



# Risk, Liquidity and Capital Management

Pillar 3 Report – 2023

Hoist Finance AB (publ)

Corp.id.no. 556012-8489

# Contents

<b>1</b>	<b>INTRODUCTION</b>	<b>2</b>
1.1	HOIST FINANCE IN BRIEF	2
1.2	PILLAR 3 REPORT	2
1.3	HOIST FINANCE'S RISK PROFILE	3
<b>2</b>	<b>THE BOARD OF DIRECTORS' RISK DECLARATION AND RISK STATEMENT</b>	<b>4</b>
<b>3</b>	<b>RISK MANAGEMENT</b>	<b>5</b>
3.1	INTRODUCTION	5
3.2	RISK MANAGEMENT FRAMEWORK	5
<b>4</b>	<b>CAPITAL POSITION</b>	<b>7</b>
4.1	HIGHLIGHTS 2023	7
4.2	KEY FIGURES	7
4.3	OWN FUNDS	10
4.4	CAPITAL BUFFERS AND PILLAR 2 REQUIREMENTS	10
<b>5</b>	<b>FUNDING</b>	<b>12</b>
<b>6</b>	<b>INTERNAL CAPITAL AND LIQUIDITY ADEQUACY ASSESSMENT PROCESS</b>	<b>13</b>
6.1	ICAAP	13
6.2	ILAAP	13
<b>7</b>	<b>CREDIT RISK</b>	<b>15</b>
7.1	THE GROUP'S CREDIT RISK PROFILE	15
7.2	ADDITIONAL INFORMATION ON CREDIT RISK	15
7.2.1	<i>Past due loans and impairments</i>	15
7.2.2	<i>Credit risk exposures</i>	16
7.3	SECURITISATION	17
<b>8</b>	<b>OPERATIONAL RISK</b>	<b>20</b>
<b>9</b>	<b>MARKET RISK</b>	<b>21</b>
9.1	FOREIGN EXCHANGE RISK	21
9.2	INTEREST RATE RISK	21
<b>10</b>	<b>LIQUIDITY RISK</b>	<b>23</b>
10.1	LIQUIDITY COVERAGE RATIO	23
10.2	NET STABLE FUNDING RATIO	23
<b>11</b>	<b>DEFINITIONS</b>	<b>24</b>
<b>12</b>	<b>ANNEX I – HOIST FINANCE AB (PUBL)</b>	<b>25</b>
<b>13</b>	<b>ANNEX II – REFERENCES TO REGULATION</b>	<b>27</b>

# 1 Introduction

## 1.1 Hoist Finance in brief

Hoist Finance AB (publ) together with its subsidiaries is a pan-European financial group (“Hoist Finance” or the “Group”) active within asset management and specialised in non-performing loans. Present in thirteen markets across Europe, Hoist Finance offers a broad spectrum of flexible and tailored solutions for the acquisition and management of non-performing and performing loans and is a leading debt restructuring partner to international banks. Hoist Finance AB (publ), the ultimate parent company, is licensed and regulated as a credit market company under the supervision of the Swedish Financial Supervisory Authority (SFSA). In Sweden, Germany, Poland and the UK, Hoist Finance offers a retail deposit service that is the 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 22.48 per cent of all outstanding shares as of 31 December 2023. The second largest shareholder holds 19.87 per cent of all outstanding shares as of the same date. No other individual shareholder held more than 10 per cent of the capital and/or votes at that point in time.

In March 2023 Hoist Finance re-entered the Swedish market by acquiring a Swedish portfolio of non-performing loans.

## 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 (“CRR”) as amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019 (“CRR 2”), 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), Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and other dedicated guidelines and regulations of EBA. The information is given on the basis of the consolidated situation of Hoist Finance group, for Hoist Finance AB (publ) the required information is disclosed on an individual level, see Annex I – 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
<p><b>Credit risk</b> Credit risk is the risk of losses due to the failure of a credit or an arrangement similar to that of a credit to be fulfilled.</p>	<p>Credit risk refers mainly to acquired loan portfolios and the risk that collections will be lower than forecasted in case of non-performing loans. For acquired performing loans the risk refers to a loss if the borrower fails to meet their credit obligation. 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.</p>	<p>Credit risk in acquired loan portfolios is monitored, analysed and managed by the management in each country and by Portfolio Management Team. Other credit risks are analysed and managed by the Treasury function. The Group's Risk Control function analyses and controls all credit risk exposures.</p>
<p><b>Operational risk</b> The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and compliance risk.</p>	<p>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.</p>	<p>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.</p>
<p><b>Market risk</b> The risk of loss due to market prices changes on outstanding positions This includes FX risk and interest rate risk.</p>	<p>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 and EUR. Interest rate movements have an effect on net interest income.</p>	<p>Market risks are hedged continuously by the Group's Treasury function and independently analysed and controlled by the Group's Risk Control function.</p>
<p><b>Liquidity risk</b> The risk of loss due to lack of cash and/or cash equivalents to meet the needs of depositors and borrowers without the cost of liquidity increasing.</p>	<p>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.</p>	<p>The Group has a significant liquidity reserve to cover potential outflows of liquidity. Liquidity risk is monitored on daily and monthly basis by Group's Treasury function and independently analysed and controlled by the Group's Risk Control function.</p>

## 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 rests on four pillars: Market Leadership, Effective & Efficient, Digital Leader and Banking Platform. Hoist Finance limits its business to a few prioritised markets where the group is, or have the potential to become, one of the most important players. The Group has a diverse product and service offering in the markets where it operates. The products include unsecured and secured non-performing loans to individuals and SME's as well as performing loans.

Managing and exposing 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.

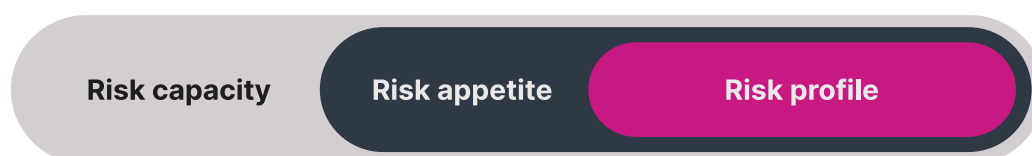
## 3 Risk Management

### 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. Risk management is at the heart of Hoist Finance business, helping Hoist Finance customers to recover. Hoist Finance's mission is to protect its customers, the reputation of selling banks that Hoist Finance cooperate with, colleagues, Hoist Finance itself, investors and society, while enabling sustainable growth. This is achieved through informed risk decision-making and through risk management. 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.

Hoist Finance has identified the following key risk areas:

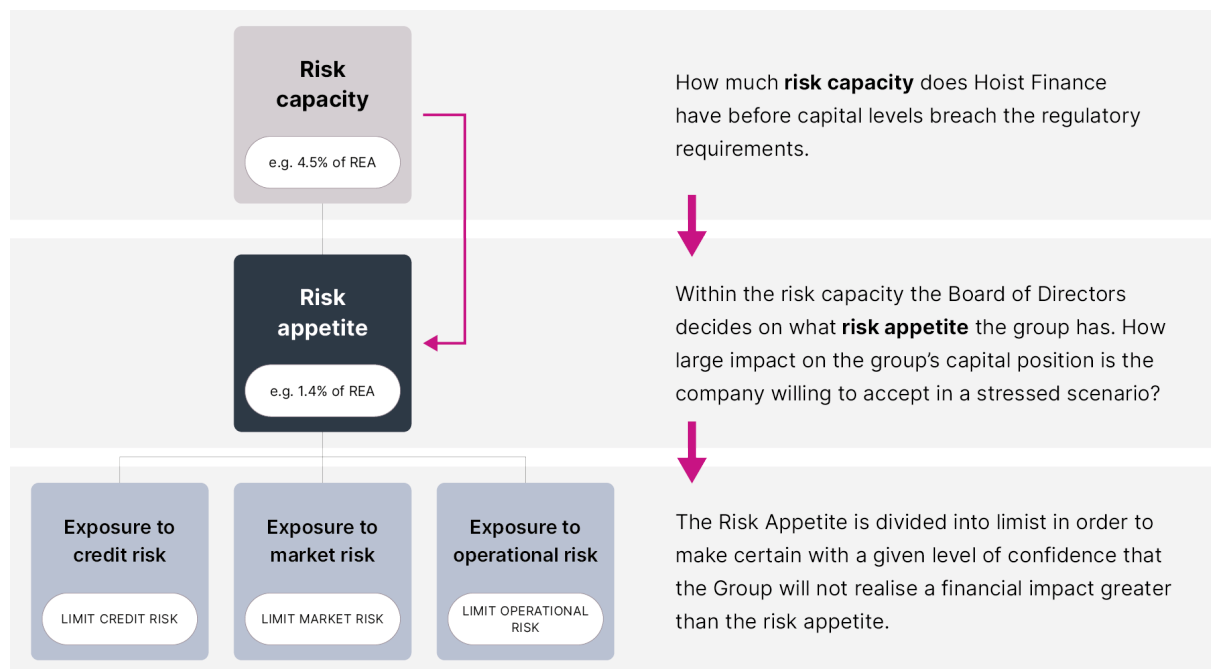
- credit risk,
- operational risk,
- market risk,
- liquidity risk.

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, illustrated for capital risk, are summarised in the figure below:



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

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 the Group is willing to face in a stressed scenario	Limits for e.g. minimum liquidity level

For information on corporate governance and the risk organisation, please see the corporate governance section in the Annual Report.

## 4 Capital position

Hoist Finance capital position continues to be adequate with buffers above regulatory requirements. The information in this section presents the consolidated situation of Hoist Finance, which includes the regulated entity Hoist Finance AB (publ), its fully owned subsidiaries and joint ventures. 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 Highlights 2023

During 2023, the capital position of Hoist Finance was adequate with significant margins above the regulatory requirements. Capital ratios were mainly impacted by the balance sheet evolution and profit contribution. The full year 2023 profit contribution to own funds led to an increase of CET1 ratio by 2.13 per cent, whilst new portfolios acquisition decreased the CET1 ratio by 3.38 per cent.

Hoist Finance consolidated situation	31 Dec 2023	30 July 2023	31 Dec 2022
Common Equity Tier 1 (CET1) capital	4,119	4,157	4,172
Total risk exposure amounts (TREA)	29,659	28,178	26,313
<b>Common Equity Tier 1 ratio (%)</b>	<b>13.89%</b>	<b>14.75%</b>	<b>15.85%</b>
CET1 capital requirements (%)	8.20%	8.07%	8.09%
CET1 available after meeting the CET1 capital requirements (%)	5.69%	6.68%	7.77%

In the fall 2020 and February 2021 SFSA published new capital requirements regulation for Swedish banks comprising changes in Pillar 2 buffers. In the regulation, the SFSA introduced Pillar 2 guidance to be assessed on an individual basis for each bank, the proposed overall approach is based on stress tests of different risk components. As of 31 December 2023, the SFSA decision on Pillar 2 guidance has not been communicated to Hoist Finance.

On 8 March 2024 the Swedish Financial Supervisory Authority notified Hoist Finance of its final decision regarding additional own fund requirements (Pillar 2 requirements) and Pillar 2 guidance. The Pillar 2 guidance will be reflected in Hoist Finance capital and liquidity requirements following the SFSA decision.

### 4.2 Key figures

At the year-end 2023, the CET1 capital ratio, i.e. the CET1 capital in relation to the Risk Exposure Amount (REA), was 13.89 per cent (15.85). This compares with the regulatory CET1 capital requirement of 8.20 per cent (8.09) of REA.

The decrease in the CET1 ratio during the year was mainly due to new portfolios acquisitions and increase in risk exposure amount. Total REA increased from SEK 26 313m to SEK 29 659m, REA for credit risk increased to SEK 24 804m (21 809) during the year. 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 and is the main driver of the REA changes.

The leverage ratio was 15.45 per cent (16.79) and exceeds the regulatory leverage ratio requirement by a significant margin (the BCBS's and CRR2 requirement is 3 per cent, as of 31 December 2023 the SFSA decision on Pillar 2 guidance has not been communicated to Hoist Finance.



The Group's Liquidity Coverage Ratio (LCR) was 506 per cent (1 136) as of 31 December 2023, compared to the regulatory requirement of 100 per cent. NSFR ratio as of 31 December 2023 was 115 per cent (116) and exceeds the NSFR ratio requirement, which is 100 per cent.

The tables below show EU KM1 and EU OV1 Pillar 3 disclosure for Hoist Finance consolidated situation.

		Hoist Finance consolidated situation, SEK m		
		31 Dec 23	30 Jun 23	31 Dec 22
<b>Available own funds (amounts)</b>				
1	Common Equity Tier 1 (CET1) capital	4,119	4,157	4,172
2	Tier 1 capital	5,229	5,267	5,278
3	Total capital	6,129	6,255	6,181
<b>Risk-weighted exposure amounts</b>				
4	Total risk exposure amount	29,659	28,178	26,313
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>				
5	Common Equity Tier 1 ratio (%)	13.89%	14.75%	15.85%
6	Tier 1 ratio (%)	17.63%	18.69%	20.06%
7	Total capital ratio (%)	20.66%	22.20%	23.49%
<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.44%	1.24%	1.76%
EU 7b	of which: to be made up of CET1 capital (percentage points)	0.81%	0.70%	0.99%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.08%	0.93%	1.32%
EU 7d	Total SREP own funds requirements (%)	9.44%	9.24%	9.76%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>				
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)			
9	Institution specific countercyclical capital buffer (%)	0.39%	0.38%	0.10%
EU 9a	Systemic risk buffer (%)			
10	Global Systemically Important Institution buffer (%)			
EU 10a	Other Systemically Important Institution buffer (%)			
11	Combined buffer requirement (%)	2.89%	2.88%	2.60%
EU 11a	Overall capital requirements (%)	12.33%	12.11%	12.36%
12	CET1 available after meeting the total SREP own funds requirements (%)	8.58%	9.56%	10.36%
<b>Leverage ratio</b>				
13	Total exposure measure	33,845	31,176	31,433
14	Leverage ratio (%)	15.45%	16.90%	16.79%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>				
EU 14a	Additional CET1 leverage ratio requirements (%)			
EU 14b	Additional AT1 leverage ratio requirements (%)			
EU 14c	Additional T2 leverage ratio requirements (%)	3.00%	3.00%	3.00%
<b>Total SREP leverage ratio requirements (%)</b>				
EU 14e	Applicable leverage buffer			
EU 14f	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%
<b>Liquidity Coverage Ratio</b>				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	3,874	4,586	4,963
EU 16a	Cash outflows - Total weighted value	2,538	2,210	2,252
EU 16b	Cash inflows - Total weighted value	4,546	2,907	2,526
16	Total net cash outflows (adjusted value)	634	553	604
17	Liquidity coverage ratio (%)	623%	844%	879%
<b>Net Stable Funding Ratio</b>				
18	Total available stable funding	29,812	29,607	27,094
19	Total required stable funding	25,965	26,161	23,356
20	NSFR ratio (%)	115%	113%	116%

Hoist Finance consolidated situation, SEK m		Total risk exposure amounts (TREA)		Total own funds requirements
		31 Dec 23	31 Dec 22	31 Dec 23
1	<b>Credit risk (excluding CCR)</b>	<b>23,751</b>	<b>20,228</b>	<b>1,900</b>
2	Of which the standardised approach	23,751	20,228	1,900
3	Of which the Foundation IRB (F-IRB) approach	0	0	0
4	Of which slotting approach	0	0	0
EU 4a	Of which equities under the simple riskweighted approach	0	0	0
5	Of which the Advanced IRB (A-IRB) approach	0	0	0
6	<b>Counterparty credit risk - CCR</b>	<b>651</b>	<b>302</b>	<b>52</b>
7	Of which the standardised approach	266	174	21
8	Of which internal model method (IMM)	0	0	0
EU 8a	Of which exposures to a CCP	0	0	0
EU 8b	Of which credit valuation adjustment - CVA	385	129	31
9	Of which other CCR	0	0	0
15	<b>Settlement risk</b>	<b>0</b>	<b>0</b>	<b>0</b>
16	<b>Securitisation exposures in the non-trading book (after the cap)</b>	<b>903</b>	<b>1,581</b>	<b>72</b>
17	Of which SEC-IRBA approach	0	0	0
18	Of which SEC-ERBA (including IAA)	171	743	14
19	Of which SEC-SA approach	615	665	49
EU 19a	Of which 1250% / deduction	117	173	9
20	<b>Position, foreign exchange and commodities risks (Market risk)</b>	<b>0</b>	<b>0</b>	<b>0</b>
21	Of which the standardised approach	0	0	0
22	Of which IMA	0	0	0
EU 22a	<b>Large exposures</b>	<b>0</b>	<b>0</b>	<b>0</b>
23	<b>Operational risk</b>	<b>4,470</b>	<b>4,375</b>	<b>358</b>
EU 23a	Of which basic indicator approach	0	0	0
EU 23b	Of which standardised approach	4,470	4,375	358
EU 23c	Of which advanced measurement approach	0	0	0
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
<b>29</b>	<b>Total</b>	<b>29,776</b>	<b>26,486</b>	<b>2,382</b>

### 4.3 Own funds

The table EU KM1 in paragraph 4.2 shows the Hoist Finance consolidated situation's own funds which are used to cover the own funds requirements.

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 made up of perpetual AT1 notes and subordinated loans respectively. A link between equity and the regulatory total capital as of 31 December 2023 is presented below.



### 4.4 Capital buffers and Pillar 2 requirements.

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, Pillar 2 requirements and Pillar 2 guidance pursuant to the Capital Buffer Act (SFSA 2014:966) and New Capital Requirements for Swedish Banks (FI Ref. 20-20990). Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk exposure amount, an institution-specific countercyclical buffer of 0.39 per cent of the total risk exposure amount and Pillar 2 requirements of 1.44 per cent. As of 31 December 2023, the SFSA decision on Pillar 2 guidance has not been communicated to Hoist Finance.

	31 Dec 2023	30 June 2023	31 Dec 2022
Total risk exposure amount	29,659	28,178	26,313
Internally assessed Pillar 2 capital	426	348	464
Additional own funds requirements to address Pillar 2 risk	1.44%	1.24%	1.76%
of which: to be made up of CET1 capital	0.81%	0.70%	0.99%
of which: to be made up of Tier 1 capital	1.08%	0.93%	1.32%

Hoist Finance is required to maintain an institution-specific countercyclical buffer as a percentage of the total risk exposure amount. The buffer is determined for each country by the countries' relevant authorities.

<b>Amount of institution-specific countercyclical capital buffer</b>	<b>31 Dec 2023</b>	<b>30 June 2023</b>	<b>31 Dec 2022</b>
Total risk exposure amount	29,564	28,178	26,313
Institution specific countercyclical buffer rate	0.39%	0.38%	0.10%
Institution specific countercyclical buffer requirement	116	106	25

## 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 1 050 000, which also equals the maximum amount of the Swedish deposit guarantee scheme to individuals. A programme was established in Germany in 2017, where customers are allowed to save up to EUR 85,000. In 2021, an additional deposit programme was established in the UK, where customers are allowed to save up to GBP 70,000. In late 2023, a new deposit programme was also established in Poland, where customers are allowed to save up to PLN 375,000

Due to Hoist Finance status as regulated credit market company under the supervision of the Swedish Financial Supervisory Authority, the deposits are covered by the deposit guarantee scheme, which in Sweden corresponds to SEK 1 050 000. More than 99 per cent of the deposit volumes are covered by the Swedish deposit guarantee scheme.

With the establishment of a Euro Medium Term Note Programme ("EMTN") in 2016, Hoist Finance added further diversification and flexibility to the funding base. Hoist Finance is rated Baa3 by Moody's since May 2017.

Hoist Finance AB (publ) issued no senior debt in 2022 and 2021. As of year-end 2023, Hoist Finance AB (publ) had two outstanding senior unsecured bond loans totalling EUR 450m under the EMTN programme. There were no outstanding issues under the commercial paper programme as of year-end 2023.

The Italian special purpose vehicle Giove SPV S.r.l issued bonds totalling EUR 21m (63) 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 91 per cent subscribed by external investors.

In 2023 Hoist Finance AB (publ) issued subordinated bonds totalling SEK 80m under the company's EMTN programme. The company also prematurely redeemed all outstanding bonds in full during the year for an outstanding Tier 2 capital instrument of EUR 80m maturing in 2027.

During the second quarter of 2023, Hoist Finance AB (publ) issued a new AT1 instrument of SEK 700m. An outstanding EUR 30m AT1 instrument was redeemed in full on its first call date in June 2023 and Hoist the company also made an early redemption of an outstanding EUR 40m AT1 instrument on its first call date on 1st of September 2023. All transactions regarding AT1 instruments were approved by the SFSA before execution.

Funding	Hoist Finance consolidated situation, SEK m	
	31 Dec 2023	31 Dec 2022
Current account deposits	8,873	7,810
Fixed-term deposits	11,365	10,772
Debt securities issued	4,577	5,545
Additional Tier 1 capital	1,110	1,106
Subordinated debts	900	903
Equity	4,938	4,639
Other	2,260	1,724
<b>Balance Sheet Total</b>	<b>34,023</b>	<b>32,500</b>

For additional information about Funding please refer to Note 29 in the Annual Report.

## 6 Internal capital and liquidity adequacy assessment process

The internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are ongoing processes carried out by the Executive Management Team, which reviews, evaluates and quantifies risks to which the Group is exposed in carrying out its business operations. This risk analysis forms the basis for ensuring that the Group has sufficient capital and liquidity to cover regulatory requirements and ensure a comfortable financial margin vis-à-vis the regulatory requirements in Hoist Finance's operations and business plan.

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 forecast.

### 6.1 ICAAP

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

Credit and market risks are rigorously stress-tested to determine the extent of the losses that Hoist Finance is capable of withstanding under extremely adverse circumstances. This loss figure is then compared to the statutory 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 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 the 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 under both normal and stressed scenarios. The ILAAP is the tool,

by which Hoist Finance identifies, validates, plans and stress-tests its current and future liquidity and funding needs. The stress tests carried out include a severe short-term stress considering the survival horizon, as well as an economic downturn scenario evaluating long-term effects for the Group.

Hoist Finance uses the ILAAP to define the size of the liquidity buffer the Group needs to prevent identified liquidity and funding risks from affecting the Group's capacity to achieve its business plan and meet regulatory requirements (LCR and NSFR) and the limits set by the Board of Directors.

## 7 Credit risk

*Credit risk is the risk of losses due to the failure of a credit or an arrangement similar to that of a credit to be fulfilled.*

### 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.

Hoist Finance has a diverse product and service offering in the markets where it operates, including unsecured and secured non-performing loans to individuals and SME's as well as performing loans. The non-performing unsecured 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 non-performing secured loan portfolios are acquired at ca 30-50 per cent of the face value and performing at ca 75-95 per cent of the face value. The price depends on the portfolios' specific characteristics and composition in terms of e.g. loan size, age, the presence and type of collaterals, 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 risk of loan portfolios failing to pay as expected is regularly monitored by the Portfolio Management Team, 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.

Forecast revisions are managed by the Portfolio Management Team with the approval body being our internally established Revaluation Committee, which reports to the Board's Investment Committee. Decisions are duly taken by the Revaluation Committee within the scope of the Revaluation Policies issued by the Board of Directors. Forecast adjustments and their impact on earnings are disclosed internally and externally. The portfolio valuation is independently audited by the Risk Control function and adherence to the policies by the Internal Audit function.

For additional information about Credit Risk please refer to Note 33 in the Annual Report.

### 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 that is derived using performance data Hoist Finance has accumulated over 20 years. 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 (or higher) 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 created 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 managed by the internal Revaluation Committee, which reports to the Board's Investment Committee.

The Risk Control function regularly performs independent assessments of the book values of Hoist Finance's 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 the Risk Control function's 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 by exposure classes and geography.

### Credit risk exposures by exposure class

#### Hoist Finance consolidated situation, SEK m

31 Dec 2023	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
Central governments or central banks	2,644	2,644	0	2,089	0	0%	0
Regional governments or local authorities	628	628	0	619	0	0%	0
Institutions	4,762	4,762	0	4,317	1,069	23%	85
Corporates	150	150	0	522	150	100%	12
of which: SME	0	0	0	0	0	0%	0
Retail	18	18	0	18	14	75%	1
of which: SME	0	0	0	0	0	0%	0
Secured by mortgages on immovable property	655	655	0	484	320	50%	26
Exposures in default	21,948	21,948	1,330	15,869	21,950	100%	1,756
of which: SME	0	0	0	0	0	0%	0
Covered bonds	1,856	1,856	0	1,935	186	10%	15
Equity exposures	0	0	0	0	0	0%	0
Other items	330	330	0	419	330	100%	26
Securitisation positions	855	855	0	500	786	94%	63
<b>Total</b>	<b>33,845</b>	<b>33,845</b>	<b>1,330</b>	<b>26,772</b>	<b>24,804</b>		<b>1,984</b>

#### Hoist Finance consolidated situation, SEK m

31 Dec 2022	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
Central governments or central banks	1,858	1,858	0	1,318	0	0%	0
Regional governments or local authorities	1,145	1,145	0	659	0	0%	0
Institutions	3,330	3,330	0	3,552	770	24%	62
Corporates	244	244	0	280	244	100%	19
of which: SME	0	0	0	0	0	0%	0
Retail	17	17	0	18	13	75%	1
of which: SME	17	10	0	5	10	57%	1
Secured by mortgages on immovable property	566	566	0	442	293	51%	23
Exposures in default	18,275	18,275	79	14,590	18,275	113%	1,462
of which: SME	487	487	0	797	1,196	150%	96
Covered bonds	4,094	4,094	0	3,473	409	10%	33
Equity exposures	0	0	0	0	0	0%	0
Other items	398	398	0	369	398	100%	32
Securitisation positions	1,506	1,506	0	1,715	1,408	92%	113
<b>Total</b>	<b>31,433</b>	<b>31,433</b>	<b>79</b>	<b>26,415</b>	<b>21,809</b>		<b>1,745</b>

## Geographical breakdown of exposure amount

Hoist Finance consolidated situation, SEK m

31 Dec 2023	Central governments or central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Covered bonds	Equity	Other items	Securitisation positions	Total
Sweden	813	628	2,612	0	0	0	1,104	1,613	0	125	0	6,895
UK	127	0	522	34	10	160	1,109	0	0	1	0	1,965
Italy	221	0	439	66	0	0	2,390	0	0	9	855	3,979
Poland	2	0	308	16	4	350	4,245	0	0	8	0	4,934
Germany	844	0	326	11	4	144	2,888	0	0	9	0	4,227
France	176	0	379	8	0	0	2,064	0	0	24	0	2,652
Netherlands	45	0	27	10	0	0	808	0	0	5	0	896
Spain	18	0	67	3	0	0	4,169	0	0	121	0	4,378
Greece	12	0	62	1	0	0	2,967	0	0	4	0	3,045
Belgium	0	0	3	0	0	0	143	0	0	1	0	147
Finland	385	0	0	0	0	0	0	0	0	0	0	385
Cyprus	0	0	2	0	0	0	25	0	0	19	0	46
Austria	0	0	2	0	0	0	34	0	0	0	0	37
Romania	0	0	12	0	0	0	0	0	0	6	0	18
Norway	0	0	0	0	0	0	0	243	0	0	0	243
Denmark	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>2,644</b>	<b>628</b>	<b>4,762</b>	<b>150</b>	<b>18</b>	<b>655</b>	<b>21,948</b>	<b>1,856</b>	<b>0</b>	<b>330</b>	<b>855</b>	<b>33,845</b>

Hoist Finance consolidated situation, SEK m

31 Dec 2022	Central governments or central banks	Regional governments or local authorities	Institutions	Corporates	Retail	Secured by mortgages on immovable property	Exposures in default	Covered bonds	Equity	Other items	Securitisation positions	Total
Sweden	1,147	1,145	1,816	145	0	0	0	3,654	0	155	0	8,063
UK	0	0	300	0	12	196	1,166	0	0	19	0	1,693
Italy	4	0	534	69	0	0	2,783	0	0	16	1,506	4,911
Poland	1	0	254	3	4	370	3,777	0	0	8	0	4,418
Germany	1	0	109	9	1	0	2,666	0	0	18	0	2,805
France	164	0	114	11	0	0	1,959	0	0	39	0	2,287
Netherlands	43	0	12	2	0	0	880	0	0	9	0	947
Spain	0	0	109	2	0	0	2,939	0	0	86	0	3,136
Greece	2	0	70	0	0	0	1,837	0	0	15	0	1,924
Belgium	0	0	1	0	0	0	155	0	0	0	0	156
Finland	496	0	0	0	0	0	0	0	0	0	0	496
Cyprus	0	0	0	0	0	0	62	0	0	23	0	86
Austria	0	0	2	0	0	0	50	0	0	0	0	52
Romania	0	0	10	0	0	0	0	0	0	9	0	20
Norway	0	0	0	0	0	0	0	243	0	0	0	243
Denmark	0	0	0	0	0	0	0	198	0	0	0	198
<b>Total</b>	<b>1,858</b>	<b>1,145</b>	<b>3,330</b>	<b>244</b>	<b>17</b>	<b>566</b>	<b>18,275</b>	<b>4,094</b>	<b>0</b>	<b>398</b>	<b>1,506</b>	<b>31,433</b>

### 7.3 Securitisation

In August 2019 Hoist Finance launched its first securitisation transaction of a portfolio of Italian non-performing, unsecured loans (“NPLs”). The transaction involves the issuance of two classes of notes issued by the securitisation company Pinzolo SPV S.r.l. (“Pinzolo”) (an Italian Law 130 issuer) to finance the purchase of NPLs from Hoist Finance group company Marte SPV S.r.l. (“Marte”). The senior notes (representing 95 per cent of the issued amount) were fully subscribed by the external investor CarVal Investors, L.P., and the junior tranche (5 per cent of total issuance) was retained in full by Hoist Finance AB (publ).

In December 2019 Hoist Finance completed its first rated securitisation transaction of a portfolio of Italian NPLs. The transaction involves the issuance of EUR 337m notes across three tranches issued by the Italian securitisation vehicle Marathon SPV S.r.l. (“Marathon”) to finance the purchase of the NPL assets. The senior notes (representing 85 per cent of the issued amount) were fully retained by Hoist Finance, and the mezzanine and junior notes (representing 10 per cent and 5 per cent respectively of total issuance) were to 95 per cent subscribed by external investor CarVal Investors, L.P. The remaining 5 per cent of the two subordinated tranches were retained by Hoist Finance in order to comply with the risk retention requirements of the Securitisation Regulation. In connection with the closing of the Marathon transaction, the notes issued by Pinzolo, were redeemed in full and it’s the securitised NPL assets refinanced via the Marathon transaction.

The Marathon Class A notes, Class B notes and Class J are due in October 2034, and bear a fixed, annual interest rate of 1.8 per cent, 8 per cent and 15 per cent respectively. The Class A notes and

the Class B notes have been assigned ratings by credit rating agencies DBRS Rating Limited, Moody's Italia S.r.l., and Scope Rating GMBH.

The table below summarises main elements of the structure of the Marathon transaction as per launch in December 2019.

Tranche	Rating (DBRS / Moody's / Scope)	Current rating	Amount (EUR m)	Share of notes	Coupon	Hoist Finance AB (publ) exposure
<b>Class A</b>	BBB / Baa2 / BBB	BBB+	286.5	85.0%	1.8%	100%
<b>Class B</b>	B / B1 / B	BB	33.7	10.0%	8.0%	5%
<b>Class J</b>	NR	NR	16.9	5.0%	15% +variable return	5%

The next phase of Hoist Finance's securitisation programme was launched in February 2021 with the signing of a partnership agreement with alternative investment manager Magnetar Capital ("Magnetar"). Under the agreement Magnetar has committed to invest EUR 150m in mezzanine and junior notes in future securitisations over a 24-month investment period. This investment period was extended in Q1 2023 to 30 September 2023. Hoist Finance will subscribe to the senior notes in full, and to 5 per cent of the mezzanine and the junior tranche respectively. Any surplus collections from the securitised assets will support the outstanding notes and, upon full repayment, be paid to Hoist Finance under the relevant servicing agreements. The partnership covers Hoist Finance's key markets. As of year-end 2022 the Italian issuer Giove SPV S.r.l. ("Giove") – the first issuing entity established under the partnership – had issued three tranches of notes. In 2022 Hoist Finance established a second issuer – Zugspitze Ireland DAC ("Zugspitze") – under the securitisation programme with Magnetar. As per of this report, Zugspitze had not issued any securitisation notes.

The Marathon and the Giove securitisations are structured in order to achieve significant risk transfer in accordance with Article 244 of Regulation (EU) No 575/2013 (as amended) on prudential requirements for credit institutions and investment firms in both cases of securitisation transactions.

Hoist Finance has in relation to the Marathon and the Giove transaction respectively, transferred substantially all credit risk associated with the securitised NPL assets to third parties and thereby met the conditions for significant risk transfer in accordance with point (a) of Article 244(2) of Regulation (EU) 575/2013. The applicable "Mezzanine test" is fulfilled by way of Hoist Finance selling more than 50 per cent of the risk weighted exposure amount resulting from the mezzanine position in the Transaction to external investors, which are unconnected to Hoist Finance. Moreover, pursuant to Art. 244 and 247 of CRR, Hoist Finance has excluded the securitised exposures from calculations of amounts of risk-weighted assets ("RWA").

Furthermore, Hoist Finance fulfils the requirement to maintain material net economic interest according to rules on risk retention requirements in the CRR 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 tranche issued by Marathon Hoist Finance reduces its own funds according to Art. 36 clause 1 k) of the CRR.

For the unrated, retained securitised positions Hoist Finance applies 100 per cent risk weight in line with Art. 269a clause 3 of CRR. For the retained Class B and Class J tranches Hoist Finance applies the Standardised Approach (SEC-SA).

**Hoist Finance consolidated situation 31 Dec 2023, SEK m**

Securitisation exposures in the banking book and associated regulatory capital requirements	Exposure values (by RW bands)				
	≤20% RW	>20% to 50% RW	>50% to 100% RW	100% to <1,250% RW	1,250% RW
Traditional securitisation			838	16	9
<i>Of which securitisation</i>			838	16	9
<i>Of which retail underlying</i>			838	16	9
<i>Of which wholesale</i>					
<b>Total exposures</b>			838	16	9

**Hoist Finance consolidated situation 31 Dec 2023, SEK m**

Securitisation exposures in the banking book and associated regulatory capital requirements	External ratings based approach			Standardised Approach			Article 269a Treatment of NPE securitisation		
	Exposure values	RWA	Capital charge after cap	Exposure values	RWA	Capital charge after cap	Exposure values	RWA	Capital charge after cap
<i>Traditional securitisation</i>	310	171	14	14	85	7	530	530	42
<i>Of which securitisation</i>	310	171	14	14	85	7	530	530	42
<i>Of which retail underlying</i>	310	171	14	14	85	7	530	530	42
<i>Of which wholesale</i>									
<b>Total exposures</b>	<b>310</b>	<b>171</b>	<b>14</b>	<b>14</b>	<b>85</b>	<b>7</b>	<b>530</b>	<b>530</b>	<b>42</b>

The securitisation transactions result in a reduction in the RWAs attributed to Hoist Finance's post-transaction exposure compared with the pre-securitisation RWAs.

## 8 Operational risk

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

Given the nature of operational risks the strategy is to reduce the exposures as far as is economically justifiable. Operational risks are managed by identifying, measuring, controlling, reporting and monitoring of operational risks inherent in core operating processes and their supporting information and communication technology (ICT). There are routines in place for detecting, analysing, remediating and reporting on actual operational events (incidents). All operating processes are subject to business impact analysis identifying business critical activities which in turn are subject to scenario analysis and business continuity planning. To ensure change objectives are met procedures are in place to support decision-making in relation to major projects or other major change initiatives.

## 9 Market Risk

*Market risk is the risk of loss due to market prices changes on outstanding positions. This includes FX risk and interest rate risk.*

### 9.1 Foreign exchange risk

*Foreign exchange risk ("FX risk") is the risk of loss 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, resulting in a transaction risk.
- Any imbalance between the value of assets and liabilities in different currencies gives rise to a translation risk or balance-sheet 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 its three main functional currencies are EUR, GBP and PLN. The Group's loan portfolios (assets) are mainly denominated in foreign currency, while the Group's deposits from the public (liabilities) are mainly denominated in SEK and EUR. Deposits in GBP and PLN are still marginally. This imbalance between assets and liabilities in different currencies entails a translation risk (balance-sheet risk).

To manage translation risk, the Group calculates its unhedged exposure to the aggregate value of net assets denominated in currencies other than SEK. The Group's translation exposure is then managed through linear derivative contracts. The Group uses hedge accounting for the net investment in foreign operations.

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

For additional information about FX Risk please refer to Note 33 in the Annual Report.

### 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 company's revenues and expenses to varying extents. Changes in interest rates may affect 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 EUR, GBP and PLN. Hoist Finance also applies hedge accounting for interest derivatives.

Hoist Finance has strict limits for maximum allowed interest rate exposure. Limits are in place to reduce earnings risk, economic value risk and credit spread risk. To calculate the own funds

requirement for the Interest rate risk in the Banking book Hoist is required to consider gap risk, credit spread risk and basis spread risk.

With regards to gap risk Hoist Finance apply the economic value model based on the Swedish FSAs method on the management of interest rate risk arising from non-trading book activities (FI Dnr 19-4434). Credit spread risk is calculated using an internal Value at Risk model upholding requirements specified in (FI Dnr 19-4434). Basis spread risk is calculated using the standardized approach as specified in (FI Dnr 19-4434).

For additional information about Interest Rate Risk please refer to Note 33 in the Annual Report.

## 10 Liquidity Risk

*Risk of loss due to lack of cash and/or cash equivalents to meet the needs of depositors and borrowers without the cost of liquidity increasing.* The Group's cash flow from acquired loan portfolios is in its nature positive. The Group normally receive a cash flow of ca 1.9 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 Group's overall liquidity strategy is to maintain a liquidity buffer of highly liquid assets designed to mitigate Hoist Finance's liquidity risks and, in addition, to make liquidity available for financial obligations related to loan portfolio acquisitions.

The Group's general funding strategy is to maintain a sustainable, cost-efficient and well diversified funding structure while at the same time upholding a sound structural risk level – including liquidity, interest rate and FX risk – which is appropriate, and proportionate to Hoist Finance's business model. Diversification between different types of sources of funding in various markets, currencies and forms of funding instruments is a key component of the funding strategy. Maintaining an investment grade rating is another cornerstone to Hoist Finance funding strategy, and potential rating implications are taken into consideration in financial and business strategic decisions.

For additional information about Liquidity Risk please refer to Note 33 in the Annual Report.

### 10.1 Liquidity Coverage Ratio

The Group's Liquidity Coverage Ratio (LCR) was 506per cent (1 136) as of 31 December 2023, compared to the regulatory requirement of 100 per cent.

Items that are not captured in the LCR calculation, 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's business.

### 10.2 Net Stable Funding Ratio

The Net Stable Funding Ratio (NSFR) was 115 per cent (116) at year-end, compared to the regulatory requirement of 100 per cent.



## 11 Definitions

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

## 12 Annex I – Hoist Finance AB (publ)

Hoist Finance AB (publ) is licensed and regulated as a credit market company under the supervision of the SFSA.

		Hoist Finance AB (publ), SEK m		
		31 Dec 23	30 Jun 23	31 Dec 22
<b>Available own funds (amounts)</b>				
1	Common Equity Tier 1 (CET1) capital	3,703	3,211	3,610
2	Tier 1 capital	4,813	4,321	4,716
3	Total capital	5,713	5,309	5,619
<b>Risk-weighted exposure amounts</b>				
4	Total risk exposure amount	28,537	26,831	24,695
<b>Capital ratios (as a percentage of risk-weighted exposure amount)</b>				
5	Common Equity Tier 1 ratio (%)	12.98%	11.97%	14.62%
6	Tier 1 ratio (%)	16.87%	16.10%	19.10%
7	Total capital ratio (%)	20.02%	19.79%	22.75%
<b>Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)</b>				
EU 7a	Additional own funds requirements to address risks other than the risk of excessive leverage (%)	1.82%	1.47%	1.53%
EU 7b	of which: to be made up of CET1 capital (percentage points)	1.03%	0.83%	0.86%
EU 7c	of which: to be made up of Tier 1 capital (percentage points)	1.37%	1.10%	1.15%
EU 7d	Total SREP own funds requirements (%)	9.82%	9.47%	9.53%
<b>Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)</b>				
8	Capital conservation buffer (%)	2.50%	2.50%	2.50%
EU 8a	Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%)			
9	Institution specific countercyclical capital buffer (%)	0.44%	0.36%	0.09%
EU 9a	Systemic risk buffer (%)			
10	Global Systemically Important Institution buffer (%)			
EU 10a	Other Systemically Important Institution buffer (%)			
11	Combined buffer requirement (%)	2.94%	2.86%	2.59%
EU 11a	Overall capital requirements (%)	12.76%	12.33%	12.13%
12	CET1 available after meeting the total SREP own funds requirements (%)	7.45%	6.64%	9.25%
<b>Leverage ratio</b>				
13	Total exposure measure	33,893	30,830	31,072
14	Leverage ratio (%)	14.20%	14.01%	15.18%
<b>Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)</b>				
EU 14a	Additional CET1 leverage ratio requirements (%)			
EU 14b	Additional AT1 leverage ratio requirements (%)			
EU 14c	Additional T2 leverage ratio requirements (%)	3.00%	3.00%	3.00%
<b>Total SREP leverage ratio requirements (%)</b>				
EU 14e	Applicable leverage buffer			
EU 14f	Overall leverage ratio requirements (%)	3.00%	3.00%	3.00%
<b>Liquidity Coverage Ratio</b>				
15	Total high-quality liquid assets (HQLA) (Weighted value -average)	3,874	4,586	4,963
EU 16a	Cash outflows - Total weighted value	2,608	2,479	2,919
EU 16b	Cash inflows - Total weighted value	2,450	2,345	1,942
16	Total net cash outflows (adjusted value)	748	837	1,281
17	Liquidity coverage ratio (%)	568%	669.22%	524%
<b>Net Stable Funding Ratio</b>				
18	Total available stable funding	28,452	27,660	25,559
19	Total required stable funding	23,901	23,850	21,182
20	NSFR ratio (%)	119%	116%	121%

Hoist Finance AB (publ), SEK m		Total risk exposure amounts (TREA)		Total own funds requirements
		31 Dec 23	31 Dec 22	31 Dec 23
1	<b>Credit risk (excluding CCR)</b>	<b>24,844</b>	<b>20,704</b>	<b>1,988</b>
2	Of which the standardised approach	24,844	20,704	1,988
3	Of which the Foundation IRB (F-IRB) approach	0	0	0
4	Of which slotting approach	0	0	0
EU 4a	Of which equities under the simple riskweighted approach	0	0	0
5	Of which the Advanced IRB (A-IRB) approach	0	0	0
6	<b>Counterparty credit risk - CCR</b>	<b>651</b>	<b>302</b>	<b>52</b>
7	Of which the standardised approach	266	174	21
8	Of which internal model method (IMM)	0	0	0
EU 8a	Of which exposures to a CCP	0	0	0
EU 8b	Of which credit valuation adjustment - CVA	385	129	31
9	Of which other CCR	0	0	0
15	<b>Settlement risk</b>	<b>0</b>	<b>0</b>	<b>0</b>
16	<b>Securitisation exposures in the non-trading book (after the cap)</b>	<b>903</b>	<b>1,581</b>	<b>72</b>
17	Of which SEC-IRBA approach	0	0	0
18	Of which SEC-ERBA (including IAA)	171	743	14
19	Of which SEC-SA approach	615	665	49
EU 19a	Of which 1250% / deduction	117	173	9
20	<b>Position, foreign exchange and commodities risks (Market risk)</b>	<b>0</b>	<b>0</b>	<b>0</b>
21	Of which the standardised approach	0	0	0
22	Of which IMA	0	0	0
EU 22a	<b>Large exposures</b>	<b>0</b>	<b>0</b>	<b>0</b>
23	<b>Operational risk</b>	<b>2,256</b>	<b>2,281</b>	<b>180</b>
EU 23a	Of which basic indicator approach	0	0	0
EU 23b	Of which standardised approach	2,256	2,281	180
EU 23c	Of which advanced measurement approach	0	0	0
24	Amounts below the thresholds for deduction (subject to 250% risk weight)	0	0	0
<b>29</b>	<b>Total</b>	<b>28,654</b>	<b>24,868</b>	<b>2,292</b>

## 13 Annex II – References to Regulation

### References to Hoist Finance Pillar 3 report

<b>Legal basis</b>	<b>Row number</b>	<b>Qualitative information - Free format</b>	<b>Reference in Hoist Finance Pillar 3 report</b>
Point (f) of Article 435(1) CRR	(a)	Disclosure of concise risk statement approved by the management body	Sections 3.1 and 3.2
Point (e) of Article 435(1) CRR	(b)	Declaration approved by the management body on the adequacy of the risk management arrangements.	Chapter 2
Point (a) of Article 435(1) CRR	(c)	Strategies and processes to manage risks for each separate category of risk.	Chapters 3 and 7-10