Risk, Liquidity and Capital Management

Pillar 3 – 2019

Hoist Finance AB (publ)

Corp.id.no. 556012-8489

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 eleven countries across Europe, Hoist Finance offers a broad spectrum of flexible and tailored solutions for the acquisition and management of non-performing loans and has since 2018 started investing in performing loans.

During 2019 Hoist Finance continued to expand into secured loans. In December Hoist Finance acquired a French non-performing mortgage portfolio with more than 3.500 claims and an outstanding balance of approximately EUR 375 million. In Sweden and Germany, Hoist Finance offers a retail deposit service that is a major funding source for the Group. Hoist Finance’s share has since March 2015 been listed on Nasdaq Stockholm, with the largest single shareholder, holding 12.8 per cent of outstanding share as of 2019-12-31, being also the only individual shareholder holding more or 10 per cent of the 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 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: http://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 collections 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. Liquidity risk monitored on daily and monthly basis by Group's Treasury function and independently analysed and controlled by the Group's Risk Control function.

1.4 Risk development 2019

In line with the business strategy to grow revenues through geographical and asset class diversification Hoist Finance has continued its acquisition strategy in 2019. Hoist Finance finished the year with acquisitions in acquired loan portfolios of SEK 5,952m. Acquisitions in 2019 were primarily driven by transactions in France, Poland, UK and Italy. During the year Hoist Finance has strengthened the presence in the French market by buying a large non-performing secured loan portfolio.

Credit risk for Hoist Finance's loan portfolios has been stable during the year. New acquisitions are closely monitored to keep the risk at the expected level. 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 9,94 per cent by end of 2019, up from 9,66 per cent in 2018. In December 2018 the Group's capitalisation was affected by the Swedish Financial Supervisory Authority's (SFSA) new interpretation of the Capital Requirements Regulation (CRR) regarding risk weights to be assigned to unsecured NPL exposures. The risk weight was increased from 100 per cent to 150 per cent, which had a significant impact on Hoist Finance capital position. To optimize the use of capital Hoist Finance started participating in the securitisation market during 2019. During the year the capital position has gradually improved. The 2019 Annual General Meeting (AGM) decided not to pay any dividend for the financial year 2018, and the Board of Directors will propose to the 2020 AGM not to pay any dividend for the financial year 2019,to further strengthen the capital base and facilitate the Company's growth in 2020.

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.

In the second quarter 2019 changes to the CRR regarding minimum loss coverage for non-performing exposures came into effect. The regulation affects 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 in case of unsecured exposures, after 9 years in case of exposures secured by immovable property and after 7 years in case of exposures secured by other CRR eligible collateral. The new regulations apply to loans issued after the regulations' effective date and, accordingly, do not affect Hoist Finance's current loan portfolios. Hoist Finance expects the regulations to have a material effect on Hoist Finance's capitalisation in a few years' time, provided that non-performing loans continues to be acquired at a historical rate. Hoist Finance is working with procedures to mitigate the consequences of the regulatory change to ensure sustainable growth.

In January 2020, the UK left the EU. The effect for Hoist Finance from this could be material, based on the company's extensive operations in the UK. However, at this point there have been no significant effects to the business. The uncertainty is still elevated though due to the ongoing negotiations between the UK and the EU.

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 it is economically justified. 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.

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.

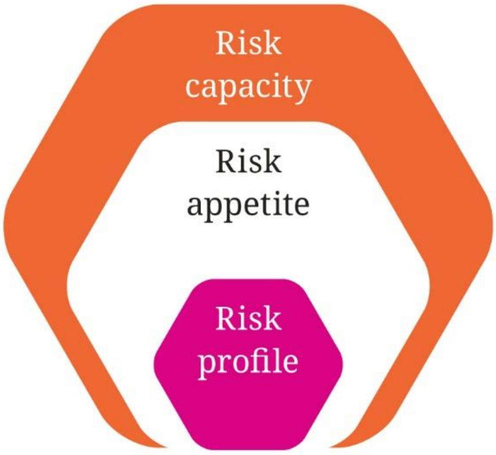
3 Risk Management

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.

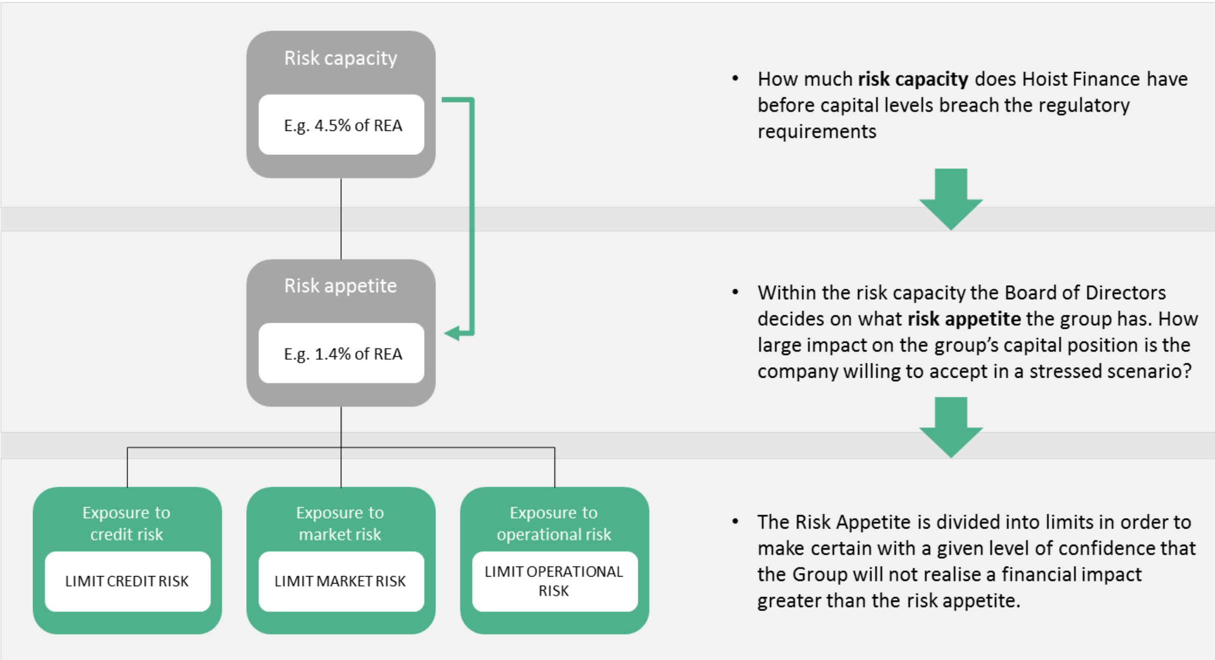
To fulfil this goal, the Board of Directors has adopted a risk management framework comprised of policies and strategies for the Group's management, analysis, control and reporting of risks in day-to-day operations.

Hoist Finance's core business and risk strategy is to generate revenue through controlled exposures to credit risk in the form of purchased loan portfolios of various exposure classes (non performing unsecured and secured, as well as performing portfolios). 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. 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 utilized 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.

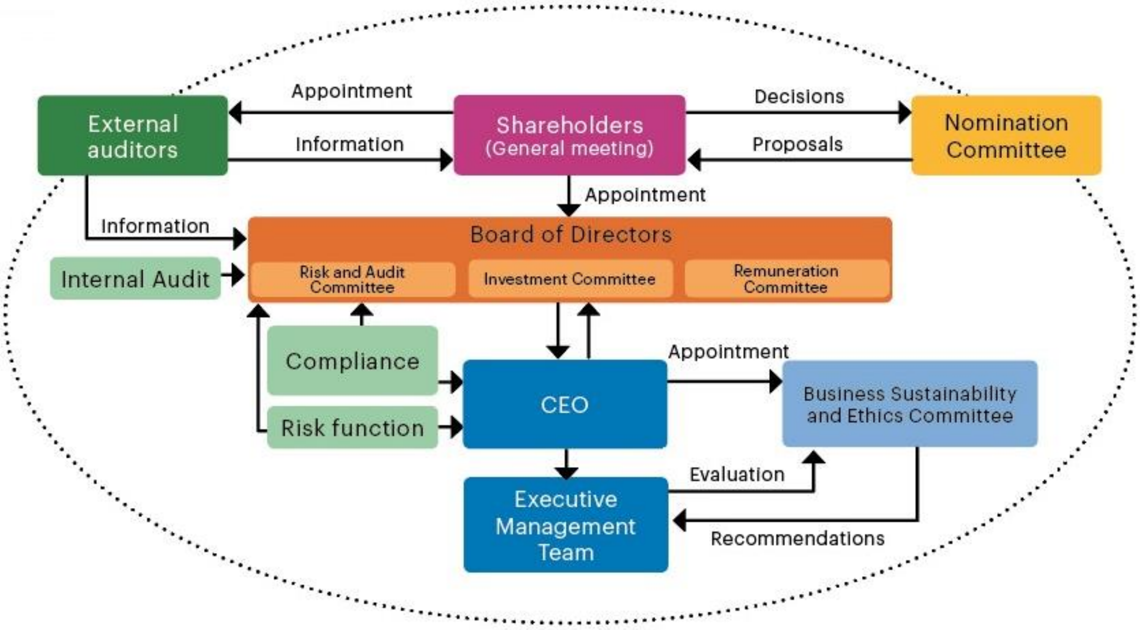
Hoist Finance's risk management distributes roles and responsibilities in accordance with three lines of defence.

1st Line of Defence: The Board of Directors, the CEO and all business units. 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 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 manages 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 monitored 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 analyses, controls and reports 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 emphasis 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. Reports on risk exposures, liquidity and capital adequacy from Risk Control to the Board of Directors, the Risk and Audit Committee and the CEO are 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: http://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. To further increase the awareness and knowledge around ethics and sustainability, a committee focusing on these issues has been installed during 2019. 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.

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.. For further information see Annex I – Consolidated situation. The difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is as follows. Joint ventures are consolidated with the equity method in the consolidated accounts, whereas the proportional method is used for the consolidated situation. Securitised assets are recognised in the consolidated accounts but are removed from the accounting records for the consolidated situation. Hoist Finance's participating interest in the securitised assets is always covered.

4.1 Own funds

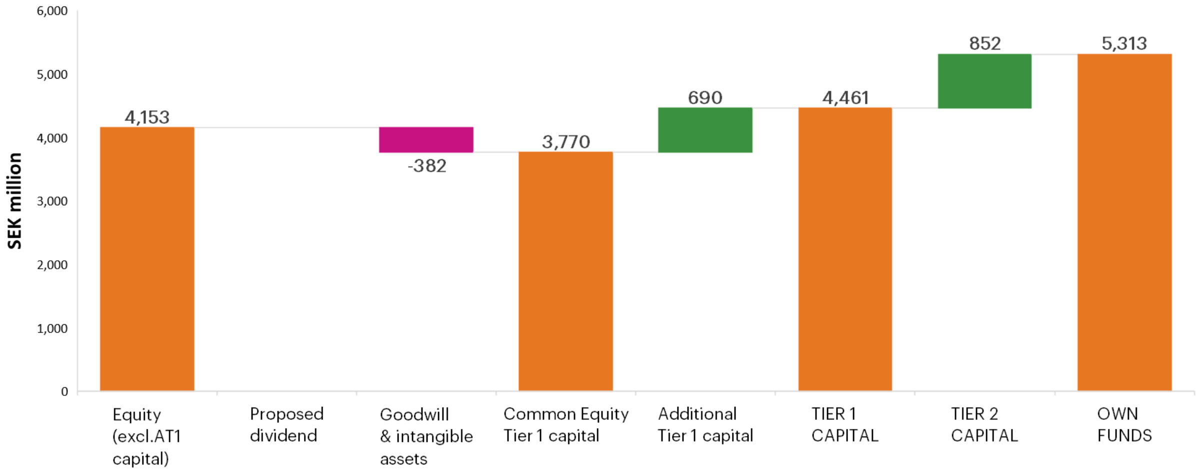
The table below shows the Hoist Finance consolidated situation's own funds which are used to cover the own funds requirements.

Own Funds, SEK m	Hoist Finance consolidated situation	
	31 Dec 2019	31 Dec 2018
Capital instruments and the related share premium accounts	1,913	1,913
Retained earnings	1,534	1,005
Accumulated comprehensive income and other reserves	133	191
Independently reviewed interim profits net of any foreseeable charge or dividend [1]	605	590
Common Equity Tier 1: regulatory adjustments	***-414***	***-403***
Intangible assets (net of related tax liability)	-382	-387
Deferred tax assets that rely on future profitability	-27	-18
Exposure amount of securitisation positions which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-9	-
Other transitional arrangements	4	3
Common Equity Tier 1 capital	**3,771**	**3,297**
Capital instruments and the related share premium accounts	690	690
Additional Tier 1 capital	**690**	**690**
Tier 1 capital	**4,461**	**3,987**
Capital instruments and the related share premium accounts	852	839
Tier 2 capital	**852**	**839**
Total own funds	**5,313**	**4,826**

[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 2019 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.

Risk exposure amounts, SEK m	Hoist Finance consolidated situation	
	31 Dec 2019	31 Dec 2018
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	752	355
of which counterparty credit risk	60	48
Exposures to corporates	319	142
Retail exposures	38	75
Secured by immovable property	368	402
Exposures in default	28,746	28,919
Exposures in the form of covered bonds	277	363
Equity exposures	0	0
Other items	382	117
Credit risk (standardised approach)	**30,882**	**30,373**
Securitisation positions in the banking book (external ratings-based approach)	**2,984**	**0**
Operational risk (standardised approach)	**3,935**	**3,670**
Credit valuation adjustment (standardised approach)	**48**	**53**
Total risk exposure amount	**37,927**	**34,121**

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

Own funds requirements, SEK m	Hoist Finance consolidated situation	
Pillar 1	**31 Dec 2019**	**31 Dec 2018**
Exposures to central governments or central banks		
Exposures to regional governments or local authorities		
Exposures to institutions	60	28
of which counterparty credit risk	5	4
Exposures to corporates	26	11
Retail exposures	3	6
Secured by immovable property	29	32
Exposures in default	2,300	2,313
Exposures in the form of covered bonds	22	29
Equity exposures		
Other items	31	9
Credit risk (standardised approach)	**2,471**	**2,428**
Securitisation positions in the banking book (external ratings-based approach)	**239**	
Operational risk (standardised approach)	**315**	**294**
Credit valuation adjustment (standardised approach)	**4**	**4**
Total own funds requirement - Pillar 1	**3,035**	**2,728**

Pillar 2	31 Dec 2019	31 Dec 2018
Concentration Risk	245	215
Interest Rate Risk in the Banking Book	129	54
Pension Risk	3	3
Other Pillar 2 Risks	37	31
Total own funds requirement - Pillar 2	**414**	**303**

Capital Buffers	31 Dec 2019	31 Dec 2018
Capital conservation buffer	948	853
Countercyclical buffer	128	103
Total own funds requirement - Capital Buffers	**1,076**	**956**

Total own funds requirements	**4,525**	**3,987**

In 2019 the increase in total risk exposure amount followed the growth of Hoist Finance's portfolios. This was partially offset by securitisation activities, where Hoist Finance acted both as originator and as an investor, retaining part of the notes, thereby introducing a new exposure class in 2019.

Additionally, due to implementation of the new Interest Rate Risk model in the banking book (IRRBB) the Pillar 2 capital requirements for this risk increased to SEK 129 m from SEK 54 m.

Finally, the Capital Conservation Buffer has increased to SEK 948 m from SEK 853 m as a consequence of an increase of Pillar 1 and Pillar 2 own fund requirements.

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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 Buffer 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 0.34 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 consolidated situation**	
	31 Dec 2019	**31 Dec 2018**
Common Equity Tier 1 Capital ratio	9.94	9.66
Tier 1 Capital ratio	11.76	11.68
Total Capital ratio	14.01	14.14
Institution specific CET1 buffer requirement	7.34	7.30
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	0.34	0.30
CET1 capital available to meet buffers[1]	**5.44**	**5.16**

[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 0.34 per cent 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 consolidated situation 31 Dec 2019, SEK m

	General credit exposures	Securitisation exposures	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for SEC-ERBA	Of which: general credit exposures	Of which: securitisation exposures	Total		
Sweden	488	0	39	0	39	1.47	2.50%
UK	9,103	0	727	0	727	27.45	1.00%
Italy	3,497	2,984	280	239	519	19.61	0.00%
Germany	3,514	0	281	0	281	10.61	0.00%
Poland	5,421	0	434	0	434	16.37	0.00%
Netherlands	1,451	0	116	0	116	4.38	0.00%
France	3,389	0	271	0	271	10.24	0.25%
Spain	1,522	0	122	0	122	4.60	0.00%
Belgium	436	0	35	0	35	1.32	0.00%
Austria	47	0	4	0	4	0.14	0.00%
Greece	1,242	0	99	0	99	3.75	0.00%
Romania	0	0	0	0	0	0.00	0.00%
Cyprus	20	0	2	0	2	0.06	0.00%
Total	**30,130**	**2,984**	**2,410**	**239**	**2,649**	**100.00**	**0.34%**

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

Hoist Finance consolidated situation 31 Dec 2019, SEK m

	31 Dec 2019
Total risk exposure amount	37,927
Institution specific countercyclical buffer rate	0.34%
Institution specific countercyclical buffer requirement	128

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 13.04 per cent as of 31 December 2019.

Although there is no target for the leverage ratio in the CRR, the BCBS has expressed the opinion that a minimum level of 3 per cent based on Tier 1 capital should apply. Hoist Finance has maintained a monthly leverage ratio above 12 per cent during 2019 which is significantly higher than the BCBS's target.

5 Funding

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

Hoist Finance AB (publ) has offered deposits for retail customers and corporates in Sweden since 2009 under the HoistSpar brand, where customers can save up to SEK 950,000. A new deposit programme was established in Germany in 2017, with customers allowed to save up to EUR 100,000. The Swedish and German deposit products offer both current account and fixed-term deposits, with the majority (99 per cent) of all deposits covered by the Swedish deposit guarantee. At year-end 2019, Hoist Finance AB (publ) had SEK 5,843m and SEK 6,400m in current account and fixed-term deposits in SEK, respectively, and SEK 3,028m and SEK 6,164m in current account and fixed-term deposits in EUR, respectively.

No new debt was issued in 2019 under the Company's EMTN programme. At year-end Hoist Finance AB (publ) had two outstanding senior unsecured bond loans totalling EUR 500m under the EMTN programme. A number of money market instruments were issued during the year with interest rates ranging from 0.2 to 0.3 per cent depending on duration (3 to 6 months). Issues outstanding under the commercial paper programme amounted to EUR 30m at year-end.

The Italian special purpose vehicle Marathon SPV S.r.l. issued bonds totalling EUR 337m during the year in three tranches, secured by Italian unsecured NPLs. The two subordinated tranches in the transaction structure, corresponding to 15 per cent of total issue amount, have been for 95 per cent subscribed by external investors.

Hoist Finance AB (publ) issued no subordinated debt in 2019.

Funding, SEK m	**Hoist Finance on a consolidated basis**	
	31 Dec 2019	**31 Dec 2018**
Flex Deposits	8,871	11,041
Term Deposits	12,564	6,052
Senior Unsecured Debt	5,900	5,950
Tier 1 instruments	690	690
Tier 2 instruments	852	839
Equity	4,208	3,723
Other	1,302	960
Balance Sheet Total	**34,387**	**29,255**

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

The Internal Liquidity Adequacy Assessment Process ("ILAAP") is the framework by which Hoist Finance evaluates if it maintains liquidity and funding of sufficient volume, quality and duration to ensure its continued operations. The ILAAP is the tool, by which Hoist Finance identifies, validates, plans and stress tests its current and future liquidity needs.

Hoist Finance uses ILAAP to define the size of the liquidity buffer the Group needs 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.

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, the presence of collaterals 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 year-end carrying amount of Hoist Finance's non-performing loan portfolios was SEK 23,396 million (19,333). The majority of these loans are unsecured, although a number of portfolios have real estate properties as collateral. As at 31 December 2019, these portfolios had a carrying amount of SEK 4,076 million (2,230).

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.

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 2019 as compared with 31 December 2018.

Rating	31 Dec 2019	31 Dec 2018
AAA	62,1%	71,1%
AA+	0,0%	0,0%
AA	6,5%	13,9%
AA-	10,4%	0,9%
A+	0,0%	0,0%
A	14,6%	8,0%
A-	0,5%	0,9%
BBB+	3,3%	3,8%
BBB	0,0%	0,0%
BBB-	0,0%	0,0%
BB+	0,2%	0,1%
BB	0,0%	0,1%
BB-	2,0%	1,1%
B+	0,0%	0,0%
B	0,0%	0,0%
B-	0,2%	0,0%
N/A	0,1%	0,0%
Total, SEK thousand	**8 024 316**	**7 399 826**
of which liquidity portfolio	***5 498 161***	***6 288 403***

As at 31 December 2019, the weighted average maturity for liquidity portfolio assets was 1.66 years (1.86) and the modified duration was 0.26 years (0.32). 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 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.

A financial asset is recognised past due when any amount of principal, interest or fee has not been paid at the date it was 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 m

31 Dec 2019	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	2,292	2,292	0	2,303	0	0%	0
Municipalities	522	522	0	1,538	0	0%	0
Institutions	3,426	3,426	0	2,740	752	22%	60
Corporates	319	319	0	275	319	100%	26
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Retail	51	51	0	70	38	74%	3
of which: SME	*2*	*1*	*0*	*5*	*1*	*57%*	*0*
Secured by immovable property	825	825	0	863	368	44%	29
Exposures in default	20,658	20,600	356	21,374	28,746	143%	2,300
of which: SME	*944*	*944*	*0*	*1,001*	*1,502*	*150%*	*120*
Covered bonds	2,769	2,769	0	3,155	277	10%	22
Securitisation positions	3,007	3,007	0	752	2,984	99%	239
Other items	382	382	0	395	382	100%	31
Total	**34,251**	**34,193**	**356**	**33,465**	**33,866**	**100%**	**2,709**

Hoist Finance consolidated situation, SEK m

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	1,683	1,683	0	1,444	0	0%	0
Municipalities	1,031	1,031	0	1,213	0	0%	0
Institutions	1,523	1,523	0	1,760	355	23%	28
Corporates	142	142	0	189	142	100%	11
of which: SME	*10*	*10*	*0*	*6*	*3*	*57%*	*0*
Retail	102	102	0	78	75	73%	6
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Secured by immovable property	906	906	0	773	402	44%	32
Exposures in default	20,944	20,209	2,790	18,386	28,919	143%	2,313
of which: SME	*1,045*	*1,045*	*0*	*1,115*	*1,672*	*150%*	*134*
Covered bonds	3,635	3,635	0	3,241	363	10%	29
Other items	117	117	0	108	117	100%	9
Total	**30,083**	**29,348**	**2,790**	**27,192**	**30,373**	**103%**	**2,428**

Geographical breakdown of exposure amount

Hoist Finance consolidated situation, SEK M

31 Dec 2019	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Securitisation positions	Other items	Total
Sweden	844	522	1,950	101	0	0	0	2,769	0	109	**6,295**
UK	1	0	126	16	26	272	6,005	0	0	60	**6,506**
Italy	4	0	883	169	0	0	2,848	0	3,007	25	**6,936**
Germany	1,362	0	59	3	18	0	2,313	0	0	94	**3,849**
Poland	1	0	217	5	7	553	3,507	0	0	22	**4,312**
Netherlands	3	0	10	21	0	0	955	0	0	11	**1,000**
France	55	0	126	4	0	0	2,812	0	0	26	**3,023**
Spain	22	0	33	0	0	0	1,007	0	0	11	**1,073**
Belgium	0	0	2	0	0	0	296	0	0	1	**299**
Austria	0	0	0	0	0	0	31	0	0	0	**31**
Greece	0	0	19	0	0	0	826	0	0	3	**848**
Romania	0	0	1	0	0	0	0	0	0	0	**1**
Cyprus	0	0	0	0	0	0	0	0	0	20	**20**
Total	**2,292**	**522**	**3,426**	**319**	**51**	**825**	**20,600**	**2,769**	**3,007**	**382**	**34,193**

Hoist Finance consolidated situation, SEK M

31 Dec 2018	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Other items	Total
Sweden	1,683	1,031	553	33	0	0	0	3,635	21	**6,956**
UK	0	0	168	18	30	302	5,403	0	31	**5,952**
Italy	0	0	295	29	0	0	6,083	0	9	**6,416**
Germany	0	0	111	18	65	0	2,265	0	29	**2,488**
Poland	0	0	244	13	7	604	2,363	0	5	**3,236**
Netherlands	0	0	37	29	0	0	888	0	3	**957**
France	0	0	80	2	0	0	1,082	0	10	**1,174**
Spain	0	0	31	0	0	0	1,093	0	6	**1,130**
Belgium	0	0	2	0	0	0	224	0	1	**227**
Greece	0	0	2	0	0	0	773	0	2	**777**
Other countries	0	0	0	0	0	0	36	0	0	**36**
Total	**1,683**	**1,031**	**1,523**	**142**	**102**	**906**	**20,209**	**3,635**	**117**	**29,348**

Maturity analysis of exposure amount

Hoist Finance consolidated situation 31 Dec 2019, SEK m

31 Dec 2019	Payable on demand	< 1 year	1-5 years	> 5 years	Without fixed maturity	Total
Central governments or central banks	0	2,244	0	0	48	**2,292**
Regional governments or local authorities	0	255	267	0	0	**522**
Institutions	2,996	424	0	0	6	**3,426**
Corporates	0	315	4	0	0	**319**
Retail	0	9	14	28	0	**51**
Secured by mortgages on immovable property	0	4	54	767	0	**825**
Exposures in default	0	8	934	19,302	414	**20,658**
Covered bonds	0	635	2,134	0	0	**2,769**
Equity	0	0	0	0	0	**0**
Other items	0	112	11	197	62	**382**
Total standardised approach	**2,996**	**4,006**	**3,418**	**20,294**	**530**	**31,244**
Securitisation positions (SEC-ERBA)	0	0	0	3,007	0	**3,007**
Total	**2,996**	**4,006**	**3,418**	**23,301**	**530**	**34,251**

Hoist Finance consolidated situation, SEK m

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	0	2,523	40	90	0	0	**2,653**
Lending to credit institutions	1,122	70	0	0	0	0	**1,192**
Lending to the public	0	3	5	9	0	0	**17**
Bonds and other securities	0	0	3,174	461	0	0	**3,635**
Other assets	0	585	0	4	0	59	**648**
Off-balance sheet items	0	30	89	263	0	0	**382**
Total	**1,122**	**3,211**	**3,308**	**827**	**0**	**59**	**8,527**

Anticipated net cash flow for the Group's loan portfolios, SEK m

31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	0	1,379	4,103	16,930	11,190	0	**33,602**
Total	**0**	**1,379**	**4,103**	**16,930**	**11,190**	**0**	**33,602**

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 2019, SEK m

Credit quality step	Central governments or central banks exposure value	Regional governments or local authorities exposure value	Institutions exposure value	Covered bonds exposure value	Securitisation positions exposure value	Total	% of Total
1	2,292	522	909	2,769	0	6,491	73%
2	0	0	1,811	0	0	1,811	20%
3	0	0	429	0	2,989	429	5%
4	0	0	174	0	0	174	2%
5	0	0	19	0	18	0	0%
6	0	0	0	0	0	0	0%

Hoist Finance consolidated situation 31 Dec 2018, SEK m

Credit quality step	Central governments or central banks exposure value	Regional governments or local authorities exposure value	Institutions exposure value	Corporate exposure value	Covered bonds exposure value	Total	% of Total
1	1,683	1,031	66	0	3,635	6,414	82%
2	0	0	801	0	0	801	10%
3	0	0	488	0	0	488	6%
4	0	0	84	0	0	84	1%
5	0	0	0	0	0	0	0%
6	0	0	0	0	0	0	0%

Credit quality of performing and non-performing exposures by past due days

Hoist Finance consolidated situation 31 Dec 2019, SEK m

Gross carrying amount/nominal amount	Performing exposures			Non-performing exposures								
		Not past due or past due ≤30 days	Past due >30 days ≤90 days		Unlikely to pay that are not past due or are past due ≤90 days	Past due >90 days ≤180 days	Past due >180 days ≤1 year	Past due >1 year ≤2 years	Past due >2 years ≤5 years	Past due >5 years ≤7 years	Past due >7 years	Of which defaulted
Loans and advances	**4,336**	**4,329**	**6**	**23,441**	**635**	**258**	**938**	**4,728**	**7,124**	**3,605**	**6,153**	**23,441**
Central banks												
General governments												
Credit institutions	3,075	3,075										
Other financial corporations				1	0	0	0	0	0	0	0	1
Non-financial corporations	437	436	1	1,091	111	22	11	263	325	109	250	1,091
Of which SMEs	*55*	*54*	*1*	*952*	*98*	*19*	*11*	*229*	*283*	*94*	*217*	*952*
Households	824	818	5	22,350	523	236	927	4,465	6,798	3,497	5,904	22,350
Debt securities	**5,498**	**5,498**										
Central banks												
General governments	2,729	2,729										
Credit institutions	2,769	2,769										
Other financial corporations												
Non-financial corporations												
Off-balance-sheet exposures				**414**								**414**
Central banks												
General governments												
Credit institutions				333								333
Other financial corporations												
Non-financial corporations				81								81
Households												
Total	**9,834**	**9,828**	**6**	**23,854**	**635**	**258**	**938**	**4,728**	**7,124**	**3,605**	**6,153**	**23,854**

Performing and non-performing exposures and related provisions

Hoist Finance consolidated situation 31 Dec 2019, SEK m

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**4,336**	**4,329**	**6**	**23,441**		**23,441**	**-2**	**-1**	**-1**	**-4**		**-4**			
Central banks															
General governments															
Credit institutions	3,075	3,075													
Other financial corporations				1		1									
Non-financial corporations	437	436	1	1,091		1,091	0	0	0	-1		-1			
Of which SMEs	55	54	1	952		952	0	0	0	-1		-1			
Households	824	818	5	22,350		22,350	-2	-1	-1	-3		-3			
Debt securities	**5,498**	**5,498**													
Central banks															
General governments	2,729	2,729													
Credit institutions	2,769	2,769													
Other financial corporations															
Non-financial corporations															
Off-balance-sheet exposures				**414**		**414**									
Central banks															
General governments															
Credit institutions				333		333									
Other financial corporations															
Non-financial corporations				81		81									
Households															
Total	**9,834**	**9,828**	**6**	**23,854**	**0**	**23,854**	**-2**	**-1**	**-1**	**-4**	**0**	**-4**	**0**	**0**	**0**

Collateral obtained by taking possession and execution processes

Foreclosed assets are assets taken over to protect claims on counterparties and credit losses. Hoist Finance may waive a loan receivable and instead seize the asset that served as collateral for the loan. As of 31 December 2018 and 2019, seized assets in the Hoist Finance Group consist of real estate property in France. Seized asset are recognised on the same line item in the balance sheet as similar assets that have been acquired otherwise.

Hoist Finance consolidated situation 31 Dec 2019, SEK m

Collateral obtained by taking possession	Value at initial recognition	Accumulated negative changes
Property, plant and equipment (PP&E)	12	0
Other than PP&E		
Residential immovable property		
Commercial Immovable property		
Movable property (auto, shipping, etc.)		
Equity and debt instruments		
Other		
Total	**12**	**0**

7.3 Securitization

In 2019 Hoist Finance started operating in the securitisation market. The main goal of the securitisation activity is the optimisation of Hoist's funding requirement and capital position.

Hoist Finance conducts traditional securitisation with the purpose of significant risk transfer (SRT) of credit risk by securitising unsecured Non Performing Loans (NPL) portfolios. Hoist Finance and subsidiaries operate in the following capacities: Originator, Special Servicer, Indemnity Provider (in respect of warranties given narrowly as to the existence of the receivables and related rights constituting the Portfolio) and as Investor by retaining 100 per cent of the Senior Notes and 5 per cent of Mezzanine and Junior Notes.

Hoist entered into the first securitisation agreement in August 2019 and securitised part of its Italian unsecured NPL portfolios (EUR 219m). The securitised exposures were transferred to Pinzolo SPV S.r.l., a limited liability company registered in Italy. In order to fund the purchase price of the securitised assets, the SPV issued Senior and Junior Notes for a total amount of EUR 225m.

In December 2019 the previous structure was dissolved and the assets held in it, along with additional portions of the additional loan portfolio, were transferred to the new structure, Marathon SPV S.r.l., a newly formed Securitisation Special Purpose Entity (SSPE) registered in Italy.

Securitisation exposures in the banking book (SEK m)	Hoist Finance consolidated situation					
	31 Dec 2019			31 Dec 2018		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail	2,989	-	-	-	-	-
Total	**2,989**	**-**	**-**	**-**	**-**	**-**

To finance the purchase price of the assets, the SSPE issued bonds for a total amount of EUR 337.1m. The notes bear a fixed interest rate with 15 years maturity. Hoist engaged the credit rating agencies DBRS Rating Limited, Moody's Italia Srl, and Scope Rating GMBH to assign ratings with respect to issued bonds.

Notes (rating DBRS/Moody's/Scope)	Amount	Status
Senior: Class A (BBB, Baa2, BBB+)	EUR 286.5m / 85.0%	100% retained
Mezzanine: Class B (B, B1, BB)	EUR 33.7m / 10.0%	5% retained
Junior: Class J (not rated)	EUR 16.9m / 5.0%	5% retained

95 per cent of the class B and J Notes have been subscribed by an external investor through competitive market syndication. Therefore, Hoist Finance has transferred substantially all credit risk in relation to the securitised portfolio to external investors and recognised the significant risk transfer according to Art. 244 clause 1 of CRR. Moreover, pursuant to Art. 244 and 247 of CRR, Hoist has excluded the securitised exposures from calculations of amounts of risk-weighted assets (RWA).

Hoist fulfils the requirement to maintain material net economic interest according to rules on risk retention requirements from CRR and CRD Regulation by applying a vertical 5 per cent risk retention of the nominal amounts of notes issued.

For the retained securitised positions that are externally rated Hoist Finance applies the External Ratings-Based Approach (SEC-ERBA) to assign risk weights. For the retained part of junior tranches Hoist Finance decreases its own funds according to Art. 36 clause 1 point k) of CRR (amounted to SEK 8.8M). The transaction results in the reduction in the RWAs attributed to Hoist's post-transaction exposure compared with the pre-securitisation RWAs.

Hoist Finance consolidated situation 31 Dec 2019, SEK m

Securitisation exposures in the banking book and associated regulatory capital requirements	Exposure values (by RW bands)					External ratings based approach		
	≤20% RW	>20% to 50% RW	>50% to 100% RW	100% to <1,250% RW	1,250% RW	Exposure values	RWA	Capital charge after cap
Traditional securitisation			2,989	18		3,007	2,984	239
Of which securitisation			2,989	18		3,007	2,984	239
Of which retail underlying			2,989	18		3,007	2,984	239
Of which wholesale								
Total exposures			**2,989**	**18**		**3,007**	**2,984**	**239**

Risks related to securitisation transactions include:

- Credit risk - the risk that collection from securitised portfolio will be lower than forecasted;
- Liquidity risk - the risk of insufficient funds received by the SPV and difficulties in paying to noteholders;
- Market risk - foreign exchange volatility on the value of the notes.

Hoist does not perform trading activity, therefore, both securitisation positions and securitised portfolio are included in the banking book. Moreover, Hoist does not use hedging and unfunded protection in order to mitigate the risk related to the maintained securitisation exposures.

When a financial asset is transferred, Hoist Finance needs to evaluate from an accounting perspective the degree to which it retains the risks and benefits associated with ownership of the asset. If Hoist Finance retains substantially all risks and benefits associated with ownership of the financial asset, Hoist Finance continues to report the asset in the statement of financial position.

The loan portfolios sold by Hoist Finance to securitization vehicle Marathon SPV S.r.l. do not meet the requirements for removal from the statement of financial position – mainly because the credit risk was not transferred in its entirety – and, accordingly, the portfolios will continue to be reported in the Group.

The securitized portfolios are valued at amortised cost. In Marathon SPV S.r.l., the senior, mezzanine and junior notes are valued at amortised cost. The senior and mezzanine notes retained by Hoist Finance AB (publ) are valued at amortised cost, while the junior note retained by Hoist Finance AB (publ) is measured at fair value through profit and loss.

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.

Hoist Finance exposure to operational risk arises from routine processing errors, as well as extraordinary incidents, such as major systems failures or legal and regulatory matters.

Potential operational risks that can affect Hoist Finance are divided into the following categories:

- Clients, Products and Business practices
- Execution, Delivery and Process Management
- Business disruption and system failures
- External fraud
- Unauthorised activities and internal fraud
- Employment practices and work place safety
- Damage to physical assets

Operational Risk, as part of the Risk Control function, has the primary responsibility for developing and implementing a formalised framework for assessing, monitoring and managing operational risk with the goal of maintaining the Group's exposure to operational risk at levels that are within its risk appetite.

Therefore, Hoist Finance 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 risk identification and assessment are at the core of the operational risk management framework, for that purpose the Risk Control function, through the operational risk officers in each country, has established the following routines:

– 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 countries.

– Risk Control Self-Assessment - RCSA, the 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.

– New Product Approval Process - NPAP, the process for quality assurance of new and significantly amended products, services, markets, it-systems and major changes in the Hoist Finance Group's operations and organisation. The purpose of the NPAP is to ensure that in launching or implementing a New/Amended Activity the applicable rules are followed, the associated risks are assessed and understood, and that adequate resources are available to manage the associated risks. The Group worked a lot during the year to improve the New Product Approval

Process (NPAP) as well, following a lean approach to make it as much efficient as effective.

- A new NPAP and Change Management policy has then adopted by the Board of Directors to ensure that any new, or significantly amended activity, after processed NPAP, go through the change management process that shall verify that there are, for example, sufficient staff resources, knowledge, and tools to manage a New/Amended Activity in a proper way.

- Key Risk Indicators – KRIs 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.

- Risk education and training in operational risks through e-learning module, class room and face to face especially addressed to the new employees.

- Business continuity management cycle oversight to ensure it is run according to the Business Continuity Management (BCM) policy, that 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 where Disruptions are managed with Business Continuity Plans and Crises are managed by a predefined Crisis Management Team with risk control acting as administrator.

- Monitoring, with particular regard to the third parties in the collection business (i.e. Debt Collection Agency- DCA), ensuring that the Altman Z-Score is calculated to measure the financial health of a DCA to prevent outsourcing to a DCA that risk going bankrupt.

- Reporting, on a regular basis the risk report is provided to senior management and to the Board of Directors. Additionally, Hoist Finance has established a committee in each country where operates. The Committee is to be known as the quarterly Local/Group Compliance and Risk Committee, which shall manage and monitor compliance and risk at Country Level. The Local Compliance and Risk committee will report into Hoist Finance Compliance who will escalate major findings and risks to the Risk and Audit Committee (RACO) and the Board of Directors (the Board).

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, most revenue and 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 EUR, GBP and PLN, while the Group's liabilities are mainly denominated in SEK and EUR, 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 2019	Impact on equity	31 Dec 2018	Impact on equity
Net assets on the balance sheet, EUR million	162		-9	
Forward hedge, EUR million	-167		7	
Net Exposure, EUR million	-5		-2	
If the EUR/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	-5,651	-0.12%	-2,516	-0.06%
If the EUR/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	5,651	0.12%	2,516	0.06%

Group's FX risk in PLN

	31 Dec 2019	Impact on equity	31 Dec 2018	Impact on equity
Net assets on the balance sheet, PLN million	1,839		1,442	
Forward hedge, PLN million	-1,822		-1,436	
Net Exposure, PLN million	17		6	
If the PLN/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	4,222	0.09%	1,418	0.03%
If the PLN/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	-4,222	-0.09%	-1,418	-0.03%

Group's FX risk in GBP

	31 Dec 2019	Impact on equity	31 Dec 2018	Impact on equity
Net assets on the balance sheet, GBP million	547		514	
Forward hedge, GBP million	-545		-513	
Net Exposure, GBP million	3		1	
If the GBP/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	3,545	0.07%	864	0.02%
If the GBP/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	-3,545	-0.07%	-864	-0.02%

Hoist Finance has strict limits for the net exposure to each currency. The limits are defined in the Group's Treasury Policy.

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 through linear interest rate derivatives denominated in SEK, EUR, GBP and PLN.

Pursuant to accounting policies, however, the effects of interest rate changes are recognised 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 items valued at fair value including derivatives (SEK thousand)	Impact on profit or loss 31 Dec 2019		Impact on equity	Impact on profit or loss 31 Dec 2018		Impact on equity
	-100 bps	**+100 bps**		**-100 bps**	**+100 bps**	
Liquidity portfolio	8,158	-8,158		19,907	-19,907	
Interest rate swaps	-78,931	78,931		-70,000	70,000	
Total	**-70,773**	**70,773**	**-1.44%**	**-50,093**	**50,093**	**-1.13%**

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 effect of change in interest rate over three years (SEK thousand)	Impact on profit or loss 31 Dec 2019		Impact on equity	Impact on profit or loss 31 Dec 2018		Impact on equity
	-100 bps	**+100 bps**		**-100 bps**	**+100 bps**	
Efficient net interest income (over three years)	168,069	-165,236		122,377	-121,309	
Efficient derivatives (momentum effect)	-78,931	78,931		-70,000	70,000	
Total effect of change in short interest rate	**89,138**	**-86,305**	**-1.76%**	**52,377**	**-51,309**	**-1.16%**

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.

After the acceptance of 2019 years ICAAP, Hoist Finance apply the new economic value model to calculate the own funds requirement for the Interest rate risk in the Banking book, supplementing the previous Earnings at Risk-model. This is based on the “Guidelines on the management of interest rate risk arising from non-trading book activities”, that the European Banking Authority (EBA) published the 19th of July 2018. The guidelines define Interest rate risk 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 the interest rates that affect interest rate sensitive instruments.

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. Funding is mainly raised in the form of deposits from the public and through the capital markets through the issuance of senior unsecured debts, own funds instruments and equity. 41 per cent (65) of deposits from the public are payable on demand (current account), while approximately 59 per cent (35) of the Group's deposits from the public are locked into longer maturities (fixed-term deposits) ranging from one to five years.

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 m	Total 31 Dec 2019	Currency distribution SEK	EUR	Other	Total 31 Dec 2018
Cash and holdings in central banks	0	0	0	0	0
Deposits in other banks available overnight	2,526	-351	1,995	882	1,111
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	2,207	849	1,358	0	1,622
Securities issued or guaranteed by municipalities or other public sector entities	522	522	0	0	1,031
Covered bonds	2,769	2,769	0	0	3,635
Securities issued by non-financial corporates	0	0	0	0	0
Securities issued by financial corporates	0	0	0	0	0
Other	0	0	0	0	0
Total	**8,024**	**3,789**	**3,353**	**882**	**7,399**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 8,024 million (7,399) at 31 December 2019, 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 deposits from the public of over 10 per cent of total deposits over a 30-day period.
- Should an official credit rating agency downgrade, or cancel, its credit rating of any credit rated Hoist entity.

10.1 Liquidity Coverage Ratio

The Group's Liquidity Coverage Ratio (LCR) was 755 per cent (473) at 31 December 2019, compared to the regulatory requirement 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 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019	31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
	Number of data points used in the calculation of average	12	12	12	12	12	12	12	12
HIGH-QUALITY LIQUID ASSETS									
1	Total high-quality liquid assets (HQLA)					5,091	4,937	5,762	6,254
CASH-OUTFLOWS									
2	Retail deposits and deposits from small business customers, of which:	16,313	17,200	18,605	19,802	1,389	1,438	1,501	1,544
3	*Stable deposits*	*5,114*	*5,910*	*7,481*	*9,116*	*256*	*295*	*374*	*456*
4	*Less stable deposits*	*11,200*	*11,290*	*11,124*	*10,686*	*1,134*	*1,142*	*1,127*	*1,088*
5	Unsecured wholesale funding	131	149	149	140	131	149	149	140
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*	*131*	*149*	*149*	*140*	*131*	*149*	*149*	*140*
9	Secured wholesale funding					0	0	0	0
10	Additional requirements	766	690	574	595	634	615	574	595
11	*Outflows related to derivative exposures and other collateral requirements*	*569*	*574*	*574*	*595*	*569*	*574*	*574*	*595*
12	*Outflows related to loss of funding on debt products*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
13	*Credit and liquidity facilities*	*196*	*116*	*0*	*0*	*65*	*41*	*0*	*0*
14	Other contractual funding obligations	440	396	451	629	272	219	266	456
15	Other contingent funding obligations	120	134	109	91	120	134	109	91
16	**TOTAL CASH OUTFLOWS**					**2,547**	**2,556**	**2,599**	**2,825**
CASH-INFLOWS									
17	Secured lending (eg reverse repos)	0	0	0	0	0	0	0	0
18	Inflows from fully performing exposures	12	13	105	104	6	6	53	52
19	Other cash inflows	1,770	1,792	2,053	2,227	1,770	1,792	2,053	2,227
20	**TOTAL CASH INFLOWS**	**1,782**	**1,805**	**2,158**	**2,331**	**1,776**	**1,799**	**2,106**	**2,279**
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***	***1,782***	***1,805***	***2,158***	***2,331***	***1,776***	***1,799***	***2,106***	***2,279***
21	**LIQUIDITY BUFFER**					**5,091**	**4,937**	**5,762**	**6,254**
22	**TOTAL NET CASH OUTFLOWS**					**877**	**884**	**837**	**943**
23	**LIQUIDITY COVERAGE RATIO (%)**					**665%**	**627%**	**785%**	**838%**

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 require-ments – Pillar 1	Minimum own funds requirements for credit, market and operational risk.
Own funds require-ments – 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.

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
Hoist Finance SAS**	444611453	Lille	N/A
Subsidiaries of Hoist Finance AB (publ)			
Hoist Finance Services AB*****	556640-9941	Stockholm	100
Immobilière de Lancereaux SAS	2018B20590	Paris	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
MKDP LLP*****	OC349372	Milton Keynes	100
C L Finance Ltd.******	1108021	West Yorkshire	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.	14564671007	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.	137,777,901,000	Athens	100
Hoist Finance Romania S.r.l.	41830400	Bucharest	100
Maran CSRO SRL	35910220	Bucharest	100
Funds			
HOIST I NS FIZ***	RFI 702	Warszawa	100
HOIST II NS FIZ***	RFI 1617	Warszawa	100
Go Debt1 FIZ NFS***	0000292229	Warszawa	100
Marathon SPV S.r.l.*******	5048650260	Conegliano	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
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*
***** The Company is a part of a consortium, consisting of Hoist Finance AB (publ), Qualco S.A. and PricewaterhouseCoopers Business Solutions*
******Companies to be or already liquidated or disposed.*
*******Company dissolved as of 31/12 2019 but is in the process of reinstatement*
********SPV*
*********Portfolio owning company*

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 m	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Finance AB (publ)
ASSETS	**31 Dec 2019**	**31 Dec 2019**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2018**	**31 Dec 2018**
Cash	0	0	0	0	0	0
Treasury bills and treasury bonds	2,729	2,729	2,729	2,653	2,653	2,653
Lending to credit institutions	3,081	3,075	1,455	1,192	1,187	365
Lending to the public	10	10	13	14	14	17
Aquired loan portfolios	24,506	24,303	7,394	20,822	20,605	5,593
Receivables from affiliated companies	0	0	17,432	0	0	15,182
Bonds and other securities	2,769	2,769	2,769	3,635	3,635	3,635
Shares and participations in subsidiaries	0	0	807	0	0	722
Shares and participations in joint venture	0	201	16	0	215	22
Intangible assets	382	382	186	387	387	177
Tangible fixed assets	269	269	29	59	59	24
Other assets	512	511	290	427	425	340
Deferred tax assets	32	32	2	22	22	1
Prepaid expenses and accrued income	107	106	55	54	52	27
Total assets	**34,397**	**34,387**	**33,177**	**29,264**	**29,255**	**28,758**

LIABILITIES AND EQUITY	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Kredit AB (publ)	Hoist Finance consolidated situation	Hoist Finance Group	Hoist Finance AB (publ)
	31 Dec 2019	**31 Dec 2019**	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2018**	**31 Dec 2018**
Liabilities						
Deposits and borrowings from the public	21,435	21,435	21,435	17,093	17,093	17,093
Tax liabilities	87	86	33	92	92	65
Other liabilities	833	823	912	390	380	524
Deferred tax liabilities	150	150	2	188	188	5
Accrued expenses and prepaid income	155	154	59	232	232	68
Provisions	89	89	53	68	68	41
Senior unsecured loans	5,900	5,900	5,431	5,950	5,950	5,950
Subordinated loans	852	852	852	839	839	839
Total liabilities	**29,501**	**29,489**	**28,778**	**24,852**	**24,842**	**24,584**
Untaxed reserves	0	0	268	0	0	221
Equity						
Share capital	30	30	30	30	30	30
Contributed equity	2,965	2,965	2,965	2,965	2,965	2,965
Reserves	-258	-258	95	-202	-202	86
Retained earnings including profit of the year	2,159	2,161	1,041	1,620	1,620	871
Total equity	**4,896**	**4,898**	**4,131**	**4,413**	**4,413**	**3,952**
Total liabilities and equity	**34,397**	**34,387**	**33,177**	**29,264**	**29,255**	**28,758**

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 m	Hoist Finance AB (publ)	
	31 Dec 2019	**31 Dec 2018**
Capital instruments and the related share premium accounts	1,913	1,913
Retained earnings	819	199
Accumulated comprehensive income and other reserves	694	649
Independently reviewed interim profits net of any foreseeable charge or dividend [1]	197	647
Common Equity Tier 1: regulatory adjustments	***-195***	***-177***
Intangible assets (net of related tax liability)	-186	-177
Deferred tax assets that rely on future profitability	-2	-1
Exposure amount of securitisation positions which qualify for a RW of 1250%, where the institution opts for the deduction alternative	-9	-
Other transitional arrangements	2	2
Common Equity Tier 1 capital	**3,428**	**3,232**
Capital instruments and the related share premium accounts	690	690
Additional Tier 1 capital	**690**	**690**
Tier 1 capital	**4,118**	**3,922**
Capital instruments and the related share premium accounts	852	839
Tier 2 capital	**852**	**839**
Total own funds	**4,970**	**4,761**

Risk exposure amounts and own funds requirements

Risk exposure amounts, SEK m	Hoist Finance AB (publ)	
	31 Dec 2019	**31 Dec 2018**
Exposures to central governments or central banks	0	0
Exposures to regional governments or local authorities	0	0
Exposures to institutions	363	161
of which counterparty credit risk	60	48
Exposures to corporates	14,565	15,286
Retail exposures	33	69
Secured by immovable property	101	112
Exposures in default	10,043	7,667
Exposures in the form of covered bonds	277	363
Equity exposures	807	722
Other items	84	51
Credit risk (standardised approach)	**26,273**	**24,431**
Securitisation positions in the banking book (external ratings-based approach)	**2,984**	**-**
Operational risk (standardised approach)	**1,916**	**1,430**
Credit valuation adjustment (standardised approach)	**48**	**53**
Total risk exposure amount	**31,299**	**25,939**

Own funds requirements, SEK m	Hoist Finance AB (publ)	
Pillar 1	**31 Dec 2019**	**31 Dec 2018**
Exposures to central governments or central banks		
Exposures to regional governments or local authorities		
Exposures to institutions	29	13
of which counterparty credit risk	5	4
Exposures to corporates	1,165	1,223
Retail exposures	3	6
Secured by immovable property	8	9
Exposures in default	803	613
Exposures in the form of covered bonds	22	29
Equity exposures	65	58
Other items	7	4
Credit risk (standardised approach)	**2,102**	**1,955**
Securitisation positions in the banking book (external ratings-based approach)	**239**	**-**
Operational risk (standardised approach)	**153**	**114**
Credit valuation adjustment (standardised approach)	**4**	**4**
Total own funds requirement - Pillar 1	**2,504**	**2,075**
Pillar 2	**31 Dec 2019**	**31 Dec 2018**
Concentration Risk	356	215
Interest Rate Risk in the Banking Book	129	54
Pension Risk	3	3
Other Pillar 2 Risks	37	31
Total own funds requirement - Pillar 2	**525**	**303**
Capital Buffers	**31 Dec 2019**	**31 Dec 2018**
Capital conservation buffer	783	649
Countercyclical buffer	94	73
Total own funds requirement - Capital Buffers	**877**	**722**
Total own funds requirements	**3,906**	**3,100**

Capital ratios and buffers

Capital ratios and buffers, %	Hoist Finance AB (publ)	
	31 Dec 2019	**31 Dec 2018**
Common Equity Tier 1 Capital ratio	10.95	12.45
Tier 1 Capital ratio	13.16	15.11
Total Capital ratio	15.88	18.34
Institution specific CET1 buffer requirement	7.30	7.28
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	0.28
CET1 capital available to meet buffers[1]	**6.45**	**7.95**

[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 0.30 per cent (0.28) 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 AB (publ) 31 Dec 2019, SEK m

	General credit exposures	Securitisation exposures	Own funds requirements			Own funds requirement weights	Countercyclical capital buffer rate
	Exposure value for SA	Exposure value for SEC-ERBA	Of which: general credit exposures	Of which: securitisation exposures	Total		
Sweden	434	0	35	0	35	1.50	2.50%
UK	6,768	0	541	0	541	23.43	1.00%
Italy	3,581	2,984	285	239	524	22.69	0.00%
Germany	3,450	0	276	0	276	11.94	0.00%
Poland	4,056	0	325	0	325	14.04	0.00%
Netherlands	1,455	0	116	0	116	5.04	0.00%
France	3,381	0	271	0	271	11.71	0.25%
Spain	1,048	0	84	0	84	3.63	0.00%
Belgium	435	0	35	0	35	1.51	0.00%
Austria	34	0	3	0	3	0.12	0.00%
Greece	1,269	0	102	0	102	4.39	0.00%
Romania	0	0	0	0	0	0.00	0.00%
Cyprus	0	0	0	0	0	0.00	0.00%
Total	**25,911**	**2,984**	**2,073**	**239**	**2,312**	**100.00**	**0.30%**

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

Hoist Finance AB (publ) 31 Dec 2019, SEK m

	31 Dec 2019
Total risk exposure amount	31,299
Institution specific countercyclical buffer rate	0.30%
Institution specific countercyclical buffer requirement	94

Leverage ratio

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

The leverage ratio for Hoist Finance is 12.29 per cent (13.59 per cent) as at 31 December 2019.

Credit risk exposures by exposure class

Hoist Finance AB (publ), SEK m

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	1,662	0	1,424	0	0%	0
Municipalities	1,031	1,031	0	1,213	0	0%	0
Institutions	697	697	0	968	161	23%	13
Corporates	15,286	15,286	0	13,365	15,286	100%	1,223
of which: SME	*10*	*10*	*0*	*6*	*3*	*57%*	*0*
Retail	95	95	0	72	69	73%	6
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Secured by immovable property	302	302	0	289	112	37%	9
Exposures in default	5,578	5,380	169	4,001	7,667	143%	613
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Covered bonds	3,635	3,635	0	3,241	363	10%	29
Equity exposures	722	722	0	1,793	722	100%	58
Other items	51	51	0	56	51	100%	4
Total	**29,059**	**28,861**	**169**	**26,422**	**24,431**	**85%**	**1,955**

Hoist Finance AB (publ), SEK m

31 Dec 2019	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	2,263	2,263	0	2,285	0	0%	0
Municipalities	522	522	0	1,538	0	0%	0
Institutions	1,800	1,800	0	1,569	363	21%	29
Corporates	14,565	14,565	0	15,898	14,565	100%	1,165
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Retail	44	44	0	63	33	73%	3
of which: SME	*2*	*1*	*0*	*5*	*1*	*57%*	*0*
Secured by immovable property	272	272	0	286	101	37%	8
Exposures in default	7,403	7,364	325	5,874	10,043	142%	803
of which: SME	*0*	*0*	*0*	*0*	*0*	*0%*	*0*
Covered bonds	2,769	2,769	0	3,155	277	10%	22
Securitisation positions	3,007	3,007	0	752	2,984	99%	239
Equity exposures	807	807	0	772	807	100%	65
Other items	84	84	0	77	84	100%	7
Total	**33,536**	**33,497**	**325**	**32,269**	**29,257**	**83%**	**2,341**

Geographical breakdown of exposure amount

Hoist Finance AB (publ), SEK m

31 Dec 2019	Sovereign and central banks	Municipalities	Institutions	Corporates	Retail	Secured by immovable property	Exposures in default	Covered bonds	Securitisation positions	Equity exposures	Other items	Total
Sweden	843	522	1,589	106	0	0	0	2,769	0	1	51	**5,881**
UK	0	0	0	6,197	26	272	113	0	0	335	0	**6,943**
Italy	0	0	0	3,523	0	0	0	0	3,007	58	0	**6,588**
Germany	1,362	0	59	7	18	0	2,313	0	0	0	26	**3,785**
Poland	0	0	0	3,854	0	0	18	0	0	176	0	**4,048**
Netherlands	3	0	10	21	0	0	955	0	0	0	2	**991**
France	55	0	121	17	0	0	2,812	0	0	0	5	**3,010**
Spain	0	0	8	831	0	0	0	0	0	216	0	**1,055**
Belgium	0	0	2	0	0	0	296	0	0	0	0	**298**
Austria	0	0	0	0	0	0	31	0	0	0	0	**31**
Greece	0	0	11	9	0	0	826	0	0	21	0	**867**
Romania	0	0	0	0	0	0	0	0	0	0	0	**0**
Cyprus	0	0	0	0	0	0	0	0	0	0	0	**0**
Total	**2,263**	**522**	**1,800**	**14,565**	**44**	**272**	**7,364**	**2,769**	**3,007**	**807**	**84**	**33,497**

Hoist Finance AB (publ), SEK m

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	1,031	465	42	0	0	0	3,635	1	19	**6,855**
UK	0	0	0	5,439	0	302	0	0	335	0	**6,076**
Italy	0	0	3	6,143	0	0	0	0	16	0	**6,162**
Germany	0	0	108	12	65	0	2,265	0	0	28	**2,478**
Poland	0	0	72	2,687	0	0	21	0	137	0	**2,917**
Netherlands	0	0	37	29	0	0	888	0	0	3	**957**
France	0	0	0	63	0	0	0	0	7	0	**70**
Spain	0	0	8	861	0	0	0	0	216	0	**1,085**
Belgium	0	0	2	0	0	0	224	0	0	1	**227**
Greece	0	0	2	10	0	0	773	0	10	0	**795**
Other countries	0	0	0	0	30	0	1,209	0	0	1	**1,240**
Total	**1,662**	**1,031**	**697**	**15,286**	**95**	**302**	**5,380**	**3,635**	**722**	**51**	**28,861**

Maturity analysis of exposure amount

Hoist Finance AB (publ) 31 Dec 2019, SEK m

31 Dec 2019	Payable on demand	< 1 year	1-5 years	> 5 years	Without fixed maturity	Total
Central governments or central banks	0	2,215	0	0	48	**2,263**
Regional governments or local authorities	0	255	267	0	0	**522**
Institutions	1,455	345	0	0	0	**1,800**
Corporates	0	7,036	4,092	5	3,432	**14,565**
Retail	0	9	14	21	0	**44**
Secured by mortgages on immovable property	0	3	38	231	0	**272**
Exposures in default	0	5	7	7,027	364	**7,403**
Covered bonds	0	635	2,134	0	0	**2,769**
Equity	0	0	0	0	807	**807**
Other items	0	55	0	0	29	**84**
Total standardised approach	**1,455**	**10,558**	**6,552**	**7,284**	**4,680**	**30,529**
Securitisation positions (SEC-ERBA)	0	0	0	3,007	0	**3,007**
Total	**1,455**	**10,558**	**6,552**	**10,291**	**4,680**	**33,536**

Hoist Kredit AB (publ), SEK m

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	0	2,523	40	90	0	0	**2,653**
Lending to credit institutions	353	12	0	0	0	0	**365**
Lending to the public	0	3	5	9	0	0	**17**
Bonds and other securities	0	0	3,174	461	0	0	**3,635**
companies	0	583	2,241	7,661	0	6,000	**16,485**
Other assets	0	869	0	0	0	769	**1,638**
Off-balance sheet items	0	2	7	160	0	0	**169**
Total	**353**	**3,992**	**5,467**	**8,381**	**0**	**6,769**	**24,962**

[1] *Consists of acquired loan portfolios within Hoist Kredit. See table below for a maturity analysis based on net cash flows.*

Anticipated net cash flow for Hoist Kredit's loan portfolios, SEK m

31 Dec 2018	Payable on demand	< 3 months	3-12 months	1-5 years	> 5 years	Without fixed maturity	Total
Acquired loan portfolios	0	441	1,303	4,408	3,280	0	**9,432**
Total	**0**	**441**	**1,303**	**4,408**	**3,280**	**0**	**9,432**

Performing and non-performing exposures and related provisions

Hoist Finance AB (publ) 31 Dec 2019, SEK m

	Gross carrying amount/nominal amount						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairment and provisions			Non-performing exposures – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				On performing exposures	On non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**19,209**	**19,203**	**6**	**7,090**		**7,090**	**0**	**0**	**0**	**-3**		**-3**			
Central banks															
General governments															
Credit institutions	1,455	1,455													
Other financial corporations															
Non-financial corporations	17,491	17,491	0	8		8	0	0	0	-1		-1			
Of which SMEs	55	55	0	8		8	0	0	0	-1		-1			
Households	262	257	6	7,081		7,081	0	0	0	-2		-2			
Debt securities	**5,498**	**5,498**													
Central banks															
General governments	2,729	2,729													
Credit institutions	2,769	2,769													
Other financial corporations															
Non-financial corporations															
Off-balance-sheet exposures				**364**		**364**									
Central banks															
General governments															
Credit institutions				283		283									
Other financial corporations															
Non-financial corporations				81		81									
Households															
Total	**24,707**	**24,701**	**6**	**7,454**	**0**	**7,454**	**0**	**0**	**0**	**-3**	**0**	**-3**	**0**	**0**	**0**

Securitisation exposures in the banking book and associated capital requirements – acting as investor

Securitisation exposures in the banking book (SEK m)	Hoist Finance AB (publ)					
	Acting as investor					
	31 Dec 2019			31 Dec 2018		
	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total
Retail	2,989	-	-	-	-	-
Total	**2,989**	**-**	**-**	**-**	**-**	**-**

Hoist Finance AB (publ) 31 Dec 2019, SEK m

Securitisation exposures in the banking book and associated regulatory capital requirements	Exposure values (by RW bands)					External ratings based approach		
	≤20% RW	>20% to 50% RW	>50% to 100% RW	100% to <1,250% RW	1,250% RW	Exposure values	RWA	Capital charge after cap
Traditional securitisation			2,989	18		3,007	2,984	239
Of which securitisation			2,989	18		3,007	2,984	239
Of which retail underlying			2,989	18		3,007	2,984	239
Of which wholesale								
Total exposures			**2,989**	**18**		**3,007**	**2,984**	**239**

Liquidity Coverage Ratio

Hoist Finance AB (publ) Liquidity Coverage Ratio (LCR) was 461 per cent (302) at 31 December 2019, compared to the regulatory requirement of 100 per cent.

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).

SEK million		31 Dec 2019 Hoist Finance consolidated situation	31 Dec 2019 Hoist Finance AB (publ)
1	Capital instruments and the related share premium accounts	1,913	1,913
	Of which: Instrument type 1	30	30
	Of which: Instrument type 2	1,883	1,883
	Of which: Instrument type 3		
2	Retained earnings	1,534	819
3	Accumulated other comprehensive income (and other reserves)	133	694
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	605	197
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**4,185**	**3,623**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)		
8	Intangible assets (net of related tax liability) (negative amount)	-382	-186
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)	-27	-2
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	-9	-9
20b	Of which: qualifying holdings outside the financial sector (negative amount)		
20c	Of which: securitisation positions (negative amount)	-9	-9
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)		
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)		
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468		
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR	4	2
27	Qualifying AT1 deductions that exceeds the AT1 capital of the institution (negative amount)		
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-414**	**-195**
29	**Common Equity Tier 1 (CET1) capital**	**3,771**	**3,428**

SEK million		31 Dec 2019 Hoist Finance consolidated situation	Hoist Finance AB (publ)
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**	**0**	**0**
44	**Additional Tier 1 (AT1) capital**	**690**	**690**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**4,461**	**4,118**
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	852	852
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**	**852**	**852**
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**	**0**	**0**
58	**Tier 2 (T2) capital**	**852**	**852**
59	**Total capital (TC = T1 + T2)**	**5,313**	**4,970**
60	**Total risk weighted assets**	**37,927**	**31,299**

SEK million		31 Dec 2019 Hoist Finance consolidated situation	Hoist Finance AB (publ)
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	9.94%	10.95%
62	Tier 1 (as a percentage of risk exposure amount)	11.76%	13.16%
63	Total capital (as a percentage of risk exposure amount)	14.01%	15.88%
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)	7.34%	7.30%
65	of which: capital conservation buffer requirement	2.50%	2.50%
66	of which: countercyclical buffer requirement	0.34%	0.30%
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)	5.44%	6.45%
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)		

Annex IV – Capital instruments included in own funds

		SHARE CAPITAL	Fix Rate Reset Perpetual Additional Tier 1 Capital Notes	Fix 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	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 852 million
9	Nominal amount of instrument	SEK 29 million	EUR 30 million	EUR 40 million	EUR 80 million
9a	Issue price	SEK 1,882 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 for a period of 5 years to a rate of 5Y Mid-Swap Rate plus the initial credit spread of 8.326 per cent.	Fixed 8 per cent until first call date, thereafter the rate is reset for a period of 5 years to a rate of 5Y Mid-Swap Rate plus the initial credit spread of 7.685 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 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	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.

Additional information		
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 per cent based on Tier 1 capital should apply. Hoist Finance has maintained a monthly leverage ratio above 12 per cent during 2019 which is significantly higher than the BCBS's target.
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 2019

Summary reconciliation of accounting assets and leverage ratio exposures

SEK million		31 Dec 2019		31 Dec 2018	
		Hoist Finance consolidated situation	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Finance AB (publ)
		Applicable Amount		Applicable Amount	
1	Total assets as per published financial statements	34,389	33,176	29,255	28,758
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				
4	Adjustments for derivative financial instruments	300	300	239	239
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)	361	329	381	169
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	[853]	[304]	[527]	[305]
8	**Total leverage ratio exposure measure**	**34,198**	**33,501**	**29,348**	**28,862**

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)

SEK Million		31 Dec 2019		31 Dec 2018	
		Hoist Finance consolidated situation	Hoist Finance AB (publ)	Hoist Finance consolidated situation	Hoist Finance AB (publ)
		CRR leverage ratio exposures		CRR leverage ratio exposures	
EU-1	**Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:**	**34,389**	**33,176**	**29,255**	**28,758**
EU-2	Trading book exposures				
EU-3	Banking book exposures, of which:	34,389	33,176	29,255	28,758
EU-4	Covered bonds	2,769	2,769	3,635	3,635
EU-5	Exposures treated as sovereigns	2,814	2,785	2,714	2,693
EU-6	Exposures to regional governments, MDB, international organisations and				
EU-7	Institutions	3,125	2,307	1,284	1,180
EU-8	Secured by mortgages of immovable properties	825	272	906	302
EU-9	Retail exposures	51	44	102	95
EU-10	Corporate	319	14,565	142	15,286
EU-11	Exposures in default	20,244	7,039	19,828	5,211
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	4,241	3,395	644	357

Leverage ratio common disclosure

SEK million		31 Dec 2019 Hoist Finance consolidated situation	31 Dec 2019 Hoist Finance AB (publ)	31 Dec 2018 Hoist Finance consolidated situation	31 Dec 2018 Hoist Finance AB (publ)
		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)	34,389	33,176	29,255	28,758
2	(Asset amounts deducted in determining Tier 1 capital)	[853]	[304]	[527]	[305]
3	**Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)**	33,536	32,872	28,728	28,453
Derivative exposures					
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	193	193	127	127
5	Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-ma	107	107	112	112
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 derivative				
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 deri				
11	**Total derivative exposures (sum of lines 4 to 10)**	300	300	239	239
Securities financing transaction exposures					
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions				
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	414	364	1,116	367
18	(Adjustments for conversion to credit equivalent amounts)	[53]	[35]	[735]	[198]
19	**Other off-balance sheet exposures (sum of lines 17 to 18)**	361	329	381	169
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**	4,461	4,118	4,461	4,118
21	**Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)**	34,198	33,501	29,348	28,862
Leverage ratio					
22	**Leverage ratio**	0	0	0	0
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				

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 2019, SEK m

Template A - Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**1,022**	0	**33,367**	**5,498**
Loans on demand	545	0	2,530	0
Equity instruments	0	0	0	0
Debt securities	0	0	5,498	5,498
Loans and advances other than loans on demand	477	0	24,219	0
Other assets	0	0	1,120	0

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
Collateral received by the reporting institution	**0**	0	**0**
Loans on demand	0	0	0
Equity instruments	0	0	0
Debt securities	0	0	0
Loans and advances other than loans on demand	0	0	0
Other collateral received	91	0	0
Own debt securities issued other than own covered bonds or ABSs	0	0	0

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
Carrying amount of selected financial liabilities	**0**	1,113
Derivatives	0	0
Deposits	0	636
Debt securities issued	0	0
Other sources of encumbrance	0	477

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.