounting

2017 GROUP

		Carrying am	nount		Change in fair value used	Change in the value of the hed-	Ineffec-	
SEK million	Nominal amount	Assets Lia	ibilities	Balance sheet item in which the hedging instru- ment is included	to calculate ineffective- ness for the period	ging instrument recognised in other compre- hensive income	tiveness recognised in the income statement	Income statement item which include the effectiveness
Currency-related contracts								
EUR - Derivatives, positive values	1,435	3	_	Other assets	-58	-57	1	Net result from fi- nancial transactions
GBP - Derivatives, positive values	4,454	4	_	Other assets	-60	-59	1	Net result from fi- nancial transactions
Total	5,889	7	-		-118	-116	2	
PLN - Derivatives, negative values	2,138	_	6	Other liabilities	-89	-90	-1	Net result from fi- nancial transactions
Total	2,138	-	6		-89	-90	-1	

Hedged items

2018 GROUP

SEK million	Change in fair value used to calculate ineffective- ness for the period	Hedge reserve	Amounts remaining in the hedge reserve from hedging relationships for which hedge accounting is no longer applied
Hedging of foreign exchange risk in net investments in foreign operations			
Equity instruments and internal loans in EUR	-92	-149	-149
Equity instruments and internal loans in GBP	-140	-143	-
Equity instruments and internal loans in PLN	-85	-155	-
Total	-317	-447	-149

Hedged items

2018 PARENT COMPANY

	Carrying amount hedged item	Accumulated fair value adjustment included in the carrying amount of the hedged item		Change in value of hedged items used to
SEK million	Assets	Assets	Balance sheet item in which the hedged item is included	determine ineffeciency for the period
Fair value hedges				
EUR	249	0	Shares and participations in subsidiaries and joint ventures	0
GBP	331	-4	Shares and participations in subsidiaries	-4
PLN	163	-6	Shares and participations in subsidiaries and joint ventures	-6
Total	743	-10		-10

Note 15 Maturity analysis

For additional information see Accounting principles section 15 and Note 31 "Risk management".

GROUP, 31 Dec 2018

			GROU	P, 31 Dec 2018				Of which,
Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK million	Payable on demand	< 3 months	3-12 months	1–5 years	> 5 years	No fixed maturity	Total	anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		2,523	40	90			2,653	90
Lending to credit institutions								
Swedish banks	370						370	
foreign banks	747	70					817	
Lending to the public		3	5	9	0		17	9
Bonds and other securities		0	3,174	461	0		3,635	461
Total assets with fixed/ contractual maturities	1,117	2,596	3,219	560	0		7,492	560
Acquired loan portfolios ¹⁾		1,379	4,103	16,930	11,190		33,602	28,120
Total assets with no fixed/ anticipated maturities		1,379	4,103	16,930	11,190		33,602	28,120
Liabilities								
Deposits from the public ²⁾								
retail	11,264	1,266	2,947	1,533			17,010	1,533
corporate	83		<u> </u>	<u> </u>			83	·
Total deposits from the public	11,347	1,266	2,947	1,533			17,093	1,533
Senior debt	,	853	215	5,478 ³⁾			6,546	5,478
Subordinated debt			32	918			950	918
Total liabilities with fixed/ contractual maturities	11,347	2,119	3,194	7,929			24,589	7,929
			GROU	JP, 31 Dec 201	7			
Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK million	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		1,154	188	145			1,487	145
Lending to credit institutions		· ·						
Swedish banks	776						776	
foreign banks	845	61					906	
Lending to the public		19	7	15	1		42	16
Bonds and other securities		198	1,136	2,368			3,702	2,368
Total assets with fixed/ contractual maturities	1,621	1,432	1,331	2,528	1		6,913	2,529
Acquired loan portfolios ¹⁾		949	2,758	11,057	6,011		20,776	17,068
Total assets with no fixed/ anticipated maturities		949	2,758	11,057	6,011		20,776	17,068
Liabilities								
Deposits from the public ²⁾								
retail	8,483	1,307	2,228	1,160			13,178	1,160
corporate	97						97	
Total deposits from the public	8,580	1,307	2,228	1,160			13,275	1,160
Senior debt	•	-	89	4,577 ³⁾			4,666	
Subordinated debt			30	122	941		1,093	
							•	

¹⁾ For 2018 maturity analysis for acquired loan portfolios is based on future cash flow forecast horizon of 180 months, previous horizon was 120 months. See Note 31 "Risk management" for additional details on the Group's management of credit risk.

2,347

5,859

941

1,307

8,580

Total liabilities with fixed/ contractual maturities

6,800

19,034

²⁾ Deposits in SEK and EUR are payable on demand, although a fee is assessed for premature withdrawals from fixed-term deposits.

3) The nominal value is SEK 2,569 million for unsecured debt maturing in 2021 and SEK 2,569 million for unsecured debt maturing in 2023 as per 31 Dec 2018. The nominal value is SEK 1,970 million for unsecured debt maturing in 2019 and SEK 2,462 million for unsecured debt maturing in 2023 as per 31 Dec 2017. See Note 25 "Funding" for additional information.

Note 15 Maturity analysis, cont

PARENT COMPANY, 31 Dec 2018

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK million	Payable on demand	< 3 months	3-12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		2,523	40	90			2,653	90
Lending to credit institutions								
Swedish banks	205						205	
foreign banks	148	12					160	
Lending to the public		3	5	9	0		17	9
Receivables, Group companies		583	2,241	7,661		6,000	16,484	13,660
Bonds and other securities		0	3,174	461	0	0	3,635	461
Total assets with fixed/ contractual maturities	353	3,121	5,460	8,221	0	6,000	23,154	14,220
Acquired loan portfolios1)		441	1,303	4,408	3,280		9,432	7,689
Total assets with no fixed/ anticipated maturities		441	1,303	4,408	3,280		9,432	7,689
Liabilities								
Deposits from the public ²⁾								
retail	11,264	1,266	2,947	1,533			17,010	1,533
corporate	83						83	
Total deposits from the public	11,347	1,266	2,947	1,533			17,093	1,533
Liabilities, Group companies	328	61					389	
Senior debt		853	215	5,478 ³⁾			6,546	5,478
Subordinated debt			32	918			950	918
Total liabilities with fixed/ contractual maturities	11,675	2,180	3,194	7,929			24,978	9,462

¹⁾ For 2018 maturity analysis for acquired loan portfolios is based on future cash flow forecast horizon of 180 months, previous horizon was 120 months. See Note 31 "Risk management" for additional details on the Group's management of credit risk.

PARENT COMPANY, 31 Dec 2017

Remaining contractual maturity (undiscounted value) and anticipated date of recovery SEK million	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Lending to credit institutions								
Swedish banks	275						275	
Receivables, Group companies		193					193	
Total assets with fixed maturities	275	193					468	
Liabilities								
Liabilities, Group companies	206	65					271	
Total liabilities with fixed maturities	206	65					271	

Note 16 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	5,532	_	
Loss allowance	259	n/a	61	n/a	
Net carrying amount	20,605	14,766	5,593	-	

For additional information see Accounting principles section 15 "Income and expenses" and Note 31 "Risk management".

²⁾ Deposits in SEK and EUR are payable on demand, although a fee is assessed for premature withdrawals from fixed-term deposits.

³⁾ The nominal value is SEK 2,569 million for unsecured debt maturing in 2021 and SEK 2,569 million for unsecured debt maturing in 2023. See Note 25 "Funding" for additional information.

Note 16 Acquired loan portfolios, cont.

Acquired credit-impaired loan portfolios

iodii por cronos	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			
Opening 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	1,123	-	-	-	-	1,123	
Interest income	56	-	-	-	-	56	
Amortisations and interest payments	-148	-	-	-	-	-148	
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	

Acquired performing loan portfolios

loan portfolios	PARENT COMPANY						
SEK million	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount	
Opening balance 1 Jan 2018	-	_	-	_	-	_	
Acquisitions	460	-	-	-	-	460	
Interest income	24	_	-	_	-	24	
Amortisations and interest payments	-74	-	-	-	-	-74	
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	

Note 16 Acquired loan portfolios, cont.

Acquired loan portfolios	GROUP
SEK million	31 Dec 2017
Opening balance	12,386
Acquisitions	4,253
Translation differences	361
Changes in value	
Based on opening balance	
forecast (amortisation)	-2,2441)
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.

Portfolio overview

The portfolios comprise a large number of loans. The debtors have varying characteristics, such as payers, partial payers and non-payers. There is some degree of mobility between debtor categories, with non-payers becoming payers and vice versa. The Group divides its portfolios into different categories, such as countries, age, asset class and acquisition type.

Collection forecast

The Group evaluates portfolios by estimating future cash flows for the next 15 years. Cash flow forecasts are regularly monitored during the year and updated based on factors such as achieved collection results and instalment plan agreements with debtors. A new carrying amount is calculated for the loan portfolios based on the updated forecasts.

Of which, designated at fair value ²⁾	GROUP
SEK million	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

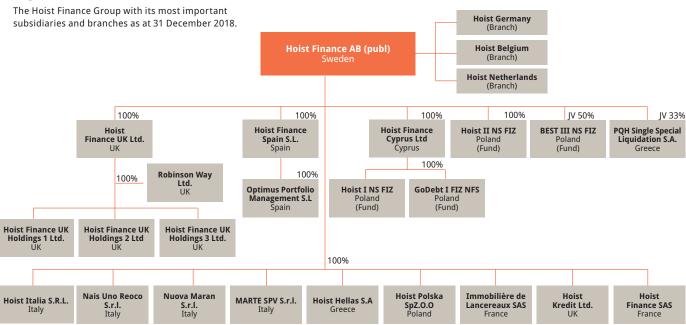
The carrying value of acquired loan portfolios is calculated by discounting cash flow forecasts at the average effective interest rate for purchased loan portfolios from the past 24 months in each jurisdiction.

Revaluations

The Group evaluates actual collections in relation to the forecast that served as the basis for portfolio valuation during the same period. Deviations may in some cases result in an adjustment to future forecasts, specifically if operational efforts have not had, or are not expected to have, the intended effect. Forecast adjustments are analysed in consultation with the Investment Committee, and are determined at the Group Management level. Forecast revisions are implemented by the resources directly subordinate to the Chief Financial Officer. Forecast adjustments and their impact on earnings are disclosed internally and externally. The portfolio valuation is independently audited by the Risk Control function.

Note 17 Shares and participations in subsidiaries

Legal structure



Hoist Finance AB (publ), corporate identity number 556012-8489 and with its registered office in Stockholm, is the Parent Company of the Group. The list of Group subsidiaries is provided below.

Note 17 Shares and participations in subsidiaries, cont

Ownership percentage corresponds to share of voting power. All shares are unlisted. No registered credit market company. Information on the number of shares in Group companies is available upon request.

Subsidiaries

SEK M	Corp. ID no.	Registered office	Ownership, %	Carrying value 31 Dec 2018
Swedish				
Hoist Finance Services AB ¹⁾	556640-9941	Stockholm	100	1
Foreign				
Hoist Finance SAS 50	444611453	Lille	100	7
HECTOR Sicherheiten-Verwaltungs GmbH	HRB 74561	Duisburg	100	0
Hoist Portfolio Holding Ltd. 2)	101438	St. Helier	100	-
Hoist Portfolio Holding II Ltd. 2)	111085	St. Helier	100	-
HOIST I NS FIZ ³⁾	RFI702	Warsaw	100	-
Hoist Kredit Ltd.	07646691	London	100	0
Hoist Finance UK Ltd.	08303007	Manchester	100	335
C L Finance Ltd. 1)	01108021	Manchester	100	_
Robinson Way Ltd.	06976081	Manchester	100	_
The Lewis Group Ltd. 1)	SC127043	Glasgow	100	_
Compello Holdings Ltd. 1)	08045571	Manchester	100	_
Compello Operations Ltd. 1)	08045559	Manchester	100	_
MKE (UK) Ltd. 1)	07042157	Manchester	100	_
MKDP LLP 1)	OC349372	Manchester	100	-
Marte SPV S.r.I	4634710265	Conegliano	100	0
Hoist Italia S.r.l	12898671008	Rome	100	14
Hoist Finance Cyprus Ltd.	HE 338570	Nicosia	100	0
Hoist Polska SpZ.O.O	0000536257	Wroclaw	100	147
Hoist Finance Spain S.L.	B87547659	Madrid	100	216
Optimus Portfolio Management S.L.	B86959285	Madrid	100	-
Hoist Hellas S.A	137777901000	Athens	100	10
Nais Uno Reoco S.r.l	14564684007	Rome	100	1
GoDebt1 FIZ NFS 3)	292229	Warsaw	100	-
Immobilière de Lancereaux SAS ⁴⁾	2018B20590	Paris	100	0
Hoist Finance UK Holdings 1 Ltd. 4)	11473838	Manchester	100	-
Hoist Finance UK Holdings 2 Ltd. 4)	11473850	Manchester	100	
Hoist Finance UK Holdings 3 Ltd. 4)	11473909	Manchester	100	-
Nuova Maran S.r.l. ⁴⁾	14846811009	Rome	100	1
Hoist II NS FIZ 3)4)	RFi1617	Warsaw	100	0
	-			

¹⁾ The company is being liquidated.

²⁾ The company liquidated during the year.

³⁾ Polish Sec. fund

⁴⁾ Companies added during the year.

⁵⁾ A merger of Hoist Finance SAS and Hoist Finance AB (publ) was carried out on 2 January 2019, whereby Hoist Finance AB (publ) is the surviving entity.

Note 17 Shares and participations in subsidiaries, cont

SEK million	31 Dec 2018	31 Dec 2017
Accumulated acquisition value		
Opening balance	1,688	1,688
Absorbed through merger	-1,688	_
Acquired through merger	2,315	-
Acquisitions	1	-
Capital contribution	11	-
Disposal	-1,423	-
Closing balance	904	1,688
Accumulated depreciations		
Opening balance	-	-
Acquired through merger	-172	-
Hedge fair value 1)	-10	-
Closing balance	-182	-
Closing balance	722	-

¹⁾ For additional information see Accounting principles section 22.7 "Hedge accounting" and Note 14 "Derivatives".

Merger

Hoist Finance AB (publ) with Hoist Kredit AB (publ)

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

The merged company's income balance sheet

SEK million	
Cash and interest-bearing securities	5,787
Other assets	15,566
Total assets	21,353
Deposits from the public	13,228
Senior debt	4,355
Subordinated debt	803
Total interest-bearing liabilitie	18,386
Other liabilities	407
Untaxed reserve	81
Equity	
Restricted equity	143
Non-restricted equity	2,336
Total liabilities and equity	21,353

The merger result in Hoist Finance AB (publ), which is recognised in equity, amounts to profit of SEK 790 million.

Note 17 Shares and participations in subsidiaries, cont

Acqusition

Nuova Maran S.r.l.

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 expertis 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.l. 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.

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

Acquisition net assets 1)

SEK million	
Intangible assets	32
Tangible assets	1
Total net assets	33
Goodwill	6
Purchase price	39

1) Acquisition is preliminary.

Merger

Hoist GmbH with Hoist Kredit AB (publ)

On 30 June 2017, the subsidiary Hoist GmbH, company registration number HRB 7736, was merged with Hoist Kredit AB (publ), following which the German operations are conducted through the branch called Hoist Kredit AB (publ) Niederlassung Deutschland. The income statement and balance sheet of Hoist GmbH, as of the effective date of the merger, 30 June, are presented below.

The merged company's income statement and balance sheet

SEK million	
Total operating income	158
EBT	-2
Cash and interest-bearing securities	18
Other assets	119
Total assets	137
Other liabilities	59
Equity	78
Total liabilities and equity	137

The merger result in Hoist Kredit AB (publ), which is recognised in equity, amounts to profit of SEK 7 million.

Note 18 Intangible assets

			GROUP		PARENT COMPANY			
SEK million 31 Dec 2018	Goodwill	Internally developed software	Licences and software	Work in progress	Total	Internally developed software	Licences and software	Work in progress
Acquisition value, opening balance	202	10	268	56	536	10	35	51
Investments for the year	-	-	6	94	100	-	5	92
Acquired companies	6	_	48	-	54	_	-	-
Acquired through merger	-	-	-	-	-	-	149	7
Reclassification	-	-	21	-22	-1	_	21	-22
Divestments and disposals	-	-	0	-6	-6	_	0	-6
Translation differences	2	-	4	0	6	_	0	0
Acquisition value, closing balance	210	10	347	122	689	10	210	122
Accumulated depreciation, opening balance	-57	-3	-189	-	-249	-3	-29	-
Depreciation for the year	-	-2	-39	-	-41	-2	-20	-
Acquired companies	-	-	-10	-	-10	_	-	-
Acquired through merger	-	-	-	-	-	_	-102	-
Reclassification	-	-	0	-	0	-	-9	-
Divestments and disposals	-	-	0	-	0	_	0	-
Translation differences	-	-	-2	-	-2	_	0	-
Accumulated depreciation, closing balance	-57	-5	-240	0	-302	-5	-160	0
Carrying amount	153	5	107	122	387	5	50	122

			GROUP			PARENT COMPANY			
SEK million 31 Dec 2017	Goodwill	Internally developed sofware	Licences and software	Work in progress	Total	Internally developed sofware	Licences and software	Work in progress	Total
Acquisition value, opening balance	190	6	238	16	450	6	35	12	53
Investments for the year	_	4	16	51	71	4	-	40	44
Reclassification	-	_	13	-11	2	_	1	-1	0
Divestments and disposals	-	-	0	-	0	_	-	0	0
Translation differences	12	-	1	0	13	-	-1	-	-1
Acquisition value, closing balance	202	10	268	56	536	10	35	51	96
Accumulated depreciation, opening balance	-57	_	-149	_	-206	-	-27	-	-27
Depreciation for the year	-	-3	-38	-	-41	-3	-2	-	-5
Divestments and disposals	-	-	0	-	0	_	-	-	-
Translation differences	-	_	-2	-	-2	-	-	-	-
Accumulated depreciation, closing balance	-57	-3	-189	0	-249	-3	-29	0	-32
Carrying amount	145	7	79	56	287	7	6	51	64

Impairment test for goodwill

The Group's goodwill of SEK 153 million (145) has been identified as belonging to the cash-generating units Poland (SEK 137 million) and Spain (SEK 10 million), which were impairment tested in conjunction with the year-end accounts. The remaining SEK 6 million of goodwill is recognised in subsidiary Nuova Maran S.r.l., and arose in connection with the October 2018 acquisition of net assets in Maran Group; see Note 17 "Group companies".

Goodwill is tested for impairment at least once annually or when there are indications that impairment is required. In impairment tests, the value in use of the cash-generating units is calculated by discounting estimated future cash flows. Value in use is compared with carrying value to determine whether impairment is required.

Cash flow forecasts are based on an assessment of future collections, portfolio acquisitions, and cost and revenue development. The forecast

period for gross cash collections is 15 years. Collection costs are calculated in relation to collection on portfolios, and other revenues and costs are based on established 3-year business plans. Investments are considered to be of a long-term nature and, accordingly, it is assumed that, for the period beyond the forecast period, revenues, costs and investments will increase 2 per cent in perpetuity.

96 97

156 -1 -6 0 **342**

-32 -22

-102 -9 0 0 -165

The effective tax rate applied in the impairment test is the local tax rate in the relevant country. The discount rate is the weighted average cost of capital in the relevant country. The discount rate for 2018 is within the 3-6 per cent range after tax.

In this year's impairment test, the value in use was deemed to exceed the carrying value of the cash-generating units Poland and Spain. There is therefore no impairment requirement.

Note 19 Tangible assets

		GROUP					
SEK million 31 Dec 2018	Equipment	Properties repossessed for protection of claims	Total				
Acquisition value, opening balance	162	-	162				
Investments for the year	31	5	36				
Acquired companies	5	-	5				
Acquired through merger	-	-	-				
Reclassification	25	-	25				
Divestments and disposals	-3	-	-3				
Translation differences	5	-	5				
Acquisition value, closing balance	225	5	230				
Accumulated depreciation, opening balance	-120	-	-120				
Depreciation for the year	-20	-	-20				
Acquired companies	-4	-	-4				
Acquired through merger	-	-	-				
Reclassification	-24	-	-24				
Divestments and disposals	0	-	0				
Translation differences	-3	-	-3				
Accumulated depreciation, closing balance	-171	0	-171				
Carrying amount	54	5	59				

PARENT COMPANY	
Equipment	Total
7	7
13	13
-	-
97	97
1	1
-3	-3
0	0
115	115
-6	-6
-10	-10
-	-
-75	-75
-	-
0	0
-	-
-91	-91
24	24

	GROUP			
SEK million				
31 Dec 2018	Equipment	Total		
Acquisition value, opening balance	144	144		
Investments for the year	16	16		
Divestments and disposals	-1	-1		
Translation differences	3	3		
Acquisition value, closing balance	162	162		
Accumulated depreciation, opening balance	-103	-103		
Depreciation for the year	-15	-15		
Divestments and disposals	0	0		
Translation differences	-2	-2		
Accumulated depreciation, closing balance	-120	-120		

7 0 -	7 0 -
7	7
0 - -	0
<u> </u>	-
-	
	-
7	7
-5	-5
-1	-1
-	-
-	-
-6	-6

PARENT COMPANY

Note 20 Other assets

Carrying amount

	GROUP		
EK million	31 Dec 2018	31 Dec 2017	
Long-term financial assets	0	0	
Long-term receivables	4	1	
Derivatives ¹⁾	128	11	
Short-term financial assets	22	17	
Deposits for portfolio acquisitions	72	-	
Short-term tax receivables	45	23	
VAT receivables	15	28	
Accounts receivables	27	51	
Advance payments to customers	28	43	
Other short-term receivables	84	26	
Total	425	200	

31 Dec 2017	31 Dec 2018
_	0
-	-
-	128
-	21
-	72
8	36
16	4
-	0
-	28
_	51

340

PARENT COMPANY

42

Note 21 Prepaid expenses and accrued income

	GR	GROUP			
SEK million	31 Dec 2018	31 Dec 2017			
Prepaid expenses	24	32			
Accrued income	29	54			
Total	53	86			

PARENT COMPANY					
31 Dec 2018	31 Dec 2017				
11	9				
16	-				
27	9				

Note 22 Other liabilities

	GRO	UP	PARENT COMPANY		
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Long-term liabilities	4	2	-	-	
Accounts payable	101	73	53	21	
Short-term payables to Group companies	-	-	383	280	
Unpaid purchase consideration for portfolios	16	134	16	-	
Liabilities from service billing	37	4	2	_	
Derivatives ¹⁾	19	10	19	-	
VAT payables	9	8	_	_	
Employee withholding tax on deposit interest	36	47	36	_	
Employee withholding tax	23	19	1	-	
Short-term payables to employees	41	13	14	-	
Collateral received	-	-	_	-	
Other current liabilitites	94	84	_	-	
Total	380	394	524	301	

¹⁾ See note 14 "Derivatives".

Note 23 Accrued expenses and deferred income

	GRO	UP
SEK million	31 Dec 2018	31 Dec 2017
Accrued personnel expenses	65	58
Accrued interest expenses	-	2
Accrued commission expenses	6	5
Accrued transaction costs	-	9
Accrued legal costs	23	28
Accrued collection costs	11	22
Accrued expenses for deposits from the public	16	16
Deferred income	47	9
Other accrued expenses	64	62
Total	232	211

PARENT COMPANY						
31 Dec 2018	31 Dec 2017					
32	0					
-	_					
3	-					
-	-					
_	-					
9	-					
16	-					
_	-					
8	4					
68	4					

Note 24 Provisions

	Pension p	rovision	Restructuri	ng reserve	Other non employee		Other pro	ovisions	GRO	UP
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Opening balance	27	27	36	4	17	16	7	8	87	55
Provision	0	0	19	35	6	4	0	17	25	56
Amount released	-1	0	-32	-4	-6	-4	-1	-18	-40	-26
Dissolution recognized in income	_	-	0	-	-	-	-1	_	-1	-
Change in value	0	0	-3	1	0	1	0	0	-3	2
Closing balance	26	27	20	36	17	17	5	7	68	87

Restructuring

Restructuring costs in 2018 related to costs resulting from the decision to coordinate Hoist Finance's operations in Germany and Great Britain to fewer offices. This provision expected to be utilised in 2019. Restructuring costs in 2017 related to costs resulting from the decision to coordinate Hoist Finance's operations in Germany, Belgium and the Netherlands to fewer offices. This provision is utillised in 2018 and the remaining is expected to be utilised in 2019.

Pensions

The Group has defined-benefit pension schemes for Hoist Finance AB (publ) and the German branch Hoist Finance AB (publ) Niederlassung, based on the employees' pensionable remuneration and length of service. Pension commitments are determined using the Projected Unit Credit Method, which includes current pensions, vested rights and future increases in these parameters in the valuation.

		UP
SEK million	31 Dec 2018	31 Dec 2017
Net pension provision, recognised in the balance sheet		
Defined-benefit commitment	30	30
Fair value of plan assets	4	3
Net pension provision	26	27
Pension commitments		
Opening balance	30	30
Interest expense	1	1
Pension payments	-1	-1
Actuarial gains (–)/losses (+)	-1	-1
Currency effects, etc.	1	1
Other	0	0
Closing balance	30	30
Assets under management		
Opening balance	3	3
Interest income	0	0
Employer-contributed funds	1	1
Benefits paid	-1	-1
Actuarial gains (+)/losses (-)	1	0
Currency effects	0	0
Closing balance	4	3

All plan assets are invested in investment funds. The Parent Company's defined-benefit pension liability at 31 December 2018 was SEK 27 thousand (34). The change of SEK -7 thousand (-9) is attributable to pension payments.

Note 25 Funding

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u	к	0	U	Р

SEK million	31 Dec 2018	31 Dec 2017
Deposits from the public	17,093	13,227
Senior debt	5,950	4,355
Subordinated debt	839	803
Total issued securities	6,789	5,158
Total interest-bearing debt	23,882	18,385

Terms and conditions and repayment periods

				31 D	ec 2018	31 [Dec 2017
SEK million	Currency	Nominal interest rate	Maturity	Nominal value	Carrying amount	Nominal value	Carrying amount
Deposits from the public	SEK	0.60% - 1.70%	2017-2020	11,238	11,292	12,173	12,242
Deposits from the public	EUR	0.65% - 0.85%	2017-2019	5,798	5,801	984	985
Senior debt	EUR	3.125%	2019	146	146	1,970	1,966
Senior debt	EUR	1.125%	2021	2,569	2,505	2,462	2,389
Senior debt	EUR	2.750%	2023	2,569	2,447	-	-
Senior debt	EUR	0.17%-0.30%	2019	853	852	-	_
Subordinated debt	EUR	3.875%	2027	822	839	788	803
Total interest-bearing liabilities				23,995	23,882	18,377	18,385

Retail funding

Deposits

Hoist Finance AB (publ) launched its first deposit savings scheme for retail customers in 2009 in Sweden. The second deposit savings scheme was established in 2017, this time in Germany and in EUR. Hoist Finance AB (publ) offers both current account and fixed-term deposits in both countries, of which the majority (99 per cent) is covered by the Swedish deposit insurance scheme from the Swedish National Debt Office. At year-end 2018, Hoist Finance AB (publ) had SEK 6,968 million and SEK 4,324 million in current account and fixed-term deposits in SEK, respectively, and SEK 4,073 million and SEK 1,728 million in current account and fixed-term deposits in EUR, respectively.

Wholesale funding

Senior debts

During the third quarter, Hoist Finance AB (publ) issued a senior unsecured bond loan of EUR 250 million at a fixed annual rate of 2.75 per cent and maturing in April 2023. In conjunction with this, a partial

repurchase, totalling EUR 186 million, of a senior unsecured bond loan issued in 2016 was conducted. A commercial paper programme was established during second quarter 2018, with a framework amount of SEK 2,500 million and the option of issuing in both Swedish kronor and euro. Issues and repurchases were conducted on multiple occasions during the last six months of the year, with interest rate terms ranging from 0.17 per cent to 0.30 per cent depending on maturity (3 to 9 months). The amount outstanding at year-end was EUR 83 million.

Subordinated debt

Hoist Finance AB (publ) issued a T2 EMTN of EUR 80 million in the second quarter of 2017, with a maturity of 19 May 2027. The annual fixed interest rate is 3.875 per cent. Hoist Finance AB (publ) repays the nominal amount (including any accrued interest) for all subordinated debts on the maturity date.

Note 26 Equity

Share capital. The Articles of Association of Hoist Finance AB (publ) specify that the company's share capital shall total a minimum of SEK 15 million and a maximum of SEK 60 million.

	GRO	UP
Number of shares	2018	2017
Opening balance	81,184,546	80,719,567
New share issue	8,118,454	464,979
Closing balance	89,303,000	81,184,546

The quota value is SEK 0.33 per share.

The total number of shares as per 31 December 2017 was 81,184,546, all of which were ordinary shares. Additional shares were issued in 2018 through new share issues. The total number of shares as per 31 December 2018 was 89,303,000. All shares are fully paid

The translation reserve comprises all exchange differences arising through translation of foreign operations less hedging effects.

Other contributed equity refers to equity, other than share capital, contributed by the shareholders. During 2018 Hoist Finance AB (publ) repurchased Additional Tier 1 (AT1) capital issued in 2013 for a nominal amount totalling SEK 100 million, and issued new AT1 capital for a nominal amount totalling EUR 40 million. The nominal value of outstanding

AT1 capital as per 31 December 2018 was EUR 30 million and EUR 40 million, respectively.

The outstanding AT1 capital instruments are perpetual non-amortisable loans and can only be repaid in the event of liquidation of Hoist Finance, and only after all other debts are settled. The convertible instruments carry an 8.625% and 8.000% annual interest rate, respectively, to be paid from equity, not from the company's profit. However, as of 21 June 2023 and 1 September 2023, respectively, Hoist Finance, with approval from the Swedish Financial Supervisory Authority, is entitled to redeem the instruments and repay the outstanding capital.

Retained earnings comprise accrued earnings in the Parent Company, subsidiaries and joint ventures. For the 2018 financial year, the Board has decided to propose to the AGM not to pay a dividend for 2018.

The revaluation reserve in the Parent Company comprises SEK 64 million taken over from Hoist Kredit AB (publ) in the merger and which arose from revaluation of the share value in Hoist Finance UK Ltd. 2013. The revaluation reserve also comprises portfolio revaluations of SEK 2 million pertaining to positive revaluations of portfolios reported in restricted equity.

The development expenditure fund in the Parent Company, totalling SEK 4 million (6), pertains to expenditures for the company's own development work and has been transferred from retained earnings and taken over from Hoist Kredit AB (publ) in the merger.

Note 27 Pledged assets

	GRO	UP	PARENT COMPANY	
SEK million	31 Dec 2018 31 Dec 2017		31 Dec 2018	31 Dec 2017
Pledges and equivalent collateral to secure own liabilities and commitments recognised as provisions	70	49	12	-

Note 28 Contingent liabilities

	GRO	UP	PARENT COMPANY		
SEK million	31 Dec 2018 31 Dec 2017		31 Dec 2018	31 Dec 2017	
Commitments	1,116	698	367	_	

Forward flow contracts

In forward flow contracts, a pre-determined volume (fixed or range) of NPLs is acquired at a pre-defined price during a certain time period.

Note 29 Leases

The Group leases office space, office and IT equipment and vehicles under financial and operating lease contracts.

Most of the leases cover:

Equipment, furniture and leased premises:
 IT hardware:
 Vehicles:
 2–5 years
 3 years

Finance leasing

The carrying amount of leased non-current assets was SEK 2 million (0.3) as per the balance-sheet date. No variable fees were charged to net profit for the year.

Operating leasing	GRO	GROUP		PARENT COMPANY	
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Payment obligations under noncancellable lease contracts					
Within 1 year	36	33	16	6	
Years 1–5	89	63	38	0	
Year 5 and thereafter	71	33	65	-	
Total	196	129	119	6	

The Group's lease expenses total SEK 40 million (36). The corresponding figure for the Parent Company is SEK 22 million (5). No variable fees were charged to net profit for the year.

Note 30 Specifications to the cash flow statement

Cash and cash equivalents	GRO	UP	PARENT C	PARENT COMPANY		
SEK million	2018	2017	2018	2017		
Cash	0	0	0	0		
Treasury bills and treasury bonds	2,653	1,490	2,653	-		
Lending to credit institutions	1,187	1,681	365	275		
Liabilities to Group companies, group account	-	_	-328	-206		
Total	3,840	3,171	2,690	69		

Adjustment for items not included in cash flow	GROUP	
SEK million	2018	2017
Impairment of shares in subsidiaries	-	-
Depreciation and amortisation of tangible and intangible assets	61	56
Realised and unrealised component of net income from financial transactions	0	-12
Repurchase costs senior debt and subordinated debt	-	50
Impairment gains and losses	-261	_
Unrealised gains on shares and participations in joint ventures	11	12
Increase/decrease in accrued interest income and interest expense	81	-10
Increase/decrease in provisions	-20	29
Derecognitions	3	_
Other items	3	-3
Total	-122	122

PARENT CO	YNAAMC
2018	2017
1,454	_
32	6
188	-
-	_
-83	-
-	-
17	-
-18	0
1	-
21	-1
1,612	5

Reconciliation of liabilities from funding activities

		_	Non-cash changes			
SEK million	31 Dec 2017	Cash flow	Accrued expenses	Exchange rate fluctuations	31 Dec 2018	
Deposits from the public	13,227	3,832	-13	47	17,093	
Senior debt	4,355	1,360	30	205	5,950	
Subordinated debt	803	-	2	34	839	
Total liabilities from funding activities	18,385	5,192	19	286	23,882	

Note 31 Risk management

Introduction

The risks that originate from the Group's operational activities are primarily attributable to Group assets in the form of acquired loan portfolios and consequently the payment capacity of Hoist Finance's debtors. These risks are mitigated by a historically strong and predictable cash flow and through the continuous monitoring and evaluation of portfolio development. The Group is also exposed to operational risks as part of its daily operational activities and in connection with the Group's rapid growth. These risks are managed using a framework for managing operational risks that is based on continuous improvements to procedures and processes, risk awareness in the organisation, duality in all important transactions and analyses, and a clear division of responsibilities. The Group is also exposed to exchange rate and interest-rate fluctuations. These two market risks are managed through the ongoing use of derivatives to hedge exchange rates and interest rates.

The Group has adopted policies, regulations and instructions governing the management, analysis, evaluation and monitoring of risks. The Group has also adopted risk management strategies built on the principle that the company, based on its extensive experience and expertise in acquiring loan portfolios, actively seeks to increase its volumes in this business area while minimising other exposures and risks (such as market, liquidity and operational risks) as far as is financially justifiable.

The Group's Risk Control function is responsible for working independently from Management to analyse, monitor and report all significant risks to the CEO and Board of Directors. The Risk Control function also serves as an advisor to the Board on issues concerning risk management, risk appetite and risk strategies. This ensures that duality is achieved, as all significant risks are analysed, reported and monitored by the business operations as well as the independent Risk Control function. Risks within the Group are managed and limited in accordance with policies and instructions adopted by the Board. The Risk Control function is responsible for reporting and escalating deviations from the limits to both the CEO and the Board.

Risk exposures are calculated, analysed and compared with anticipated revenue to ensure the achievement of an attractive risk-adjusted return. Once defined, the Group's risk profile is assessed and evaluated. Assessment and evaluation include the following steps:

1) Assessment of each risk category

Each risk category is individually assessed. The risk assessment is documented and always results in a qualitative assessment of the risk as well as a quantifiable amount.

2) Stress testing: Assessment of unforeseen events

Unforeseen events are defined as events that are possible but highly unlikely. Such events may be designated as "stress test events" and their consequences simulated and documented. Simulation results are reviewed against the Group's capital and liquidity. Unforeseen events may be based on historical experience, academic theory and/or hypothetical scenarios.

3) Assessment of how risks can be managed and controlled

Although not all risks can be quantified in an adequate way, an analysis is done to detail the way in which risks can be managed and controlled. When appropriate, measures are implemented to improve the management and control of the risk.

The most significant risks identified by the Group as being relevant to its business are: (i) credit risk; (ii) operational risk; (iii) market risk (FX risk and interest rate risk); and (iv) liquidity risk.

Credit risk

Credit risk is the risk to revenue and/or capital arising from a counterparty's failure to repay principal or interest at the stipulated time or a failure to otherwise perform as agreed.

Credit risk on the Group's balance sheet relates mainly to:

- » Acquired loan portfolios, comprised of performing and non-performing loans. Details on the credit risk for these two categories are presented in a separate section below.
- >> Bonds and other securities.
- >> Deposits in credit institutions.
- >> Counterparty risk exposure to institutions with which the Group conducts derivative transactions to hedge the Group's FX and interest rate exposure.

Credit Risk for acquired non-performing loan portfolios

The non-performing loans are acquired in portfolios at prices that typically vary between 5 and 35 per cent of the nominal value outstanding at the acquisition date. The price depends on the portfolios' specific characteristics and composition in terms of, inter alia, size, age and type of loans as well as debtor age, location, type, et cetera.

Measuring Credit Risk in the non-performin loan portfolios

Credit risk in the non-performing loan portfolios relates primarily to the Group overpaying for a portfolio — that is, recovering less from the portfolio than expected — resulting in higher than expected portfolio carrying amount impairments and lower revenue.

Total credit risk exposure is equal to the carrying amount of the assets. The year-end carrying amount of Hoist Finance's non-performing loan portfolios was SEK 19,333 million (14,766). The majority of these loans are unsecured, although a limited number of portfolios have real properties as collateral. As at 31 December 2018, these portfolios had a carrying amount of SEK 2 230 million (261).

Information on the loan portfolios' geographical distribution is presented in Note 1 "Segment reporting". Other information on acquired non-performing loan portfolios is presented in Note 16 "Acquired loan portfolios". Hoist Finance does not disclose any age analyses of the non-performing loans because such information is not particularly relevant from a risk perspective. A more important parameter for Hoist Finance's credit risk management of non-performing loan portfolios is net cash flow forecasts, as presented in Note 16 "Acquired loan portfolios".

Impairment of non-performing loan portfolio values

The risk of loan portfolios failing to pay as expected is regularly monitored by the business operations and the Risk Control function, by comparing actual outcome against forecasts. This analysis is also used to assess the potential need to impair portfolio values. Revaluation of portfolios and the difference between realised collections and forecasts is reported under "Impairment gains and losses".

Expected credit loss measurement for acquired performing loan portfolios

For acquired performing loans IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition, which is presented in the adjacent table. The model is only applicable to the Group's performing loan portfolios. Non-performing loan portfolios are always classified in Stage 3. The loss allowance for non-performing loans is detailed below in the section "Credit risk for acquired non-performing loan portfolios".

Change in credit quality since initial recognition

Recognition of expected credit losses

necognition of expected elegic losses		
12 month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses
Interest revenue		
Effective interest on gross carrying amount	Effective interest on gross carrying amount	Effective interest on amortised cost carrying amount (i.e. net of loss allowance)
Stage 1	Stage 2	Stage 3
Performing (Initial recognition ¹⁾)	Underperforming (Assets with significant increase in credit risk since initial recognition ¹⁾)	Non-performing (Credit impaired assets ¹⁾)

For Hoist Finance, initial recognition is the date on which a portfolio is acquired and subsequently recognised on the balance sheet. For acquired performing loan portfolios, all loans that are not considered credit-impaired are classified in Stage 1 at initial recognition. Criteria for migration to Stage 2 or Stage 3 are described under "Significant increase in credit risk" and "Definition of default and credit-impaired assets" respectively.

The general approach applied by Hoist Finance for measuring Expected Credit Losses ("ECL") for acquired performing loan portfolios is component-based and builds upon an estimation of Exposure at Default ("EAD"), Loss Given Default ("LGD"), and Probability of Default ("PD"). These components are multiplied together each month to produce an ECL which is recognised in financial statements as a loss allowance.

At each reporting date, ECL is estimated on a 12-month and a lifetime basis for all acquired performing loan contracts. For loans in stage 1, loss allowance is recognised for ECL over the next 12 months whereas for loans in Stage 2 and Stage 3, loss allowance is recognised for lifetime ECL.

The ECL for all acquired performing loans is measured on a collective basis, where a grouping is performed based on shared risk characteristics, type of product, type of counterparty and type of collateral. During the period, there have been no changes in estimation techniques or significant assumptions in the ECL measurement process.

Measuring ECL – explanation of inputs, assumptions and estimation techniques

When a performing portfolio is acquired, the ECL model components are estimated based on historical information both on a customer and on a debt level.

At initial recognition and at subsequent reporting dates, the lifetime and 12-month PD is estimated using transition matrices for modelling the probability of being in different survival states prior to default over the remaining lifetime of the loan. All loans are classified in a risk rating class system for which the probability of moving between different risk classes is estimated. The estimation of PD also includes incorporation of forward-looking macroeconomic information which is described under "Forward-looking information incorporated in ECL models".

The lifetime and 12-month EAD is estimated based on the contractual payment profile of the loan along with behavioural assumptions for possible prepayments, overpayments and underpayments.

The lifetime and 12-month LGD is determined on the basis of factors impacting the expected post default recoveries such as the probability of curing to a non-default state and the value of any underlying collateral. The estimation of LGD also includes the incorporation of forward-looking macroeconomic information which is described under "Forward-looking information incorporated in ECL models".

Lifetime ECL is calculated as the present value of all cash shortfalls over the remaining lifetime of the loan, discounted using the effective interest rate ("EIR"). The 12-month ECL is quantified based on the lifetime ECL weighted by the probability that this loss will occur during the next 12 months.

The most significant assumptions affecting the ECL allowance are as follows:

- (i) The debtors' historical and current payment patterns and ability to comply with their contractual obligations which is the main component used in estimating the PD of the debtors.
- (ii) The Loan-To-Value for collateralised loans mitigating the loss in the event of default (LGD).

Significant increase in credit risk

Hoist Finance has defined rating class staging criteria based on the PD rating class system used in the transition matrices utilised for PD estimation. Significant increase in credit risk ("SICR") is defined as when a loan experiences a risk class migration increase of one risk grade as counted from its original risk class at initial recognition.

Hoist Finance is not rebutting the IFRS 9 presumption that a SICR has occurred when a loan contract is more than 30 days past due on contractual payments. However it should be noted that Hoist Finance

applies this backstop criteria provided that the past due amount is considered material in accordance with the definition of default described under "Definition of default and credit-impaired assets".

Hoist Finance has not used the low credit risk exemption for any acquired performing loan portfolios.

Definition of default and credit-impaired assets

Hoist Finance defines an acquired performing loan as in default, which is fully aligned with the definition of credit-impaired, when it meets any of the following criteria:

- » The obligor is more than 90 days past due on its contractual payments by a material amount
- » When a concession is granted which modifies the contractual cash flows resulting in a material loss
- >>> Bankruptcy of the obligor
- >> Confirmed death of the obligor
- » An obligor's sources of recurring income are no longer available to meet the payments of instalments
-)) Hoist Finance has called any collateral, including a guarantee
- » There are justified concerns about a obligor's future ability to generate stable and sufficient cash flow

Since Hoist Finance acquires portfolios, data availability is a major concern for the full application of the definition of default, which is why some default parameters are still under implementation.

Concerning what is to be regarded as a purchased credit impaired asset, the assessment is based on the information provided by the sellers of the acquired non-performing loan portfolios.

Forward-looking information incorporated in ECL models

The PD component incorporates forward-looking information through use of the macroeconomic variable proven to have the strongest impact on the default frequency of the portfolio. In the case of not having enough data a proxy default frequency may be used. The PD for each point in time is then adjusted in accordance with scenarios derived from that macroeconomic variable.

The LGD component incorporates forward-looking information by applying macroeconomic variable assumptions on the collateral valuation which impacts future recovery rates.

For the purpose of incorporating forward-looking macroeconomic information in the measurement of ECL, three different probability weighted scenarios are utilised.

- (i) A base economic scenario which builds upon the projected economic development as estimated by the International Monetary Fund ("IMF"). The probability weighting assigned to this scenario is 90 per cent.
- (ii) A negative economic downturn scenario. The probability weighting assigned to this scenario is 5 per cent.
- (iii) A positive favourable economic scenario. The probability weighting assigned to this scenario is 5 per cent.

The below table outlines how the most significant period-end economic variable assumptions as at 31 December 2018 have been applied for the different economic scenarios.

Performing loans

%		2019	2020	2021	2022	2023
Germany	Inflation CPI	1.6	1.6	2.1	2.4	2.5
Poland	GDP Current prices	4.9	5.6	5.1	5.1	4.8
United Kingdom	GDP PPP (share of world)	-1.3	-1.9	-2.1	-2.1	-1.9

The positive and negative economic scenarios are derived by applying +/- two standard deviations from the assumed future macroeconomic variable development in the basic scenario.

Sensitivity analysis

Set out in the table below are the changes to the ECL as at 31 December 2018 that would result if the negative and positive economic scenarios used for ECL measurement purposes, as described in section "Forward-looking information incorporated in ECL models", materialised.

ECL Scenario Sensitivities

%		·	LGD	
		Positive	Neutral	Negative
PD	Positive	-11.04	-0.24	10.68
	Neutral	-11.02	0.00	11.24
	Negative	-10.95	0.46	13.18

Collateral

For acquired secured performing loan portfolios, the collateral which serves as security for mitigation of credit risk consists of immovable properties and to a minor extent car vehicles. Hoist Finance prepares a valuation of the collateral to be obtained as part of the transaction process. Hoist Finance monitors the development of the value of the collateral in secured portfolios through periodic revaluation on an annual basis. There is no case where the ECL for a loan is 0 due to the value of collateral.

Hoist Finance's policies for obtaining collateral have not significantly changed during the reporting period and there has not been any significant change in the overall quality of collateral held by Hoist Finance.

For acquired performing loans that subsequently have become credit-impaired, it becomes more likely that Hoist Finance might take possession of the collateral to mitigate potential credit losses. As at 31 December 2018 the value of collateral held for credit-impaired assets represents more than 100 per cent of the gross carrying amount of these loans which represents the maximum exposure to credit risk.

Write-offs

For acquired loan portfolios, Hoist Finance will, in whole or in part, derecognise assets where there is no reasonable expectation of recovery. As at 31 December 2018, there are no contractual amounts outstanding that are still subject to enforcement activity for written off acquired loans.

Modifications

For acquired loan portfolios, Hoist Finance has the ability to modify the contractual terms of the loan which alters the contractual cash flows. As at 31 December 2018, no losses or gains arising from modifications of contractual cash flows for acquired loan portfolios have been recognised for the reporting period. Thus, modification of contractual cash flows have not had any impact on measurement of ECL.

Credit risk exposure and maximum exposure to credit risk

For non-performing and performing acquired loan portfolios, the maximum exposure to credit risk is represented by the gross carrying amount of the loan. The adjacent table contains an analysis of the credit risk exposure for acquired loan portfolios based on credit risk classes. The credit risk class for "high credit quality" corresponds to loans where the exposure weighted average 12 month PD is 0.3 per cent. The equivalent PD averages for "medium credit quality" and "low credit quality" are 1.4 per cent and 60.9 per cent respectively.

		Acqui	red loan portfolios		
			2018		
SEK million	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Purchased credit impaired	Total
Credit grade					
Credit grade for high credit quality	747	-	-	-	747
Credit grade medium credit quality	224	-	_	-	224
Credit grade for low credit quality	11	13	_	-	24
Default	_	-	17	19,334	19,351
Gross carrying amount	982	13	17	19,334	20,346
Loss allowance	-2	0	-1	262	259
Net carrying amount	980	13	16	19,596	20,605

A full reconciliation of gross carrying amount and ECL movements can be found under Note 16 "Acquired loan portfolios".

Credit risk for the liquidity portfolio assets

The credit risk associated with exposures in Hoist Finance's liquidity reserve is managed in accordance with the Group's Treasury Policy, which regulates the portion that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures to a given counterparty credit rating.

The table below shows S&P's credit rating for the Group's exposures in the liquidity reserve as per 31 December 2018 compared with 31 December 2017.

Rating

%	31 Dec 2018	31 Dec 2017
%	31 Dec 2018	31 Dec 2017
AAA	71.1	69.8
AA+	0.0	6.3
AA	13.9	0.0
AA-	0.9	8.0
A+	0.0	0.0
A	8.0	12.2
A-	0.9	1.0
BBB+	3.8	1.9
BBB	0.0	0.0
BBB-	0.0	0.1
BB+	0.1	0.1
ВВ	0.1	0.1
BB-	0.1	0.6
B+	0.0	0.0
В	0.0	0.0
B-	0.0	0.0
N/A	0.1	0.0
Total, SEK million	7,399	6,800
of which, in the liquidity portfolio	6,288	5,179

As per 31 December 2018, the weighted average maturity for liquidity portfolio assets was 1.86 years (1.49) and the modified duration was 0.32 years (0.37). Maturity and modified duration are important measures for evaluating Hoist Finance's credit spread risks and interest-rate risks.

Credit risks arising from bond holdings or derivative transactions

Credit risks arising from bond holdings or derivative transactions are treated in the same way as other credit risks, that is, they are analysed, managed, limited and controlled.

Counterparty risk

The Group uses FX and interest-rate derivatives to hedge its exchange-rate and interest-rate exposure (see Note 14 "Derivatives"). To avoid counterparty risks associated with these derivatives, the Group uses ISDA and CSA agreements for all derivative counterparties. These agreements allow for netting and daily settlement of credit risk and, accordingly, counterparty risk with derivative counterparties corresponds at most to a one-day fluctuation of the derivative's value. The CSA agreement is backed by cash collateral. Derivative transactions are only conducted with stable counterparties with a minimum credit rating of A-, which also serves to limit the counterparty risk.

The tables below show financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

Financial per type of financial instrument

Financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

31 Dec 20	18				
			Related an not offset balance s	in the	
SEK million	Gross amount of financial assets and liabilities	Amount offset in the balance sheet	Net amount presented in the balance sheet	Cash collateral	Net amount
Assets					
Deriva- tives	128	-	128	0	128
Liabilities					
Deriva- tives	19	-	19	-19	0
Total	109	0	109	19	128

See also Note 14, Derivatives.

31 Dec 2017

			Related an not offset balance s	in the	
SEK million	Gross amount of financial assets and liabilities	Amount offset in the balance sheet	Net amount presented in the balance sheet	Cash collateral	Net amount
Assets					
Deriva- tives	11	-	11	-	11
Liabilities					
Deriva- tives	10	-	10	-10	0
Total	1	-	1	-10	11

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, personnel, IT systems or from external events, and includes legal and compliance risk.

The operational risk that Hoist Finance is mainly exposed to is divided into the following seven categories:

-) Unauthorised activities and internal fraud
-)) External fraud
- >> Employment practices and workplace safety
-)) Clients, products and business practices
- >> Damage to physical assets
- >>> Business disruption and system failures
- >> Execution, delivery and process management

The Group manages operational risk by continuously improving its internal procedures and day-to-day controls, and by training employees in risk management and risk management techniques. The Group also applies the dual-control principle which means that a business flow or transaction must always be managed by at least two independent units/individuals. Hoist Finance also applies segregation of duties to ensure that a transaction is never managed from start to finish by one single person.

To identify and mitigate operational risks within the Group, the risk control function in each country has established routines, including the following:

- 1. All employees are required to submit incident reports via a Group-wide risk management system, where incidents and actions taken are monitored by the risk control function. Significant reported incidents are included in the risk report submitted to the Board and the management in the relevant country.
- Annual evaluation and identification of operational risks, and controls to reduce risks. This is a process to identify, quantify, analyse and thereby determine measures to reduce operational risks in Hoist

Finance to an acceptable level. The analysis includes an assessment of a given risk's probability of occurrence and what its consequences (impact) would be, it lists the steps taken by Hoist Finance to manage the risks, and details additional measures that need to be taken. Assessments are not made by a single person – they are made in groups, since discussion and different perspectives are vital to the identification of relevant risks.

- **3.** The process for approval and quality assurance of new and amended products, services, markets, processes, IT systems and major changes in Hoist Finance's operations and organisation.
- 4. Business Continuity Management (BCM) provides a framework for planning for and responding to events and business disruptions to ensure the continuation of business operations at an acceptable predefined level. The Group's BCM comprises disruption and crisis management:
-)) Disruptions are managed by having business continuity plans in place.
-)) Crises are managed by predefined crisis management teams.
- **5.** Key risk indicators are reported to Management and the Board on a regular basis in order to follow up measurable operational risks and provide early warning when risks have increased.
- **6.** Regular training in operational risks is conducted in key areas.

Market risk

Market risk is defined as the risk that FX and interest-rate fluctuations may negatively affect a company's results or equity level.

Currency/FX risk

The FX risk that has an adverse impact on the Group's income statement, balance sheet and/or cash flow arises primarily as a result of:

- » Certain income and expense items arising in different currencies, resulting in a transaction risk.
- ">) The translation of assets and liabilities in currencies other than the Group's presentation currency into the presentation currency each month, resulting in a translation risk.

Group Treasury has overall responsibility for continuous management of these risks.

Transaction risk

In each country, all revenue and most operating expenses are in local currency. Currency fluctuations therefore have only a limited impact on the company's operating profit in local currency. Revenue and expenses in national currency are therefore hedged in a natural way, which limits the transaction risk exposure.

Translation risk

The Group's presentation currency is SEK, while its three main functional currencies are EUR, GBP and PLN. The Group's loan portfolios (assets) are mainly denominated in foreign currency, while the Group's deposits from the public (liabilities) are denominated in SEK, which gives rise to a translation risk (balance-sheet risk). To manage translation risk, the Group calculates its unhedged exposure to the aggregate value of net assets denominated in currencies other than SEK. The Group's translation exposure is then managed through linear derivative contracts. The Group's uses hedge accounting for the net investment in foreign operations. Additional information regarding hedge accounting in the Accounting Principles section 10 "Hedge accounting" and in note 14 "Derivatives".

The tables below show the Group's exposure per currency. The Group has no significant positions in currencies other than EUR, GBP and PLN. The tables also present the translation risk expressed as sensitivity to a movement of 10 per cent in the exchange rate between SEK and each currency.

Interest rate risk

The Group's interest-rate risk originates from changes in interest rates that may affect the company's revenues and expenses to varying degrees. Changes in interest rates could affect the company's revenues from loan portfolios as well as the liquidity reserve, while the cost of funding these assets may also change.

A sudden and permanent interest-rate increase may adversely impact the Group's profit to the extent interest rates and interest expense for loans and deposits from the public are affected more by the increase than are revenues from loan portfolios and the liquidity reserve. To ensure that the exposure is within the company's risk appetite,

Group FX risk in EUR	31 Dec 2018	Impact on equity	31 Dec 2017	Impact on equity
Net assets on the balance sheet, EUR million	-9		325	
Currency forwards, EUR million	7		-315	
Net exposure, EUR million	-2		10	
A 10% increase in the EUR/SEK FX rate impacts Group results by (SEK million)	-3	-0.09%	11	0.32%
A 10% decrease in the EUR/SEK FX rate impacts Group results by (SEK million)	3	0.09%	-11	-0.32%

Group FX risk in GBP	31 Dec 2018	Impact on equity	31 Dec 2017	Impact on equity
Net assets on the balance sheet, GBP million	514		404	
Currency forwards, GBP million	-513		-406	
Net exposure, GBP million	1		-2	
A 10% increase in the GBP/SEK FX rate impacts Group results by (SEK million)	1	0.03%	-2	-0.05%
A 10% decrease in the GBP/SEK FX rate impacts Group results by (SEK million)	-1	-0.03%	2	0.05%

Group FX risk in PLN	31 Dec 2018	Impact on equity	31 Dec 2017	Impact on equity
Net assets on the balance sheet, PLN million	1,442		988	
Currency forwards, PLN million	1,436		-984	
Net exposure, PLN million	6		4	
A 10 % increase in the PLN/SEK FX rate impacts Group results by (SEK million)	1	0.05%	1	0.03%
A 10 % decrease in the PLN/SEK FX rate impacts Group results by (SEK million)	-1	-0.05%	-1	-0.03%

The table below shows the effect on various assets and liabilities of a sudden and permanent parallel shift of 100 basis points in market interest rates.

Total impact on net interest income over 3 years

Total impact on net interest income over 3 years, SEK million	Impact on profit/loss	31 Dec 2018	Impact on equity	Impact on profi
	-100 bps	+100 bps		-100 bps
Impact on net interest income (over 3 years)	122	-121		101
Impact on derivatives (instantaneous impact)	-70	70		-50
Total impact of change in short-term interest rate	52	-51	+/-1.41%	51

Impact on equity	ss 31 Dec 2017	Impact on profit/los
	+100 bps	-100 bps
	-99	101
	50	-50
+/-1.51%	-49	51

The table below shows the instantaneous impact on profit/loss of a parallel shift of 100 basis points in market interest rates.

Group interest-rate risk, items at fair value

Total items measured at fair value incl. derivatives, SEK million	Impact on profit/loss 31 Dec 2018		Impact on equity
	-100 bps	+100 bps	
Liquidity portfolio	20	-20	
Interest-rate swaps	-70	70	
Total	-50	50	+/- 1.34%

Impact on equity	ss 31 Dec 2017	Impact on profit/lo
	+100 bps	-100 bps
	-19	19
	50	-50
+/-0.96%	31	-31

Group Treasury manages and reduces these interest-rate risks by continuously hedging the Group's interest-rate exposure over the next three years through linear interest-rate derivatives denominated in SEK and EUR. Hoist Finance does not apply hedge accounting for the interest rate risk hedging.

Pursuant to accounting policies, however, the effects of interest-rate changes are taken up as income at different times. For instance, the Group's liquidity reserve and interest derivatives are measured at fair value, so changes in interest rates have an instantaneous impact on the book value and hence on Group results. Loan portfolios, on the other hand, are generally valued under the amortised cost principle, so changes in interest rates have an impact over time (rather than instantaneous) on asset value and Group results. The Group's liabilities are valued under the amortised cost principle, so changes in interest rates have an impact over time (rather than instantaneous) on Group results. hese regulate the maximum impact on earnings that can be tolerated given a parallel shift of 100 basis points of the interest-rate curve.

Hoist Finance has strict limits for maximum allowed interest-rate exposure. These regulate the maximum impact on earnings that can be tolerated given a parallel shift of 100 basis points of the interest-rate curve.

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funding, and thus not being able to meet payment obligations at maturity without a significant increase in the cost of obtaining means of payment.

Because the Group's revenues and expenses are relatively stable, liquidity risk is primarily associated with the Group's funding which is based on deposits from the public and the risk of major outflows of deposits at short notice.

The overall objective of the Group's liquidity management is to ensure that the Group maintains control over its liquidity risk situation, with

sufficient funds in liquid assets or immediately saleable assets to ensure timely discharge of its payment obligations without incurring high additional costs.

The Group has a diversified funding base with a diversified maturity structure. Funding is mainly raised in the form of deposits from the public and through the capital markets through the issuance of senior unsecured debts, own funds instruments and equity. The majority of deposits from the public are payable on demand (current account), while approximately 35 per cent (35) of the Group's deposits from the public are locked into longer maturities (fixed-term deposits) ranging from 12 to 36 months.

Details of the Group's funding base are presented in the table below.

In addition to having a diversified funding structure with respect to funding sources and maturity structure, the Group has implemented a number of measures to minimise liquidity risk:

-)) Centralised liquidity management: Management of liquidity risk is centralised and handled by Group Treasury.
- » Independent analysis: The Group's Risk Control function serves as a central unit for independent liquidity analysis. Internal Audit is responsible for inspecting the Group's liquidity control tools.
- » Continuous monitoring: The Group uses short and long-term liquidity forecasts to monitor the liquidity position and reduce liquidity risk. These forecasts are presented to management and the Board.
- » Stress testing: The Group conducts stress tests of the liquidity situation. These tests vary in nature to demonstrate the risk from multiple angles and to preclude negative results due to defects in stress test methodology.
- » Interest-rate adjustment: The size of deposits from the public can be managed by adjusting quoted interest rates.
- » Well-diversified deposit portfolio with no concentration risks: The highest savings deposit is limited to SEK 950,000.

Funding

SEK million	31 Dec 2018	31 Dec 2017	
Deposits from the public, flexible	11,041	8,580	
Deposits from the public, fixed	6,052	4,647	
Senior debt	5,950	4,355	
Additional Tier 1 capital	690	380	
Subordinated debt	839	803	
Equity	3,723	2,849	
Other	960	923	
Balance sheet total	29,255	22,537	

» Liquidity portfolio: Liquidity investments are made in low-risk, high-liquidity interest-bearing securities, which allows for rapid cash conversion if needed. The risk of large outflows is further reduced through the coverage of 99 per cent of deposits by the national deposit insurance.

As a credit institution, Hoist Finance is subject to laws and regulations covering liquidity requirements. As per 31 December 2018, Hoist Finance's liquidity reserve amounted to 25 per cent of total assets (30). The liquidity portfolio is largely made up of Swedish government and municipal bonds and covered bonds, and also includes short-term lending to other banks. Hoist Finance's short-term liquidity coverage ratio (LCR) was 473 per cent (1,010) at year-end, compared with its regulatory ratio of 100 per cent (80).

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

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 has a liquidity contingency plan for managing liquidity risk. This identifies specific events that may trigger the contingency plan and require actions to be taken. These events may include:

- » An outflow from HoistSpar of more than 10 per cent of total deposits over a 30-day period.
- » A lowering or removal of Hoist Finance's credit rating by an official rating institute.

Internal capital and liquidity adequacy assessment processes

The internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are ongoing processes carried out by the Executive Management Team, which reviews, evaluates and quantifies risks to which the Group is exposed in carrying out its business operations. This risk analysis forms the basis for ensuring that the Group has sufficient capital and liquidity to cover the regulatory requirements and to ensure a comfortable financial margin vis-à-vis the regulatory requirements.

The capital and liquidity assessment process is developed and reviewed at least once per year. The annual review focuses on ensuring that the process is always relevant to the current risk profile and to the Group's operations. The Board decides on any changes to the process, and Internal Audit verifies that the process is carried out pursuant to the Board's instructions.

The processes start with the management's business plan and budget for the coming three years. These are formalised into a forecast. The ICAAP and ILAAP use these forecasts as a starting point and, as a first step, evaluate the risks inherent in the forecasts.

ICAAP

ICAAP is Hoist Finance's internal evaluation to ensure that it has sufficient capital to meet the risks in both normal and stressed scenarios.

Credit and market risks are rigorously stress-tested to determine the extent of the losses that Hoist Finance is capable of withstanding under extremely adverse circumstances. This loss figure is then compared to the statutory capital requirement calculated according to Pillar 1. If the simulated losses exceed this amount, the excess is covered by additional Pillar 2 capital.

Operational risks are evaluated based on the company's reported incidents statistics. Once the operational risks have been quantified, the next step is calculation of the amount of capital required to cover all potential unexpected losses arising from the operational risks. The company must be able to withstand even extremely serious operational incidents. Here as well, the calculated capital requirement is compared to the statutory Pillar 1 capital requirement and any excess loss risk is covered by additional Pillar 2 provisions.

Hoist Finance conducts stress tests and sensitivity analyses of the business plan, under ICAAP and on an ongoing basis in the operations, to ensure that the Group maintains a strong financial position in relation to regulatory capital requirements under extremely adverse internal and external market conditions.

The capital requirement produced by ICAAP is used by management as a decision-making tool when making future plans for the Group. ICAAP thus adds a further dimension to the Group's decision-making above and beyond strategic and daily planning. Before being implemented, strategic plans, forecasts and immediate management decisions are always reviewed against the background of capital requirements.

The conclusions from this year's ICAAP are that Hoist Finance has sufficient capacity to withstand unexpected events without risking its solvency.

ILAAP

ILAAP is Hoist Finance's internal evaluation to ensure that the Group maintains sufficient levels of liquidity buffers and sufficient funding in light of the liquidity risks that exist. The process identifies, verifies, plans and stress-tests Hoist Finance's future funding and liquidity requirements.

Hoist Finance uses ILAAP to define the size of the liquidity buffer that the Group needs to maintain, to prevent identified liquidity risks from affecting the Group's capacity to achieve its business plan and to meet regulatory requirements (LCR/NSFR) and the limits set by the Board of Directors.

Results from this year's ILAAP show that Hoist Finance has sufficient capacity to meet unexpected liquidity risks without risking refinancing problems, and that Hoist Finance maintains a liquidity reserve sufficient to maintain continued growth.

Risk weights

The Swedish Financial Supervisory Authority (FSA) announced in mid-December its interpretation of the EU's Capital Requirement Regulation (CRR) regarding risk weights for acquired non-performing loans. The FSA's announcement represents its endorsement of the European Banking Authority's interpretation of these risk weights.

Under Article 127 of the CRR, the only write-downs taken into account are those done by Hoist Finance, not write-downs done by previous creditors. The regulation specifies a risk weight of 100 per cent for non-performing exposures written down by more than 20 per cent, and a risk weight of 150 per cent in other cases. Practically speaking, this means that Hoist Finance will need to apply a risk weight of 150 per cent for unsecured non-performing loans, as opposed to the 100 per cent model that was previously approved by the FSA. The new risk weights came into immediate effect.

Following application of the FSA's new interpretation, Hoist Finance's CET1 capital ratio was 9.66 per cent at 31 December 2018, falling within the company's target range of 9.6-11.6 per cent and exceeding the statutory capital requirement by 1.7 percentage points. Had the risk weight been maintained at 100 per cent, the CET1 capital ratio at 31 December 2018 would have been 12.97 per cent.

Note 32 Capital adequacy

The information in this Note includes information that is required to be disclosed pursuant to FFFS 2008:25, including applicable amendments, regarding annual reports for credit institutions and FFFS 2014:12, including applicable amendments, concerning supervisory requirements and capital buffers. The information refers to the Hoist Finance AB (publ) consolidated situation ("Hoist Finance") and Hoist Finance AB (publ), the regulated entity. The difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is that joint ventures are consolidated with the equity method in the consolidated accounts, whereas the proportional method is used for the consolidated situation. The following laws and regulations were applied when establishing the company's statutory capital requirements: Regulation (EU) No 575/2013 of the European Parliament and Council on prudential requirements for credit institution and investment firms: Swedish law 2014:968, Supervision of credit institutions and securities companies; and Swedish law 2014:966 on capital buffers.

These laws are aimed at ensuring that the regulated entity and its consolidated situation manages its risks and protects its customers.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own resources or debt repayment between companies and their subsidiaries.

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 until the merger on 2 January 2018, on which

date the merger was finalised. All of Hoist Kredit's assets and liabilities were transferred to Hoist Finance through the merger, and Hoist Kredit was dissolved.

Additional information on capital adequacy is available in the company's Pillar 3 report available on the Group's website: www.hoistfinance.com.

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)	
Own funds, SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Capital instruments and the related share premium accounts	1,913	1,287	1,913	483	
Retained earnings	1,005	745	199	402	
Accumulated other comprehensive income and other reserves	191	282	649	1,081	
Independently reviewed interim profits net of any foreseeable charge or $\mbox{dividend}^{\mbox{\tiny 1}}$	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 capital	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.

As presented in the above table, issued Tier 1 capital instruments and Tier 2 capital instruments are both used in calculating the Group's own funds. These instruments are described briefly below.

Additional Tier 1 capital

Additional Tier 1 capital is comprised of two issues of write-down instruments with a nominal amount of EUR 30 million and EUR 40 million, respectively, and with coupon rates of 8.625 per cent and 8 per cent, respectively. The convertibles were issued to improve Hoist Finance's capital structure. The instruments have no scheduled maturity date, although the issuer may redeem the instruments in full at specified dates. The first possible redemption dates are 21 June 2023 and 1 September 2023, respectively.

Tier 2 capital instruments

In May 2017 Hoist Finance issued a subordinated loan of EUR 80 million, which is included as Tier 2 capital in Hoist Finance's own funds. The

subordinated loan matures on 19 May 2027 with possibility for early redemption after five years and carries a fixed coupon rate of 3.875 per cent. The instrument is listed on the Dublin Stock Exchange.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own resources or debt repayment between companies and their subsidiaries.

Additional information on capital adequacy is available in the company's Pillar 3 report available on the Group's website: www.hoistfinance.

Revaluation reserve

Hoist Finance's own funds include a revaluation reserve of SEK 66 million in other reserves, of which SEK 64 million pertains to a revaluation of shares in subsidiary Hoist Finance UK Ltd during 2013 and SEK 2 million pertains to revaluation of acquired loan portfolios.

Note 32 Capital adequacy, cont

Capital requirement

The tables below show the risk-weighted exposure amounts and own funds requirements per risk category for Hoist Finance and the regulated entity Hoist Finance AB (publ).

	Hoist Finance consolidated situation Hoist Finance AB (publ)			
Risk-weighted exposure amounts, SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Exposures to central governments or central banks	0	0	0	(
Exposures to regional governments or local authorities or agencies	0	0	0	(
Exposures to institutions	355	381	161	15
of which, counterparty credit risk	48	54	48	5-
Exposures to corporates	142	136	15,286	10,93
Retail exposures	75	16	69	1
Exposures secured by mortgages on immovable property	402		112	
Exposures in default	28,919	15,349	7,667	2,49
Exposures in the form of covered bonds	363	369	363	36
Equity exposures			722	2,14
Other items	117	145	51	4
Credit risk (standardised approach)	30,373	16,396	24,431	16,15
• •				
Market risk (foreign exchange risk - standardised approach)	25	113	25	113
Operational risk (standardised approach)	3,670	3,158	1,430	1,12
Credit valuation adjustment (standardised approach)	53	27	53	2
Total risk-weighted exposure amount	34,121	19,694	25,939	17,42
	Hoist Fir consolidated		Hoist Finance	AB (publ)
Capital requirements, SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Pillar 1				
Exposures to central governments or central banks	0	0	0	
Exposures to regional governments or local authorities or agencies	0	0	0	
Exposures to institutions	28	30	13	1
of which, counterparty credit risk	4	4	4	
Exposures to corporates	11	11_	1,223	87
Retail exposures	6	1_	6	
Exposures secured by mortgages on immovable property	32		9	
Exposures in default	2,313	1,228	613	20
Exposures in the form of covered bonds	29	30	29	3
Equity exposures	-	-	58	17
Other items	9	12	4	
Credit risk (standardised approach)	2,428	1,312	1,955	1,29
Market risk (FX risk - standardised approach)	2	9	2	
Operational risk (standardised approach)	294	253	114	9
Credit valuation adjustment (standardised approach)	4	2	4	
Total own funds requirement – Pillar 1	2,728	1,576	2,075	1,39
Billow 2				
Pillar 2	245	404	245	40
Concentration risk	215	131	215	13
Interest-rate risk in the banking book	54	36	54	3
Pension risk	3	3	3	
Other Pillar 2 risks	31	26	31	2
Total own funds requirement – Pillar 2	303	196	303	19
Capital buffers				
	853	492	649	43
Capital conservation buffer	033			
Capital conservation buffer Countercyclical buffer	103	11	73	;
<u>'</u>		11 503	73 722	444

Note 32 Capital adequacy, cont

Capital ratios and capital buffers

Regulation (EU) No 575/2013 of the European Parliament and the Council requires credit institutions to maintain Common Equity Tier 1 capital of at least 4.5 per cent, Tier 1 capital of at least 6 per cent and a total capital ratio (capital in relation to risk-weighted exposure amount) of 8 per cent. Credit institutions are also required to maintain specific capital buffers. Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk-weighted

exposure amount and an institutional specific countercyclical buffer of 0.3 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.

		Hoist Finance consolidated situation		Hoist Finance AB (publ)	
Capital ratios and capital buffers, %	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
CET1 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 CET1 requirements	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 buffer requirement	0.30	0.05	0.28	0.05	
CET1 capital available to meet buffers¹)	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 33 Related-party transactions

The information below, presented from Hoist Finance's perspective, shows the way in which Hoist Finance's financial information has been affected by transactions with related parties.

GROUP Other related parties Senior executives

SEK million	2018	2017
Operating expenses		
Other expenses ¹⁾	-2	-7

MODERBOLAGET

	Group co	Group companies		Other related parties	
SEK million	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	
Assets					
Short-term receivables	392	193	-	-	
Long-term receivables	14,790	-	-	-	
Liabilities					
Short-term liabilities	385	280	9	8	

MODERBOLAGET

	Group compa	anies	Other related parties Senior executives	
SEK million	2018	2017	2018	2017
Net interest income				
Interest income	692	29	_	-
Interest expense	-4	-4	-	-
Operating income				
Dividends received	1,947	180	_	-
Other operating income	301	243	-	-
Operating expenses				
Other operating expenses ¹⁾	-73	-217	_	_

¹⁾ Specification of other expenses	Other relat	GROUP Other related parties Senior executives		
SEK thousand	2018	2017		
Alpha Leon AB	-	-263		
Carrara Communication AB	-296	-789		
CDW Konsult AB	-263	-526		
Co Go Consulting AB	-1,002	-3,134		
I. Bonde AB	-	-986		
J&S Rubin AB	-271	-482		
Firma Liselotte Hjorth	-296	-812		
Malin Eriksson Consulting Services	-172	-		
Uggla Advisory AB	-	-241		
Total	-2,300	-7,233		

The above amounts comprise fees including social security contributions.

${\color{red}\textbf{Note 34}} \ \ \textbf{Reconciliation of alternative performance measures}$

EBITDA, adjusted

SEK million	Full year 2018	Full year 2017
Profit for the year	590	453
+ Income tax expense	165	128
+/- Net result from financial transactions	-43	50
+ Interest expense	351	305
- Interest income (excl. interest from run-off performing portfolio)	15	14
+ Portfolio revaluations		-11
-/+ Impairment gains and losses	-261	
+ Depreciation and amortisation of tangible and intangible assets	61	56
EBITDA	878	995
+ Amortisation on run-off portfolio		11
+ Amortisation on acquired loan portfolios		2,244
+ Gross cash collections on acquired loan portfolios	5,533	
- Interest income on acquired loan portfolios	-2,800	
EBITDA, adjusted	3,611	3,250

Return on equity, adjusted for items affecting comparability

SEK million	Full year 2018	Full year 2017
Equity	4,413	3,228
Additional Tier 1 capital	-690	-380
Reversal of interest expense paid for AT1 capital	42	28
Reversal of items affecting comparability ⁽¹⁾⁽²⁾	9	102
Total equity	3,774	2,978
Total equity (quarterly average)	3,277	2,752
Profit for the year	590	453
Reversal of items affecting comparability ^{1) 2)}	9	102
Estimated annual profit	599	555
Adjustment of interest on AT1 capital	-59	-40
Adjusted annual profit	540	515
Return on equity, %	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.

Not 35 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	Remeasu- rement	New 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	778
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

Note 36 Critical estimates and assumptions

The Management and the Board of Directors have discussed the developments, choices and disclosures regarding the Group's critical accounting policies and estimates as well as the application of these policies and estimates. They have also discussed and assessed future assumptions and other important sources of uncertainty in the assumptions as per the balance-sheet date that may represent a substantial risk for material restatements of the carrying amounts in the financial statements in the coming financial years. Certain critical estimates have been made through the application of the Group's accounting policies described below.

Measurement of acquired loan portfolios

As indicated in Note 16 "Acquired loan portfolios", the recognition of acquired non-performing loans is based on the Group's own forecast of future cash flows from acquired portfolios. Although the Group historically has had good forecast accuracy with regard to cash flows, future deviations cannot be ruled out. The Group applies internal rules and a formalised decision-making process for the adjustment of previously adopted cash flow forecasts. The internal rules are based on a constant fifteen-year period. The effective interest rate for acquired credit-impaired loan portfolios is based on the initial cash flow forecast specified at acquisition date.

The company also acquired performing loans, for which both effective interest rate and cash flow are subject to the contractual obligations defined at acquisition. The effective interest rate is based here as well on initial expected future cash flows as per the customer contract, discounted by the purchase price. Cash flows are regularly adjusted as receivables are paid or customer terms and conditions are renegotiated.

The measurement of the expected credit loss (ECL) for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). A number of assessments are required in applying the accounting requirements for measuring ECL, such as:

- >>> Determining criteria for significant increase in credit risk
-)) Choosing appropriate models and assumptions for the measurement of ECL
-)) Establishing the number and relative weightings of forward-looking scenarios for each market

Detailed information about these estimates and assumptions is included in Note 31 "Risk management".

Changes in tax expenses

Hoist Finance operates cross-border and manages its consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is therefore exposed to potential tax risks arising from varying interpretation and application of existing laws, treaties, regulations, and guidance in areas including income tax and VAT (Value Added Tax).

Additional Tier 1 capital

Hoist Finance's additional Tier 1 capital (AT1 capital) comprises depreciable perpetual debt instruments. Hoist Finance has no obligation to pay cash or other financial assets to the holders of the instruments, in other words, Hoist Finance has a unilateral and unconditional right to choose not to make payments. Therefore, AT1 capital does not comprise a financial liability, and is instead recognised as equity.

Note 37 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.

Hoist Finance SAS with Hoist Finance AB (publ)

SEK million	
Cash and interest-bearing securities	78
Other assets	9
Total assets	87
Other liabilities	45
Equity	42
Total liabilities and equity	87

The merger result in Hoist Finance AB (publ), which is recognised in equity, amounts to profit of SEK 35 million.

Note 38 Appropriation of profits

According to the Parent Company's balance sheet, the following unappropriated earnings are at the disposal of the Annual General Meeting:

SEK

2,611,246 646,744,036
2,611,246
223,897,938
2,964,067,323

The Board of Directors proposes that unappropriated earnings be distributed as follows:

SEK

Total	3 837 320 543
Retained earnings	873,253,220
To be carried forward: Other contributed capital	2,964,067,323

1) Unrealised changes in assets and liabilities at fair value have had a net impact on equity of SEK 108 million in accordance with Chapter 4, section 14 of the Swedish Annual Accounts Act.

The Board of Directors propose to the Annual Shareholders meeting 2019 that no dividend will be paid to the shareholders for the financial year 1 January – 31 December 2018. The Board of Directors considers that this deviation from the established dividend policy will contribute to strengthen the company's CET1 ratio and support further growth in 2019.

Malin Eriksson

Board member

Jörgen Olsson

Board member

Joakim Rubin

Board member

Certification of the Board of Directors

The Board of Directors and the CEO certify that the Annual Report has been prepared in accordance with generally accepted accounting policies in Sweden, and the consolidated accounts in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated accounts provide a true and fair presentation of the Parent Company's and the Group's financial position and performance. The Parent Company's and the Group's Administration Reports provide a true and fair account of the development of the respective entities' business, financial position and performance, and accurately describe the significant risks and uncertainties faced by the Parent Company and Group companies.

Stockholm, 3 April 2019

Ingrid Bonde Chair of the Board

Cecilia Daun Wennborg Board member

Liselotte Hjorth

Board member

Marcial Portela Board member

Gunilla Öhman Board member

> Klaus-Anders Nysteen CEO

Our audit report was submitted on 3 April 2019.

KPMG AB

Anders Bäckström **Authorised Public Accountant** Auditor in charge

Auditor's Report

To the general meeting of the shareholders of Hoist Finance AB (publ), corp. id 556012-8489

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hoist Finance AB (publ) for the year 2018, except for the corporate governance statement on pages 52–63 and the sustainability report on pages 10–11, 21–24 and 36–42. The annual accounts and consolidated accounts of the company are included on pages 10–11, 21–24, 36–42 and 46–127 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 52–63 and sustainability report on pages 10–11, 21–24 and 36–42. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the FU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Assessment of future collection from acquired loan portfolios / valuation and revenue recognition

See disclosures in Note 1, Note 2, Note 3, Note 15, Note 16, Note 31 and Note 36 and accounting principles on pages 73, 75, 76 and 77 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The carrying value of acquired loan portfolios amounts to SEK 20,605 million per 31 December, 2018 corresponding to 70 percent of the Group's total assets. Acquired loan portfolios consist of credit-impaired receivables of SEK 19,596 million and not credit-impaired receivables of SEK 1,009 million.

The portfolios are valued at amortized cost based on the effective interest method. Net interest income from acquired loan portfolios is calculated, with the exception of portfolios with credit impaired receivables, by applying the initial effective interest rate to the receivable's carrying amount.

Calculation of credit losses differs between credit-impaired and non-credit-impaired loans. For credit-impaired receivables, expected credit losses consist partly of collection differences, ie the difference between forecasted cash flows and actual collection in the current period, and partly of revaluations.

Loss allowance for credit-impaired receivables, as well as the calculation of the effective interest rate, are determined based on 15-year forecasted cash flows. The Group uses cash flow models to estimate the value of portfolios. Given the nature of the loan portfolios significant judgement is required to estimate future cash flows. The projections include assumptions about what amounts are possible to collect and the timing of collection. The latter is dependent on the management's chosen strategy of collection. If management changes its assessment or strategy, the cash flow model is adjusted.

Non-impaired receivables are valued according to the expected credit loss model that IFRS 9 prescribes and which is based on changes in the credit quality since initial recognition.

In view of the large element of complexity and assessments in the cash flow models as well as in the models for non credit-impaired receivables, this represents a key audit matter.

Response in the audit

We have read the descriptions and assessed the appropriateness of the Group's policies, procedures and key controls related to loss allowances as well as tested these controls on a sample basis to assess the effectiveness of applied procedures.

We have read analysis made of the accuracy of the forecasted cash flows in comparison with actual outcomes of cash flows taking into account cash collected and timing of collections. We have also on a sample basis performed own analysis. When discrepancies were noted, we followed up on how this affected the Group's assessment of future projected cash flows. We have also reviewed and assessed whether these analyses and calibrations were carried out by management at the appropriate level and were appropriately approved.

Collection differences have on a sample basis been verified to

We have, on a sample basis, tested the calculations made in the Group's system used for the accounting of portfolios and of the transfer of data between central systems.

Furthermore, we have considered the circumstances disclosed in the notes to the financial statements and evaluated whether the information provided is sufficiently detailed to understand management's assessments and the key assumptions used.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–45 and 131–132. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The

Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- » Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- » Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- » Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- » Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that

may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.

- » Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Dobtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hoist Finance AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

-)) has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- ") in any other way has acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions

that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 52–63 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 10–11, 21–24 and 36–42 that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Hoist Finance AB (publ) by the general meeting of the shareholders on the 16 May 2018. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2013.

Stockholm 3 April 2019 KPMG AB **Anders Bäckström** Authorized Public Accountant

Definitions

Alternative performance measures

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

Acquired loans

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

Acquired loan portfolios

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

Additional Tier 1 capital

Capital instruments and associated share premium reserves that fulfil the requirements of Regulation (EU) 575/2013 and that may accordingly be included in the Tier 1 capital.

Average number of employees

Average number of employees during the year converted to full-time posts (FTEs). The calculation is based on the total average number of FTEs per month divided by the year's twelve months.

Basic earnings per share

Net profit for the year, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares.

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, 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 year, 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.

EBITDA, adjusted

EBIT (operating earnings), less depreciation/ impairments, 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 (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 affecting comparability are defined as items that disturb comparison in the sense that their occurrence and/or scale has an irregularity that does not apply to other items.

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 (comparative periods)

The sum of collections from acquired loan portfolios and income from the run-off consumer loan portfolio, less portfolio amortization and revaluation, calculated according to IAS 39.

Non-performing loans (NPLs)

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

Number of employees (FTEs)

Number of employees at the end of the year 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 average assets during the year.

Return on equity

Net profit for the year adjusted for accrued unpaid interest on AT1 capital, divided by equity adjusted for AT1 capital reported in equity, calculated as an average for the financial year based on a quarterly basis.

Risk exposure amount

The risk weight of each exposure multiplied by the exposure amount.

MEs

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 exposure amount.

Tier 2 capital

Capital instruments and the related share premium accounts that meet the requirements of Regulation (EU) 575/2013 and that may accordingly be included in own funds.

Total revenue

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

Total capital ratio

Own funds as a percentage of the total risk exposure amount.

Weighted average number of shares outstanding

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

Shareholder information

Investor Relations

Hoist Finance's Investor Relations department is responsible for providing relevant information to – and being available for talks and meetings with – shareholders, investors, analysts and the media.

During the year Hoist Finance conducted a number of international road shows and participated in numerous capital market activities. The company also held regular analyst meetings.

Analysts who continuously monitor Hoist Finance

Carnegie	Viktor Lindeberg
Citibank	Borja Ramirez
Morgan Stanley	Anil Sharma
Nordea	Ermin Keric
Pareto Securities	Vegard Toverud
SEB	Ramil Koria

Annual General Meeting

The AGM of the shareholders of Hoist Finance AB (publ) will be held on Thursday 16 May 2019, at 11:00 a.m. CET, at The Royal Coin Cabinet, Slottsbacken 6, Stockholm, Sweden. Registration will open at 10:30 a.m. CET.

Notification of attendance

Shareholders who wish to attend the AGM must be listed in the shareholders' register maintained by Euroclear Sweden AB by no later than Friday 10 May 2019 and notify the company of their intention to attend no later than Friday 10 May 2019.

The notification must include the share-holder's name, address, phone number, the number of shares held and the number of assistants attending (maximum of two). The notification should be sent to:

Hoist Finance AB (publ)
Annual General Meeting
Box 7848
SE-103 99 Stockholm, Sweden or
arsstamma@hoistfinance.com

Nominee shareholders wishing to vote at the AGM must temporarily register the shares in their own names in the shareholders' register maintained by Euroclear Sweden AB. Registration should be completed in good time prior to Friday 10 May 2019.

Annual report

Hoist Finance's annual reports and other financial information are available at www.hoistfinance.com

Financial calendar 2019

Interim reports:

January-March14 May 2019January-June30 July 2019January-September5 November 2019

Every care has been taken in the translation of this annual report to English. However, in the event of discrepancies, the Swedish original will supersede the English translation.



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