

Interim report

Q3 2020

The daily interactions with customers have continued seamlessly, and collection performance is improving and costs are reduced.”

Klaus-Anders Nysteen, CEO

Events during the quarter

- » Collection performance is improving
- » Solid capital and liquidity management
- » Reduced cost levels, good traction in cost savings programme
- » Launch of a new platform to support customers with financial planning

Subsequent events

- » The Swedish FSA has assessed and concluded that Significant Risk Transfer (SRT) is achieved in Hoist Finance's securitisations
- » Jarkko Heinonen new Chief Digital Officer and member of Executive Management Team

78%

C/I ratio excluding items affecting comparability

Target 65%

10.44%

CET1 ratio

9%

Return on equity

Target > 15%

-1%

Portfolio growth over the last 12-month period

Key ratios¹⁾

SEK m	Quarter 3 2020	Quarter 3 2019	Change, %	Jan-Sep 2020	Jan-Sep 2019	Change, %	Full-year 2019
Total operating income	679	698	-3	1,720	2,269	-24	3,038
Profit/loss before tax	140	146	-4	14	602	-98	748
Net profit/loss	110	140	-21	-8	495	-102	605
Basic and diluted earnings per share, SEK	0.98	1.39	-29	-0.81	5.01	-116	6.07
Net interest income margin, %	12	13	-1 pp	12	13	-1 pp	13
C/I ratio, %	80	80	0 pp	99	74	25 pp	76
Return on equity, %	9	12	-3 pp	-2	15	-17 pp	13
Portfolio acquisitions	264	689	-62	871	2,964	-71	5,952
EBITDA, adjusted	1,039	1,029	1	3,156	3,298	-4	4,414

SEK m	30 Sep 2020	31 Dec 2019	Change, %
Acquired loans	22,432	24,513	-8
Gross 180-month ERC	34,717	38,874	-11
Total capital ratio, %	16.14	14.01	2.13 pp
CET1 ratio, %	10.44	9.94	0.50 pp
Liquidity reserve	7,652	8,024	-5
Number of employees (FTEs)	1,630	1,575	3

1) See Definitions.

Improved skills and capabilities

The terms *resilient* and *robust* characterise the third quarter. Dealing with the pandemic has continued to be a very high priority, and around 70 per cent of our colleagues are still working remotely. Despite this, the daily interactions with customers have continued through digital and analogue channels, and I am very proud of the work that we have done to help people keep their commitments. On a monthly basis, we have around 500,000 customer interactions and, according to feedback from our customers, they are receiving important and relevant support from us. After a peak in May, the number of conversations including the topic of Covid-19 have declined steadily.

Since implementing the mitigating actions aimed to address regulatory changes that were introduced in late 2018 and early 2019, we have moved into secured NPLs as well as performing loans. This has helped us in these unpredictable times. The performing and secured non-performing loans are characterised by low risk and stable cash flows, and the secured collections were very strong during the quarter. For our unsecured NPL portfolios, there are some differences between markets, but overall the performance is at or above forecast. All markets have improved since the previous quarter and the total collection performance was 108 per cent in the third quarter. I am happy to see collection performance improving in the quarter, but we are mindful of the uncertainties from the second wave of Covid-19 and new potential lockdowns in our markets.

Digital leader

Our aim to become the digital leader has also proven more important than ever. Not only were we able to quickly adapt to the new environment with most colleagues working from home, but we have also been able to support our customers in a better way through digital channels. Year to date, our chatbot Kai has managed 15,500 customer queries without referring to a human agent, only in the UK. Through our self-service portals and customer oriented market sites, we have also launched new tools to help customers get a better view of their financial health. In the UK, we now have a benefit tracker that enables customers to check if they receive the benefits they are entitled to. They can also conduct a financial health check and manage their household bills in order to reduce expenditures. This functionality will be rolled out to other markets soon. These are some of the ways in which we want to be by our customers' side on their way back to financial inclusion.

Staying true to our values

We also collaborate with external initiatives that share our values. Our partnerships with Team U in Germany and ONSbank in the Netherlands are particularly important and relevant right now. Team U develops an online portal helping consumers and small and medium-sized businesses in Germany to manage financial difficulties and insolvency. By supporting them, we help increasing their ability to extend their reach. Together with ONSbank in the Netherlands, Hoist Finance is helping young people to regain control of their debts and finances. These partnerships are firmly linked to our mission and strategy, and are an important part of our commitment to support the UN's Sustainability Goals. On behalf of Hoist Finance, I am proud to have submitted our first Communication of Progress reporting to UN Global Compact.

Cost savings starting to materialise

In Hoist Finance, we are committed to our financial targets to deliver above 15 per cent RoE and C/I ratio below 65 per cent. As we are becoming more effective and efficient, we are also growing through investments across asset classes. The baseline for our cost program is 2018 and the cost for running our unsecured NPL business. The SEK 400m in cost savings in 2019-2022 will offset the cost of growth and cost inflation in this period, but will also give real nominal cost reductions measured against our comparable 2018 baseline. Consequently, delivering productivity gains and C/I ratio below 65 per cent. I am happy to see the improvements now materialising, and we will see continued cost savings from our



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We have around 500,000 customer interactions per month through various channels and, according to feedback from our customers, they are receiving important and relevant support from us.

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Shared Service Centre in Poland, nearshoring capabilities in Romania, a simplified legal structure, outsourcing of IT infrastructure and site consolidation.

Ready to support

Looking ahead, there is little doubt that the number of non-performing exposures in Europe are growing. Banks are increasing their provisioning and we expect this volume to come to the secondary market. The pipeline looks promising and the market outlook is positive. We remain ready to help banks manage their balance sheets and customers to keep their commitments.

To meet future demand, we need to ensure a long-term sustainable and robust business model. We have established a strong team to deliver on an IRB model and implement securitisations. We are also pleased that the Swedish Financial Supervisory Authority has assessed and concluded that Significant Risk Transfer (SRT) is achieved in our securitisations.

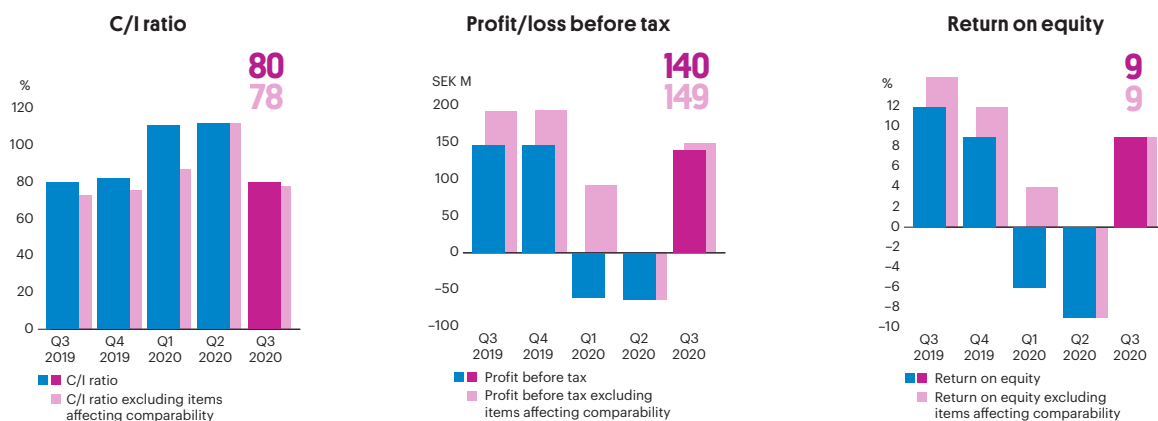
I was hoping to be able to travel to our markets to see clients and colleagues after the summer. However, as the second wave of the pandemic has hit Europe, I continue to work either from the Stockholm office or from home. In Hoist Finance we take the challenge of keeping moral and engagement up seriously. Going forward, I am sure that the experiences from the pandemic will add to our skills and capabilities. New ways of working, new digital solutions and more flexibility are some of the take-aways. As with our customers, I look forward to staying engaged with you via old and new channels.

Best regards,

Klaus-Anders Nysteen
CEO

Developments during third quarter 2020

Comparative figures for developments during third quarter 2020 pertain to third quarter 2019.



Operating income

Interest income on acquired loan portfolios decreased during the quarter to SEK 791m (836), driven mainly by the low volume of portfolio acquisitions during the first three quarters of the year. Other interest income totalled SEK 1m (-2). Interest expense for the quarter increased to SEK -146m (-138). The increase is attributable to increased interest expense for deposits from the public following a shift in Germany towards deposit of longer durations, and to higher deposit guarantee scheme costs.

Impairment gains and losses totalled SEK 1m (12) during Q3 and include realised collections against forecast during the period, as well as forward-looking portfolio revaluations. Collections against forecast totalled SEK 107m (20) during the quarter, of which SEK 69m pertains to secured portfolios and SEK 38m to unsecured portfolios. Portfolio revaluations during the quarter totalled SEK -106m (-7), of which SEK -85m pertains to secured portfolios and SEK -21m to unsecured portfolios. With respect to the secured portfolios, the revaluations are mainly attributable to a secured French portfolio for which collections were made ahead of forecast. This contributed to the strong collection performance during the current period, while also reducing the expected future cash flow. The quarter's realised collections correspond to 108 per cent of forecast, whereof 103 per cent relates to unsecured portfolios.

Fee and commission income decreased to SEK 23m (29). The decrease is attributable to the closure of third-party collection services in the UK announced during the second quarter. Net result from financial transactions during the quarter totalled SEK 4m (-45). The bonds in the liquidity portfolio had a positive unrealised value increase during the quarter, while currency effects contributed negatively. Other operating income totalled SEK 5m (8).

Operating expenses

Personnel expenses decreased during the quarter to SEK -225m (-236). The decrease is attributable to the success of investments in the shared service centre in Poland and nearshoring in Romania, which enabled a reduction in personnel expenses in line with the cost savings programme. Collection costs decreased SEK 21m during the quarter to SEK -157m (-178), due in part to the impact Covid-19 has had on opportunities to pursue legal claims in court. The cost reduction is also a result of efficiency measures and digital investments.

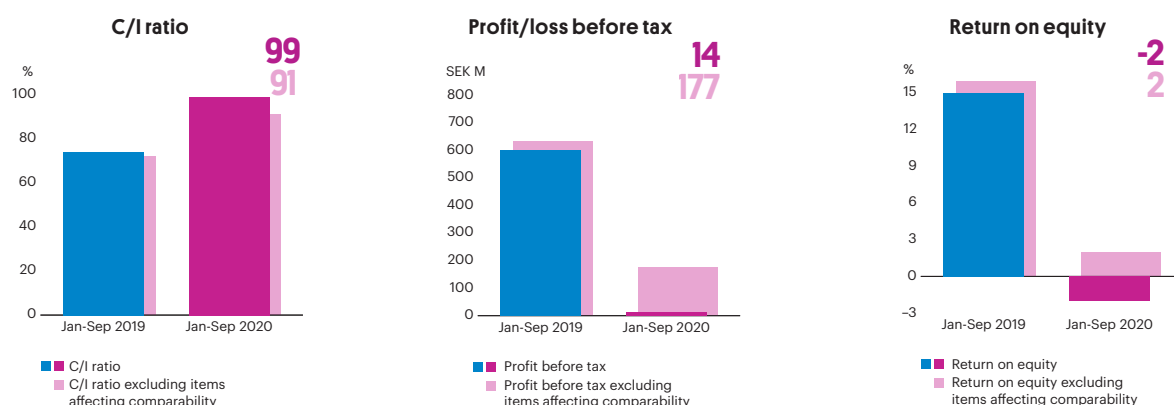
Administrative expenses increased during the quarter to SEK -138m (-123). The cost increase is primarily related to IT outsourcing and the ongoing Group-wide digitalisation initiative. Change initiatives are expected to reduce collection and personnel cost levels over time. Depreciation and amortisation of tangible and intangible assets totalled SEK -29m (-31).

Profit/loss for the period

Share of profit from joint ventures totalled SEK 10m (16). Income tax expense for the period totalled SEK -30m (-6), corresponding to an effective tax rate of 21.3 per cent (4.1). Net profit/loss totalled SEK 110m (140).

Developments during the January-September 2020 period

Comparative figures for developments during the January-September 2020 period pertain to January-September 2019.



Operating income

Interest income on acquired loan portfolios totalled SEK 2,525m (2,494) during the period. The increase is mainly related to portfolio acquisitions of secured loans in France, conducted during Q4 2019. Other interest income totalled SEK 6m (1). Interest expense increased to SEK -444m (-346). The increase is primarily attributable to the securitisation of Italian loan portfolios conducted during Q4 2019, and to increased interest expense for deposits from the public following an increase in deposit volumes in Germany and Sweden for longer duration deposits.

Impairment gains and losses totalled SEK -409m (98), constituting the current period's realised collections against forecast as well as forward-looking portfolio revaluations.

Portfolio revaluations during the period totalled SEK -507 m (-115) and are mainly attributable to the revaluation of portfolios in Spain during Q1 and to revaluations conducted during Q2 related to Covid-19 and its impact on collections. Collections against forecast totalled SEK 100m (213), with collections during Q3 in particular exceeding projected levels.

Fee and commission income decreased to SEK 75m (91). The decrease is attributable to the closure of third-party collection services in the UK announced during the second quarter.

Net result from financial transactions totalled SEK -45m (-80). The result was strongly impacted by falling market rates during the first and second quarters, as Hoist Finance hedges its exposure to rising interest rates. Exchange rate effects of SEK -7m also had a negative impact on the result. Hoist Finance maintains a large liquidity buffer comprised of high credit quality bonds. The market value of this type of bond increased during the year, producing unrealised gains of SEK 8m. Other operating income totalled SEK 13m (17) during the year.

Operating expenses

Personnel expenses increased to SEK -673m (-664). The increase is attributable to investments in the shared service centre in Poland and nearshoring in Romania, which initially resulted in cost increases but are expected to lower personnel expenses over time.

Collection costs decreased SEK 37m during the period to SEK -519m (-556), due partly to efficiency measures and digital investments. The cost reduction is also attributable to the impact Covid-19 has had on opportunities to pursue legal claims in court.

Administrative expenses increased during the quarter to SEK -460m (-387). The cost increase is related to IT outsourcing and the Group-wide digitalisation initiative. Change initiatives are expected to reduce collection and personnel cost levels over time. Depreciation and amortisation of tangible and intangible assets totalled SEK -98m (-92).

Net profit for the January-September period

Profit from participations in joint ventures totalled SEK 44m (32).

Income tax expense for the period totalled SEK -22m (-107). The effective tax rate was 153.3 per cent (17.8) and is primarily affected by non-deductible interest expenses for Tier 2 capital included in own funds, non-deductible expenses for fair value hedging of shares in subsidiaries, and a tax amount of SEK -7m attributable to previous years.

Net profit totalled SEK -8m (495).

Balance sheet

Comparative figures for the Balance sheet pertain to December 31 2019.

Total assets decreased SEK 2,676m as compared with 31 December 2019 and totalled SEK 31,711m (34,387). The change is primarily attributable to a decrease of SEK –2,058m in acquired loan portfolios, a result of low acquisition volumes as well as exchange rate effects.

Cash and interest-bearing securities decreased SEK –518m, while other assets decreased SEK –100m.

SEK m	30 Sep 2020	31 Dec 2019	Change, %
Cash and interest-bearing securities	8,055	8,573	–6
Acquired loan portfolios	22,245	24,303	–8
Other assets ¹⁾	1,411	1,511	–7
Total assets	31,711	34,387	–8
Deposits from the public	18,870	21,435	–12
Issued securities	5,645	5,900	–4
Subordinated debt	854	852	0
Total interest-bearing liabilities	25,369	28,187	–10
Other liabilities ¹⁾	1,149	1,302	–12
Equity	5,193	4,898	6
Total liabilities and equity	31,711	34,387	–8

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

Total interest-bearing debt amounted to SEK 25,369m (28,177). The change is mainly attributable to deposits from the public, which decreased SEK –2,565m. The decrease in deposits is due to reduced deposit rates in accordance with the financing plan. 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 11,050m (12,243), of which SEK 5,629m (6,400) is attributable to fixed term deposits of one-, two- and three-year durations. In Germany, deposits to retail customers are offered under the Hoist Finance name. At 30 September 2020, deposits from the public in Germany were SEK 7,820m (9,192), of which SEK 7,395m (6,163) is attributable to fixed term deposits on one- to five-year durations.

At 30 September 2020, the outstanding bond debt totalled SEK 6,499m (6,752), of which SEK 5,645m (5,900) was comprised of issued securities. The change in issued securities is mainly attributable to the expiration of commercial paper previously issued by Hoist Finance. Commercial paper totalled SEK 313m at 31 December 2019. Accrued interest also contributed to the reduction in outstanding bond debt. Other liabilities decreased SEK –153m to SEK 1,149m (1,302).

Equity totalled SEK 5,193m (4,898). The increase is mainly due to a capital contribution during the first quarter.

Cash flow

Comparative figures for the Cash flow pertain to third quarter 2019.

SEK m	Quarter 3 2020	Quarter 3 2019	Full-year 2019
Cash flow from operating activities	646	678	3,117
Cash flow from investing activities	–23	–657	–5,098
Cash flow from financing activities	–1,120	5,181	3,923
Cash flow for the period	–497	5,202	1,942

Cash flow from operating activities totalled SEK 646m, as compared with SEK 678m during Q3 2019. Amortisation of acquired loan portfolios decreased during the quarter and totalled SEK 652m (713), with the decrease attributable to a reduction in expected collections and interest income and to low portfolio growth during 2020. Cash flow from other assets and liabilities amounted to SEK –159m (–354), the majority of which pertains to realised cash flows for FX hedging.

Cash flow from investing activities totalled SEK –23m (–657). Portfolio acquisition activity was low during the quarter due to Covid-19, totalling SEK –264m (–689). Hoist Finance sold bonds and other securities during the quarter for a net total of SEK 252m (509). Other cash flow within investing activities totalled SEK –11m (–16).

Cash flow from financing activities totalled –1,120m (5,181). There is less need for funding due to Covid-19, and Hoist Finance has elected to lower the interest rate on deposits for most products. This resulted in desired outflows during the quarter. Net cash flow from deposits from the public totalled SEK –1,043m (3,123) during the quarter. Buy-back and repayment of issued securities during the quarter totalled –28m (–212) and pertains to repayment of notes in securitisation company Marathon SPV S.r.l. Other cash flow from financing activities totalled SEK –49m (–46) and pertains to interest paid on additional Tier 1 capital instruments and to amortisation of lease liability.

Total cash flow for the period amounted to SEK –497m, as compared with SEK 5,202m for third quarter 2019.

Significant risks and uncertainties

Hoist Finance is exposed to a number of uncertainties through its business operations and as a result of its broad geographical presence. New and amended bank regulations may affect Hoist Finance both directly (e.g. via Basel IV capital and liquidity regulations) and indirectly through the impact of similar regulations on the market's supply of loan portfolios. During the quarter, the SFSA announced proposed amendments in the regulatory framework for calculation of Pillar 2 capital requirements. 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.

The impact of Covid-19 on Hoist Finance's operations is outlined in the Development of risks section below. For additional details on the Company's management of significant risks and uncertainties, please refer to the 2019 Annual Report.

Development of risks

Credit risk for Hoist Finance's loan portfolios is regularly monitored to assess ways in which the challenging situation caused by Covid-19 is impacting the portfolios' valuation. The value of several loan portfolios was written down during the first and second quarters due to lower collection rates in the wake of Covid-19. Due to uncertainty concerning the duration of the current situation, there is still an increased risk that additional write-downs of loan portfolios will be made in coming quarters. In order to diversify the existing stock of assets in a positive way from a risk perspective, Hoist Finance will continue to assess new opportunities to acquire portfolios of non-performing secured loans as well as portfolios of performing loans.

Credit risk in the liquidity portfolio remains low, as investments are made in government, municipal and covered bonds of high credit quality. Credit spreads increased early in the year, contributing to losses in the liquidity portfolio. Credit spreads in bonds held by Hoist Finance stabilised during the second and third quarters and the risk has returned to more normal levels.

Hoist Finance has an internal framework which serves as the foundation for follow-up and oversight of the Group's operational risks. The Group is committed to continuously improving the quality of its internal procedures to minimise operational risks. A significant number of Hoist Finance employees continued to work remotely during the quarter. This is not deemed to have any material impact on operational risks. The level of operational risks is therefore deemed to be unchanged from the previous quarter.

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

During the summer the Swedish FSA presented a new method for Pillar 2 risks to calculate market risks in the banking book. The proposed method may have a negative impact on Hoist Finance, with higher capital requirements for these risks. Hoist Finance has, together with other financial institutions, answered the request from SFSA in August, with data and feedback on the method. Hoist Finance has since then a continuous dialogue with SFSA regarding the method and its effects.

Liquidity risk was low during the quarter. Hoist Finance's liquidity reserve exceeds Group targets by a healthy margin.

In parallel with its work to develop capital market instruments for risk transfer to external counterparties, Hoist Finance is pursuing its application for a permit to apply an internal ratings-based (IRB) approach to calculate risk-weighted assets with regard to credit risk.

Other disclosures

Parent Company

Comparative figures for the Parent Company pertain to third quarter 2019.

Net interest income for the Parent Company totalled SEK 271m (331) during the third quarter. The decrease is mainly attributable to reduced interest income from intra-group loans, resulting from external financing of Italian loan portfolios through the securitisation conducted last year. Interest expense increased SEK -7m due mainly to greater deposit volumes in the German market and higher deposit guarantee scheme costs.

Net operating income totalled SEK 341m (319). Net result from financial transactions amounted to SEK 3m (-75) and was mainly attributable to exchange rate fluctuations for assets and liabilities in foreign currencies and to market value fluctuations for bonds. Other operating income totalled SEK 66m (54) and is mainly attributable to management fees invoiced to subsidiaries.

Operating expenses totalled SEK -292m (-320). The decrease is attributable to personnel expenses, which were impacted by restructuring costs in the French operations during the comparative period, and to lower collection costs resulting from the impact Covid-19 has had on acquisition levels and opportunities to pursue legal claims in court. Profit before credit losses totalled SEK 49m (-1).

Impairment losses of SEK 0m (6) are attributable to the difference between actual and projected collections, to portfolio revaluations and to loss allowances for performing loans. Share of profit from joint ventures totalled SEK 13m (17).

Net profit for the period totalled SEK 48m (28). Tax expense for the period totalled SEK -14m (6) and was positively affected by a tax amount of SEK 2m attributable to previous years.

Related-party transactions

The nature and scope of related-party transactions remain unchanged from 31 December 2019 and are described in the Annual Report.

Group structure

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

Hoist Finance AB (publ) is a credit market company under the supervision of the Swedish FSA. The operating Parent Company, including its subgroup, acquires and holds loan portfolios, which are managed by the Group's subsidiaries or foreign branch offices. These units also provide commission-based administration services to third parties.

The remaining 80 per cent of the Romanian company Maran CSRO S.r.l was acquired during the first quarter, as part of the establishment of a near-shoring office in Romania. The company is fully consolidated in the consolidated financial statements. The acquisition price totalled SEK 7m.

Italian subsidiaries Nouva Maran S.r.l and Hoist Italia S.r.l merged during third quarter 2020. Two branch offices were opened during the quarter, with Romanian operations conducted through branch office Hoist Finance AB (publ) Romania and Polish operations through Hoist Finance AB (publ) Poland. Both the subsidiary and the branches are fully consolidated in the Hoist Finance Group financial statements.

For a more detailed description of the Group's legal structure, please refer to the 2019 Annual Report.

The share and shareholders

The number of shares totalled 89,303,000 at 30 September 2020, unchanged from 31 December 2019.

The share price closed at SEK 31.56 on 30 September 2020. A breakdown of the ownership structure is presented in the table below. As at 30 September 2020 the Company had 7,633 shareholders, compared with 7,429 at 31 December 2019.

Ten largest shareholders, 30 September 2020	Share of capital and votes, %
Erik Selin Fastigheter AB	14.0
Swedbank Robur Funds	9.1
Avanza Pension	7.8
Per Arwidsson privately and through companies	6.8
C WorldWide Asset Management	4.9
Confederation of Swedish Enterprise	3.4
Jörgen Olsson privately and through companies	2.9
Dimensional Fund Advisors	2.9
BlackRock	2.6
Per Josefsson privately and through companies	2.2
Ten largest shareholders	56.6
Other shareholders	43.4
Total	100.0

Source: Modular Finance AB per 30 September 2020; ownership statistics from Holdings, Euro-clear Sweden AB; and changes confirmed and/or registered by the Company.

Nomination Committee

In accordance with established instructions, the Nomination Committee shall be comprised of the three largest shareholders along with the Chairman of the Hoist Finance Board. The Nomination Committee is currently comprised of the Chairman of the Board in Hoist Finance and members appointed by Swedbank Robur Funds, Erik Selin Fastigheter AB and Arwidssro. The term of office for Committee members runs until a new committee is appointed. Ahead of the 2021 Annual General Meeting, Nomination Committee members have been appointed based on the ownership structure as per 31 August 2020.

Review

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

Subsequent event

The Swedish FSA has assessed and concluded that SRT is achieved in our securitisations.

Jarkko Heinonen new Chief Digital Officer and member of Executive Management Team.

Quarterly review

SEK million	Quarter 3 2020	Quarter 2 2020	Quarter 1 2020	Quarter 4 2019	Quarter 3 2019
Interest income acquired loan portfolios	791	842	892	865	836
Other interest income	1	4	1	-3	-2
Interest expense	-146	-134	-164	-149	-138
Net interest income	646	712	729	713	696
Impairment gains and losses	1	-232	-178	22	12
Fee and commission income	23	27	26	30	29
Net result from financial transactions	4	4	-53	1	-45
Derecognition gains and losses	0	0	-1	-3	-2
Other operating income	5	2	6	5	8
Total operating income	679	513	529	768	698
General and administrative expenses					
Personnel expenses	-225	-229	-219	-211	-236
Collection costs	-157	-157	-205	-231	-178
Other administrative expenses	-138	-170	-153	-180	-123
Depreciation and amortisation of tangible and intangible assets	-29	-38	-30	-29	-31
Total operating expenses	-549	-594	-607	-651	-568
Net operating profit/loss	130	-81	-78	117	130
Share of profit from joint ventures	10	17	17	30	16
Profit/loss before tax	140	-64	-61	147	146
Income tax expense	-30	-9	17	-36	-6
Net profit/loss for the period	110	-73	-44	111	140

Key ratios¹⁾

SEK m	Quarter 3 2020	Quarter 2 2020	Quarter 1 2020	Quarter 4 2019	Quarter 3 2019
Profit/loss before tax	140	-64	-61	147	146
Items affecting comparability ²⁾	9	-	153	47	47
Profit/loss before tax adjusted for items affecting comparability ²⁾	149	-64	92	194	193
Net interest income margin, %	12	12	12	12	13
C/I ratio, %	80	112	111	82	80
C/I ratio adjusted for items affecting comparability ²⁾ , %	78	112	87	76	73
Return on equity, %	9	-9	-6	9	12
Return on equity adjusted for items affecting comparability ³⁾ , %	9	-9	4	12	15
Portfolio acquisitions	264	62	545	2,988	689
EBITDA adjusted ⁴⁾	1,039	812	1,304	1,116	1,029

SEK m	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019
Acquired loans	22,432	22,765	24,906	24,513	22,604
Gross 180-month ERC	34,717	35,642	39,305	38,874	36,595
Total capital ratio, %	16.14	15.64	14.83	14.01	14.87
CET1 ratio, %	10.44	10.05	9.52	9.94	10.29
Liquidity reserve	7,652	8,385	9,437	8,024	12,671
Number of employees (FTEs)	1,630	1,649	1,655	1,575	1,544

1) See Definitions.

2) Items affecting comparability, excluding tax, amounting to SEK -9m and relate to restructuring costs in Italy and Great Britain.

3) Return on equity has been adjusted for items affecting comparability amounting to SEK -7m, including tax.

4) As of 2020 we will present this key ratio on a quarterly basis.

The financial fact book, available on hoistfinance.com/investors/financial-information/, provides details on items affecting comparability for comparative periods.

Financial statements

Consolidated income statement

SEK m	Note	Quarter 3 2020	Quarter 3 2019	Jan–Sep 2020	Jan–Sep 2019	Full-year 2019
Interest income acquired loan portfolios ¹⁾		791	836	2,525	2,494	3,359
Other interest income ²⁾		1	–2	6	1	–2
Interest expense		–146	–138	–444	–346	–494
Net interest income		646	696	2,087	2,149	2,863
Impairment gains and losses		1	12	–409	98	120
Fee and commission income		23	29	75	91	121
Net result from financial transactions		4	–45	–45	–80	–79
Derecognition gains and losses		0	–2	–1	–6	–9
Other operating income		5	8	13	17	22
Total operating income	3	679	698	1,720	2,269	3,038
Personnel expenses		–225	–236	–673	–664	–875
Collection costs		–157	–178	–519	–556	–787
Other administrative expenses		–138	–123	–460	–387	–568
Depreciation and amortisation of tangible and intangible assets		–29	–31	–98	–92	–122
Total operating expenses	3	–549	–568	–1,750	–1,699	–2,352
Net operating profit/loss		130	130	–30	570	686
Share of profit from joint ventures	3	10	16	44	32	62
Profit/loss before tax	3	140	146	14	602	748
Income tax expense		–30	–6	–22	–107	–143
Net profit/loss		110	140	–8	495	605
Profit/loss attributable to:						
Owners of Hoist Finance AB (publ)		87	124	–73	447	542
Additional Tier 1 capital holders		23	16	65	48	63
Basic and diluted earnings per share SEK		0.98	1.39	–0.81	5.01	6.07

1) Interest income from acquired loan portfolios are in total calculated using the effective interest method for all viewed periods.

2) Of which interest income calculated using the effective interest method amounted to SEK 0.1m (1.6) during quarter 3, SEK 1.7m (3.9) during Jan–Sep and SEK 5.5m during full-year.

Consolidated statement of comprehensive income

SEK m	Quarter 3 2020	Quarter 3 2019	Jan–Sep 2020	Jan–Sep 2019	Full-year 2019
Net profit/loss for the period	110	140	–8	495	605
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit or loss					
Revaluation of defined benefit pension plan	–	–	–	–	–3
Revaluation of remuneration after terminated	–	–	1	–	–1
Tax attributable to items that will not be reclassified to profit or loss	–	–	–	–	1
Total items that will not be reclassified to profit or loss	–	–	1	–	–3
Items that may be reclassified subsequently to profit or loss					
Translation difference, foreign operations	–4	6	–51	34	32
Translation difference, joint ventures	–2	–4	–11	1	–1
Hedging of currency risk in foreign operations	3	–31	4	–77	–114
Hedging of currency risk in joint ventures	2	2	6	–7	–8
Transferred to the income statement during the year	1	2	5	7	9
Tax attributable to items that may be reclassified to profit or loss	–1	6	–2	18	26
Total items that may be reclassified subsequently to profit or loss	–1	–19	–49	–24	–56
Other comprehensive income for the period	–1	–19	–48	–24	–59
Total comprehensive income for the period	109	121	–56	471	546
Profit/loss attributable to:					
Owners of Hoist Finance AB (publ)	86	105	–121	423	483
Additional Tier 1 capital holders	23	16	65	48	63

Consolidated balance sheet

SEK m	Note	30 Sep 2020	31 Dec 2019	30 Sep 2019
ASSETS				
Cash		0	0	0
Treasury bills and Treasury bonds	5	2,077	2,729	7,436
Lending to credit institutions	5	2,358	3,075	2,397
Lending to the public	5	8	10	12
Acquired loan portfolios	3,4	22,245	24,303	22,394
Bonds and other securities	5	3,620	2,769	3,077
Shares and participations in joint ventures	3	179	201	201
Intangible assets		370	382	382
Tangible assets		289	269	295
Other assets		376	511	496
Deferred tax assets		89	32	29
Prepayments and accrued income		100	106	115
Total assets		31,711	34,387	36,834
LIABILITIES AND EQUITY				
Liabilities				
Deposits from the public	5	18,870	21,435	21,925
Tax liabilities		122	86	143
Other liabilities		609	823	728
Deferred tax liabilities		140	150	204
Accrued expenses and deferred income		208	154	184
Provisions		70	89	92
Debt securities issued	5	5,645	5,900	7,868
Subordinated debts		854	852	868
Total liabilities		26,518	29,489	32,012
Equity				
Additional Tier 1 capital holders		1,106	690	690
Share capital		30	30	30
Other contributed equity		1,883	1,883	1,883
Reserves		-307	-258	-226
Retained earnings including profit/loss for the period		2,481	2,553	2,445
Non-controlling interest		-	0	0
Total equity		5,193	4,898	4,822
Total liabilities and equity		31,711	34,387	36,834

Consolidated statement of changes in equity

SEK m	Additional Tier1 capital holders	Share capital	Other contributed equity	Reserves	Retained earnings including profit/loss for the period	Total equity
Opening balance 1 Jan 2020	690	30	1,883	-258	2,553	4,898
Comprehensive income for the period						
Loss for the period					-8	-8
Other comprehensive income				-49	1	-48
Total comprehensive income for the period				-49	-7	-56
Transactions reported directly in equity						
Additional Tier 1 capital instrument	414 ¹⁾					414
Interest paid on capital contribution					-60	-60
Share-based payments					3 ²⁾	3
Acquisition agreement for treasury shares					-8 ³⁾	-8
Tax effect on items reported directly in equity	2					2
Total transactions reported directly in equity	416	0	0	0	-65	351
Closing balance 30 Sep 2020	1,106	30	1,883	-307	2,481	5,193

1) Nominal amount of SEK 423m was reduced by transaction costs of SEK 9m.

2) For more information on Share-based payment, see Hoist Finance Annual report 2019.

3) To secure the delivery of treasury shares in the LTIP program.

SEK m	Additional Tier1 capital holders	Share capital	Other contributed capital	Reserves	Retained earnings including profit/loss for the period	Non-controlling interest	Total equity
Opening balance 1 Jan 2019	690	30	1,883	-202	2,012		4,413
Comprehensive income for the period							
Profit for the period					605		605
Other comprehensive income				-56	-3		-59
Total comprehensive income for the period				-56	602		546
Transactions reported directly in equity							
Interest paid on capital contribution					-62		-62
Share-based payments					1		1
Change in non-controlling interests ¹⁾						0	0
Total transactions reported directly in equity					-61	0	-61
Closing balance 31 Dec 2019	690	30	1,883	-258	2,553	0	4,898

1) Attributable to securitisation of Italian loan portfolios. Pinzolo SPV S.r.l is liquidated.

SEK m	Additional Tier1 capital holders	Share capital	Other contributed capital	Reserves	Retained earnings including profit/loss for the period	Non-controlling interest	Total equity
Opening balance 1 Jan 2019	690	30	1,883	-202	2,012		4,413
Comprehensive income for the period							
Profit for the period					495		495
Other comprehensive income				-24			-24
Total comprehensive income for the period				-24	495		471
Transactions reported directly in equity							
Interest paid on capital contribution					-62		-62
Total transaction reported directly in equity						0	0
Closing balance 30 Sep 2019	690	30	1,883	-226	2,445	0	4,822

1) Attributable to securitisation of Italian loan portfolios. Pinzolo SPV S.r.l is liquidated.

Consolidated cash flow statement summary

SEK m	Quarter 3 2020	Quarter 3 2019	Jan–Sep 2020	Jan–Sep 2019	Full-year 2019
Profit/loss before tax	140	146	14	602	748
– of which, paid-in interest	798	842	2,539	2,510	3,365
– of which, interest paid	–84	–52	–330	–193	–374
Adjustment for other items not included in cash flow	84	245	617	354	208
Realised result from divestment of shares and participations in joint ventures	–13	–16	–43	–45	–60
Income tax paid/received	–58	–56	–62	–82	–190
Total	153	319	526	829	706
Amortisations on acquired loan portfolios	652	713	2,159	2,235	3,040
Increase/decrease in other assets and liabilities	–159	–354	452	–578	–629
Cash flow from operating activities	646	678	3,137	2,486	3,117
Acquired loan portfolios	–264	–689	–871	–2,964	–5,952
Investments in/divestments of bonds and other securities	252	48	–852	557	866
Other cash flows from investing activities	–11	–16	–31	–21	–12
Cash flow from investing activities	–23	–657	–1,754	–2,428	–5,098
Deposits from the public	–1,043	3,123	–2,709	4,428	4,204
Debt securities issued	–	2,316	–	2,942	3,450
Repurchase and repayment of Debt securities issued	–28	–212	–408	–1,393	–3,629
Additional Tier 1 capital	–	–	414	–	–
Other cash flows from financing activities	–49	–46	–104	–91	–102
Cash flow from financing activities	–1,120	5,181	–2,807	5,886	3,923
Cash flow for the period	–497	5,202	–1,424	5,944	1,942
Cash at beginning of the period	4,905	4,614	5,804	3,840	3,840
Translation difference	27	17	55	49	22
Cash at end of the period¹⁾	4,435	9,833	4,435	9,833	5,804

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

Parent Company income statement

SEK m	Quarter 3 2020	Quarter 3 2019	Jan–Sep 2020	Jan–Sep 2019	Full-year 2019
Interest income	402	455	1,281	1,375	1,813
Interest expense	–131	–124	–397	–331	–458
Net interest income	271	331	884	1,044	1,355
Dividends received	–	10	–	10	10
Fee and commission income	1	1	3	4	5
Net result from financial transactions	3	–75	–93	–119	–147
Derecognition gains and losses	0	–2	–1	–6	–8
Other operating income	66	54	224	173	232
Total operating income	341	319	1,017	1,106	1,447
Personnel expenses	–95	–117	–291	–307	–393
Other administrative expenses	–185	–190	–598	–535	–767
Depreciation and amortisation of tangible and intangible assets	–12	–13	–43	–38	–49
Total operating expenses	–292	–320	–932	–880	–1,209
Profit before credit losses	49	–1	85	226	238
Impairment gains and losses	0	6	–71	41	56
Share of profit from joint ventures	13	17	49	45	71
Net operating profit/loss	62	22	63	312	365
Appropriations	–	–	–	–	–47
Taxes	–14	6	–42	–52	–121
Net profit/loss	48	28	21	260	197

Parent company statement of comprehensive income

SEK m	Quarter 3 2020	Quarter 3 2019	Jan–Sep 2020	Jan–Sep 2019	Full-year 2019
Net profit/loss	48	28	21	260	197
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss					
Translation difference, foreign operations	0	0	0	0	0
Tax attributable to items that may be reclassified to profit or loss	0	–	0	–	–
Total items that may be reclassified subsequently to profit or loss	0	0	0	0	0
Other comprehensive income for the period	0	0	0	0	0
Total comprehensive income for the period	48	28	21	260	197
Profit/loss attributable to:					
Owners of Hoist Finance AB (publ)	25	12	–44	212	134
Additional Tier 1 capital holders	23	16	65	48	63

Parent Company balance sheet

SEK m	30 Sep 2020	31 Dec 2019	30 Sep 2019
ASSETS			
Cash	0	0	0
Treasury bills and Treasury bonds	2,077	2,729	7,436
Lending to credit institutions	1,382	1,455	1,251
Lending to the public	8	13	15
Acquired loan portfolios	6,856	7,394	5,764
Receivables, Group companies	15,449	17,432	15,334
Bonds and other securities	3,620	2,769	3,077
Shares and participations in subsidiaries	900	807	779
Shares and participations in joint ventures	13	16	17
Intangible assets	186	186	182
Tangible assets	40	29	31
Other assets	267	290	334
Deferred tax assets	2	2	0
Prepayments and accrued income	40	55	52
Total assets	30,840	33,177	34,272
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	18,870	21,435	21,925
Tax liabilities	89	33	90
Other liabilities	917	912	1,099
Deferred tax liabilities	2	2	3
Accrued expenses and deferred income	81	60	86
Provisions	41	53	58
Debt securities issued	5,219	5,431	5,730
Subordinated debts	854	852	868
Total liabilities and provisions	26,073	28,778	29,859
Untaxed reserves	268	268	221
Equity			
Restricted equity			
Share capital	30	30	30
Statutory reserve	13	13	13
Revaluation reserve	72	74	74
Development expenditure fund	3	5	5
Total restricted equity	118	122	122
Non-restricted equity			
Additional Tier 1 capital holders	1,106	690	690
Share premium	1,883	1,883	1,883
Reserves	3	3	3
Retained earnings	1,368	1,236	1,235
Profit/loss for the period	21	197	260
Total unrestricted equity	4,381	4,009	4,071
Total equity	4,499	4,131	4,193
Total liabilities and equity	30,840	33,177	34,272

Notes to the financial statements

Note 1 Accounting principles

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

The 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. The Swedish Financial Board's RFR 2, Accounting for Legal Entities, is also applied.

Change in accounting principles 2020

As from 1 January 2020 the amendments to IAS 39, IFRS 9 and IFRS 7 came into effect, which were made due to uncertainty arising from the ongoing interest rate benchmark reform (IBOR reform).

The amendments that are made and planned to be carried out have no effect on Hoist Finance's accounting principles as the risks that Hoist Finance elects to apply hedge accounting for do not include interest rate exposed cash flows.

Other IFRS amendments

No other IFRS or IFRIC Interpretations that came into effect in 2020 had any significant impact on the Group's financial reports or capital adequacy.

As regards equity in the balance sheet, Hoist Finance have accounted separately for additional Tier 1 capital and have moved shareholders' contributions from other contributed capital to retained earnings in order to improve transparency. Comparative figures have been adjusted.

In all other material respects, the Group's and Parent Company's accounting principles, bases for calculation and presentation remain unchanged from those applied in the 2019 annual report.

Critical estimates and assumptions

Hoist Finance continuously monitors the development of the Group's loan portfolios and markets and the ways in which these are impacted by Covid-19. In terms of performing loans, Hoist Finance has not found any reason to adjust our model assumptions due to Covid-19.

In terms of credit-impaired loans, new assumptions have been made based on lower expected collection performance during the next few quarters. This decrease is expected to be recovered in part through increased collections in later quarters, and to some degree constitute a permanent loss.

See Developments during the January – September 2020 period for more information.

There have been no other changes to the previous estimates, assumptions and assessments presented in the 2019 Annual Report.

Note 2 Exchange rates

	Quarter 3 2020	Quarter 3 2019	Full-year 2019
1 EUR = SEK			
Income statement (average)	10.5569	10.5646	10.5850
Balance sheet (at end of the period)	10.5410	10.7287	10.4336
1 GBP = SEK			
Income statement (average)	11.9450	11.9670	12.0706
Balance sheet (at end of the period)	11.5204	12.0696	12.2145
1 PLN = SEK			
Income statement (average)	2.3886	2.4561	2.4628
Balance sheet (at end of the period)	2.3297	2.4517	2.4445
1 RON=SEK			
Income statement (average)	2.1872	–	2.2305
Balance sheet (at end of the period)	2.1634	–	2.1814

Note 3 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 Functions. This Central Functions item pertains to the net income for intra-group financial transactions.

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

With respect to the balance sheet, only acquired loan portfolios are monitored. Other assets and liabilities are not monitored on a segment-by-segment basis.

Income statement, Quarter 3, 2020

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Eliminations	Group
Total operating income	134	178	63	95	87	102	19	1	679
<i>of which, internal funding costs</i>	-50	-34	-14	-37	-11	-15	161	-	0
Total operating expenses	-78	-114	-52	-42	-44	-57	-162	0	-549
Share of profit from joint ventures	-	-	-	-	-	-2	12	-	10
Profit before tax	56	64	11	53	43	43	-131	1	140

Income statement, Quarter 3, 2019

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Eliminations	Group
Total operating income	132	255	87	132	30	73	6¹⁾	-17	698
<i>of which, internal funding costs</i>	-57	-29	-16	-42	-6	-18	168	-	0
Total operating expenses	-87	-127	-56	-49	-56	-62	-136	5	-568
Share of profit from joint ventures	-	-	-	-	-	1	15	-	16
Profit before tax	45	128	31	83	-26	12	-115	-12	146

1) Dividend from subsidiaries SEK 10m.

Income statement, Jan–Sep, 2020

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Eliminations	Group
Total operating income	349	526	221	264	210	112	39	-1	1,720
<i>of which, internal funding costs</i>	-162	-112	-44	-120	-33	-47	518	-	0
Total operating expenses	-247	-352	-161	-136	-130	-205	-519	0	-1,750
Share of profit from joint ventures	-	-	-	-	-	6	38	-	44
Profit before tax	102	174	60	128	80	-87	-442	-1	14

Income statement, Jan–Sep, 2019

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Eliminations	Group
Total operating income	428	710	258	338	83	354	118¹⁾	-20	2,269
<i>of which, internal funding costs</i>	-173	-107	-47	-118	-19	-54	518	-	0
Total operating expenses	-280	-381	-166	-133	-123	-196	-430	10	-1,699
Share of profit from joint ventures	-	-	-	-	-	-	32	-	32
Profit before tax	148	329	92	205	-40	158	-280	-10	602

1) Dividend from subsidiaries SEK 10m.

Note **3** Segment reporting, cont.**Income statement, Full-year, 2019**

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Eliminations	Group
Total operating income	590	931	350	446	125	469	153¹⁾	-26	3,038
<i>of which, internal funding costs</i>	-233	-156	-63	-161	-28	-71	712	-	0
Total operating expenses	-375	-506	-221	-192	-162	-281	-631	16	-2,352
Share of profit from joint ventures	-	-	-	-	-	9	53	-	62
Profit before tax	215	425	129	254	-37	197	-425	-10	748

1) Dividend from subsidiaries SEK 10m.

Acquired loans, 30 Sep 2020

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Group
Run-off consumer loan portfolio	-	-	8	-	-	-	-	8
Acquired loan portfolios	5,500	5,908	2,094	3,509	2,653	2,581	-	22,245
Shares and participations in joint ventures ¹⁾	-	-	-	-	-	-	179	179
Acquired loans	5,500	5,908	2,102	3,509	2,653	2,581	179	22,432

1) Refers to the value of shares and participations in joint ventures in Poland with acquired loan portfolios and is therefore not equivalent to corresponding item in the balance sheet.

Acquired loans, 31 Dec 2019

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Group
Run-off consumer loan portfolio	-	-	10	-	-	-	-	10
Acquired loan portfolios	6,303	6,165	2,172	3,865	2,827	2,971	-	24,303
Shares and participations in joint ventures ¹⁾	-	-	-	-	-	-	200	200
Acquired loans	6,303	6,165	2,182	3,865	2,827	2,971	200	24,513

1) Refers to the value of shares and participations in joint ventures in Poland with acquired loan portfolios and is therefore not equivalent to corresponding item in the balance sheet.

Acquired loans, 30 Sep 2019

SEK m	United Kingdom	Italy	Germany	Poland	France	Other countries	Central Functions	Group
Run-off consumer loan portfolio	-	-	12	-	-	-	-	12
Acquired loan portfolios	6,143	6,195	2,233	3,667	1,164	4,156	-	22,394
Shares and participations in joint ventures ¹⁾	-	-	-	-	-	-	198	198
Acquired loans	6,143	6,195	2,245	3,667	1,164	4,156	198	22,604

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 4 Acquired loan portfolios

SEK m	GROUP			PARENT COMPANY		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Gross carrying amount	22,312	23,921	22,027	6,799	7,267	5,649
Loss allowance	-67	382	367	57	127	115
Net carrying amount	22,245	24,303	22,394	6,856	7,394	5,764

Acquired credit-impaired loan portfolios, 30 Sep 2020

SEK m	GROUP			PARENT COMPANY		
	Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Opening balance 1 Jan 2020	23,009	387	23,396	6,922	130	7,052
Acquisitions	871	-	871	277	-	277
Interest income	2,476	-	2,476	773	-	773
Gross collections	-4,577	-	-4,577	-1,546	-	-1,546
Impairment gains and losses	-	-408	-408	-	-71	-71
Disposals	40	-40	0	-	-	-
Translation differences	-322	-1	-323	71	1	72
Closing balance 30 Sep 2020	21,497	-62	21,435	6,497	60	6,557

Acquired credit-impaired loan portfolios, 31 Dec 2019

SEK m	GROUP			PARENT COMPANY		
	Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	19,334	262	19,596	5,133	63	5,196
Acquisitions	5,952	-	5,952	2,647	-	2,647
Interest income	3,271	-	3,271	936	-	936
Gross collections	-6,179	-	-6,179	-1,877	-	-1,877
Impairment gains and losses	-	122	122	-	67	67
Disposals	0	-	0	-	-	-
Translation differences	631	3	634	83	0	83
Closing balance 31 Dec 2019	23,009	387	23,396	6,922	130	7,052

Note 4 Acquired loan portfolios

Acquired credit-impaired loan portfolios, 30 Sep 2019

SEK m	GROUP			PARENT COMPANY		
	Gross carrying amount	Loss allowance	Net carrying amount	Gross carrying amount	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	19,334	262	19,596	5,133	63	5,196
Acquisitions	2,964	–	2,964	627	–	627
Interest income	2,426	–	2,426	690	–	690
Gross collections	–4,557	–	–4,557	–1,386	–	–1,386
Impairment gains and losses	–	100	100	–	52	52
Translation differences	917	9	926	227	3	230
Closing balance 30 Sep 2019	21,084	371	21,455	5,291	118	5,409

Acquired performing loan portfolios, 30 Sep 2020

SEK m	GROUP					
	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2020	912	–1	0	–4	–5	907
Interest income	49	–	–	–	–	49
Amortisations and interest payments	–106	–	–	–	–	–106
Changes in risk parameters	–	0	0	–1	–1	–1
Derecognitions	–1	–	–	–	–	–1
Translation differences	–38	0	0	0	0	–38
Closing balance 30 Sep 2020	816	–1	0	–5	–6	810

Acquired performing loan portfolios, 31 Dec 2019

SEK m	GROUP					
	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	1,012	–2	0	–1	–3	1,009
Interest income	88	–	–	–	–	88
Amortisations and interest payments	–220	–	–	–	–	–220
Changes in risk parameters	–	1	0	–3	–2	–2
Derecognitions	–9	–	–	–	–	–9
Translation differences	41	0	0	0	0	41
Closing balance 31 Dec 2019	912	–1	0	–4	–5	907

Note 4 Acquired loan portfolios, cont.

**Acquired performing loan portfolios,
30 Sep 2019**

GROUP

SEK m	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	1,012	-2	0	-1	-3	1,009
Interest income	69	-	-	-	-	69
Amortisations and interest payments	-172	-	-	-	-	-172
Changes in risk parameters	-	1	0	-2	-1	-1
Derecognitions	-7	-	-	-	-	-7
Translation differences	41	0	0	0	0	41
Closing balance 30 Sep 2019	943	-1	0	-3	-4	939

**Acquired performing loan portfolios,
30 Sep 2020**

PARENT COMPANY

SEK m	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2020	345	0	0	-3	-3	342
Interest income	15	-	-	-	-	15
Amortisations and interest payments	-40	-	-	-	-	-40
Changes in risk parameters	-	0	0	-	0	0
Derecognitions	-1	-	-	-	-	-1
Translation differences	-18	0	0	0	0	-18
Closing balance 30 Sep 2020	301	0	0	-3	-3	298

**Acquired performing loan portfolios,
31 Dec 2019**

PARENT COMPANY

SEK m	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	399	-1	0	-1	-2	397
Interest income	34	-	-	-	-	34
Amortisations and interest payments	-107	-	-	-	-	-107
Changes in risk parameters	-	1	0	-2	-1	-1
Derecognitions	-8	-	-	-	-	-8
Translation differences	27	0	0	0	0	27
Closing balance 31 Dec 2019	345	0	0	-3	-3	342

**Acquired performing loan portfolios,
30 Sep 2019**

PARENT COMPANY

SEK m	Gross carrying amount	Stage 1 12M ECL	Stage 2 LECL	Stage 3 LECL	Loss allowance	Net carrying amount
Opening balance 1 Jan 2019	399	-1	0	-1	-2	397
Interest income	27	-	-	-	-	27
Amortisations and interest payments	-87	-	-	-	-	-87
Changes in risk parameters	-	1	0	-2	-1	-1
Derecognitions	-6	-	-	-	-	-6
Translation differences	25	0	0	0	0	25
Closing balance 30 Sep 2019	358	0	0	-3	-3	355

Note 5 Financial instruments

Carrying amount and fair value of financial instruments

GROUP, 30 SEP 2020

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	2,077	–	–	2,077	2,077
Lending to credit institutions	–	–	–	2,358	2,358	2,358
Lending to the public	–	–	–	8	8	8
Acquired loan portfolios	–	–	–	22,245	22,245	23,135
Bonds and other securities	–	3,620	–	–	3,620	3,620
Derivatives	–	–	98 ¹⁾	–	98	98
Other financial assets	–	–	–	253	253	253
Total	–	5,697	98	24,864	30,659	31,549
Deposits from the public	–	–	–	18,870	18,870	18,870
Derivatives	42	–	8 ¹⁾	–	50	50
Debt securities issued	–	–	–	5,645	5,645	5,668
Subordinated debt	–	–	–	854	854	721
Other financial debts	–	–	–	741	741	741
Total	42	–	8	26,110	26,160	26,050

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Carrying amount and fair value of financial instruments

GROUP, 31 DEC 2019

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	2,729	–	–	2,729	2,729
Lending to credit institutions	–	–	–	3,075	3,075	3,075
Lending to the public	–	–	–	10	10	10
Acquired loan portfolios	–	–	–	24,303	24,303	25,820
Bonds and other securities	–	2,769	–	–	2,769	2,769
Derivatives	41	–	66 ¹⁾	–	107	107
Other financial assets	–	–	–	367	367	367
Total	41	5,498	66	27,755	33,360	34,877
Deposits from the public	–	–	–	21,435	21,435	21,435
Derivatives	29	–	6 ¹⁾	–	35	35
Debt securities issued	–	–	–	5,900	5,900	6,209
Subordinated debt	–	–	–	852	852	840
Other financial debts	–	–	–	896	896	896
Total	29	–	6	29,083	29,118	29,415

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Note **5** Financial instruments, cont.

Carrying amount and fair value of financial instruments

GROUP, 30 SEP 2019

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	7,436	–	–	7,436	7,436
Lending to credit institutions	–	–	–	2,397	2,397	2,397
Lending to the public	–	–	–	12	12	12
Acquired loan portfolios	–	–	–	22,394	22,394	23,976
Bonds and other securities	–	3,077	–	–	3,077	3,077
Derivatives	32	–	–	–	32	32
Other financial assets	–	–	–	366	366	366
Total	32	10,513	–	25,169	35,714	37,296
Deposits from the public	–	–	–	21,925	21,925	21,925
Derivatives	83	–	64 ¹⁾	–	147	147
Debt securities issued	–	–	–	7,868	7,868	8,088
Subordinated debt	–	–	–	868	868	858
Other financial debts	–	–	–	802	802	802
Total	83	–	64	31,463	31,610	31,820

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Carrying amount and fair value of financial instruments

PARENT COMPANY, 30 SEP 2020

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	2,077	–	–	2,077	2,077
Lending to credit institutions	–	–	–	1,382	1,382	1,382
Lending to the public	–	–	–	8	8	8
Acquired loan portfolios	–	–	–	6,856	6,856	7,230
Receivables, Group companies	–	11	–	15,438	15,449	15,468
Bonds and other securities	–	3,620	–	–	3,620	3,620
Derivatives	–	–	98 ¹⁾	–	98	98
Other financial assets	–	–	–	155	155	155
Total	–	5,708	98	23,839	29,645	30,038
Deposits from the public	–	–	–	18,870	18,870	18,870
Derivatives	42	–	8 ¹⁾	–	50	50
Debt securities issued	–	–	–	5,219	5,219	5,209
Subordinated debt	–	–	–	854	854	721
Other financial debts	–	–	–	929	929	929
Total	42	–	8	25,872	25,922	25,779

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Note **5** Financial instruments, cont.

Carrying amount and fair value of financial instruments

PARENT COMPANY, 31 DEC 2019

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	2,729	–	–	2,729	2,729
Lending to credit institutions	–	–	–	1,455	1,455	1,455
Lending to the public	–	–	–	13	13	13
Acquired loan portfolios	–	–	–	7,394	7,394	7,940
Receivables, Group companies	–	9	–	17,423	17,432	17,432
Bonds and other securities	–	2,769	–	–	2,769	2,769
Derivatives	41	–	66 ¹⁾	–	107	107
Other financial assets	–	–	–	173	173	173
Total	41	5,507	66	26,458	32,072	32,618
Deposits from the public	–	–	–	21,435	21,435	21,435
Derivatives	29	–	6 ¹⁾	–	35	35
Debt securities issued	–	–	–	5,431	5,431	5,703
Subordinated debt	–	–	–	852	852	840
Other financial debts	–	–	–	911	911	911
Total	29	–	6	28,629	28,664	28,924

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Carrying amount and fair value of financial instruments

PARENT COMPANY, 30 SEP 2019

SEK m	Assets/liabilities recognised at fair value through profit or loss		Hedging instrument	Amortised cost	Total carrying amount	Fair value
	Held for trading	Mandatorily				
Cash	–	–	–	0	0	0
Treasury bills and treasury bonds	–	7,436	–	–	7,436	7,436
Lending to credit institutions	–	–	–	1,251	1,251	1,251
Lending to the public	–	–	–	15	15	15
Acquired loan portfolios	–	–	–	5,764	5,764	6,259
Receivables, Group companies	–	113	–	15,221	15,334	15,334
Bonds and other securities	–	3,077	–	–	3,077	3,077
Derivatives	32	–	–	–	32	32
Other financial assets	–	–	–	224	224	224
Total	32	10,626	–	22,475	33,133	33,628
Deposits from the public	–	–	–	21,925	21,925	21,925
Derivatives	83	–	64 ¹⁾	–	147	147
Debt securities issued	–	–	–	5,730	5,730	5,953
Subordinated debt	–	–	–	868	868	858
Other financial debts	–	–	–	1,089	1,089	1,089
Total	83	–	64	29,612	29,759	29,972

1) Derivatives recognised as hedging instruments is valued at fair value through other comprehensive income.

Note 5 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

Level 3)

on markets that are not active, or other valuation techniques in which all important input data is directly or indirectly observable in the market.

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 measurements

SEK m	GROUP, 30 SEP 2020				PARENT COMPANY, 30 SEP 2020			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
Treasury bills and Treasury bonds	2,077	–	–	2,077	2,077	–	–	2,077
Bonds and other securities	3,620	–	–	3,620	3,620	–	–	3,620
Receivables, Group companies ¹⁾	–	–	–	–	–	–	11	11
Derivatives	–	98	–	98	–	98	–	98
Total assets	5,697	98	–	5,795	5,697	98	11	5,806
Derivatives	–	50	–	50	–	50	–	50
Total liabilities	–	50	–	50	–	50	–	50

1) Receivables from Group companies pertain junior notes issued by the subsidiary Marathon SPV S.r.l valued at fair value.

SEK m	GROUP, 31 DEC 2019				PARENT COMPANY, 31 DEC 2019			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
Treasury bills and Treasury bonds	2,729	–	–	2,729	2,729	–	–	2,729
Bonds and other securities	2,769	–	–	2,769	2,769	–	–	2,769
Receivables, Group companies ¹⁾	–	–	–	–	–	–	9	9
Derivatives	–	107	–	107	–	107	–	107
Total assets	5,498	107	–	5,605	5,498	107	9	5,614
Derivatives	–	35	–	35	–	35	–	35
Total liabilities	–	35	–	35	–	35	–	35

1) Receivables from Group companies pertain junior notes issued by the subsidiary Marathon SPV S.r.l valued at fair value.

SEK m	GROUP, 30 SEP 2019				PARENT COMPANY, 30 SEP 2019			
	Level1	Level2	Level3	Total	Level1	Level2	Level3	Total
Treasury bills and Treasury bonds	7,436	–	–	7,436	7,436	–	–	7,436
Bonds and other securities	3,077	–	–	3,077	3,077	–	–	3,077
Receivables, Group companies ¹⁾	–	–	–	–	–	–	113	113
Derivatives	–	32	–	32	–	32	–	32
Total assets	10,513	32	–	10,545	10,513	32	113	10,658
Derivatives	–	147	–	147	–	147	–	147
Total liabilities	–	147	–	147	–	147	–	147

1) Receivables from Group companies pertain junior notes issued by the subsidiary Pinzolo SPV S.r.l valued at fair value.

Note 6 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 Company's statutory capital requirements are determined primarily by Regulation (EU) No 575/2013 of the European Parliament and of the Council and the Capital Buffers Act (SFS 2014:966).

The difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is as follows. Joint ventures are consolidated with the equity method in the consolidated accounts, whereas the proportional method is used for the consolidated situation. Securitised assets are recognised in the consolidated accounts but are

removed from the accounting records for the consolidated situation. Hoist Finance's participating interest in the securitised assets is always covered.

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.

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).

SEK m	HOIST FINANCE CONSOLIDATED SITUATION			HOIST FINANCE AB (PUBL)		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Capital instruments and related share premium accounts	1,913	1,913	1,913	1,913	1,913	1,913
Retained earnings	2,073	1,534	1,547	948	819	832
Accumulated comprehensive income and other reserves	74	133	168	693	694	658
Independently reviewed interim profits net of any foreseeable charge or dividend ¹⁾	-3	605	392	21	197	260
Intangible assets (net of related tax liability)	-370	-382	-382	-186	-186	-182
Deferred tax assets that rely on future profitability	-84	-27	-26	-2	-2	0
Exposure amount of securitisation positions which qualify for a RW of 1.250%, where the institution opts for the deduction alternative	-9	-9	-113	-9	-9	-
Other transitional arrangements	4	4	4	2	2	2
Common Equity Tier 1	3,598	3,771	3,503	3,380	3,428	3,483
Capital instruments and the related share premium accounts	1,106	690	690	1,106	690	690
Additional Tier 1 capital	1,106	690	690	1,106	690	690
Tier 1 capital	4,704	4,461	4,193	4,486	4,118	4,173
Capital instruments and the related share premium accounts	854	852	868	854	852	868
Tier 2 capital	854	852	868	854	852	868
Total own funds	5,558	5,313	5,061	5,340	4,970	5,041

1) The Board of Directors will recommend to the Annual General Meeting not to pay any dividend for the financial year 2020. Therefore no dividend deduction has been included.

Note 6 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).

Risk-weighted exposure amounts	HOIST FINANCE CONSOLIDATED SITUATION			HOIST FINANCE AB (PUBL)		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
SEK m						
Exposures to central governments or central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0
Exposures to institutions	620	752	559	332	363	311
<i>of which, counterparty credit risk</i>	44	60	34	44	60	34
Exposures to corporates	211	319	248	13,316	14,565	15,462
Retail exposures	30	38	46	25	33	40
Exposures secured by mortgages on immovable property	379	368	378	88	101	104
Exposures in default	26,224	28,746	28,433	9,221	10,043	8,203
Exposures in the form of covered bonds	362	277	308	362	277	308
Equity exposures	–	–	–	900	807	779
Other items	398	382	416	80	84	84
Credit risk (standardised approach)	28,224	30,882	30,388	24,324	26,273	25,291
Securitisation positions in the banking book (external ratings-based approach)	2,237	2,984	–	2,237	2,984	–
Market risk (foreign exchange risk – standardised approach)	0	78	77	0	78	77
Operational risk (standardised approach)	3,935	3,935	3,542	1,916	1,916	1,476
Credit valuation adjustment (standardised approach)	42	48	31	42	48	31
Total risk-weighted exposure amount	34,438	37,927	34,038	28,519	31,299	26,875

Capital requirements	HOIST FINANCE CONSOLIDATED SITUATION			HOIST FINANCE AB (PUBL)		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
SEK m						
Pillar 1						
Exposures to central governments or central banks	0	0	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0	0	0
Exposures to institutions	50	60	45	27	29	25
<i>of which, counterparty credit risk</i>	4	5	3	4	5	3
Exposures to corporates	17	26	20	1,065	1,165	1,237
Retail exposures	2	3	4	2	3	3
Exposures secured by mortgages on immovable property	30	29	30	7	8	8
Exposures in default	2,098	2,300	2,275	738	803	656
Exposures in the form of covered bonds	29	22	25	29	22	25
Equity exposures	–	–	–	72	65	62
Other items	32	31	33	6	7	7
Credit risk (standardised approach)	2,258	2,471	2,432	1,946	2,102	2,023
Securitisation positions in the banking book (external ratings-based approach)	179	239	–	179	239	–
Market risk (foreign exchange risk – standardised approach)	0	6	6	0	6	6
Operational risk (standardised approach)	315	315	283	153	153	118
Credit valuation adjustment (standardised approach)	3	4	3	3	4	3
Total own funds requirement – Pillar 1	2,755	3,035	2,724	2,281	2,504	2,150

Note **6** Capital adequacy, cont.

SEK m	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Pillar 2						
Concentration risk	226	245	243	288	356	313
Interest rate risk in the banking book	126	129	116	88	129	116
Pension risk	–	3	3	–	3	3
Other Pillar 2 risks	29	37	34	29	37	34
Total own funds requirement – Pillar 2	381	414	396	405	525	466
SEK m	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Capital buffers						
Capital conservation buffer	861	948	851	713	783	672
Countercyclical buffer	0	128	121	0	94	87
Total own funds requirement – Capital buffers	861	1,076	972	713	877	759
Total own funds requirements	3,997	4,525	4,092	3,399	3,906	3,375

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 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, %	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Common Equity Tier 1 capital ratio	10.44	9.94	10.29	11.84	10.95	12.96
Tier 1 capital ratio	13.66	11.76	12.32	15.73	13.16	15.53
Total capital ratio	16.14	14.01	14.87	18.72	15.88	18.76
Institution-specific buffer requirements for CET1 capital	7.00	7.34	7.35	7.00	7.30	7.32
of which, capital conservation buffer requirement	2.50	2.50	2.50	2.50	2.50	2.50
of which, countercyclical capital buffer requirement	0.00	0.34	0.35	0.00	0.30	0.32
Common Equity Tier 1 capital available to meet buffers¹⁾	5.94	5.44	5.79	7.34	6.45	8.46

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

Internally assessed capital requirement

As per 30 September 2020 the internally assessed capital requirement for Hoist Finance was SEK 3,136m (3,449), of which SEK 381m (414) was attributable to Pillar 2.

Note 7 Liquidity risk

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

Liquidity risk is the risk of difficulties in obtaining funding, and thus 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. By definition this way of funding has a 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.

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. 31 per cent (41) of deposits from the public are payable on demand (current account – "flex"), while 69 per cent (59) of the Group's deposits from the public are locked into longer maturities (fixed-term deposits) ranging from one to five years. About 99 per cent of deposits are fully covered by the Swedish state deposit guarantee.

Hoist Finance's short-term liquidity coverage ratio (LCR) was 965 per cent as per 30 September 2020 (755 per cent as per 31 December 2019), compared with the regulatory ratio of 100 per cent. The net stable funding ratio (NSFR) was 120 per cent (124).

Funding

SEK m	HOIST FINANCE CONSOLIDATED SITUATION			HOIST FINANCE AB (PUBL)		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Current account deposits	5,846	8,871	9,258	5,846	8,871	9,258
Fixed-term deposits	13,024	12,564	12,667	13,024	12,564	12,667
Debt securities issued	5,645	5,900	7,868	5,219	5,431	5,730
Convertible debt instruments	1,106	690	690	1,106	690	690
Subordinated debts	854	852	868	854	852	868
Equity	4,087	4,208	4,132	3,393	3,441	3,503
Other	1,149	1,302	1,351	1,398	1,328	1,556
Balance sheet total	31,711	34,387	36,834	30,840	33,177	34,272

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity and its nature. Available liquidity totalled SEK 7,652m (8,024) as per 30 September 2020, exceeding the limit and the target level by a significant margin.

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

Liquidity reserve

SEK m	30 Sep 2020	31 Dec 2019	30 Sep 2019
Cash and holdings in central banks	0	0	0
Deposits in other banks available overnight	1,955	2,526	2,158
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,296	2,207	4,712
Securities issued or guaranteed by municipalities or other public sector entities	781	522	2,724
Covered bonds	3,620	2,769	3,077
Securities issued by non-financial corporates	–	–	–
Securities issued by financial corporates	–	–	–
Other	–	–	–
Total	7,652	8,024	12,671

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.

Note 8 Pledged assets

SEK m	GROUP			PARENT COMPANY		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Pledges and comparable collateral for own liabilities and for reported commitments for provisions	132	79	68	0	0	0

Note 9 Contingent liabilities

SEK m	GROUP			PARENT COMPANY		
	30 Sep 2020	31 Dec 2019	30 Sep 2019	30 Sep 2020	31 Dec 2019	30 Sep 2019
Commitments	263	356	362	259	325	303

The Group's commitments consist of 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.

Assurance

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

Stockholm, 29 October 2020

Ingrid Bonde
Chair of the Board

Cecilia Daun Wennborg
Board member

Malin Eriksson
Board member

Liselotte Hjorth
Board member

Robert Kraal
Board member

Henrik Käll
Board member

Lars Wollung
Board member

Klaus-Anders Nysteen
CEO

Definitions

Alternative performance measures

Alternative performance measures (APMs) are financial measures of past or future earnings trends, financial position or cash flow that are not defined in the applicable accounting regulatory framework (IFRS), in the Capital Requirements Directive (CRD IV), or in the EU's Capital Requirement Regulation number 575/2013 (CRR). APMs are used by Hoist Finance, along with other financial measures, when relevant for monitoring and describing the financial situation and for providing additional useful information to users of the financial statements. These measures are not directly comparable with similar performance measures that are presented by other companies. C&I ratio, Return on equity, Net interest income margin and Adjusted EBITDA are alternative performance measures that provide information on Hoist Finance's profitability. "Estimated Remaining Collections" is Hoist Finance's estimate of the gross amount that can be collected on acquired loan portfolios. Definitions of alternative performance measures and other key figures are presented below. The financial fact book, available on hoistfinance.com/investors/financial-information/, provides details on the calculation of key figures.

Acquired loan portfolios

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

Acquired loans

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

Additional Tier 1 capital

Capital instruments and associated share premium accounts that fulfil the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council and that may accordingly be included in the Tier 1 capital.

Adjusted EBITDA

EBIT (operating earnings), less depreciation and amortisation ("EBITDA"), adjusted for net of collections and interest income from acquired loan portfolios.

Basic earnings per share

Net profit for the period, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares.

Capital requirements – Pillar 1

Minimum capital requirements for credit risk, market risk and operational risk.

Capital requirements – Pillar 2

Capital requirements beyond those stipulated in Pillar 1.

CET1 capital

Capital instruments and the related share premium accounts that fulfil the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council, and other equity items that may be included in CET1 capital, less regulatory dividend deduction and deductions for items such as goodwill and deferred tax assets.

CET1 ratio

CET1 capital in relation to the total risk exposure amount.

C/I ratio

Total operating expenses in relation to Total operating income and Profit from shares and participations in joint ventures.

Diluted earnings per share

Net profit for the period, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares after full dilution.

Fee and commission income

Fees for providing debt management services to third parties.

Gross 180-month ERC

"Estimated Remaining Collections" – the company's estimate of the gross amount that can be collected on the credit-impaired 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 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.

Internal funding cost

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

Items affecting comparability

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

Legal collection

Legal collections relate to gross collections following the initiation of Hoist Finance's litigation process. This process assesses customers' solvency and follows regulatory and legal requirements.

Liquidity coverage ratio (LCR)

A mandatory requirement for banks within the EU, whereby an institution must hold a sufficiently large buffer of liquid assets to be able to withstand actual and simulated cash outflows for a period of 30 days while experiencing heavy liquidity stress.

Liquidity reserve

Hoist Finance's liquidity reserve is a reserve of high-quality liquid assets which is used to carry out planned acquisitions of loan portfolios and to secure the Company's short-term capacity to meet payment obligations in the event of lost or impaired access to regularly available funding sources.

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 stable funding ratio (NSFR)

Measures an institution's amount of available stable funding to cover its funding requirements under normal and stressed conditions in a one-year perspective.

Non-performing loans (NPL)

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

Number of employees (FTEs)

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

Own funds

Sum of Tier 1 capital and Tier 2 capital.

Portfolio growth

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

Portfolio revaluation

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

Return on equity

Net profit for the period adjusted for accrued unpaid interest on AT1 capital calculated on annualised basis, divided by equity adjusted for AT1 capital reported in equity, calculated as an average for the financial year based on a quarterly basis.

Risk-weighted exposure amount

The risk weight of each exposure multiplied by the exposure amount.

SME

A company that employs fewer than 250 people and has either annual sales of EUR 50 million or less or a balance sheet total of EUR 43 million or less.

Tier 1 capital

The sum of CET1 capital and additional Tier 1 capital.

Tier 1 capital ratio

Tier 1 capital as a percentage of the total risk-weighted exposure amount.

Tier 2 capital

Capital instruments and the related share premium accounts that meet the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council and that may accordingly be included in own funds.

Total capital ratio

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

Weighted average number of shares out-standing

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

Vision and Strategy

Helping People Keep Their Commitments

is our mission and purpose, it is what we do and why we go to work every day.

By Your Side

is how we see ourselves fulfilling our mission, to always be by our customers' side, how we support them to be part of and included in the financial ecosystem.

Uncomplicated, Helpful and Human

is our personality.



Market leadership

We strive to be in markets where we are, or can become, one of the top three players. This ensures economies of scale and allows for in-depth trusted relationships with our partners.



Effective & Efficient

Our culture is performance and knowledge driven. We strive for continuous improvement and embrace change, and we always want to be agile and lean, proactive and innovative.



Digital Leader

We want to be the digital front-runner and inventor in our industry. Digital By Default is how we execute on this strategic pillar, and means that our digital channels are the preferred choices for us and customers.



Banking Platform

Thanks to our credit market license, we can offer a deposit service, which in turn provides cheaper funding for our portfolio investments than that of our peers.

Financial targets

Profitability

By leveraging on operational efficiency efforts to become more cost-effective, we aim to reduce the cost-to-income ratio to 65 per cent in the medium term. By ensuring the right balance between growth, profitability and capital efficiency we aim to achieve a return on equity exceeding 15 per cent in the medium term.

Capital structure

1.75 – 3.75 percentage points above overall CET1 requirements specified by the Swedish Financial Supervisory Authority.

Growth

EPS (adjusted for AT1 costs) should by 2021 have grown by an average annual growth rate of 15 per cent compared to 2018, excluding IAC.

Dividend policy and dividend

Hoist Finance dividend will in the long-term correspond to 25–30 per cent of annual net profit. The dividend will be determined annually, with respect to the company's capital target and the outlook for profitable growth. The Board will recommend to the Annual General Meeting (AGM) not to pay any dividend for the financial year 2020.

Financial calendar

Year-end report 2020

9 February 2021

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

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

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

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