Risk, Liquidity and Capital Management

Pillar 3 – 2018

Hoist Finance

CONTENTS

1 INTRODUCTION

1.1 Hoist Finance in brief

Hoist Finance AB (publ) is a pan-European financial group ("Hoist Finance" or the "Group") active within debt purchasing and receivables management. Hoist Finance is a leading debt-restructuring partner to international banks. Present in twelve countries across Europe, Hoist Finance offer a broad spectrum of flexible and tailored solutions for the acquisition and management of non-performing unsecured consumer loans.

During 2018, Hoist Finance continued to expand into new asset classes, acquiring performing loans, secured loans and loans with exposures to SMEs. In Sweden and Germany, Hoist Finance offer retail deposit service that is a major funding source for the Group. Hoist Finance's shares have since March 2015 been listed on Nasdaq Stockholm, Hoist Finance has currently no individual shareholder holding of more than 10% of its capital and/or votes.

Hoist Kredit 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 AB (publ) at the same time as Hoist Kredit was dissolved. For the purpose of further simplifying the structure of the Group, on 2 January 2019, a cross-border merger was completed between Hoist Finance and its wholly owned French subsidiary Hoist Finance SAS ("Hoist SAS"). Hoist Finance AB (publ) is licensed and regulated as a credit market company under the supervision of the SFSA.

1.2 Pillar 3 report

This Pillar 3 report provides information about risk management, capital and liquidity adequacy. The report is in reference to the information that shall be disclosed on a yearly basis in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, Commission Implementing Regulation (EU) No 1423/2013, the SFSA's regulations regarding prudential requirements and capital buffers (FFFS 2014:12), the SFSA's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7) and EBA's Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013 (EBA/GL/2016/11). The information is given on the basis of the consolidated situation of Hoist Finance group, see Annex I – Consolidated situation, as well as Hoist Finance AB on an institutional level, see Annex II – Hoist FINANCE AB (publ).

Additional information on corporate governance and remuneration is disclosed in the annual report and in the separate document "The remuneration policy and remuneration systems". The information can be found on the Group's website: www.hoistfinance.com.

1.3 Hoist Finance's risk profile

The table below describes the major risks Hoist Finance is exposed to and how they are managed.

Description	Risk profile	Risk management
Credit risk The risk to earnings and/or capital arising from a counterparty's failure to repay principal or interest at the stipulated time or failure to otherwise perform as agreed.	Credit risk refers mainly to acquired loan portfolios and the risk that collection will be lower than forecasted. Other credit risk exposures are (i) cash deposits with banks, (ii) investments in fixed income instruments, and (iii) counterparty risk relating to hedging of 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 function. Other credit risks are analysed and managed by the Treasury function. The Group's Risk Control function analyses and controls all credit risk exposures.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people, IT systems or from external events, including legal and compliance risk.	Large losses and negative incidents due to failures in operations are rare. Given the nature of Hoist Finance's operations, it is not possible or cost effective to try to eliminate all operational risk. The goal is rather to minimise operational risk.	Routines for group-wide incident reporting, tracking of key risk indicators and regular training courses. The "dual-control" is applied to critical decisions and is supported by back-up routines, e.g., in the form of ratified business continuity plans.
Market risk The risk to earnings, capital or liquidity arising from adverse movements in market prices. This includes FX risk and interest rate risk.	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 independently analysed and controlled by the Group's Risk Control function.
Liquidity risk The risk of difficulties in obtaining funding and thus, not being able to meet payment obligations at maturity without encountering significantly higher financing costs.	Liquidity risk in Hoist Finance stems primarily from the risk of unexpected outflow of deposits, the risk of cash outflow due to mark-to-market of hedging derivatives and the re-financing risk of existing wholesale funding.	The Group has a significant liquidity reserve to cover potential outflows of liquidity.

1.4 Risk development 2018

In line with the business strategy to grow revenues through geographical and asset class diversification Hoist Finance has continued its acquisition strategy in 2018. Hoist Finance finished the year with acquisitions in acquired loan portfolios of 8 048 MSEK vs a target of 6 781 MSEK. Acquisitions in 2018 were primarily driven by transactions in Italy, the UK and Poland. During the year Hoist Finance has strengthened the presence in the Greek market, Hoist Finance has been present in Greece since 2016 through a strategic partnership with Bank of Greece. In 2018, the first non-performing loan portfolio was acquired which will be serviced by an external partner

In 2018 Hoist Finance has worked extensively on integrating the operational risk management and control in the key business processes to a larger extent.

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.

Operational risk - The Group works continuously to improve the quality of its internal processes in order to limit operational risks. The operational risk level during the year is deemed to have increased more relative to the business growth. The main drivers are expansion to new asset classes as well as geographical expansion. The focus during the year has been to integrate the operational risk management and control in the key business processes to a larger extent. 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

Liquidity risk remained low during the year mainly due to the availability of a large liquidity portfolio. The liquidity risk has also decreased during the year as a result of relatively lower levels of FX-swaps which reduces potential mark-to-market cash flows to be paid to our banking counterparty in these transactions. Due to its strong liquidity position, the Group is well prepared for future acquisitions and growth.

Capitalisation for Hoist Finance, expressed as CET1-ratio, amounts to 9,66% by end of 2018, down from 11,7% in 2017. The company's capitalisation has been affected by the changes in the regulation regarding the risk weights to be assigned to unsecured NPL exposures. The SFSA announced in mid-December 2018 its endorsement of the European Banking Authority's (EBA) interpretation of the EU's Capital Requirements Regulation regarding risk weights for acquired NPLs. Article 127 of 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. For Hoist Finance it means that a risk weight of 150 per cent needs to be applied for unsecured NPLs, as opposed to the 100 per cent that was previously approved by the SFSA. The new risk weights came into immediate effect. The revised interpretation requiring 150 per cent risk weights for purchased unsecured NPLs does not reflect any change in risk of the underlying assets. However, we have fully implemented these new risk weights, and our CET1 ratio remains above regulatory requirements and within the risk appetite specified by the Board for a buffer over regulatory requirements as at 31 December 2018.

1.5 Significant risks and uncertainties

Hoist Finance is a regulated credit market company under the supervision of the Swedish FSA. Since new and amended regulations may have an impact on the Group, Hoist Finance carefully monitors regulatory developments such as Basel IV capital and liquidity regulations and amendments to deposit guarantee scheme regulations.

Hoist Finance is exposed to a number of uncertainties through its business operations and due to its broad geographic presence. New and amended financial regulations may affect the Group 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. Due to the Group's substantial deposits from the public, changes to the deposit guarantee scheme, for instance, may impact the Group. In other areas such as consumer protection, new regulations may require the Group to adjust the way in which it operates its collection activities. The Group's loan portfolios are valued based on anticipated future collection levels. Factors that affect the Group's capacity to achieve collection level forecasts sustainably and cost efficiently are therefore uncertainty factors.

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 the 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. Accordingly Hoist Finance will implement mitigation actions in order to address these 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 (write-downs) 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 inherent risk level of the underlying asset.

New EBA interpretations regarding measuring interest rate risk in the banking book will be under scrutiny during 2019.

In 2016, the UK held a national referendum on EU membership, with the results indicating that the UK will be withdrawing from the EU. This could affect Hoist Finance due to the company's extensive operations in the UK and gives rise to increased uncertainty, for example, in relation to free trade agreements and legal issues.

2 THE BOARD OF DIRECTORS' RISK DECLARATION AND RISK STATEMENT

The Board of Directors of Hoist Finance AB (publ) (the "Board of Directors") has approved the following risk declaration and risk statement.

Risk declaration
Hoist Finance has adequate risk management arrangements, which are adapted to the Group's business model, risk appetite and risk management strategy.

Risk statement
The Group's business strategy is to profit on the expertise that the Group has in acquisition and management of non-performing loans. To manage and expose oneself to credit risk constitutes a central part of the Group's business and help the Group to reach its highly set goals.

Mitigating operational risk is one of the Group's primary areas of focus as it tries to limit it to an absolute minimum. The principle is that risk-minimising activities shall be implemented as long as the associated costs are less than the costs the risk could cause if materialised. The Group is particularly concerned by the reputation risk and the damage it could do to the brand. Therefore the Group strives to maintain its reputation with a business model that places amicable settlements at the centre of the relationship with debtors.

The Group's appetite for market risk is low and is reflected in that all exposures should be hedged as much as practically possible. Certain exposure to market risk is however inevitable. The Board of Directors has therefore approved certain market risks within strict limits.

Liquidity risk in Hoist Finance stems primarily from the risk of unexpected outflow of deposits, the risk of cash outflow due to mark-to-market of hedging derivatives and the re-financing risk of existing wholesale funding. Hoist Finance has a low appetite for assuming liquidity risk why potential outflows are covered by a generous liquidity reserve.

The Group aims to keep regulatory risk at an absolute minimum by continuous dialogue and transparency with relevant authorities as well as strong internal focus on compliance.

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Detailed information and figures with regards to Hoist Finance's main risks (credit risk, operational risk, market risk and liquidity risk) and how these interact with the established risk appetite levels (limits) are presented in each section of this report.

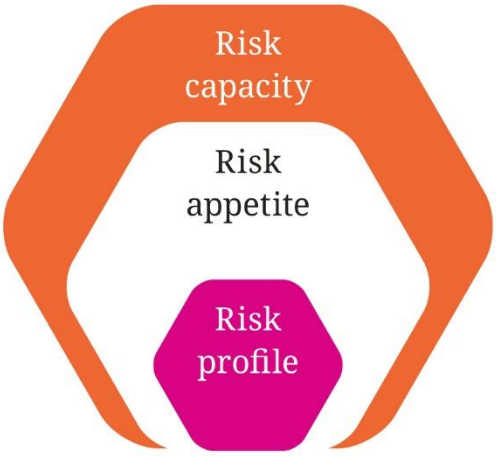
3 RISK MANAGEMENT

3.1 Introduction

Risk is an inherent part of any business operation. Without assuming risks, it is impossible for a business to achieve a reward and ensure long-term profitability. Ongoing risk management is a core activity in Hoist Finance and it is fundamental for long-term profitability and stability. Hoist Finance acquires and manages receivables and thereby actively exposes itself to credit risk. This is Hoist Finance's core business, in which the Group has been successful for the last 20 years.

Hoist Finance defines risk as the possibility of a negative deviation from what is expected. This could be a deviation from expected earnings, liquidity levels or capitalisation.

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.



3.2 Risk management framework

The goal of Hoist Finance's risk management is to minimise negative variability in earnings and to secure the survival of the Group by maintaining sufficient capital and liquidity levels. This will create and maintain confidence in Hoist Finance amongst stakeholders, thereby achieving sustainable shareholder value.

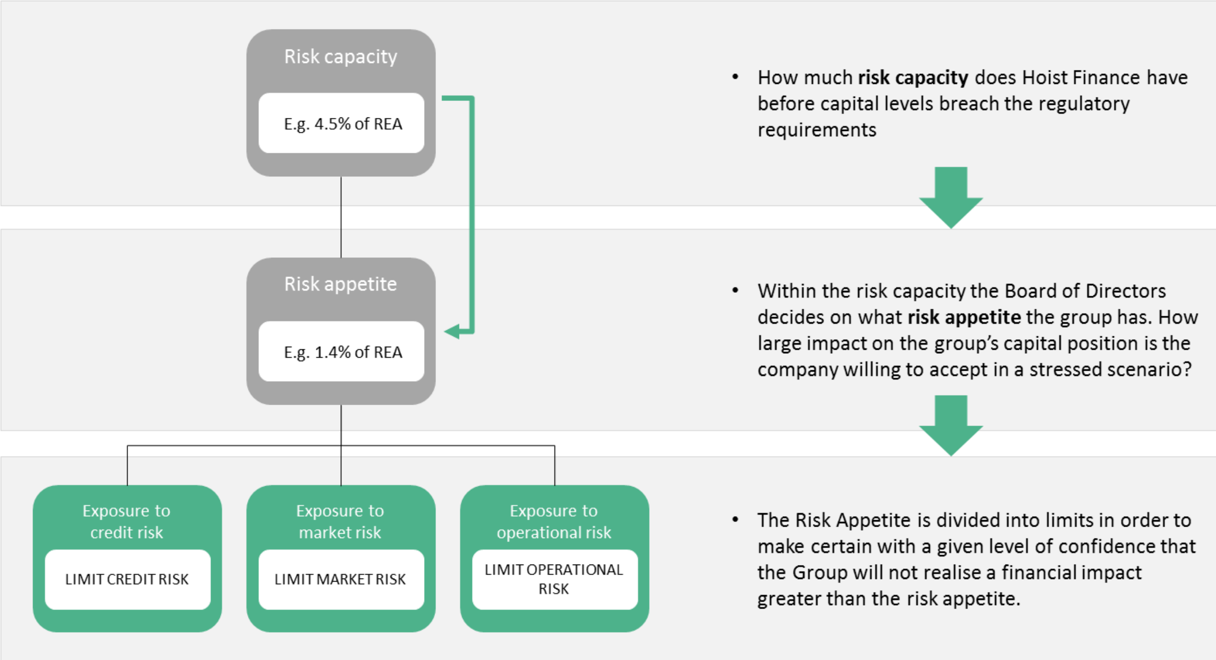
To fulfil this goal, the Board of Directors has adopted a risk management framework comprised of policies and strategies for the Group's management, analysis, control and reporting of risks in day-to-day operations.

Hoist Finance's core business and risk strategy is to generate revenue through controlled exposures to credit risk in the form of non-performing loans, why this type of credit risk is actively pursued. Other types of risk, such as operational risks and market risks are undesired but sometimes unavoidable. These risks are minimised as far as it is economically justifiable.

Risk capacity (capital and liquidity buffers in place before critical regulatory levels are reached) is quantified in order to understand the risk absorbing capacity of the Group. The capital risk capacity is the difference between actual capital levels and regulatory minimum levels and shows the capacity to absorb losses and unexpected events before critical levels are reached. Liquidity risk capacity is the size of the liquidity outflows Hoist Finance can manage without breaching regulatory minimum requirements.

Given the Group's capacity to assume risk, the risk appetite is determined by the Board of Directors. By considering potential returns and potential risks in the business plan, the Board of Directors can decide on an appropriate risk and return level for the Group, the risk appetite. Hoist Finance's risk appetite is thereafter broken down into risk limits to be used in the day-to-day business activities and in the monitoring of risk development. The Group Risk Control function continuously monitors that the Group does not assume any risks, which are exceeding the Group's appetite and capacity to take on risk.

These principles are summarised in the figure below.



The method described above is used for both Risks to capital and Liquidity risks:

Risk Type	Risk Capacity	Risk Appetite	Limits
Risks to capital	The size of capital which can absorb losses without the Group breaching regulatory capital requirements	Risk Appetite is an expression of how much capital margin the Group need to the regulatory levels in order to be able to withstand a severe economic downturn	Limits for e.g. credit, market and operational risk
Risks to liquidity	The size of liquidity outflows the Group can withstand without breaching regulatory liquidity requirements	How large liquidity outflow is the Group willing to face in a stressed scenario?	Limits for e.g. minimum liquidity level

3.3 Governance and internal control

Hoist Finance's risk management is built on clearly defined goals, policies and guidelines, an efficient operating structure and transparent reporting and monitoring. The Group's risk management policy stipulates the framework, roles and responsibilities for risk management, Risk Appetite, Risk Strategy and the guidelines for ensuring that the objectives of risk management are reached.

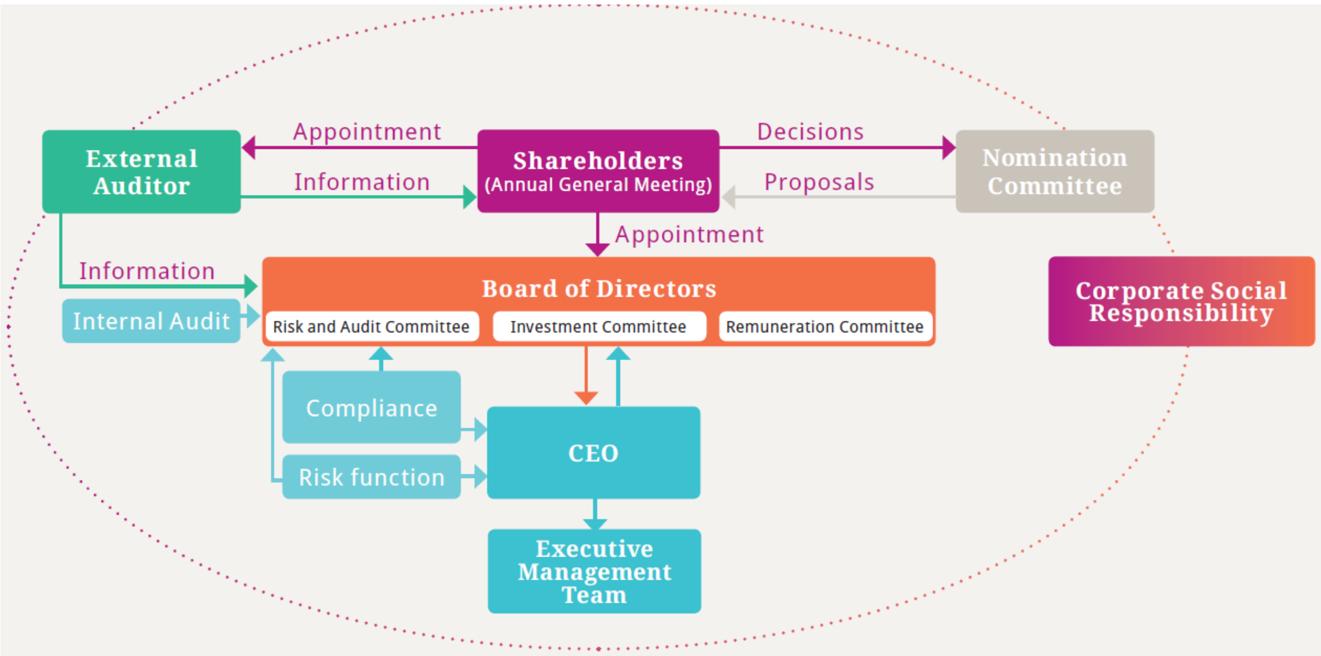
Hoist Finance's risk management distributes roles and responsibilities in accordance with three lines of defence.

1st Line of Defence: The Board of Directors, the CEO and all employees. The business units and subsidiaries bear full responsibility for the risks that arise in day-to-day operations. The local offices have the best knowledge in any given situation, as they are closest to the customers and the various markets. The first line of defence is responsible for management of Hoist Finance's risks and compliance with applicable rules and regulations.

2nd Line of Defence: The risk control and compliance functions are both independent control functions. This means that they are not involved in the business operations and that they report independently from one another to the Board of Directors and the CEO. The second line of defence is responsible for identification, quantification, analysis and reporting of all risks.

3rd Line of Defence: The internal audit function is responsible for conducting an independent review and evaluation of work done in both the first and second lines of defence. The internal audit function reports directly to the Board of Directors.

The figure below shows Hoist Finance's governance structure.



The Finance function monitors the capital and liquidity adequacy and is responsible for the reporting to the SFSA. The Treasury function manage the credit risk stemming from lending to credit institutions and the liquidity portfolio while the credit risk stemming from the loan portfolios is managed and monitored by the management team in each jurisdiction. Furthermore the performance of the loan portfolios is continuously followed up by the Group Business Control function and the CFO function together with the management team in each jurisdiction. The Treasury function has the overall responsibility for management of market-, liquidity- and counterparty credit risks in the first line of defence. All employees manage the operational risks that exist in their processes.

The Risk Control function continuously analyse, control and report on the Group's risk exposures (credit risk, operational risk, market risk and liquidity risk), capital and liquidity adequacy to the CEO and the Board of Directors. The Risk Control function also evaluates compliance with new internal and external regulations on the topic of risk management, capital adequacy and liquidity adequacy and assists in implementing the new regulations within the organisation. Strong emphasises is placed on reporting risk to the relevant interested parties in a clear and meaningful manner. Risks within the Group are handled according to set policies and instructions. Reporting on risk exposures, liquidity and capital adequacy from Risk Control to the Board of Directors, the Risk and Audit Committee and the CEO is delivered in writing monthly and otherwise when necessary. The operations are also reviewed by the Group Compliance and Group Audit at central and local level. Group Compliance is responsible for the overall assessment of compliance risks.

For further information on corporate governance and the risk organisation, see the corporate governance section in the annual report disclosed on the Group's webpage: www.hoistfinance.com.

3.4 Risk Culture

Within Hoist Finance there is deep insight and understanding of how a sound risk culture is critical for efficient risk management. Therefore, structured efforts are ongoing 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 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 also believe that independent credible challenge and constructive discussions is critical for a sophisticated decision-making on risk and reward.
- **Sound incident management**, where incidents are reported, analysed and actions taken to mitigate risks insofar as it is economically justifiable and where a sound, learning risk culture promotes learning from mistakes to continuously improve.

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- **Harmonisation/Standardisation,** where best practices are deployed both at Group and local levels whether this is related to the organisation, the processes or the systems. This allows Hoist Finance to increase efficiency, reduce potential for error and improve quality.

Promoting the risk culture is a long-term and continuous endeavour that permeates everything 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.

4 OWN FUNDS AND OWN FUNDS REQUIREMENTS

The information in this section regards the basis of the consolidated situation of Hoist Finance, which includes the regulated entity Hoist Finance AB (publ) and its fully owned subsidiaries, which are all fully consolidated. For further information see Annex I – Consolidated situation. The difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is that the equity method is applied in the consolidated accounts whereas the proportional method is applied for the joint ventures in relation to capital adequacy reporting.

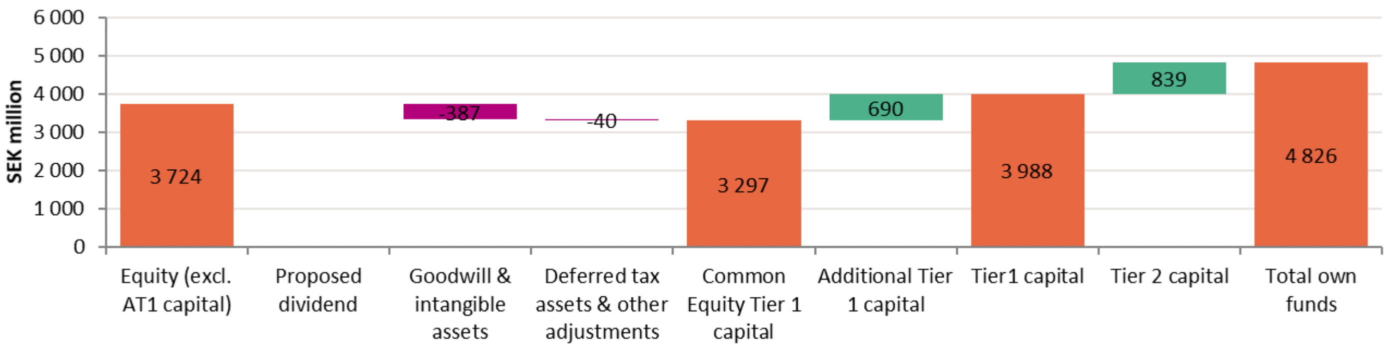
4.1 Own funds

The table below shows the Hoist Finance consolidated situation's own funds which are used to cover the own funds requirements.

[1] Dividend deduction is calculated based on the year's proposed dividend.

Except any restrictions by legislation (e.g. restrictions in corporate law and capital adequacy requirements) the Group sees no material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

Common Equity Tier 1 capital mainly comprises equity after various adjustments, while Additional Tier 1 (AT1) capital and Tier 2 capital are mainly made up of perpetual AT1 notes and subordinated loans. A link between equity and the regulatory total capital at 31 December 2018 is presented below. Further information about the capital instruments included in total capital is disclosed in Annex IV – Capital instruments included in own funds.



Please refer to Annex III for a full reconciliation of own funds.

4.2 Risk exposure amounts and own funds requirements

The table below shows the risk exposure amounts per risk category for Hoist Finance. Since Hoist Finance's core business is to acquire non-performing loan portfolios the risk exposure amount for "Exposures in default" is by far the largest.

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Risk exposure amounts, SEK thousand	Hoist Finance on a consolidated basis	
	31 Dec 2018	31 Dec 2017
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	354 829	380 984
of which counterparty credit risk	*47 859*	*54 333*
Exposures to corporates	141 723	135 760
Retail exposures	74 869	15 994
Secured by immovable property	402 293	0
Exposures in default	28 918 624	15 348 907
Exposures in the form of covered bonds	363 496	368 902
Equity exposures	0	0
Other items	116 879	145 310
Credit risk (standardised approach)	**30 372 712**	**16 395 857**
Market risk (foreign exchange risk - standardised approach)	**25 163**	**113 090**
Operational risk (standardised approach)	**3 669 866**	**3 158 430**
Credit valuation adjustment (standardised approach)	**52 931**	**27 430**
Total risk exposure amount	**34 120 672**	**19 694 807**

The table below shows the own funds requirements per risk category for Hoist Finance.

Own funds requirements, SEK thousand	Hoist Finance on a consolidated basis	
Pillar 1	31 Dec 2018	31 Dec 2017
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	28 386	30 479
of which counterparty credit risk	3 829	4 347
Exposures to corporates	11 338	10 861
Retail exposures	5 989	1 279
Secured by immovable property	32 183	0
Exposures in default	2 313 490	1 227 913
Exposures in the form of covered bonds	29 080	29 512
Equity exposures	0	0
Other items	9 350	11 625
Credit risk (standardised approach)	**2 427 817**	**1 311 669**
Market risk (foreign exchange risk - standardised approach)	**2 013**	**9 047**
Operational risk (standardised approach)	**293 589**	**252 674**
Credit valuation adjustment (standardised approach)	**4 234**	**2 194**
Total own funds requirement - Pillar 1	**2 727 654**	**1 575 584**
Pillar 2		
Concentration Risk	215 220	130 774
Interest Rate Risk in the Banking Book	53 964	36 203
Pension Risk	3 000	3 000
Other Pillar 2 Risks	30 842	25 909
Total own funds requirement - Pillar 2	**303 026**	**195 886**
Capital Buffers		
Capital conservation buffer	853 017	492 370
Countercyclical buffer	102 997	10 569
Total own funds requirement - Capital Buffers	**956 014**	**502 939**
Total own funds requirements	**3 986 694**	**2 275 409**

In 2018, the risk-weighted exposure of Exposures in default has increased by 88% year-on-year. This is explained by both the growth of the total outstanding of non-performing loans by 32% and the application from December 2018 of the new 150% risk weight (vs. 100% previously) for unsecured non-performing loans that account for 85% of the total exposure of non-performing loans.

Consequently own fund requirements for Exposures in default have increased by 88% and explain most of the increase of total owns funds requirement for Pillar 1.

The capital requirement for Concentration Risk and the Capital conservation buffer have also increased by respectively 65% and 73% as the risk weight change affects the credit risk-weighted exposure which one of the parameters of both capital requirements' calculation.

Finally the Countercyclical capital buffer has increased from 11 million SEK to 103 million SEK, driven by the combined effect of the change of the risk weight for non-performing loans and the introduction in the UK of a 1% countercyclical capital buffer that applies from 28 November 2018.

4.3 Capital ratios and 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 exposure amount) of 8 per cent. Credit institutions are also required to maintain specific capital buffers, pursuant to the Capital Buffers Act (SFS 2014:966). Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk exposure amount and an institution-specific countercyclical buffer of 0.3 per cent of the total risk exposure amount. The table below shows CET1 capital, Tier 1 capital and the total capital ratio for Hoist Finance. The table also shows the institution specific CET1 capital requirements. All capital ratios exceed the minimum requirements and capital buffer requirements by a healthy margin.

Capital ratios and buffers, %	**Hoist Finance on a consolidated basis**	
	31 Dec 2018	**31 Dec 2017**
Common Equity Tier 1 Capital ratio	9,66	11,70
Tier 1 Capital ratio	11,68	13,63
Total Capital ratio	14,14	17,71
Institution specific CET1 buffer requirement	7,30	7,05
of which: pillar I capital requirement	4,50	4,50
of which: capital conservation buffer requirement	*2,50*	*2,50*
of which: countercyclical buffer requirement	*0,30*	*0,05*
CET1 capital available to meet buffers[1]	**5,16**	**7,20**

[1]CET1 capital 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.

Countercyclical buffer

Hoist Finance is currently required to maintain an institution-specific countercyclical buffer of 0.3 per cent (0.05) of the total risk exposure amount. The table below shows the geographical distribution of Hoist Finance credit exposures relevant for the calculation of the countercyclical capital buffer.

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Hoist Finance consolidated situation 31 Dec 2018, SEK thousand

	General credit exposures		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Of which: general credit exposures	Of which: trading book exposures	Of which: securitisation exposures	Total		
Sweden	416 648	0	33 332	0	0	33 332	1,4	2,0%
UK	8 228 470	0	658 278	0	0	658 278	27,4	1,0%
Italy	8 345 464	0	667 637	0	0	667 637	27,8	0,0%
Germany	3 423 110	0	273 849	0	0	273 849	11,4	0,0%
Poland	3 696 453	0	295 716	0	0	295 716	12,3	0,0%
Netherlands	1 335 920	0	106 874	0	0	106 874	4,5	0,0%
France	1 385 623	0	110 850	0	0	110 850	4,6	0,0%
Spain	1 645 209	0	131 617	0	0	131 617	5,5	0,0%
Belgium	328 029	0	26 242	0	0	26 242	1,1	0,0%
Austria	51 975	0	4 158	0	0	4 158	0,2	0,0%
Jersey	0	0	0	0	0	0	0,0	0,0%
Greece	1 161 772	0	92 942	0	0	92 942	3,9	0,0%
Other countries	0	0	0	0	0	0	0,0	0,0%
Total	**30 017 673**	**0**	**2 401 494**	**0**	**0**	**2 401 494**	**100,0**	**0,30%**

The table below shows Hoist Finance amount of the institution-specific countercyclical capital buffer.

Hoist Finance consolidated situation 31 Dec 2018, SEK thousand

SEK thousand	31 Dec 2018
Total risk exposure amount	34 120 672
Institution specific countercyclical buffer rate	0,302%
Institution specific countercyclical buffer requirement	102 997

4.4 Leverage ratio

The leverage ratio is a monitoring tool, which allows competent authorities to assess the risk of excessive leverage. Detailed information about Hoist Finance leverage ratio is illustrated in Annex V – Disclosure of Leverage Ratio.

The leverage ratio for Hoist Finance consolidated situation is 13.25 per cent (11.81 per cent) as of 31 December 2018.

Although there is no target for the leverage ratio in the CRR, the BCBS has expressed the opinion that a minimum level of 3% based on Tier 1 capital should apply. Hoist Finance has maintained a monthly leverage ratio above 11% during 2018 which is significantly higher than the BCBS's target. As the core assets of Hoist Finance, mainly unsecured NPL, have a risk weight of 150%, Hoist Finance's leverage ratio is expected to stay at a level well above BCBS's expectations.

5 FUNDING

Hoist Finance has an effective and diversified funding structure through deposits from the public and through the capital markets.

In Sweden and Germany, Hoist Finance offer retail deposits. The majority of deposits from the public are payable on demand (variable deposits – "floating"), while about 35 per cent (35) of the Group's deposits from the public are tied to longer maturities ("fixed deposits") ranging from 12 to 36 months. Although most of the deposits from the public are payable on demand, the Group estimates, based on past client behaviour that a large portion of deposits can be treated as a longer maturity. About 99 per cent of deposits are backed by the deposit guarantee scheme.

Funding from debt issuance has increased during the year both from Senior unsecured debt and from Subordinated liabilities. Hoist Finance achieved investment grade rating from Moody's in May 2017 and as a consequence debt issuance has become an increasingly attractive means of diversifying Hoist Finance funding base. The table below shows Hoist Finance main components of the funding.

Funding, SEK thousand	Hoist Finance on a consolidated basis	
	31 Dec 2018	**31 Dec 2017**
Flex Deposits	11 041 148	8 580 487
Term Deposits	6 051 598	4 646 963
Senior Unsecured Debt	5 950 203	4 355 000
Tier 1 instruments	690 300	379 577
Tier 2 instruments	838 744	803 257
Equity	3 722 801	2 848 728
Other	960 187	922 552
Balance Sheet Total	**29 254 980**	**22 536 564**

For information about encumbered assets, see Annex VI – Disclosure of encumbered assets and unencumbered assets.

6 INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS

The internal capital and liquidity adequacy assessment process (ICAAP and ILAAP) is an ongoing process carried out by the Management, Treasury and Risk Control, which review, evaluate and quantify 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, liquidity and financial margin to meet 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 and Risk Appetite is always relevant to the current risk profile and the Group's operations. The Board of Directors decides on any changes to the process, and Internal Audit verifies that the process is carried out pursuant to the Board of Directors' 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.

6.1 ICAAP

ICAAP is Hoist Finance's internal evaluation to ensure that the Group has sufficient capital to meet the risks in both normal and stressed scenarios.

Credit and market risks are rigorously stress-tested to determine the amount of losses Hoist Finance is capable of incurring under extremely adverse circumstances. This loss figure is compared to the Pillar 1 capital requirement and, if the simulated losses exceed the Pillar 1 amount, the excess is covered with additional Pillar 2 capital.

The evaluation of operational risks is done in a series of workshops led by the Group's Risk Control function. Qualitative and quantitative methods are used in these workshops to evaluate and quantify all significant operational risks in the Group. Once the operational risks are quantified, the next step is calculation of the amount of capital required to cover all unexpected losses arising from the identified risks. Here as well, the calculated capital requirement is compared to the Pillar 1 capital requirement and any excess loss risk is covered with additional Pillar 2 capital.

This practice of validation of Pillar 1 risks for credit, market and operational risk has the sole purpose of checking the relevancy of the Pillar 1 own funds requirements, since they are calculated according to very standardised methods as stipulated by regulation. Pillar 2 own funds requirements can also result as a consequence of identification of risk categories that are not considered in Pillar 1. These risks are also stressed to a magnitude of what one could observe once in a 100 year period. Capital is thereafter reserved to cover the outcome of the test.

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 own funds requirements 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 day-to-day planning – before being made, strategic plans, future forecasts and immediate management decisions are always reviewed against the background of own funds requirements.

6.2 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 the Group needs to maintain to prevent identified liquidity risks from affecting the Group's capacity to achieve its business plan and meet regulatory requirements (LCR/ NSFR) and the limits set by the Board of Directors.

Results from this year's ILAAP shows 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.

7 CREDIT RISK

Credit risk is the risk to earnings and/or capital arising from a counterparty's failure to repay principal or interest at the stipulated time or failure to otherwise perform as agreed.

7.1 The Group's credit risk profile

Credit risk in the Group stems mainly from:
- Acquired loan portfolios
- The liquidity reserve
- Counterparty credit risk as a result of hedging activities

7.1.1 Credit risk associated with acquired loan portfolios

The loan portfolios are acquired at prices that typically vary between 5 and 35 per cent of the face value (principal amount) outstanding at the time of acquisition. The price depends on the portfolios' specific characteristics and composition in terms of e.g. loan size, age, and type of loans as well as debtor age, location, type, etc. Credit risk in the portfolios relates primarily to the Group overpaying for a portfolio – i.e., 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 value of the assets. The carrying value of Hoist Finance's portfolios at year-end was SEK 19,596 million (14,766). The majority of these loans are unsecured, although the proportion of acquired portfolios having properties as collateral increases. These portfolios had a carrying value of SEK 2,188 million as of 31 December 2018 (261).

The risk of loan portfolios failing to pay as expected is regularly monitored by the business operations and the Risk Control function, with yield outcome compared against forecasts. This analysis is also used to assess potential impairment requirements for portfolio values.

Rating	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%
BB	0,2%	0,1%
BB-	1,1%	0,6%
B+	0,0%	0,0%
B	0,0%	0,0%
B-	0,0%	0,0%
N/A	0,0%	0,0%
Total, SEK thousand	**7 398 266**	**6 799 957**
of which liquidity portfolio	***6 288 403***	***5 179 173***

7.1.2 Credit risk associated with the liquidity reserve

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 share that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures given counterparty credit rating. Hoist Finance's liquidity reserve mainly consists of bonds issued by the state of Sweden and Swedish municipalities as well as covered bonds.

The table to the right shows Standard & Poor's credit rating for exposures in Hoist Finance's liquidity reserve at 31 December 2018 as compared with 31 December 2017.

As at 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 the Hoist Finance's credit spread risks and interest rate risks.

7.1.3 Counterparty credit risk as a result of hedging activities

The Group has counterparty credit risk towards the institutions with which it conducts derivative transactions, which are done solely for the purpose of reducing FX and interest rate risks in the Group.

The Group uses FX and interest rate derivatives to hedge its exchange rate and interest rate exposure. To avoid counterparty credit 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 credit 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 credit risk.

7.2 Additional information on credit risk

7.2.1 Past due loans and impairments

Hoist Finance specialises in acquiring portfolios of unsecured non-performing loans originated by large international banks and other financial institutions with whom Hoist Finance has strong and long-term relationships. These loan portfolios have been acquired at a significant discount relative to the face value. The price corresponds to the discounted value of expected future collections.

Many of the contracts in the portfolios that Hoist Finance acquires have been terminated for more than one year when the transactions are made, so Hoist Finance categorise the non-performing portfolios as past due more than one year. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

An impairment is recognised when estimated future cash flows are deemed to be lower than previously anticipated. Hoist Finance's portfolios are subject to revaluations and amortisation, and hence, excluded from impairment testing.

The Group monitors and evaluates actual collections in relation to forecasts, which are the basis for portfolio valuation. Should negative deviations occur, the Group first take additional operational measures in order to reduce the risk of deviations in the future. In the event that additional operational measures do not have, or is believed not to have, the intended effect a revised forecast is done for future collections. The forecast is also adjusted upwards in cases where the portfolios exhibit collections that are estimated to sustainably exceed the current forecast. Forecast adjustments are analysed in consultation with the management Investment Committee, and are decided on the Group level.

Risk Control regularly performs independent assessments of the book values of Hoist Finance acquired loan portfolios in order to verify how well the book values represent a fair and realistic valuation of the assets and to assess the risk of overvaluation of assets. Those reviews are part of Risk Controls duties as independent control function responsible for identification, control and reporting of all risks of the Hoist Finance Group.

7.2.2 Credit risk exposures

The tables below present Hoist Finance's credit risk exposures split in different ways.

Credit risk exposures by exposure class

Hoist Finance consolidated situation, SEK thousand

31 Dec 2018	Original exposure	Exposure amount	of which: off-balance sheet items	Average exposure amount	Risk exposure amount after SME supporting factor	Average risk weight %	Capital requirement
Sovereign and central banks	1 682 747	1 682 747	-	1 443 561	-	-	-
Municipalities	1 031 035	1 031 035	-	1 213 165	-	-	-
Institutions	1 523 429	1 523 429	-	1 759 778	354 829	23%	28 386
Corporates	141 723	141 723	-	188 668	141 723	100%	11 338
of which: SME	*10 021*	*10 021*	-	*5 868*	*3 353*	*57%*	*268*
Retail	102 211	102 211	-	78 390	74 869	73%	5 989
of which: SME	-	-	-	-	-	-	-
Secured by immovable property	905 744	905 744	-	772 887	402 293	44%	32 183
Exposures in default	20 944 201	20 208 980	2 789 692	18 385 546	28 918 624	143%	2 313 490
of which: SME	*1 045 370*	*1 045 370*	-	*1 114 888*	*1 672 332*	150%	*133 787*
Covered bonds	3 634 962	3 634 962	-	3 240 735	363 496	10%	29 080
Other items	117 024	117 024	-	107 701	116 879	100%	9 350
Total	**30 083 075**	**29 347 855**	**2 789 692**	**27 192 431**	**30 372 712**	**103%**	**2 427 817**

Hoist Finance consolidated situation, SEK thousand

31 Dec 2017	Original exposure	Exposure amount	of which: off-balance sheet items	Average exposure amount	Risk exposure amount after SME supporting factor	Average risk weight %	Capital requirement
Sovereign and central banks	1 111 516	1 111 516	-	1 347 872	-	0%	-
Municipalities	429 377	429 377	-	304 081	-	0%	-
Institutions	1 836 069	1 836 069	-	1 469 702	380 984	21%	30 479
Corporates	135 760	135 760	-	154 598	135 760	100%	10 861
of which: SME	-	-	-	*899*	-	*0%*	*0*
Retail	21 325	21 325	-	25 214	15 994	75%	1 279
of which: SME	-	-	-	-	-	-	-
Exposures in default	15 699 925	15 348 907	346 799	13 936 241	15 348 907	100%	1 227 913
of which: SME	*1 156 112*	*1 156 112*	-	*918 337*	*918 337*	*100%*	*73 467*
Covered bonds	3 689 021	3 689 021	-	3 150 054	368 902	10%	29 512
Other items	145 512	145 512	-	133 336	145 310	98%	11 625
Total	**23 068 505**	**22 717 487**	**346 799**	**20 521 098**	**16 395 857**	**72%**	**1 311 669**

Hoist Finance

Geographical breakdown of exposure amount

Hoist Finance consolidated situation, SEK thousand

31 Dec 2018	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Other items	Total
Sweden	1 682 747	1 031 035	552 870	32 942	0	0	0	3 634 962	21 210	**6 955 766**
UK	-	-	167 756	17 963	29 576	301 589	5 403 026	0	31 122	**5 952 032**
Italy	-	-	294 762	29 065	0	0	6 082 740	0	8 725	**6 416 291**
Germany	-	-	111 260	18 077	65 306	0	2 264 951	0	29 396	**2 487 990**
Poland	-	-	243 528	12 740	7 329	604 155	2 362 649	0	5 256	**3 235 657**
Netherlands	-	-	36 852	29 055	0	0	888 174	0	2 641	**956 721**
France	-	-	79 586	2 153	0	0	1 081 696	0	10 434	**1 173 869**
Spain	-	-	30 973	366	0	0	1 092 880	0	5 523	**1 129 742**
Belgium	-	-	1 687	362	0	0	224 129	0	572	**226 750**
Greece	-	-	2 156	0	0	0	773 086	0	2 144	**777 385**
Other countries	-	-	-	-	-	-	35 650	-	-	**35 650**
Total	**1 682 747**	**1 031 035**	**1 523 429**	**141 723**	**102 211**	**905 744**	**20 208 980**	**3 634 962**	**117 024**	**29 347 855**

Hoist Finance consolidated situation, SEK thousand

31 Dec 2017	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Other items	Total
Sweden	1 111 516	429 377	826 216	23 265	-	-	-	3 689 021	37 543	**6 116 938**
UK	-	-	212 279	21 611	-	-	4 759 306	-	20 559	**5 013 755**
Italy	-	-	319 399	31 634	-	-	4 028 142	-	4 236	**4 383 411**
Germany	-	-	22 647	11 062	21 325	-	1 991 755	-	26 756	**2 073 545**
Poland	-	-	233 997	2 428	-	-	2 115 003	-	5 393	**2 356 821**
Netherlands	-	-	74 112	43 614	-	-	981 417	-	2 319	**1 101 462**
France	-	-	48 479	1 450	-	-	553 294	-	3 270	**606 493**
Spain	-	-	92 130	351	-	-	624 002	-	1 568	**718 051**
Belgium	-	-	4 615	347	-	-	266 583	-	1 063	**272 608**
Other countries	-	-	2 195	-	-	-	29 403	-	42 805	**74 403**
Total	**1 111 516**	**429 377**	**1 836 069**	**135 762**	**21 325**	**-**	**15 348 906**	**3 689 021**	**145 512**	**22 717 487**

Maturity analysis of exposure amount

Hoist Finance consolidated situation, SEK thousand

Remaining contractual maturity, undiscounted value 31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Treasury bills and treasury bonds	-	2 522 849	40 484	90 107	-	-	**2 653 441**
Lending to credit institutions	1 121 720	70 152	-	-	-	-	**1 191 872**
Lending to the public	0	2 672	4 896	8 648	373 902	-	**16 590**
Bonds and other securities	-	0	3 173 674	461 288	-	-	**3 634 962**
Other assets	145	584 818	-	4 088	-	59 015	**648 067**
Off-balance sheet items	-	29 530	88 591	262 735	-	-	**381 857**
Total	**1 121 865**	**3 211 022**	**3 307 646**	**826 866**	**373 902**	**59 015**	**8 526 787**

Information on acquired loan portfolios within the Group based on net cash flows, SEK thousand

31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	-	1 378 659	4 102 845	16 930 395	11 190 080	-	**33 601 979**
Total	**-**	**1 378 659**	**4 102 845**	**16 930 395**	**11 190 080**	**-**	**33 601 979**

Hoist Finance consolidated situation, SEK thousand

Remaining contractual maturity, undiscounted value 31 Dec 2017	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Treasury bills and treasury bonds	-	1 154 257	188 098	145 048	-	-	**1 487 403**
Lending to credit institutions	1 631 425	60 877	-	-	-	-	**1 692 302**
Lending to the public	-	19 456	6 930	14 524	884	-	**41 794**
Bonds and other securities	-	198 227	1 135 676	2 368 163	-	-	**3 702 066**
Other assets	202	398 165	-	1 804	-	42 394	**442 565**
Off-balance sheet items	-	352	1 055	345 392	-	-	**346 799**
Total	**1 631 627**	**1 831 334**	**1 331 758**	**2 874 932**	**884 089**	**42 394**	**7 712 929**

Information on acquired loan portfolios within the Group based on net cash flows, SEK thousand

31 Dec 2017	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	-	948 967	2 758 434	11 057 098	6 011 227	-	**20 775 726**
Total	**-**	**948 967**	**2 758 434**	**11 057 098**	**6 011 227**	**-**	**20 775 726**

Exposure values per credit quality step

To set the risk weight for rated counterparties according to the standardised approach Hoist Finance uses their external rating, which is translated to a credit quality step.

The External Credit Assessment Institutions (ECAIs) used by Hoist Finance are Standard & Poor's, Moody's and Fitch. Applicable information from these ECAIs is used for calculating risk weights. Hoist Finance uses external rating from the ECAIs for exposures to central governments, regional governments and institutions. The table below shows the exposure values per credit quality step where step 1 is the highest credit quality category and step 6 is the lowest. No deduction is made from own funds for exposures in the standardised approach with an external rating.

Hoist Finance consolidated situation 31 Dec 2018, SEK thousand

Credit quality step	Central governments or central banks exposure value	Regional governments or local authorities exposure value	Institutions exposure value	Covered bonds exposure value	Total	% of Total
1	1 683	1 031	66	3 635	6 414	82%
2	-	-	801	-	801	10%
3	-	-	488	-	488	6%
4	-	-	84	-	84	1%
5	-	-	-	-	-	-
6	-	-	-	-	-	-

Hoist Finance consolidated situation 31 Dec 2017, SEK thousand

Credit quality step	Central governments or central banks exposure value	Regional governments or local authorities exposure value	Institutions exposure value	Covered bonds exposure value	Total	% of Total
1	1 111 516	429 377	41 627	3 689 021	5 271 541	82%
2	-	-	752 366	-	752 366	12%
3	-	-	388 184	-	388 184	6%
4	-	-	40 882	-	40 882	1%
5	-	-	-	-	-	-
6	-	-	-	-	-	-

8 OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, IT systems or from external events, including legal and compliance risk.

Operational risk that Hoist Finance is mainly exposed to can be divided into the following categories:

- Unauthorised activities and internal fraud
- External fraud
- Employment practices and work place 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 control routines and by training employees in risk management and risk management techniques. The Group also applies the four eyes principle, i.e., the principle that at least two independent units/persons must always manage or review a business flow, transaction or key decision.

To identify and mitigate operational risks within the Group, the risk control function in each country has established routines, including the following:

1. Sound incident management, where incidents are reported, analysed and actions taken to mitigate risks insofar as it is economically justifiable and where a sound, learning risk culture promotes learning from mistakes to continuously improve. Significant reported incidents are included in the risk report submitted to the Board and the management in the relevant country.

2. Annual evaluation and identification of operational risks and controls to reduce risk. This is a process to identify, quantify, analyse and thereby determine measures to reduce operational risks at 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, 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 done in workshops, as discussion and different perspectives are vital to the identification of relevant risks.

3. The process for approval and quality assurance for 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 to plan for and respond to events and business disruptions in order to continue business operations at an acceptable predefined level. Hoist Finance's BCM is comprised of Disruption and Crisis Management:

- Disruptions are managed with Business Continuity Plans
- Crises are managed by a predefined Crisis Management Team

5. Key Risk Indicators are reported to the Management and the Board of Directors 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.

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.

Description	Risk profile	Risk management
Model risk This pertains to the risk of the models used by Hoist Finance to value assets and measure risk, for whatever reason, generating erroneous results or becoming irrelevant for the market conditions.	The correct pricing and valuation of NPLs is central to Hoist Finance's operations and 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 of these partners not acting toward customers in accordance with the strict practices and high standards for which Hoist Finance is known.	Partners are used, more or less, 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, or theft of confidential information.	The information that would cause most damage if leaked, loosed or stolen would be customer details and 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 and information security department that continuously works with these issues and the IT department maintains a stringent security focus. The risk control function and internal audit also conducts reviews of the above.
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 and on certain critical infrastructure, such as IT systems and telephony, and to a certain extent premises from which to conduct operations during disruptions. Focus on continuity management has been within these areas.	To be well prepared for disruptive events the company conducts drill exercises on a regular basis. 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 duration.
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.

9 MARKET RISK

Market risk is the risk to earnings, capital or liquidity arising from adverse movements in market prices. This includes FX risk and interest rate risk.

9.1 Foreign exchange risk

Foreign exchange risk ("FX risk") is the risk to earnings or capital arising from adverse movements in FX-prices.

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 (transaction risk)
- Translation of assets and liabilities in currencies other than the Group's presentation currency into the presentation currency each month (translation risk)

Group Treasury has the overall responsibility for continuous management of these risks.

Transaction risk – In each country, all income and most operating expenses are in local currency. Currency fluctuations therefore have only a limited impact on the Group's operating profit in local currency. Income and expenses in national currency are also hedged in a natural way, which limits the transaction risk exposure. There is, however, a residual risk arising from the fact that Hoist Finance has some expenses in SEK, which are not offset by income in SEK.

Translation risk – The Group's presentation currency is SEK, while the majority of its functional currency is 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 mainly denominated in SEK, which gives rise to a translation risk (balance sheet risk).

To manage translation risk, Hoist Finance calculates the Group's 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 has no significant positions in currencies other than EUR, GBP and PLN. The tables below show the Group's exposure per currency. The tables also present the translation risk expressed as sensitivity in a movement of 10 per cent in the exchange rate between SEK and each currency.

Group's 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	
Forward hedge, EUR million	7		-315	
Net Exposure, EUR million	-2		11	
If the EUR/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	-2 516	-0,09%	10 482	0,32%
If the EUR/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	2 516	0,09%	-10 482	-0,32%

Group's 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	
Forward hedge, PLN million	-1 436		-984	
Net Exposure, PLN million	6		4	
If the PLN/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	1 418	0,05%	827	0,03%
If the PLN/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	-1 418	-0,05%	-827	-0,03%

Group's 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	
Forward hedge, GBP million	-513		-406	
Net Exposure, GBP million	1		-1	
If the GBP/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	864	0,03%	-1 524	-0,05%
If the GBP/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	-864	-0,03%	1 524	0,05%

Hoist Finance has strict limits for the exposure to each currency. The limits for an open FX position are 2-3 per cent of the gross currency exposure amount.

9.2 Interest rate risk

Interest rate risk is the risk that the net interest income or asset/liability values are negatively impacted as a result of fluctuations in the level of interest rates.

The Group's interest rate risk originates in changes in interest rates that may affect the Hoist Finance's revenues and expenses to varying extents. Changes in interest rates may affect the Hoist Finance'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 Group's risk appetite, the Group's Treasury function 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.

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 valued at fair value, so changes in interest rates have an instantaneous impact on Group results. Loan portfolios, on the other hand, are valued under the amortised cost principle, so changes in interest rates have an impact over time (rather than an instantaneous impact) on asset value and Group results. The Group's liabilities are not valued at market value (unless a derivative should have a negative value), so changes in interest rates have an impact over time (rather than an instantaneous impact) on Group results.

The table below shows the aggregate effect on earnings of a sudden and permanent parallel shift of 100 basis points in the market rates.

Total effect of change in interest rate over three years (SEK thousand)	**Impact on profit or loss 31 Dec 2018**		**Impact on equity**	**Impact on profit or loss 31 Dec 2017**		**Impact on equity**
	-100 bps	**+100 bps**		**-100 bps**	**+100 bps**	
Efficient net interest income (over three years)	122 377	-121 309		101 163	-98 820	
Efficient derivatives (momentum effect)	-70 000	70 000		-50 000	50 000	
Total effect of change in short interest rate	**52 377**	**-51 309**	**-1,41%**	**51 163**	**-48 820**	**-1,51%**

The table below shows the instantaneous effect on earnings of a sudden and permanent parallel shift of 100 basis points in the market rates.

Total items valued at fair value including derivatives (SEK thousand)	**Impact on profit or loss 31 Dec 2018**		**Impact on equity**	**Impact on profit or loss 31 Dec 2017**		**Impact on equity**
	-100 bps	**+100 bps**		**-100 bps**	**+100 bps**	
Liquidity portfolio	19 907	-19 907		18 943	-18 943	
Interest rate swaps	-70 000	70 000		-50 000	50 000	
Total	**-50 093**	**50 093**	**-1,34%**	**-31 057**	**31 057**	**-0,96%**

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.

On 19 July 2018, the European Banking Authority (EBA) published their final "Guidelines on the management of interest rate risk arising from non-trading book activities". Competent authorities within the European System of Financial Supervision should ensure that institutions apply these guidelines from 30 June 2019 and reflect the guidelines in the 2019 ICAAP reports, i.e. ICAAP reports based on end-year 2019 data. The guidelines define Interest rate in the banking book as the current or prospective risk to both the earnings and the economic value of an institution arising from adverse movements in interest rates that affect interest rate sensitive instruments. Hoist Finance and the Swedish FSA have entered into a dialogue to align their view on the practical application of the guidelines to Hoist Finance.

10 LIQUIDITY RISK

Liquidity risk is the risk of difficulties in obtaining funding and thus, not being able to meet payment obligations at maturity without encountering significantly higher financing costs.

The Group's cash flow from acquired loan portfolios is in its nature positive. The group normally receive a cash flow of ca 1.8 times the invested amount, over time. Major cash outflows stem from a deliberate decision to invest in a new portfolio or from unexpected cash outflows. The latter can result from outflow of deposits or from outflow due to mark-to-market of hedging derivatives or from outflow of existing wholesale funding (re-financing risk).

The overall objective of the Group's liquidity management is to ensure that the Group maintains control over its liquidity risk situation, with sufficient amounts of liquid assets or immediately saleable assets to ensure timely satisfaction of its payment obligations without incurring high additional costs.

The Group has a diversified funding base with a diversified maturity structure, mainly in the form of deposits from the public and senior unsecured bonds, own funds instruments and equity. The majority of deposits from the public are payable on demand (flexible), while approximately 35 per cent (35) of the Group's deposits from the public are locked into longer maturities ("term deposits") ranging from 12 to 36 months.

In addition to having a diversified funding structure with respect to funding sources and maturity structure, the Group has taken a number of measures to minimise liquidity risk:

- Centralised liquidity management: Management of liquidity risk is centralised and handled by the Group's Treasury function.
- 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 liquidity position and reduce liquidity risk. These forecasts are presented to the Management and the Board of Directors.
- 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 offered interest rates.
- Well-diversified deposit portfolio with no concentration risks: The highest savings amount is SEK 950 thousand. The risk of large outflows is further reduced through the coverage of 99 per cent of deposits by the deposit guarantee scheme.
- Liquidity portfolio: Liquidity investments are made in low-risk, high-liquidity interest-bearing securities, which allows for swift cash conversion if needed.

Hoist Finance has a low appetite for assuming liquidity risk why potential future liquidity gaps are covered by generous liquidity reserves. Hoist Finance's liquidity reserve mainly consists of bonds issued by the state of Sweden and Swedish municipalities as well as covered bonds, see table below.

Liquidity reserve, SEK thousand	Total	Currency distribution			Total
	31 Dec 2018	SEK	EUR	Other	31 Dec 2017
Cash and holdings in central banks	145	-	145	-	202
Deposits in other banks available overnight	1 111 278	-199 398	621 698	687 978	1 620 581
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1 622 406	1 622 406	-	-	1 060 775
Securities issued or guaranteed by municipalities or other public sector entities	1 031 035	1 031 035	-	-	429 377
Covered bonds	3 634 962	3 634 962	-	-	3 689 021
Securities issued by non-financial corporates	-	-	-	-	0
Securities issued by financial corporates	-	-	-	-	0
Other	-	-	-	-	0
Total	**7 398 826**	**6 089 005**	**621 844**	**687 978**	**6 799 956**

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) at 31 December 2018, exceeding the limit and the target level by a significant margin.

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

- An outflow from HoistSpar of over 10 per cent of total deposits over a 30-day period.
- Should an official credit rating agency down-notch, or cancel, its credit rating of any credit rated Hoist entity.

10.1 Liquidity Coverage Ratio

The Group's Liquidity Coverage Ratio (LCR) was 473 per cent (1010) at 31 December 2018 this can be compared to the regulatory requirement of 100 per cent (80). As from 1 January 2018 the regulatory LCR requirement is fully implemented and at a level of 100 per cent. The table below presents further information about LCR, on quantitative information of LCR which complements Article 435(1)(f) of Regulation (EU) No 575/2013.

Hoist Finance consolidated situation, SEK million

		Total unweighted value				Total weighted value			
	Quarter ending on (DD Month YYYY)	31 Mar 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018	31 Mar 2018	30 Jun 2018	30 Sep 2018	31 Dec 2018
	Number of data points used in the calculation of averages	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					0	0	0	0
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	12 728	13 483	14 273	15 223	1 083	1 153	1 226	1 311
3	*Stable deposits*	*4 050*	*4 181*	*4 309*	*4 518*	*202*	*209*	*215*	*226*
4	*Less stable deposits*	*8 678*	*9 302*	*9 964*	*10 706*	*880*	*944*	*1 010*	*1 085*
5	Unsecured wholesale funding	31	11	13	56	31	11	13	56
6	*Operational deposits (all counterparties) and deposits in networks of cooperative banks*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
7	*Non-operational deposits (all counterparties)*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
8	*Unsecured debt*	*31*	*11*	*13*	*56*	*31*	*11*	*13*	*56*
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	650	741	849	855	592	626	660	665
11	*Outflows related to derivative exposures and other collateral requirements*	*564*	*574*	*567*	*573*	*564*	*574*	*567*	*573*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*86*	*167*	*282*	*282*	*28*	*52*	*93*	*93*
14	Other contractual funding obligations	130	198	228	332	7	73	101	173
15	Other contingent funding obligations	0	0	0	0	61	65	90	104
16	**TOTAL CASH OUTFLOWS**					**1 775**	**1 928**	**2 090**	**2 309**
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	2	3	6	9	1	1	3	5
19	Other cash inflows	1 486	1 638	1 634	1 724	1 486	1 638	1 634	1 724
EU-19a	(Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies)					0	0	0	0
EU-19b	(Excess inflows from a related specialised credit institution)					0	0	0	0
20	**TOTAL CASH INFLOWS**	**1 488**	**1 641**	**1 640**	**1 733**	**1 487**	**1 639**	**1 637**	**1 728**
EU-20a	***Fully exempt inflows***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
EU-20b	***Inflows Subject to 90% Cap***	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0***
EU-20c	***Inflows Subject to 75% Cap***	***1 488***	***1 641***	***1 640***	***1 733***	***1 487***	***1 639***	***1 637***	***1 728***
0	0								
21	**LIQUIDITY BUFFER**					**4 709**	**4 932**	**5 018**	**5 031**
22	**TOTAL NET CASH OUTFLOWS**					**490**	**522**	**598**	**720**
23	**LIQUIDITY COVERAGE RATIO (%)**					**975%**	**978%**	**923%**	**797%**

Other items in the LCR calculation that are not captured in the LCR disclosure template but that Hoist Finance considers relevant for its liquidity profile is the cash inflow from non-performing loans. The non-performing loans contribute with a stable cash inflow and are a natural part of Hoist Finance business.

DEFINITIONS

Term	Definition
Additional Tier 1 capital (AT1)	All Tier 1 capital, which does not qualify as Common equity tier 1 capital, e.g. Tier 1 capital instruments.
Capital conservation buffer	A requirement for a capital buffer of 2.5 per cent of total risk exposure amount consisting of Common Equity Tier 1 capital. If the buffer is not complete, the bank must retain a portion of its profit to improve its capital ratio.
Common Equity Tier 1 capital (CET1)	Common shares issued by the institution, share premium, retained earnings, other comprehensive income, other disclosed reserves after deduction for deferred tax assets, intangible assets and goodwill.
Common Equity Tier 1 capital ratio	Common Equity Tier 1 capital in relation to total risk exposure amount.
Compliance risk	The current or prospective risk to earnings and/or capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards which can lead to fines, damages and/or the voiding of contracts and can diminish an institution’s reputation.
Concentration risk	The vulnerability inherent in the concentration of exposures to a limited number of customers, suppliers, a particular sector or a geographic area.
Control function	An independent function for risk control, compliance or internal audit.
Countercyclical buffer	A buffer calculated as a percentage of total risk exposure amount and depends on the geographical distribution of the Group’s credit exposures and the countercyclical values in these different countries as set by local regulators. The Countercyclical buffer shall regularly be updated and added to or deducted from the Group’s capital limits.
Liquidity Coverage Ratio (LCR)	A regulatory measure defined as the ratio between liquidity assets and net outflows in a 30 days’ period.
Legal risk	The risk that contracts or other legal documents cannot be executed according to specified terms or that legal proceedings are initiated which affect the Group’s operations in a negative way.
Leverage ratio	Tier 1 capital divided by the total exposure measure calculated in accordance with proposed amendments to Regulation (EU) No 575/2013.
Limit	An established permitted level for a risk exposure.
Own funds	The sum of Tier 1 capital and Tier 2 capital.
Own funds requirements – Pillar 1	Minimum own funds requirements for credit, market and operational risk.
Own funds requirements – Pillar 2	Own funds requirements in addition to the ones in Pillar 1.
Risk Exposure Amount (REA)	The sum of risk weighted assets for credit risk, and risk exposure amounts for market and operational risk.
Risk management	Identifying, analysing, measuring, managing, controlling and reporting significant risks, which the Group is or may be exposed to.
Risk management framework	The Group’s strategies, processes, procedures, internal rules, limits, controls and reporting procedures, which govern the Group’s risk management processes.
Risk Strategy	A strategy for assuming, steering and exercising control of the risks to which the Group is or could become exposed.
Risks to capital	Risks that, should they materialise, will have a significant impact on the Group’s own funds over the next 12 months.
Tier 1 capital (T1)	The sum of Common Equity Tier 1 capital and Additional Tier 1 capital.
Tier 1 capital ratio	Tier 1 capital in relation to total risk exposure amount.
Tier 2 capital (T2)	Subordinated loans as well as fixed-term subordinated loans with certain conditions as set out in Regulation (EU) No 575/2013.
Total capital ratio	Own funds in relation to total risk exposure amount.

Hoist Finance

ANNEX I – CONSOLIDATED SITUATION AND BALANCE SHEET RECONCILIATION

CONSOLIDATED SITUATION

Hoist Finance is a credit market company, licensed and under the supervision of the SFSA, and is the only regulated entity within the consolidated situation. Hoist Finance is the parent company in the Hoist Finance Group. All subsidiaries are fully consolidated and the joint venture BEST III NS FIZ and PQH Special Liquidation S.A. are consolidated using the proportional method. The table below presents companies included in Hoist Finance consolidated situation. For an overview of the complete legal structure, please see Hoist Finance's Annual Report 2019.

Company name	Corporate identity number	Domicile	Ownership %
Parent company			
Hoist Finance AB (publ)	556012-8489	Stockholm	
Branches of Hoist Finance AB (publ)			
Hoist Finance AB (publ), Belgium Branch	556012-8489	Ghent*	N/A
Hoist Finance AB (publ), Netherlands Branch	556012-8489	Amsterdam	N/A
Hoist Finance AB (publ) Niederlassung Deutschland	556012-8489	Duisburg	N/A
Subsidiaries of Hoist Finance AB (publ)			
Hoist Finance Services AB	556640-9941	Stockholm	100
Immobilière de Lancereaux SAS	2018B20590	Paris	100
Hoist Finance SAS**	444611453	Lille	100
HECTOR Sicherheiten-Verwaltungs GmbH	HRB 74561	Duisburg	100
Hoist Kredit Ltd.	7646691	London	100
Hoist Finance UK Ltd.	8303007	London	100
Robinson Way Ltd.	6976081	Manchester	100
Compello Holdings Ltd.	8045571	Milton Keynes	100
Compello Operations Ltd.	8045559	Milton Keynes	100
MKE (UK) Ltd.	7042157	Milton Keynes	100
MKDP LLP	OC349372	Milton Keynes	100
C L Finance Ltd.	1108021	West Yorkshire	100
The Lewis Group Ltd.	SC127043	Glasgow	100
Hoist Finance UK Holdings 1 Ltd.	11473838	Manchester	100
Hoist Finance UK Holdings 2 Ltd.	11473850	Manchester	100
Hoist Finance UK Holdings 3 Ltd.	11473909	Manchester	100
Hoist Italia S.R.L	12898671008	Rome	100
Marte SPV S.R.L	4634710265	Conegliano	100
Nais Uno Reoco S.r.l.	RM-1530404	Rome	100
Nuova Maran S.r.l.	14846811009	Rome	100
Hoist Finance Cyprus Ltd.	HE 338570	Nicosia	100
Hoist Polska sp. z o.o.	0000536257	Wroclaw	100
Hoist Spain S.L.	B87547659	Madrid	100
Optimus Portfolio Management S.L.	B86959285	Madrid	100
Hoist Hellas S.A.	137777901000	Athens	
Funds			
HOIST I NS FIZ***	RFI 702	Warszawa	100
HOIST II NS FIZ***	RFI 1617	Warszawa	100
Go Debt1 FIZ NFS***	0000292229	Warszawa	100
Joint venture			
BEST III NS FIZ***	RFI 623	Gdynia	50
PQH Single Special Liquidation S.A.	138353201000	Athens	33

**The Hoist Finance AB (publ), Belgium Branch is since 2019-02-01 domiciled in Mechelen.*
***Hoist Finance SAS was on 2019-01-02 dissolved and merged into Hoist Finance AB (publ). The business of Hoist Finance SAS is today conducted through a French branch of Hoist Finance AB (publ).*
**** Non-standardised securitisation funds of which Hoist Finance AB (publ) holds investment certificates*

BALANCE SHEET RECONCILIATION

The table below shows a balance sheet reconciliation between Hoist Finance consolidated situation and the consolidated accounts ("Hoist Finance Group") and the balance sheet in Hoist Finance AB (publ).

SEK thousand	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Kredit AB (publ)
ASSETS	**31 Dec 2018**	**31 Dec 2018**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2017**	**31 Dec 2017**
Cash	145	145	13	202	202	36
Treasury bills and treasury bonds	2 653 441	2 653 441	2 653 441	1 490 152	1 490 152	1 490 152
Lending to credit institutions	1 191 871	1 187 161	365 421	1 692 302	1 681 458	607 584
Lending to the public	14 058	14 058	17 140	37 455	37 455	39 425
Aquired loan portfolios	20 822 021	20 605 028	5 593 085	14 999 868	14 765 989	2 463 642
Receivables from affiliated companies	0	0	15 181 792	-	-	10 823 365
Bonds and other securities	3 634 962	3 634 962	3 634 962	3 689 021	3 689 021	3 689 021
Shares and participations in subsidiaries	0	0	722 380	-	-	2 142 880
Shares and participations in joint venture	0	214 930	21 982	-	237 586	30 171
Intangible assets	386 791	386 791	176 509	287 038	287 038	44 343
Tangible fixed assets	59 025	59 015	24 359	42 405	42 394	20 956
Other assets	426 551	425 126	340 210	200 454	198 832	100 876
Deferred tax assets	21 951	21 951	911	21 241	21 241	2 581
Prepaid expenses and accrued income	53 503	52 373	27 018	100 648	85 196	23 251
Total assets	**29 264 318**	**29 254 980**	**28 758 225**	**22 560 786**	**22 536 564**	**21 478 283**

LIABILITIES AND EQUITY	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Kredit AB (publ)
	31 Dec 2018	**31 Dec 2018**	**31 Dec 2018**	**31 Dec 2017**	**31 Dec 2017**	**31 Dec 2017**
Liabilities						
Deposits and borrowings from the public	17 092 746	17 092 746	17 092 746	13 227 450	13 227 450	13 227 450
Tax liabilities	91 849	91 656	64 893	84 432	84 091	37 332
Other liabilities	389 538	380 456	523 568	404 209	393 370	379 080
Deferred tax liabilities	187 629	187 629	5 371 453	147 523	147 523	-
Accrued expenses and prepaid income	232 490	232 085	67 691	223 485	210 541	56 556
Provisions	68 361	68 361	40 931	87 027	87 027	59 103
Senior unsecured loans	5 950 203	5 950 203	5 950 203	4 355 000	4 355 000	4 355 000
Subordinated loans	838 744	838 744	838 744	803 257	803 257	803 257
Total liabilities	**24 851 557**	**24 841 879**	**24 584 148**	**19 332 383**	**19 308 259**	**18 917 778**
Untaxed reserves	0	0	221 384	-	-	80 752
Equity	**0**	**0**	**0**			
Share capital	29 768	29 768	29 768	27 061	27 061	66 667
Contributed equity	2 965 067	2 965 067	2 965 067	2 101 668	2 101 668	1 735 955
Reserves	-201 665	-201 665	85 986	-112 854	-112 854	78 372
Retained earnings including profit of the year	1 619 571	1 619 926	870 642	1 212 528	1 212 430	598 759
Total equity	**4 412 741**	**4 413 095**	**3 952 463**	**3 228 403**	**3 228 305**	**2 479 753**
Total liabilities and equity	**29 264 298**	**29 254 974**	**28 757 996**	**22 560 786**	**22 536 564**	**21 478 283**

ANNEX II – HOIST FINANCE AB (PUBL)

Hoist Finance AB (publ) is licensed and regulated as a credit market company under the supervision of the SFSA. The information disclosed in this Annex is in accordance with Article 13 of Regulation (EU) No 575/2013 (CRR).

Own funds

Own funds, SEK thousand	Hoist Finance AB (publ)	
	31 Dec 2018	31 Dec 2017
Capital instruments and the related share premium accounts	1 912 660	482 963
Retained earnings	198 998	402 218
Accumulated comprehensive income and other reserves	648 771	1 081 441
Independently reviewed interim profits net of any foreseeable charge or dividend[1]	646 744	183 089
Intangible assets (net of related tax liability)	-176 509	-44 343
Deferred tax assets that rely on future profitability	-911	-2 581
Other transitional arrangements	1 540	0
Common Equity Tier 1 capital	**3 232 292**	**2 101 787**
Capital instruments and the related share premium accounts	690 300	379 577
Regulatory adjustments	**690 300**	**379 577**
Tier 1 capital	**3 921 592**	**2 482 364**
Capital instruments and the related share premium accounts	838 744	803 257
Tier 2 capital	**838 744**	**803 257**
Total own funds	**4 761 336**	**3 284 621**

Risk exposure amounts and own funds requirements

Risk exposure amounts, SEK thousand	Hoist Finance AB (publ)	
	31 Dec 2018	31 Dec 2017
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	161 440	150 270
of which counterparty credit risk	*47 859*	*54 333*
Exposures to corporates	15 286 083	10 934 711
Retail exposures	69 372	15 994
Secured by immovable property	112 337	0
Exposures in default	7 666 886	2 496 093
Exposures in the form of covered bonds	363 496	368 902
Equity exposures	722 380	2 142 880
Other items	51 472	44 322
Credit risk (standardised approach)	**24 431 465**	**16 153 172**
Market risk (foreign exchange risk - standardised approach)	**25 163**	**113 090**
Operational risk (standardised approach)	**1 429 646**	**1 127 520**
Credit valuation adjustment (standardised approach)	**52 931**	**27 430**
Total risk exposure amount	**25 939 205**	**17 421 212**

Own funds requirements, SEK thousand	Hoist Finance AB (publ)	
Pillar 1	**31 Dec 2018**	**31 Dec 2017**
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	12 915	12 022
of which counterparty credit risk	3 829	4 347
Exposures to corporates	1 222 887	874 777
Retail exposures	5 550	1 279
Secured by immovable property	8 987	0
Exposures in default	613 351	199 687
Exposures in the form of covered bonds	29 080	29 512
Equity exposures	57 790	171 430
Other items	4 118	3 546
Credit risk (standardised approach)	**1 954 677**	**1 293 253**
Market risk (foreign exchange risk - standardised approach)	**2 013**	**9 047**
Operational risk (standardised approach)	**114 372**	**90 202**
Credit valuation adjustment (standardised approach)	**4 234**	**2 194**
Total own funds requirement - Pillar 1	**2 075 296**	**1 393 697**
Pillar 2		
Concentration Risk	215 220	130 774
Interest Rate Risk in the Banking Book	53 964	36 203
Pension Risk	3 000	3 000
Other Pillar 2 Risks	30 842	25 909
Total own funds requirement - Pillar 2	**303 026**	**195 886**
Capital Buffers		
Capital conservation buffer	648 530	435 530
Countercyclical buffer	73 228	8 459
Total own funds requirement - Capital Buffers	**721 758**	**443 989**
Total own funds requirements	**3 100 081**	**2 033 573**

Capital ratios and buffers

Capital ratios and buffers, %	Hoist Finance AB (publ)	
	31 Dec 2018	**31 Dec 2017**
Common Equity Tier 1 Capital ratio	12,45	12,07
Tier 1 Capital ratio	15,11	14,25
Total Capital ratio	18,34	18,86
Institution specific CET1 buffer requirement	7,28	7,05
of which: pillar I capital requirement	4,50	4,50
of which: capital conservation buffer requirement	*2,50*	*2,50*
of which: countercyclical buffer requirement	*0,28*	*0,05*
CET1 capital available to meet buffers[1]	**7,95**	**7,57**

[1]CET1 capital 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.

Countercyclical buffer

Hoist Finance is currently required to maintain an institution-specific countercyclical buffer of 0.3 per cent (0.05) of the total risk exposure amount. The table below shows the geographical distribution of Hoist Finance credit exposures relevant for the calculation of the countercyclical capital buffer.

Hoist Finance

Hoist Finance AB (publ) 31 Dec 2018, SEK thousand

	General credit exposures		Own funds requirements				Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for IRB	Of which: general credit exposures	Of which: trading book exposures	Of which: securitisation exposures	Total		
Sweden	425 516	0	34 041	0	0	34 041	1,8	2,0%
UK	6 001 058	0	480 085	0	0	480 085	24,7	1,0%
Italy	6 154 674	0	492 374	0	0	492 374	25,4	0,0%
Germany	3 416 737	0	273 339	0	0	273 339	14,1	0,0%
Poland	2 856 057	0	228 485	0	0	228 485	11,8	0,0%
Netherlands	1 335 920	0	106 874	0	0	106 874	5,5	0,0%
France	1 443 394	0	115 472	0	0	115 472	5,9	0,0%
Spain	1 076 964	0	86 157	0	0	86 157	4,4	0,0%
Belgium	328 029	0	26 242	0	0	26 242	1,4	0,0%
Austria	51 975	0	4 158	0	0	4 158	0,2	0,0%
Jersey	0	0	0	0	0	0	0,0	0,0%
Greece	1 179 483	0	94 359	0	0	94 359	4,9	0,0%
Cyprus	9	0	1	0	0	1	0,0	0,0%
Total	**24 269 815**	**0**	**1 941 585**	**0**	**0**	**1 941 585**	**100,0**	**0,28%**

The table below shows Hoist Finance amount of the institution-specific countercyclical capital buffer.

	31 Dec 2018
Total risk exposure amount	25 939 205
Institution specific countercyclical buffer rate	0,282%
Institution specific countercyclical buffer requirement	73 222

Leverage ratio

Detailed information about Hoist Finance leverage ratio is disclosed in Annex V

The leverage ratio for Hoist Finance is 13.59 per cent (11.50 per cent) as at 31 December 2018.

Credit risk exposures by exposure class

Hoist Finance AB (publ), SEK thousand

31 Dec 2018	Original exposure	Exposure amount	of which: off-balance sheet items	Average exposure amount	Risk exposure amount after SME supporting factor	Average risk weight %	Capital requirement
Sovereign and central banks	1 662 146	1 662 146	-	1 424 003	-	-	-
Municipalities	1 031 035	1 031 035	-	1 213 165	-	-	-
Institutions	696 979	696 979	-	968 497	161 440	23%	12 915
Corporates	15 286 083	15 286 083	-	13 364 802	15 286 083	100%	1 222 887
of which: SME	*10 021*	*10 021*	-	*5 868*	*3 353*	*57%*	*268*
Retail	94 882	94 882	-	72 227	69 372	73%	5 550
of which: SME	-	-	-	-	-	-	-
Secured by immovable property	301 589	301 589	-	289 157	112 337	37%	8 987
Exposures in default	5 578 024	5 380 170	169 498	4 000 603	7 666 886	143%	613 351
of which: SME	-	-	-	-	-	-	-
Covered bonds	3 634 962	3 634 962	-	3 240 735	363 496	10%	29 080
Equity exposures	722 380	722 380	-	1 792 795	722 380	100%	57 790
Other items	51 485	51 485	-	55 972	51 472	100%	4 118
Total	**29 058 565**	**28 860 710**	**169 498**	**26 421 955**	**24 431 465**	**85%**	**1 954 677**

Hoist Finance

Hoist Kredit AB (publ), SEK thousand

31 Dec 2017	Original exposure	Exposure amount	of which: off-balance sheet items	Average exposure amount	Risk exposure amount after SME supporting factor	Average risk weight %	Capital requirement
Sovereign and central banks	1 070 634	1 070 634	-	1 324 859	-	0%	-
Municipalities	429 377	429 377	-	304 081	-	0%	-
Institutions	751 352	751 352	-	471 350	150 270	20%	12 022
Corporates	10 934 711	10 934 711	-	10 347 877	10 934 711	100%	874 777
of which: SME	-	-	-	*899*	*685*	*76%*	*55*
Retail	21 325	21 325	-	25 214	15 994	75%	1 279
of which: SME	-	-	-	-	-	-	-
Exposures in default	2 532 764	2 496 093	32 452	2 509 869	2 496 093	100%	199 687
of which: SME	-	-	-	-	-	*0%*	-
Covered bonds	3 689 021	3 689 021	-	3 150 054	368 902	10%	29 512
Equity exposures	2 142 880	2 142 880	-	1 284 417	2 142 880	100%	171 430
Other items	44 359	44 359	-	26 694	44 323	100%	3 546
Total	**21 616 423**	**21 579 752**	**32 452**	**19 444 415**	**16 153 173**	**75%**	**1 292 253**

Geographical breakdown of exposure amount

Hoist Finance AB (publ), SEK million

31 Dec 2018	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Equity exposures	Other items	Total
Sweden	1 662 146	1 031 035	464 510	41 827	-	-	-	3 634 962	1 318	18 875	**6 854 673**
UK	-	-	-	5 438 854	-	301 589	-	-	334 949	-	**6 076 393**
Italy	-	-	2 514	6 142 690	-	-	-	-	15 984	-	**6 162 189**
Germany	-	-	107 988	11 704	65 306	-	2 264 951	-	0	28 396	**2 478 345**
Poland	-	-	71 815	2 687 498	-	-	21 015	-	137 036	-	**2 917 365**
Netherlands	-	-	36 852	29 055	-	-	888 174	-	-	2 641	**956 721**
France	-	-	-	63 164	-	-	-	-	7 194	-	**70 358**
Spain	-	-	7 946	860 785	-	-	-	-	216 179	-	**1 084 910**
Belgium	-	-	1 687	-	-	-	224 129	-	-	572	**227 388**
Greece	-	-	1 665	10 143	-	-	773 086	-	9 711	-	**794 605**
Other countries	-	-	0	362	29 576	-	1 208 816	-	9	1 000	**1 239 763**
Total	**1 662 146**	**1 031 035**	**696 979**	**15 286 083**	**94 882**	**301 589**	**5 380 170**	**3 634 962**	**722 380**	**51 485**	**28 860 710**

Hoist Kredit AB (publ), SEK thousand

31 Dec 2017	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Exposures in default	Covered bonds	Equity exposures	Other items	Total
Sweden	1 070 634	429 377	660 950	4 382	-	-	3 689 021	1 018	14 220	**5 869 602**
UK	-	-	1 048	3 169 647	-	-	-	334 949	-	**3 505 644**
Italy	-	-	2 315	4 150 082	-	-	-	9 853	-	**4 162 250**
Germany	-	-	931	8 605	21 325	1 937 820	-	0	26 756	**1 995 437**
Poland	-	-	57	1 825 403	-	16 404	-	147 243	-	**1 989 107**
Netherlands	-	-	74 112	797 205	-	227 826	-	-	2 319	**1 101 462**
France	-	-	-	535 238	-	-	-	7 183	-	**542 421**
Spain	-	-	7 324	443 394	-	-	-	216 179	-	**666 897**
Belgium	-	-	4 615	-	-	266 583	-	-	1 062	**272 260**
Other countries	-	-	-	755	-	47 462	-	1 426 455	0	**1 474 672**
Total	**1 070 634**	**429 377**	**751 352**	**10 934 711**	**21 325**	**2 496 094**	**3 689 021**	**2 142 880**	**44 357**	**21 579 752**

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Maturity analysis of exposure amount

Hoist Finance AB (publ), SEK thousand

Remaining contractual maturity, undiscounted value 31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Treasury bills and treasury bonds	-	2 522 849	40 484	90 107	-	-	**2 653 441**
Lending to credit institutions	353 091	12 330	-	-	-	-	**365 421**
Lending to the public	-	2 672	4 896	8 648	373 902	0	**16 590**
Bonds and other securities	-	0	3 173 674	461 288	-	-	**3 634 962**
Receivables from affiliated companies	-	582 821	2 241 080	7 660 807	-	5 999 645	**16 485 352**
Other assets	13 272	869 071	-	362	-	768 722	**1 638 168**
Off-balance sheet items	-	2 363	7 089	160 046	-	-	**169 498**
Total	**353 104**	**3 992 106**	**5 467 223**	**8 381 258**	**373 902**	**6 769 367**	**24 962 432**

Information on acquired loan portfolios within the Group based on net cash flows, SEK thousand

31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	-	440 941	1 302 827	4 408 354	3 280 201	-	**9 432 321**
Total	**-**	**440 941**	**1 302 827**	**4 408 354**	**3 280 201**	**-**	**9 432 321**

Hoist Kredit AB (publ), SEK thousand

Remaining contractual maturity, undiscounted value 31 Dec 2017	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Treasury bills and treasury bonds	-	1 154 257	188 098	145 048	-	-	**1 487 403**
Lending to credit institutions	605 905	1 679	-	-	-	-	**607 584**
Lending to the public	-	18 470	6 930	14 524	884	-	**40 808**
Bonds and other securities	-	198 227	1 135 676	2 368 163	-	-	**3 702 066**
Receivables from affiliated companies	-	236 955	2 608 247	6 212 373	-	4 114 615	**13 172 189**
Other assets	36	239 720	-	347	-	2 194 008	**2 434 112**
Off-balance sheet items	-	352	1 055	31 045	-	-	**32 452**
Total	**605 942**	**1 849 660**	**3 940 005**	**8 771 501**	**884 089**	**6 308 622**	**21 476 614**

Information on acquired loan portfolios within the Group based on net cash flows, SEK thousand

31 Dec 2017	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	-	201 323	556 161	1 795 984	1 096 288	-	**3 649 756**
Total	**-**	**201 323**	**556 161**	**1 795 984**	**1 096 288**	**-**	**3 649 756**

Liquidity Coverage Ratio

Hoist Finance AB (publ) Liquidity Coverage Ratio (LCR) was 302 per cent (415) at 31 December 2018 that can be compared to the regulatory requirement of 100 per cent as of 1 January 2018

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ANNEX III – DISCLOSURE OF TRANSITIONAL OWN FUNDS

Disclosure according to Article 5 in Commission implementing regulation (EU) No 1423/2013 and according to SFSA's regulations (FFFS 2014:12).

	Common Equity Tier 1 capital: instruments and reserves	31 December 2018 SEK million	
		Hoist Finance consolidated situation	Hoist Finance AB (publ)
1	Capital instruments and the related share premium accounts	1913	1913
	Of which: Instrument type 1	30	30
	Of which: Instrument type 2	1883	1883
	Of which: Instrument type 3		
2	Retained earnings	989	200
3	Accumulated other comprehensive income (and other reserves)	191	649
3a	Funds for general banking risk		
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1		
5	Minority interests (amount allowed in consolidated CET1)		
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	590	647
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**3683**	**3409**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	-387	-177
9	Empty Set in the EU		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		
11	Fair value reserves related to gains or losses on cash flow hedges		
12	Negative amounts resulting from the calculation of expected loss amounts		
13	Any increase in equity that results from securitised assets (negative amount)		
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		
15	Defined benefit pension fund assets (negative amount)		
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)		
17	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
18	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
20	Empty set in the EU		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		
20b	Of which: qualifying holdings outside the financial sector (negative amount)		
20c	Of which: securitisation positions (negative amount)		
20d	Of which: free deliveries (negative amount)		
21	Deferred tax assets arising from temporary differences (amount above 10 % threshold, net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)		
22	Amount exceeding the 15% threshold (negative amount)		
23	Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities		
24	Empty set in the EU		
25	Of which: deferred tax assets arising from temporary differences		

25a	Losses for the current financial year (negative amount)		
25b	Foreseeable tax charges relating to CET1 items (negative amount)		
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-387**	**-177**
29	**Common Equity Tier 1 (CET1) capital**	**3296**	**3232**
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	690	690
31	Of which: classified as equity under applicable accounting standards	690	690
32	Of which: classified as liabilities under applicable accounting standards		
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1		
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interest not included in row 5) issued by subsidiaries and held by third parties		
35	Of which: instruments issued by subsidiaries subject to phase out		
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**690**	**690**
Additional Tier 1 (AT1) capital: regulatory adjustments			
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)		
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
40	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)		
41	Empty set in the EU		
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)		
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**		
44	**Additional Tier 1 (AT1) capital**	**690**	**690**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**3986**	**3922**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	839	839
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2		
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party		
49	Of which: instruments issued by subsidiaries subject to phase out		
50	Credit risk adjustments		
51	**Tier 2 (T2) capital before regulatory adjustment**	**839**	**839**
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)		
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institutions designed to inflate artificially the own funds of the institution (negative amount)		
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10 % threshold and net of eligible short positions) (negative amount)		
55	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amounts)		
56	Empty set in the EU		
57	**Total regulatory adjustments to Tier 2 (T2) capital**		
58	**Tier 2 (T2) capital**	**839**	**839**
59	**Total capital (TC = T1 + T2)**	**4825**	**4761**
60	**Total risk weighted assets**	**34121**	**25941**

Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	9,66%	12,46%
62	Tier 1 (as a percentage of risk exposure amount)	11,68%	15,12%
63	Total capital (as a percentage of risk exposure amount)	14,14%	18,35%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount)	7,30%	7,28%
65	of which: capital conservation buffer requirement	2,50%	2,50%
66	of which: countercyclical buffer requirement	0,30%	0,28%
67	of which: systemic risk buffer requirement		
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer		
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	5,16%	7,95%
69	[non-relevant in EU regulation]		
70	[non-relevant in EU regulation]		
71	[non-relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk-weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)		
74	Empty set in the EU		
75	Deferred tax assets arising from temporary differences (amount below 10% threshold , net of related tax liability where the conditions in Article 38 (3) are met)		
Applicable caps on the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)		
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach		
78	Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)		
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach		
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase-out arrangements		
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)		
82	Current cap on AT1 instruments subject to phase-out arrangements		
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)		
84	Current cap on T2 instruments subject to phase out arrangements		
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)		

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ANNEX IV – CAPITAL INSTRUMENTS INCLUDED IN OWN FUNDS

	CAPITAL INSTRUMENTS MAIN FEATURES	SHARE CAPITAL	Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes	Fixed Rate Reset Perpetual Additional Tier 1 Capital Notes	FIXED TERM SUBORDINATED LOAN NOTES
1	Issuer	Hoist Finance AB (publ)	Hoist Finance AB (publ)	Hoist Finance AB (publ)	Hoist Finance AB (publ)
2	Unique identifier	SE0006887063	XS1538294890	XS1833088237	XS1617700197
3	Governing law(s)	Swedish law	English and Swedish law	English and Swedish law	English and Swedish law
Regulatory treatment					
4	Transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
5	Post-transitional CRR rules	Common Equity Tier 1	Additional Tier 1	Additional Tier 1	Tier 2
6	Eligible at solo/(sub-)consolidated	Solo & consolidated	Solo & consolidated		Solo & consolidated
7	Instrument type	Share capital	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital	SEK 1,882 million	EUR 29.415 million	EUR 39.5 million	SEK 803 million
9	Nominal amount of instrument	SEK 29 million	EUR 30 million	EUR 40 million	EUR 80 million
9a	Issue price	SEK1,882 million	100 per cent	100 per cent	100 per cent
9b	Redemption price	N/a	100 per cent of nominal amount	100 per cent of nominal amount	100 per cent of nominal amount
10	Accounting classification	Equity	Equity	Equity	Liability – amortised cost
11	Original date of issuance	21 August 1915	21 December 2016	7 June 2018	19 May 2017
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Dated
13	Original maturity date	N/A	Perpetual	Perpetual	19 May 2027
14	Issuer call subject to prior supervisory approval	N/a	Yes	Yes	No
15	Optional call date, contingent call dates, and redemption amount	N/a	21 June 2023 100 per cent of nominal amount	1 September 2023 100 per cent of nominal amount	Optional redemption date 19 May 2022 Optional redemption amount 100 per cent of nominal amount Early Redemption amount - for taxation reasons or a capital event - 100 per cent of nominal amount
16	Subsequent call dates, if applicable	N/a	Each fifth anniversary after the First Call Date	Each fifth anniversary after the First Call Date	N/A
Coupons / dividends					
17	Fixed or floating dividend/coupon	N/a	Fixed rate reset	Fixed Rate Reset	Fixed rate reset
18	Coupon rate and any related index	N/a	Fixed 8.625 per cent until first call date, thereafter the rate is reset on each fifth anniversary of the first call date as the sum of the applicable 5 year Mid-Swap Rate plus the initial credit spread of 8.326 per cent.	Fixed 8.00 per cent until first call date, thereafter the rate is reset on each fifth anniversary of the first call date as the sum of the applicable 5 year Mid-Swap Rate plus the initial credit spread of 7.865 per cent.	Fixed 3.875% per cent p.a. until first call date, thereafter 6M EURIBOR plus a margin equal to 3.657% per cent
19	Existence of a dividend stopper	N/a	Fully discretionary	Fully discretionary	No
20a	Fully/partially discretionary or mandatory (in terms of timing)	N/a	Fully discretionary	Fully discretionary	Mandatory
20b	Fully/partially discretionary or mandatory (in terms of amount)	N/a	Fully discretionary	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/a	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/a	N/a	N/a	N/a
25	If convertible, fully or partially	N/a	N/a	N/a	N/a
26	If convertible, conversion rate	N/a	N/a	N/a	N/a
27	If convertible, mandatory or optional conversion	N/a	N/a	N/a	N/a
28	If convertible, instrument type convertible into	N/a	N/a	N/a	N/a
29	If convertible, issuer of instrument it converts into	N/a	N/a	N/a	N/a
30	Write-down features	No	Yes	Yes	No
31	If write-down, write-down trigger(s)	N/a	If CET1 Ratio falls below 5.125 per cent.	If CET1 Ratio falls below 5.125 per cent.	N/a
32	If write-down, full or partial	N/a	Partial	Partial	N/a
33	If write down, permanent or temporary	N/a	Temporary	Temporary	N/a
34	If temporary write-down, description of write-down mechanism (specify instrument type immediatly senior to instrument)	N/a	The issuer may, in its sole and absolute discretion, increase the outstanding principal amount of the written down instrument by such amount as the Issuer may elect, subject to that such increase is in compliance with current relevant regulations, directives and legislation and documentation for the instrument	The issuer may, in its sole and absolute discretion, increase the outstanding principal amount of the written down instrument by such amount as the Issuer may elect, subject to that such increase is in compliance with current relevant regulations, directives and legislation and documentation for the instrument	N/a
35	Position in subordination hierarchy in liquidation	Lowest and parri passu to all classes of share capital.	Additional Tier 1 capital	Additional Tier 1 capital	Subordinated notes
36	Non-compliant transitioned features	No	No	No	No
37	If yes, non-compliant features				

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ANNEX V – DISCLOSURE OF LEVERAGE RATIO

Disclosure according to EBA Implementing Technical Standards of the leverage ratio under Article 451(2) of Regulation (EU) No 575/2013.

Leverage ratio disclosure template		31 December 2018 SEK thousand		31 December 2017 SEK thousand	
		Hoist Finance consolidated situation	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Kredit AB (publ)
Table LRSum: Summary reconciliation of accounting assets and leverage ratio exposures					
		Applicable Amount	**Applicable Amount**	**Applicable Amount**	**Applicable Amount**
1	Total assets as per published financial statements	29 254 980	28 758 224	22 536 564	21 478 283
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation				
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)				
4	Adjustments for derivative financial instruments	239 293	239 293	126 487	126 487
5	Adjustments for securities financing transactions (SFTs)				
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	380 856	169 498	346 799	32 452
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)				
EU-6b	(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)				
7	Other adjustments	[527 275]	[305 305]	[292 362]	[57 470]
8	**Total leverage ratio exposure measure**	29 347 854	28 861 710	**22 717 488**	**21 579 752**

Table LRCom: Leverage ratio common disclosure					
		CRR leverage ratio exposures	**CRR leverage ratio exposures**	**CRR leverage ratio exposures**	**CRR leverage ratio exposures**
On-balance sheet exposures (excluding derivatives and SFTs)					
1	On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	29 254 980	28 758 225	22 536 564	21 478 283
2	(Asset amounts deducted in determining Tier 1 capital)	[527 275]	[305 305]	[292 362]	[57 470]
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	28 727 705	28 452 919	**22 244 202**	**21 420 814**
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	126 979	126 979	11 304	11 304
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method)	112 314	112 314	115 183	115 183
EU-5a	Exposure determined under Original Exposure Method				
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework				
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)				
8	(Exempted CCP leg of client-cleared trade exposures)				
9	Adjusted effective notional amount of written credit derivatives				
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)				
11	**Total derivative exposures (sum of lines 4 to 10)**	239 293	239 293	**126 487**	**126 487**
Securities financing transaction exposures					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions				

Hoist Finance

Leverage ratio disclosure template		31 December 2018 SEK thousand		31 December 2017 SEK thousand	
		Hoist Finance consolidated situation	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Kredit AB (publ)
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)				
14	Counterparty credit risk exposure for SFT assets				
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation (EU) No 575/2013				
15	Agent transaction exposures				
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)				
16	**Total securities financing transaction exposures (sum of lines 12 to 15a)**	0	0	0	0
Other off-balance sheet exposures					
17	Off-balance sheet exposures at gross notional amount	1 116 077	367 352	697 816	69 122
18	(Adjustments for conversion to credit equivalent amounts)	[735 221]	[197 854]	[351 018]	[36 671]
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	380 857	169 498	**346 799**	**32 452**
Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)					
EU-19a	(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))				
EU-19b	(Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet))				
Capital and total exposure measure					
20	**Tier 1 capital**	3 986 517	3 921 592	**2 683 944**	**2 482 364**
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	29 347 855	28 861 710	**22 717 488**	**21 579 752**
Leverage ratio					
22	**Leverage ratio**	13,58%	13,59%	**11,81%**	**11,50%**
Choice on transitional arrangements and amount of derecognised fiduciary items					
EU-23	Choice on transitional arrangements for the definition of the capital measure				
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013				

Table LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)					
		CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures	CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	29 254 980	28 758 224	22 536 564	22 536 564
EU-2	Trading book exposures				
EU-3	Banking book exposures, of which:	29 254 980	28 758 225	22 536 564	22 536 564
EU-4	Covered bonds	3 634 962	3 634 962	3 689 021	3 689 021
EU-5	Exposures treated as sovereigns	2 713 782	2 693 181	1 540 893	1 540 893
EU-6	Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns				
EU-7	Institutions	1 284 136	1 180 066	1 709 582	1 709 582
EU-8	Secured by mortgages of immovable properties	905 744	301 589		
EU-9	Retail exposures	102 211	94 882	21 325	21 325
EU-10	Corporate	141 723	15 286 083	135 760	135 760
EU-11	Exposures in default	19 828 123	5 210 672	15 002 109	15 002 109
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	644 299	356 790	437 873	437 873

Table LRQua: Free format text boxes for disclosure on qualitative items		
1	Description of the processes used to manage the risk of excessive leverage	Although there is no target for the leverage ratio in the CRR, the BCBS has expressed the opinion that a minimum level of 3% based on Tier 1 capital should apply. Hoist Finance has maintained a monthly leverage ratio above 11% during 2018 which is significantly higher than the BCBS's target. As the core assets of Hoist Finance, mainly unsecured NPL, have a risk weight of 150%, Hoist Finance's leverage ratio is expected to stay at a level well above BCBS's expectations.
2	Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	The leverage ratio was stable during 2018 with an increase in December 2018 mainly due to the revised risk-weight for unsecured NPL (from 100% to 150%) with the concurrent increase of Tier 1 Capital at the end of 2018.

ANNEX VI – DISCLOSURE OF ENCUMBERED ASSETS AND UNENCUMBERED ASSETS

The table below presents Hoist Finance consolidated situations encumbered and unencumbered assets in accordance with Article 443 of Regulation (EU) No 575/2013 (CRR). According to EBA definition, an asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

Hoist Finance consolidated situation 31 Dec 2017, SEK thousand

Template A - Assets		Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
		010	040	060	090
010	**Assets of the reporting institution**	**70 152**		**29 254 980**	
020	Loans on demand	70 152		1 187 161	
030	Equity instruments	-		-	
040	Debt securities	-		6 288 403	6 288 403
100	Loans and advances other than loans on demand	-		20 871 129	
120	Other assets	-		909 288	

Template B - Collateral received		Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance	Nominal amount of collateral received or own debt securities issued not available for encumbrance
		010	040	070
130	**Collateral received by the reporting institution**			
150	Equity instruments			
160	Debt securities			
230	Other collateral received			
240	**Own debt securities issued other than own covered bonds or ABSs**			

Template C - Sources of encumbrance		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
		010	030
010	**Carrying amount of selected financial liabilities**		70 152

D - Information on importance of encumbrance

Hoist Group has pledged some of its assets as collateral as a result of its hedging activities. Such encumbered assets are not transferrable within the Group.