16

Hoist Kredit AB

Annual Report 2016

A leading debt restructuring partner to international banks and financial institutions

Content financial information

Administration Report

Business overview

Hoist Kredit AB (publ) “Hoist Kredit”, corporate identity number 556329-5699 is a regulated credit market company, supervised by the Swedish Financial Supervisory Authority. The company´s registered office is in Stockholm, Box 7848, 103 99 Stockholm.

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

The Group has operated a traditional internet-based retail deposit product in Sweden since 2009 under the HoistSpar brand. As a licensed and supervised credit company, Hoist Kredit can offer the public a
deposit service which is fully covered by the Swedish state deposit guarantee scheme up to an amount of SEK 950,000 for each account. This gives the Group a cost-effective, flexible and reliable source of funding, which is primarily used for the acquisition of non-performing loans.

Market

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

Group structure and ownership

Hoist Kredit is 100 per cent owned by Hoist Finance AB (publ) “Hoist Finance” CIN 556012-8489, registered in Stockholm, Sweden. Hoist Finance is listed on NASDAQ Stockholm.

Hoist Kredit acquires and holds most of the Group’s loan portfolios and the loans are managed by its subsidiaries and branch offices. These entities also provide management services on a fee and commission basis to external parties. The company conducts business in Brussels and in Amsterdam through the foreign branch offices Hoist Kredit AB in Belgium and Hoist Kredit AB in the Netherlands. Note 14, Group companies lists details on the Hoist Kredit Group along with its key subsidiaries and branch offices as at 31 December 2016.

Proposed appropriation of earnings

According to the Parent Company’s balance sheet, the following amounts are available for distribution by the Annual General Meeting:

	SEK
Other contributed equity	1,735,955,837
Other non-restricted reserves	577,697
Retained earnings	307,893,019
Profit for the year	267,191,387
Total	**2,311,617,940**

The Board of Directors proposes that these earnings be distributed as follows:

	SEK
Carried forward to:	
Other contributed equity	1,735,955,837
Retained earnings	575,662,103
Total	**2,311,617,940**

The Board of Directors proposes to the AGM that the earnings that are at the disposal of the AGM are carried forward.

Key events in 2016

- Operational activities were divided into three regions to make the organisation more efficient and strengthen Hoist Kredit’s position in Europe. The change came into effect on 1 January 2016 and involves a new form of segment reporting.
- Hoist Kredit entered into a strategic partnership with the Bank of Greece, joining Qualco S.A. and PricewaterhouseCoopers Business Solutions S.A. in a consortium responsible for managing portfolios of NPLs and other assets from 16 Greek banks in liquidation and for supervising the restructuring process and optimisation of these banks.
- Moody’s Investors Service assigned Hoist Kredit AB (publ) a Ba2 credit rating, subsequently upgraded to Ba1 with a stable outlook.
- Hoist Kredit established an EMTN programme under which it issued EUR 250 million, subsequently increased to EUR 300 million, further strengthening the company’s funding position.
- The company acquired its first portfolio in Spain and established presence in the market with the acquisition of master servicing company Optimus.
- To further optimise its capital structure, Hoist Finance issued Additional Tier 1 (AT1) capital of EUR 30 million during the fourth quarter.
- The HoistSpar app was launched during the fourth quarter, enabling customers to monitor their savings more easily and transparently.
- Hoist Kredit strengthened its position in the small and medium enterprise (SME) segment with the acquisition of additional portfolios from Banco BPM.

Developments during 2016 financial year

Unless otherwise indicated, all comparative market, financial and operational information refers to full-year 2015. The analysis below follows the operating income statement.

Revenues

Due to continued high acquisition activity during 2016, gross collections on acquired loan portfolios increased 19 per cent to SEK 4,311 million (3,631).

Portfolio amortisation and revaluation totalled –1,906 million (–1,627), of which portfolio revaluation totalled SEK +6 million (–39). Interest income from the run-off consumer loan portfolio decreased during the year in line with portfolio amortisation, and totalled SEK 6 million (10). The run-off consumer loan portfolio's carrying value was SEK 32 million (58) as at 31 December 2016. Net revenue from the run-off consumer loan portfolio thus increased 20 per cent, to SEK 2,411 million (2,015).

Fee and commission income totalled SEK 117 million (167). The change was primarily attributable to the UK, where third-party collections (bundled into previous business combinations) have decreased in scope, in line with Hoist Kredit's strategy.

Profit from shares and participations in joint ventures increased from SEK 55 million in 2015 to SEK 86 million in 2016 and were impacted by improved collection forecasts within the scope of Hoist Kredit's Polish joint venture (BEST III) holding. The BEST III holding is reported in accordance with the equity method. The carrying value of Hoist Kredit's share in the joint venture totalled SEK 241 million (206) at 31 December 2016.

Total revenue increased to SEK 2,635 million (2,254) and Other income totalled SEK 21 million (18).

Operating expenses

Operating expenses totalled SEK –1,663 million (–1,528). The increase is mainly attributable to higher collection costs, which totalled SEK –596 (–510) and are associated with a large amount of acquired loans in existing markets, including Italy and Hoist Kredit's new establishment in Spain. The comparatively marginal increase in personnel expenses – from SEK –642 million in 2015 to SEK –665 million in 2016 – is attributable to efficiency improvements in the UK, where local functions were coordinated following the acquisition of Compello Holdings Ltd. in July 2015.

Depreciation and amortisation of tangible and intangible assets totalled SEK –48 million (–40). The year-on-year increase in amortisation is mainly attributable to investments in IT systems developed to, among other things, improve the management of operational risks and efficiency in managing portfolio valuations.

Financial expenses

Total financial items (ie, the net of interest income, interest expense and financial transactions excluding interest income from the run-off consumer loan portfolio) totalled SEK –411 million (–384). To facilitate realised and anticipated acquisition volumes, Hoist Kredit continued to build and maintain good liquidity during 2016 by increasing funding through the issuance of bonds. Lower market rates resulted in lower interest income from investments in treasury bills and bonds, as well as lower interest expenses for HoistSpar. Net income from financial transactions totalled SEK –98 million (–52), with a significant portion of the increase attributable to non-recurring expenses of SEK 22 million associated with the buy-back of issued bonds during second quarter 2016.

Profit before tax and net income

Profit before tax increased to SEK 560 million (343) due to the Group's continued strong performance. Reported tax expense totalled SEK –125 million (–65), corresponding to approximately 22 per cent of the Group's profit before tax. Tax expense was impacted by the utilisation of tax loss carry-forwards that were reported in the balance sheet and that could not be utilised.

Total comprehensive income, including currency translation differences, totalled SEK 410 million (239).

Balance Sheet

Assets

Total assets increased SEK 1,537 million year-on-year and total SEK 19,148 million (17,611). Bonds and other securities increased SEK 1,235 million, due mainly to the contribution from the issue of non-secured bonds. Acquired loan portfolios increased SEK 1,371 million, due mainly to acquisitions in Italy, the UK and Spain. The carrying value of participations in joint venture increased SEK 36 million. These increases are offset by a decrease of SEK –804 million in treasury bills and treasury bonds, SEK - 60 million in lending to credit institutions including cash and SEK –241 million in other asset items. The decrease in Other assets is mainly attributable to changes in the market value of currency forwards.

Liabilities

Total liabilities amount to SEK 16,423 million (15,402). The change is attributable to an SEK 1,888 million increase in senior unsecured debt following the buy-back and issue of bond loans and other liability items, which increased SEK 75 million. The increase is offset by an SEK –942 million reduction in deposits from the public.

Cash flow

SEK M	2016	2015	Change, %
Cash flow from operating activities	–1,505	–714	>100
Cash flow from investing activities	–1,328	508	n/a
Cash flow from financing activities	1,968	514	>100
Cash flow for the year	**–864**	308	n/a

Cash flow from operating activities totalled SEK –1,505 million (–714). Gross collections on acquired loan portfolios increased to SEK 4,282 million (3,631) due to greater portfolio volumes, and expenses increased along with expansion of the business. Adjusted for translation differences, acquired loans during the year totalled SEK 3,277 million (4,054). HoistSpar's deposits from the public decreased during the year by SEK –958 million (1,782), due mainly to the strategy of diversifying funding of operations. Fixed term deposit outflows were lower than outflows from variable interest accounts.

Cash flow from investing activities totalled SEK –1,328 million (508), with most of the outflow associated with investments in bonds and other interest-bearing securities and some of the outflow attributable to financing activity transactions initiated during the year. Hoist Kredit invested in bonds and other interest-bearing securities in 2016 totalling SEK –1,245 million net.

Cash flow from financing activities totalled SEK 1,968 million (514). Inflows from financing activities are primarily attributable to the issuance of EUR 300 million in senior unsecured debt under the EMTN programme established during the year, reduced by the buy-back and repayment of senior unsecured debt issued in previous years, and total SEK 1,738 million net. To strengthen own funds, Hoist Kredit also issued new Additional Tier 1 capital of SEK 30 million during the year. Hoist Kredit therefore maintains liquidity for anticipated future acquisitions.

Total cash flow for the year totalled SEK –864 million (308).

Funding and capital structure

SEK M	2016	2015	Change, %
Cash and interest-bearing assets	5,548	5,177	7
Other assets [1]	13,600	12,434	9
Total assets	**19,148**	**17,611**	**9**
Deposits from the public	11,849	12,791	–7
Subordinated liabilities	342	337	1
Senior unsecured liabilities	3,126	1,238	>100
Total interest-bearing liabilities	**15,317**	**14,366**	**7**
Other liabilities	1,106	1,036	7
Equity	2,726	2,209	23
Total liabilities and equity	**19,148**	**17,611**	**9**
CET1 ratio, %	12.46	12.32	0.14 pp
Total capital ratio, %	16.76	15.21	1.55 pp
Liquidity reserve	5,789	5,156	12

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

Hoist Kredit funds its operations mainly through deposits from the public and through the bond market. Deposits from the public total SEK 11,849 million (12,791). Of these deposits, SEK 4,266 million is comprised of 12-, 24-, and 36-month fixed term deposits. As at 31 December 2016, outstanding bond debt totalled SEK 3,126 million (1,238). The change during the year is attributable to Hoist Kredit AB (publ)'s issuance of a EUR 250 million senior bond loan during the second quarter under a newly established EMTN programme. The bond, listed on the Dublin stock exchange, was expanded during the third quarter with the issuance of an additional EUR 50 million. In conjunction with the transaction during the second quarter, a nominal amount equivalent to SEK 667 million in previously issued senior bonds denominated in SEK and EUR was repurchased through a public offering. The remaining portion of the SEK-denominated bond, totalling SEK 58 million, matured during the fourth quarter.

Equity totalled SEK 2,726 million (2,209). The increase is attributable to Net profit for the year and Hoist Kredit AB (publ)'s issuance of EUR 30 million in Additional Tier 1 (AT1) capital during the fourth quarter for the purpose of further optimising the capital structure. The instrument, listed on the Dublin stock exchange, has a perpetual maturity with a redemption option after 6.5 years.

The total capital ratio improved to 16.76 per cent (15.21) and the CET1 ratio to 12.46 per cent (12.32). The company is thus well capitalised for further expansion.

The liquidity reserve, presented in accordance with the Swedish Bankers' Association's template, totalled SEK 5,789m (5,156).

Portfolio acquisitions

SEK M	2016	2015	Change, %
Portfolio acquisitions	3,329	4,370	–24
Carrying value of acquired loans[1]	12,658	11,279	12

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

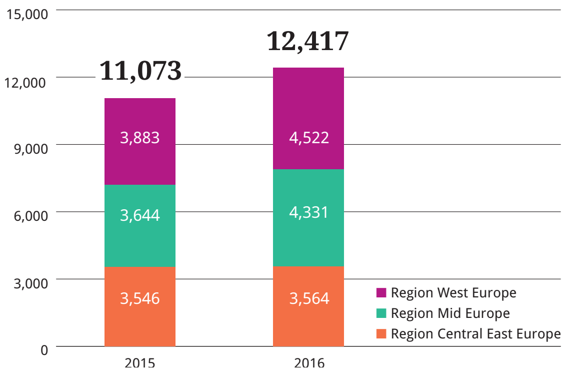
In 2016, Hoist Kredit's continued active acquisition of loan portfolios resulted in further geographic diversification in current markets. The total acquisition volume in 2016 was SEK 3,329 million (4,370). The carrying value of acquired loans totalled SEK 12,658 million (11,279) as at 31 December 2016, a year-on-year increase of SEK 1,379 million.

Hoist Kredit established itself in two new markets – Greece and Spain – during the year. In Greece, Hoist Kredit entered into a strategic partnership with the Bank of Greece as part of a consortium (which also includes Qualco S.A. and PricewaterhouseCoopers) selected to manage a portfolio of non-performing loans from 16 Greek banks and to supervise the restructuring process and optimisation of these banks. During the second quarter Hoist Kredit acquired its first portfolio in the Spanish market, investing EUR 21 million. These new establishments are fully in line with Hoist Kredit's vision of becoming the preferred partner for international banks and financial institutions.

Significant portfolio acquisitions were also conducted in Hoist Kredit's current markets, mainly during the fourth quarter, with acquisition activity largely driven by major acquisitions in Italy, Spain and the UK.

To finance expansion during the year, Hoist Kredit utilised contributions from the EMTN programme established in 2016 and cash flow surpluses generated by the business.

Geographic distribution of loan portfolios[1]



1) Excluding portfolios held in the Polish joint venture.

Segment overview

Hoist Kredit has operated under a new organisational structure since 1 January 2016, broken down based on geographic presence. Operation is divided into three new segments – Region West Europe, Region Mid Europe and Region Central East Europe – with each region responsible for loan portfolio acquisitions and customer relationships with pan-European banks. Comparative figures in the report have been adjusted based on the new segments.

The table below shows the earnings trend for each operating segment, based on operating income statement exclusive of the segments' central functions and eliminations. See Note 1 for additional details.

Region West Europe
France, Spain and the UK

SEK M	2016	2015	Change, %
Gross collections on acquired loan portfolios	1,297	936	39
Portfolio amortisation and revaluation	–488	–351	39
Net revenue from acquired loans	**809**	**584**	**38**
Fee and commission income	66	115	–43
Other income	–	1	–100
Total revenue	**875**	**700**	**25**
Personnel expenses	–232	–238	–3
Collection costs	–246	–215	15
Other operating expenses	–112	–103	10
Depreciation and amortisation of tangible and intangible assets	–12	–7	73
Operating expenses	**–602**	**–562**	**7**
EBIT	**273**	**138**	**97**
EBIT margin, %	31	20	11 pp
Return on Book, %	6.5	4.5	2.0 pp
Expenses/Gross collections on acquired loan portfolios, %	41	48	–7 pp
Carrying value of acquired loan portfolios	4,522	3,883	16

Revenues
Gross collections on acquired loan portfolios increased 39 per cent in 2016 to SEK 1,279 million (936). Performance was positively impacted by several major acquisitions conducted during the year. Portfolio amortisation and revaluation totalled SEK –448 million (–351) in 2016. The proportionally higher year-on-year portfolio amortisation is attributable to the relatively low rate of amortisation last year, which was due to initial legal collection measures for the Compello portfolio acquired in 2015 in the UK. Fee and commission income, comprised of services offered to third parties, decreased in line with Hoist Kredit's strategy to focus on acquisition and management of its own portfolios. Total revenue increased to SEK 875 million (700).

Operating expenses
Operating expenses increased 7 per cent in 2016 to SEK 602 million (562) due primarily to the new establishment in Spain and collection activities associated with the acquisition of loan portfolios.

Profitability
EBIT

EBIT for the region totalled SEK 273 million (138) for full-year 2016, with a corresponding EBIT margin of 31 per cent (20). The improvement in profitability is primarily attributable to higher revenue following an increase in collections from portfolios acquired during the year, and to results stemming from work done on collection processes.

Return on Book

The region's return on book was 6.5 per cent (4.5), with a major share of the improvement attributable to lower year-on-year revaluations.

Acquisitions
The NPL market was extremely active during the year – particularly in the UK but also in Spain, Hoist Kredit's new market, where significant acquisitions were conducted in 2016. The carrying value of acquired loan portfolios totalled SEK 4,522 million (3,883) as at 31 December 2016.

Region Mid Europe
Belgium, Greece, Italy and the Netherlands

SEK M	2016	2015	Change, %
Gross collections on acquired loan portfolios	1,575	1,358	16
Portfolio amortisation and revaluation	–763	–650	17
Net revenue from acquired loans	**811**	**708**	**15**
Fee and commission income	5	6	–15
Profit from shares and participations in joint ventures	1	–	>100
Other income	2	1	28
Total revenue	**819**	**715**	**14**
Personnel expenses	–111	–93	20
Collection costs[1)]	–221	–161	38
Other operating expenses[1)]	–54	–51	6
Depreciation and amortisation of tangible and intangible assets	–7	–7	6
Operating expenses	**–394**	**–312**	**26**
EBIT	**425**	**404**	**5**
EBIT margin, %	52	56	–4 pp
Return on Book, %	10.7	12.3	–1.6 pp
Expenses/Gross collections on acquired loan portfolios, %	25	22	3 pp
Carrying value of acquired loans loan portfolios, SEK M	4,331	3,644	19

1) Comparative figures were adjusted following the reclassification of bank charges from Other operating expenses to Collection costs.

Revenues
Gross collections on acquired loan portfolios increased 16 per cent in 2016 to SEK 1,575 million (1,358). The increase was primarily attributable to increased collections in Italy, where major acquisitions were conducted in 2016 and fourth quarter 2015. Portfolio amortisation and revaluation totalled SEK –763 million (–650). The increase is mainly due to the above-mentioned portfolio acquisitions.

Operating expenses
Operating expenses totalled SEK –394 million (–312) in 2016. The increase is largely due to increased collection costs associated with an increase in gross cash collections due to strong growth in Italy.

Profitability
EBIT

The region's EBIT totalled SEK 425 million (404) in 2016, with a corresponding EBIT margin of 52 per cent (56). The improvement is primarily attributable to strong growth in Italy.

Return on Book

The region's return on book was 10.7 per cent (12.3) during the year, with last year's high return attributable to large positive revaluations in 2015.

Acquisitions
The carrying value of acquired loan portfolios totalled SEK 4,331 million (3,644) as at 31 December 2016. The increase is mainly attributable to strong growth in Italy.

Other
Operations in Greece are proceeding as planned, with only a marginal impact on earnings during the year.

Region Central East Europe
Poland, Germany and Austria

SEK M	2016	2015	Change, %
Gross collections on acquired loan portfolios	1,440	1,337	8
Portfolio amortisation and revaluation	–655	–625	5
Interest income from run-off consumer loan portfolio	6	10	–43
Net revenue from acquired loans	**790**	**722**	**9**
Fee and commission income	46	46	0
Other income	15	12	19
Total revenue	**851**	**780**	**9**
Personnel expenses	–182	–172	5
Collection costs	–129	–134	-4
Other operating expenses	–50	–40	26
Depreciation and amortisation of tangible and intangible assets	–7	–7	1
Operating expenses	**–368**	**–354**	**4**
EBIT	**483**	**427**	**13**
EBIT margin, %	57	55	2 pp
Return on Book, %	13.6	12.1	1.5 pp
Expenses/Gross collections on acquired loan portfolios, %	21	22	–1 pp
Carrying value of acquired loan portfolios, SEK M [1]	3,564	3,546	1

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

Revenues
Gross collections on acquired loan portfolios increased 8 per cent in 2016 to SEK 1,440 million (1,337). The increase was primarily the result of increased gross collections in Poland and is mainly attributable to portfolio acquisitions conducted during the second half of 2015 and early 2016. The proportionally lower year-on-year portfolio depreciation and amortisation in relation to gross collections on acquired loan portfolios is attributable to positive revaluations.

Operating expenses
Operating expenses totalled SEK –368 million (–354) in 2016. The increase is mainly attributable to an increase in collections and to personnel expenses in Poland following the acquisition of loan portfolios in late 2015, which included the takeover of staff. Other operating expenses increased to SEK –50 million (–40), mainly due to increased expenses in Poland.

Profitability
EBIT
The region's EBIT totalled SEK 483 million (427) in 2016, with a corresponding EBIT margin of 57 per cent (55). The improvement is due to increased revenues in Poland and positive revaluation effects that were larger than last year's.

Return on Book
Return on book for the region increased to 13.6 per cent (12.1), with the improvement due to increased profitability in Poland and major positive year-on-year revaluations.

Acquisitions
Acquisition activity decreased year-on-year during 2016 and the carrying amount of acquired loan portfolios totalled SEK 3,564 million (3,546) as at 31 December 2016.

Other
The German operations launched an initiative in late 2016 to upgrade its current collection system. The new system is scheduled to be in service in late 2017 and be fully operational during first quarter 2018.

A service contract in the Polish operations was terminated during autumn 2016, under which third-party collection services were rendered. The contract termination will result in a reduction in fee and commission income in coming years as well as a reduction in operating expenses.

Other information
Parent Company
The Parent Company is an operating company included in the Hoist Kredit Group, with commercial foreign branch offices in Belgium and the Netherlands. Hoist Kredit Group business operations are largely conducted through local legal entities. Parent Company performance follows Hoist Kredit Group trends.

Parent Company net profit totalled SEK 267 million (260). Revenue from acquired loan portfolios increased SEK 64 million (65) year-on-year due to the continued increase in acquisition volumes. Interest income increased SEK 64 million year-on-year due to the issuance of new Group loans to subsidiaries to finance loan portfolio acquisitions.

Interest expenses decreased SEK 52 million year-on-year. The decrease is attributable to a reduction in interest expenses for deposits from the public due to prevailing interest rate levels, while interest expenses increased due to the partial redemption of senior unsecured debt and the issuance of new bonds during the year.

Personnel expenses increased in line with the expansion of central support functions in Stockholm.

Net profit for the year was negatively affected by an SEK 20 million (159) write-down of shares in subsidiaries. Dividends received from subsidiaries totalled SEK 82 million (293). The company's tax expense totalled SEK –86 million (–44.)

The company's assets increased SEK 1 416 million, due primarily to an increase in receivables from Group companies. Deposits from the public decreased during 2016, totalling SEK 11,849 million (12,791) at year end. Senior unsecured debt increased SEK 1,888 million. During the year Hoist Kredit issued a senior bond loan of EUR 300 million under a newly established EMTN programme. In conjunction with the new share issue Hoist Kredit repurchased and annulled previously issued bonds at a nominal amount of SEK 281 million and EUR 72 million. Parent Company equity increased to SEK 2,457 million (2,082) at 31 December 2016. Allocation to the development expenditure fund have reallocated unrestricted equity to restricted equity for self-developed intangible assets.

Non-financial performance indicators
Corporate Social Responsibility
Hoist Kredit works continuously with Corporate Social Responsibility issues. This work is based on a responsible approach with respect for customers, partners and society as a whole.

Employees
Hoist Kredit promotes workplace diversity and equality and equal treatment for all employees, regardless of age, gender, ethnic background, religion, family status, disability or sexual orientation. TRUST, an employee survey, was conducted for the first time in all countries this year (with the exception of Poland), and results will be used to develop the business and build on Hoist Kredit's values. The survey showed high scores for diversity, with company culture, work environment and CSR work as other highly ranked criteria. Detailed results from the TRUST survey will be delivered to all countries in early 2017 and monitored in employee workshops to identify areas for improvement and future targets. In December the Group's Remuneration Policy was updated based on regulatory changes and a new Diversity Policy was adopted by the Board of Directors.

Employee turnover was 22.55 per cent during the year. We believe that the level is equivalent to that of businesses with a high percentage of customer center jobs.

Hoist Kredit prioritises being an equal opportunity employer and offering a positive work environment. These areas are governed by our CSR Policy and Code of Conduct. Hoist Kredit continuously raises its standards by focusing resources and action on implementing its strategy of being the Best Place to Work. Focusing on our values, we made several improvements during 2016 – including a management development programme. Actions to improve workplace have been made such as stress assessments in France and health management plans in Germany.

At 31 December 2016 Hoist Kredit had 1,388 employees (including temporary employees) in 11 countries. Of these, 88 per cent were permanent employees and 12 per cent were temporary employees. Recalculated as full-time employees (FTEs), there were 1,285 (1,349) employees at year-end, of which 730 (781) were women and 554 (569) were men. The average number of employees in 2016 was 1,327 (1,246), of which 752 (709) were women and 575 (537) were men. Calculated based on average number of employees, 57 per cent (57) of employees were women. The Executive Management Team was comprised of 38 per cent (38) women at year-end. The Group Board of Directors was comprised of 25 per cent (34) women as at 31 December 2016, with 57 per cent (57) female directors on the Parent Company's board. The Group had 42 per cent female managers during the same period.

Sickness absence (maximum of 43 days) totalled 3.94 per cent during the year.

Hoist Finance Model

The "Hoist Finance Model" involves solution-oriented, amicable mutual agreements in which Hoist Kredit works with its customers to develop constructive and realistic solutions to improve the customers' financial situation. Hoist Kredit has a constructive approach to collection, with the goal of achieving optimal results for the Group as well as for customers. In practice, this means that Hoist Kredit focuses on helping the customers set up sustainable payment plans as opposed to taking legal action. The Group's in-house collection platforms also ensure that the Group can control the collection process, which ensures good communication with the customers. There are two main advantages to this approach: firstly, the customer is more inclined to pay voluntarily, which reduces the risks of a more costly legal solution; secondly, payment plans designed with the customers maximise the Group's cash flow over time and entail a stable cash flow over a longer period. Since banks are responsible for their clients even after the customer's loan has been sold (e.g., to Hoist Kredit), the Group's reputation for ethical behaviour and an accommodating approach is a prerequisite for the debt originators to feel secure in a sale of assets to Hoist Kredit.

Significant risks and uncertainties

The Group is governed by many regulations due to the status of subsidiary Hoist Kredit as a credit market company. Since new and amended regulations may have an impact on the Group, Hoist Kredit carefully monitors regulatory developments such as Basel IV capital and liquidity regulations and amendments to deposit guarantee scheme regulations.

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

During 2016 the UK held a non-binding referendum on EU membership, with the results indicating that the UK will be withdrawing from the EU. This will affect Hoist Kredit due to the Company's operations in the UK and gives rise to some uncertainty – eg, in relation to free trade agreements and legal issues. Currency and interest rate fluctuations will have limited impact in the short-term perspective, as Hoist Kredit hedges currency and FX risks.

A report on Hoist Kredit's risk management is presented in Note 30, Risk management.

Development of risks

During the year Hoist Kredit showed improved financial results as well as reduced risk levels in relation to deal size and, in several cases, in absolute terms. Primarily, risk levels for interest rate, liquidity and credit risks in the liquidity portfolio were reduced. The Company's capital adequacy improved due to the improved financial performance. Relative to regulatory capital requirements, Hoist Kredit is today one of the best-capitalised credit institutions in Europe.

Credit risk from loan portfolios is deemed to have increased proportionally with the volume of acquired loans during 2016. However, greater risk diversification was achieved in the loan portfolios through entry into new markets and acquisition of more portfolios. Hoist Kredit reviewed and, where necessary, revalued its loan portfolios in 2016. The liquidity portfolio's credit risk remains low, as investments are made in government, municipal and covered bonds of high credit quality. Relative to the liquidity portfolio's size, credit risk decreased in 2016 due to shorter durations of the portfolio's holdings.

Operational risk has been a prioritised area for the Company's risk management and risk control this year. A number of initiatives have been taken to improve procedures and routines within the Group. The Group works continuously to improve the quality of its internal procedures in order to limit operational risks. Hoist Kredit has limited these risks with project management, strict guidelines for incident reporting, risk identification and improved management of operational risks. A new risk system was implemented during the year to further improve the management of operational risks.

Market risks were low during the year, as Hoist Kredit continuously hedge both interest rate risk and FX risk. Hoist Kredit reduced interest rate risk during the year by hedging its funding costs to a greater extent. This was achieved through the use of longer-term interest rate hedges and the issuance of fixed-interest bonds. The foreign exchange risk remained low during the year, as the Company's open FX exposure is continuously hedged with currency hedges.

Capitalisation for Hoist Kredit was strengthened during the year. Own funds increased from SEK 2,258 million to SEK 2,814 million, and the CET1 ratio from 12.32 to 12.46 per cent. The Company is therefore better able to absorb unanticipated events without jeopardising its solvency, and the Company is well capitalised for continued growth.

Liquidity risk was low during the year, mainly due to the availability of a large liquidity portfolio with highly liquid instruments to alleviate liquidity disturbances, but also to increased funding duration. Due to its strong liquidity position, the Company is well equipped for future acquisitions and growth.

Remuneration to senior executives

Information on the most recent guidelines for remuneration to senior executives is presented in Note 5. A new Remuneration Policy was adopted by the Board of Directors in December 2016 due to new regulatory requirements. At the April 2017 AGM, the Board of Directors will propose that the AGM approve the following guidelines. The guidelines are essentially unchanged from previous years.

The complete proposed guidelines for senior executive remuneration of the Board of Directors of Hoist Kredit AB (publ), corp. ID no. 556329-5699.

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

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

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

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

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

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

Issuing loans to senior executives is not permitted.

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

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

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

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

The Board's report on the most important elements of the system for internal control and risk management for financial reporting for financial year 2016 is presented as a separate section in the Corporate Governance Report.

Subsequent events

No significant events affecting the business occurred after the end of the reporting period.

Outlook

With stricter capital adequacy requirements and inefficient NPL management, European banks will continue to have a great need to divest non-performing credit portfolios to generate return on invested capital. Return requirements cannot be achieved with large portfolios of non-performing loans on the balance sheet – which is the situation for many international banks. Market conditions are therefore deemed to remain favourable going forward. With it's strong financial position and geographic presence, Hoist Finance is well positioned to capitalise on the growth potential on the market in the years ahead. The goal for 2017 is to maintain the growth strategy that has been the foundation of Hoist Finance's success so far – high efficiency, good cost control and a sustained high rate of acquisition. And Hoist Finance will also continue to actively evaluate opportunities to enter new geographic markets in Europe.

Hoist Finance will also work to further strengthen its position to ensure that Hoist Finance is the leading partner of international banks and financial institutions in Europe.

Five year summary

Consolidated income statement

SEK thousand	2016	2015	2014	2013	2012
Total operating income	2,138,858	1,820,552	1,296,463	1,068,377	542,371
whereof net interest income	*2,097,634*	*1,682,349*	*1,144,335*	*907,465*	*428,554*
Total operating expenses	–1,663,496	–1,527,570	–1,149,988	–941,764	–543,325
Profit before tax	560,144	342,523	205,137	163,019	54,769
Net profit for the year	**435,172**	**277,562**	**167,222**	**128,112**	**47,802**

Consolidated balance sheet

SEK thousand	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012
Cash and lending to credit institutions	735,901	796,196	1,249,532	3,921,396	2,242,400
Treasury bills and treasury bonds	2,273,903	3,077,827	2,316,110	–	–
Lending to the public	35,789	77,994	157,232	328,951	531,594
Acquired loan portfolios	12,385,547	11,014,699	8,586,782	5,997,935	3,363,907
Bonds and other interest-bearing securities	2,538,566	1,303,214	1,951,241	1,297,677	732,672
Participations in joint ventures	241,276	205,557	215,347	192,230	180,843
Fixed assets	256,570	254,639	168,945	65,393	58,764
Other assets	680,577	881,139	461,126	275,700	304,997
Total assets	**19,148,130**	**17,611,265**	**15,106,315**	**12,079,282**	**7,415,177**
Deposits by credit institutions	–	62,813	–	–	–
Deposit from the public	11,848,956	12,791,377	10,987,289	9,701,502	6,366,256
Other liabilities and provisions	4,573,589	2,547,994	2,711,708	1,552,657	417,636
Equity	2,725,585	2,209,081	1,407,318	825,123	631,284
Total liabilities and equity	**19,148,130**	**17,611,265**	**15,106,315**	**12,079,282**	**7,415,177**

Key ratios

SEK Million	2016	2015	2014	2013	2012
Gross collections	4,311	3,631	2,541	1,641	887
Total revenues	2,635	2,254	1,666	1,279	695
EBITDA, adjusted	2,952	2,453	1,774	1,150	758
EBIT	972	727	516	338	151
EBIT-margin, %	37	32	31	26	22
Return on book, %	10.6	10.2	9.9	10.3	9.4
Acquired loan portfolios	3,329	4,370	3,227	3,266	1,511
Carrying value, acquired loan portfolios[1]	12,658	11,279	8,921	6,400	3,917
Return on equity, %[2]	19	14	18	22	9
Return on assets, %	2.4	1.7	1.2	1.3	0.8
Total capital ratio, %	16.76	15.21	12.17	11.62	9.75
Common Equity Tier 1 ratio, %	12.46	12.32	9.35	5.69	8.01
Number of employees (FTEs)[3]	1,285	1,349	1,077	881	595

1) Including run-off consumer loan portfolio and portfolios held in the Polish joint venture.
2) In conjunction with the December 2016 issue of Additional Tier 1 capital, the definition of ROE was changed to exclude accrued, unpaid interest on AT1 capital and the carrying value of AT1 capital in equity.
3) The number of employees for 2015 has been updated based on changes to the calculation model.

Corporate Governance Report

Good corporate governance aims to create favourable conditions for shareholder involvement. This is done through well-defined and well-balanced assignment of responsibilities between the company's executive and shareholder functions. This ensures that accurate information is being presented to the market. The Corporate Governance report is part of the Company´s administration report and is reviewed by the Company´s auditors.

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

Hoist Kredit is a Swedish public limited liability Company with corporate identification number 556329-5699. The Company has its registered office and headquarters in Stockholm.

Application of Swedish Corporate Governance Code

All companies with shares listed on NASDAQ Stockholm or NGM Equity, regardless of market capitalisation, have been required since 1 July 2008 to apply the Swedish Corporate Governance Code. Hoist Kredit has debt instruments listed on NASDAQ Stockholm. The Code is based on the "comply or explain" principle, meaning that a company's deviation from the Code's provisions is not deemed a breach thereof if the company explains its reason for doing so. Hoist Kredit currently complies with all Code provisions with the exception of establishment of a nomination committee. However, Hoist Kredit's parent company and sole shareholder (Hoist Finance) has done so, and the Board candidates presented by Hoist Finance's Nomination Committee are also presented as Board members of Hoist Kredit. It should be noted that, under the Code's provisions, no more than one AGM-elected Board member may be employed as a member of the management team of the company or any of the company's subsidiaries. Two AGM-elected Hoist Kredit Board members are Hoist Finance Group employees: Jörgen Olsson and Costas Thoupos. Jörgen Olsson is CEO of Hoist Kredit and a member of the Executive Management Team. Costas Thoupos has an operational role and participates in all Executive Management Team meetings, although not as a voting member. He also chairs Hoist Finance's Investment Committee (which is otherwise comprised of people with operational roles). The company is therefore in compliance with the Code provision stipulating that only one Board member may be a member of the Executive Management Team.

Corporate governance within Hoist Kredit

Hoist Kredit is subject to external and internal control systems.

The external control systems, which serve as the framework for Hoist Kredit corporate governance, are the Swedish Companies Act, Annual Accounts Act, Banking and Financing Business Act, the Swedish Financial Supervisory Authority's regulations and general guidelines, other relevant laws and regulations, and the Swedish Corporate Governance Code. Governance, management and control are allocated between the shareholders at the Annual General Meeting (AGM), the Board of Directors and the Chief Executive Officer pursuant to Swedish corporate law, the Swedish Corporate Governance Code and the Articles of Association. Hoist Kredit's shares are not listed on NASDAQ Stockholm, but the company has two bonds listed on that exchange and therefore applied NASDAQ Stockholm's Rule Book for Issuers. The company also has a bond and an AT1 capital instrument listed on the Irish Stock Exchange and therefore applies Irish Stock Exchange regulations.

The internal control instruments include the Articles of Association adopted by the AGM. The Board has also adopted policies and instructions that clarify the division of responsibilities within the Group. The following are of particular importance in this context:

- Rules of procedure for the Board;
- Instructions for the CEO;
- Policy for internal governance and control;
- Remuneration policy;
- Risk management policy;
- Policy regarding operational risks;
- Instructions on measures against money laundering and financing of terrorism:
- Instruction for the Risk and Audit Committee;
- Instructions for the Remuneration Committee;
- Instructions for the Board Investment Committee;
- Insider policy; and
- Communication and information policy

Articles of Association

The Articles of Association are adopted by the general meeting of shareholders and contain basic compulsory information about the Company.

The Articles of Association specify the type of business activities the Company will operate, limits on share capital and the number of shares, and the number of Board members allowed. The Articles include no special provisions for amendments thereto or for the appointment or dismissal of Board members. As at 31 December 2016 the total number of shares was 666,666 and the share capital was SEK 66,666,600. Each share carries one vote. All of the company's shares are owned by Hoist Finance AB (publ).

Governance structure

Annual General Meeting

The AGM is the company's highest decision-making body. Shareholders have an opportunity at the AGM to influence the company by exercising their voting rights. The Swedish Companies Act and Hoist Kredit's Articles of Association include rules that govern the AGM and its agenda.

Hoist Kredit's financial year runs from 1 January to 31 December. Pursuant to the Swedish Companies Act, notice must be given no more than six weeks and no fewer than four weeks prior to the AGM. The AGM resolves on adoption of the year's balance sheet and income statement, dividends, election of Board members and auditors, fees to Board members and auditors, and other items of business as prescribed by the Swedish Companies Act and the Articles of Association.

Shareholders are entitled to participate in and have matters addressed by the AGM, either in person or by proxy.

2016 Annual General Meeting

The most recent AGM was held on 29 April 2016 in Stockholm. All shares and votes were represented at the AGM. Among other things, the AGM resolved:

- To adopt the balance sheet and income statement.
- Not to distribute a dividend.
- To discharge Board members and the CEO from liability.
- To re-elect Board members Ingrid Bonde, Liselotte Hjorth, Jörgen Olsson, Annika Poutiainen, Costas Thoupos and Gunilla Wikman. Magnus Uggla was elected as new Board member. The AGM elected Ingrid Bonde as Chairman of the Board. Per-Eric Skotthag resigned his directorship in conjunction with the AGM.
- Not to pay a fee to the Chairman of the Board and other Board members, as such fees are paid by Hoist Finance.
- To re-elect KPMG, represented by Anders Bäckström, as auditor for the period through the close of the next AGM.

2017 Annual General Meeting

The 2017 AGM will be held on Friday 28 April 2017 in Stockholm.

Nomination Committee

Hoist Kredit has not established a nomination committee, although its parent company and sole shareholder (Hoist Finance) has done so. Board candidates presented by Hoist Finance's Nomination Committee are also presented as Board members of Hoist Kredit. Nomination Committee proposals, reports on the committee's work ahead of the 2017 AGM, and information on proposed Board members are published in conjunction with Hoist Finance's AGM notice.

Board of Directors

Pursuant to the Articles of Association, Hoist Kredit's Board of Directors is comprised of at least three and no more than nine members. Members of the Board are appointed by the AGM for a one-year term. In accordance with the resolution of the 2016 AGM, the Board of Directors is comprised of Ingrid Bonde (chair), Liselotte Hjorth, Jörgen Olsson, Annika Poutiainen, Costas Thoupos, Gunilla Wikman and Magnus Uggla. Former Board member Per-Eric Skotthag resigned his directorship in conjunction with the AGM. At year-end 2016 the Board had four female and three male members. Two of the seven Board members were employed by the company: Jörgen Olsson and Costas Thoupos. Jörgen Olsson is the company's CEO and a member of the Executive Management Team. Costas Thoupos has an operational role and participates in all Executive Management Team meetings, although not as a voting member. He is also chairman of the company's Investment Committee (with is otherwise comprised of people with operational roles). All Board members, with the exception of these two, were independent in relation to the company's major shareholders, the company and the company's management. For further information on Board members, please see pages 16–17.

Diversity policy

The Company's Board of Directors as a whole shall have collective expertise, experience and background in the Company's business operations and the capacity to identify and understand the risks such operations entail. The objective is to have a Board of Directors comprised of members of varying ages, genders, geographic origins, and educational and professional backgrounds that, taken together, is conducive to independent and critical reflection. The Company's Board of Directors has adopted a Diversity policy applicable to the Board. To achieve a diverse Board of Directors, in preparing its proposal to the AGM the Nomination Committee takes into consideration rule 4.1 of the Swedish Corporate Governance Code, the Board's Diversity policy and the European Banking Authority's guidelines on eligibility assessments for Board members.

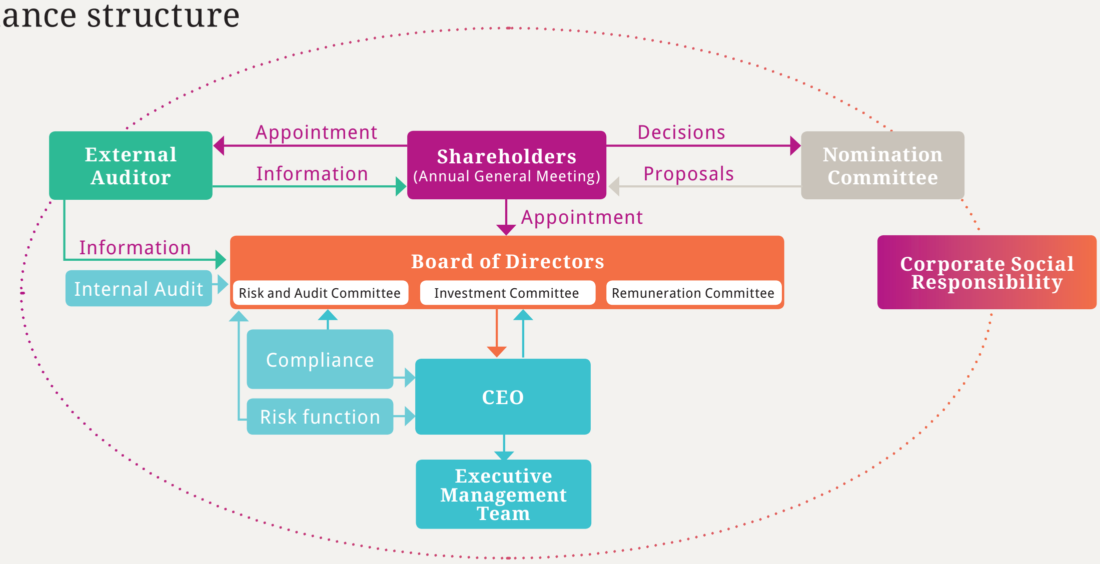
Work of the Board of Directors

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

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

The Board's duties and working methods are regulated by the Swedish Companies Act, the Articles of Association and the Swedish Corporate Governance Code and the Banking and Financing Business Act (2004:297).

Governance structure



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

1. The Board's duties and responsibility
2. Members of the Board
3. Chairman of the Board
4. Board meetings
5. Board committees

Board meetings in 2016

A total of 14 recorded Board meetings were held in 2016: seven ordinary meetings, one statutory meeting and six special meetings. All Board members attended these meetings, with exception of the Board meetings held on 16 March (in which Gunilla Wikman did not participate), 25 March (in which Annika Poutiainen did not participate) and 29 April (in which Costas Thoupos did not participate). The CFO and the Board's secretary participated in Board meetings, as did Hoist Kredit employees and persons reporting on specific issues.

The Board's work follows the presented structure pursuant to the rules of procedure. This may be adjusted, however, depending on the year's events and projects. Ordinary Board meetings also involve the adoption of governance documentation and instructions and reporting from the control functions and each Board committee.

Board committees

Risk and Audit Committee

The Risk and Audit Committee serves in an advisory capacity and prepares issues for consideration and decision by Hoist Kredit's Board of Directors. The committee is responsible for overseeing and ensuring the quality of financial reporting and the effectiveness of the company's internal control and tasks performed by the Internal Audit, Risk Control and Compliance functions. The committee also discusses valuation issues and other assessments pertaining to the annual accounts. The Risk and Audit Committee also reviews and monitors the impartiality and independence of the Company's external auditors and, notwithstanding the Board's other responsibilities and duties, regularly meet with and reviews reports from the Company's external auditors in order to remain informed about the focus and scope of the audit and to discuss the coordination of the external and internal audit with the external auditor. The Risk and Audit Committee informs the Board about audit results, the manner in which the audit contributed to the reliability of financial reporting, and the role played by the committee in the process. The committee also remains informed about Board of Auditors quality control of the Company's external auditors and is responsible for the auditors' independence and impartiality and the selection procedure for auditor recommendation. The committee is required to meet at least four times per financial year.

The Risk and Audit Committee has at least three members appointed by the Board on an annual basis. Committee members may not be employed by the Company. One member is elected committee chairman. The chairman may not be the Chairman of the Board of Hoist Kredit. Since the 2016 AGM, Risk and Audit Committee members have been Annika Poutiainen (chair), Ingrid Bonde and Gunilla Wikman. Per-Eric Skotthag was a member of the committee through 29 April 2016. The Company's employees and auditors may be summoned to committee meetings to provide details on specific reports or issues. Committee meeting minutes are recorded and available to all Board members. The committee chairman reports to the Board at Board meetings concerning the issues discussed and proposed at committee meetings. The committee held six meetings in 2016, with all members in attendance at these meetings with the exception of the meetings of 19 October and 6 December, in which Gunilla Wikman did not participate.

Remuneration Committee

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

The Remuneration Committee has at least two members appointed by the Board on an annual basis. All members must be independent in relation to the Company, the Company's management and the Company's major shareholders. The Remuneration Committee meets at least twice per financial year. Since 29 April 2016, Remuneration Committee members have been Ingrid Bonde (chair) and Gunilla Wikman. Until 29 April 2016, Gunilla Wikman was committee chair and Per-Eric Skotthag was committee member. Company employees may be summoned to committee meetings to provide details on specific reports or issues. Committee meeting minutes are recorded and available to Board members. The committee chairman reports to the Board at all Board meetings concerning the issues discussed and proposed at

Work of the Board of Directors

January

February
- » Financial report
- » Annual accounts
- » Year-end report
- » Meeting with external auditors
- » Review of external credit facilities
- » Report for internal Audit, Risk and compliance

March
- » Annual report

April
- » Financial report
- » Q1 report
- » AGM and statutory meeting
- » ICAAP, ILAAP and general discussion of risk
- » Report from Remuneration Committee, decision on remuneration
- » Evaluation of Executive Management Team
- » Yearly plan for external auditors
- » Report for Internal Audit, Risk and Compliance

May

June
- » Strategy

July
- » Financial report
- » Q2 report

August

September

October
- » Financial report
- » Q3 report
- » Report for Internal Audit, Risk and Compliance
- » Evaluation of Board's work

November

December
- » Financial report
- » Budget
- » Corporate calendar
- » Evaluation of CEO
- » Yearly plan for Internal Audit, Risk and Compliance
- » Report for Internal Audit, Risk and Compliance

committee meetings. The committee held five meetings in 2016, with all members in attendance at these meetings.

Investment Committee

The Investment Committee is a preparatory and decision-making committee. Its responsibilities include evaluating and approving standard investments valued at EUR 50 million or more, non-standard investments of EUR 15 million or more, and investments that do not require approval of the Swedish Financial Supervisory Authority. The committee is also responsible for continuous evaluation of the Company's current holdings and evaluation of proposals for potential divestments of holdings. The Investment Committee has at least three members appointed by the Board on an annual basis. The chairman must be independent in relation to the Company and the Company's management, and may not be the Chairman of the Board of Hoist Kredit. The committee meets at least four times per financial year and whenever a committee decision or recommendation is required as per the Company's Investment Policy. Since 29 April 2016, the Investment Committee has been comprised of Liselotte Hjorth (chair), Jörgen Olsson, Costas Thoupos and Magnus Uggla. Company employees may be summoned to committee meetings to provide details on investment data. Committee meeting minutes are recorded and available to all Board members. The committee chairman reports to the Board at all Board meetings concerning the issues discussed, proposed and decided on at committee meetings. The committee held twelve meetings in 2016, with all members in attendance at these meetings with the exception of the meetings held on 12 May and 18 July, in which Jörgen Olsson did not participate, and the meetings held on 31 May, 17 October and 20 October, in which Magnus Uggla did not participate.

With respect to standard investments valued at less than EUR 50 million or non-standard investments valued at less than EUR 15 million, provided such investments do not require SFSA approval, the Investment Committee may delegate decision-making authority to the Management Investment Committee comprised of employed executives.

Chair of the Board

Ingrid Bonde was re-elected Chair of the Board of Hoist Kredit by the AGM held on 29 April 2016. Ingrid Bonde has served in this capacity since 16 November 2014.

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

The Chairman's particular duties are to:

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

Board evaluation

In accordance with the Board's rules of procedure, the Chairman of the Board initiates an evaluation of the Board's performance once per year. For the 2016 evaluation, all Board members were able to give their views on issues including working methods, Board material, work done by the Board and management during the year, and Board and management structure by responding to a written questionnaire sent by the Chairman. The survey is designed to generate understanding of the Board members' views on how the Board's work should be carried out and measures that can be taken to make such work more efficient, as well as the type of issues the Board thinks should be given more scope and areas that may require additional Board expertise. The results of the survey were reported and discussed at the Board meeting held on 27 October and have been provided to the Nomination Committee.

CEO and Executive Management Team

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

Jörgen Olsson has been CEO of Hoist Kredit since 2012. For additional information on the CEO and the CEO's shareholdings, see the section on the Company's Board of Directors and Executive Management Team and the company's website www.hoistfinance.com.

Hoist Kredit's CEO heads, sets the meeting schedule for and appoints the members of the Executive Management Team. The Executive Management Team's role is to prepare and implement strategies, manage corporate governance and organisational issues and monitor the Company's financial development.

The CEO is responsible for ensuring that Board members receive essential information and decision data and for presenting reports and proposals at Board meetings on issues dealt with by management. The CEO keeps the Board and Chairman updated on the Company and Group's financial position and development. The CEO's work is evaluated by the Board on a continuous basis.

The CEO's main duties include:

- ensuring that the Company's financial reporting is carried out in accordance with applicable law and that assets are managed prudently;
- serving as Group Chief Executive, which involves managing and co-ordinating Group companies in accordance with the Board's guidelines and instructions; and
- ensuring that Board resolutions are executed and keeping the Board updated on the development of the Company and Group's operations, performance and financial position.

See note 5 for details on the remuneration for the CEO and Executive Management Team.

Executive Management Team

Pontus Sardal has been CFO and deputy CEO of Hoist Kredit since 2011 and 2014 respectively. For information on the CEO and other members of the Executive Management Team, see the section on the Company's Board of Directors and Executive Management Team and the Company's website www.hoistfinance.com

Corporate Social Responsibility

Hoist Kredit works proactively to apply the principles of the UN Global Compact. The Company's CSR policy is applied throughout the Group, and group-wide and local goals and measures are incorporated into day-to-day operations. The CSR governance structure is composed of a framework for internal governance and control that includes a functional organisational structure with clear division of responsibilities between management, operations and quality control functions, as well as principles, policies and processes. The Executive Management Team is responsible for the CSR strategy and, while the Head of Group HR has overall responsibility for implementation of the strategy, day-to-day responsibility for achievement of individual targets rests with each regional manager.

Ethical guidelines

Hoist Kredit's ethical guidelines, comprised of an umbrella document and several ancillary documents, are designed to be applied by employees as well as partners. The umbrella document specifies fundamental values and principles and provides information on some of the ancillary documents. All employees receive regular training on ethical issues, and partners' management of ethical issues will be further reviewed starting in 2017. Training statistics are monitored on a monthly basis to ensure that all employees receive regular training on ethical issues.

Policies

Hoist Kredit has well-established policies in place for governing and managing various risk areas, such as conflicts of interest, insider information, bribes, money laundering and outsourcing agreements. Specific policies are also in place for the management of acquired loan portfolio customers. Policy documents and training are customised for the Company's various functions to achieve the highest possible levels of compliance. To further support policy application and relevance, each policy is assigned to a "document owner" – often the person responsible for the policy's specific area.

Anti-money laundering measures

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

Auditor

The external auditors are responsible for examining the Company's annual report and accounting records and the Board and CEO's administration of the Company. The auditors submit an Auditor's Report to the AGM at the close of each financial year.

The 2016 AGM re-elected registered public accounting firm KPMG AB as the company's auditor for the period through the close of the next AGM. Authorised public accountant Anders Bäckström is chief auditor.

Financial reporting

The Board of Directors is responsible for ensuring that the Company's organisation is structured in a way that enables its financial situation to be satisfactorily monitored, and that financial reports (ie, interim reports and annual accounts) to the market are prepared in accordance with applicable law, accounting standards and other requirements. Interim reports are initially handled by the Risk and Audit Committee and are then issued by the Board as a whole. The semi-annual reports and the annual report are signed by all Board members and the CEO. The committee and the Board address not only the Group's financial reports and significant accounting issues, but also issues concerning internal control, compliance, significant uncertainty in reported values, events after the balance sheet date, changes in estimates and assessments, and other conditions affecting the quality of the financial statements. The CEO is responsible for ensuring that the Company's accounting is done in compliance with applicable law and that assets are managed prudently. Hoist Finance's CEO or CFO sits on the boards of all operating subsidiaries. The Company and Group's books are balanced each month. The Board and the Executive Management Team receive information on a continuous basis on the company and Group's financial situation. The Board assures the quality of financial reporting through its Risk and Audit Committee.

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

Internal reports

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

Guidelines for remuneration for senior executives, etc.

Guidelines for remuneration for senior executives were adopted by the AGM on 29 April 2016. Remuneration to management employees consists of base salary, variable remuneration, pension and other benefits. Remuneration should encourage employees to generate results in line with the Company's goals, strategy and vision and promote employee behaviour in line with the Company's ethical code and core values. Variable remuneration to management employees shall as a principle not exceed 50 per cent of fixed salary. Variable remuneration is based on various financial and non-financial criteria, which are linked to the Group and region's results and to individual performance targets. No variable remuneration is paid to Group-level control functions.

Variable remuneration shall take into consideration all the risks of the Company's operations and shall be in proportion to the Group's earning capacity, capital requirements, profits and financial position. Payment of remuneration shall not impede the Group's long-term interests. Payment of variable remuneration is conditional upon the management employee being compliant with internal rules and procedures, including policies regarding conduct toward customers and investors, and the employee not being responsible for any conduct resulting in significant financial losses for Hoist Kredit or the business unit in question.

For management employees in the Executive Management Team, payment of at least 60 per cent of the variable remuneration shall be deferred for a period of at least three years. For management employees who are classified as employees whose duties have a material impact on the company's risk profile, payment of at least 40 per cent of the variable remuneration shall be deferred for a period of at least three years. Variable remuneration, including deferred remuneration, shall only be paid to the employee to an extent justifiable by the Group's financial situation and the performance of the Group, the business unit in question and the employee.

Pension and insurance are offered under national laws, regulations and market practices in the form of either collective or firm-specific plans, or a combination of the two. Hoist Finance has defined contribution pension plans and does not apply discretionary pension benefits.

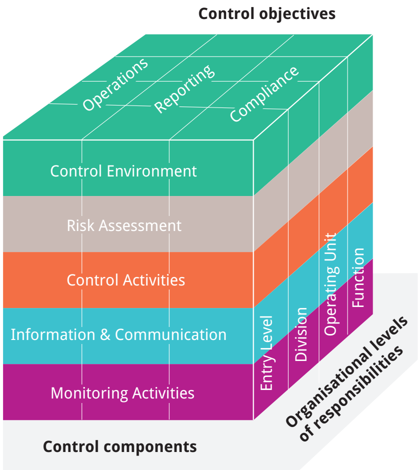
Remuneration guidelines are presented in their entirety in Note 5. The Board's proposed new guidelines are presented in the Administration Report. Details on salaries and other benefits for employees in the Executive Management Team are presented in Note 5.

Internal governance and control

The internal governance and control process is governed by law and regulations and supervised by the Board of Directors. In Sweden, where the Parent Company is domiciled, Internal Governance and Control are regulated primarily through the Swedish Companies Act, Banking and Financing Business Act and Corporate Governance Code, the Swedish Financial Supervisory Authority's regulations and guidelines, and stock exchange laws regulating internal governance and control.

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

Hoist Kredit applies the COSO model for internal control of financial reporting. COSO focuses on developing a framework that can be directly used by a company's management team to evaluate and improve risk management in three interrelated areas: enterprise risk management (ERM), internal control, and fraud deterrence.



Roles and responsibilities

The Board of Directors holds ultimate responsibility for limiting and overseeing Hoist Finance's risk exposure. The Board and the Risk and Audit Committee are responsible for establishing the main rules and guidelines for internal control.

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

The CEO is responsible for the effective design and implementation of internal control within the Group. The CFO is responsible for the design, implementation and correct application of the internal control framework at the central level. Local management is responsible for design, implementation and correct application at the local level.
Hoist Kredit's roles and responsibilities with respect to internal control and risk management are structured in three lines of defence.

The **first line of defence**, comprised of the Board of Directors, Chief Executive Officer and business organisation, is responsible for conducting operations in accordance with the adopted internal control and risk management framework and pursuant to rules and regulations applicable to Hoist Kredit.

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

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

The **third line of defence** is the Internal Audit function, which conducts independent audits and reviews and provides stakeholders with evaluations of internal control and risk management processes.

The three lines of defence jointly form the internal control framework, which is designed to develop and maintain systems that ensure:

- effective and efficient business operations;
- adequate risk control;
- business management;
- reliable reporting of financial and non-financial information (internally and externally); and
- compliance with laws, regulations, supervisory authority requirements and internal policies and procedures.

Areas of responsibility

Risk Control function

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

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

Compliance function

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

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

Internal Audit function

The Internal Audit function is responsible for ensuring the independent review and oversight of work done by the first and second lines of defence. Accordingly, the Internal Audit Control function follows an updated, risk-based audit plan adopted by the Board, under which they review and regularly evaluate:

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

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

Internal control process

The Board of Directors holds ultimate responsibility for internal control.

Internal control is carried out by the Board of Directors, management and other Hoist Finance employees. It is designed to provide reasonable assurance regarding goal achievement, the economical and efficient use of resources, the reliability and integrity of operational and financial reporting, compliance with laws and regulations, safeguarding of assets, and risk management.

The internal control process is based on:

- Control environment;
- Risk assessment;
- Control activities;
- Information & Communication; and
- Monitoring.

The Control Environment is the foundation of Hoist Finance's system of internal control and includes the corporate culture established by the Board of Directors and management, including the following components:

- Commitment to integrity and ethical values;
- Independence and oversight;
- Establishing structure, authority and responsibility;
- Talent management; and
- Maintaining accountability.

Risk Assessment includes processes for identifying and analysing risk. Hoist Finance's risk assessment process is Group-wide and is independent from business activities. Risk assessment also covers the manner in which risks are managed and includes the following components:

- Specification of suitable objectives;
- Identification and analysis of risks;
- Assessment of fraud risk; and
- Identification and analysis of significant changes.

Control Activities are the activities established by policies and procedures. Designed to reduce risks throughout all levels of the Hoist Finance organisation within business processes and the IT environment, these activities include preventive and detection controls as well as manual and automated activities. Examples of control activities are authorisation manuals, payment instructions, verifications, reconciliations, business performance reviews and division of responsibilities. Components include:

- Defining and developing control activities;
- Defining and developing general IT controls; and
- Deployment through policies and procedures.

Information & Communication is both an internal tool to strengthen the internal control environment and a process to ensure accurate external information.

Policies and instructions have been established within the Group for the various areas of responsibility, and the Hoist Finance Financial Framework includes instructions and guidance for accounting and financial reporting.

The policies, instructions and Hoist Finance Financial Framework are regularly updated and available to the entire organisation. Regular meetings are also held with accounting staff and local CFOs to provide information on internal control responsibility and new or updated rules and regulations applicable to Hoist Kredit.

Management obtains, generates and uses relevant, high-quality information to support internal control components and the decision-making process. The key components are:

- Use of relevant information;
- Internal communication; and
- External communication.

Monitoring is built into business processes at different levels. A monthly risk report is presented to the Board of Directors, the Risk and Audit Committee and the CEO. Monitoring includes the following components:

- Conducting regular separate evaluations; and
- Evaluating and communicating deficiencies.

Financial reporting competencies

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

The Board of Directors

1 Ingrid Bonde

Chair of the Board

Board member since 2014.

Born: 1959.

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

Other assignments: Board member of Loomis.

Previous experience: CFO and Deputy CEO of Vattenfall through February 2017. President and CEO of AMF, Director General of the Swedish FSA, Deputy Director General of the Swedish National Debt Office, Vice President Finance of SAS, Vice President foreign currency funding and debt management at the Swedish National Debt Office.

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

Shareholding: 15,600 shares in Hoist Finance AB (publ).

2 Liselotte Hjorth

Board member

Board member since 2015.

Born: 1957.

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

Other assignments: Chairman of the Board in White Arkitekte/White Intressenter. Board member of East Capital Explorer, Kungsleden and Rikshem.

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

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

Shareholding: 4,700 shares in Hoist Finance AB (publ).

3 Jörgen Olsson

Board member

Board member since 2010.

Born: 1961.

Education: Bachelor of Science in Business and Economics, Luleå University.

Other assignments: –

Previous experience: Head of Corporate Banking at Kaupthing Bank Sweden, senior positions at SEB/Enskilda Corporate and Group Treasurer at Elekta AB.

Not independent in relation to the company and management.

Shareholding: 3,292,369 shares in Hoist Finance AB (publ) owned privately and through Deciso AB.

4 Annika Poutiainen

Board member

Board member since 2014.

Born: 1970.

Education: Master of Laws, University of Helsinki and Master of Laws, King's College, London.

Other assignments: Industrial advisor at JKL Group, board member of Saferoad AS and eQ Oyj.

Previous experience: Head of Market Surveillance at Nasdaq Nordics. Head of Unit (Prospectuses, Exchanges and Clearing Houses) at the Swedish FSA, member of consultative working group for the ESMA Corporate Governance Standing Committee and member of the Swedish Securities Council

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

Shareholding: 1,600 shares in Hoist Finance AB (publ).

Auditors

Auditor in charge
Anders Bäckström
Authorised Public Accountant
KPMG AB

Born: 1966.

Other auditing assignments: Handelsbanken, Folksam, Brummer & Partners, Investment AB Öresund.

Shareholding: 0 shares.

5 Costas Thoupos

Board member
Board member since 2013.

Born: 1969.

Education: GCE Advanced Level, United Kingdom.

Other assignments: –

Previous experience: CEO (until late 2012) and Group Commercial Director at Hoist Finance. Background in structured finance and investment banking from Barclays Debt Capital Markets and Barclays Capital focusing on the specialty finance sector and in particular on strategic funding for the debt purchase area.

Not independent in relation to the company and management.

Shareholding: 2,440,698 shares in Hoist Finance AB (publ).

6 Magnus Uggla

Board member
Board member since 2016.

Born: 1952.

Education: Master of Business Administration, Stockholm School of Economics. Master of Engineering, Royal Institute of Technology, Stockholm.

Other assignments: Chairman of Fotografiska Museet AB, board member of Svensk Exportkredit AB, and chairman of steering committee for the Jan Wallander Prize.

Previous experience: Senior positions within the Handelsbanken Group including General Manager New York branch, Deputy CEO, and head of Region Stockholm, Region Great Britain and Handelsbanken International.

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

Shareholding: 50,000 shares in Hoist Finance AB (publ).

7 Gunilla Wikman

Board member
Board member since 2014.

Born: 1959.

Education: Master of Business Administration, Stockholm School of Economics.

Other assignments: Board member of AMF Fonder. Head of IR at Resurs Bank and Edgeware. Management, IR and communications consultant.

Previous experience: Board member of HMS Networks, Oatly, Proffice and SJ. Previous positions at SEB, the Swedish Central Bank and the Deposit Guarantee Board as Head of Communication.

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

Shareholding: 4,000 shares in Hoist Finance AB (publ) owned through Carrara Communication AB.

Executive Management Team

1 Jörgen Olsson

CEO.
Hoist Kredit employee since 2012.

Born: 1961.

Education: Bachelor of Science in Business and Economics, Luleå University.

Other assignments: –

Previous experience: Head of Corporate Banking at Kaupthing Bank Sweden, senior positions at SEB/Enskilda Corporate, Group Treasurer at Elekta AB.

Shareholding: 3,292,369 shares in Hoist Finance AB (publ) owned privately and through Deciso AB.

2 Karin Beijer

Group Head of HR.
Consultant at Hoist Kredit since 2014.

Born: 1966.

Education: Bachelor of Organisational Sociology, Bachelor of Media and Communication Science, University of Gothenburg.

Previous experience: Board member of Luna AB and the Swedish Learning Association Economic Association. Chief Administration Officer and HR Director at B&B TOOLS AB.

Shareholding: 4,000 shares in Hoist Finance AB (publ) owned through Co Go Consulting AB.

3 Henrik Gustafsson

Regional Director Central East Europe.
Hoist Kredit employee since 2014.

Born: 1976.

Education: Bachelor of Science in Management, London School of Economics.

Previous experience: Group Head of Sales and Investments at Hoist Finance, Head of Strategy and M&A at Dometic Group AB (publ), Head of M&A at Sandvik Material Technology.

Shareholding: 98,733 shares in Hoist Finance AB (publ).

4 Charles de Munter

Regional Director Mid Europe
Hoist Kredit employee since 2013.

Born: 1973.

Education: International Management Programme, Vlerick Business School. Graduate studies in Business Management, Mercator Gent, Belgium.

Previous experience: Regional Director of France, Benelux, Italy and Poland at Hoist Finance. Various positions at Intrum Justitia, General Manager of Krebes NV, chairman of EOS Netherlands, board member of the supervisory board of EOS Credirec (France), Regional Director Benelux and France for EOS Holding.

Shareholding: 152,592 shares in Hoist Finance AB (publ).

5 Najib Nathoo

Regional Director West Europe and Head of Hoist Finance UK

Hoist Kredit employee since 2012.

Born: 1963.

Education: Master of Science in Capital Markets and Risk Management, City University Business School.

Previous experience: President of the UK Credit Services Association 2007–2009, CEO of 1st Credit , various senior positions at Consolidated Financial Insurance Group (part of GE Capital).

Shareholding: Has an interest as a potential beneficiary to the trust that is the majority owner of Cruz Industries Ltd., a company that holds shares 462,575 in Hoist Finance AB (publ).

6 Pontus Sardal

Chief Financial Officer and Deputy Chief Executive Officer

Hoist Kredit employee since 2011.

Born: 1967.

Education: Bachelor of Science in Business and Economics, Karlstad University.

Previous experience: CFO of SEB Group Retail Banking, Head of Business Support at SEB Finans, Head of Finance at SEB BoLån, CFO of Latvian bank Latvijas Unibanka.

Shareholding: 50,100 shares in Hoist Finance AB (publ) owned through Yasli Investments Ltd. and through related parties.

7 Anders Wallin

Chief Information Officer

Hoist Kredit employee since 2012.

Born: 1964.

Education: Master of Business Administration, Stockholm School of Economics.

Previous experience: CIO at UC AB, Head of UC Decision Solutions at UC AB, CEO of Numenor Consulting Group AB.

Shareholding: 154,578 shares in Hoist Finance AB (publ).

Financial statements

Consolidated income statement

SEK thousand	Note	2016	2015
Net revenues from acquired loan portfolios	1,2	2,404,955	2,004,524
Interest income	2	2,974	39,195
Interest expense	2	–310,295	–361,370
Net interest income		**2,097,634**	**1,682,349**
Fee and commission income		116,817	166,705
Net financial income	3	–96,943	–46,461
Other income	4	21,350	17,959
Total operating income		**2,138,858**	**1,820,552**
General administrative expenses			
Personnel expenses	5	–665,255	–642,480
Other operating expenses	6	–950,335	–845,393
Depreciation and amortisation of tangible and intangible assets	15,16	–47,906	–39,697
Total operating expenses		**–1,663,496**	**–1,527,570**
Profit before credit losses		**475,362**	**292,982**
Net credit losses	7	–1,260	–5,298
Profit from shares and participations in joint venture	8	86,042	54,839
Profit before tax		**560,144**	**342,523**
Income tax expense	10	–124,972	–64,961
Net profit for the year		**435,172**	**277,562**
Profit attributable to			
Owners of Hoist Kredit AB (publ)		435,172	277,562

Consolidated statement of comprehensive income

SEK thousand	2016	2015
Net profit for the year	**435,172**	**277,562**
Other comprehensive income		
Items that will not be reclassified to profit and loss		
Revaluation of defined pension benefit plans	–1,941	1,408
Revaluation of remuneration after terminated employment	–617	1,606
Tax attributable to items that will not be reclassified to profit or loss	654	–781
Total items that will not be reclassified to profit or loss	**–1,904**	**2,233**
Items that may be reclassified subsequently to profit or loss		
Translation differences, foreign operations	–21,872	–35,485
Translation differences, joint venture	1,489	–4,948
Hedging of currency risk in foreign operations	–7,421	–849
Tax attributable to items that may be reclassified to profit or loss	4,803	–
Total items that may be reclassified subsequently to profit and loss	**–23,001**	**–41,282**
Other comprehensive income for the year	**–24,905**	**–39,049**
Total comprehensive income for the year	**410,267**	**238,513**
Profit attributable to		
Owners of Hoist Kredit AB (publ)	410,267	238,513

Consolidated balance sheet

SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash		3,073	281
Treasury bills and treasury bonds	11,12,28	2,273,903	3,077,827
Lending to credit institutions	11,12,28	732,828	795,915
Lending to the public	11,12,28	35,789	77,994
Acquired loan portfolios	11,13,28	12,385,547	11,014,699
Receivables Group companies	33	363,152	253,543
Bonds and other securities	11,12,28	2,538,566	1,303,214
Shares and participation in joint venture	8	241,276	205,557
Intangible assets	15	218,172	216,158
Tangible assets	16	38,398	38,481
Other assets	17	193,071	499,992
Deferred tax assets	10	47,268	62,688
Prepayments and accrued income	18	77,087	64,916
Total assets		**19,148,130**	**17,611,265**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from credit institutions		–	62,813
Deposits from the public	11,28	11,848,956	12,791,377
Tax liabilities	10	25,729	5,561
Other liabilities	19	674,000	559,208
Deferred tax liabilities	10	150,065	178,826
Accrued expenses and deferred income	20	200,604	176,957
Provisions	21	55,480	52,081
Senior unsecured liabilities	11,28	3,125,996	1,238,469
Subordinated liabilities	22,28	341,715	336,892
Total liabilities		**16,422,545**	**15,402,184**
Equity	23		
Share capital		66,667	66,667
Other contributed equity		1,735,955	1,450,918
Reserves		–67,095	–44,094
Retained earnings including profit for the year		990,058	735,590
Total equity		**2,725,585**	**2,209,081**
Total liabilities and equity		**19,148,130**	**17,611,265**

Consolidated statement of changes in equity

SEK thousand	Share capital	Other contributed capital	Reserves Translation reserve	Retained earnings incl. profit for the year	Total shareholders' equity
Opening balance 1 Jan 2016	**66,667**	**1,450,918**	**–44,094**	**735,590**	**2,209,081**
Other comprehensive income for the year					
Net profit for the year				435,172	435,172
Other comprehensive income			–23,001	–1,904	–24,905
Total other comprehensive income for the year			**–23,001**	**433,268**	**410,267**
Transactions recorded directly in equity					
Additional Tier 1 capital		283,335[1]			283,335
Interest paid on capital contribution				–15,000	–15,000
Paid Group contributions				–210,000	–210,000
Tax effect on items recorded directly in equity		1,702		46,200	47,902
Total transactions recorded directly in equity		**285,037**		**–178,800**	**106,237**
Closing balance 31 Dec 2016	**66,667**	**1,735,955**	**–67,095**	**990,058**	**2,725,585**

1) Nominal amount of SEK 291 million has been reduced by transaction costs of SEK 8 million.

SEK thousand	Share capital	Other contributed capital	Reserves Translation reserve	Retained earnings incl. profit for the year	Total shareholders' equity
Opening balance 1 Jan 2015	**66,667**	**691,914**	**–2,812**	**651,549**	**1,407,318**
Other comprehensive income for the year					
Net profit for the year				277,562	277,562
Other comprehensive income			–41,282	2,233	–39,049
Total other comprehensive income for the year			**–41,282**	**279,795**	**238,513**
Transactions recorded directly in equity					
Shareholder's contribution		759,004			759,004
Acquisition of minority interest in subsidiary				–32,584	–32,584
Interest paid on capital contribution				–15,000	–15,000
Paid Group contributions				–182,890	–182,890
Tax effect on items recorded directly in equity				34,720	34,720
Total transactions recorded directly in equity		**759,004**		**–195,754**	**563,250**
Closing balance 31 Dec 2015	**66,667**	**1,450,918**	**–44,094**	**735,590**	**2,209,081**

Consolidated cash flow statement

SEK thousand	2016	2015
OPERATING ACTIVITIES		
Cash flow from gross cash collection	4,281,632	3,631,031
Interest income	13,034	72,129
Fee and commission income	116,817	166,705
Other operating income	21,350	17,959
Interest expense	–295,008	–338,949
Operating expenses	–1,604,345	–1,453,281
Net cash flow from financial transactions	–96,943	–46,463
Capital gain on redemption of certificates in joint venture	42,526	44,404
Income tax paid	–33,875	–43,523
Total	**2,445,188**	**2,050,012**
Increase/decrease in acquired loan portfolios incl. changes in valuation	–3,277,061	–4,054,424
Increase/decrease in certificates in joint venture	9,267	15,277
Increase/decrease in lending to the public	–68,189	–39,670
Increase/decrease in deposits from the public	–957,707	1,781,668
Increase/decrease in other assets	295,974	–289,563
Increase/decrease in other liabilities	61,962	–232,879
Increase/decrease in provisions	3,399	–16,574
Changes in other balance sheet items	–17,718	71,864
Total	**–3,950,073**	**–2,764,301**
Cash flow from operating activities	**–1,504,885**	**–714,289**
INVESTING ACTIVITIES		
Investments in intangible fixed assets	–23,640	–37,867
Investments in tangible fixed assets	–17,869	–18,158
Acquisitions in subsidiaries	–40,788	–50,569
Investments/divestments of bonds and other securities	–1,245,413	615,093
Cash flow from investing activities	**–1,327,710**	**508,499**
FINANCING ACTIVITIES		
Issued Additional Tier 1 capital	285,396	–
Capital contribution	–	759,004
Issued bonds	2,771,917	–
Paid Group contribution	–47,153	–
Paid interest on capital contribution	–7,500	–15,000
Buy-back of issued bonds	–58,000	–
Repurchase of issued bonds	–976,284	–229,833
Cash flow from financing activities	1,968,376	514,171
Cash flow for the year	**–864,219**	**308,381**
Cash at the beginning of the year	3,874,023	3,565,642
Cash at the end of the year[1]	**3,009,804**	**3,874,023**

1) Consists of cash, treasury bills/bonds and lending to credit institutions.

Parent company income statement

SEK thousand	Note	2016	2015
Net revenues from acquired loan portfolios	2	421,954	357,498
Interest income	2	524,516	460,291
Interest expense	2	–307,986	–359,876
Net interest income		**638,484**	**457,913**
Net financial income	3	–95,329	–58,547
Other income	4	99,045	74,588
Total operating income		**642,200**	**473,954**
General administrative expenses			
Personnel expenses	5	–133,228	–123,377
Other operating expenses	6	–225,226	–204,599
Depreciation and amortisation of tangible and intangible assets	15,16	–15,559	–14,380
Total operating expenses		**–374,013**	**–342,356**
Profit before credit losses		**268,187**	**131,598**
Net credit losses	7	–1,260	–5,298
Profit from shares and participations in joint venture		42,546	44,404
Profit from shares in Group companies	9	62,387	133,668
Tax allocation reserve		–18,503	–
Profit before tax		**353,357**	**304,372**
Income tax expense	10	–86,166	–44,349
Net profit for the year		**267,191**	**260,023**
Profit attributable to			
Owners of Hoist Kredit AB (publ)		267,191	260,023

Parent company statement of comprehensive income

SEK thousand	2016	2015
Net profit for the year	**267,191**	**260,023**
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Translation differences, foreign operations	719	–522
Total items that may be reclassified subsequently to profit and loss	**719**	**–522**
Other comprehensive income for the year	**719**	**–522**
Total comprehensive income for the year	**267,910**	**259,501**
Profit attributable to		
Owners of Hoist Kredit AB (publ)	267,910	259,501

Parent company balance sheet

SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash		–	8
Treasury bills and treasury bonds	11,12,28	2,273,903	3,077,827
Lending to credit institutions	11,12,28	215,953	78,503
Lending to the public	11,12,28	35,789	77,994
Acquired loan portfolios	11,13,28	2,584,666	2,646,612
Receivables Group companies	11,27,33	10,055,046	8,769,553
Bonds and other securities	11,12,28	2,538,566	1,303,214
Shares and participations in subsidiaries		570,038	581,972
Shares and participation in joint venture		40,703	49,974
Intangible assets	15	37,647	42,278
Tangible assets	16	4,155	4,523
Other assets	17	108,139	416,615
Deferred tax assets		2,734	2,224
Prepayments and accrued income	18	1,436	1,842
Total assets		**18,468,775**	**17,053,139**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from credit institutions		–	87,723
Deposits from the public	11,28	11,848,956	12,791,377
Tax liabilities		15,476	3,550
Other liabilities	19	520,422	379,205
Accrued expenses and deferred income	20	78,804	71,103
Provisions		67	132
Senior unsecured liabilities	11,28	3,125,996	1,238,469
Subordinated liabilities	22,28	341,715	336,892
Total liabilities		**15,931,436**	**14,908,451**
Untaxed reserves (tax allocation reserve)		**80,752**	**62,248**
Equity	23		
Restricted equity			
Share capital		66,667	66,667
Statutory reserve		10,000	10,000
Revaluation reserve		64,253	64,253
Development expenditure fund		4,049	–
Total restricted equity		**144,969**	**140,920**
Non-restricted equity			
Other contributed equity		1,735,955	1,450,918
Reserves		577	–142
Retained earnings		307,895	230,721
Profit for the year		267,191	260,023
Total non-restricted equity		**2,311,618**	**1,941,520**
Total equity		**2,456,587**	**2,082,440**
Total liabilities and equity		**18,468,775**	**17,053,139**

Statement of changes in equity, parent company

SEK thousand	Restricted equity Share capital	Statutory reserves	Revaluation reserve	Devel-opment expenditure fund	Unrestricted equity RESERVES Translation reserve	Other contributed equity	Retained earnings	Result for the year	Total share-holders' equity
Opening balance 1 Jan 2016	**66,667**	**10,000**	**64,253**		**–142**	**1,450,918**	**230,721**	**260,023**	**2,082,440**
Reclassification of result for the previous year							260,023	–260,023	
Comprehensive income for the year									
Net profit for the year								267,191	267,191
Other comprehensive income					719				719
Total comprehensive income for the year					**719**			**267,191**	**267,910**
Transactions recorded directly in equity									
Additional Tier 1 capital						283,335[1]			283,335
Interest paid on capital contribution							–15,000		–15,000
Group contributions paid							–210,000		–210,000
Transfer between restricted and non-restricted equity				4,049			–4,049		
Tax effect on items recorded directly in equity						1,702	46,200		47,902
Total transactions recorded directly in equity				**4,049**		**285,037**	**–182,849**		**106,237**
Closing balance 31 Dec 2016	**66,667**	**10,000**	**64,253**	**4,049**	**577**	**1,735,955**	**307,895**	**267,191**	**2,456,587**

1) Nominal amount of SEK 291 million has been reduced by transaction costs of SEK 8 million.

SEK thousand	Restricted equity Share capital	Statutory reserves	Revaluation reserve	Unrestricted equity RESERVES Translation reserve	Other con-tributed equity	Retained earnings	Result for the year	Total share-holders' equity
Opening balance 1 Jan 2015	**66,667**	**10,000**	**64,253**	**380**	**691,914**	**269,157**	**124,734**	**1,227,105**
Reclassification of result for the previous year						124,734	–124,734	
Comprehensive income for the year								
Net profit for the year							260,023	260,023
Other comprehensive income				–522				–522
Total comprehensive income for the year				**–522**			**260,023**	**259,501**
Transactions recorded directly in equity								
Shareholders' contribution					759,004			759,004
Interest paid on capital contribution						–15,000		–15,000
Group contributions paid						–182,890		–182,890
Tax effect on items recorded directly in equity						34,720		34,720
Total transactions recorded directly in equity					**759,004**	**–163,170**		**595,834**
Closing balance 31 Dec 2015	**66,667**	**10,000**	**64,253**	**–142**	**1,450,918**	**230,721**	**260,023**	**2,082,440**

Parent company cash flow statement

SEK thousand	2016	2015
OPERATING ACTIVITIES		
Cash flow from gross cash collection	1,004,905	1,047,000
Interest income	534,577	493,225
Other operating income	99,045	74,588
Interest expense	–292,699	–337,456
Operating expenses	–357,315	–301,093
Net cash flow from financial transactions	–95,330	–58,547
Capital gain on redemption of certificates in joint venture	42,546	44,404
Income tax paid	–26,410	–35,679
Total	**909,319**	**926,442**
Increase/decrease in acquired loan portfolios incl. changes in valuation	–521,005	–475,894
Increase/decrease in certificates in joint venture	9,267	15,277
Increase/decrease in lending to the public	–1,357,856	–2,245,938
Increase/decrease in deposits from the public	–957,707	1,781,668
Increase/decrease in other assets	292,884	–337,942
Increase/decrease in other liabilities	76 647	–203,623
Total	**–2,457,770**	**–1,466,452**
Cash flow from operating activities	**–1,548,451**	**–540,010**
INVESTING ACTIVITIES		
Investments in intangible fixed assets	–9,845	–10,333
Investments in tangible fixed assets	–782	–1,068
Investments/divestments of bonds and other securities	–1,245,413	615,093
Investments in subsidiaries	–25,462	–254,010
Dividend from subsidiaries	81,787	268,000
Cash flow from investing activities	**–1,199,715**	**617,682**
FINANCING ACTIVITIES		
Issued Additional Tier 1 capital	285,396	–
Capital contribution	–	759,004
Issued bonds	2,771,917	–
Repurchase of issued bonds	–976,284	–229,833
Buy-back of issued bonds	–58,000	–
Paid interest on capital contribution	–7,500	–15,000
Paid Group contribution	–47,153	–
Cash flow from financing activities	**1 968 376**	**514 171**
Cash flow for the year	**–779 790**	**591 843**
Cash at the beginning of the year	3 269 645	2 564 495
Cash at the end of the year [1]	**2 489 855**	**3 156 338**

1) Consists of cash, treasury bills/bonds and lending to credit institutions.

Accounting principles

1 Corporate information

The Annual Report is issued as of 31 December 2016 by Hoist Kredit AB (publ), CIN 556329-5699, the Parent Company of the Hoist Kredit Group. The Parent Company is a Swedish public limited company, registered in Stockholm, Sweden. The address of the head office is Box 7848, 103 99 Stockholm. The Group is licensed and supervised by the Swedish Financial Supervisory Authority.

The consolidated accounts for financial year 2016 were approved by the Board of Directors on 15 March 2017 and will be presented for adoption at the 2016 Annual General Meeting on 28 April 2017.

2 Statement of compliance

The consolidated accounts for Hoist Kredit AB (publ) were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and interpretations issued by the IFRS Interpretation Committee as adopted by the EU.

The Annual Report was prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the Swedish Financial Supervisory Authority's regulations and guidelines on annual accounts in credit institutions and securities companies (FFFS 2008:25) including applicable amendments and the Swedish Financial Reporting Board's recommendations RFR 1 "Supplementary Accounting Rules for Groups".

The Parent Company applies the Swedish Annual Accounts Act for Credit Institutions and Securities Companies but otherwise the same accounting policies as the Group, except in cases where the application of IFRS for legal entities is not permitted by Swedish accounting regulations. Please refer to the section below for Parent Company accounting principles.

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

3 Changed accounting principles

New and amended standards adopted in the financial statements

The accounting principles, bases for calculations and presentation are, in all material aspects, unchanged in comparison with the 2015 Annual Report.

No changes to IFRS or IFRIC that came into effect in 2016 had a significant impact on the Group's financial reporting or capital adequacy.

The Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) was amended following the EU's adoption of a new directive for annual and consolidated accounts. The amendments took effect 1 January 2016 and will be applied for the first time for the financial year beginning after 31 December 2015.

The following new and revised standards and interpretations affected the Parent Company's financial reporting:

» Development expenditure fund. See sections 12 and 21.3.

Market value changes were reclassified from 'Interest income' to 'Net financial income' as from first quarter 2016. Comparative figures have been reclassified pursuant to this change. A total of SEK –36 million was reclassified for full-year 2015.

Italian bank charges were reclassified from 'Other operating expenses' to 'Collection costs' as of second quarter 2016. Comparative figures were reclassified pursuant to this change. A total of SEK –11 million was reclassified for full-year 2015.

The accounting principle under which forward flow contracts were reported as commitments was revised as from second quarter 2016. The revision stipulated that all forward flow contract commitments are to be reported (as opposed to previous periods, when only commitments arising during the year were reported). Comparative figures have been adjusted accordingly. Commitments were adjusted by SEK 167 million for full-year 2015. Hoist Finance has operated under a new structural organisation since 1 January 2016. Europe is divided into three new segments: Region West Europe, Region Mid Europe and Region Central East Europe. Comparative figures in this report have been adjusted accordingly.

No other changes in accounting principles have had a significant impact on the financial reporting in the Group or the Parent Company.

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

A number of new or amended IFRS standards that will come into effect during the coming financial year were not applied in advance as at the issuance of these financial statements. It is not planned that new or amended IFRS standards applicable in the future will be applied in advance. The anticipated effects on the financial statements of the application of the following new or amended IFRSs are set forth below. No other new or amended IFRSs are expected to have any impact on the financial statements.

IFRS 9

IFRS 9 "Financial Instruments" covers the reporting of financial assets and liabilities (classification and valuation, impairment and general hedge accounting), and will replace IAS 39 "Financial instruments: Recognition and Measurement". IFRS 9, like IAS 39, will classify financial assets into different categories, but it will also introduce new categories, with valuation at amortised cost, fair value through profit or loss, or fair value through other comprehensive income. Categorisation and valuation are determined by the company's business model and the characteristics of the cash flow generated by the assets. For financial liabilities, IFRS 9 largely corresponds to IAS 39. IFRS 9 is also introducing partially revised criteria for hedge accounting to align this more closely with the company's risk management. IFRS 9 also includes increased disclosure requirements that will expand the content of note disclosure. IFRS 9 "Financial Instruments" takes effect for financial years beginning 1 January 2018 or later. Hoist Finance will apply the standard in the Parent Company and the Group as from 1 January 2018.

Evaluation of the effects application of IFRS 9 will have on Hoist Kredit's accounting is underway. While it is not yet possible to estimate the effect in monetary terms, this will take shape as the implementation project proceeds during 2017. The assessments of effects described below are based on information that is currently known or anticipated.

Classification and valuation

IFRS 9 changes the ways financial assets are classified and valued, most of which are not expected to have any significant impact on income statements and balance sheets. The standard is expected to have some impact on financial assets. The principle on fair value valuation is applied to loan portfolios acquired prior to 1 July 2011. These portfolios are expected to be reclassified to valuation at amortised cost under IFRS 9, which may have an effect on the carrying value of these portfolios.

The institute's surplus liquidity is placed in a liquidity portfolio comprised of bonds and other securities as well as treasury bills and treasury bonds. These are currently valued at fair value through profit or loss. Based on the current business model, it is deemed that the liquidity portfolio will be reclassified to fair value through other comprehensive income. The reclassification will thus affect the income statement and other comprehensive income, but will not affect total equity.

IFRS 9 is not expected to have any effect on the Group's or Parent Company's financial liabilities.

Impairments

Under IFRS 9, impairments follow an impairment model based on anticipated credit losses rather than on actual losses (as under the current model).

IFRS 9 specifies that a loss reserve for anticipated credit losses shall be reported for all assets valued at amortised cost and at fair value through other comprehensive income (such as guarantees and credit commitments). Hoist Kredit does not currently calculate collective reserves for off-balance sheet items or for financial items available for sale.

The assets requiring impairment testing under IFRS 9 are divided into three categories depending on level of credit deterioration. Category 1 assets have not had a significant increase in credit risk, category 2 assets have had a significant increase in credit risk, and category 3 assets have been individually assessed as doubtful receivables.

Reserves in category 1 shall correspond to anticipated credit losses for the coming 12 months. Reserves in categories 2 and 3 shall correspond to anticipated credit losses for the entire remaining duration. Under this method, loss reserves for anticipated credit losses refer primarily to the liquidity portfolio and lending to credit institutions and the public. Based on actual assets, this effect is not deemed to be significant for the Group. Work to develop reserve models is included in the IFRS 9 implementation project.

Hoist Kredit acquires portfolios of non-performing loans, which are included in IFRS 9's definition of "acquired credit-deteriorated financial assets". These loans are comprised of portfolios of non-performing consumer loans acquired at a price considerably below the price for nominal loans. Under IFRS 9, a loss reserve is reported for these loan portfolios corresponding to the accumulated change in anticipated credit losses for the remaining duration following initial recognition. An initial assessment is that the accounting method applied by Hoist Finance in reporting these acquired loan portfolios is substantially consistent with the calculation of loss reserves under IFRS 9. An evaluation is underway to determine whether the method applied by Hoist Finance will need to be adapted to the more detailed principles of IFRS 9.

Portfolio amortisation and revaluation are currently reported under income statement item 'Net revenue from acquired loans'. Under IFRS 9, the result of changes in anticipated credit losses will be reported under 'Credit losses'.

Hedge accounting

IFRS 9 partially revises the criteria for hedge accounting in order to, among other things, simplify and improve the uniformity of the company's internal risk management strategies.

Hoist Kredit applies hedge accounting to hedge currency derivatives against currency exposure in foreign net investments. IFRS 9 is not expected to have an impact on the reported amounts of this hedge accounting.

IFRS 15 "Revenue from Contracts with Customers"

IASB has published a new standard, IFRS 15 "Revenue from Contracts with Customers". The new standard specifies a single comprehensive reporting model for revenues from customer contracts, and replaces all previously published standards and interpretations for revenue reporting under IFRS.

The new standard will be applied for financial years starting 1 January 2018 or later, but may be applied in advance. The standard will be applied by the Hoist Kredit Group and the Parent Company as from 1 January 2018. The standard does not apply to financial instruments, insurance contracts or lease contracts. IFRS 15 introduces new methods for determining how and when revenues are to be reported, and involves new ways of thinking about revenue recognition and the transfer of risks and benefits. The standard is also based on reporting revenue when control over a product or service is transferred to the customer – ie, when the customer obtains control – which can happen over time or at a specific point in time.

While Hoist Kredit has not yet completed its analysis of the impact IFRS 15 will have on the financial statements, the current assessment is that the new standard will not have any significant impact on Hoist Kredit's accounting, financial reporting, capital adequacy or major exposures during the initial application period. It is not yet possible to estimate the effect in monetary terms, other than on the general level referenced below. The assessments of effects described below are based on information that is currently known or anticipated. Transitional methods will be selected when the analysis of IFRS 15 has reached a phase that provides more comprehensive data.

The preliminary assessments that have been made to date regarding the effects on various types of revenue are described below.

Within the Hoist Kredit Group, fee and commission income will be affected by the new standard. In customer contracts, the contract period and variable parameters will need to be assessed on an individual contract level.

Based on current assessments, the allocation of revenue between periods is not expected be otherwise affected. Finally, IFRS 15 includes increased disclosure requirements regarding revenue, which will expand the content of note disclosure.

IFRS 16 "Leasing"

IASB has published a new standard, IFRS 16 "Leasing". The new standard replaces existing IFRS (including IAS 17 and IFRIC 4 "Determining Whether an Arrangement Contains a Lease") related to the reporting of lease contracts. IFRS 16 primarily affects reporting requirements for lessees. All lease contracts (with the exception of short-term contracts and contracts of minor value) will initially be reported as an asset with right of use and as a liability in the lessee's balance sheet. Asset amortisation is reported in the income statement, with lease payments allocated as interest expense in the income statement and amortisation in the balance sheet. Reporting requirements for lessors remain unchanged. Other disclosures are also required.

The new standard takes effect for financial years beginning 1 January 2019 or later; early application is permitted. The EU is expected to approve the standard in 2017. Hoist Finance does not currently intend to apply IRFS 16 in advance.

The standard is to be applied either retroactively for each financial statement period, or retroactively using the cumulative effect of application of the standard to adjust opening balances in equity. Hoist Kredit is in the process of analysing the financial effects of the new standard. Calculations of the monetary effect of IFRS 16 or the selection of transitional methods have not been conducted. Hoist Finance's current assessment is that the new standard will entail changes to accounting primarily for lease contracts, which mainly affect Hoist Kredit's balance sheet. The information provided in Note 27 on operating leases is an indication of the type and scope of current agreements.

Other new and amended IFRSs that will be applied in future (listed below) are not expected to have any significant impact on Hoist Kredit's financial statements.

- Amended IFRS 10 Consolidated Financial Statements and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amended IFRS 11 Joint Arrangements
- Amended IAS 1 Disclosure initiative
- Amended IAS 19 Employee Benefits

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

5 Assumptions

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

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

Estimates made by the Management that have a significant impact on the consolidated financial statements and which may affect the consolidated financial statements in subsequent years are described in more detail in Note 31.

6 Consolidation

Subsidiaries

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

The Group uses the acquisition method of accounting to report business acquisitions. The consolidated acquisition value is determined by an acquisition analysis conducted in connection with the acquisition. The analysis determines the acquired identifiable assets, acquired liabilities and contingent liabilities. The acquisition value of subsidiary shares and operations is comprised of their fair value as at acquisition date for assets, liabilities that arise or are transferred, and issued equity instruments transferred as consideration in exchange for the acquired net assets. Transaction costs directly attributable to the acquisition are expensed as incurred. In business combinations where acquisition cost exceeds the net value of the acquired assets, liabilities and contingent liabilities, the difference is reported as goodwill. When the difference is negative, it is reported directly in the income statement. The contingent purchase price is reported in the consolidated accounts at fair value through profit or loss. Intra-Group receivables and liabilities, revenue and expenses, and unrealised gains and losses that arise from intra-Group transactions are eliminated in their entirety in the consolidated financial statements.

Joint ventures

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

7 Segment reporting

For Hoist Kredit, geographic regions – comprised of individual countries and groups of comparable countries – are the main basis for division into segments. Geographic segments are an accurate reflection of the Group's business activities, as loan portfolios are acquired on a country-by-country basis. The Company's chief operating decision maker is responsible for defining the segment.

Hoist Kredit has operated under a new structural organisation since 1 January 2016. Europe is divided into three new segments - Region West Europe, Region Mid Europe and Regional Central East Europe. Comparative figures in this report have been revised in accordance with the new segments.

See Note 1 for additional information on the operating segments.

8 Foreign currency translation

Functional currency

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

Transactions in foreign currency

Transactions in a currency other than the local functional currency are translated at the exchange rate in effect on the transaction date. When such transactions are settled, the exchange rate may deviate from the transaction date rate, in which case a realised exchange difference arises. Monetary assets and liabilities in foreign currency are also translated to functional currency at the balance sheet date exchange rate, which gives rise to unrealised exchange differences. Both realised and unrealised exchange differences of this type are reported in the consolidated income statement.

Translation of foreign operations' financial statements

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

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

Information on the most important exchange rates is disclosed in the separate section 22 "Exchange rates".

9 Financial assets and liabilities

Recognition and de-recognition

A financial asset or liability is reported in the balance sheet when the company becomes a party to the contractual provisions of the instrument. A receivable is reported in the balance sheet when the company is contractually liable to pay, even if an invoice has not been sent.

Loan receivables, deposits, issued securities and subordinated liabilities are reported in the balance sheet at the settlement day.

A spot purchase or sale of financial assets is reported and removed from the statement of financial position on the trade date.

A financial asset is removed from the balance sheet when contractual rights to cash flow from the financial asset cease or when the financial asset is transferred and the company simultaneously transfers essentially all risks and advantages associated with ownership of the financial asset. A financial liability or portion thereof is de-recognised when the obligation is discharged, cancelled, expired or otherwise extinguished.

An exchange between the company and an existing lender, or an existing borrower of debt instruments with essentially different terms and conditions, is reported as an extinguishment of the old financial liability or asset, respectively, and as a new financial instrument.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legal right to offset transactions and an intention to settle net or realise the asset and settle the liability simultaneously.

Classification and valuation

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

Financial instruments are classified when initially recognised. Classification is based on the purpose of the acquisition of the instrument and on the options provided in IAS 39.

The financial instrument is classified upon initial recognition, as described below.

Financial assets and liabilities at fair value through profit or loss

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

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

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

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

Financial assets available for sale

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

Calculation of fair value

The fair value of financial instruments traded on an active market (level 1) is determined for financial assets based on the current bid price. Assets measured by the company at fair value in the balance sheet and traded on an active market are comprised of investments in treasury bills and treasury bonds, and bonds and other securities. Financial instruments that are not traded on an active market but which can be measured using other valuation methods, with observable market information as input (level 2), are comprised of currency hedges and interest derivatives. In cases where assets and liabilities have conflicting market risks, the mid-market price is used to determine fair value. See Note 27.

Loans and receivables

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

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

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

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

Impairments are reported together with revaluations in the income statement. Consequently, separate provisions for reserves are not reported in the balance sheet.

Other liabilities

The Group's 'Other liabilities' are comprised of 'Deposits from the public' and 'Other liabilities' in the consolidated balance sheet. Other liabilities are initially reported at fair value including transaction costs directly attributable to acquisition or issuance of the debt instrument. Subsequent to acquisition, they are carried at amortised cost in accordance with the effective interest method. Liabilities to credit institutions, current liabilities and other liabilities are reported as 'Current liabilities'. Non-current liabilities have an expected maturity exceeding one year, and current liabilities have a maturity of less than one year. Financial liabilities at fair value through profit or loss include financial liabilities held for trading (derivatives).

Unidentified income and payments

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

10 Hedge accounting
Derivatives are used to hedge (for the purpose of neutralising) interest rate and exchange rate exposure for the Parent Company or the Group.

The company applies hedge accounting in cases where currency hedges are used to limit exchange rate exposure in foreign net investments. When hedge accounting is used for foreign net investments and the hedge has proven 80–125 per cent effective, changes in the hedging instrument's fair value are reported in 'Other comprehensive income' and accrued (as are translation effects of net investments) in the translation reserve. In cases where the hedge is 101–125 per cent effective, the ineffectiveness is reported in the income statement in the item 'Net financial income'. Other derivatives to which hedge accounting does not apply report changes in fair value under 'Net financial income'.

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

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

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

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

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

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

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

Goodwill
When the purchase price, any non-controlling interest and fair value at the acquisition date of previous shareholdings exceed the fair value of identifiable net assets acquired, the exceeding amount is reported as goodwill. Goodwill from acquisitions of subsidiaries is reported as intangible assets. Goodwill is tested annually, or more often if so indicated, to identify any impairment requirements and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Profit or loss on disposal of an entity includes the remaining carrying value of goodwill relating to the entity sold.

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

Other intangible assets
Other intangible assets are amortised on a straight-line basis over their period of use.

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

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

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

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

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

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

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

Principles for depreciation/amortisation of assets
Assets are depreciated/amortised using the straight-line method over estimated useful life and applying the following periods:

» Equipment	2–5 years
» Investments in leased premises	5 years
» Intangible assets	3–5 years

14 Provisions
Provisions are recognised for existing legal or informal obligations arising from past events where it is probable that a transfer of economic benefit will be necessary to settle the obligation and where the amount can be reliably estimated. The amount must be able to be reliably estimated in order to for recognition to occur. The provision is measured at the amount corresponding to the best estimate of the expenditure required to settle the obligation at the balance sheet date.

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

15 Income and expenses
Income from loan portfolios
All income from acquired loan portfolios is reported under 'Net revenue from acquired loans' in the income statement.

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

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

Interest income

Interest income in the income statement is reported under 'Net revenue from acquired loans' and 'Interest income' and is disclosed in a note. 'Net revenue from acquired loans' is comprised of interest income calculated based on the effective interest method and of payments received on acquired loan portfolios, which may exceed or fall below expected amounts. Interest income calculated using the effective interest method is calculated based on the original effective interest rate, with changes reported at amortised cost. 'Other interest income' is generated through lending to credit institutions and to the public and through investments in bonds.

Interest expense

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

Fee and commission income

Fee and commission income is reported when (i) the revenue can be reliably measured, (ii) it is probable that the economic benefits associated with the translation will accrue to the company, (iii) the degree of completion as at the balance sheet date can be reliably calculated, and (iv) the expenses incurred and the expenses required to complete the transaction can be reliably calculated. Revenue is valued at the fair value of the received or due consideration.

Fees and commissions related to financial services carried out on an ongoing basis and for which the services' degree of completion is achieved progressively are reported and expensed as revenue over the period during which the services are rendered.

Net financial income

Net financial income includes realised and unrealised exchange rate fluctuations, unrealised changes in the value of assets and liabilities classified as 'Assets at fair value through profit or loss' (with the exception of acquired loan portfolios), and the inefficient part of hedge accounting.

Other operating expenses

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

Credit losses

In the event an impairment is deemed to be permanent, it is reported as a realised loss and the value of the asset is removed from the balance sheet. Impairments related to 'Other assets' are reported as 'Credit losses'.

16 Employee benefits

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

Short-term benefits

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

Redundancy payments

Remuneration expense in connection with termination of personnel is reported either when the company is no longer able to withdraw the redundancy offer or when the company reports restructuring costs, whichever occurs sooner. Payments that are expected to be settled after twelve months are reported at present value.

Pensions

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

The Group has both defined-benefit and defined-contribution plans:

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

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

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

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

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

Changes to or reductions of a defined-benefit plan are reported at the earliest of either

a. when the change to or reduction in the plan occurs, or

b. when the company reports the associated restructuring costs and redundancy costs.

Changes/reductions are reported directly as personnel expenses in 'Net profit for the year'.

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

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

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

Warrant programme

Warrants have been sold at market price (fair value) to employees. The transactions fall within the scope of IFRS 2 "Share-based payments", as the future value of the warrants are affected by continued employment. There is no expense to report due to the fact that the employees paid market price for the warrants; however, IFRS 2 disclosure requirements are applied when applicable. See Note 5 for additional details.

17 Taxes

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

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

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

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

The valuation of deferred tax is based on how the carrying values of assets or liabilities are expected to be realised or settled. Deferred tax is calculated by applying the tax rates and tax rules that have been set or essentially set as of the balance sheet date.

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

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

18 Equity

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

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

19 Related-party transactions

Hoist Finance

Hoist Finance defines related parties as:

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

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

Shareholders with significant influence

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

Group companies and associated companies

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

See section 6, Consolidation, for the definition of "subsidiaries and joint ventures". Further information on Hoist Kredit Group companies is presented in Note 14, Group companies.

Key management personnel

Key senior management includes:

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

See Note 5 for details on compensation, pensions and other transactions with key management personnel.

Other related parties

Other related parties comprise close relatives and family members of key senior management, if that or those person(s) has or have controlling influence, severally or jointly, over the reporting entity. Other related parties are also companies over which Hoist Finance Group key management personnel, or their close relatives, have significant influence.

Information on transactions between Hoist Kredit and other related parties is presented in Note 32, Related-party transactions.

20 Cash flow statement

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

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

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

21 Parent Company accounting principles

The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, the Swedish Financial Supervisory Authority's regulations and guidelines on annual accounts in credit institutions and securities companies (FFFS 2008:25) and RFR 2 'Accounting for legal entities' issued by the Swedish Financial Reporting Board. RFR 2 requires the Parent Company to use the same accounting principles as the Group (ie IFRS) to the extent allowed by Swedish accounting legislation.

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

21.1 Group contributions

Group contributions

Hoist Kredit applies the main rule in RFR2 IAS 27.2. Group contributions received from Group companies are reported in the income statement. Group contributions to the parent company is accounted for in shareholders' equity. The net of Group contributions paid or received for optimising the Group's tax expense is reported as appropriation in the Parent Company.

21.2 Subsidiaries

Parent Company shareholdings and participations in Group companies are reported based on cost of acquisition. Holdings are carried at cost and only dividends are reported in the income statement. Impairment tests are conducted in accordance with IAS 36 'Impairments of assets' and write-downs are made when permanent decline in value is established.

Transaction costs are included in the carrying value of the holding in the subsidiary. Transaction costs attributable to subsidiaries are reported directly in profit or loss in the consolidated accounts when incurred.

Contingent purchase prices are valued based on probability of payment. Any changes to the provision/receivable is added to/reduced from the cost of acquisition.

Low-priced acquisitions that match anticipated losses and expenses are reversed during the periods in which the losses and expenses are expected to arise. Low-priced acquisitions resulting from other factors are reported as provisions to the extent they do not exceed the fair values of acquired identifiable non-monetary assets. The portion exceeding this amount is directly taken up as income. The portion that does not exceed the fair value of acquired identifiable non-monetary assets is reported as income systematically over a period of time that is based on the remaining weighted average useful life of the acquired identifiable depreciable assets. In the consolidated accounts, low-priced acquisitions are reported directly in profit or loss.

21.3 Development expenditure fund

Capitalisation of self-generated development expenditures is limited by the option of distributing capital. The amount corresponding to capitalised self-generated development expenditure is transferred from retained earnings to a special restricted fund. The rule applies to capitalisation of expenditures for financial years beginning immediately after 31 December 2015. The fund is reduced in the event of amortisation, impairment or divestment.

21.4 Untaxed reserves

In the Parent Company, untaxed reserves are reported as a separate item in the balance sheet. In the consolidated financial statements, untaxed reserves are divided into a 'deferred tax liability' component and an 'equity' component.

22 Exchange rates

	Full year 2016	Full year 2015
1 EUR = SEK		
Income statement (average)	9.4622	9.3553
Balance sheet (at end of the period)	9.5669	9.1350
1 GBP = SEK		
Income statement (average)	11.5849	12.8908
Balance sheet (at end of the period)	11.1787	12.3785
1 PLN = SEK		
Income statement (average)	2.1688	2.2372
Balance sheet (at end of the period)	2.1662	2.1545

Notes

Note 1 Segment reporting

Consolidated income statement

SEK thousand	2016	2015
Net revenue from acquired loan portfolios	2,404,955	2,004,524
Of which, gross collections on acquired loan portfolios	*4,311,162*	*3,631,032*
Of which, portfolio amortisation and revaluation	*–1,906,207*	*–1,626,508*
Interest income	2,974	39,195
Of which, interest income from run-off consumer loan portfolio	5,841	10,176
Of which, interest income excl. run-off consumer loan portfolio[1)]	–2,867	29,019
Interest expense	–310,295	–361,370
Net interest income	**2,097,634**	**1,682,349**
Fee and commission income	116,817	166,705
Net income/expense from financial transactions[1)]	–96,943	–46,461
Other income	21,350	17,959
Total operating income	**2,138,858**	**1,820,552**
General administrative expenses		
Personnel expenses	–665,255	–642,480
Other operating expenses	–950,335	–845,393
Depreciation and amortisation of tangible and intangible assets	–47,906	–39,697
Total operating expenses	**–1,663,496**	**–1,527,570**
Profit before credit losses	**475,362**	**292,982**
Net credit losses	–1,260	–5,298
Profit from shares and participations in joint ventures	86,042	54,839
Profit before tax	**560,144**	**342,523**

Operating income statement based on segment reporting

SEK thousand	2016	2015
Gross collections on acquired loan portfolios	4,311,162	3,631,032
Portfolio amortisation and revaluation	–1,906,207	–1,626,508
Interest income from run-off consumer loan portfolio	5,841	10,176
Net revenue from acquired loan portfolios	**2,410,796**	**2,014,700**
Fee and commission income	116,817	166,705
Profit from shares and participations in joint ventures	86,042	54,839
Other income	21,350	17,959
Total revenue	**2,635,005**	**2,254,203**
Personnel expenses	–665,255	–642,480
Collection costs[1)]	-595,915	-509,598
Other operating expenses[1)]	–354,420	–335,795
Depreciation and amortisation of tangible and intangible assets	–47,906	–39,697
Total operating expenses	**–1,663,496**	**–1,527,570**
EBIT	**971,509**	**726,633**
Interest income excl. run-off consumer loan portfolio[2)]	–2,867	29,019
Interest expense	–310,295	–361,370
Net income from financial transactions[2)3)]	–98,203	–51,759
Total financial items	**–411,365**	**–384,110**
Profit before tax	**560,144**	**342,523**

1) Comparative figures have been adjusted due to reclassification of banking charges from Other operating expenses to Collection costs.
2) Comparative figures have been adjusted due to the reclassification of market value changes from Interest income to Net financial income.
3) Including financing costs.

Segment reporting has been prepared based on the manner in which Executive Management monitors operations. This differs from statutory account preparation; the material differences are as follows:

- Revenue includes income from
  - acquired loan portfolios
  - run-off consumer loan portfolio
  - fee and commission income from third parties
  - shares and participations in joint ventures
  - certain other income
- Total financial items' include interest income from sources other than portfolios, interest expense and net income from financial transactions.

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

A financing cost is allocated to the operating segments based on the acquired loan portfolio assets. The difference between the actual financing cost and the standardised cost is included in Central Functions and Eliminations.

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

Note 1 Segment reporting, continued

Income Statement 2016

SEK thousand	Region West Europe[1)]	Region Mid Europe[2)]	Region Central East Europe[3)]	Central Functions and Eliminations	Group
Gross collections on acquired loan portfolios	1,296,766	1,574,731	1,439,665	–	4,311,162
Portfolio amortisation and revaluation	–487,587	–763,410	–655,210	–	–1,906,207
Interest income from run-off consumer loan portfolio	–	–	5,841	–	5,841
Net revenue from acquired loan portfolios	**809,179**	**811,321**	**790,296**	**–**	**2,410,796**
Fee and commission income	65,629	5,006	46,182	–	116,817
Profit from shares and participations in joint ventures	–	616	–	85,426	86,042
Other income	–	1,769	14,502	5,079	21,350
Total revenue	**874,808**	**818,712**	**850,980**	**90,505**	**2,635,005**
Personnel expenses	–231,502	–111,301	–181,875	–140,577	–665,255
Collection costs	–246,005	–221,228	–128,682	–	–595,915
Other operating expenses	–112,356	–53,821	–49,924	–138,319	–354,420
Depreciation and amortisation of tangible and intangible assets	–11,977	–7,210	–7,299	–21,420	–47,906
Total operating expenses	**–601,840**	**–393,560**	**–367,780**	**–300,316**	**–1,663,496**
EBIT	**272,968**	**425,152**	**483,200**	**–209,811**	**971,509**
Interest income excl. run-off consumer loan portfolio	101	–	3,513	–6,481	–2,867
Interest expense	–3	–102	–1,347	–308,843	–310,295
Net income from financial transactions[4)]	–207,219	–182,721	–181,453	473,190	–98,203
Total financial items	**–207,121**	**–182,823**	**–179,287**	**157,866**	**–411,365**
Profit before tax	**65,847**	**242,329**	**303,913**	**–51,945**	**560,144**

1) Total revenue for the UK of SEK 789m is included in the revenue of Region West Europe.
2) Total revenue for Italy of SEK 500 million is included in the revenue for Region Mid Europe.
3) Total revenue for Germany of SEK 474 million is included in the revenue of Region Central East Europe.
4) Including financing costs.

Note 1 Segment reporting, continued

Income Statement 2015

SEK thousand	Region West Europe[1)]	Region Mid Europe[2)]	Region Central East Europe[3)]	Central Functions and Eliminations	Group
Gross collections on acquired loan portfolios	935,880	1,358,389	1,336,763	–	3,631,032
Portfolio amortisation and revaluation	–351,476	–650,236	–624,796	–	–1,626,508
Interest income from run-off consumer loan portfolio	–	–	10,176	–	10,176
Net revenue from acquired loan portfolios	**584,404**	**708,153**	**722,143**	**–**	**2,014,700**
Fee and commission income	114,846	5,892	45,967	–	166,705
Profit from shares and participations in joint ventures	–	–	–	54,839	54,839
Other income	1,152	1,385	12,176	3,246	17,959
Total revenue	**700,402**	**715,430**	**780,286**	**58,085**	**2,254,203**
Personnel expenses	–237,937	–93,021	–172,412	–139,110	–642,480
Collection costs[4)]	–214,681	–160,775	–134,142	–	–509,598
Other operating expenses[4)]	–102,522	–51,014	–39,760	–142,499	–335,795
Depreciation and amortisation of tangible and intangible assets	–6,931	–6,786	–7,195	–18,785	–39,697
Total operating expenses	**–562,071**	**–311,596**	**–353,509**	**–300,394**	**–1,527,570**
EBIT	**138,331**	**403,834**	**426,777**	**–242,309**	**726,633**
Interest income excl. run-off consumer loan portfolio	164	38	2,120	26,697	29,019
Interest expense	69	–77	–1,597	–359,765	–361,370
Net income from financial transactions5)6)	–157,672	–147,943	–179,310	433,166	–51,759
Total financial items	**–157,439**	**–147,982**	**–178,787**	**100,098**	**–384,110**
Profit before tax	**–19,108**	**255,852**	**247,990**	**–142,211**	**342,523**

1) Total revenue for the UK of SEK 718 million is included in the revenue for Region West Europe.
2) Total revenue for Italy of SEK 374 million is included in the revenue for Region Mid Europe.
3) Total revenue for Germany of SEK 453 million is included in the revenue of Region Central East Europe.
4) Comparative figures have been adjusted due to reclassification of bank charges from Other operating expenses to Collection costs.
5) Comparative figures have been adjusted due to reclassification of market value changes from Interest income to Net financial income.
6) Includes financing costs

Acquired loan portfolios at 31 Dec 2016

SEK thousand	Region West Europe	Region Mid Europe	Region Central East Europe	Central Functions and Eliminations	Group
Run-off consumer loan portfolio	–	–	32,194	–	32,194
Acquired loan portfolios	4,522,429	4,331,437	3,531,681	–	12,385,547
Shares and participations in joint ventures	–	–	–	240,580	240,580
Acquired loan portfolios	**4,522,429**	**4,331,437**	**3,563,875**	**240,580**	**12,658,321**

Acquired loan portfolios at 31 Dec 2015

SEK thousand	Region West Europe	Region Mid Europe	Region Central East Europe	Central Functions and Eliminations	Group
Run-off consumer loan portfolio	–	–	58,364	–	58,364
Acquired loan portfolios	3,882,889	3,643,796	3,488,014	–	11,014,699
Shares and participations in joint ventures	–	–	–	205,557	205,557
Acquired loan portfolios	**3,882,889**	**3,643,796**	**3,546,378**	**205,557**	**11,278,620**

Note 2 Net interest income

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Interest income from acquired loans				
of which, amortised cost	2,300,190	1,940,601	304,865	265,539
of which, fair value	104,765	63,923	117,089	91,959
Income from loan portfolios	**2,404,955**	**2,004,524**	**421,954**	**357,498**
Lending to credit institutions				
Interest income, banks	5,087	4,484	1,108	2,638
Interest-bearing securities	–9,321	23,609	–9,321	23,609
Interest rate derivatives	5,841	10,177	5,841	10,177
Loan receivables	1,367	925	526,888	423,867
Interest income	**2,974**	**39,195**	**524,516**	**460,291**
Interest expense, deposits from the public	–134,199	–188,501	–134,199	–188,501
Other interest expense, financial liabilities				
at amortised cost	–155,716	–129,262	–155,716	–129,262
at fair value	–20,380	–43,607	–18,071	–42,113
Interest expense	**–310,295**	**–361,370**	**–307,986**	**–359,876**
Net interest income	**2,097,634**	**1,682,349**	**638,484**	**457,913**

%	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Average interest rate, deposits (incl. deposit guarantee scheme expenses)	1.23	1.76	1.23	1.76

Note 3 Net financial income

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Exchange rate fluctuations	–70,874	–25,372	–69,248	–37,181
Profit/Loss from financial assets and liabilities at fair value through profit/loss, net	–1,391	–5,013	–1,403	–5,290
Profit/Loss from financial assets and liabilities at amortised cost, net	–9,589	–42,541	–9,589	–42,541
Profit/Loss from financial assets and liabilities held for trading, net	–15,089	26,465	–15,089	26,465
Total	**–96,943**	**–46,461**	**–95,329**	**–58,547**

Note 4 Net sales

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Intra-Group income	7,671[1)]	7,384[1)]	95,924	73,889
Other	13,679	10,575	3,121	699
Total	**21,350**	**17,959**	**99,045**	**74,588**

1) The Parent company Hoist Finance AB (publ)

Note 5 Personnel expenses

Total personnel expenses and remuneration

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Salaries[1)]	–508,742	–498,202	–86,643	–81,018
Pension expenses	–21,934	–17,841	–14,648	–12,824
Social fees	–92,706	–88,244	–22,808	–19,725
Other personnel-related expenses	–41,873	–38,103	–9,128	–9,810
Total	**–665,255**	**–642,480**	**–133,227**	**–123,377**

1) Includes fixed and variable remuneration.

Of which, salaries and other compensation to senior executives

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
To senior excecutives[1)]				
Fixed salary and benefits	–26,460	–25,815	–14,915	–18,580
Performance-based compensation	–5,231	–3,066	–3,914	–3,066
Total	**–31,691**	**–28,881**	**–18,829**	**–21,646**

1) Senior executives include Board members, the President/CEO and the Executive Management Team. Former Board members are included. Senior executives during the year: 13 (13) individuals, of which Board members 6 (6) and CEO 1 (1).

Financial Supervisory Authority's regulation and general guidelines regarding remuneration policy FFFS 2011:2

Further information can be found in a separate report on remuneration published on Hoist Finance website (www.hoistfinance.com).

Remuneration to Members of the Board and Executive Management Team

Approved guidelines for remuneration for executive officers for 2016, resolved on the AGM on 29 April 2016

Senior are the Chief Executive Officer and other management employees in Hoist Kredit AB (publ) and its subsidiaries, and members of the Board of Directors to the extent they receive compensation apart from their Board duties.

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

Variable salary for senior executives shall not exceed 50 per cent of fixed salary. Variable remuneration is based on various financial and non-financial criteria determined by the Board of Directors and is linked to the performance of the Group and the relevant business unit as well as to individual targets. No variable remuneration is paid to control function managers (Risk, Compliance and Internal Audit) on the Group level.

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

For members of the Executive Management Team, payment of 60 per cent of variable remuneration is deferred for a period of at least three years. The corresponding figure is 40 per cent for other senior executives classified as risk takers under applicable regulations. Variable remuneration, including deferred remuneration, is only paid to the extent warranted by the Group's financial situation and the performance and conduct of the Group, the relevant business unit and the employee.

Pensions and insurance are offered pursuant to national laws, regulations and market practices and are structured as collective agreements, company-specific plans or a combination of the two. Hoist Kredit has defined-contribution pension plans and does not apply discretionary pension benefits. There are defined-benefit pension plans in Germany, but no provisions are made for pension contributions. A few senior executives receive gross salary; in these instances, the company does not make pension contributions. Other benefits are designed to be competitive in relation to similar operators in the respective country.

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

Issuing loans to employees is not permitted.

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

AGM-elected Board Members may in certain cases receive a fee for services performed within their respective areas of expertise, outside of their Board duties. Compensation for these services shall be paid at market terms and be approved by the Board. Remuneration not to exceed SEK 50,000 may be paid to a Board Member for work on the board of a subsidiary.

The Board of Directors may deviate from the guidelines as adopted and resolved by the AGM in particular cases if warranted by special circumstances.

Note 5 Personnel expenses, continued

Remuneration to the Board of Directors[1]

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Chair of the Board:				
Ingrid Bonde	–	–	–	–
Other Board members:				
Liselotte Hjorth [2]	67	67	–	–
Annika Poutiainen [3]	67	83	–	–
Per-Eric Skotthag	–	–	–	–
Gunilla Wikman [4]	33	67	–	–
Achim Prior [5]	–	117	–	–
Jörgen Olsson [6]	–	–	–	–
Costas Thoupos [7]	–	–	–	–
Total	**167**	**334**	**–**	**–**

1) Board and Committee member fees are comprised of a fixed annual amount, exclusive of social fees. The amounts in the table relates to fees paid by subsidiaries. SEK 100,000 was paid in fees from subsidiaries through the 29 April 2016 AGM, after which such fee was paid in the amount of SEK 50,000 pursuant to AGM resolution.

2) Liselotte Hjorth was elected as new Board member at the 29 December 2014 extraordinary general meeting and joined the Board on 1 January 2015. Board fee has been invoiced as from July 2016; see Note 33.

3) Annika Poutiainen joined the Board as from the 16 November 2014 extraordinary general meeting. Annika Poutiainen's Board fee was paid to Alpha Leon AB, a related company; see Note 33. Includes remuneration of SEK 67 thousand (83) from subsidiary.

4) Gunilla Wikman joined the Board as at the 22 October 2014 extraordinary general meeting. Ms Wikman stepped down from the subsidiary board of directors in May 2016.

5) Achim Prior resigned as of the 16 November 2014 extraordinary general meeting.

6) Jörgen Olsson receives no Board fee; he is employed by both Hoist Finance and Hoist Kredit, and receives remuneration from Hoist Kredit.

7) Costas Thoupos receives no Board fee; he is employed by a subsidiary and receives remuneration of SEK 4,968 thousand (5,528).

Salaries and benefits, group [1]

SEK thousand	Fixed salary 2016	Fixed salary 2015	Performance based compensation 2016	Performance based compensation 2015	Benefits[2] 2016	Benefits[2] 2015	Total 2016	Total 2015
CEO:								
Jörgen Olsson	–7,531	–7,361	–	–	–	–187	–7,531	–7,548
Executive Management Team:								
6 (6) people[3] excluding CEO	–12,123	–11,793	–5,231	–3,066	–1,671	–612	–19,025	–15,471
Total	**–19,654**	**–19,154**	**–5,231**	**–3,066**	**–1,671**	**–799**	**–26,556**	**–23,019**

Salaries and benefits, parent company[1]

SEK thousand	Fixed salary 2016	Fixed salary 2015	Performance based compensation 2016	Performance based compensation 2015	Benefits[2] 2016	Benefits[2] 2015	Total 2016	Total 2015
CEO:								
Jörgen Olsson	–7,531	–7,361	–	–	–	–187	–7,531	–7,548
Executive Management Team:								
6 (6) people [3] excluding CEO	–6,954	–10,420	–3,914	–3,066	–430	–612	–11,298	–14,098
Total	**–14,485**	**–17,781**	**–3,914**	**–3,066**	**–430**	**–799**	**–18,829**	**–21,646**

1) Exclusive of social fees.
2) Benefits included in the taxable fringe benefit, exclusive of social fees. Benefits are primarily comprised of company car, housing and health insurance benefits associated with foreign posting.
3) Karin Beijer's remuneration is included and was paid to Co Go Consulting AB, a related company; see Note 33.

Directors' remuneration

Board members of the Parent Company Hoist Finance AB (publ) and subsidiary Hoist Kredit received remuneration in 2016 from Hoist Finance AB (publ) and the subsidiary Hoist Kredit for overlapping work performed for the boards of both companies.

The AGM held on 29 April 2016 resolved that annual remuneration shall be paid as follows:[1]

Chair of the Board	SEK 1,350,000
Board members	SEK 450,000
Chair, Risk and Audit Committee	SEK 150,000
Members, Risk and Audit Committee	SEK 100,000
Chair, Remuneration Committee	SEK 50,000
Members, Remuneration Committee	SEK 50,000
Chair, Investment Committee	SEK 150,000
Members, Investment Committee	SEK 100,000

1) For the period through the next AGM, a year-on-year decrease.

Board members employed by Hoist Kredit (Jörgen Olsson and Costas Thoupos) do not receive specific remuneration for their work on the Board.

There is no outstanding redundancy payment or similar owed to any Board members.

CEO

The CEO's basic salary, participation in the warrant programme, and other terms of employment are proposed by the Board's Remuneration Committee and adopted by the Board of Directors.

The CEO was paid a salary of SEK 7,531 thousand in 2016 (7,361), in line with the Group's remuneration policy. The CEO's salary is paid in Swedish kronor. The CEO does not receive any performance based compensation. The CEO acquired 296,192 warrants within the framework of the company's warrant programme, which was exercised in 2016. The CEO has a 12-month notice period. There is no agreement in place on redundancy payments.

CEO pension (see table below):

The pension premium is 32 per cent (32) of fixed salary.

Note 5 Personnel expenses, continued

Executive Management Team (EMT)

The Board's Remuneration Committee prepares for the Board's decision changes to remuneration rates and bonus programme results and other changes to EMT compensation agreements.

Like the CEO, other EMT members participated in the first warrant programme. The warrants were exercised during 2016.

All but one EMT members are offered performance-based compensation at the maximum of 50 per cent of fixed annual salary. Benefits are primarily comprised of company car benefits, and housing and health insurance benefits associated with foreign posting.

In 2016 the EMT consisted of six people, exclusive of the CEO.

Notice period

The members of the EMT have the following notice periods: One member has twelve months, one has nine months, three members have six months and one person has three months.

Pensions (see table below):

Three EMT members have during the year followed Hoist Finance's predetermined pension scheme, for which fixed salary is the pensionable compensation amount. One member receives 7 per cent of fixed salary and one person receives a provision of 10 per cent of fixed salary.

Pension costs

	GROUP		PARENT COMPANY	
SEK thousand	**2016[1)]**	**2015[1)]**	**2016**	**2015**
CEO: Jörgen Olsson	–2,414	–2,342	–2,414	–2,342
Executive Management Team: 6 (6) people (excluding CEO)	–1,401	–1,532	–1,053	–1,532
Total	**–3,815**	**–3,874**	**–3,467**	**–3,874**

1) Pension expenses are comprised of pension premiums in defined-contribution pension plans expensed during the year (costs related to services performed during the current and previous years and settlements as defined in IAS 19). Of total pension expenses, 100 per cent is attributable to defined-contribution pension plans.

Lending to senior executives

SEK thousand	**31 Dec 2016**	**31 Dec 2015**
Outstanding at beginning of the period	468	–
– Loans during the period	–	468
Outstanding at end of the period[1)]	**515**	**468**

1) Exchange rate difference of SEK 47 thousands is included in the amount.

One Executive Management Team member holds a loan of EUR 50,000. The loan was paid in full in January 2017. Interest accrued at 5 per cent. The credit was given in 2014, when issuing loans to employees was permitted.

Warrant programme

Hoist Finance issued warrants in 2013 and 2014 that were acquired by key management personnel within the Group. See the table below:

Number of cash-settled options

	Number of options 2016	**Number of options 2015**
Outstanding at beginning of the period		
– 2013 warrant programme	737,189	794,782
– 2014 warrant programme	192,438	222,041
Repurchased or exercised (–)/ allocated (+) during the period		
– 2013 warrant programme	–737,189	–57,593
– of which, to senior management	–671,368	–
– of which, to other employees	–65,821	–57,593
– 2014 warrant programme	–27,445	–29,603
– of which, to senior management	–	–
– of which, to other employees	–27,445	–29,603
Outstanding at end of the period		
– 2013 warrant programme	–	737,189
– of which, to senior management	–	671,368
– of which, to other employees	–	65,821
– 2014 warrant programme	164,993	192,438
– of which, to senior management	–	–
– of which, to other employees	164,993	192,438

The extraordinary general meeting in Hoist Finance AB (publ) ("the Parent Company") held on 6 December 2013 resolved to introduce a warrant programme under which a total of 819,465 warrants were issued. A total of 11 selected senior executives and key employees acquired all of these warrants at market price (fair value) as calculated by Black & Scholes.

Each warrant entitled the original holder to subscribe for one new share in the Parent Company, at a subscription price of SEK 48.42 per share. In accordance with the warrants' terms and conditions, the subscription price as well as the number of shares each warrant entitles the holder to subscribe for, has been recalculated in line with the share split 1:3 which was resolved at the AGM on 25 February 2015. Accordingly, each warrant entitles the holder to subscribe for three new shares at a subscription price of 16.14 SEK per share through 31 December 2016. In 2016, 8,228 warrants have been repurchased for a repurchase amount of SEK 960 thousand.

The extraordinary general meeting held on 22 October 2014 resolved to issue additional warrants to key Group employees. 26 key employees acquired a total of 222,041 warrants under the warrant programme at market price (fair value) as calculated by Black & Scholes. Thereafter, as at 31 December 2016 a total of 57,048 warrants have been repurchased from six holders and cancelled by the Parent Company. In 2016, SEK 1,106 thousand was paid for these repurchased warrants and reported in equity. Each warrant entitled the original holder to subscribe for one new share in the Parent Company, at a subscription price of SEK 190.20 per share for all warrants, except for 27,293 warrants which entitled the holder to subscribe one share at a subscription price of 166.40 SEK. The subscription price and number of shares each warrant entitles the holder to subscribe for have been recalculated in accordance with the warrants' terms and conditions. Accordingly, each warrant entitles the holder to subscribe for three new shares at a subscription price of 63.40 SEK per share, with exception of 27,293 warrants which entitle the holder to subscribe three new shares at a subscription price of 55.47 SEK.

The warrants are valid through 31 December 2017 and the holder is under certain circumstances obliged to offer the Parent Company the option of repurchasing some or all of the warrants or shares issued through exercise of the warrants.

Warrant liquidity is reported in 'Equity'. The Parent Company's share capital will increase by SEK 164,993 upon the full exercise of all above-mentioned warrants held by senior executives and key employees, corresponding to a 0.6 per cent dilution effect of the Parent Company's current equity in total. In accordance with the warrants' terms

Note 5 Personnel expenses, continued

and conditions, the subscription price and number of shares each warrant entitles the holder to subscribe for, may be restated under certain circumstances and, in some instances, warrant holders are obliged to offer the Parent Company the option of repurchasing some or all of the warrants or the shares issued through exercise of the warrants.

Average number of employees during the year, Group

	2016			2015		
	Men	Women	Total	Men	Women	Total
Sweden	34	20	54	29	18	47
Germany	98	195	293	98	201	299
France	39	68	107	38	63	101
Belgium	10	8	18	10	8	18
The Netherlands	17	12	29	15	13	28
UK	216	203	419	220	203	423
Italy	76	92	168	66	82	148
Poland	83	152	235	61	121	182
Jersey	1	–	1	–	–	–
Spain	1	2	3	–	–	–
Total	**575**	**752**	**1,327**	**537**	**709**	**1 246**

Average number of employees during the year, Parent Company

	2016			2015		
	Men	Women	Total	Men	Women	Total
Sweden	34	20	54	29	18	47
Belgium	10	8	18	10	8	18
The Netherlands	17	12	29	18	13	28
Total	**61**	**40**	**100**	**54**	**39**	**93**

The average number of employees is calculated based on full-time employees (FTEs). The Group also has contracted consultants, the number of which varies during the year depending on requirements.

As at 31 December 2016 the Group had 1,285 FTEs (1,349).

Gender distribution, senior executives

	31 Dec 2016	31 Dec 2016	31 Dec 2015	31 Dec 2015
%	**Men**	**Women**	**Men**	**Women**
Senior executives	62	38	64	38
Boards of Directors	79	21	70	30
Of which, Parent Company	43	57	43	57

Note 6 Other operating expenses

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Collection costs	–595,915	–509,598[2]	–95,059	–84,539
Consultancy services	–98,718	–112,813	–36,361	–37,278
Intra-Group consultancy services	–59,714[1]	–60,521[1]	–53,865	–47,624
Other intra-Group expenses	–	–22,604[1]	–2,561	–4,654
IT expenses	–62,343	–28,287	–18,593	–11,943
Telecom expenses	–12,362	–12,974	–1,309	–1,161
Premises costs	–54,507	–52,772	–5,410	–4,828
Travel expenses	–26,220	–22,950	–7,496	–7,124
Restructuring costs	–106	–2,207	–	–82
Bank charges	–16,452	–10,884[2]	–1,742	–2,251
Sales and marketing expenses	–4,051	–3,798	–1,552	–1,423
Other expenses	–19,947	–5,985	–1,278	–1,692
Total	**–950,335**	**–845,393**	**–225,226**	**–204,599**

1) The Parent company Hoist Finance AB (publ)

2) Comparative figures have been adjusted due to the reclassification of banking fees to collection costs.

Note 7 Credit losses

SEK thousand	GROUP 2016	GROUP 2015
Specific impairment for individually valued loan receivables		
Write-offs for stated credit losses for the year	–1,260	–5,298
Net costs of credit losses for the year	**–1,260**	**–5,298**

The information in this Note also refer to the Parent company.

Note 8 Shares and participations in joint ventures

Shares and participations in joint ventures relate to Hoist Kredit AB's (publ) holdings in BEST III (50 per cent) and PQH Single Special Liquidation S.A (33 per cent). BEST III, is a Polish closed-end fund located in Gdynia and designated for the acquisition of individual loan portfolios. The initial investment was PLN 40 million (SEK 90 M). During the year Hoist Kredit acquired, along with Qualco S.A. and Pricewaterhouse-Coopers Business Solutions S.A., the Greek company PQH. PQH is based in Athens and offers advisory services. All joint ventures are consolidated pursuant to the equity method.

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Opening balance	**205,557**	**215,347**
Acquisitions	74	–
Redemption of fund units	–51,153	–57,459[1]
Profit	85,719	55,511[1]
Exchange differences	1,079	–7,842[1]
Closing balance	**241,276**	**205,557**

BEST III

SEK thousand	31 Dec 2016	31 Dec 2015
Assets		
Acquired loan portfolios	483,879	457,732
Cash and bank balances	16,227	17,952
Total assets	**500,106**	**475,684**
Liabilities		
Non-current liabilities	–	45,332
Current liabilities	18,938	19,239
Total liabilities	**18,938**	**64,571**
Net assets	**481,168**	**411,113**
Interest income	223,484	164,515[1]
Other expenses	–53,277	–53,493[1]
Net profit for the year	**170,207**	**111,022[1]**

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

PQH

SEK thousand	31 Dec 2016
Assets	
Current assets	4,402
Cash and bank balances	8,578
Total assets	**12,980**
Liabilities	
Current liabilities	10,883
Total liabilities	**10,883**
Net assets	**2,097**
Interest Income	57,286
Other expenses	–55,439
Net profit for the year	**1,847**

There are no contingent liabilities pertaining to the Group's interest in this joint venture, nor does the joint venture have any contingent liabilities.

1) Comparative figures have been adjusted for differences in accounting principles between the Group and joint venture company BEST III.

Note 9 Earnings from participations in Group companies

During the year, Hoist Kredit AB (publ) received a dividend in the amount of SEK 82m from its subsidiary Hoist Cyprus Ltd, while also making an impairment of its shareholding in the subsidiary Hoist Italia S.R.L in the amount of SEK 20m. In the preceding year, the Parent Company received a dividend from its subsidiary Hoist Services AB in the amount of SEK 293m, while also making an impairment of its shareholding in the subsidiary in the amount of SEK 159m.

Note 10 Tax

	GROUP		PARENT COMPANY	
SEK thousand	**2016**	**2015**	**2016**	**2015**
Current tax expense/revenue				
Tax expense/revenue for the year	–87,824	–22,910	–86,896	–39,783
Tax adjustment attributable to previous years	–2,228	–5,696	329	–5,613
Total	**–90,052**	**–28,606**	**–86,567**	–45,396
Deferred tax expense/revenue				
Deferred tax attributable to temporary differences	–34,920	–36,355	401	1,047
Total	**–34,920**	**–36,355**	**401**	**1,047**
Total reported tax expense	**–124,972**	**–64,961**	**–86,166**	**–44,349**

	GROUP		PARENT COMPANY	
SEK thousand	**2016**	**2015**	**2016**	**2015**
Profit before tax	**560,144**	**342,523**	**353,357**	**304,372**
Tax calculated at 22% (Swedish) tax rate	–123,257	–75,355	–77,739	–66,962
Effect of different tax rates in different countries	5,944	13,669	–	–208
Non-taxable revenues	45,232	14,996	18,438	64,460
Non-deductible expenses	–25,306	–2,721	–4,872	–36,045
Adjustments with reference to previous years	–2,228	–5,696	329	–5,613
Utilisation of previously uncapitalised loss carry-forwards	9,432	12,541	–	–
Increase in loss carry-forwards without corresponding capitalisation of deferred tax	–	–8,955	–	–
Decrease in capitalised loss carry-forwards not expected to be utilised	–12,046	–21,393	–	–
CFC taxation	–	–	–20,461	–
Other	–22,743	7,954	–1,861	19
Total tax expense	**–124,972**	**–64,961**	**–86,166**	**–44,349**

The Group's effective tax rate was 22.31 per cent (18.97) at 31 December 2016.

Current tax reported directly in the Group's equity totalled SEK 48 million as at 31 December 2016, and refers to tax on Group contribution and tax on transaction costs associated with the issue of Additional Tier 1 capital. Last year, current tax on items reported directly in equity in the Group totalled SEK 35 million and referred to tax on Group contribution and tax on interest paid on capital contribution. 'Other comprehensive income' includes tax valued at SEK 5 million (–1) related to the revaluation of defined-benefit pension plans and revaluation of post-employment remuneration, as well as tax attributable to hedging currency risk in foreign operations.

Note 10 Tax, continued

SEK thousand	GROUP 31 Dec 2016	31 Dec 2015
Deferred tax		
Deferred tax assets	47,268	62,688
Deferred tax liabilities	–150,065	–178,826
Total	**–102,797**	**–116,139**

GROUP, 31 December 2016

SEK thousand	Opening balance	Income statement	Other comprehensive income	Equity/ acquisition	Translation differences	Closing balance
Change in deferred tax						
Loss carry-forwards	65,731	–8,736			–1,795	55,200
Joint ventures	–33,382	–9,420				–42,802
Defined-benefit pension schemes and other employee benefits	2,728		654		135	3,517
Acquired loan portfolios	–136,802	2,867		34,030	12,752	–87,153
Untaxed reserves	–13,695	–4,070				–17,765
Other	–719	–15,561		3,170	–684	–13,794
Total	**–116,139**	**–34,920**	**654**	**37,200**	**10,408**	**–102,797**

GROUP, 31 December 2015

SEK thousand	Opening balance	Income statement	Other comprehensive income	Acquired via acquisition of companies	Translation differences	Closing balance
Change in deferred tax						
Loss carry-forwards	64,978	–14,291		16,864	–1,820	65,731
Joint ventures	–31,086	–2,296				–33,382
Defined-benefit pension schemes and other employee benefits	3,636		–781		–127	2,728
Acquired loan portfolios	–18,725	3,483		–126,668	5,108	–136,802
Untaxed reserves		–13,695				–13,695
Other	1,663	–9,556		7,350	–176	–719
Total	**20,466**	**–36 355**	**–781**	**–102 454**	**2 985**	**–116,139**

The Group's deferred tax assets attributable to loss carry-forwards are expected to be fully utilised during the next four years. Deferred tax assets are only reported as a tax loss carry-forwards to the extent that a related tax benefit is likely to be realised. Deferred tax assets and liabilities are offset to the extent there is a legal right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority.

The Group has no unreported loss carry-forwards as of 31 December 2016 (SEK 131 million). Tax loss carry-forwards of SEK 103 million are due in 2018 and SEK 177 million have no due date. Deferred tax assets pertaining to these loss carry-forwards have been capitalised.

Note 11 Maturity analysis

GROUP, 31 December 2016

Remaining contractual maturity (undiscounted value) and anticipated date of recovery valuations SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		704,411	1,189,795	397,991			2,292,197	397,991
Lending to credit institutions	708,292	43,296					751,588	
Lending to the public		1,406	10,924	22,298	2,809	4,874	42,311	27,172
Receivables, Group companies		297,387	199	65,398			362,984	65,398
Bonds and other securities		86,250	632,643	1,809,328			2,528,221	1,809,328
Total assets with fixed/contractual maturity	**708,292**	**1,132,750**	**1,833,561**	**2,295,015**	**2,809**	**4,874**	**5,977,301**	**2,299,889**
Acquired loan portfolios[1]		868,850	2,507,413	9,402,984	5,374,317		18,153,565	14,777,301
Total assets with no fixed/anticipated maturity		**868,850**	**2,507,413**	**9,402,984**	**5,374,317**		**18,153,565**	**14,777,301**
Liabilities								
Deposits from the public[2]								
retail	7,433,281	1,140,504	1,778,623	1,401,202			11,753,610	1,401,202
corporate	149,573						149,573	
Total deposits from the public	**7,582,854**	**1,140,504**	**1,778,623**	**1,401,202**			**11,903,183**	**1,401,202**
Liabilities, Group companies		254,140					254,140	
Issued bonds		2,588	370,893	3,064,112			3,437,593	3,064,112
Subordinated liabilities			42,000	381,150			423,150	381,150
Total liabilities with fixed/contractual maturity	**7,582,854**	**1,397,232**	**2,191,516**	**4,846,464**			**16,018,066**	**4,846,464**

GROUP,31 December,2015

Remaining contractual maturity (undiscounted value) and anticipated date of recovery valuations SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No,fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		446,093	1,347,335	1,236,022			3,029,450	1,236,022
Lending to credit institutions	736,598	37,215					773,813	
Lending to the public		3,011	22,024	48,761	5,777	8,713	88,286	57,474
Receivables, Group companies		210,584	376	41,502			252,462	41,502
Bonds and other securities		118,702	142,106	1,069,032		25,000	1,354,840	1,069,032
Total assets with fixed/contractual maturity	**736,598**	**815,605**	**1,511,841**	**2,395,317**	**5,777**	**33,713**	**5,498,851**	**2,404,030**
Acquired loan portfolios[1]		720,487	2,253,221	8,660,933	4,827,855		16,462,495	13,488,787
Total assets with no fixed/anticipated maturity		**720,487**	**2,253,221**	**8,660,933**	**4,827,855**		**16,462,495**	**13,488,787**
Liabilities								
Deposits from the public[2]								
retail	8,051,113	1,238,583	964,957	2,461,913			12,716,566	2,461,913
corporate	168,956						168,956	
Total deposits from the public	**8,220,069**	**1,238,583**	**964,957**	**2,461,913**			**12,885,522**	**2,461,913**
Liabilities, Group companies		206,082					206,082	
Issued bonds		11,742	374,227	939,192			1,325,161	939,192
Subordinated liabilities			42,000	423,150			465,150	423,150
Total liabilities with fixed/contractual maturity	**8,220,069**	**1,456,407**	**1,381,184**	**3,824,255**			**14,881,915**	**3,824,255**

1) Maturity information for acquired loan portfolios is based on anticipated net cash flows. See Note 30 for additional details on the Group's management of credit risk.
2) All deposits are in Swedish kronor and payable on demand. There is a fee assessed for premature withdrawals from fixed-term deposits.

See Note 30 for information on the Group's management of liquidity risk.

Note 11 Maturity analysis, continued

31 December 2016 — PARENT COMPANY

Remaining contractual maturity (undiscounted value) and anticipated date of recovery valuations SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		704,411	1,189,795	397,991			2,292,197	397,991
Lending to credit institutions	188,928	478					189,406	
Lending to the public		1,406	10,924	22,298	2,809	4,874	42,311	27,172
Receivables, Group companies		433,386	4,862,726	3,853,873		2,939,241	12,089,226	3,853,873
Bonds and other securities		86,250	632,643	1,809,328			2,528,221	1,809,328
Total assets with fixed/ contractual maturity	**188,928**	**1,225,931**	**6,696,088**	**6,083,490**	**2,809**	**2,944,115**	**17,141,361**	**6,088,364**
Acquired loan portfolios[1]		268,360	603,685	1,837,170	1,146,032		3,855,247	2,983,203
Total assets with no fixed/ anticipated maturity		**268,360**	**603,685**	**1,837,170**	**1,146,032**		**3,855,247**	**2,983,203**
Liabilities								
Deposits from the public[2]								
– retail	7,433,281	1,140,504	1,778,623	1,401,202			11,753,610	1,401,202
– corporate	149,573						149,573	
Total deposits from the public	**7,582,854**	**1,140,504**	**1,778,623**	**1,401,202**			**11,903,183**	**1,401,202**
Liabilities, Group companies		290,494					290,494	
Issued bonds		2,588	370,893	3,064,112			3,437,593	3,064,112
Subordinated liabilities			42,000	381,150			423,150	381,150
Total liabilities with fixed/ contractual maturity	**7,582,854**	**1,433,586**	**2,191,516**	**4,846,464**			**16,054,420**	**4,846,464**

31 December 2015 — PARENT COMPANY

Remaining contractual maturity (undiscounted value) and anticipated date of recovery valuations SEK thousand	Payable on demand	< 3 months	3–12 months	1–5 years	> 5 years	No fixed maturity	Total	Of which, anticipated recovery date > 12 months
Assets								
Treasury bills and treasury bonds		446,093	1,347,335	1,236,022			3,029,450	1,236,022
Lending to credit institutions	6,595	639					7,234	
Lending to the public		3,011	22,024	48,761	5,777	8,713	88,286	57,474
Receivables, Group companies		581,377	3,786,791	4,217,504		2,108,572	10,694,244	4,217,504
Bonds and other securities		118,702	142,106	1,069,032		25,000	1,354,840	1,069,032
Total assets with fixed/contractual maturity	**6,595**	**1,149,822**	**5,298,256**	**6,571,319**	**5,777**	**2,142,285**	**15,174,054**	**6,580,032**
Acquired loan portfolios[1]		238,520	610,924	1,898,697	1,209,907		3,958,048	3,108,604
Total assets with no fixed/ anticipated maturity		**238,520**	**610,924**	**1,898,697**	**1,209,907**		**3,958,048**	**3,108,604**
Liabilities								
Deposits from the public[2]								
– retail	8,051,113	1,238,583	964,957	2,461,913			12,716,566	2,461,913
– corporate	168,956						168,956	
Total deposits from the public	**8,220,069**	**1,238,583**	**964,957**	**2,461,913**			**12,885,522**	**2,461,913**
Liabilities, Group companies		205,159					205,159	
Issued bonds		11,742	374,227	939,192			1,325,161	939,192
Subordinated liabilities			42,000	423,150			465,150	423,150
Total liabilities with fixed/ contractual maturity	**8,220,069**	**1,455,484**	**1,381,184**	**3,824,255**			**14,880,992**	**3,824,255**

1) Maturity information for acquired loan portfolios is based on anticipated net cash flows. See Note 30 for additional details on the Group's management of credit risk.
2) All deposits are in Swedish kronor and payable on demand. There is a fee assessed for premature withdrawals from fixed-term deposits.

See Note 30 for information on the Group's management of liquidity risk.

Note 12 Financial assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Swedish banks	173,016	562	160,551	562
Foreign banks	559,812	795,353	55,402	77,941
Total, lending to credit institutions	**732,828**	**795,915**	**215,953**	**78,503**
Of which, pledged assets1)	478	639	478	639
Interest-bearing securities				
Eligible treasuries, Swedish government	2,273,903	1,181,728	2,273,903	1,181,728
Other eligible securities	–	1,896,099	–	1,896,099
Total, treasury bills and treasury bonds	**2,273,903**	**3,077,827**	**2,273,903**	**3,077,827**
Bonds and other securities				
Credit institutions	–	10,000	–	10,000
Mortgage institutions	2,538,566	1,268,214	2,538,566	1,268,214
Total bonds and other securities	**2,538,566**	**1,278,214**	**2,538,566**	**1,278,214**
Total interest-bearing securities	**4,748,752**	**4,356,041**	**4,748,752**	**4,356,041**
Of which, unlisted securities	–	–	–	–
Shares and other participating interests				
Unlisted[2)]	–	25,000	–	25,000
Total, shares and other participating interests	**–**	**25,000**	**–**	**25,000**

1) Amount refers to pledged assets (cash) in favour of Deutsche Bank to meet potential debt repayments from the public. In the event a borrower wishes to reverse his or her direct debit payment, such funds must be re-transferred to the borrower.

2) There are no listed market prices for shares reported at acquisition value. Neither can the fair value of these shares be calculated reliably with valuation techniques.

Note 13 Acquired loan portfolios

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Opening balance	**11,014,699**	**8,586,782**	**2,646,612**	**2,860,220**
Acquisitions	3,329,382	4,370,259	600,394	588,333
Adjustment of acquisition analysis	–29,536	–	–	–
Intra-Group sales	–	–	–204,853	–
Translation differences	–22,785	–315,835	125,464	–112,439
Changes in value				
Based on opening balance forecast (amortisation)	–1,911,916	–1,587,651	–637,537	–778,855
Based on revised estimates (revaluation)	5,703	–38,856	54,586	89,353
Carrying value	**12,385,547**	**11,014,699**	**2,584,666**	**2,646,612**
Profit/loss revaluations reported in income statement	**–1,906,213**	**–1,626,507**	**–582,951**	**–689,502**

Of which, at fair value

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Opening balance	**1,177,808**	**1,460,229**	**973,806**	**1,177,466**
Translation differences	52,874	–53,671	43,838	–43,992
Changes in value				
Based on opening balance forecast (amortisation)	–186,090	–167,331	–150,115	–154,700
Based on revised estimates (revaluation)	68	–61,419	19,066	–4,968
Carrying value	**1,044,660**	**1,177,808**	**886,595**	**973,806**
Profit/loss revaluations reported in income statement	**–186,022**	**–228,750**	**–131,049**	**–159,668**

Note 13 Acquired loan portfolios, continued

The Group acquires portfolios of financial assets primarily from banks, insurance companies and other companies and institutions. These receivables are mostly comprised of unsecured consumer loans and also include consumer invoices. These loan portfolios were acquired at a significant discount relative to the capital claim, corresponding to the discounted value of anticipated collections and the Group's required rate of return.

The fair value measurement principle is applied to portfolios acquired prior to 1 July 2011 (SEK 1,045 million, corresponding to 8 per cent) whereas portfolios acquired after that date (SEK 11,341 million, corresponding to 92 per cent) are valued at amortised cost. For additional information on accounting principles in accordance with the IFRS, please refer to the Accounting Principles section.

Portfolio overview

The portfolios are comprised of a large number of loans. The debtors have varying characteristics, including payers, partial payers and non-payers. There is some degree of mobility between debtor categories, with non-payers becoming payers and vice versa. The Group divides its portfolios into different categories, defined as follows:

Countries: Countries in which portfolio seller and debtors are located.

Age: Primary claims are acquired by the Group up to 180 days following withdrawal of credit by the seller, secondary claims between 180 and 720 days, and tertiary claims after 720 days.

Asset class: The type of contract under which the claim against the debtor originated.

Acquisition type: A spot portfolio is a one-time acquisition. A forward flow portfolio involves regular monthly acquisitions; a framework agreement is signed at inception and deliveries subject to a defined model are executed.

Classification into primary, secondary and tertiary portfolios reflects the portfolios' characteristics as at time of acquisition.

Net collection forecast

The Group evaluates portfolios by estimating future net cash flows for the next ten years. Collection costs are monitored, and forecasted costs are based on actual cost curves per portfolio from February 2016 that reflect forecasted collections derived from the loans' nature and age. These are subsequently used to calculate the value of all portfolios. Prior to February 2016 forecast collection costs were based on standard cost curves in relation to the character and age of the receivables.

Cash flow forecasts are regularly monitored during the year and updated based on factors such as achieved collection results and instalment plan agreements with debtors. A new carrying value is calculated for the portfolios based on the updated forecasts. The difference is reported as income or expense in the income statement, totalled SEK –1,906 million in 2016 (SEK –1,627 million).

Portfolios at fair value through profit or loss

The Group has chosen to categorise portfolios acquired prior to 1 July 2011 as valued at fair value through profit or loss, as these financial assets are managed and their performance evaluated on a fair value basis in accordance with the Group's risk management policies. Information on the portfolios is provided internally to the Group's Executive Management Team on that basis. The underlying concept for the fair value at profit or loss method is to determine an asset's carrying value by using the best available price for the asset. Because loan portfolios are not normally traded publicly, no market prices are available. However, most industry players apply similar pricing methods for portfolio acquisitions and calculate the present value of future cash flows – this corresponds to the portfolio's market price.

The three main influencing factors in calculating fair value are: (i) the gross collections forecast, (ii) the cost level, and (iii) the market discount rate. Each month, the Group looks at the forward ten years' net collection forecasts for all portfolios and discounts the forecasts to present value, which serves as the basis for calculating the reported fair value for each portfolio.

The insights that Hoist Kredit, as one of the industry's biggest players, gains from the many portfolio transactions the Company participates in or has knowledge of form an important component in estimating a market discount rate. The discount rate corresponding to the market's required return is updated regularly and reflects actual return on relevant and comparable transactions in the market. Portfolios are currently valued at an IRR of 12 per cent over a ten-year period.

The estimated market discount rate is only applied to the portion of the portfolios valued at fair value. For the portfolios valued at amortised cost, the IRR at which the original acquisition was carried out is applied and the revenues are expensed at this effective interest rate.

Revaluations

The Group monitors and regularly evaluates actual collections in relation to the forecast that served as the basis for portfolio valuation during the same period. In the event of negative deviations, the Group first takes additional operational measures to reduce the risk of deviation in future periods. If additional operational measures do not have or are not anticipated to have the intended effect, a revised forecast is done for future collections. The forecast is adjusted upwards in cases where portfolio collections are regularly determined to exceed the current forecast. Forecast adjustments are analysed in consultation with the Investment Committee, and are decided on at the Group level. Forecast revisions are implemented by the resources directly subordinate to the Chief Financial Officer. Forecast adjustments and their impact on earnings are disclosed internally and externally. Portfolio valuation is independently audited by the Risk Control function.

Sensitivity analysis

While Hoist Kredit considers the assumptions made in assessing fair value to be reasonable, the application of other methods and assumptions may produce a different fair value. For Level 3 fair value, a reasonable change in one or several assumptions would have the following impact on earnings:

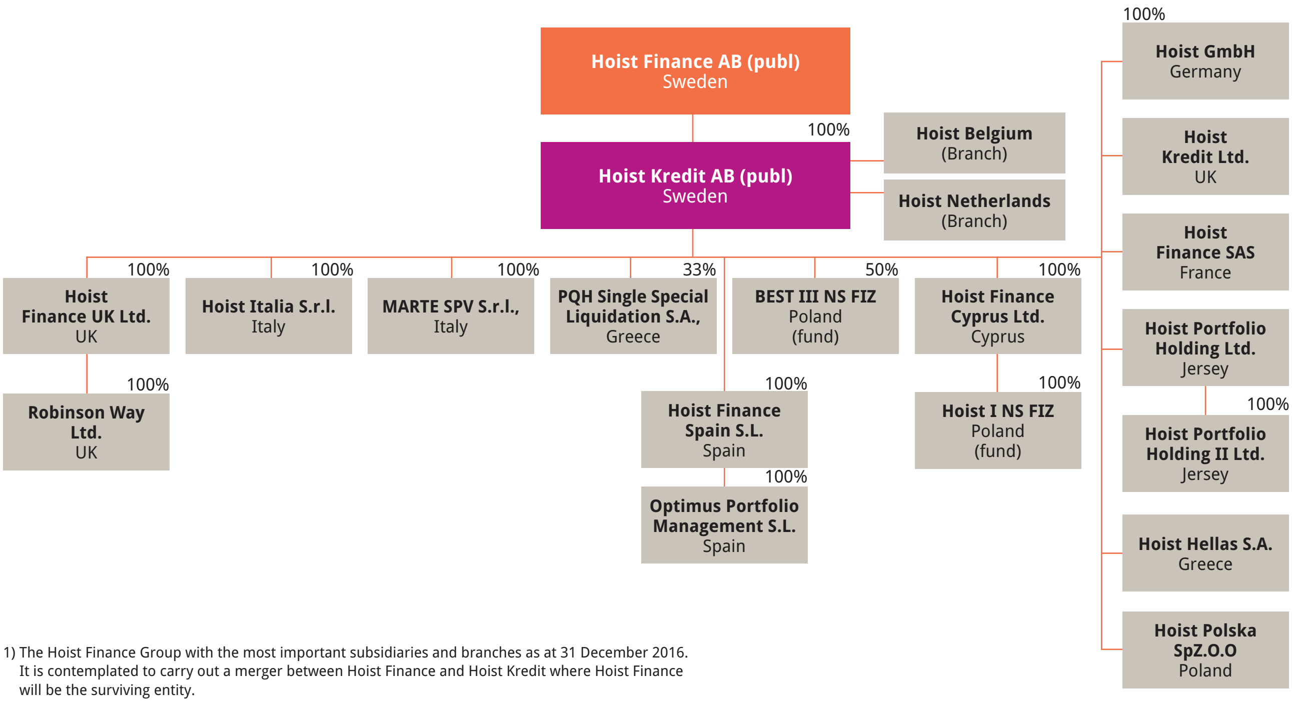
Note 13 Acquired loan portfolios, continued

	GROUP	
SEK thousand	2016	2015
Carrying value of loan portfolios	**12,385,547**	**11,014,699**
A 5% increase in estimated cash flow over the forecast period (10 years) would increase the carrying value by	558,977	540,638
of which, valued at fair value	51,685	58,890
A 5% decrease in estimated cash flow over the forecast period would reduce the carrying value by	–558,977	–540,638
of which, valued at fair value	–51,685	–58,890

	GROUP	
SEK thousand	2016	2015
Carrying value of loan portfolios acquired prior to 1 July 2011	**1,044,660**	**1,177,808**
A 1% decrease in the market rate of interest would increase the carrying value by	31,174	34,774
A 1% increase in the market rate of interest would reduce the carrying value by	–29,483	–32,880
Shortening the forecast period by 1 year would reduce the carrying value by	–26,534	–33,073
Lengthening the forecast period by 1 year would increase the carrying value by	20,938	21,424

Note 14 Group companies

Legal structure[1)]



1) The Hoist Finance Group with the most important subsidiaries and branches as at 31 December 2016. It is contemplated to carry out a merger between Hoist Finance and Hoist Kredit where Hoist Finance will be the surviving entity.

Note 14 Group companies, continued

Hoist Kredit AB (publ), corporate identity number 556329-5699 and with its registered office in Stockholm, is the Parent Company of the Group. The list of Group subsidiaries is provided below.

SEK thousand	Corp. ID no.	Domicile	Ownership, %	Total revenue	Profit before tax	Tax on earnings
Swedish						
Hoist Finance Services AB[1)]	556640-9941	Stockholm	100	1	–172	–74
Foreign						
Hoist Finance SAS	444611453	Lille	100	116,902	7,400	–136
Hoist GmbH[5)]	HRB 7736	Duisburg	100	330,934	–301	85
HECTOR Sicherheiten-Verwaltungs GmbH	HRB 74561	Duisburg	100	146	49	0
Hoist Portfolio Holding Ltd.	101438	St. Helier	100	227,626	–29,917	–19,961
Hoist Portfolio Holding II Ltd.	111085	St. Helier	100	455,810	93,003	–1,923
Hoist Poland SpZ.O.O. [2)]	284313	Warsaw	100	22	–46	0
HOIST I NS FIZ[3)]	RFI702	Warsaw	100	303,075	219,552	–
Hoist Kredit Ltd.	7646691	London	100	29,665	–903	–102
Hoist Finance UK Ltd.	8303007	London	100	92,454	–20,631	11,107
C L Finance Ltd.[1)]	01108021	West Yorkshire	100	–	–	–
Robinson Way Ltd.	6976081	Manchester	100	268,117	2,428	13,555
The Lewis Group Ltd.[1)]	SC127043	Glasgow	100	–13,037	–8,513	2,868
Compello Holdings Ltd.[1)]	8045571	Milton Keynes	100	–	–	–
Compello Operations Ltd.[1)]	98045559	Milton Keynes	100	–	–	–
MKE (UK) Ltd.[1)]	7042157	Milton Keynes	100	–	–50	–28,435
MKDP LLP [1)]	OC349372	Milton Keynes	100	26,178	–	–2,235
Marte SPV S.R.L	4634710265	Conegliano	100	279,199	7,587	–1,671
Hoist Italia S.R.L	12898671008	Rome	100	163,826	1,433	–2,482
Hoist Finance Cyprus Ltd.	HE 338570	Nicosia	100	–77,205	162,686	–
Hoist Polska SpZ.O.O.	0000536257	Wroclaw	100	43,289	3,672	–3,311
Hoist Finance Spain S.L. [4)]	B87547659	Madrid	100	19,763	–8,955	2,239
Optimus Portfolio Management S.L.[4)]	B86959285	Madrid	100	865	–568	142
Hoist Hellas S.A[4)]	137777901000	Athens	100	0	–112	0

1) Company is being liquidated.
2) Liquidated during the year.
3) Polish Sec. fund.
4) Additional companies during the year.
5) Hoist Kredit and Hoist GmbH have initiated a cross-border merger process where Hoist Kredit will be the surviving entity. Upon the effectiveness of the merger, Hoist Kredit will carry out the former business of Hoist GmbH through the operation of a German branch.

Carrying value in Hoist Kredit AB (publ)

SEK thousand	2016	2015
Hoist Finance Services AB	1,018	1,018
Hoist Finance SAS, France	7,183	7,183
Hoist GmbH, Germany	70,517	70,517
HECTOR Sicherheiten-Verwaltungs GmbH, Germany	–	–
Hoist Portfolio Holding Ltd, Jersey	–	–
Hoist Portfolio Holding II Ltd, Jersey	–	–
Hoist Poland SpZ.O.O. Poland	0	124
HOIST I NS FIZ , Poland	–	–
Hoist Kredit Ltd, UK	–	–
Hoist Finance UK Ltd, UK	334,949	334,949
C L Finance Ltd, UK	–	–
Robinson Way Ltd, UK	–	–
The Lewis Group Ltd, UK	–	–
Compello Holdings Ltd, UK	–	–
Compello Operations Ltd, UK	–	–
MKE (UK) Ltd, UK	–	–
MKDP LLP, UK	–	–
Marte SPV S.R.L, Italy	109	109
Hoist Italia S.R.L	8,752	20,820
Hoist Finance Cyprus Ltd	9	9
Hoist Polska SpZ.O.O, Poland	147,243	147,243
Hoist Finance Spain S.L.	29	–
Optimus Portfolio Management S.L.	–	–
Hoist Hellas S.A.	229	–
Total	**570,038**	**581,972**

Ownership percentage corresponds to share of voting power. All shares are unlisted. None is a registered credit institution. Information on number of shares in Group companies is available upon request.

Note 14 Group companies, continued

SEK thousand	31 Dec 2016	31 Dec 2015
Accumulated acquisition value		
Opening balance	**734,103**	**421,645**
Acquisitions	258[1]	116,533
Capital contribution	7,332	–
New share issue	–	195,925
Disposal	–124	–
Closing balance	**741,569**	**734,103**
Accumulated depreciations		
Opening balance	**–152,131**	**7,201**
Depreciations	–19,400	–159,332
Closing balance	**–171,531**	**–152,131**
Closing balance	**570,038**	**581,972**

Business combinations

Optimus Portfolio Management S.L.

One-hundred per cent of the shares in Madrid-based credit management company Optimus Portfolio Management S.L was acquired on 7 September through newly formed, wholly owned subsidiary Hoist Finance Spain S.L. The acquisition is a key investment, as Optimus offers a platform for the management of NPLs on the Spanish market. The total purchase price of SEK 16[1] million was paid in cash. Acquisition-related costs totalled SEK 719 thousand and are included in administrative expenses in the consolidated income statement. Revenues and operating profit for Optimus were SEK 9 million and SEK 7 million, respectively, through the date of acquisition and SEK 10 million and SEK 7 million, respectively, for full-year 2016. The acquisition balance sheet includes SEK 6 million in net assets, including SEK 435 thousand in cash and cash equivalents. The acquisition gave rise to SEK 10 million in goodwill. Goodwill is primarily attributable to the Group's acquisition of a well-suited organisation that, with its knowledge of the market, is expected to support further expansion in the Spanish market. No adjustments have been made to acquired net assets. The company has been consolidated into Hoist Kredit Group as of September 2016.

1) Together with additional purchase price paid of SEK 25 million, the total net outflow of cash and cash equivalents for investments in business combinations corresponds to amounts reported in the cash flow statement. Additional purchase price paid is attributable to the acquisition of subsidiary Hoist Polska SpZ.O.O.

Acquired company's net assets at acquisition date:[2]

SEK thousand	
Cash and cash equivalents	435
Receivables from Group companies	476
Tangible assets	23
Accounts receivables and other receivables	8,680
Accounts payable and other liabilities	–3,371
Total identifiable net assets	**6,243**

2) The acquisition balance sheet is preliminary.

Compello Holdings Ltd.

On 1 July 2015 Hoist Finance acquired a substantial, diversified loan portfolio in the UK by acquiring all shares in Compello Holdings Ltd., a debt restructuring company with self-owned portfolios operating in the UK and headquartered in Milton Keynes. The acquisition will further strengthen Hoist Kredit's market position in the British market. The total purchase price of SEK 1,256 million was paid in cash upon completion of the acquisition. The portfolio value at acquisition was SEK 1,502 million and the outstanding capital claim totalled SEK 33 billion. The acquisition balance sheet included SEK 1,256 million in net assets, including SEK 23 million in cash and cash equivalents. Acquisition-related expenses totalled SEK 18 million and include a stamp tax of SEK 6 million. Compello Holdings Ltd. had SEK 104 million in income during the first six months of 2015 and SEK 119 million for the full year. The company's operating profit was SEK 26 million prior to the merger and SEK 74 million for the full year 2015. The acquisition did not give rise to any acquisition goodwill, as the entire purchase price was related to the debt portfolios and other current receivables. Compello Holdings Ltd. has been consolidated into Hoist Kredit Group as of July 2015. Adjustments totalling SEK 33 million were made to the valuation of acquired loan portfolios and deferred tax liabilities in 2016 due to new assessments, which did not have an impact on previously reported net assets. Acquired loan portfolios after adjustment totalled SEK 1,469 million.

Final acquisition balance sheet, Compello Holding Ltd.:

SEK thousand	
Cash and cash equivalents	23,306
Tangible assets	3,964
Accounts receivables and other receivables	1,473,693
Accounts payable and other liabilities	–98,136
Non-current liabilities to Group companies	–146,419
Total identifiable net assets	**1,256,408**

Note 15 Intangible assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Goodwill				
Acquisition value, opening balance	181,453	106,155	–	–
Investments for the year	–	76,433	–	–
Acquired companies[1)]	9,518	–	–	–
Translation differences	–480	–1,135	–	–
Acquisition value, closing balance	**190,491**	**181,453**	**–**	**–**
Accumulated depreciation, opening balance	–58,490	–55,800	–	–
Translation differences	1,198	–2,690	–	–
Accumulated depreciation, closing balance	**–57,292**	**–58,490**	–	–
Carrying value	**133,199**	**122,963**	**–**	**–**
Licences and software				
Acquisition value, opening balance	183,284	151,324	70,032	59,769
Investments for the year	23,640	37,867	9,845	10,333
Reclassification	–	–428	–	–
Divestments and disposals	–2,296	–1,677	–216	–
Translation differences	1,882	–3,802	81	–70
Acquisition value, closing balance	**206,510**	**183,284**	**79,742**	**70,032**
Accumulated depreciation, opening balance	–90,089	–62,501	–27,754	–14,496
Impairments	–32,162	–29,699	–14,271	–13,317
Depreciation of the year	1,703	–	–	–
Translation differences	–988	2,111	–70	59
Accumulated depreciation, closing balance	**–121,536**	**–90,089**	**–42,095**	**–27,754**
Carrying value	**84,973**	**93,195**	**37,647**	**42,278**
Intangible assets	**218,172**	**216,158**	**37,647**	**42,278**

1) Refers to acquired company Optimus Portfolio Management S.L.

All licences and software are acquired externally.

Impairment test for goodwill

The Group conducted a SEK 133 million (123) impairment test of goodwill in 2016. This was identified as belonging to the cash-generating units Poland and Spain. The impairment tests of goodwill were based on the cash-generating units useful value. Based on adopted business plans, Management produced estimated cash flows for the cash-generating units. Cash flows for the first three years are based on anticipated distributable funds as per the business plan. The model does not anticipate any growth in subsequent periods; accordingly, cash flow for year three has been discounted through year 100. The discounting factor represents the Group's minimum requirement for return on capital for the referenced business.

The following cash generating unit was tested for impairment:

Poland

The Polish business was tested with regard to the part of the cash-generating entity of the Hoist Kredit Group operations that manages acquired loan portfolios in Poland.

Term: Three-year dividend model with a useful value of 100 years.

Tax rate: Polish.

Growth: Anticipated growth and margins are adapted to the relevant entity's business plan for the first three years; no growth in subsequent years.

Impairment: There is no impairment requirement for goodwill. The useful value of the Polish business well exceeds the contribution of the Polish operations to Group equity.

The Polish operations performed in line with the plans established when Navi Lex was acquired and the acquisition goodwill arose. Collections from loan portfolios as well as expenses are in line with plans. The anticipated collection forecast therefore justifies the surplus that arose upon the acquisition of Navi Lex, and there is no impairment requirement.

Spain

The Spanish business was tested with regard to the part of the cash-generating entity of the Hoist Finance Group operations that manages acquired loan portfolios in Spain.

Term: Three-year dividend model with a useful value of 100 years.

Tax rate: Spanish.

Growth: Anticipated growth and margins are adapted to the relevant entity's business plan for the first three years; no growth in subsequent years.

Impairment: There is no impairment requirement for goodwill. The useful value of the Spanish business well exceeds the contribution of the Spanish operations to Group equity.

The Spanish operations are being developed in accordance with plans presented when Optimus Portfolio Management S.L. ("Optimus") was acquired and the acquisition goodwill arose. There are good opportunities on the Spanish market for Hoist Finance to acquire additional portfolios, and Optimus is central to these future transactions. There is no impairment requirement.

Note 16 Tangible assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Machinery				
Acquisition value, opening balance	122,345	109,558	7,820	7,013
Investments for the year	17,869	18,158	782	1,068
Investments for the year, acquired companies[1]	23	3,946	–	–
Divestments and disposals	–2,042	–5,654	–21	–11
Translation differences	–1,008	–4,091	300	–250
Reclassification	–	428	–	–
Acquisition value, closing balance	**137,187**	**122,345**	**8,881**	**7,820**
Accumulated depreciation, opening balance	–83,864	–79,790	–3,297	–2,337
Divestments and disposals	250	5,654	–	–
Depreciation of the year	–15,744	–12,581	–1,289	–1,063
Translation differences	569	2,853	–140	103
Accumulated depreciation, closing balance	**–98,789**	**–83,864**	**–4,726**	**–3,297**
Carrying value	**38,398**	**38,481**	**4,155**	**4,523**
Equipment	**38,398**	**38,481**	**4,155**	**4,523**

1) During 2015 acquired companies refer to Compello Holdings Ltd, and during 2014 to Kancelaria Navi Lex SpZ.O.O.

Note 17 Other assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Non-current financial assets	322	287	322	287
Non-current receivables	1,371	1,774	–	–
Derivatives[1]	29,167	314,680	29,167	314,680
Preliminary tax paid	9,068	20,015	–	15,591
VAT receivables	20,802	42,679	2,347	2,380
Accounts receivable	30,354	25,520	76	50
Other current receivables	101,987	95,037	76,227	83,627
Total other assets	**193,072**	**499,992**	**108,139**	**416,615**

1) See Note 29.

Note 18 Prepayments and accrued income

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Prepaid expenses	40,957	38,470	1,081	1,828
Other accrued income	36,130	26,446	355	14
Total	**77,087**	64,916	**1,436**	**1,842**

Note 19 Other liabilities

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Long-term payables to employees	1,898	1,642	–	–
Long-term liabilities	18,682	67,786	18,423	43,912
Short-term liabilities	84,511	83,226	126	218
Short-term liabilities to Group companies	257,503	209,519	257,231	205,649
Accounts Payable	43,118	84,843	16,927	51,300
Purchase of portfolios	31,232	24,746	31,232	24,746
Liabilities from service billing	4,892	6,023	–	–
Derivatives[1)]	5,397	1,651	5,397	1,651
VAT liabilities	12,743	8,715	2,854	1,226
Tax liabilities on deposit interest	35,168	49,035	35,168	49,035
Social security liabilities	17,231	14,396	995	1,094
Short-term Payables to Employees	10,325	7,626	769	374
Collateral received	151,300	–	151,300	–
Total	**674,000**	**559,208**	**520,422**	**379,205**

1) See Note 28.

Note 20 Accrued expenses and deferred income

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Accrued personnel expenses	44,942	55,727	24,721	21,190
Accrued interest expenses	33,446	30,106	32,057	30,106
Accrued fee & commission expense	2,572	23,553	246	6,292
Accrued transaction costs	22,945	–	2,745	–
Accrued legal fees	18,394	10,487	–	–
Accrued collection expenses	9 716	–	4,491	–
Other accrued expenses	68,589	57,084	14,544	13,515
Total	**200,604**	**176,957**	**78,804**	**71,103**

Note 21 Provisions

	Pension provision		Restructuring reserve		Other non-current employee benefits		Other provisions		GROUP	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Opening balance	24,367	27,037	7,037	19,381	15,311	17,969	5,366	4,268	52,081	68,655
Provision	–	–	4,232	7,569	3,388	2,768	2,788	5,469	10,407	15,806
Amount released	–283	–219	–8,023	–18,382	–3,595	–3,148	–137	–5,556	–12,038	–27,305
Change in value	3,111	–2,451	291	–145	1,345	–2,278	283	–201	5,030	–5,075
Other changes	–	–	–	–1,386	–	–	–	1,386	–	–
Closing balance	**27,195**	**24,367**	**3,537**	**7,037**	**16,449**	**15,311**	**8,300**	**5,366**	**55,480**	**52,081**

Restructuring
The restructuring provision for 2015 refers mainly to downsizing expenses at Hoist Finance SAS. A total of SEK 6 million had been utilised as at turn of the year 2016-17. An additional SEK 4 million was set aside for downsizing expenses at Hoist Finance SAS and is expected to be utilised in 2017.

Pensions
The Group has defined-benefit pension schemes for Hoist GmbH, based on employees' pensionable remuneration and length of service. Pension commitments are determined using the Projected Unit Credit Method, which includes current pensions, vested rights and future increases in these parameters in the valuation.

Note 21 Provisions, continued

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Net pension provision, reported in the balance sheet		
Defined-benefit commitment	30,432	27,294
Fair value of plan assets	3,237	2,928
Net pension provision	**27,195**	**24,367**
Pension commitments		
Opening balance	27,294	30,184
Expenses for services performed during current period	–	18
Interest expense	668	701
Pension payments	–889	–843
Actuarial gains (–)/losses (+)	2,037	–1,577
Currency effects, etc.	1,320	–1,186
Closing balance	**30,432**	**27,294**
Plan assets		
Opening balance	2,928	3,147
Interest income	72	74
Employer-contributed funds	889	843
Benefits paid	–889	–843
Actuarial gains (+)/losses (–)	96	–169
Currency effects, etc.	141	–124
Closing balance	**3,237**	**2,928**

All plan assets are invested in investment funds.

Note 22 Subordinated liabilities

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Subordinated bond loan[1]	341,715	336,892
Total	**341,715**	**336,892**

1) Parent Company Hoist Kredit AB (publ)

In 2013 Hoist Kredit AB (publ) issued a ten-year subordinated bond loan (nominal amount of SEK 350 million), with a maturity date of 27 September 2023. The subordinated bond loan is included in the own funds as Tier 2 capital. The earliest redemption date is 27 September 2018. The annual interest rate is 12 per cent. The bond loan is per definition a subordinated loan and may be redeemed provided that Hoist decides on premature redemption or the occurrence of a "credit event". Hoist Kredit AB (publ) repays the nominal amount (including any accrued interest) for all outstanding bond loans on the maturity date.

Note 23 Equity

Share capital. According to the Articles of Association of Hoist Kredit AB (publ), the share capital shall total in minimum SEK 50 million and in maximum SEK 200 million.

	GROUP	
Number of shares	**2016**	**2015**
Opening- and closing balance	**666,666**	**666,666**

The quota value is SEK 100 per share**.**

The total number of shares at 31 December 2016 was 666,666. All shares are fully paid.

The translation reserve comprises all exchange differences arising through translation of foreign operations less hedging effects. In the parent company it refers to the foreign branches.

Other contributed equity refers to equity, other than share capital, contributed by the shareholders. Hoist Kredit AB (publ) issued Additional Tier 1 (AT1) capital during the year for a nominal amount totalling EUR 30 million. Since 2013 Hoist Kredit AB (publ) has issued perpetual convertible debt instruments ("Convertibles") for a total nominal amount of SEK 100 million. The Convertibles are Additional Tier 1 capital instruments with share conversion options (as specified in the Companies Act, 2005:551 ch. 15). Pursuant to 2016 adjustments to the instruments' terms an conditions, the conversion option is no longer available. The nominal value of outstanding AT1 capital per 31 December 2016 totalled SEK 100 million and EUR 30 million, respectively.

The outstanding AT1 capital instruments are perpetual non-amortisable loans and can only be repaid in the event of liquidation of Hoist Kredit, and only after all other debts are settled. The instruments carry a 15 and 8.625 per cent annual interest rate, respectively, (to be paid from capital, not from profit) through the date of conversion. As from 23 April 2018 and 21 June 2023, respectively, Hoist Kredit is, with approval from the Swedish Financial Supervisory Authority, entitled to redeem the instruments and repay the outstanding capital.

Retained earnings in the Group consist of earned profits in the Parent Company, subsidiaries and joint venture. A Group contribution in Hoist Kredit AB (publ) of SEK 210 (183) million was paid in the current fiscal year and no dividend is proposed.

Retained earnings in the Parent company consist of earned profits. A Group contribution of SEK 210 (183) million was paid for the current fiscal year and no dividend is proposed.

The revaluation reserve in the parent company of SEK 64 million refers to the revaluation of shares in Hoist Finance UK Ltd.

Development expenditure fund in the parent company of SEK 4 million refers to the company's expenditures for self-developed intangible assets and have been transferred from retained earnings.

Note 24 Audit fee

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
KPMG				
Audit engagements	–4,233	–6,215	–531	–713
Tax-related services	–1,870	–2,239	–	–
Total	**–6,103**	**–8,454**	**–531**	**–713**

Expenses specified above are included in 'Consultancy services' in Note 6.

Not 25 Pledged assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Pledges and equivalent collateral to secure own liabilities and commitments reported as provisions	478	639	478	639

Not 26 Contingent liabilities

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Commitments [1]	1,565,944	651,054	127,503	340,634

1) Comparative figures have been adjusted due to revised accounting principle on forward flows.

Note 27 Lease contracts

The Group leases office space, office and IT equipment and vehicles under financial and operational lease contracts.

Most of the lease contracts cover:
– Equipment, furniture and leased premises: 2–5 years
– IT hardware: 2–3 years
– Vehicles: 3 years

Financial leasing[1]

SEK thousand	GROUP Nominal value 31 Dec 2016	GROUP Present value 31 Dec 2015	GROUP Nominal value 31 Dec 2016	GROUP Present value 31 Dec 2015
Future minimum lease payments				
Within 1 year	187	175	402	366
Years 1–5	279	261	659	622
Total	**465**	**436**	**1,061**	**988**
Less financial expenses	–30		–73	
Net present value	**436**	**436**	**988**	**988**

The carrying value of leased non-current assets totalled SEK 0.5 million as at the balance sheet date.

No variable fees were charged to net profit for the year.

Operational leasing[1]

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 Dec 2015
Payment obligations under non-cancellable lease contracts				
Within 1 year	24,775	17,620	2,845	334
Years 1–5	61,334	43,563	7,283	1,910
Year 5 and thereafter	32,886	37,071	–	–
Total	**118,995**	**98,254**	**10,128**	**2,244**

1) The comparative figures have been adjusted following the reclassification of operational leasing to financial leasing.

The Group's lease expenses total SEK 24 million (18). The corresponding figure for the Parent Company is SEK 5 million (2). No variable fees were charged to net profit for the year.

Note 28 Financial instruments

Carrying value and fair value of financial instruments

GROUP, 31 December 2016

	Assets/liabilities at fair value through profit or loss							
SEK thousand	Held for trading	Identified	Loans and receivables	Financial assets available for sale	Derivative hedging instru-ments	Other liabilities	Total carrying value	Fair value
Cash			3,073				3,073	3,073
Treasury bills and treasury bonds		2,273,903					2,273,903	2,273,903
Lending to credit institutions			732,828				732,828	732,828
Lending to the public			35,789				35,789	35,789
Acquired loan portfolios								
of which, at fair value		1,044,660					1,044,660	1,044,660
of which, at amortised cost			11,340,887				11,340,887	11,459,565
Receivables Group companies			363,152				363,152	363,152
Bonds and other securities		2,474,849		63,717			2,538,566	2,538,566
Derivatives[1]	28,971				196		29,167	29,167
Other financial assets			132,661				132,661	132,661
Total	**28,971**	**5,793,412**	**12,608,390**	**63,717**	**196**		**18,494,686**	**18,613,364**
Deposits from the public						11,848,956	11,848,956	11,848,956
Derivatives[1]	5,397						5,397	5,397
Senior unsecured liabilities						3,125,996	3,125,996	3,291,549
Subordinated liabilities						341,715	341,715	398,125
Other financial liabilities						655,861	655,861	655,861
Total	**5,397**					**15,972,528**	**15,977,925**	**16,199,888**

1) See Note 29.

Carrying value and fair value of financial instruments

GROUP, 31 December 2015

	Assets/liabilities at fair value through profit or loss							
SEK thousand	Held for trading	Identified	Loans and receivables	Financial assets available for sale	Derivative hedging instru-ments	Other liabilities	Total carrying value	Fair value
Cash			281				281	281
Treasury bills and treasury bonds		3,077,827					3,077,827	3,077,827
Lending to credit institutions			795,915				795,915	795,915
Lending to the public			77,994				77,994	77,994
Acquired loan portfolios								
of which, at fair value		1,177,808					1,177,808	1,177,808
of which, at amortised cost			9,836,891				9,836,891	10,014,382
Receivables Group companies			253,543				253,543	253,543
Bonds and other securities		1,278,214		25,000			1,303,214	1,303,214
Derivatives[1]	312,990				1,690		314,680	314,680
Other financial assets			120,845				120,845	120,845
Total	**312,990**	**5,533,849**	**11,085,469**	**25,000**	**1,690**		**16,958,998**	**17,136,489**
Deposits from the public						12,791,377	12,791,377	12,791,377
Derivatives[1]	1,651						1,651	1,651
Senior unsecured liabilities						1,238,469	1,238,469	1,268,327
Subordinated liabilities						336,892	336,892	407,558
Other financial liabilities						548,842	548,842	548,842
Total	**1,651**					**14,915,580**	**14,917,231**	**15,017,755**

1) See Note 29.

Note 28 Financial instruments, continued

Carrying value and fair value of financial instruments

PARENT COMPANY, 31 December 2016

SEK thousand	Assets/liabilities at fair value through profit or loss: Held for trading	Assets/liabilities at fair value through profit or loss: Identified	Loans and receivables	Financial assets available for sale	Derivative hedging instru-ments	Other liabilities	Total carrying value	Fair value
Cash			–				–	–
Treasury bills and treasury bonds		2,273,903					2,273,903	2,273,903
Lending to credit institutions			215,953				215,953	215,953
Lending to the public			35,789				35,789	35,789
Acquired loan portfolios								
of which, at fair value		886,596					886,596	886,596
of which, at amortised cost			1,698,070				1,698,070	1,798,599
Receivables Group companies			10,055,046				10,055,046	10,055,046
Bonds and other securities		2,474,849		63,717			2,538,566	2,538,566
Derivatives[1)]	28,971				196		29,167	29,167
Other financial assets			76,624				76,624	76,624
Total	**28,971**	**5,635,348**	**12,081,482**	**63,717**	**196**		**17,809,714**	**17,910,243**
Deposits from the public						11,848,956	11,848,956	11,848,956
Derivatives[1)]	5,397						5,397	5,397
Senior unsecured liabilities						3,125,996	3,125,996	3,291,549
Subordinated liabilities						341,715	341,715	398,125
Other financial liabilities						512,171	512,171	512,171
Total	**5,397**					**15,828,838**	**15,834,235**	**16,056,198**

1) See Note 29.

Carrying value and fair value of financial instruments

PARENT COMPANY, 31 December 2015

SEK thousand	Assets/liabilities at fair value through profit or loss: Held for trading	Assets/liabilities at fair value through profit or loss: Identified	Loans and receivables	Financial assets available for sale	Derivative hedging instru-ments	Other liabilities	Total carrying value	Fair value
Cash			8				8	8
Treasury bills and treasury bonds		3,077,827					3,077,827	3,077,827
Lending to credit institutions			78,503				78,503	78,503
Lending to the public			77,994				77,994	77,994
Acquired loan portfolios								
of which, at fair value		973,806					973,806	973,806
of which, at amortised cost			1,672,806				1,672,806	1,800,397
Receivables Group companies			8,769,553				8,769,553	8,769,553
Bonds and other securities		1,278,214		25,000			1,303,214	1,303,214
Derivatives[1)]	312,990				1,690		314,680	314,680
Other financial assets			83,964				83,964	83,964
Total	**312,990**	**5,329,847**	**10,682,828**	**25,000**	**1,690**		**16,352,355**	**16,479,946**
Deposits from the public						12,791,377	12,791,377	12,791,377
Derivatives[1)]	1,651						1,651	1,651
Senior unsecured liabilities						1,238,469	1,238,469	1,268,327
Subordinated liabilities						336,892	336,892	407,558
Other financial liabilities						376,327	376,327	376,327
Total	**1,651**					**14,743,065**	**14,744,716**	**14,845,240**

1) See Note 29.

Note 28 Financial instruments, continued

Fair value measurement

Group

The Group uses observable data to the greatest possible extent when determining the fair value of an asset or liability. Fair values are categorised in different levels based on the input data used in the valuation approach, as per the following:

Level 1) Quoted prices (unadjusted) on active markets for identical instruments.

Level 2) Based on directly or indirectly observable market inputs not included in Level 1. This category includes instruments valued based on quoted prices on active markets for similar instruments, quoted prices for identical or similar instruments traded on markets that are not active, or other valuation techniques in which all important input data is directly or indirectly observable in the market.

Level 3) According to inputs that are not based on observable market data. This category includes all instruments for which the valuation technique is based on data that is not observable and has a substantial impact on the valuation.

GROUP, 31 December 2016

SEK thousand	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	2,273,903	–	–	2,273,903
Acquired loan portfolios				
of which, at fair value	–	–	1,044,660	1,044,660
of which, at amortised cost	–	–	11,459,565	11,459,565
Bonds and other securities	2,474,849	–	–	2,474,849
Derivatives	–	29,167	–	29,167
Total assets	**4,748,752**	**29,167**	**12,504,225**	**17,282,144**
Derivatives	–	5,397	–	5,397
Senior unsecured liabilities	–	3,291,549	–	3,291,549
Subordinated liabilities	–	398,125	–	398,125
Total liabilities	**–**	**3,695,071**	**–**	**3,695,071**

GROUP, 31 December 2015

SEK thousand	Level 1	Level 2	Level 3	Total
Treasury bills and treasury bonds	3,077,827	–	–	3,077,827
Acquired loan portfolios				
of which, at fair value	–	–	1,177,808	1,177,808
of which, at amortised cost	–	–	10,014,382	10,014,382
Bonds and other securities	1,278,214	–	–	1,278,214
Derivatives	–	314,680	–	–
Total assets	**4,356,041**	**314,680**	**11,192,190**	**15,862,911**
Derivatives	–	1,651	–	1,651
Senior unsecured liabilities	–	1,268,327	–	1,268,327
Subordinated liabilities	–	407,558	–	407,558
Total liabilities	**–**	**1,677,536**	**–**	**1,677,536**

Cash flow forecasts are discounted at the market rate when calculating the carrying value of acquired loan portfolios recorded at amortised cost. As regards the market rate, IRR is calculated based on an established WACC (Weighted Average Cost of Capital) model with a final conservative adjustment. For acquired loan portfolios recorded at fair value, the valuation approach, key input data and valuation sensitivity for material changes thereto are described in the Accounting Principles section and in Note 13.

Derivatives used for hedging (see Note 29) were model-valued using interest and currency market rates as input data.

Treasury bills and treasury bonds, and bonds and other fixed income instruments, are valued based on quoted rates.

The fair value of liabilities in the form of issued bonds and other subordinated liabilities was determined with reference to observable market prices quoted by external market participants/places. In cases where more than one market price observation is available, fair value is determined at the arithmetic mean of the market prices.

Carrying values for accounts receivable and accounts payable are deemed approximations of fair value. The fair value of current loans corresponds to their carrying value due to no material impact of discounting.

Note 29 Derivative instruments

The Group continuously hedges its assets denominated in foreign currencies. As at 31 December 2016 the Group had exposures in EUR, GBP and PLN, all of which are hedged using currency forward agreements. All outstanding derivatives are valued at fair value and gains/losses are reported in the income statement for each annual statement.

Derivatives, 2016

SEK thousand	< 1 year	1–5 years	Total	Assets	Liabilities
Interest-related contracts					
Swaps	2,005	3,392	5,397	–	5,397
Currency-related contracts					
Currency forwards	29,167	–	29,167	29,167	–
Total	**31,172**	**3,392**	**34,564**	**29,167**	**5,397**
Market value, currency distribution					
SEK	5,238	–	5,238	–	5,238
EUR	2,248	–	2,248	2,408	159
GBP	23,785	–	23,785	23,785	–
PLN	2,975	–	2,975	2,975	–
Total	**34,246**	**–**	**34,246**	**29,168**	**5,397**
Derivatives for hedge accounting					
PLN	390	–	390	390	–

Derivatives, 2015

SEK thousand	< 1 year	1–5 years	Total	Assets	Liabilities
Interest-related contracts					
Swaps	245	9,704	9,949	9,949	–
Currency-related contracts					
Currency forwards	303,080	–	303,080	304,731	1,651
Total	**303,325**	**9,704**	**313,029**	**314,680**	**1,651**
Market value, currency distribution					
SEK	8,642	–	8,642	8,642	–
EUR	82,993	–	82,993	84,247	1,255
GBP	219,934	–	219,934	220,331	396
PLN	1,460	–	1,460	1,460	–
Total	**313,029**	**–**	**313,029**	**314,680**	**1,651**
Derivatives for hedge accounting					
PLN	146	–	146	146	–

Note 30 Risk management

Introduction

The risks that originate in the Group's operational activities are primarily attributable to Group assets in the form of acquired loan portfolios and the payment capacity of the company's debtors. These risks are mitigated by a historically strong and predictable cash flow and through the continuous monitoring and evaluation of portfolio development. The Group is also exposed to operational risks as part of its daily operational activities and associated with the Group's rapid growth. These risks are managed using a framework for managing operational risks that is based on continuous improvements to procedures and processes, duality in all important transactions and analyses, and a clear division of responsibilities. The Group is also exposed to exchange rate and interest rate fluctuations. These two market risks are managed through the use of derivatives to hedge exchange rates and interest rates. The Group has adopted policies, regulations and instructions on the management, analysis, evaluation and monitoring of risks.

The Group has adopted policies, regulations and instructions on the management, analysis, evaluation and monitoring of all material risks. The Group has also adopted risk management strategies that are grounded in the principle that the Company, based on its extensive experience and expertise with NPLs, actively seeks to increase volumes in this business area while minimising other exposures and risks (such as market, liquidity and operational risks) as far as is economically justifiable.

The Group's Risk Control function is responsible for working independently from Management to analyse, monitor and report all significant risks to the CEO and Board of Directors. The Risk Control function also serves as advisor to the Board on issues concerning risk management, risk appetite and risk strategies. This ensures that duality is achieved, as all significant risks are analysed, reported and monitored by the business operations as well as the independent Risk Control function. Risks within the Group are managed and limited in accordance with policies and instructions adopted by the Board. The Risk Control function is responsible for reporting and escalating deviations from the limits to the CEO and the Board.

Risk exposures are calculated, analysed and compared with anticipated revenue to ensure achievement of an attractive risk-adjusted return. Once defined, the Group's risk profile is assessed and evaluated. Assessment and evaluation include the following steps:

1) Assessment of each risk category

Each risk category is individually assessed. The risk assessment is documented and always results in a qualitative assessment of the risk as well as a quantifiable amount.

2) Stress testing: Assessment of unforeseen events

Unforeseen events are defined as events that are possible but highly unlikely. Such events may be designated as "stress test events" and their consequences simulated and documented. Simulation results are reviewed against the Group's capital and liquidity. Unforeseen events may be based on historical experience, academic theory or hypothetical scenarios.

3) Assessment of how risks can be managed and controlled

Although not all risks can be quantified in an adequate way, an analysis is done to detail the way in which risks can be managed and controlled. The most significant risks identified by the Group as relevant to its business are: (i) credit risk, (ii) operational risk, (iii) market risk (foreign exchange risk and interest rate risk) and (iv) liquidity risk.

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.

Credit risk on the Group's balance sheet relates mainly to:

- Acquired loan portfolios
- Bonds and other securities
- Deposits to credit institutions
- Counterparty risk towards institutions with which the Group conducts derivative transactions to hedge the Group's FX and interest rate exposure

The non-performing loans are acquired in portfolios at prices that typically vary between 5 and 35 per cent of the face value (principal amount) outstanding at the time of acquisition. The price depends on the portfolios' specific characteristics and composition in terms of e.g. loan size, age and type of loans as well as debtor age, location, type, etc. Credit risk in the portfolios relates primarily to the Group overpaying for a portfolio – i.e., recovering less from the portfolio than expected – resulting in higher than expected portfolio carrying amount impairments and lower revenue. Total credit risk exposure is equal to the carrying value of the assets. The carrying value of Hoist Kredit's portfolios at year-end was SEK 12,386m (11,015). The majority of these loans are unsecured, although a limited number of portfolios have properties as collateral. These portfolios had a carrying value of SEK 226m (131).

Information on the loan portfolios' geographic distribution is presented in Note 1. Other information on acquired loan portfolios is presented in Note 14. Hoist does not disclose any age analyses of the loan portfolios as such information is not particularly relevant from a risk perspective, considering that essentially all of Hoist Kredit's portfolios are non-performing. A more important parameter for Hoist Kredit's credit risk management is cash flow forecast, presented below.

Anticipated net cash flow for Group's loan portfolios at 31 Dec 2016

	31 Dec 2016				
SEK thousand	**<1 year**	**1–2 years**	**2–5 years**	**>5 years**	**Total**
Acquired loan portfolios	3,376,263	3,010,478	6,392,507	5,374,317	18,153,565
Total assets	**3,376,263**	**3,010,478**	**6,392,507**	**5,374,317**	**18,153,565**

Comparative table, anticipated net cash flow for Group's loan portfolios at 31 Dec 2015

	31 Dec 2015				
SEK thousand	**<1 year**	**1–2 years**	**2–5 years**	**>5 years**	**Total**
Acquired loan portfolios	2,973,708	2,819,509	5,841,424	4,827,855	16,462,496
Total assets	**2,973,708**	**2,819,509**	**5,841,424**	**4,827,855**	**16,462,496**

The risk of loan portfolios failing to pay as expected is regularly monitored by the business operations and the Risk Control function, by comparing actual outcome against forecasts. This analysis is also used to assess the potential need to devalue portfolios.

The credit risk associated with exposures in Hoist Kredit'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.

Note 30 Risk management, continued

The table below shows S&P's credit rating for the Group's exposures in the liquidity reserve at 31 December 2016 as compared with 31 December 2015.

Rating

%	31 Dec 2016	31 Dec 2015
AAA	69.2	46.7
AA+	12.9	36.2
AA	0.0	0.0
AA–	0.5	0.4
A+	0.0	3.7
A	13.9	4.8
A–	0.6	2.8
BBB+	0.8	0.8
BBB	0.0	0.0
BBB-	1.1	0.0
BB+	0.1	0.0
BB	0.0	0.0
BB–	0.7	0.5
B+	0.0	0.0
B	0.0	0.0
B–	0.0	0.0
N/A	0.1	4.2
Total, SEK thousand	**5,788,573**	**5,155,521**
of which, in liquidity portfolio	**4,748,752**	**4,356,041**

The credit risk associated with exposures in Hoist Kredit'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.

As at 31 December 2016, the weighted average maturity for liquidity portfolio assets was 1.43 years (1.57) and the modified duration was 0.38 years (0.30). Maturity and modified duration are important measures for evaluating the Company's credit spread risks and interest rate risks. Credit risks arising from bond holdings or derivative transactions are treated in the same way as other credit risks – i.e., they are analysed, managed, limited and controlled.

Counterparty risk:
The Group uses FX and interest rate derivatives to hedge its exchange rate and interest rate exposure (see Note 30). To avoid counterparty risks associated with these derivatives, the Group uses ISDA and CSA agreements for all derivative counterparties. These agreements allow for netting and daily settlement of credit risk and, accordingly, counterparty risk with derivative counterparties corresponds at most to a one-day fluctuation of the derivative's value. The CSA agreement is backed by cash collateral. Derivative transactions are only conducted with stable counterparties with a minimum credit rating of A-, which also serves to limit the counterparty risk. The tables below shows financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

Information per type of financial instrument
Financial assets and liabilities subject to set-off and covered by legally binding netting or similar agreements.

31 Dec 2016

SEK thousand	Gross amount of financial liabilities	Amount offset in the balance sheet	Net amount presented in the balance sheet	Related amounts not offset in the balance sheet: Cash collateral	Net amount
Assets					
Derivatives	29,167	–	29,167	–151,300	–122,133
Liabilities					
Derivatives	5,397	–	5,397	–	5,397
Total	**23,770**	**–**	**23,770**	**–151,300**	**–127,530**

See also Note 29, Derivative instruments

31 Dec 2015

SEK thousand	Gross amount of financial liabilities	Amount offset in the balance sheet	Net amount presented in the balance sheet	Related amounts not offset in the balance sheet: Cash collateral	Net amount
Assets					
Derivatives	314,680	–	314,680	–250,900	63,780
Liabilities					
Derivatives	1,651	–	1,651	–	1,651
Total	**313,029**	**–**	**313,029**	**–250,900**	**62,129**

See also Note 29, Derivative instruments

Operational risk

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

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

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

The Group manages operational risk by continuously improving its internal procedures and day-to-day control routines and by training employees in risk management and risk management techniques. The Group also applies the dual-control principle, i.e., the principle that a business flow or transaction must always be managed by at least two independent units/persons. Hoist Kredit also applies the segregation of duties to ensure that a transaction is never managed start to finish by one single person.

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

1. All employees are required to submit incident reports via a group-wide management system, where incidents and measures taken are monitored by the Risk Control function and reported to Management in the relevant country. Significant reported incidents are included in the Risk Report submitted to the Board.
2. Annual evaluation and identification of operational risks and controls to reduce risk. This is a process to identify, quantify, analyse and thereby determine measures to reduce operational risks at

Note 30 Risk management, continued

Hoist Kredit 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 Kredit to manage the risks, and details additional measures that need to be taken. Assessments are not made by a single person – they are done in workshops, as discussion and different perspectives are vital to the identification of relevant risks.

3. Process for approval and quality assurance for new and amended products, services, markets, processes, IT systems and major changes in Hoist Kredit's operations and organisation.
4. Business Continuity Management (BCM) provides a framework for planning for and responding to events and business disruptions to ensure the continuation of business operations at an acceptable predefined level. Hoist Kredit's BCM is comprised of Disruption and Crisis Management:
   - Disruptions are managed with Business Continuity Plans
   - Crises are managed by predefined Crisis Management Teams
5. Key Risk Indicators are reported to Management and the Board on a regular basis in order to follow up measurable operational risks and provide early warning when risks have increased.
6. Regular training in operational risks is conducted in key areas.

Market risk

Market risk is defined as the risk that exchange rate and interest rate fluctuations may negatively affect a company's results or equity level.

Foreign exchange risk

Foreign exchange risk that has an adverse impact on the Group's income statement, balance sheet and/or cash flow arises primarily as a result of:

- Translation of assets and liabilities in currencies other than the Group's presentation currency into the presentation currency each month (translation risk)
- Certain income and expense items arising in different currencies (transaction risk).

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

Translation risk

The Group's presentation currency is SEK, while the majority of its functional currency is EUR, GBP and PLN. The Group's loan portfolios (assets) are mainly denominated in foreign currency, while the Group's deposits from the public (liabilities) are denominated in SEK, which gives rise to a translation risk (balance sheet risk).

To manage translation risk, Hoist Kredit 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.

Transaction risk

In each country, all income and most operating expenses are in local currency. Currency fluctuations therefore have only a limited impact on the Company's operating profit in local currency. Income and expenses in national currency are therefore hedged in a natural way, which limits the transaction risk exposure.

The tables below show the Group's exposure per currency. The Group has no significant positions in currencies other than EUR, GBP and PLN. The tables also present a sensitivity analysis of a 10 per cent exchange rate fluctuation between SEK and each currency.

Group's FX risk in EUR EUR	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Assets on the balance sheet, MEUR	501		596	
Currency forwards, MEUR	–502		–594	
Net exposure, MEUR	–1		2	
If the EUR/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	–241	–0.01%	1,394	0.06%
If the EUR/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	241	0.01%	–1,394	–0.06%

Group's FX risk in GBP GBP	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Assets on the balance sheet, MGBP	329		279	
Currency forwards, MGBP	–327		–279	
Net exposure, MGBP	2		0	
If the GBP/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	1,854	0.06%	–335	–0.01%
If the GBP/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	–1,854	–0.06%	335	0.01%

Group's FX risk in PLN PLN	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Assets on the balance sheet, MPLN	872		860	
Currency forwards, MPLN	–867		–854	
Net exposure, MPLN	5		6	
If the PLN/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand	1,032	0.04%	1,263	0.06%
If the PLN/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand	–1,032	–0.04%	–1,263	–0.06%

Note 30 Risk management, continued

Hoist Kredit has strict limits for exposure to each currency. The limits for an open FX position are 4–5 per cent of the gross currency exposure amount.

Interest rate risk

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 the Company's revenues from loan portfolios as well as the liquidity reserve, while the cost of funding these assets may also change.

A sudden and permanent interest rate increase may adversely impact the Group's profit to the extent interest rates and interest expense for loans and deposits from the public are affected more by the increase than are revenues from loan portfolios and the liquidity reserve. To ensure that the exposure is within the Company's risk appetite, Group Treasury manages and reduces these interest rate risks by continuously hedging the Group's interest rate exposure over the next three years through linear interest rate derivatives denominated in SEK and EUR.

Pursuant to accounting policies, however, the effects of interest rate changes are taken up as income at different times. For instance, the Group's liquidity reserve and interest derivatives are valued at fair value, so changes in interest rates have an instantaneous impact on Group results. Loan portfolios, on the other hand, are generally 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, so changes in interest rates have an impact over time (rather than an instantaneous impact) on Group results.

Total impact on net interest income over 3 years

Total impact on net interest income over 3 years (SEK thousand)	Impact on profit/ loss 31 Dec 2016		Impact on equity	Impact on profit/ loss 31 Dec 2015		Impact on equity
	–100 bps	+100 bps		–100 bps	+100 bps	
Impact on net interest income (over 3 years)folio	89,788	–77,422		154,834	–137,986	
Impact on derivatives (instantaneous impact)	–53,935	53,935		–61,245	61,245	
Total impact of change in short-term interest rate	**35,853**	**–23,487**	**+/–0.80%**	**93,589**	**–76,741**	**+/–3.35%**

The table below shows the effect on various assets and liabilities of a sudden and permanent parallel shift of 100 basis points in the market rate.

Group interest rate risk, items at fair value

Total items at fair value incl. derivatives (SEK thousand)	Impact on profit/ loss 31 Dec 2016		Impact on equity	Impact on profit/ loss 31 Dec 2015		Impact on equity
	–100 bps	+100 bps		–100 bps	+100 bps	
Liquidity portfolio	18,145	–18,145		13,226	–13,226	
Interest rate swaps	–53,935	53,935		–61,245	61,245	
Total	**–35,790**	**35,790**	**+/–1.22%**	**–48,019**	**48,019**	**+/–2.10%**

A discount rate sensitivity analysis for portfolios at fair value is presented in Note 13.

Hoist Kredit has strict limits for maximum allowed interest rate exposure. These regulate the maximum impact on earnings that can be tolerated given a parallel shift of 100 basis points of the interest rate curve.

Liquidity risk

Liquidity risk is the risk of difficulties in obtaining funding, and thus not being able to meet payment obligations, at maturity without a significant increase in the cost of obtaining means of payment.

Because the Group's revenues and expenses are relatively stable, liquidity risk is primarily associated with the Group's funding which is based on deposits from the public and the risk of major outflows of deposits on short notice.

The overall objective of the Group's liquidity management is to ensure that the Group maintains control over its liquidity risk situation, with sufficient 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[1)], mainly in the form of deposits from the public and the issuance of senior unsecured bonds, own funds instruments and equity. The majority of deposits from the public are payable on demand (flexible), while approximately 36 per cent (36) of the Group's deposits from the public are locked into longer maturities ("term deposits") ranging from 12 to 36 months.

1) Maturity analysis tables of the Group's liabilities are not discounted. See Note 11 for assets and liabilities.

Note 30 Risk management, continued

Details on the Group's funding base are presented in the table below.

Funding SEK thousand	Hoist Finance consolidated situation 31 Dec 2016	 31 Dec 2015	Hoist Kredit AB (publ) 31 Dec 2016	 31 Dec 2015
Deposits from the public, flexible	7,582,909	8,226,925	7,582,909	8,226,925
Deposits from the public, fixed	4,266,047	4,564,452	4,266,047	4,564,452
Senior unsecured debt	3,125,996	1,238,469	3,125,996	1,238,469
Convertible debt instruments	379,577	93,000	379,577	93,000
Subordinated liabilities	341,715	336,892	341,715	336,892
Equity	2,545,719	2,195,760	2,139,996	2,037,994
Other	907,963	795,979	632,535	555,407
Balance sheet total	**19,149,926**	**17,451,477**	**18,468,775**	**17,053,139**

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 Group Treasury.
- **Independent analysis:** The Group's Risk Control function serves as a central unit for independent liquidity analysis. Internal Audit is responsible for inspecting the Group's liquidity control tools.
- **Continuous monitoring:** The Group uses short- and long-term liquidity forecasts to monitor liquidity position and reduce liquidity risk. These forecasts are presented to Management and the Board.
- **Stress testing:** The Group conducts stress tests of the liquidity situation. These tests vary in nature to demonstrate the risk from multiple angles and to preclude negative results due to defects in stress test methodology.
- **Interest rate adjustment:** The size of deposits from the public can be managed by adjusting quoted interest rates.
- **Well-diversified deposit portfolio with no concentration risks**: The highest savings amount is SEK 1 million.
- **Liquidity portfolio:** Liquidity investments are made in low-risk, high-liquidity interest-bearing securities, which allows for cash conversion if needed. The risk of large outflows is further reduced through the coverage of 99 per cent of deposits by the deposit guarantee scheme.

Hoist Finance's liquidity reserve is comprised mainly of bonds, issued by the Swedish government and Swedish municipalities, and covered bonds; see table below.

Liquidity reserve, SEK thousand	31 Dec 2016	31Dec 2015
Cash and holdings in central banks	3,073	281
Deposits in other banks available overnight	1,036,749	799,199
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	1,528,116	1,181,728
Securities issued or guaranteed by municipalities or other public sector entities	745,786	1,896,099
Covered bonds	2,474,849	1,268,214
Securities issued by non-financial corporates	–	–
Securities issued by financial corporates	–	10,000
Other	–	–
Total	**5,788,573**	**5,155,521**

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

- An outflow from HoistSpar of over 20 per cent of total deposits over a 30-day period
- Termination or revocation of funding sources in excess of SEK 50 million

Internal capital and liquidity adequacy assessment processes

The internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP) are ongoing processes carried out by Management, 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 is always relevant to the current risk profile and the Group's operations. The Board decides on any changes to the process, and Internal Audit verifies that the process is carried out pursuant to the Board's instructions.

The processes start with Management's business plan and budget for the coming three years. These are formalised into a forecast. The ICAAP and ILAAP use these forecasts as a starting point and, as a first step, evaluate the risks inherent in the forecasts.

ICAAP

ICAAP is Hoist Kredit's internal evaluation to ensure that Hoist 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 Kredit 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.

Hoist Kredit conducts sensitivity analyses of the business plan, under ICAAP and on an ongoing basis in the operations, to ensure that the Group maintains a strong financial position in relation to regulatory capital requirements under extremely adverse internal and external market conditions.

The capital requirement produced by ICAAP is used by Management as a decision-making tool when making future plans for the Group. ICAAP thus adds a further dimension to the Group's decision-making, above and beyond strategic and day-to-day planning – before being

Note 30 Risk management, continued

made, strategic plans, future forecasts and immediate management decisions are always reviewed against the background of capital requirements.

The conclusions from this year's ICAAP are that Hoist Kredit has sufficient capacity to absorb unexpected events without risking its solvency, and that Hoist Kredit is well-capitalised for continued growth.

ILAAP

ILAAP is Hoist Kredit's internal evaluation to ensure that the Group maintains sufficient levels of liquidity buffers and sufficient funding in light of the liquidity risks that exist. The process identifies, verifies, plans and stress-tests Hoist Kredit's future funding and liquidity requirements.

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

Results from this year's ILAAP shows that Hoist Kredit has sufficient capacity to meet unexpected liquidity risks without risking refinancing problems, and that Hoist Kredit maintains a liquidity reserve sufficient to maintain continued growth.

Note 31 Capital adequacy assessment

The information in this Note includes information that is required to be disclosed pursuant to FFFS 2008:25 regarding annual reports for credit institutions and FFFS 2014:12 concerning supervisory requirements and capital buffers. The information refers to the Hoist Finance AB (publ) consolidated situation ("Hoist Finance") and Hoist Kredit AB (publ), the regulated entity. For additional information on the legal entities included in the consolidated situation, see Note 15. The only difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is that the equity method is applied in the consolidated accounts whereas the proportional method is applied for the joint venture in relation to capital adequacy reporting. The following laws and regulations were applied when establishing the company's statutory capital requirements: Regulation (EU) No 575/2013 of the European Parliament and Council on prudential requirements for credit institution and investment firms; Swedish law 2014:968, Supervision of credit institutions and securities companies; and Swedish law 2014:966 on capital buffers. These laws are aimed at ensuring that the regulated entity and its consolidated situation manages its risks and protects its customers.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own resources or debt repayment between companies and their subsidiaries.

Additional information on capital adequacy is available in the company's Pillar 3 report available on the Group's website: www.hoistfinance.com.

Own funds

The table below shows own funds used to cover the capital requirements for Hoist Finance and the regulated entity Hoist Kredit.

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Own funds, SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Capital instruments and the related share premium accounts	1,286,805	1,286,805	482,963	482,963
Retained earnings	472,965	316,687	307,205	232,259
Accumulated comprehensive income and other reserves	331,293	361,363	1,081,949	1,062,749
Independently reviewed interim profits net of any foreseeable charge or dividend[1]	292,004	161,366	267,191	190,866
Intangible assets (net of related tax liability)	–243,340	–235,632	–37,647	–42,278
Deferred tax assets that rely on future profitability	–47,268	–62,688	–2,734	–2,224
Common Equity Tier 1 capital	**2,092,459**	**1,827,901**	**2,098,927**	**1,924,335**
Capital instruments and related share premium accounts	379,577	93,000	379,577	93,000
Additional Tier 1 capital	**379,577**	**93,000**	**379,577**	**93,000**
Tier 1 capital	**2,472,036**	**1,920,901**	**2,478,504**	**2,017,335**
Capital instruments and related share premium accounts	341,715	336,892	341,715	336,892
Regulatory adjustments	–	–	–	–
Tier 2 capital	**341,715**	**336,892**	**341,715**	**336,892**
Total own funds for capital adequacy purposes	**2,813,751**	**2,257,793**	**2,820,219**	**2,354,227**

1) Regulatory dividend deduction is calculated at 30 per cent of net profit for the year, the maximum dividend allowed under the Group's internal Dividend Policy.

Note 31 Capital adequacy assessment, continued

As presented in the above table, issued Tier 1 capital instruments and Tier 2 capital instruments are both used in calculating the Group's own funds. These instruments are described briefly below.

Additional Tier 1 capital

Additional Tier 1 capital is comprised of two issues of write-down instruments with a nominal amount of SEK 100 million and EUR 30 million, respectively, and with coupon rates of 15 per cent and 8.625 per cent, respectively. The convertibles were issued to improve Hoist Kredit's capital structure. The instruments have no scheduled maturity date, although the Issuer may redeem the instruments in full at specified dates. The first possible redemption dates are April 2018 for the SEK-denominated instrument and June 2023 for the EUR-denominated instrument.

Tier 2 capital instruments

A subordinated loan of SEK 350 million was issued during 2013 with a maturity in 2023. The loan is constructed as a Tier 2 capital instrument and has a fixed coupon rate of 12 per cent for the first five years and a variable rate thereafter.

There are no existing or anticipated actual or legal obstacles to the immediate transfer of own resources or debt repayment between companies and their subsidiaries.

Additional information on capital adequacy is available in the company's Pillar 3 report available on the Group's website: www.hoistfinance.com.

Revaluation reserve

The own funds for Hoist Kredit includes a revaluation reserve of SEK 64 million in other reserves and relates to a revaluation of shares in subsidiary Hoist Finance UK Ltd in 2013.

Own funds requirement

The tables below shows the risk-weighted exposure amounts and own funds requirements per risk category for Hoist Finance and the regulated entity Hoist Kredit AB (publ).

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Risk exposure amounts, SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0
Exposures to institutions	261,882	339,617	78,060	195,897
of which, counterparty credit risk	*29,036*	*89,598*	*29,036*	*89,598*
Exposures to corporates	199,920	136,601	10,238,303	8,789,030
Retail exposures	24,146	43,774	24,146	43,774
Exposures in default	13,270,498	11,244,739	2,646,432	2,646,612
Exposures in the form of covered bonds	247,485	126,821	247,485	126,821
Equity exposures	–	0	570,038	581,973
Other items	132,315	320,316	6,116	126,006
Credit risk (standardised approach)	**14,136,246**	**12,211,868**	**13,810,580**	**12,510,113**
Market risk (foreign exchange risk – standardised approach)	**28,858**	**26,573**	**28,858**	**26,573**
Operational risk (basic indicator approach)	**–**	**2,600,728**	**–**	**755,709**
Operational risk (standardised approach)	**2,622,373**	**–**	**893,024**	**–**
Credit valuation adjustment (standardised approach)	**–**	**664**	**–**	**664**
Total risk exposure amount	**16,787,477**	**14,839,833**	**14,732,462**	**13,293,059**

Note 31 Capital adequacy assessment, continued

Own funds requirements, SEK thousand	31 Dec 2016	31 Dec 2015	Hoist Kredit AB (publ) 31 Dec 2016	Hoist Kredit AB (publ) 31 Dec 2015
Pillar 1				
Exposures to central governments or central banks	0	0	0	0
Exposures to regional governments or local authorities	0	0	0	0
Exposures to institutions	20,951	27,169	6,245	15,672
of which, counterparty credit risk	*2,323*	*7,168*	*2,323*	*7,168*
Exposures to corporates	15,994	10,928	819,064	703,122
Retail exposures	1,932	3,502	1,932	3,502
Exposures in default	1,061,640	899,579	211,715	211,729
Exposures in the form of covered bonds	19,799	10,146	19,799	10,146
Equity exposures	0	0	45,603	46,558
Other items	10,583	25,626	489	10,079
Credit risk (standardised approach)	**1,130,899**	**976,950**	**1,104,847**	**1,000,808**
Market risk (foreign exchange risk – standardised approach)	**2,309**	**2,126**	**2,309**	**2,126**
Operational risk (basic indicator approach)	**–**	**208,058**	**–**	**60,457**
Operational risk (standardised approach)	**209,790**	**–**	**71,442**	**–**
Credit valuation adjustment (standardised approach)	**–**	**53**	**–**	**53**
Total own funds requirement – Pillar 1	**1,342,998**	1,187,187	**1,178,598**	**1,063,445**
Pillar 2				
Concentration risk	101,991	82,671	101,991	82,671
Interest rate risk in the banking book	30,000	71,453	30,000	71,453
Pension risk	4,106	5,358	0	0
Other Pillar 2 risks	794	23,656	794	24,421
Total own funds requirement – Pillar 2	**136,891**	**183,138**	**132,785**	**178,546**
Capital buffers				
Capital conservation buffer	419,686	370,996	368,312	332,326
Countercyclical buffer	6,370	2,456	10,770	5,876
Total own funds requirement – Capital buffers	**426,056**	**373,452**	**379,082**	**338,202**
Total own funds requirements	**1,905,945**	**1,743,777**	**1,690,465**	**1,580,193**

Own funds for the company's consolidated situation totalled SEK 2,814 (2,258) million as at 31 December 2016, exceeding the own funds requirements by a good margin.

Capital ratios and capital buffers

Regulation (EU) No 575/2013 of the European Parliament and the Council requires credit institutions to maintain Common Equity Tier 1 capital of at least 4.5 per cent, Tier 1 capital of at least 6 per cent, and a total capital ratio (capital in relation to risk exposure amount) of 8 per cent. Credit institutions are also required to maintain specific capital buffers. Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk exposure amount and an institutional specific countercyclical buffer of 0.04 percent of the total risk exposure amount. The table below shows CET1, Tier 1 capital and the total capital ratio for Hoist Finance and for the regulated entity Hoist Kredit. The table also shows the institution specific CET1 capital requirements.

All capital ratios exceed the minimum requirements and capital buffer requirements by a good margin of safety.

Note 31 Capital adequacy assessment, continued

Capital ratios and capital buffers, %	Hoist Finance consolidated situation 31 Dec 2016	Hoist Finance consolidated situation 31 Dec 2015	Hoist Kredit AB (publ) 31 Dec 2016	Hoist Kredit AB (publ) 31 Dec 2015
Common Equity Tier 1 capital ratio	12.46	12.32	14.25	14.48
Tier 1 capital ratio	14.73	12.94	16.82	15.18
Total capital ratio	16.76	15.21	19.14	17.71
Institution specific CET1 requirements	7.04	7.02	7.07	7.04
of which, capital conservation buffer requirement	2.50	2.50	2.50	2.50
of which, countercyclical buffer requirement	0.04	0.02	0.07	0.04
Common Equity Tier 1 capital available to meet buffers[1)]	**7.96**	6.94	**9.75**	9.18

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

Internally assessed capital requirement

The internally assessed capital requirement for Hoist Finance consolidated situation totalled SEK 1,480 million at 31 December 2016 (1,370), of which 137 million (183) is attributable to Pillar 2. The Swedish Financial Supervisory Authority introduced new methods in 2015 for assessing credit-related concentration risk, interest rate risk in the banking book and pension risk. This has entailed an increase in Pillar 2 capital requirements.

Note 32 Critical estimates and assumptions

The Management and the Board of Directors have discussed the developments, choices and disclosures regarding the Group's critical accounting principles and estimates as well as the application of these principles and estimates. They have also discussed and assessed future assumptions and other important sources of uncertainty in the assumptions as per balance sheet date that may represent a substantial risk for material restatements of the reported amounts in the financial statements in the coming financial years. Certain critical estimates have been made through the application of the Group's accounting principles described below.

Valuation of acquired loan portfolios

As indicated in Note 13, the recognition of purchased receivables is based on the Group's own forecast of future cash flows from acquired portfolios. Although the Group historically has had good forecast accuracy with regard to cash flows, future deviations cannot be ruled out. The Group applies internal rules and a formalized decision-making process for the adjustment of previously adopted cash flow forecasts. The internal rules are based on a constant ten-year period.

For portfolios acquired prior to 1 July 2011 the IRR is determined based on observations of the market's required rate of return for comparable transactions. Currently a 12 per cent IRR is applied. This involves, among other things, that cash flow forecasts are adjusted during the first year a portfolio is owned only in exceptional cases.

Portfolios acquired post 1 July 2011 are measured at amortised cost and the IRR is based on the acquisition date for specific portfolios. The effect of these principles is that during the first year that a portfolio is owned, the cash flow forecast is adjusted only on an exceptional basis. All amendments in cash flow forecasts are finally subject to decisions. For a sensitivity analysis, please refer to Note 13.

Changes in tax expenses

Hoist Kredit operates across borders and manages its consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is therefore exposed to potential tax risks that arise from the interpretation and implementation of existing laws, treaties, regulations, and guidance on taxation varies, inter alia, income tax and VAT.

Note 33 Related-party transactions

The information below, presented from Hoist Kredit's perspective, shows the way in which Hoist Kredit's financial information has been affected by transactions with related parties.

	GROUP Other related parties	
SEK thousand	31 Dec 2016	31 Dec 2015
Assets		
Intra-Group receivables	363,152	253,543
Other assets	–	–
Liabilities		
Other liabilities	257,503	209,519

	GROUP Other related parties-Senior Executives	
SEK thousand	2016	2015
Assets		
Intra-Group receivables	–	–
Other assets	515	468
Liabilities		
Other liabilities	–	–

	GROUP Hoist Kredit AB (publ)	
SEK thousand	31 Dec 2016	31 Dec 2015
Operating income		
Interest income	1,367	925
Other income	7,672	7,384
Operating expenses		
Interest expense	–10,256	–
Other expenses	–59,714	–83,125

	GROUP Other related parties	
SEK thousand	2016	2015
Operating income		
Interest income	36	11
Other income	–	–
Operating expenses		
Other expenses[2)]	–234	–1,692

	PARENT COMPANY Group companies[1)]	
SEK thousand	31 Dec 2016	31 Dec 2015
Assets		
Intra-Group receivables	10,055,046	8,769,553
Other assets	–	–
Liabilities		
Other liabilities	257,231	205,649

	PARENT COMPANY Other related parties-Senior Executives	
SEK thousand	2016	2015
Assets		
Intra-Group receivables	–	–
Other assets	515	468
Liabilities		
Other liabilities	–	–

	PARENT COMPANY Group companies[1)]	
SEK thousand	31 Dec 2016	31 Dec 2015
Operating income		
Interest income	526,888	423,867
Other income	95,924	73,911
Operating expenses		
Interest expense	–9,435	–43
Other external expenses	–56,426	–52,278

	GROUP Other related parties	
SEK thousand	2016	2015
Operating income		
Interest income	36	11
Other income	–	–
Operating expenses		
Interest expense	–	–
Other external expenses[2)]	–134	–1,692

1) Group companies include Hoist Finance AB (publ)

2) Specification of other expenses

	GROUP Other related parties-Senior Executives	
SEK thousand	2016	2015
Alpha Leon AB	–67	–83
Co Go Consulting AB	–	–1,492
Lindenau, Prior & Partner GbR	–	–117
Firma Liselotte Hjorth	–67	–
Total	**–134**	**–1,692**

The above amounts are comprised of fees including social fees.

Not 34 Subsequent events

To the best of the Board's knowledge, no significant events have occurred after the balance sheet date that are expected to have a material impact on business operations.

Not 35 Reconciliation alternative performance measures

Return on book

SEK thousand	2016	2015
EBIT	971,509	726,632
+ Operating expenses, Central Functions	300,316	300,394
EBIT excl. operating expenses, Central Functions	1,271,825	1,027,026
Average carrying value, acquired loans[1]	11,968,471	10,099,774
Return on book, %	**10.6**	**10.2**

1) Calculated as average carrying value at start of each year.

EBITDA, adjusted

SEK thousand	2016	2015
Net profit for the year	435,172	277,562
+ Income tax expense	124,972	64,961
+ Portfolio revaluation	–5,703	38,856
– Interest income (excl. interest income from run-off consumer loan portfolio)	2,868	–29,018
+ Interest expenses	310,295	361,369
+/– Net financial income, incl. net credit losses	98,203	51,759
+ Depreciation and amortisation of tangible and intangible assets	47,906	39,697
EBITDA	**1,013,713**	**805,186**
+ Amortisation, run-off consumer loan portfolio	26,171	60,434
+ Amortisation, acquired loan portfolios	1,911,916	1,587,651
EBITDA, adjusted	**2,951,800**	**2,453,271**
Carrying value, run-off consumer loan portfolio	32,194	58,365

Not 36 Appropriation of profits, 2016

According to the Parent Company's balance sheet, the following unappropriated earnings are at the disposal of the Annual General Meeting:

	SEK
Other contributed equity	1,735,955,837
Other non-restricted reserves	577,697
Retained earnings	307,893,019
Profit for the year	267,191,387
Total	**2,311,617,940**

The Board of Directors proposes that unappropriated earnings be distributed as follows:

	SEK
Carried forward to:	
Other contributed equity	1,735,955,837
Retained earnings	575,662,103
Total	**2,311,617,940**

Certification of the Board of Directors

The Board of Directors and CEO certify that the Annual Report has been prepared in accordance with generally accepted accounting principles in Sweden, and the consolidated accounts in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The Annual Report and consolidated accounts provide a true and fair presentation of the Parent Company's and the Group's financial position and performance. The Parent Company's and the Group's Administration Reports provide a true and fair account of the development of the respective entities' business, financial position and performance, and accurately describe the significant risks and uncertainties faced by the Parent Company and Group companies.

Stockholm, 15 March 2017

Ingrid Bonde
Chair of the Board

Liselotte Hjorth
Board member

Annika Poutiainen
Board member

Costas Thoupos
Board member

Magnus Uggla
Board member

Gunilla Wikman
Board member

Jörgen Olsson
CEO
Board member

Our audit report was submitted on 15 March 2017.

KPMG AB

Anders Bäckström
Authorized Public Accountant

Auditor's report

TO THE GENERAL MEETING OF THE SHAREHOLDERS OF HOIST KREDIT, CORP. ID 556329-5699

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hoist Kredit AB for the year 2016, except for the corporate governance statement on pages 9–19. The annual accounts and consolidated accounts of the company are included on pages 1–75 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the corporate governance statement on pages 9–19. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Assessment of future collections from acquired loan portfolios / valuation and revenue recognition of acquired loan portfolios
See Notes 1, 11, 13, 28, 30 and 32 and accounting principles on pages 32 and 34 in the annual accounts and consolidated accounts for detailed information.

Description of key audit matter

The carrying value of acquired loan portfolios amounts to SEK 12,386 million per 31 December 2016, which is equivalent to 65 per cent of the Group's total assets. Loan portfolios acquired before 1 July 2011 are valued at fair value and carried at SEK 1,045 million; portfolios acquired subsequently are measured at amortised cost and are carried at SEK 11,341 million. This represent 8 per cent and 92 per cent of the acquired asset portfolios, respectively.

For portfolios measured at amortised cost, revenue is recognised using the effective interest method. The effective interest rate and any future adjustments to income are calculated based on projected future cash flows from loan portfolios over a ten-year period.

The Group uses cash flow models to estimate the value of acquired loan portfolios. Given the nature of the loan portfolios, significant judgment is required to estimate future cash flows. The projections include assumptions about the amounts that are possible to collect, the timing of collection and the costs to collect. The latter is dependent on management's chosen strategy of collection. If management changes its assessment or strategy, cash flow models are adjusted.

For portfolios acquired before 1 July 2011, which are measured at fair value, significant assumptions are projected future cash flows as described above, as well as estimates of market discount rates.

In view of the large element of complexity and assumptions in the cash flow models as well as in the assessment of the discount rate, this represents a key audit matter.

Response in the audit

We have read the descriptions and assessed the appropriateness of the Group's policies, procedures and key controls related to valuations and revaluations and have tested these controls on a sample basis to assess the effectiveness of applied procedures. We have thereby also tested compliance to the Group's controls for determining important assumptions applied in the cash flow models.

We have read analyses of the accuracy of the forecasted cash flows in comparison with actual outcomes of cash flows taking into account cash collected, costs and timing of collections. When discrepancies were noted, we followed up on how this affected the Group's assessment of future projected cash flows. We have also reviewed and assessed whether these analyses and calibrations were carried out by management at the appropriate level and were appropriately approved.

We have, on a sample basis, tested the calculations made in the Group's system used for the accounting of portfolios and of the transfer of data between central systems.

For portfolios carried at fair value we have assessed whether the discount rate used is based on market terms by assessing comparable transactions.

Furthermore, we have considered the circumstances disclosed in the notes to the financial statements and evaluated whether the information provided is sufficiently detailed to understand management's assessments and the key assumptions used.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 80–82. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Hoist Kredit AB for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 9–19 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts are in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 15 March 2017

KPMG AB
Anders Bäckström
Authorized Public Accountant

Guide to reading our financial statements

Operating income statement, Group

SEK thousand	2016	2015
Gross collections on acquired loan portfolios	4,311,162	3,631,032
Portfolio amortisation and revaluation	–1,906,207	–1,626,508
Interest income from run-off consumer loan portfolio	5,841	10,176
Net revenue from acquired loan portfolios	**2,410,796**	**2,014,700**
Fee and commission income	116,817	166,705
Profit from shares and participations in joint ventures	86,042	54,839
Other income	21,350	17,959
Total revenue	**2,635,005**	**2,254,203**
Personnel expenses	–665,255	–642,480
Collection costs	–595,915	–509,598
Other operating expenses	–354,420	–335,795
Depreciation and amortisation of tangible and intangible assets	–47,906	–39,697
Total operating expenses	**–1,663,496**	**–1,527,570**
EBIT	**971,509**	**726,633**
Funding		
Interest income excl. run-off consumer loan portfolio	–2,867	29,019
Interest expense	–310,295	–361,370
Net financial income/expense	–98,203	–51,759
Total financial items	**–411,365**	**–384,110**
Profit before tax	**560,144**	**342,523**

Statutory income statement, Group

SEK thousand	2015	2014
Net revenue from acquired loan portfolios	2,404,955	2,004,524
Interest income	2,974	39,195
Interest expense	–310,295	–361,370
Net interest income	**2,097,634**	**1,682,349**
Fee and commission income	116,817	166,705
Net income/expense from financial transactions	–96,943	–46,461
Other income	21,350	17,959
Total operating income	**2,138,858**	**1,820,552**
General administrative expenses		
Personnel expenses	–665,255	–642,480
Other operating expenses	–950,335	–845,393
Depreciation and amortisation of tangible and intangible assets	–47,906	–39,697
Total operating expenses	**–1,663,496**	**–1,527,570**
Profit before credit losses	**475,362**	**292,982**
Net credit losses	–1,260	–5,298
Profit from shares and participations in joint venture	86,042	54,839
Profit before tax	**560,144**	**342,523**

Hoist Kredit supplements its statutory presentation of the financial income statement with an operating income statement in order to assess the operational performance of the debt purchasing and collection operations and to facilitate comparison with our competitors.

The operating income statement does not include any amendments or adjustments as compared with the statutory income statement. The same accounting and valuation principles are applied in both versions.

Hoist Kredit regards the acquisition and management of acquired loan portfolios as the Group's financing activity. Deposit-taking in HoistSpar is thus part of the Group's financing activity. An outline guide is presented to the left in order to assist understanding of our financial performance presented in the statutory income statement as compared with the operating income statement.

The statutory income statement complies with the Swedish Financial Supervisory Authority's general recommendations FFFS 2008:25.

Operating profit(EBIT) in the operating income statement

In an analysis of Hoist Kredit's operating profit (EBIT), income and expenses attributable to the acquisition and management of acquired loan portfolios, run-off consumer loan portfolios, fee and commission income, profit from joint ventures as well as general administration are regarded as operational activity.

Interest expenses for deposit-taking are regarded as financing.

Definitions

Alternative performance measures

Alternative performance measures (APMs) are financial measures of past or future earnings trends, financial position or cash flow that are not defined in the applicable accounting regulatory framework (IFRS), in the Capital Requirements Directive (CRD IV), or in the EU's Capital Requirement Regulation number 575/2013 (CRR). APMs are used by Hoist Finance, along with other financial measures, when relevant for monitoring and describing the financial situation and for providing additional useful information to users of the financial reports. These measures are not directly comparable with similar performance measures that are presented by other companies. Estimated remaining collections, Return on book and Adjusted EBITDA are three APMs that are used by Hoist Finance. Alternative performance measures are described below.

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

Acquired loan portfolios
An acquired loan portfolio consists of a number of defaulted consumer loans or debts that arise from the same originator.

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

Average interest rate, deposits (incl. deposit guarantee scheme expenses)
Interest expenses for deposits, including deposit guarantee scheme expenses, in relation to average deposits from the public.

Average number of employees
Average number of employees during the year converted to full-time posts (FTEs). The calculation is based on the total average number of FTEs per month divided by the year's twelve months.

Capital requirements – Pillar 1
Minimum capital requirements for credit risk, market risk and operational risk.

Capital requirements – Pillar 2
Capital requirements beyond those stipulated in Pillar 1.

Common Equity Tier 1
Capital instruments and associated share premium reserves that fulfil the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council, and other equity items that may be included in CET1 capital, less regulatory dividend deduction and deductions for items such as goodwill and deferred tax assets.

Common Equity Tier 1 ratio
Common Equity Tier 1 in relation to total risk exposure amount.

EBITDA, adjusted
EBIT (operating earnings), less depreciation/impairments and amortisation for run-off consumer loan portfolio and depreciation of acquired loan portfolios.

EBIT
Earnings Before Interest and Tax. Operating profit before financial items and tax.

EBIT margin
EBIT (operating earnings) divided by total revenue.

Expenses/Gross collections on acquired loan portfolios
Operating expenses less fee and commission income, divided by the sum of gross cash collections and interest income from the run-off consumer loan portfolios. The expenses related to fee and commission income are calculated with reference to commission income costs related to other income and actual profit margin.

Fee and commission income
Fees for providing debt management services to third parties.

Gross ERC 120 months
"Estimated Remaining Collections" - the company's estimate of the gross amount that can be collected on the loan portfolios currently owned by the company. The assessment is based on estimates for each loan portfolio and extends from the following month through the coming 120 months. The estimate for each loan portfolio is based on the company's extensive experience in processing and collecting over the portfolio's entire economic life.

Gross cash collections
Gross cash flow from the Group's customers on loans included in Group's acquired loan portfolios.

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

Net revenue from acquired loans
The sum of gross cash collections from acquired loan portfolios and income from the run-off consumer loan portfolio, less portfolio amortization and revaluation.

Own funds
Sum of Tier 1 capital and Tier 2 capital.

Portfolio amortisation
The share of gross collections that will be used for amortising the carrying value of acquired loan portfolios.

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

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

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

Return on book
EBIT (operating profit) for the year, exclusive of Central Functions operating expenses, divided by average carrying value of acquired loan portfolios. In the financial statements, calculation of average carrying value is based on opening amount at the beginning of the year and closing amount at the end of the year.

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

Risk-weighted exposure amount
The risk weight of each exposure multiplied by the exposure amount.

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

Tier 1 capital
The sum of CET1 capital and AT1 capital.

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

Tier 2 capital
Capital instruments and associated share premium reserves that the requirements of Regulation (EU) 575/2013 of the European Parliament and the Council and that may accordingly be included in the funds.

Total capital ratio
Own funds as a percentage of the total risk exposure amount.

Total revenue
Total of net revenue from acquired loan, fee and commission income, profit from joint ventures and other income.

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

The year-end report and investor presentation are available at
www.hoistfinance.com

Financial calendar 2017

Interim report:

January–March, 27 April 2017
January–June, 28 July 2017
January–September, 26 October 2017

Financial calendar 2016

Interim report:

January–March, 29 April 2016
January–June, 28 July 2016
January–September, 28 October 2016

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

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