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Hoist Finance

Annual Report 2016

A leading debt restructuring partner to international banks and financial institutions

Welcome to Hoist Finance

Hoist Finance is today a leader in the acquisition of non-performing loan portfolios. With an ambition to create long-term relationships Hoist Finance has developed into a leading partner to international banks and financial institutions in Europe.

Together with our partners, we are a committed to the positive progress of our customers and society as a whole.

Hoist Finance was founded in 1994 and the subsidiary Hoist Kredit AB (publ) in 1996. Hoist Finance has enjoyed strong, profitable growth for the past five years. Today, the Group is active in 11 European countries and has a strong financial position that supports continued expansion in existing and new markets. 2016 total revenue was SEK 2,627 million and operating profit (EBIT) was SEK 935 million. The Hoist Finance share has been listed on Nasdaq Stockholm since 2015.

The annual report provides information on developments during 2016 and introduces some of the people responsible for Hoist Finance's success. You can also read about our history, our future plans... and much more. Pleasant reading!

Contents

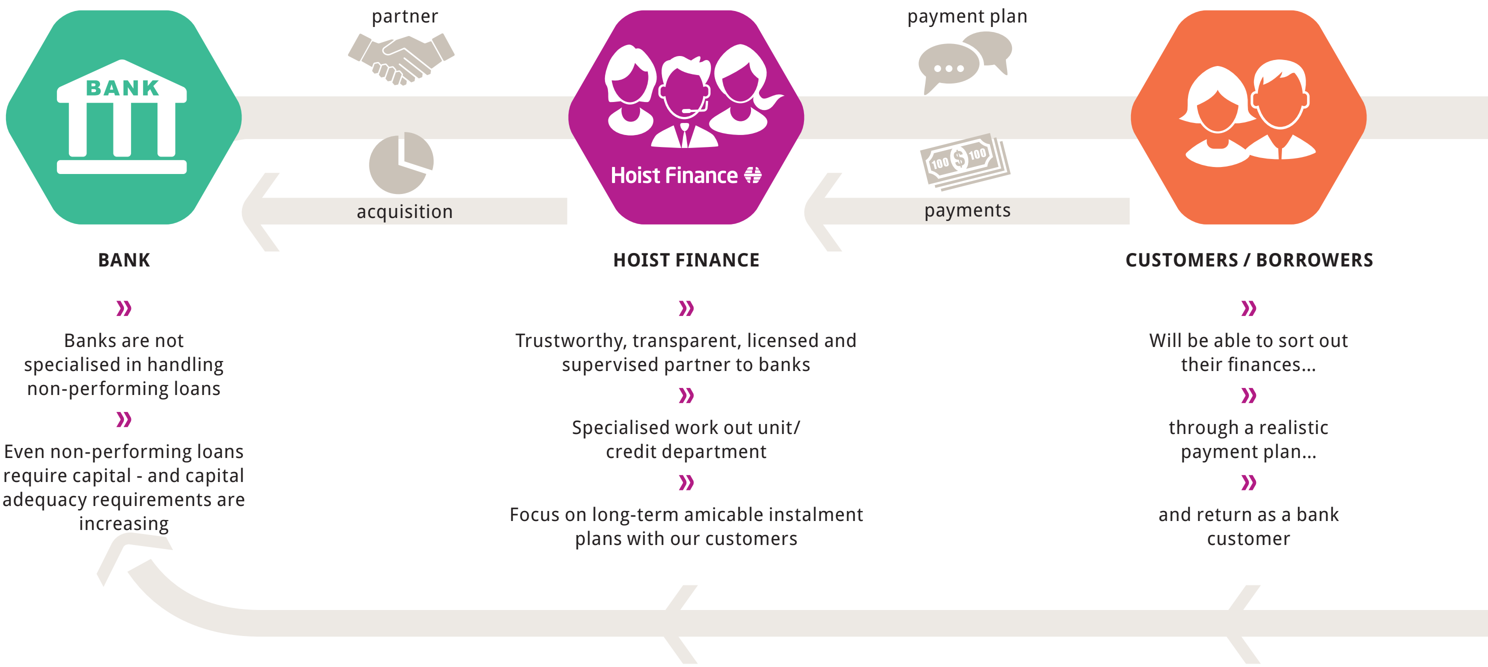
Our Mission – Your Trust

Hoist Finance AB (publ) is a financial parent holding company preparing its financial statements in accordance with the Swedish Annual Accounts Act (ÅRL) and owns all the shares in Hoist Kredit AB (publ), a regulated credit market company which prepares its financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL). The consolidated accounts are prepared in accordance with International Financial Reporting Standards (IFRS).

In order to assess the performance of Hoist Finance's loan acquisition and collection activities, the group has chosen to evaluate the business on EBIT. EBIT, based on the segment reporting, does not contain any adjustments nor changes relative to the statutory accounts and has been prepared using the same accounting policies as the statutory accounts. The differences are described in the section Guide on page 128. This presentation also facilitates the comparison to other debt purchase companies.

Our position in the financial ecosystem…

Hoist Finance is a leading debt restructuring partner to international banks and financial institutions. Hoist Finance offers a broad spectrum of flexible and tailored solutions for acquisition and management of non-performing loans, and is present in eleven countries across Europe.



Hoist Finance is a specialist in the management of non-performing loans, and an important, reliable debt restructuring partner to traditional banks. The company focuses on the acquisition of non-performing loans (NPLs) from banks. Efficient management of NPLs is not part of a bank's core activities. The NPL market is driven by increased capital adequacy requirements for banks, forcing them to review their balance sheets. One way for a bank to strengthen its balance sheet is to sell its non-performing loans to a reliable partner, such as Hoist Finance, and instead focus on its core business.

Hoist Finance has over 20 years' experience in the acquisition and collection of more than 2,100 portfolios of non-performing loans. The company's success is based in part on long-term relationships with its partners. Hoist Finance is regarded as a transparent, reliable partner to banks and is also a regulated financial institution supervised and governed by the same authorities and regulations as other banks, building trust among the banks.

After purchasing non-performing loans from banks, Hoist Finance contacts the customer normally by phone, by mail or in personal meetings, depending on the market. A thorough customer analysis is conducted prior to the first contact in order to obtain the best possible understanding of the customer's situation. Treating customers respectfully is essential to the company's business. Customers are often in a difficult financial situation. Focus is on working with each customer to create a long-term amicable instalment plan. The guidelines for the company's collection method are transparency, dialogue and mutual respect. The goal is for the customer to be satisfied, debt free and able to return to the financial ecosystem as a trusted bank customer.

...and in society

A well-functioning financial ecosystem has many advantages for society and the economy as a whole. It makes it easier for borrowers experiencing financial difficulties to become debt free, and for banks to deleverage their balance sheets of non-performing loans and engage in sustainable lending growth. For society in general, this has a positive impact on household consumption, which supports economic growth and job opportunities.

12.46%

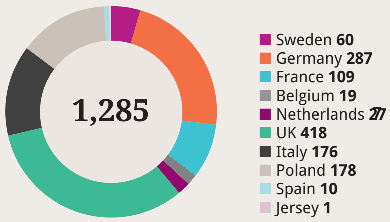
CET1 capital ratio

18%

RoE

1,285 employees at December 31, 2016

Number of full-time employees, 2016
by country



731 **554**

1,775 new shareholders

The year in brief

Quarter 1

- Board proposed a dividend of SEK 0.75 per share for 2015.

Quarter 2

- Hoist Finance entered into a strategic partnership with the Bank of Greece.
- Moody's Investors Service assigned Hoist Kredit AB (publ) a Ba2 credit rating, subsequently upgraded to Ba1 with a stable outlook.
- Acquired first portfolio in Spain and established a presence in the Spanish market.

Quarter 3

- Acquired Madrid-based servicing company and further strengthened position in the Spanish market.
- Hoist Finance's first Capital Markets Day.

Quarter 4

- Further strengthened position in SME segment in Italy.
- Won award for best annual report on Nasdaq OMX Mid Cap List.

Established in Spain – now present in **11** countries

Key figures

SEK M	2016	2015	2014
Total revenues	2,627	2,247	1,661
EBITDA, adjusted	2,921	2,408	1,794
EBIT	935	675	530
EBIT margin, %	36	30	32
Profit before tax	533	285	218
Net profit	417	231	180
Basic earnings per share, SEK[1]	5.07	2.90	3.07
Diluted earnings per share, SEK[1]	4.97	2.84	2.72
Portfolio acquisitions	3,329	4,370	3,227
Carrying value, acquired loan portfolios[2]	12,658	11,279	8,921
Gross 120-month ERC, 31 Dec,[3]	21,375	19,367	15,576
Return on equity, %	18	12	19
Total capital ratio, %	16.76	15.21	12.17
CET1 ratio, %	12.46	12.32	9.35
Liquidity reserve	5,789	5,156	5,352
Number of full-time employees [4]	1,285	1,349	1,077

1) Includes effect of outstanding warrants. Following the 1:3 share split in 2015, each warrant entitles the holder to subscribe for three new shares. Comparative figures have been restated in view of the share split.

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

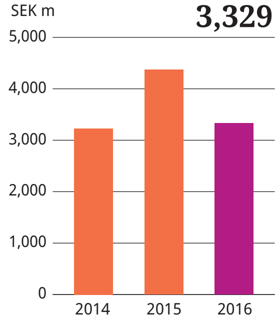
3) Excluding run-off consumer loan portfolio and portfolios in the Polish joint venture. See 'Definitions' for additional details on key figures.

4) Number of employees for 2015 is updated based on revised calculation model.

Year in brief

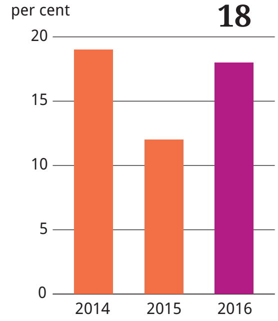
Portfolio acquisitions

SEK m **3,329**



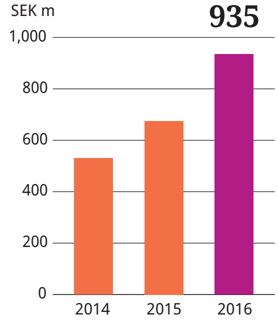
Return on equity

per cent **18**



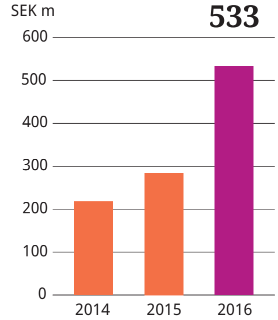
EBIT

SEK m **935**



Profit before tax

SEK m **533**



Common sense
– our guiding principle

In times of negative interest rates and macroeconomic and political uncertainties, it is more important than ever to be clear about your goals and principles. I am always surprised to be asked whether our focus is on delivering today, or on building for the future.

WHILE IT IS CERTAINLY TRUE that well-defined plans and clear goals are needed when laying the foundations for future growth and profits, it is only by executing the strategy here and now that you're able to build something that will last. And this should – and in our case does – result in improvements from the start. To me, this is common sense. And common sense is our company's primary guiding principle.

Our figures

In brief, 2016 was yet another year during which we showed improvement and moved closer to our medium-term financial targets. EBIT increased 39 per cent to 935 (675) and our EBIT margin improved to 36 (30) per cent. Our profit before tax increased 87 per cent to SEK 533 million (285). We increased our Return on Equity during the year to 18 (12) per cent. To sum up, 2016 was a very successful and profitable year for Hoist Finance.

Our team

Our success in 2016 is essentially attributable to the first-rate work and dedication of our Hoist Finance team members. We continued to build and improve our organisation during the year. We not only met our targets each quarter, but also continued to shape the company for the future. Together, we are creating a value-driven organisation where initiatives based on common sense are rewarded. Our successes add tangible value to our growing company, and our failures teach us how to become better.

Our Partners

During the year we also strengthened our relationships with our partners – major international banks and financial institutions. It is logical (common sense) for our partners to focus on their competitive advantages in terms of scale and front-end customer interaction and have Hoist Finance handle their non-performing loans, as we are specialised and therefore more cost efficient in handling these assets. Hoist Finance is increasingly perceived as a long-term, transparent and trusted partner to the financial industry, well-demonstrated by the fact that many partners return to us year after year for guidance.

Our investors

Our progress can also be seen in concrete numbers. In the eight quarters since our listing, we have proven that we can maintain a high and stable growth trajectory. We continue to have an unwavering focus on risk mitigation to ensure that our investments in portfolios with ten-year cash flows are made at long-term sustainable levels – again, common sense.

When speaking to investors, I often mention that one of our goals is for Hoist Finance to be recognised as having established a new phenomenon in the financial ecosystem – a permanent work-out unit helping banks deal with troublesome assets. We will continue to move towards this position while improving our operational efficiency, capital efficiency and funding structure. All of these measures will yield predictable, growing and stable returns for our shareholders.

Our customers

We continuously invest in our staff and our systems to ensure that we can provide a customised solution for each customer's journey towards freedom from debt. Our method is founded on individual agreements and based on our experience that every person wants to become debt-free. During the year we continued to invest in the digital customer journey by launching a new customer self-service website with several digital communication channels, which will be deployed in France, Germany and the UK in 2017. Our ambition, once again based on common sense, is to make the customer journey as easy as possible and to ensure that each and every customer can interact with us using their preferred method.

Building for the future

We entered into a strategic partnership with the Bank of Greece, assisting Greece in restructuring the Greek banking sector. We were assigned a Ba1 long-term issuer rating by Moody's, and we diversified and broadened our funding base through a successful bond issue. We entered the Spanish market and can now fully support the Spanish banking

> Hoist Finance is increasingly perceived as a long-term, transparent and trusted partner to the financial industry

industry with our high-calibre services. We expanded our offer to SMEs and secured assets during the year, applying the same discipline and common sense we use when entering a new country.

Our commitment for 2017

In 2017, we will maintain our focus on developing our business in accordance with our strategic objectives:

» To be **preferred by our customers**, we need to work continuously to improve the customer journey. We help our customers improve their financial well-being, and to do so we must constantly invest in our employees, our systems and our processes. During 2017 we will develop new tools for customer interaction, making it easier for our customers to select their preferred tool for engagement.

» By adding new countries and new asset classes we are taking firm steps towards becoming the **preferred partner** to banks and financial institutions. Naturally we fulfil the regulatory requirements and always apply good common sense. Our partners can trust that in dealing with us they have a partner who meets the highest standards.

» Our ambitions for operational efficiency, capital efficiency and an improved funding structure will remain among our top priorities. We will take additional steps towards achieving our medium-term financial targets. Our communication will remain as transparent and clear as possible, making us **attractive to investors.**

» We will continue to build an extraordinary company with extraordinary people. With the best team on the market, we will also fulfil our objective of being the **best place to work.**

In order for the European economy to function, European banks need to be healthy. Millions of new loans are issued in the European banking system every day – and some of these will, for various reasons, fall into default.

To guide us on our journey towards becoming a leading partner to international banks and financial institutions we rely on our mission statement. This is built into our growing company's DNA and based on common sense:

"Our Mission – Your Trust"

Jörgen Olsson
CEO, Hoist Finance AB (publ)

Our vision:

A leading debt restructuring partner to international banks and financial institutions

Mission:

Our Mission – Your Trust

History

1994 – Hoist Group's first portfolio acquisition in Sweden

1996 – Hoist Kredit obtains credit market licence

1997 – Establishment of two in-house platforms on the German market

2001 – Entry into the French market, with own portfolios and as third-party supplier

Respect, trust and an amicable approach – always

Hoist Finance's business model is designed to ensure stability, whilst delivering growth and long-term strategic initiatives. The model is distinguished by solution-oriented agreements built on respect, trust and an amicable approach.

History and operations

With over 20 years' experience, Hoist Finance is one of the leading debt purchasing companies in Europe. A key milestone was achieved in 1996 when Hoist Kredit AB (publ), a Hoist Finance subsidiary, was approved by the Swedish Financial Supervisory Authority under the new credit company regulations.

The Group has operated under the Hoist Finance brand since 2012. Hoist Finance was listed on Nasdaq Stockholm in 2015.

Experts in debt purchasing

The portfolios the company acquires are mainly from well-reputed international banks, which means that they are responsibly originated. Through many years of experience, Hoist Finance has honed its skills in purchasing non-performing portfolios, basing its acquisitions on in-depth data gathered over the years. The purchasing process is based on long-term relationships with partners, ensuring mutual trust grounded in open dialogue and ethical behaviour.

Amicable methods set us apart

What differentiates Hoist Finance in the debt restructuring market is the company's amicable and fair settlement methods. Settlements with the goal that the customers become debt free and able to return to the financial ecosystem.

Security

Hoist Finance's operations are regulated by the Swedish Financial Supervisory Authority, which imposes requirements in areas including the management of operational risks, security and information security. The company has a positive view on that these regulations are increasing, and work pro-actively to deliver on high internal security standards to safeguard the business, the customers and the shareholders. A well-developed management system for security is seen as a business advantage and an area that needs to be continuously developed to protect the company's assets. As part of these efforts, Hoist Finance designed a systematic security programme in 2016 for all Group companies and business areas. The Security function is also part of the process for developing new products and services as well as actively involved in acquisitions. The Security function is also a central part of the company's crisis management process.

Information- and IT security

In view of our business activities, Hoist Finance place great value in information and IT security, where the work is done in accordance with international standard ISO 27000. Organizationally, there are functions in all three lines of defense that are involved in the effort to secure information. As a part of information and IT security process, the company work actively to counter cyberattacks or other malicious attacks on the IT systems. Hoist Finance always need to have the right skills and tools in place to manage ever-changing security challenges. During 2016 Hoist Finance invested in a comprehensive cyber security solution that has greatly increased the ability to detect threats and vulnerabilities in real time, enabling to quickly deal with issues by taking immediate action.

Hoist Finance's goal in this work is to take an active role in safeguarding national and international financial markets.

2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009

2007: Establishment in Belgium and the Netherlands

2009: Launch of HoistSpar savings service

Objectives

Strategic initiatives

Preferred by customers
Be customer-centric, with a focus on amicable and fair settlements.

- Develop and improve amicable collection strategies
- Develop collection strategies with emphasis on in-house collection

Preferred partner
Be trustworthy with unparalleled funding capacity.

- Focus on bank-originated assets
- Maintain and develop unique funding model
- Maintain underwriting discipline and focus on core assets
- Deliver reliable and seamless transaction execution

Attractive to investors
Redefine industry standards with our disciplined approach & ambitious targets.

- Build on status as regulated financial institution
- Leverage economies of scale
- Grow in selected new markets
- Strengthen positions and expand in current markets

Best place to work
Build an extraordinary company with extraordinary people.

- Develop the best team in the market

Corporate Social Responsibility
Integrate CSR into everything we do and continue to build trust with all our stakeholders.

- Respect customer and partner privacy
- Respect human and labour rights
- Respect the environment
- Respect business ethics

2010

2011

Acquires first portfolio in Italy and forms a 50/50 joint venture in Poland

2012

Acquires two platforms, a large data warehouse and a major loan portfolio in the UK

2013

Acquires three platforms and a major loan portfolio in the UK

Acquires portfolio in Austria, managed from Germany

Examples of activities in 2016

- Increased customer service training at call centres
- New tools for customer account management and engagement

- Continued expansion into new asset classes
- New market entries to serve key international clients (Spain, Greece)

- Improved operational KPIs, introduced Return on Equity as new medium-term financial target
- Improved Investor Guidance on market expectations and company growth objectives
- Increased focus on Operational Excellence program (REACH) in all markets

- Key takeaways from “Best Place to Work” assessments discussed and implemented
- Enhanced leadership training throughout the Group
- New tools for innovative thinking introduced throughout the Group

- Multiple local initiatives to:
  - increase knowledge about personal finance
  - clean the local environment
  - fund educational trips for underprivileged children
  - donate toys to children in hospital
- Continued carbon footprint reduction training and programmes

Financial targets

40%

EBIT

By using our operating leverage we aim to achieve an EBIT margin of above 40 per cent in the medium term.

2016 result:
36 per cent (30)

20%

Profitability

By ensuring the right balance between growth, profitability and capital efficiency we aim to achieve Return on Equity of 20 per cent in the medium term.

2016 result:
18 per cent (12)

25%

Dividend policy

Under our dividend policy we will initially aim to distribute 25–30 per cent of the Group’s net profit as dividend over the medium term. Given the historically strong cash flow generation of our business, our long-term aim is to distribute around 50 per cent of annual net profit as dividend.

Proposed 2016 dividend
of 1.30 SEK per share (0.75), corresponding to 25 per cent.

12%

Capitalisation

Common Equity Tier 1 (CET1) capital ratio of approximately 12 per cent under normal conditions, with possible temporary deviations due to large acquisitions.

2016 result:
12.46 per cent (12.32)

2014

- Acquires partner TRC in Italy
- Acquires a company in Poland

2015

- Acquires a well-diversified bank portfolio with an established, proven platform in the UK
- Enters a new asset class with the acquisition of SME loan portfolio from Banco Popolare in Italy
- Hoist Finance listed on Nasdaq Stockholm

2016

- Acquires portfolio and master servicing company in Spain
- Enters strategic partnership with Bank of Greece for the liquidation and restructuring of 16 banks

The debt purchase market

EMPLOYEE

Raffaella Gamba

Back Office and Communication Manager, Region Mid Europe

Why did you want to start working at Hoist Finance?
I had been working for TRC for 21 years when Hoist Finance came into our lives and the company became a part of a multinational debt-restructuring company. Now more than ever, I want to continue my journey within this company.

How would you describe Hoist Finance´s corporate culture?
Our culture is the product of our day-to-day work, aiming to build a workplace where transparency, results, uniqueness, skills and teamwork are our values.

In what way do you think Hoist Finance contributes to society?
First and foremost, our amicable approach gives customers the possibility to solve their problems. Also, the company's strong CSR focus brings awareness to the fact that we all need to contribute to build a better world.

The market for non-performing loans is a natural part of the credit market. Non-performing loans include credit losses, payment defaults, insolvencies and semi-performing loans where customers' payments do not comply with contractual terms.

NPL sales
Against the backdrop of ongoing regulatory supervision and the cost it entails, it is natural for banks to review their books and see what can be restructured.

Key reasons that make it attractive to sell NPLs:

1. Reduce risk. NPL sales reduce the sellers' risk exposure, release reserves, and strengthen capital ratios by reducing risk-weighted assets.

2. Release liquidity. NPL sales translate into up-front cash payments that improve the selling banks' liquidity position.

3. Focus on core business. It takes time, resources and specific expertise to collect overdue debt. By selling NPLs, banks avoid the costs and challenges associated with maintaining a large in-house debt collection organisation.

4. Return on equity. Divestment of NPLs contributes to improved return on equity, vital to meeting shareholder demands for improved returns.

Richard Thompson
Comments on the European NPL-market

Richard Thompson is the global leader of PwC's Portfolio Advisory Group. PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. PwC has not provided input to, or reviewed, any other aspect of this Annual Report.

Can you comment on the development of the European non-performing loan (NPL) market?
I expect to see a continuing high volume of loan portfolios coming to market in coming years. PwC research shows that European banks hold approximately 2.3 trillion EUR of debt on their balance sheets that they do not want, half of which is made up of non-performing loans. These non-core assets constitute about 5 per cent of banking assets. In our assessment, the market is driven by banks deleveraging as well as by a general restructuring of the European banking market. A key reason for the restructuring of the banking market is the banks' issues with core profitability and a refocusing of their activities. This is leading to an increase in transactions and investment opportunities.

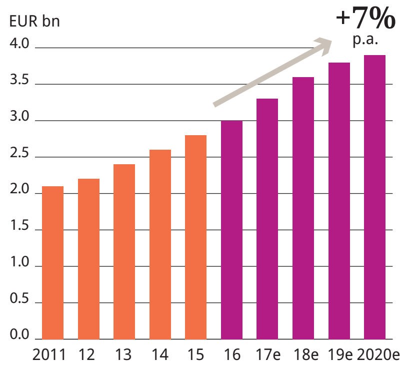
The degree of maturity in the markets in Europe differs a lot. Can you please explain in what way and why?
Maturity depends very much on to what degree the various markets have begun to restructure their banking sector. The extent to which they have decreased stressed lending also plays a part. The United Kingdom, Ireland and Spain are examples of markets that have moved more quickly while Italy, Greece and some Central European markets have moved less quickly.

Legislative differences also play a role. We see that in markets where collections and recovery of NPLs are more uncertain, it has been more difficult for the banks to sell and pricing has been challenged more often. There are moves in a number of countries aimed at facilitating disposals of NPLs by banks, including legislative changes in Italy around collections and new regulations in Greece to allow independent debt servicing companies to handle certain asset classes. Such moves should improve the prices that investors are willing to pay and assist in the creation of a more liquid NPL market.

How would you value a non-performing loan portfolio?
When we value a non-performing loan pool we carry out a detailed analysis of the recovery options for the purchaser. We look at different recovery strategies, and do a cash flow analysis on the various strategies combined with probability assessments. The key issue is that vendors typically have one view on recovery strategies while buyers may have a different armoury of recovery strategies and are prepared to do different things. For example, debt servicing companies may be able to discuss debt forgiveness which a number of banks struggle with.

Specialist debt collection companies that have best in class servicing capabilities are able to make a more informed judgement of which strategies are likely to work and for which borrowers. The big established companies and funds have an advantage because they have better data. They have historical evidence which allows them to assess the value more accurately. A greater pool of historical data can reduce risk and volatility of the expected cash flows which allows them to price more accurately.

Market value, sale of unsecured non-performing consumer loans



The NPL market is expected to total €2.8 billion in 2016, with growth anticipated at seven per cent per year.

Source: Company market study and refers to Hoist Finance focus markets DE, PL, RO, AT, UK, IE, NL, BE, FR, IT, ES, GR and PT.

Market drivers

Increasing market maturity and lending growth

The maturity of the NPL market varies between European markets. For example, the British market is a mature market where most banks systematically sell early-stage NPLs, while the French market is immature and characterised by infrequent sales of older NPLs by relatively few banks.

As a debt purchasing market matures, sellers of NPLs establish more structured sales processes. This typically leads to NPLs being sold more frequently and at earlier stages. As sellers and buyers become more experienced they are typically also willing to engage in more complex transactions.

The early stages of a default cycle normally entail a higher likelihood of repayment that is less costly to collect. Accordingly, it is common for banks to sell older NPLs while servicing fresh NPLs in-house. Since NPLs in earlier stages of the default cycle entail less risk and less cost to collect, these NPLs are typically sold at higher prices.

According to the European Central Bank (ECB) the market for consumer credit in the company's focus markets totalled approximately €794 billion in 2016. This market is expected to grow at a stable average annual rate of around 2 per cent over the next five years. A growing lending market also leads to growth in the NPL market.

Increased regulatory pressure and profitability problems for banks

Financial sector supervisory authorities' demands are expected to intensify. The European Banking Authority (EBA) intends to conduct stress tests on a regular basis to assess banks' resilience

Typical stages of development of debt purchase markets

Introduction

- No (or very limited) NPL sales.
- Wide bid-ask gaps.
- Weak quality of data.
- Sales from early adopters incl. consumer finance and international banks.
- Cultural barriers and "denial" among banks.
- Old and low-quality NPLs typically sold.

Price trend[1]
˜0.5–5%
Average purchase price[2]

Recovery profile
Low recoveries and high costs

Growth

- Increasing competition across debt purchasers and decreasing bid-ask gaps.
- Increased share of fresher vintages.
- Local banks gradually become more active.
- Better quality NPLs typically sold.

Price trend[1]
˜5–15%
Average purchase price[2]

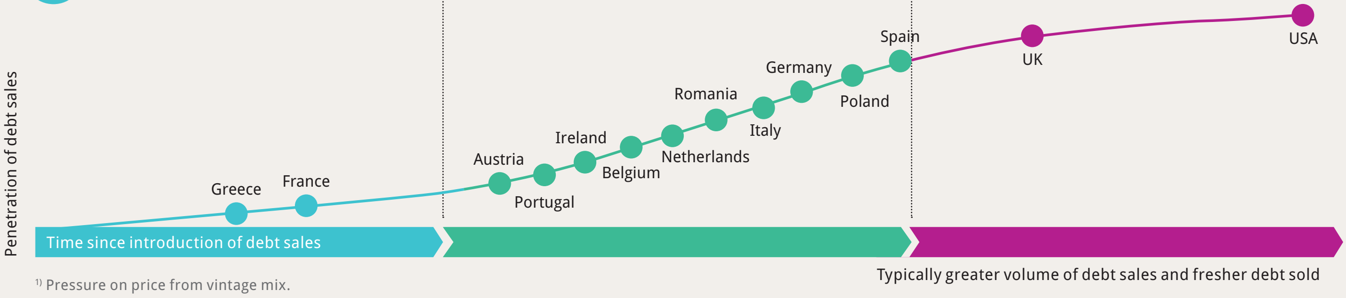
Recovery profile
Improving recoveries and lower costs

Maturity

- NPL sales an integral part of bank ecosystem.
- Consolidation among debt purchasers.
- Trend towards the sale of high-quality/fresh NPLs.

Price trend[1]
˜15–25%
Average purchase price[2]

Recovery profile
High recoveries and low costs



[1] Pressure on price from vintage mix.
[2] Average purchase price, % of face value

to adverse market developments and associated systemic risks, and national supervisory authorities are expected to conduct stress tests more often. Current supervisory mechanisms – via the SSM (Single Supervisory Mechanism), SRB (Single Resolution Board) and ESRB (European Systematic Risk Board) – are significantly more robust. Higher capital requirements under the Basel Rules (Basel III and IV) are additional drivers that increase the supply of NPLs as banks find that they need to dispose of lower quality capital.

New regulations and stronger incentives for banks to sell NPLs are expected to add momentum to growth. The new accounting standard IFRS 9, which takes effect in 2018, will lead to increased provisions for credit losses on NPLs. The Basel Committee on Banking Supervision's standardised definitions specifying when a loan is deemed delinquent within the EU will result in greater comparability and transparency. Increased flexibility in personal insolvency laws will improve the capacity to collect debts, resulting in higher prices for NPLs and increasing banks' incentives to sell their NPLs.

European banks have not yet regained the profitability they had prior to the 2008 financial crisis. Average return on equity for European banks is currently 6.2 per cent[1], as compared with 17 per cent pre-crisis. A large percentage of NPLs on financial institutions' balance sheets have a negative effect on profit and inflate capital requirements. Selling NPLs allows banks to reduce costs, relieve pressure on the balance sheet and focus on their core business.

Value of NPLs

The price trend for NPLs has moved upwards due to the industry's greater market maturity. The average market price for acquired NPL portfolios increased an estimated 10.8 per cent annually during the 2013–2016 period. See the graph on the right.

As the market matures, the gap between the selling bank's anticipated deal value and the amount the purchaser is willing to pay is reduced and the trend towards the sale of high-quality, fresh NPLs increases. Professionalism within the industry is on the rise, as major European debt purchasers leverage their economies of scale, in-depth expertise and access to data combined with lower funding costs. All of this results in higher prices on the market and more NPL sales.

With economies of scale in operations, tailored expertise and greater operational efficiency, specialised companies such as Hoist Finance are able to collect overdue debt at a lower cost than banks. They also have significantly higher recoveries for comparable NPL portfolios. An industry study found that companies specialised in NPL collections recover 40–50 per cent of their portfolios, while top-performing banks recover just 15–25 per cent.

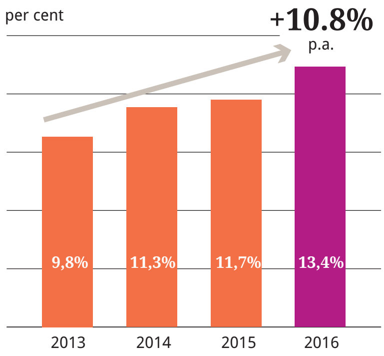
An overwhelming majority of respondents in a study conducted among 53 leading European banks and industry experts anticipate that an increased volume of NPLs will be outsourced or sold to external parties within the coming two to five years. 75 per cent of respondents believe that NPL portfolio sales will increase over current levels.

Competition

A few large and well-known debt purchasing companies have emerged as the European debt purchasing market matures, although only a small number of these companies have a pan-European presence, operate across geographical platforms and compete in multiple markets. Hoist Finance is one of them. Other large debt purchasers are typically focused on one or two markets.

Efficiency and cost absorption are high on the agenda for these companies and help fuel the consolidation trend.

Average purchase price as per cent of face value*

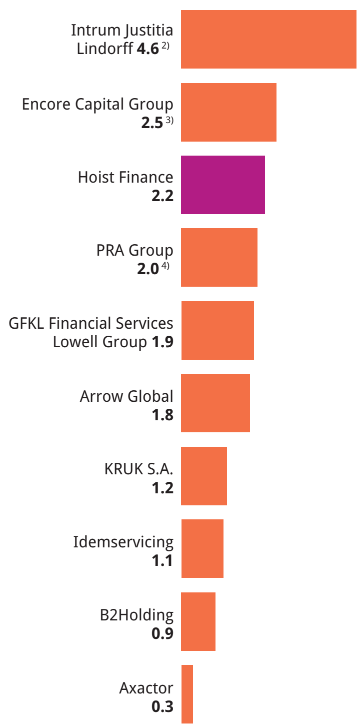


*Listed spot prices and future business opportunities in Austria, Belgium, France, Germany, Italy, the Netherlands, Poland and the UK (unsecured non-performing consumer loans)

Source: independent market assessment, 2016

Gross estimated remainig collection, ERC, 120 month

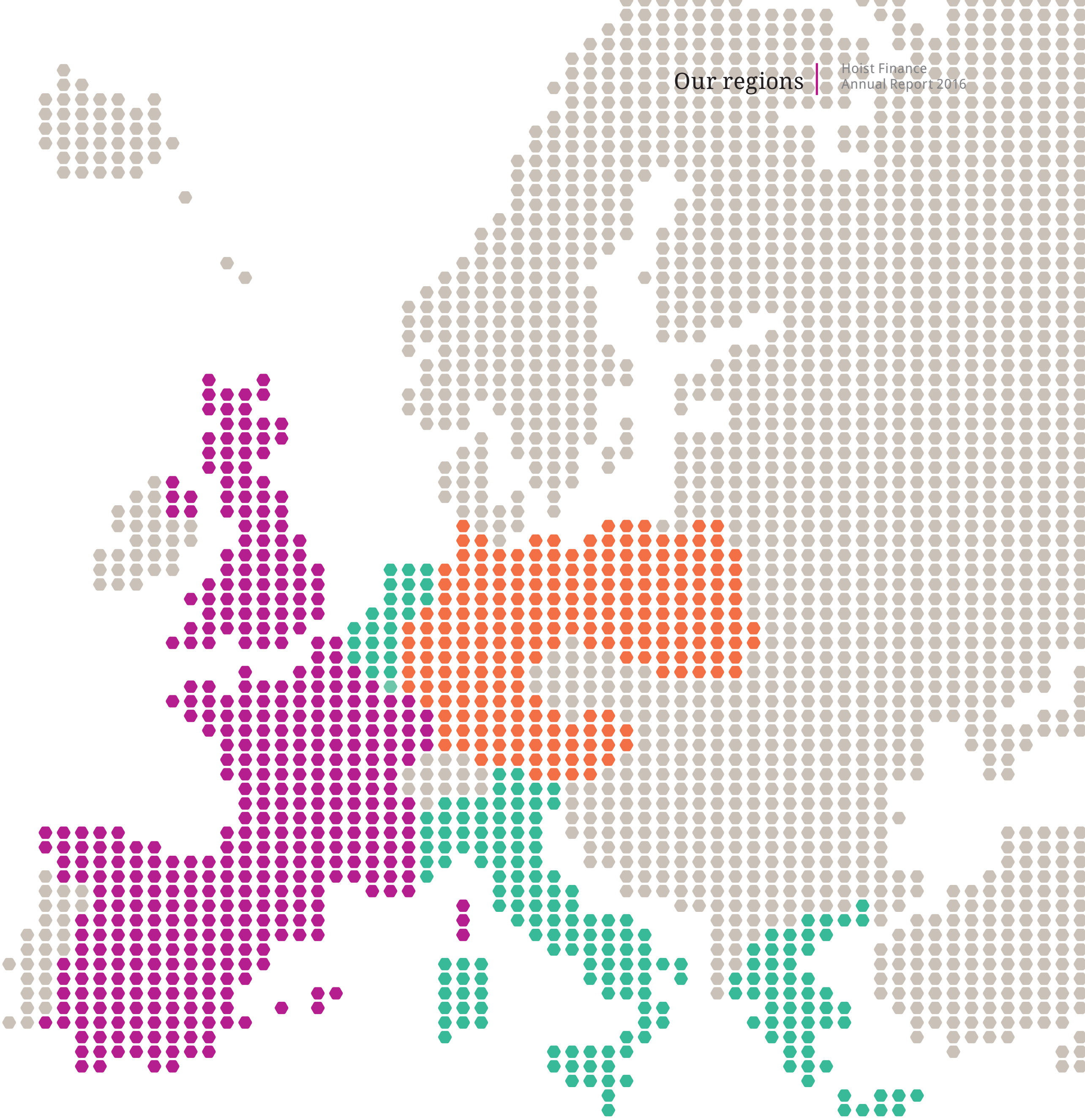
EUR bn



1) European Banking Authority (EBA)
2) Represents ERC 180 months
3) Represents Encore's European operations
4) Represents PRA's European operations

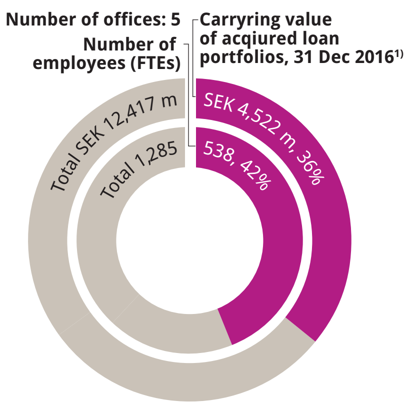
Three regions in Europe

Hoist Finance purchases and manages NPLs in three regions in Europe, all of which have different traditions for providing financial services, different legislative frameworks and different attitudes with respect to past due receivables and repayment patterns.



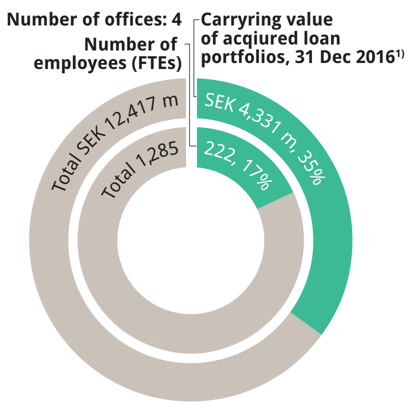
Region West Europe

France, Spain and UK



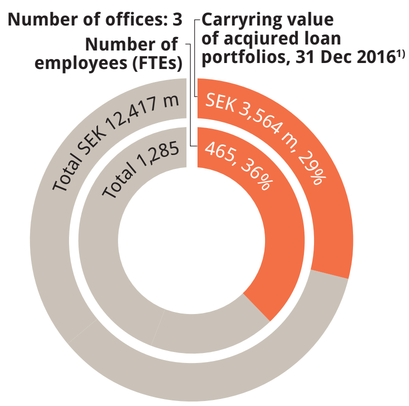
Region Mid Europe

Belgium, Greece, Italy and the Netherlands



Region Central East Europe

Poland, Germany and Austria



1) Excluding portfolios held in the Polish joint venture

Region West Europe

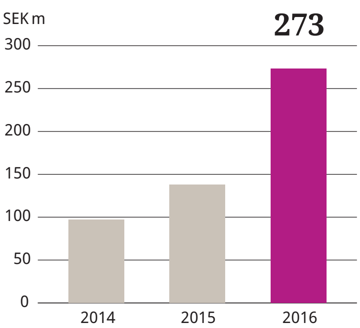
France, Spain and the UK

The year was characterised by continued high activity in the region. Hoist Finance entered the Spanish market with the acquisition of Optimus Portfolio Mgnt S.L, and the integration of Compello Holdings in the UK was completed. A key milestone was achieved with the approval of Hoist Finance as a regulated entity by the Financial Conduct Authority in the UK.

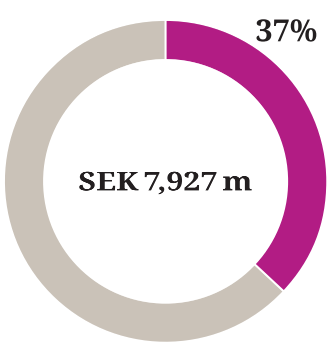
36%[1)]
Share of total carrying value
(2015: 35%)

1) Excluding portfolios held in the Polish joint venture

EBIT



Gross 120 month ERC



Total revenues for Region West Europe totalled SEK 875 million during the year, an increase of 25 per cent over last year's total revenues of SEK 700 million. EBIT totalled SEK 273 million (138).

Market

The Region Mid Europe market was estimated at EUR 1 400 million in 2015 and is expected to grow with four per cent annually by 2020[2)] . Revenues from Region West Europe represent 33 per cent of Hoist Finance's total revenues.

France

The French market was estimated at EUR 100 million in 2015 and is expected to grow 15 per cent annually until 2020[2)]. Historically, third-party collection has not been as sophisticated as today's compliance requires, which has made banks reluctant to sell debt externally. As French banks are expected to downsize risk exposure assets to a greater extent, the French market is considered among the most interesting in Europe. In addition, the major French banks are already important partners to Hoist Finance in other markets. There are barriers to enter the French market, with collection capacity presenting a particular challenge. Only large, well-established players such as Hoist Finance and the French banks currently have the necessary capacity. High compliance standards and regulatory issues also favour Hoist Finance as a highly respected and experienced player.

Spain

Spain has been added as a new market. During the year Hoist Finance strengthened its position in this new market with the acquisition of Madrid-based master servicer Optimus Portfolio Mgnt S.L. The Spanish market was estimated at EUR 275 million in 2015 and is expected to grow five per cent annually until 2020[2)]. The market is maturing rapidly, with fresher NPLs and higher prices.

UK

The UK market was estimated at EUR 1 000 million in 2015 and is expected to grow two per cent annually until 2020[2)]. The debt purchase market has expanded rapidly over the past five years and is today the most mature market in Europe, characterised by a high activity level which is expected to continue.

Snapshot of Hoist Finance's development in Region West Europe[1)]

SEK M	2016	2015
Gross collections on acquired loan portfolios	1,297	936
Net revenue from acquired loan portfolios	809	584
Total revenue	875	700
EBIT	273	138
EBIT margin, %	31	20
Carrying value, acquired loan portfolios, 31 December	4,522	3,883
Gross 120-month ERC, 31 December	7,927	6,973

1) Based on operating income statement, exclusive of Central Functions and Eliminations. Detailed information is presented in the Administration Report.
2) Company's market study.

The market is also moving towards more responsible lending, with greater emphasis placed on assessing customers' vulnerability and ability to pay. Since sellers remain responsible for the debt during its entire life cycle, including post-sale, the ability to safeguard reputation is a critical factor for credit management operations. An increased number of fresh NPLs is expected to reach the market during the coming period.

Operations

French operations combine in-house collection platforms with a network of reliable and carefully selected third-party suppliers. Several improvement activities were implemented during the year, resulting in an increase in contractual repayment plans and improved profitability. The company has two platforms in France: in Lille and in Bayonne.

Hoist Finance is one of the largest players in the UK and has two collection centres: the main centre in Manchester and a centre in Milton Keynes that was part of the Compello acquisition. Extensive regulatory and compliance requirements are creating higher entry barriers for new players. The UK has seen an increasing level of oversight, which is now having a significant impact on the number of debt purchasing transactions. Hoist Finance was approved by the Financial Conduct Authority (FCA) during the year following an extensive process that confirmed the company's operational transparency and position as a leading force in the industry.

Hoist Finance entered the Spanish market through the acquisition of Optimus in August 2016, and has approximately 10 employees at its Madrid office.

Acquisitions

The acquisition volume for Hoist Finance in the region totalled SEK 1,462 million. Hoist Finance conducted several portfolio acquisitions in Region West Europe in 2016, including entry to the Spanish market through the purchase of its first portfolio in Spain.

Najib Nathoo Regional Director – Region West Europe

How would you summarise the year 2016?

In France, much of our energy has been directed on revitalising our operations, our reach and our reputation in the market. We are challenging ourselves and moving from less effective practices and processes to a more flexible and more customer service-driven mind-set. Our teams are confident in finding better ways of operating. We are making good progress and there is more to come next year.

We entered the Spanish market with portfolio acquisitions in June and December. Entering Spain underscores our vision to become the leading debt restructuring partner in the market and expands our reach to fully support the needs of the banking industry across Europe in coming years.

Our acquisition of Compello in 2015 significantly increased our footprint in the UK, and the company was fully integrated within ten months of acquisition. The UK business continued its growth in 2016, and we have been fully authorised by the Financial Conduct Authority (FCA).

What are currently the biggest drivers across your region?

The UK is one of the most developed and regulated markets in Europe. It is always important for clients to divest non-performing assets, from a capital and earnings point of view. As a way of reducing further costs, many banks in the UK are now looking to collaborate with fewer strategic partners. Hoist Finance's proven expertise in managing bank assets is a clear competitive advantage.

In Spain, we see an accelerated growth in volume with a more diverse set of asset classes, including secondary assets.

Due to pressure from French legislators and an increased understanding of the benefits of selling NPLs, attitudes in the French market are shifting. We see major opportunities going forward.

What is the outlook for 2017 and beyond?

The volume and value of assets coming to the UK market over the next few years is expected to increase, and we are in a good position to meet that demand and continue our growth trajectory.

Significant volumes are also expected in Spain, across a broader range of assets. If we continue to focus on doing the simple things right, Spain will be one of the fastest-growing markets across the Group in the coming years. France too presents an exciting opportunity, as banks accelerate the divestment of NPLs.

Most important in 2016

Gaining authorisation from the Financial Conduct Authority in the UK has been one of the most important and significant achievements in 2016. We were one of the first to be authorised, and did so without a significant changes in our processes, routines and documentation, confirming our position as a genuine leader within the debt restructuring industry.

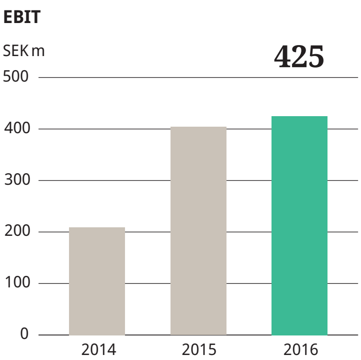
Region Mid Europe

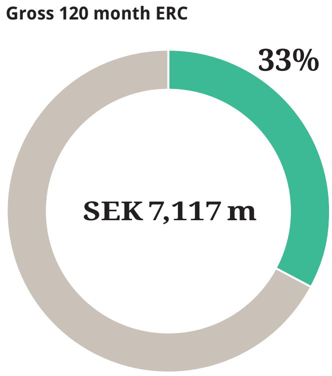
Belgium, Greece, Italy and the Netherlands

During the year a strategic partnership was entered into with the Bank of Greece, covering the liquidation and restructuring of 16 Greek banks. The region continued to expand into new asset classes and strengthened its partnerships with Italian banks.

35%[1)]
Share of total carrying value (2015: 33%)

1) Excluding portfolios held in the Polish joint venture





Total revenues for Region Mid Europe totalled SEK 819 million during the year, an increase of 15 per cent over last year's total revenues of SEK 715 million. EBIT totalled SEK 425 million (404).

Market

The market in Region Mid Europe was estimated at EUR 650 million in 2015 and expected to grow seven per cent annually until 2020[2)]. Revenues from the region represent 31 per cent of Hoist Finance's total revenues.

Benelux

The debt purchasing market in Benelux was estimated at EUR 150 million in 2015 and is expected to grow eight per cent annually until 2020[2)]. Expertise in and understanding of the market is still at an early stage in the region. Local authorities are reluctant to recommend the sale of debt, and major banks still have their own departments in place for debt management. Large banks have focused on protecting their reputations in the wake of the financial crisis, and have been sceptical about selling debt externally. Hoist Finance's local presence and strong reputation is therefore a major advantage for future business. Another driving force can be found in the Netherlands, where mergers among small banks and financial institutions have become more common due to consumer legislation that favours larger organisations. It is common practice to sell NPLs during a merger.

Greece

Greece is included in Region Mid Europe as of this year, following Hoist Finance's strategic partnership with the Bank of Greece. The agreement covers the management and administration of 16 Greek banks in liquidation. Hoist Finance will work with two partners to assist the Bank of Greece in recovering non-performing loans. The agreement is in line with Hoist Finance's strategy to be a leading debt restructuring partner to international banks and financial institutions.

Italy

The Italian market was estimated at EUR 500 million in 2015 and expected to grow seven per cent annually until 2020[2)]. Banks are under regulatory pressure to clear their balance sheets of NPLs and are expected to do so within the next few years. Non-performing debt recognition increased due to new regulations that took effect 1 January

Snapshot of Hoist Finance's development in Region Mid Europe[1)]

SEK M	2016	2015
Gross collections on acquired loan portfolios	1,575	1,358
Net revenue from acquired loan portfolios	811	708
Total revenue	819	715
EBIT	425	404
EBIT margin, %	52	56
Carrying value, acquired loan portfolios, 31 December	4,331	3,644
Gross 120-month ERC, 31 December	7,117	6,179

1) Based on operating income statement, exclusive of Central Functions and Eliminations. Detailed information is presented in the Administration Report.
2) Company's market study.

2016, whereby banks have one year instead of five to fiscally write down NPLs. A general trend is increased competition within consumer NPLs as international investment funds enter the market. Hoist Finance's long-standing presence and strong brand are expected to contribute to strong growth over the coming years.

Operations

Hoist Finance's operations are conducted in-house and through external partners, with a focus on optimising working processes for NPL recovery. The company has in-house platforms in Brussels and Amsterdam. Local presence and a regulated status compliant with requirements of the Belgian National Bank are some of Hoist Finance's local advantages. Hoist Finance has a solid reputation and proven experience, both of which are key factors for Benelux banks.

In Italy, Hoist Finance's previously acquired collection platform (TRC) has two call centres: in Rome and in Lecce. Hoist Finance is well positioned in the Italian market and ready to participate in the market's future growth.

Acquisitions

The acquisition volume for Hoist Finance in the region totalled SEK 1,271 million. In 2016 Hoist Finance continued to diversify its asset portfolio in Italy with the acquisition of small- and medium-sized enterprises (SMEs). The unsecured SME NPL segment is of interest, as further growth is expected. The company continued to diversify its asset portfolio with the addition of secured loans.

Charles De Munter Regional Director – Region Mid Europe

How would you summarise the year of 2016?

I would summarise it as a year of strong growth and development! We are continuing the journey of adding new asset classes. Whilst unsecured consumer loans are still our main focus, we are listening to our partners' needs and, in a prudent way, expanding our product offering to the banks.

Within the region, we established ourselves in Greece through an exciting joint venture project as the single liquidating entity for Greek banks. Assisting the Bank of Greece is a major event across the Group, as it further strengthens our credibility and position as the leading debt restructuring partner to international banks – and now also to central banks.

In the Benelux market we have ceased to engage in assets outside of our core asset classes. By doing so we have reinforced our vision and can continue building our platforms for banks.

What are currently the biggest drivers across your region?

In the Benelux market we are seeing movement in the way banks are handling their NPLs, and the market is therefore expected to grow in coming years.

Greece and Italy are also big markets where we anticipate strong growth going forward. Growth will be driven by increased regulatory pressure and the recognition that non-performing loans are a major challenge for banks in these countries.

What is the outlook for 2017 and beyond?

It differs from market to market. In Italy we see big movement and more companies entering the Italian space. Our own research as well as external market studies indicate that the size of the market in 2017 and 2018 will be substantial.

In Greece, the joint venture we are involved in presents us with an interesting learning curve.

As for the Benelux market, banks still have in-house collection departments. However, we see that the market is slowly moving, and the market will increase as domestic banks start selling NPLs.

Most important in 2016

The biggest thing happening in Region Mid Europe is the new project in Greece. Aside from that, I would like to underscore the move into new asset classes in Italy – a big market where we are well positioned, with many opportunities going forward.

Additional information on Hoist Finance's operations in Greece is found on page 29.

Region Central East Europe

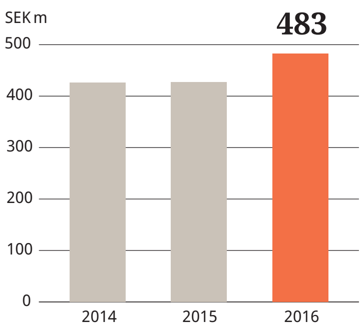
Poland, Germany and Austria

Strong efforts to optimise operations resulted in increased profitability. Markets in Germany and Austria are trending towards increased market maturity, with significant growth anticipated in coming years.

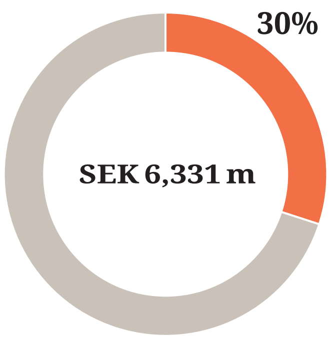
29%[1)]
Share of total carrying value
(2015: 32%)

1) Excluding portfolios held in the Polish joint venture

EBIT



Gross 120 month ERC



Total revenues for Region Central East Europe totalled SEK 851 million during the year, an increase of nine per cent over last year's total revenues of SEK 780 million. EBIT totalled SEK 483 million (427).

Market

The Region Central East Europe market was estimated at EUR 500 million in 2015 and is expected to grow six per cent annually until 2020[2)]. Revenues from the region represent 32 per cent of Hoist Finance's total revenues.

Poland

The Polish market adopted the modern method of managing NPLs relatively early on, which in turn created a favourable environment for collaboration with international banks. This has historically produced a good flow of business, and currently signifies a stable market and growth. The market is estimated at EUR 250 million in 2015 and is expected to grow four per cent annually until 2020[2)]. The market to date has been dominated by non-performing consumer loans, although there was growth in the corporate segment during the year.

Germany

The size of the German market is estimated at EUR 200 million and is expected to grow eight per cent annually until 2020[2)]. Due to diversified outsourcing strategies, loans that are sold are in many cases older and are therefore sold at lower prices. Current NPL sales levels fall far below the market's potential and are expected to increase due to greater regulatory pressure on banks and more widespread acceptance of debt sales. New niche players are also forcing banks to be more efficient. All in all, Hoist Finance expects the German market to continue growing over the next three to five years at a faster pace than the underlying consumer credit market.

Austria

The debt purchasing market is relatively small with a limited number of purchasers. Although the market is diversified and therefore similar to Germany's, the major banks have a larger market share and are concentrated in Vienna. The market is expected to grow six per cent annually until 2020[2)]. There is greater regulatory pressure on banks to reduce their NPL ratios and, accordingly, a greater supply of NPLs on the market.

Snapshot of Hoist Finance's development in Region Central East Europe[1)]

SEK M	2016	2015
Gross collections on acquired loan portfolios	1,440	1,337
Net revenue from acquired loan portfolios	790	722
Total revenue	851	780
EBIT	483	427
EBIT margin, %	57	55
Carrying value, acquired loan portfolios, 31 December [3)]	3,564	3,546
Gross 120-month ERC, 31 December [4)]	6,331	6,215

1) Based on operating income statement, exclusive of Central Functions and Eliminations. Detailed information is presented in the Administration Report.
2) Company's market study.
3) Including run-off consumer loan portfolio.
4) Excluding run-off consumer loan portfolio.

Operations

German and Austrian operations are managed from Germany, where Hoist Finance has proven to be a reliable, long-term partner following the company's establishment there in 1997. Partnerships are in place with over 100 banks and more than 1,000 portfolios have been acquired. Hoist Finance has two collection platforms in Germany: in Duisburg and in Bremen.

Hoist Finance has reorganised operations in Germany and Austria and appointed a new management team. The changes are focused on improving profitability through identification of added value in the portfolios and on reducing costs associated with the recovery process.

The region's EBIT margin improved during the year due to the implementation of several improvement initiatives. Improved profitability is associated with higher collection levels in Poland and Germany and portfolio revaluations conducted during the year.

Hoist Finance is one of the largest debt purchasers in the Polish market. Hoist Finance has been established in Poland since 2011.

Acquisitions

The total acquisition volume is primarily attributable to Poland, where activity was high during the year. 2016 was a stable year, with acquisitions totalling approximately SEK 596 million in the region.

Henrik Gustafsson Regional Director – Region Central East Europe

How would you summarise the year 2016?

As a year of change.

Our primary focus during the year was on optimising our competitiveness within portfolio acquisitions. We concentrated our internal efforts and developed several interesting initiatives to improve cash flow in our portfolios and improve efficiency. In concrete terms, these initiatives involve new methods of interacting with our customers, new methods for legal collections and other new systems. Because everything originated in the company internally – all ideas, expertise, and resolve to implement the changes – we had a positive approach and a strong sense of commitment.

In Poland, we decided not to renew a major service contract. This is in line with our strategy to acquire NPL portfolios. The decision affected our staff structure, and we have recruited new talent so that we can pursue our strategy.

What are currently the biggest drivers across your region?

In Germany and Austria, we are starting to see a greater tendency among banks to sell non-performing loan stocks. The consumer credit market in Germany is about the same size as the UK market, and the same goes for credit losses. But the German and UK NPL portfolio markets are vastly different. The German market is around €200 million, while the UK market is more than four times that size. German banks sell older and fewer portfolios than their British counterparts. We expect the German market and the rest of Europe to move towards the British standard, with a faster sales pace and a greater share of fresher NPLs being sold. In the long term, this would mean that volumes in the German market will approach British market volumes, which total €1,000 million annually.

The Polish market is more mature and has quickly established itself as a rational, frequent outsourcer of NPL management and sales. Hoist Finance is an established part of the financial ecosystem in Poland. The Polish market is stable, with a steady flow of business. The banks are showing a degree of restraint due to the current political situation, which signifies increasing and stable growth in the coming years.

What is the outlook for 2017 and beyond?

We anticipate strong growth in the German and Austrian markets in coming years. The German market is moving towards market maturity on a par with the UK, and we expect to see the German market achieve volumes equivalent to UK volumes. We have a firm foundation and are gradually building our position as a leading partner to international banks and financial institutions. We will continue to gain market shares in our current markets, and we are continuously evaluating new markets in eastern Europe.

Most important in 2016

The most important thing for me this year has been working with the region's 500 or so employees. Our employees in Germany, Austria and Poland are the driving force behind Hoist Finance's achievements in the region. It may be a cliché, but we need to give credit where credit is due. This has been a year of change, and I am incredibly grateful for my colleagues' loyalty, dedication and focus.

Trusted partner

to international banks and financial institutions

With a highly flexible and tailored product offering and 20 years' experience purchasing and managing NPL portfolios, Hoist Finance has the knowledge and operational capacity to manage complex transactions.

As a regulated entity with a diversified funding base, Hoist Finance has the financial resources and the regulatory standards to be a strategic partner to the largest international banks in Europe.

Hoist Finance buys and collects NPLs originated by banks and other financial institutions. As a partner, Hoist Finance is often closely associated with the originating bank, well beyond the transfer of ownership of the NPLs. To safeguard their reputation, banks prefer well-known and well-respected debt purchasers that are fully compliant with regulations and that have a proven track record of treating customers in an equitable and respectful manner.

These conditions work in favour of Hoist Finance, which operates market-leading collection platforms with the highest standards in customer treatment. Hoist Finance is also fully compliant with regulations, as the company falls under the SFSA's regulatory supervision.

Hoist Finance has been recognised for the quality of its work on several occasions.

Customer protection

Increased consumer protection has meant that product and conduct standards must be specified for credit suppliers. Banks are required to uphold their responsibility for their customers well after they have sold off their debts. These developments are particularly advanced in the UK, where the Financial Conduct Authority was created in 2013, mandating the Bank of England to regulate the conduct of the financial services industry including collection activities. Among other things, banks are now obliged to maintain their customer relationships and continue to treat their customers fairly over time.

As a result, fair customer treatment is a major concern for retail banks. It is expected that similar consumer protection standards will be introduced in other European countries. Given this development, banks and financial institutions may prefer to sell debt to another licensed financial institution, such as Hoist Finance, to ensure that customers continue to be treated properly.

Panel member status

With more focus on fair treatment of customers and a highly regulated

Acquisition focus

Bank-originated NPLs

- Larger ticket sizes
- Long-tail stable cash flows
- Less risky repayment profile
- Highest growth segment
- High-quality origination

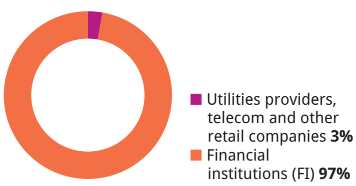
Asset-class flexibility

- Flexibility to buy all types of financial institution-originated debt
- Varying freshness of debt in different markets
- Customer benefit: Hoist Finance as a one-stop-shop
- High proportion of paying/fresh NPLs in recent years

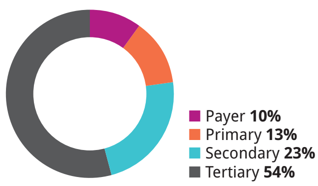
Diverse geographic profile

- Reduces single-market exposure from a risk and origination perspective
- Enables a more even flow of investment opportunities
- Strengthens value proposition to partners

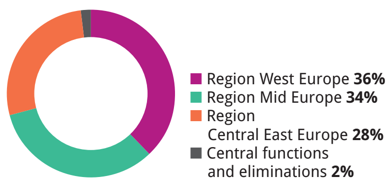
Carrying value by type of debt,
at 31 December 2016

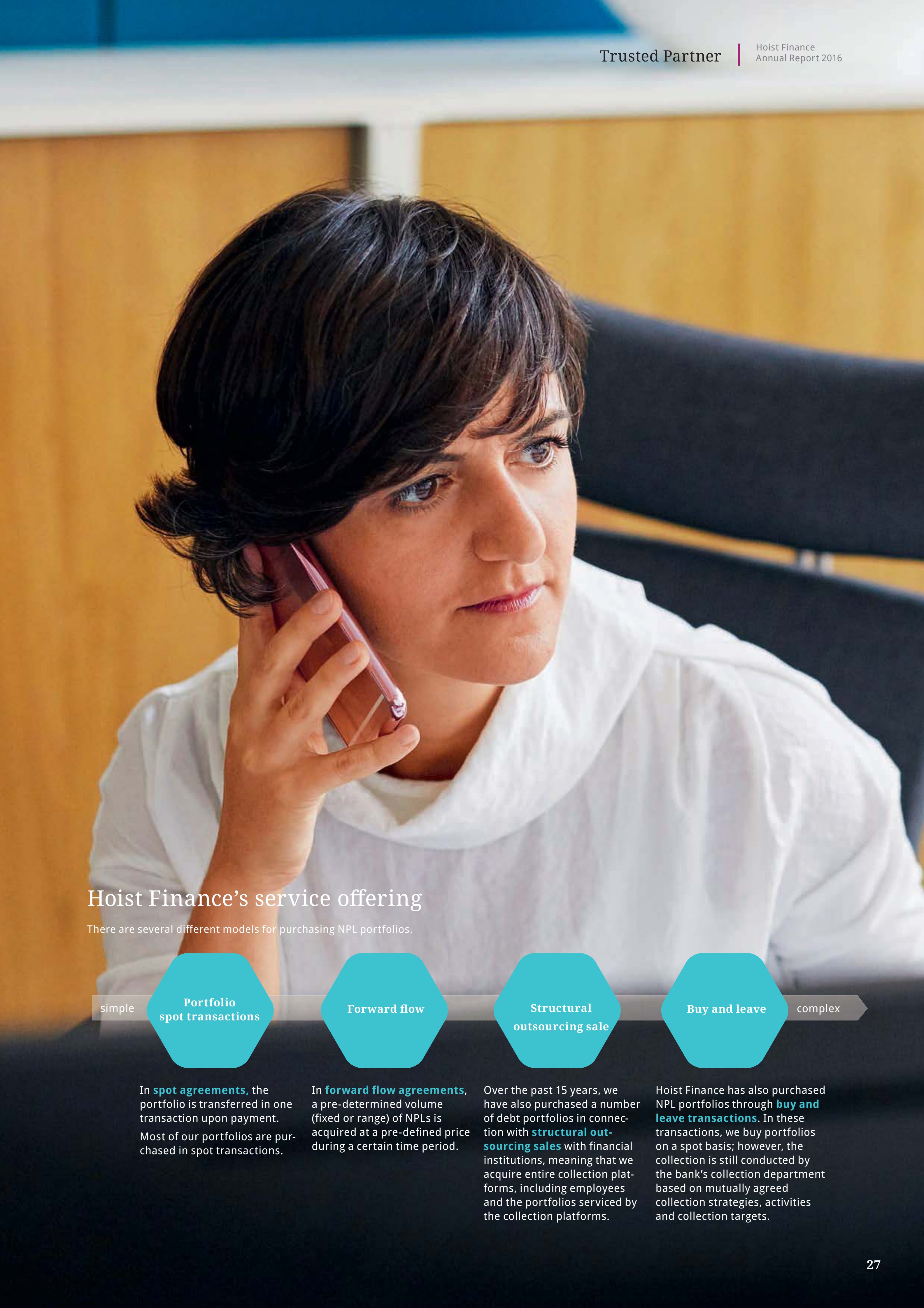


Carrying value by age of debt,
at 31 December 2016



Distribution by market,
at 31 December 2016





Hoist Finance's service offering

There are several different models for purchasing NPL portfolios.

simple → **Portfolio spot transactions** → **Forward flow** → **Structural outsourcing sale** → **Buy and leave** → complex

In **spot agreements,** the portfolio is transferred in one transaction upon payment.

Most of our portfolios are purchased in spot transactions.

In **forward flow agreements**, a pre-determined volume (fixed or range) of NPLs is acquired at a pre-defined price during a certain time period.

Over the past 15 years, we have also purchased a number of debt portfolios in connection with **structural outsourcing sales** with financial institutions, meaning that we acquire entire collection platforms, including employees and the portfolios serviced by the collection platforms.

Hoist Finance has also purchased NPL portfolios through **buy and leave transactions**. In these transactions, we buy portfolios on a spot basis; however, the collection is still conducted by the bank's collection department based on mutually agreed collection strategies, activities and collection targets.

environment, it is very important that debt purchasers can fulfil the criteria to act on behalf of the originating bank or creditor. When choosing a debt purchaser, a bank will consider several factors. Selling price is always central, but trust, reputation and compliance have become much more important. This is why the banks often sell NPLs through "panels".

A panel consists of debt purchasers or collection agencies, typically up to five of them, which have met the bank's extensive approval criteria and with which the bank works on a regular basis. The purpose is to ensure that the banks select the right partners relative to the characteristics of the NPLs, and, with regard to collections, to benchmark debt purchasers and collection agencies against each other.

Larger banks commonly sell NPLs to debt purchasers or engage third-party collection agencies through panels, but in some cases banks engage directly in bilateral discussions with companies like Hoist Finance. As an experienced financial services company with an established track record, Hoist Finance is frequently invited to panels by the big European banks. Most of Europe's ten largest banks by assets have sold NPL portfolios to Hoist Finance at least once in the past ten years.

Presence in several European markets makes Hoist Finance a more attractive partner to most international banks.

Wider product offering

NPLs being sold are generally categorised into buckets depending on when the loans were classified as in default.

- » Payer loans have been in default for one day to three months and normally have a recent history of continuous payments
- » Primary loans have been in default for three to nine months
- » Secondary loans have been in default for nine months to two years
- » Tertiary loans have been in default for two to five years
- » Garage loans have been in default for five or more years, after which they are typically fully written off

The majority of portfolios acquired by the company have been tertiary loans, but the share of fresher loans is expected to increase as markets become more mature.

Hoist Finance's base has been consumer unsecured credit originating from financial institutions. Over the past few years there has been a trend towards increasingly large and complex transactions. To save on resources and costs, banks are less willing to segment parts of portfolios and have preferred instead to sell them in larger chunks.

To take on more complex portfolios, it is important for Hoist Finance to be able to manage increasing regulation, a wider mix of loan assets and greater volumes. During 2015 and 2016 we increased our product offering and expanded our capabilities within the growing SME market.

Seamless execution

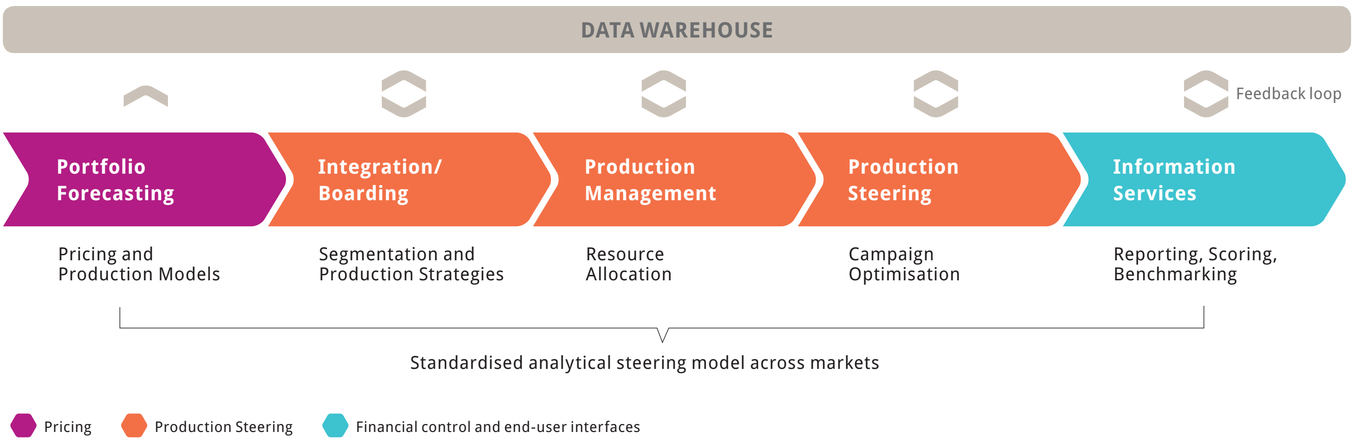
Hoist Finance has a robust set of processes and tools for reviewing, analysing, pricing and purchasing NPL portfolios. It is important for the company to manage a portfolio takeover seamlessly while ensuring the continued fair treatment of the bank's customers and adherence to the bank's compliance criteria.

To manage this process in the best way possible, we involve country-level management, the group-level investment team and group-level staff (compliance, treasury, risk, finance). Close and early cooperation between our debt collection, investment and analytic teams makes it possible to forecast collection levels and related recovery costs and thereby determine the appropriate price.

Data warehouse

Since 1997, Hoist Finance has maintained a data warehouse which captures detailed information relating to collection activities, costs and recoveries associated with all NPL portfolios acquired or managed; it is continually expanded as new portfolios are acquired. The data warehouse provides a strong competitive advantage at all operational stages and is a strategic asset that puts Hoist Finance ahead of the competition as operational scale becomes increasingly important.

Data warehouse



Strategic partnership with the Bank of Greece

Hoist Finance signed a strategic partnership agreement with the Bank of Greece in spring 2016 to join a consortium to manage the liquidation of 16 banks[1].

In early April 2016, Hoist Finance announced its signing of a strategic partnership agreement with the Bank of Greece to manage the liquidation process of 16 Greek banks as well as the restructuring process and optimisation of the banking sector. Hoist Finance is part of a consortium that serves as strategic partner in the project, along with Qualco S.A. and PricewaterhouseCoopers Business Solutions S.A.

Background

The financial crisis had a major impact on the European banking sector. Greece was one of the hardest hit markets, and recovery is still underway. This environment is a breeding ground for non-performing assets, which put a strain on banks and society as a whole. The large volume of non-performing loans needs to be managed to minimise future problems for Greece's economy and society.

In view of this, the Bank of Greece initiated a process to identify strategic partners with the advanced expertise and resources needed to manage the liquidation of the banks and re-structuring of the Greek banking sector. A public tender with an intensive qualification process was initiated, with a premium placed on players with international experience, requisite expertise and stellar reputations. Hoist Finance was selected based on its solid track record with portfolio strategy and its status as a regulated financial institution.

Hoist Finance's role

Hoist Finance is managing the liquidation of the Greek banks by collecting on loans and by divesting pledged assets and loan portfolios. Hoist Finance's strength lies in its portfolio strategy – the company normally purchases portfolios, but is serving in this project as a seller of portfolios under a mandate from the Bank of Greece. The portfolios under management comprise a broad spectrum of assets, including secured and unsecured loans, loans to large and small businesses, and mortgages. The consortium is also responsible for streamlining and optimising the banks' operations in the liquidation process.

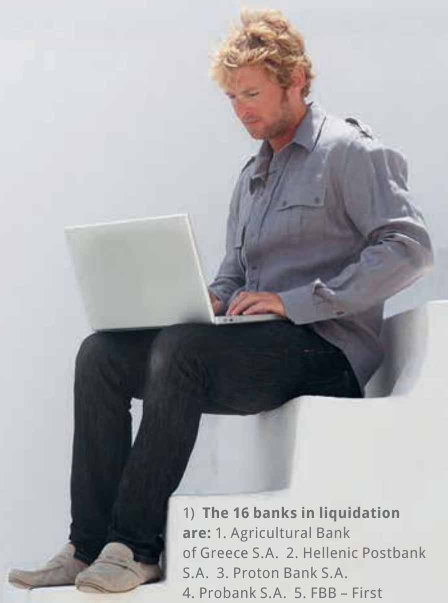
No other central bank in the world has opened the door for this type of partnership, and Hoist Finance's collaboration on the project is ground-breaking. Hoist Finance is not only assisting the Bank of Greece in restructuring the country's banking sector, it is also helping the Bank (and, ultimately, Greek taxpayers) by recovering non-performing loans. During the course of the project Hoist Finance will also develop its understanding of the Greek market, as the company will have the opportunity to analyse end-user behavioural patterns and evaluate future partners and working methods. Additionally, due to the diversified nature of the portfolios, Hoist Finance will gain valuable new experience in different asset classes.

Outlook

Greece has been a market of interest for many years, and Hoist Finance has been evaluating various business opportunities there for quite a while. Regulations governing the sale of non-performing assets need to be changed in order for the market to truly open up. When this occurs, the market will grow substantially. Considering Hoist Finance's early establishment, the company is well positioned to take advantage of anticipated future opportunities. As part of the strategic partnership, Hoist Finance is involved in developing structures and standards for the sale of non-performing assets in Greece.

The Bank of Greece is the first central bank to use a tender for major liquidation processes – but in all likelihood will not be the last to do so. Several European banks have similar problems, and under certain circumstances similar solutions could also be launched in other countries.

Considering Hoist Finance's geographic presence, expertise and experience from the project in Greece, the company is well positioned to participate in similar projects. This is also fully in line with Hoist Finance's ambition to be a leading partner to international banks and financial institutions.



1) **The 16 banks in liquidation are:** 1. Agricultural Bank of Greece S.A. 2. Hellenic Postbank S.A. 3. Proton Bank S.A. 4. Probank S.A. 5. FBB – First Business Bank S.A. 6. Panellinia BankS.A. 7. Achaiki Cooperative Bank Ltd. 8. Cooperative Bank of Lamia Ltd. 9. Cooperative Bank of Lesvos-Limnos Ltd. 10. Cooperative Bank of Dodecanese Ltd. 11. Cooperative Bank of Evia Ltd. 12. Cooperative Bank of Western Macedonia Ltd. 13. Cooperative Bank of Peloponnese Ltd. 14. T-Bank S.A. 15. Bank of Crete S.A., (L.2330/1995) and 16. ATE LEASING S.A.

Amicable settlement – key parameters

Hoist Finance's goal is to be the preferred partner throughout the entire collection process. A true understanding of customer circumstances and a focus on reaching amicable settlements are key parameters for success.

By the time customers come into contact with Hoist Finance, their journeys will often already have been emotionally and financially challenging. They will have experienced a number of claims and debt collection activities, which take a toll on well-being. In order to meet customers in the best possible manner, Hoist Finance's teams are trained to focus on putting the customer at ease and achieving the best outcome for all parties involved in the process. It is of crucial importance to Hoist Finance that employees continue to be responsive and respectful when working with customers to reach a viable and realistic solution.

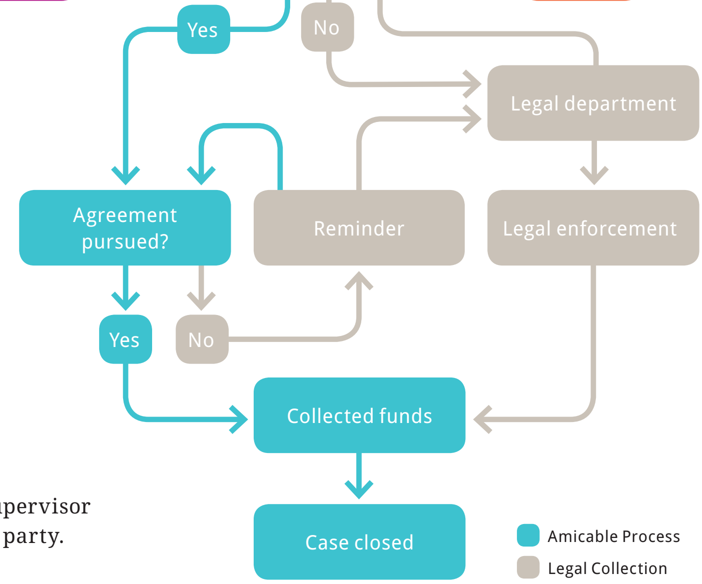
Collection capacity

Debt collection is managed through 13 in-house collection centres across Europe and complemented by carefully selected, local partners. Methods and practices vary across markets due to differences in the regulatory landscape among markets/countries. The UK, for example, is heavily regulated in terms of conduct and acceptable customer outcomes.

The amicable settlement model takes into account each customer's individual circumstances. The aim is to establish a sustainable, voluntary and affordable instalment plan in close dialogue with the customer.

In the initial stage of the collection process, Hoist Finance segments customers according to the likelihood that they will repay their debts. The company plans the best way to contact and treat each customer to achieve the best possible solution. The ultimate goal is to find a suitable and beneficial solution

Collection process overview



for all parties involved in the process. Settlements are often comprised of small payments over a long period.

Customer contact is made most often by telephone but also by email, post or in personal meetings if preferred by the customer. Optimising customer contact at each stage of the collection life-cycle is key to the debt collection strategy. Customers' circumstances are regularly reviewed in order to monitor and determine enhanced options for initiating a payment process or to make changes to the payment plan. Hoist Finance always aims at achieving voluntary collection solutions.

Communicating with financially vulnerable customers requires integrity, empathy and a good understanding of the customers' situation. Selecting and recruiting qualified customer service staff is key. As an example, all employees at the call centre in Manchester, UK go through a five-week training course at the office, during which they are trained in applicable laws and regulations and listen in on customer conversations to gain in-depth understanding of what the job entails. Employees who have had an emotionally difficult conversation with a customer and who want or need to work through the issue are encouraged to speak with their supervisor and/or an external party.

Efficient customer contact

With over 20 years' experience in debt collection, Hoist Finance has developed its approach, improving collection methods and efficiency. Historical data on claims and debtors is used to tailor an optimal collection strategy for each debtor. Several automated processes are integrated into the debt collection strategy, such as automatic dialers. Collection methods depend on various factors, including geographical market, claim size, applicable laws and regulations as well as the individual customer. Significant investments were made during 2016 to develop tools for digital customer account management. The goal is to offer customers new communication channels in coming years, such as text messaging, live chat functions and online communication.

Legal and enforcement actions

While Hoist Finance aims to resolve claims without relying on legal enforcement, such action is taken as a last resort if necessary and in cases where the customer has not engaged throughout the collection process. Sometimes a specific case or market requires involving external collection partners such as lawyers, bailiffs or third-party collection agencies. In line with the company's amicable settlement model, customers are typically directed back to customer management if they agree to a voluntary solution.

EMPLOYEE

Adele Reid Key Transaction Manager, Region West Europe

Could you describe Hoist Finance´s company culture?

Hoist Finance's company culture is open and transparent. The leadership team is approachable and really understands the business and industry we work in and therefore creates a very motivating and empowering work environment.

In what ways do you think Hoist Finance contributes to society?

In the UK we work with local schools to raise awareness of money management issues and we also work hard all year round to donate money to fund educational trips for under-privileged children. It's incredibly important to give back to our community and here at Hoist Finance it's a big part of who we are.

Every case is special – and every solution unique

There are many reasons why a person's financial situation suddenly may become unmanageable. These can involve emotional challenges such as divorce, domestic violence, mental health or illness that are difficult to discuss with strangers. "That's why it's so important for us to find the right people, with empathy and well developed social skills – and we continue to invest in them with regular training and support," says Joanne Hall, part of the specialist team at Hoist Finance in Manchester.

A key element in the company's success is its ability to create trust among customers and work with sensitive issues in a constructive manner. Hoist Finance's specialist team in Manchester has developed a well-structured process focused on ensuring that every customer is treated with respect and integrity.

"These are real people, with real problems and real hopes for the future, and we always respect that," Joanne continues.

"We are good at thinking outside the box. Every case is different and we need to understand our customers' circumstances in order to be able to work out a fair outcome. This means that we have to be good at listening, to encourage our customers to open up. We also need to be level-headed and not get emotional."

500–600 cases per month

Each member of the team handles some 500–600 cases each month. This requires a structured approach, whilst each customer's individual needs must also be taken into account. We carry out an affordability assessment on every account; income and expenditure information is captured along with other important details such as priority bills.

Members of the team need to be empathetic and assist in very sensitive situations, such as domestic violence, and direct customers when appropriate to social support services and, in certain cases, alert the police if they are concerned for the individual's welfare.

"Our people receive specialist vulnerability training to help them identify needs and ensure the right outcome is reached for those customers who need assistance most," Joanne explains. "We also have call listening to ensure our customers are treated correctly, fairly and according to our guidelines.

"Our CORE values and TRUST principles encourage our customer contact representatives to do the right things to achieve the right outcome for the customer and the business. If a member of our team needs support after handling extra challenging situations, we offer this as well."

Joanne says that in order to secure a fair outcome, it is essential that the team members like their jobs, and that the customers feel that they are well treated.

"Our company culture is the essential key to success in both of these areas. We strive to create a culture of openness, honesty and continuous improvement. Feedback from team members and customers indicates that we're on the right track," Joanne concludes.

Joanne Hall is part of the specialist team at Hoist Finance in Manchester.

MEET ONE OF OUR CUSTOMERS:

”She solved my debt problem – I’m so grateful”

> I want to do what’s right, to the best of my ability

“Free at last! Now I can start looking for a flat” says Nastunye with a sigh of relief. An unemployed single mother with a history of ill health, Nastunye got into financial difficulties years ago. The compound interest piled up over the years and her anxiety grew along with the growing debt. But today, after reaching an agreement with Hoist Finance, Nastunye can finally breathe again.

“I called her and she found a solution to my problems. She was so sympathetic – such a nice person”.

This is how Nastunye (whose name was changed for this article) describes her first contact with Hoist Finance. Her debt problem began in the 1990s soon after she escaped to Germany from Croatia in the wake of the war in former Yugoslavia. Nastunye agreed to this interview to express her gratitude – to Hoist Finance for helping to resolve her financial problems and for the sympathetic manner in which she was treated.

“When I received the first letter from you I was shocked and didn’t know what to do. But I took courage and phoned – and the nicest voice answered! I felt right away that I could start to breathe again. I want to do what’s right, to the best of my ability.”

Tell me about yourself – how did you end up in this situation?

“I suffer from bad health, and I have also been battling a number of other problems. I lost my house in Croatia because of the war and then my job as a cleaning lady. One of my sons is also ill. As a single mother of two children my situation was tough, but I’ve always tried to work as much as possible. Despite this, I’ve never been able to keep up with my debts.”

During your first contact with Hoist Finance, you discussed a solution for repaying your debt, is that correct?

“Yes. I was met with a lot of kindness. I was advised to write you a letter describing my situation, which I also did. I explained my financial situation and my difficulties in repaying the debt. I also wrote that I would like to try to make partial payments”.

”I phoned you later and we discussed various solutions”.

What was the reply?

”We found a solution that made me debt free. I was overjoyed! I was overwhelmed with happiness!“

“I am 66 years old – and I am now finally free. I can start looking for a flat, I have no record of unpaid debt.

I’m so grateful.”

The call that could be life-changing

"I feel that I'm doing an important job, that I'm helping people in difficult situations and perhaps solving problems that have caused years of anxiety. Sometimes it can be difficult to listen – but at the same time, I get so much energy from all the positive feedback we get from our customers. They know that we care," says Rebecca Mellor, customer contact representative at Hoist Finance's call centre in Manchester.

Talking in a kind and calm tone of voice, radiating positive energy and what seems like an unlimited amount of patience, Rebecca Mellor is sitting at the collections department in Manchester along with her colleagues taking calls from customers with debts that have been taken over by Hoist Finance. Some are upset, others sad, while some may even hang up on her. But at the same time, the many thank-you cards covering the walls of the light and airy open-plan office bear witness to the fact that, for many customers, these calls could be a turning point towards a brighter future.

"To be suited for this job, you must be good at listening, be able to keep your cool and be solution-oriented, says Rebecca Mellor.

"Most people want to do what's right. The most difficult thing to handle is when people are angry. But when someone who is rather cross at the beginning of the conversation changes attitude completely and ends up thanking me – that's when I feel satisfied. I know then that I've done a good job."

From fashion designer to customer support

From fashion design to customer support at a debt restructuring company may seem like an improbable leap. But Rebecca was looking for a new challenge and career opportunity – and chose Hoist Finance.

"Several things attracted me to the company," she adds. "One important aspect was the opportunity for social interaction and close contact with both colleagues and customers. I really appreciate working in teams of people who have so many different skills and in a company culture characterised by cooperation and innovation. Just like me, many of my colleagues have different academic backgrounds and there are good career opportunities here – perhaps even to work abroad."

Upsetting first week

Before Rebecca was entrusted with handling customer contacts on her own, she went through a series of extensive tests, training and practice, just like her colleagues. She was continually assessed throughout to ensure that she would be suitable for, and enjoy, the job. After this, she started to handle contacts and answer phone calls on her own.

"I felt well prepared," Rebecca continues. "During the first week, though, I had a distressing experience with one of our customers. But I kept calm and my training kicked in. I called the police and they drove over and we managed to resolve the situation. It was upsetting, but I got great support from my colleagues and superiors."

Rebecca Mellor will be working with the new digital solution, which tailors customer contact to individual needs and preferences.

"I like the feeling of continuous development at the company," she concludes, "and that we are always looking for better and smarter methods of working."

Rebecca Mellor works at the collections department in Manchester taking calls along with her colleagues from customers with debts that have been taken over by Hoist Finance.

Make an extra payment, and see in real time how it reduces your balance. Receive automated payment and final settlement offers. Calculate your payment capacity. These are all features of our new digital tool for our customers. Our goal is to make things as convenient as possible for the customer while also increasing recovery rates.

Digital tools for increased customer satisfaction

Hoist Finance is in the process of developing digital tools to improve its customer interactions. At the heart of this is a new responsive web site, compatible with all digital platforms, as Louise Schofield, Director of Operations in Manchester explains:

“We want to communicate with our customers in the way they prefer and that suits their individual needs. Some people don’t want to call and others do not like to write letters. With our new, digital platform we will be able to interact with customers via text messages and other means” says Louise Schofield, Director of Operations in Manchester. “This will allow us to target additional customer groups and communicate with our customers in a much faster way,” she adds.

The key principle in designing the new digital platform has been to make it as simple and easy to use as possible. The platform is based on behavioural analyses with a view to developing the most simple, easy-to-navigate messaging functions possible.

“Our long-term strategy is to be able to direct more and more of our customer contacts from phone calls to our digital platforms. This way, we can make better use of resources and be much more efficient. We currently have 2.7 million customers and now we can offer bespoke solutions for each and every one of them. They will be able to do things like log in to see their accounts, watch their balances shrink in real time as payments are made, and use the calculator to see how much they can afford to pay next month,” she says.

“This is a way of pulling all of our customer interactions together and making the whole process easier and more efficient for all parties. The goal is to improve collections by increasing customer engagement, and to improve customer satisfaction and reduce complaints.”

The new platform will be launched in 2017, but digital tools will be developed on an ongoing basis. One example is an app that will be launched in 2018 – to make the process even easier for customers.

EMPLOYEE

Joan Louise Raghoe Collections Expert, Region Mid Europe

What do you appreciate most about your job at Hoist Finance?

Hoist Finance has confidence in me and I find that very satisfying. It gives me self-confidence, which helps me in my daily work.

What do you think is most important in terms of doing a good job at Hoist Finance?

In my job, it’s very important that I can make arrangements with our customers that are reasonable for Hoist Finance and sustainable for the debtor. All of our customers are different and have a different financial situation, so you have to analyse and listen before you act.

Ethics, engagement and care build trust

Corporate Social Responsibility and trust build a sustainable business model

Hoist Finance's CSR pledge is integrated into everything we do, from our ethical business model, engagement with our partners and our amicable settlements to our care for all employees and our reduced environmental footprint. We believe that our commitment to CSR demonstrates ethical leadership within our industry and thereby earns and maintains the long-term trust of our customers, partners, employees and society as a whole. To be a leading debt restructuring partner, we depend on our stakeholders' trust and we want to earn that trust buy acting responsibly and with respect. We want to be the preferred choice of our partners and the best place to work. We also want our customers to feel that they are fairly treated, and at the same time, to be attractive to investors.

Hoist Finance works continuously with all local offices to define plans and take action that promote integration of CSR into daily operations. All of our initiatives and activities are guided by four CSR principles:

Generated and distributed economic value

	SEK M	%
GENERATED DIRECT ECONOMIC VALUE		
Total operating income[1]	2,247	
DISTRIBUTED DIRECT ECONOMIC VALUE		
Personnel:		
Wages and salaries	450	
Other personnel expenses	128	
Personnel costs	**579**	**26**
Suppliers:		
Other operating expenses	**967**	**43**
Society:		
Social fees	93	
Tax	116	
Stability fee and deposit guarantee scheme	22	
To society	**232**	**10**
Shareholders:		
Dividend	**105**	**5**
Reinvested	**365**	**16**

All our initiatives and activities are guided by our guiding principles for CSR:

Respect for customers and partners

Respect for business ethics

Respect for human and labour rights

Respect for the environment

1. **Respect for customers and partners,** safeguarding the integrity of our customers and partners. Customers are treated with respect and dignity through a constructive and transparent dialogue.

2. **Respect for business ethics,** complying with all laws, regulations and internal company guidelines by acting ethically and with integrity.

3. **Respect for human and labour rights,** demonstrating respect for the individual and our commitment to offer our employees professional growth and equal opportunities in a healthy and safe workplace.

4. **Respect for the environment,** minimising the environmental footprint from our operations through increased awareness of our negative impact and focus on actions that make a difference.

Our way forward

Hoist Finance expanded and developed several CSR actions during 2016. A number of focused projects were initiated and we plan to continue to embed CSR in all parts of our operations during 2017. The progress of initiatives and projects will be closely monitored during the year and specific KPIs will be implemented. One of the initiatives we will be expanding is our customer satisfaction survey which we plan to roll-out in additional countries in 2017, with full participation in 2019.

Evaluation of Hoist Finance's performance

In 2016 Hoist Finance took on the task of identifying additional KPIs in all CSR areas and initiated the process of defining a baseline for each indicator. The aim for 2017 is to announce the baseline for our CSR performance, set new goals and establish a process for our future improvements.

The Swedish Parliament amended the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) during 2016 to require all companies of a certain size to prepare sustainability reports. The amendment will be applied for the first time for the financial year beginning after 31 December 2016. Hoist Finance has elected to publish an annual integrated sustainability report in compliance with the GRI framework.

A GRI index for 2016 is presented on page 131.

1) Operating income, Net credit losses and Profit from shares and participations in joint ventures excluding expenses for stability fee and deposit guarantee scheme.

Corporate culture and values

Our foundation is our common values, beliefs and behaviours. Building trust is what inspires and guides us every day.

TRUST

Transparency
By being open, honest and true we will gain trust, respect and confidence.

Results
With energy, enthusiasm and direction, we will deliver on our commitments and produce sustainable growth.

Uniqueness
We must dare to be different and innovative in order to continuously improve.

Skills
When we trust our people and challenge them to develop the right skills, they will grow personally and contribute positively.

Teamwork
Strong and loyal teams go the extra mile to achieve success for the company and each other.

1. Respect for customers, partners and society

We believe in treating our customers fairly, and we work with partners who share our commitment to positive development for our customers and society as whole.

87%
positive responses in UK customer survey

A strong reputation within the industry and positive customer relationships are determining factors for Hoist Finance

Fair treatment of customers is our way of working

Fair treatment of customers is a vital part of Hoist Finance's business model for amicable settlements. The model takes into account each customer's individual circumstance and our employees take pride in knowing they can support each individual customer in becomming debt-free. It is important for us that every customer is treated with respect and dignity. As a step to support our collection specialists, we provide training on how to manage the collection process both from a human as well as a compliance perspective.

Hoist Finance seeks customer feedback as a step to ensure we deliver on our commitment of achieving the best outcome for our customers. To collect customer feedback, Hoist Finance launched a customer survey programme in 2015 in the UK. Customers are asked three questions at the end of each phone call to review their overall experience with Hoist Finance and the call handler. Since May 2015, the UK team has been able to modify and improve their staff development programmes using results from the customer survey programme.

During 2016 an average of 3,500 surveys per month were sent to Hoist Finance customers. A significant majority (87% of respondents) are positive towards Hoist Finance's way of working with amicable collection. We were pleased to see the keywords "understanding" and "very helpful" in the respondents' feedback. This is a confirmation that Hoist Finance has successfully implemented its business concept based on amicable settlements, with customers who feel they are treated with understanding and respect.

It is essential for Hoist Finance that customers are able to file their complaints, and we have ensured that every country of operation has mechanisms in place for handling complaints. Customer dissatisfaction may be based on incorrect documentation or the customer's perception that he or she has been treated unfairly. Because complaints are related to local conditions and procedures, Hoist Finance follows up, monitors and takes action on complaints on the local level. Progress is reported quarterly at Group level. During 2017 the complaint reports will be expanded to include additional details on local management.

Good partnerships drive positive change

Hoist Finance values its solid, strong partnerships and works with its partners to improve customers' situations as well as society as a whole. Hoist Finance conducts a partner satisfaction survey every second year to explore what drives the market and gather feedback on the company's performance. The results of the first survey (carried out in 2015) showed that "reputation" is a key factor influencing the choice of partner.

Additional improvements were made to working methods during 2016 based on survey results. Hoist Finance's strong reputation and financial success clearly indicate that the company's business model is well aligned with the market and with partners' demands and expectations.

A strong reputation within the industry and positive customer relationships are determining factors for Hoist Finance.

Community engagement

Hoist Finance works to strengthen the local communities where we operate by inspiring employees to involve themselves in the community. Most of our offices support their local communities to some extent, with the most active offices in the UK, France and Italy. Our employees volunteer their free time and make financial contributions. One example from France is the involvement of our managers in the NQT mentorship programme, which supports young graduates with guidance on employment and integration issues.

2. Respect for business ethics

While Hoist Finance is fully compliant with legal and regulatory requirements, we want to go beyond by leading industry best practice. Hoist Finance is committed to a high degree of integrity and ethical standards to safeguard our clients, customers and investors.

Group Compliance attended more than **20** external seminars in 2016

In 2016 more than **50** outsourcing partners were reviewed for compliance

Successful implementation of Code of Conduct

The Hoist Finance Code of Conduct specifies the rules of behaviour that company employees are expected to adhere to. The document highlights Hoist Finance's standards to ensure that we act in the best interest of the company, our stakeholders and those affected by our operations. It is our responsibility to ensure that all employees are well aware of our standards and expectations. As such, Hoist Finance has made an ambitious effort over the past two years to provide training across the Group on the Code of Conduct. All managers in the Group have taken part in the training, and the training has since been done in all countries by the local organisations.

Responsible portfolio management

In a rapidly developing debt purchasing sector, Hoist Finance has a clear strategy and focus on debt purchasing of credit that has been originated by regulated creditors. In order to reduce risks, we conduct proper due diligence. Once a potential acquisition is approved, we move into a structured process to take over the portfolio and apply our responsible portfolio management. We have policies to govern and effective tools to monitor third parties to whom we outsource debt collection. Hoist Finance designates persons responsible for each outsourced activity. The responsible person monitors the third party through means such as monitoring the regular reporting made by the service provider, monitoring performance in relation to the agreed service levels, and conducting random controls of the outsourced activity to ensure the CSR-policy and Code of Conduct are applied. In addition, we have complaint mechanisms in place.

Whistleblowing procedure

Hoist Finance encourages an open culture where employees feel at liberty to speak up when there is wrongdoing. To that end, we have a whistleblowing programme by which employees can openly communicate any wrongdoing to a compliance officer. Recognising that employees may at times prefer to be anonymous, the whistleblowing programme also allows for anonymous reporting. All employees have received an instruction manual on how to blow the whistle, and in 2016 there was a successful roll-out of an e-learning course on the whistleblowing process at Hoist Finance.

Counteracting financial crime

Preventing financial crime is of utmost importance to Hoist Finance. To do so we monitor transactions, conduct know your customer (KYC) checks, and screen customers against the politically exposed persons (PEPs) and sanctions lists. We also believe that one of the most effective measures in combatting financial crime is ensuring that employees understand the basic characteristics of fraud and money laundering. Accordingly, we have focused extensive resources on training our employees in these matters, emphasising areas that are relevant to Hoist Finance's operations. Identified as a group exposed to additional risk, the sales teams that purchase NPL portfolios will receive further training in preventing money laundering via a newly launched e-learning tool during 2017.

Beyond compliance – building a legacy of trust

Hoist Finance wants to move beyond compliance and show ethical leadership in our industry. We have a robust set of policies and a governance framework for different aspects of our business in place. However, it is people and not policies that will make it happen; therefore, the managers and teams in different areas of our business are the owners of their respective policies. This way the policies are kept relevant to the task at hand, and updated regularly.

Training is also key to achieving strong compliance. Hoist Finance has concluded that having internal competence to design and execute training programmes is vital to provide relevant training, customised to our business.

Sanctions

During 2016 Hoist Finance was not subject to any financial or non-financial sanction for compliance violation by any regulatory authority in any country of operation.

Anti-corruption

Hoist Finance's anti-corruption efforts are an integral part of our ethical guidelines and our work with these guidelines. Policies and training on our ethical guidelines also include measures to combat corruption. Hoist Finance has not identified any significant risk of corruption in any part of its operations. We also assess our operations for corruption-related risks as part of our efforts to combat money laundering and terrorist financing, and we have no incidents of corruption during the year.

3. Respect for human and labour rights

In addition to Hoist Finance's ambition to be an industry leader, we also aim to achieve our strategic objective of being the best place to work – a place where employees feel that they work for an extraordinary company with extraordinary people.

57% female directors on BoD

In 2016 we have focused specifically on diversity and workplace equality, leadership and skills development, building a strong culture, and ensuring employee well-being.

Continued growth built on diversity

Creating a diverse workplace with equal opportunity for all employees is fundamental to Hoist Finance's strategy in developing the best place to work. Diversity, company culture, and work environment and processes were rated the three highest corporate markers in the employee survey, indicating that the continuous efforts to be a fair and equal opportunity employer have produced positive results.

The number of employees fell somewhat in 2016 due to the termination of a service contract in Poland. Converted to FTEs, the number of full-time employees at year end was 1,285, a five per cent decrease from the previous year.

Approximately 97 per cent of employees were directly employed by Hoist Finance, of these 88 per cent were permanent employeees and 12 per cent were temporary employees. Men constitute 43 per cent (42) of the workforce and women 57 per cent (58) of the employees. 58 per cent of all managerial positions are held by men and 42 per cent by women. The company also takes pride in having a diverse Board of Directors with a 57 per cent female representation, well above the industry average of a mere 32 per cent. With equality and fairness in mind, the company remunerates employees based on local salary levels and market practices and applies collective agreements where these are in place. Qualifications and performance are the only considerations when setting salaries; gender, origin, ethnicity, age and other factors are not taken into account.

The Remuneration policy is updated yearly, most recently in December 2016. In conjunction with this the Board of Directors adopted a Diversity policy in accordance with new laws and regulations.

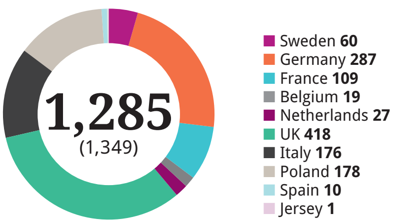
The countries in which we operate have various laws covering the registration of discrimination. We have therefore elected to report incidents of discrimination when the matter is the subject of a lawsuit. There were no discrimination lawsuits during 2016. Anonymous issues are managed within the scope of whistle-blower procedures.

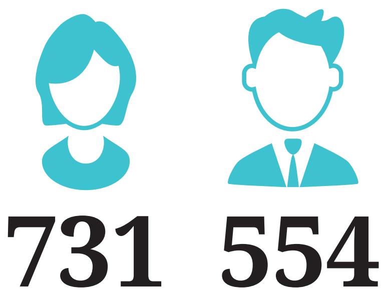
Skilled employees & capable leaders

Providing development opportunities for our employees is important for the company's success as well as for employees' individual growth. Continuous learning through day-to-day work activities is a key prerequisite for our ability to adapt to new circumstances, such as changes in various stakeholders' expectations. In addition to strengthening professional skills, it is vital that employees are knowledgeable about compliance issues. Employees that are exposed to additional risks receive further training (eg, in preventing money laundering). Collection specialists receive regular in-depth training in guiding customers through potentially stressful and emotional situations using respectful dialogue focused on amicable, mutually satisfying solutions. New courses are added to our e-learning platform on a regular basis, and most countries provide learning support from internal trainers.

Strong leaders are a key factor in creating the best place to work. During the year the Group held its first mandatory management training programme, "Leading with TRUST". The programme's main objectives are to build a uniform company culture and improve teamwork among management. Most Hoist Finance offices also offer basic leadership

Number of employees (FTE) 2016
by country





Number of employees, 2016	Women	Men	Total
Total number of employees, 31 Dec 2016	806	582	1,388
Full-time employees (FTEs), 31 Dec 2016	731	554	1,285
Average number of employees	752	575	1,327

Percentage women, 2016	
Senior executives	38%
Parent Company Board of Directors	57%
Full-time employees (FTEs)	57%

Creating a workplace characterised by diversity and equal opportunity for all employees is fundamental to Hoist Finance's strategy to develop the best place to work.

This year's employee survey showed that company's strengths are diversity, company culture, work environment and processes, sustainability and commitment to strategic direction.

training and other local development programmes. To ensure leadership continuity, a clear structure for succession planning called "Growing Leaders" was put in place in 2016.

Benchmarking development of company culture

A vibrant company culture is the core of the best place to work. To measure the development of company culture and work environment over time, Hoist Finance turned to the global company Great Place to Work, which conducts one of the world's largest employee survey and ranking programmes.

Great Place to Work provides tools to support and prioritise Hoist Finance's development, with a focus on engaging employees and implementing the TRUST values. A central tool is the Trust Index employee survey, which provides information on how employees experience their company and benchmarks with similar companies. The 2016 survey results showed that the company's strengths are diversity, company culture, work environment and processes, sustainability and commitment to strategic direction. During 2017 each country will use the results to initiate open dialogue and collaboration with employees to identify development areas and implement improvements.

Grievance procedure to protect trust

Hoist Finance encourages a culture where employees feel that they are valued and respected. This includes offering options for expressing dissatisfaction. Hoist Finance has grievance processes in place in each country based on local legislation and agreements with employee representative organisations.

Happy, healthy employees

Call centres in general and collection centres in particular are stressful places to work, so it is essential to proactively support well-being among employees. Initiatives are in place in Hoist Finance's offices to bolster mental and physical health, including health management plans in Germany, stress assessments in France and well-being surveys in Italy. Another example is the company-wide Hoist Strive Challenge, which combines physical activity with fundraising for local charities.

In 2016 Hoist Finance had a turnover rate of 22.55 per cent and a low short-term sick leave rate of 3.94 per cent.

4. Respect for the environment

Being a sustainable company in a sustainable environment is important to Hoist Finance. The company works actively to minimise the negative impact of its operations by consciously managing the areas that affect the environment in our day-to-day operations.

Due to Hoist Finance's geographically wide-spread organisation, emissions from business travel represent the company's largest impact on the environment. In 2015 Hoist Finance initiated a project to reduce travel by installing Skype for Business in all offices. By the end of 2016 the application was installed on all computers in all offices and training was held using e-conferencing systems to ensure the initiative actually reduces travel. Usage of the system is closely monitored, which will drive improvements in 2017.

Tangible change is being made by involving all employees in the company's environmental efforts. During 2016 initiatives were launched in Italy, Sweden, Belgium and the Netherlands to raise awareness about how to reduce Hoist Finance's environmental footprint through our daily actions.

Creating a green office

Headquarters in Stockholm have taken the lead in environmental care through a number of concrete local initiatives:

- We changed suppliers of consumables (eg, coffee, tea, snacks, cleaning material) to the most environmentally friendly alternative available.
- We installed printing control, changed to environmentally friendly paper and recycle most of our paper through privacy management.
- E-waste is recycled in accordance with privacy measures.
- All supplies (eg paper, plastic, batteries, light bulbs, metal) are now sorted and recycled.
- We have an agreement with the local taxi company to ensure that necessary taxi rides are in "green cars" (ie, electric or hybrid cars).
- Visitors and employees at the Stockholm office can use bicycles to get around town through our subscription with City Bikes.

EMPLOYEE

Alicja Pokładek Risk and Analysis Specialist, Region Central East Europe

Why did you want to start working at Hoist Finance?
I was looking for a friendly workplace, where I could develop my skills and gain new knowledge and experience. I think Hoist Finance is such a place.

Do you think Hoist Finance differs from other workplaces in any way?
I think Hoist Finance provides an exceptionally good atmosphere. People are supported by Hoist Finance not only at work but also outside of work. The management truly appreciates the employees, and so the employees willingly get involved in their work.

Diversified funding

HoistSpar offers a safe and attractive retail deposit savings alternative on the Swedish market. Together with capital-market-originated loans, retail deposits provide a diversified structure to form a strong funding base for Hoist Finance.

Flexible and diversified funding

Hoist Finance has a strong funding base which consists predominantly of a mix of retail deposits from the general public and capital-markets-originated debts. The retail deposits give the company a competitive advantage as they are stable and flexible at relatively low cost. With the establishment of a long-term debt programme in 2016, Hoist Finance has brought further diversification and flexibility to the funding base.

Liquidity and capitalisation

Hoist Finance keeps a significant proportion of liquidity reserve. As of the close of 2016 the liquidity reserve amounted to 30 per cent of total assets. The liquid assets are largely made up of Swedish government and municipal bonds, and covered bonds. As a credit institution, Hoist Finance is subject to substantial regulation, including the Basel III framework, relating to capital liquidity and capital requirements.

At 31 December 2016 Hoist's total capital ratio was 16.76 per cent (15.21) and the Common Equity Tier 1 ratio was 12.46 per cent (12.32). The capitalisation level is well above regulatory requirements.

Competitive savings alternative

HoistSpar offers a safe and attractive savings alternative to retail depositors in Sweden, with competitive interest rates and a straightforward product range, including the variable current account deposit and fixed-term deposits with durations of 12, 24 and 36 months. There is also a current account deposit offer for corporate customers. Customers can save up to SEK one million.

After the Swedish central bank lowered the repo rate to –0.50 per cent in February, more depositors opted for savings deposits with longer durations. Total deposits fell during the year, but there was a marginal increase in fixed-interest savings deposits.

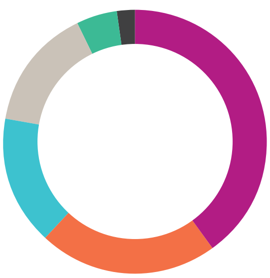
At 31 December 2016 HoistSpar had 61,387 active accounts (61,617) with total deposits of SEK 11,849 million (12,791).

16.76%
Total capital ratio
(15,21)

12.46%
CET1 capital ratio
(12.32)

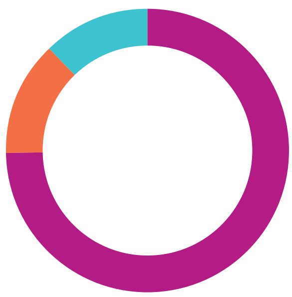
Funding structure, 31 Dec 2016

- Demand deposits **40%**
- 1–3 year deposits **22%**
- Senior unsecured loans **16%**
- Equity incl Additional Tier[1)] **15%**
- Other liabilities **5%**
- Subordinated loans **2%**



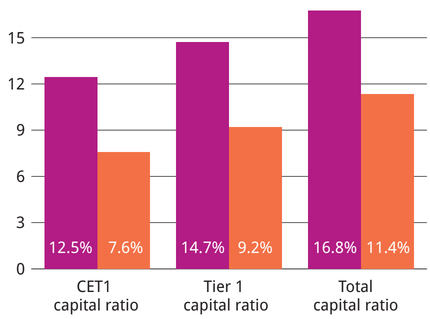
Capital structure, 31 Dec 2016

- CET1 capital **74%**
- Additional Tier 1 capital **13%**
- Tier 2 capital **12%**



Capital adequacy, 31 Dec 2016

- Hoist Finance's capital requirement
- Regulatory capital requirement



Risk management

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

Hoist Finance defines risk as the possibility of a negative deviation from what is expected. This could be a deviation from expected earnings, liquidity levels or capitalisation. Ongoing risk management is a core activity in Hoist Finance and is fundamental for long-term profitability and stability.

Risk management framework

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

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

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

Risk capacity (capital and liquidity buffers in place before critical levels are reached) is determined in order to ensure the survival of the Group. Capital risk capacity is the difference between actual capital levels and regulatory minimum levels and shows the capacity to absorb losses before critical levels are reached. Liquidity risk capacity is the size of the liquidity outflow Hoist Finance can manage without breaching regulatory minimum requirements.

The Board of Directors determines Hoist Finance's risk appetite within the available risk capacity. By weighing potential returns against potential risks, the Board can decide on an appropriate risk and return level for the Group. Hoist Finance's risk appetite then provides the basis for business decisions and risk limits, which are used in day-to-day business activities and in risk monitoring. The Group's Risk Control function continuously monitors to ensure that Hoist Finance does not assume any risks that exceed the established risk appetite, risk capacity or limits.

Three lines of defence

Hoist Finance's risk management is built on clearly defined goals, policies and guidelines, an efficient operating structure and transparent reporting and monitoring. The Board of Directors' risk management policy stipulates the framework, roles and responsibilities for risk management and the guidelines for ensuring that there is adequate capital and liquidity to withstand economic adversity.

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

Th ee lines of defence for risk management and internal control

1st Line of Defence →

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

2nd Line of Defence →

The Risk Control and Compliance functions, both of which are independent control functions. This means that they are not involved in the business operations and that they report independently from one another to the Board of Directors and the CEO. The second line of defence is responsible for identification, quantification, analysis and reporting of all risks.

3rd Line of Defence →

The Internal Audit function is responsible for conducting an independent review and evaluation of work done in both the first and second lines of defence. The Internal Audit function reports directly to the Board of Directors.

Additional and more detailed information about Hoist Finance's risk management is presented in the Administration Report, Note 31 and the company's Pillar 3 report (which also includes quantitative risk measurements).

Risk type	Risk profile	Risk management
Credit risk The risk of loss arising from a customer's failure to repay principal or interest or to otherwise meet a contractual obligation.	Credit risk refers mainly to acquired loan portfolios and the risk that collection will be lower than forecasted. Other credit risk exposures are (i) cash deposits with banks, (ii) investments in fixed income instruments, and (iii) counterparty risk relating to hedging of FX and interest rate risk.	Credit risk in acquired loan portfolios is monitored, analysed and controlled by the management in each country and by the Group's business control unit. Other credit risks are analysed and managed by the Treasury function. The Risk control function analyses and verifies all credit risk exposures.
Market risk The risk arising from adverse movements in foreign exchange rates and interest rates.	The main FX risks arise from the fact that the loan portfolios (the assets) are denominated in EUR, PLN and GBP, while the reporting currency is SEK and the majority of liabilities are denominated in SEK. Interest rate movements have an effect on net interest income.	Market risks are hedged continuously by the company's Treasury function and independently analysed by the Group's Risk Control function.
Liquidity risk The risk of difficulties in obtaining funding and the resulting inability to meet payment obligations when they fall due.	Liquidity risk is linked primarily to deposits from the public and the risk of large withdrawals occurring at short notice.	The Group has a significant liquidity reserve to cover potential outflows of liquidity.
Operational risk The risk of loss resulting from inadequate or failed internal processes, people, IT systems or from external events, including legal and compliance risk.	Large losses and negative incidents due to failures in operations are rare. Given the nature of Hoist Finance's operations, it is not possible or cost effective to try to eliminate all operational risk. The goal is rather to minimise operational risk.	Routines for group-wide incident reporting, tracking of key risk indicators and regular training courses. The "dual-control" is applied to critical decisions and is supported by back-up routines (eg, in the form of ratified business continuity plans).

REACH
Operational Excellence

The launch of REACH – a new group-wide framework for operational and management control – was initiated in 2016 to establish a culture of continuous improvement throughout the entire organisation. The REACH framework is intended to support Hoist Finance's ambition and focus to continuously create added value for its customers and partners.

REACH will help Hoist Finance to more effectively link operational and financial KPIs, form a corporate culture that encourages the continuous improvement of processes and working methods, and capture economies of scale within the company.

INTERVIEW WITH:

Peter Wallin, Head of Group Analytics

Can you describe the background to your implementation of a new framework for operational and management control?

The company has grown rapidly through acquisitions over several years, and is now present in eleven countries. For obvious reasons, the different companies have different ways of working, with different cultures and processes. Our objective is to identify ways that we can take advantage of scalability with solutions that work throughout the group. We need to ensure that we can capitalise on the strength and expertise in the organisation as a whole, in order to become even more competitive in a changing market.

How would you describe REACH?

In simple terms, REACH is a framework that ensures that we focus on value-creating activities and eliminate waste – in other words, processes and activities that don't contribute to customer and business value over time. REACH provides tools and a methodology that focuses on direct results as well as long-term improvement. REACH also makes it easier for us to analyse and share internally the experiences that have been built up throughout the organisation, and to execute our decisions more quickly.

Another key component is change management, which involves the way we engage everyone in the organisation and create a culture in which employees drive continuous improvements. We want to involve our employees in creating added value. I can't overemphasise the importance of this – it's the recipe for success that results in sustainable improvements and innovation. It is extremely important to create engagement and scope on all levels of the organisation so that improvements take hold and energy is focused in the right direction. This is why building on our culture is so crucial.

What concrete steps have been taken so far?

We started the project in August 2015, and it's gone faster than expected. Since autumn 2016 we have implemented improvement activities in several markets, and key performance indicators (KPIs) are being integrated in all countries. We have a plan in place for each region and each country to analyse the initiatives and processes we should support. So far, a total of 23 projects have been carried out in three regions and 10 countries. We've seen clear improvements in processes, information management and IT. Results are thoroughly monitored through data analysis, and improvements implemented within operations are permanent. In the long term, the idea is to achieve a clearer and more measurable link to our strategic growth and profitability goals. The goal for 2017 is to continue rolling out REACH in all countries. We will also be increasing our focus during 2017 on expanding process automation and digitalisation, which will accelerate development and efficiency over the next few years.

The share

Hoist Finance's shares were introduced on the stock market 25 March 2015 and are traded on Nasdaq Stockholm's Mid Cap list. Based on the last price paid on 30 December 2016, which was SEK 84.75, Hoist Finance's market capitalisation was SEK 6,841 million.

Share performance 2016

Hoist Finance's share price fell 4.24 per cent in 2016, while the total OMX Stockholm PI index rose 5.83 per cent. The highest closing price quoted during the year was SEK 89.50, on 31 May, and the lowest closing price was SEK 64.00, on 10 February.

Trading volume

Since implementation of the EU's Markets in Financial Derivatives (MiFiD) directive, equities can be traded in marketplaces other than the exchanges on which they are listed. This has given rise to a fragmentation of equity trading, which is now conducted on both regulated marketplaces (stock exchanges) and other trading platforms. In 2016 a total of 37.6 million of Hoist Finance shares[1] were traded in all marketplaces, and the average daily trading volume was 148,780 shares[1]. Trading on Nasdaq Stockholm accounted for 50.10 per cent of total trading volume in Hoist Finance's shares.

Share capital

At year-end 2016 Hoist's share capital amounted to SEK 26,906,522.33, divided among 80,719,567 shares. All shares carry equal entitlement to the Company's profit and equity.

Ownership structure

The number of shareholders was 3,298 at year-end 2016. Of Hoist Finance's share capital, 75 per cent is owned by Swedish investors and 24 per cent by foreign investors[1]. The UK and USA account for the largest share of foreign ownership.

Dividend

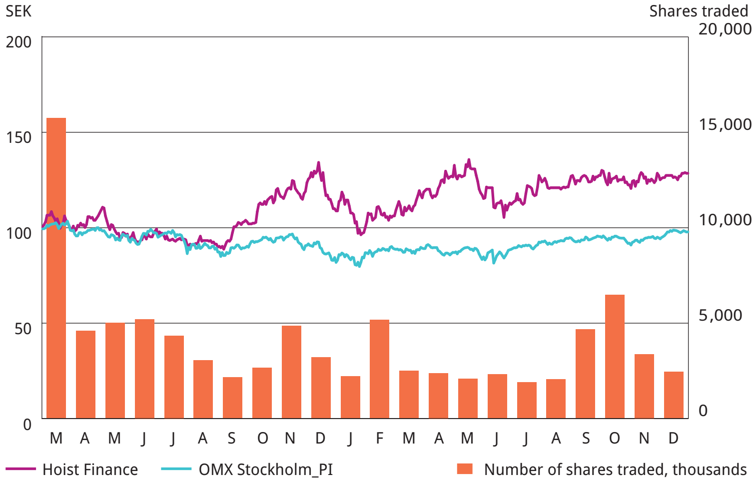
The Board of Directors has set a dividend policy specifying that 25–30 per cent of profit for the year is to be paid out in dividends over the medium term. For the 2016 financial year the Board has proposed a dividend of SEK 1.30 per share, corresponding to 25 per cent of profit for the year. Based on the last price paid on 30 December 2016 (SEK 84.75), the proposed dividend represents a dividend yield of 1.5 per cent.

Proposed dividend 2016

25%

of profit for the year

Hoist Finance, 25 March 2015 – 30 December 2016



Liquidity 31 December 2015 to 31 December 2016

Low, SEK	64.00
High, SEK	89.50
VWAP	79
Number of shares traded	37,641,357
Average per day	148,780
Number of trades	84,406
Average per day	334
Average value per trade, SEK	34,992
Average daily turnover, SEK M	12.0
Daily turnover rel. mcap, %	0.19
Part Nasdaq (ordinary trade), %	50.10
Part block transaction, %	49.60
Part dark pools (Nasdaq), %	0.40

1) Source: Modular Finance AB.

6 underlying trends that benefit Hoist Finance

Below are listed six reasons to invest in Hoist Finance, along with related strategic pillars announced in conjunction with the company's 2015 IPO on Nasdaq OMX Stockholm. The company sees significant growth opportunities in the markets where it operates, and continuously evaluates its capacity to establish itself in new markets. Hoist Finance's goal is to strengthen its established position as a leading debt restructuring partner to international banks.

	Strategic pillars	Underlying trends
1.	**Hoist Finance has strong underlying drivers for growth within the financial institution NPL market.**	Hoist Finance considers there to be a number of permanent factors impacting the industry that will result in strong growth and increased sales volumes within the financial institution NPL segment over the coming years. » Increasing debt sales volumes » Growing outsourcing trend among European banks
2.	**Extensive Data Warehouse and disciplined purchase processes ensure lower risk portfolios with highly attractive characteristics.**	Data is at the core of the company's operations and is fully integrated throughout pricing and collection. Hoist Finance has strict financial requirements for investments, and standardised and disciplined purchase processes. The company's pool of portfolios is highly cash generative and provides us with significant returns.
3.	**Hoist Finance is a leading debt restructuring partner to international banks with a diversified origination network, and has expertise in structuring complex transactions.**	Hoist Finance offers a strong value proposition for international banks. The company's status as a regulated financial institution is a key differentiating factor. The company has established itself as a leading debt restructuring partner to international banks, and has partnered with all of Europe's ten largest banks by total assets within the past nine years.
4.	**Hoist Finance has an amicable and solution-oriented in-house collection platform.**	Hoist Finance's solution-oriented and amicable approach to collections aims to achieve the optimal outcome for the company as well as clients.
5.	**Hoist Finance is a leading pan-European debt purchaser with a focused profitable-growth strategy.**	Over the past ten years, the company has followed a conscious and focused strategy of expanding into new European markets, while also maintaining profitability. This has allowed Hoist Finance to build a diversified pan-European platform, covering the majority of Europe's large NPL markets.
6.	**Hoist Finance's business is underpinned by a strong funding model.**	Hoist Finance's highly efficient and diversified funding model provides strategic flexibility. Funding is accomplished through a mix of retail deposits and unsecured bonds. Deposit funding is a core competitive advantage, providing Hoist Finance with access to funding at comparatively low costs and allowing the company to hold significant liquidity.

Achievements during 2016

Expanded and strengthened position in existing markets and grew in selected new markets.

- Strengthened strategic position and growth in all regions
- New markets: Spain and Greece

Maintained investment discipline and return requirement of at least 10–12 per cent.

- RoB in 2016: 10.6 per cent

Built on the company's status as a regulated financial institution.

- Expanded collaboration with Hoist Finance partners due to increased requirements for regulatory compliance and value chain control
- Strategic partnership with the Bank of Greece

Developed debt restructuring strategies with a focus on in-house collection.

- Improved collection strategies
- Launched REACH in order to benefit from economies of scale and establish a culture of continuous improvement

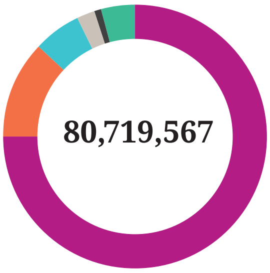
Leveraged existing economies of scale.

- Increased volumes in existing platforms. Gradual economies of scale increases are reflected in improved operating margins
- Operating margin improved to 36 per cent (30)

Maintained and developed strong funding base and leveraged strong capital and liquidity positions.

- Newly established EMTN (Euro Medium Term Note) programme to diversify funding base and reduce currency exposure
- Moody's upgraded Hoist Kredit AB (publ) to Ba1
- CET1 capital was 12.46% at 31 December 2016, exceeding the statutory capital requirement by 4.9%

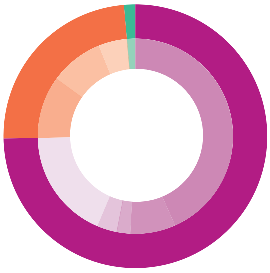
Geographic distribution of shareholders
per cent of total number of shares 80,719,567



- Sweden **75%**
- UK **12%**
- USA **6%**
- Norway **2%**
- France **1%**
- Others **4%**

Source: Modular Finance AB

Shareholder categories



- **Swedish 75%**
  - Fund management 43%
  - Investment & Asset management 8%
  - Pension & Insurance 2%
  - Private persons 4%
  - Other Swedish shareholders 18%
- **Foreign 24%**
  - Fund management 10%
  - Investment & Asset management 9%
  - Other foreign shareholders 5%
- **Anonymous shareholders 1%**

Source: Modular Finance AB

Ten largest shareholders at 31 December 2016

	Share of capital and votes, %
Swedbank Robur Fonder	9.5
Toscafund Asset Management LLP	8.8
Carve Capital AB	8.5
Zeres Capital	7.2
Handelsbanken Fonder	6.0
Carnegie Fonder	4.8
Jörgen Olsson, privately and via company	4.1
Costas Thoupos	3.0
Danske Invest Fonder	3.0
Svenskt Näringsliv	2.6
Total 10 largest shareholders	**57.5**
Other shareholders	42.5
Total	**100.0**

Source: Modular Finance AB

Ownership structure, 31 December 2016

Size class	Number of shares	Capital, %	Votes, %	Number of share-holders	Share of owners, %
1–500	350,635	0.4	0.4	2,208	66.9
501–1,000	313,396	0.4	0.4	375	11.4
1,001–2,000	332,557	0.4	0.4	216	6.5
2,001–5,000	702,369	0.9	0.9	202	6.1
5,001–10,000	607,621	0.8	0.8	84	2.5
10,001–20,000	830,861	1.0	1.0	57	1.7
20,001–50,000	1,681,878	2.1	2.1	49	1.5
50,001–100,000	2,244,533	2.8	2.8	32	1.0
100,001–100,000,000	73,655,717	91.2	91.2	75	2.3
Total	**80,719,567**	**100**	**100**	**3,298**	**100**

Source: Modular Finance AB

Contents financial information

Administration Report

Business overview
Hoist Finance AB (publ), corporate identity number 556012-8489, is the parent company within the Hoist Finance Group. Hoist Finance AB does not conduct business operations; it provides Group-wide services and functions as a holding company for the operating business of subsidiary Hoist Kredit AB (publ), a credit market company licensed and supervised by the Swedish Financial Supervisory Authority.

Hoist Finance 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 Finance has strong and long-term relationships. Hoist Finance is the leading pan-European acquirer of NPLs from financial institutions. After purchasing a portfolio, Hoist Finance's primary method of collecting from its customers is through sustainable payment plan agreements. Most of Hoist Finance'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 Finance 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 Finance 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 Finance'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 Finance'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 Finance was listed on the NASDAQ Stockholm Mid Cap list on 25 March 2015. At 31 December 2016 the number of shares totalled 80,719,567 and the share price closed at SEK 84.75, corresponding to a market capitalisation of SEK 6,841 million. See Hoist Finance's website, www.hoistfinance.com for additional information on the share and shareholders. The Articles of Association do not include any restrictions on the negotiability of the shares and there are no other factors that require disclose under Chapter 6 §2a 3–11 of the Swedish Annual Accounts Act.

The Group's loan portfolios are acquired and held by Hoist Kredit and other Group subsidiaries. Day-to-day collection operations are mostly run by local branch offices and subsidiaries. Some of these companies also provide fee-based administration services to third parties.

Please see Note 15, Group companies, for details on the Hoist Finance Group and its key subsidiaries and branch offices as of 31 December 2016.

Proposed Dividend
The Board of Directors proposes to the AGM a dividend of 1.30 SEK (0.75) per share and a record day of 3 May 2017. The total proposed dividend amounts to SEK 105 million (59). The ex-dividend date for the Hoist Finance share is 2 May 2017. Dividend payments are scheduled to be made on 8 May 2017.

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	1,693,638,046
Losses carried forward	–1,271,919
Net profit for the year	117,319,890
Total	**1,809,686,017**

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

	SEK
Dividend to shareholders, SEK 1.30 per share	104,935,437
Carried forward to:	
Other contributed equity	1,693,638,046
Retained earnings	11,112,534
Total	**1,809,686,017**

The total proposed dividend, totalling SEK 105 million, is based on the number of shares as at 31 December 2016. The total dividend amount may change during the period preceding the record date, depending on warrant redemption. It is the assessment of the Board of Directors that the proposed dividend is justifiable considering the demand with respect to the size of the Company and the Group's equity, which are imposed by the nature, scope and risks, associated with the business, and the Company's and Group's need for consideration, liquidity and financial position in general.

Key events in 2016
- Operational activities were divided into three regions to make the organisation more efficient and strengthen Hoist Finance's position in Europe. The change came into effect on 1 January 2016 and involves a new form of segment reporting.
- Hoist Finance 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 Finance 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.
- Hoist Finance held its first Capital Markets Day
- Hoist Finance was awarded a prize for Best Annual Report on the Nasdaq OMX Mid Cap List.
- 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 Finance strengthened its position in the small and medium enterprise (SME) segment with the acquisition of additional portfolios from Banco BPM.

Developments during the 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, unless otherwise specified.

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 Finance'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 Finance's Polish joint venture (BEST III) holding. The BEST III holding is reported in accordance with the equity method. The carrying value of Hoist Finance's share in the joint venture totalled SEK 241 million (206) at 31 December 2016.

Total revenue increased to SEK 2,627 million (2,247) and Other income totalled SEK 14 million (11).

Operating expenses

Operating expenses totalled SEK –1,692 million (–1,572), with the comparative figure impacted by expenses directly attributable to the listing of the company's shares. These expenses totalled SEK 47 million in 2015 and were reported as Other operating expenses. The underlying increase in operating expenses 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 Finance's new establishment in Spain. The comparatively marginal increase in personnel expenses – from SEK –651 million in 2015 to SEK –672 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 –53 million (–47). 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 –402 million (–390). To facilitate realised and anticipated acquisition volumes, Hoist Finance 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 –99 million (–56), 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 533 million (285) due to the Group's continued strong performance. Reported tax expense totalled SEK –116 million (–55), 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 392 million (191).

Balance Sheet

Assets

Total assets increased SEK 1,698 million year-on-year and total SEK 19,150 million (17,451). 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. Lending to credit institutions increased SEK 203 million, and 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 and SEK –308 million in Other assets. The decrease in Other assets is mainly attributable to changes in the market value of currency forwards.

Liabilities

Total liabilities amount to SEK 16,225 million (15,163). 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 117 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	–1,248	–687	–82
Cash flow from investing activities	–1,340	513	n/a
Cash flow from financing activities	1,990	501	>100
Cash flow for the year	**–598**	**327**	**n/a**

Cash flow from operating activities totalled SEK –1,248 million (–687). 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 –1,340 million (513), 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 Finance invested in bonds and other interest-bearing securities in 2016 totalling SEK –1,245 million net.

Cash flow from financing activities totalled SEK 1,990 million (501). 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 further optimise its capital structure, Hoist Finance also issued new Additional Tier 1 capital of SEK 30 million during the year. Hoist Finance therefore maintains liquidity for anticipated future acquisitions.

Total cash flow for the year totalled SEK –598 million (327).

Funding and capital structure

SEK M	2016	2015	Change, %
Cash and interest-bearing assets	5,877	5,240	12
Other assets [1]	13,273	12,211	9
Total assets	**19,150**	**17,451**	**10**
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**	**14,367**	**7**
Other liabilities	908	796	14
Shareholders' equity	**2.925**	**2,289**	**28**
Total liabilities and shareholders' equity	**19,150**	**17,451**	**10**
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 Finance 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 Finance's issuance through Hoist Kredit AB (publ) 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.

Shareholders' equity totalled SEK 2,925 million (2,289). The increase is attributable to Net profit for the year and Hoist Finance's issuance through Hoist Kredit AB (publ) 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). Hoist Finance is thus well capitalised for further expansion.

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

Basic earnings per share totalled SEK 5.07 (2.90). Accrued unpaid interest on AT1 capital is included in the calculation.

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.

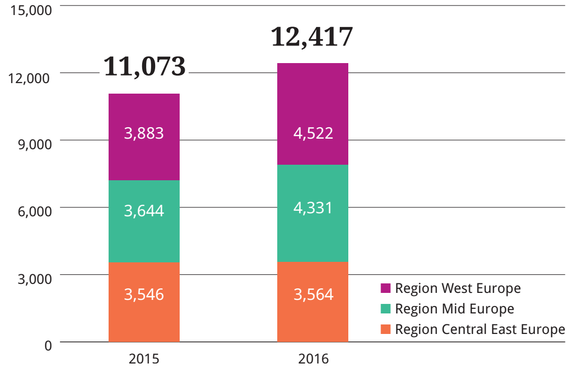
In 2016, Hoist Finance's continued active acquisition of loan portfolios resulted in further geographic diversification in current markets. The total acquisition volume in 2016 was SEK 3,329 million (4,370). The carrying value of acquired loans totalled SEK 12,658 million (11,279) as at 31 December 2016,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

Hoist Finance established itself in two new markets – Greece and Spain – during the year. In Greece, Hoist Finance 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 acquired its first portfolio in the Spanish market, investing EUR 21 million. These new establishments are fully in line with Hoist Finance's vision of becoming the preferred partner for international banks and financial institutions.

Significant portfolio acquisitions were also conducted in Hoist Finance'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 Finance utilised contributions from the EMTN programme established in 2016 and cash flow surpluses generated by the business.

Geographic distribution of carrying value of acquired loans [1]



1) Excluding portfolios held in the Polish joint venture.

Segment overview

Hoist Finance has operated under a new organisational structure since 1 January 2016, broken down based on geographic presence. Europe 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, SEK M	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 Finance'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 Finance'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 serves as a holding and purchasing company for the operating subsidiary Hoist Kredit AB (publ) and its sub-group. The Parent Company's net profit totalled SEK 117 million (78). Parent Company net sales consist of intragroup transactions. Net sales and external expenses increased in line with expansion of the Group's operations. The increase in Intragroup income is mainly due to strategic investments in IT, including a self-developed portfolio system put into operation during the first quarter. A new risk system to improve the management of operational risks was introduced during the third quarter. An upgrade of the Group's financial system was commenced and will continue during 2017. In the accounting area, a project focused on adaptations to forthcoming regulations (which take effect in 2018) was intensified. The increase in external expenses includes expenses related to acquisitions in Spain and Greece that were conducted during the second quarter.

The Parent Company received a group contribution of SEK 210 million (183) during 2016 and made a SEK –36 million (–23) provision to the tax allocation reserve; this also impacted the company's tax expense, which totalled SEK –29 million (25).

Parent Company assets increased SEK 256 million, mainly due to an increase in cash and bank balances. To centralise Group liquidity, Hoist Finance set up a cash pool structure during 2016. Accordingly, the Parent Company (as cash pool owner) is reporting a higher year-on-year figure for cash and bank balances. All subsidiaries are expected to be connected to the cash pool during 2017.

Non-financial performance indicators

Corporate Social Responsibility

Hoist Finance 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 Finance 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 Finance'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 job. Hoist Finance 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 Finance 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. Efforts to improve workplace have been made such as stress assessments in France and health management plans in Germany.

At 31 December 2016 Hoist Finance 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 731 (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 Finance works with its customers to develop constructive and realistic solutions to improve the customers' financial situation. Hoist Finance 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 Finance 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 Finance), 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 Finance

Significant risks and uncertainties

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

Hoist Finance is exposed to a number of uncertainties through its business operations and due to its broad geographic presence. New and amended 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 Finance 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 Finance hedges currency and FX risks.

A report on Hoist Finance's risk management is presented on pages 44 and 45, and in Note 31, Risk management.

Development of risks

During the year Hoist Finance 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 in relation to size of the business and, 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 Finance 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 loan portfolios during 2016. However, greater risk diversification was achieved in the loan portfolios through entry into new markets and acquisition of more portfolios. Hoist Finance 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 Finance 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 Finance continuously hedge both interest rate risk and FX risk. Hoist Finance 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 Finance 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 capitalised 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 Finance AB (publ), corp. ID no. 556012-8489.

The term "senior executives" shall in this context mean the CEO of Hoist Finance AB (publ) ("Hoist Finance") 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 Finance 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 Finance 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 remuneration for senior executives shall not exceed 50 per cent of the fixed salary. Variable remuneration is based on various financial and non-financial criteria determined by the Board of Directors, and are linked to the performance of the Hoist Finance group of companies (the "Group") respectively the relevant business unit and to individual targets.

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 Finance 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	2,140,164	1,807,826	1,290,775	1,062,563	513,785
of which net interest income	*2,107,225*	*1,681,433*	*1,143,053*	*906,129*	*427,292*
Total operating expenses	–1,691,848	–1,572,236	–1,130,948	–948,938	–539,303
Profit before tax	533,098	285,131	218,489	150,031	30,206
Net profit for the year	**417,149**	**230,522**	**180,103**	**116,916**	**28,744**

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	1,064,359	858,797	1,293,051	3,926,883	2,245,851
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	537,613
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	284,156	277,255	203,048	99,062	79,715
Other assets	326,330	636,134	339,018	194,493	101,137
Total assets	**19,149,926**	**17,451,477**	**15,061,829**	**12,037,231**	**7,241,738**
Deposits from the public	11,848,956	12,791,377	10,987,289	9,701,502	6,366,256
Other liabilities and provisions	4,375,673	2,371,340	2,677,350	1,520,287	236,134
Shareholders' equity	2,925,297	2,288,760	1,397,190	815,442	639,348
Total liabilities and shareholders' equity	**19,149,926**	**17,451,477**	**15,061,829**	**12,037,231**	**7,241,738**

Key ratios

SEK M	2016	2015	2014	2013	2012
Gross collections	4,311	3,631	2,541	1,641	887
Total revenues	2,627	2,247	1,661	1,275	667
EBIT	935	675	530	326	128
EBIT-margin, %	36	30	32	26	19
EBITDA, adjusted	2,921	2,408	1,794	1,144	737
Return on book, %	10.6	10.1	10.2	10.3	8.9
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]	18	12	19	21	6
Return on assets, %	2.3	1.4	1.3	1.2	0.5
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 Finance 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 Finance is a Swedish public limited liability company with corporate identification number 556012-8489. 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. 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 Finance currently complies with all Code provisions. 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 Board members are Hoist Finance Group employees: Jörgen Olsson and Costas Thoupos. Jörgen Olsson is CEO of the Company 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 the Company's Management 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. The corporate governance report is part of the Company's administration report and is audited by the Company's auditor.

Corporate governance within Hoist Finance

Hoist Finance is subject to external and internal control systems.

The external control systems, which serve as the framework for Hoist Finance 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, Nasdaq Stockholm's Rule Book for Issuers, 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 Hoist Finance Articles of Association.

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;
- 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. The Articles of Association are available in their entirety at www.hoistfinance.com.

Governance structure

Shareholders

As at 31 December 2016 the total number of shares was 80,719,567 and the share capital was SEK 26,906,522.33. Each share carries one vote. The Company had 3,298 shareholders at the turn of the year. The fifteen largest shareholders held an aggregate of 69.5 per cent of total share capital at the close of 2016. Read more about the Company's largest shareholders at www.hoistfinance.com.

Annual General Meeting

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

Hoist Finance'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, distribution of earnings, 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. All shareholders listed in the shareholders' register on the day prior to the AGM who have provided timely notification of their participation are entitled to participate at the AGM, either in person or by proxy.

Every shareholder is entitled to request that a matter be addressed by the AGM. A shareholder who wishes to do so must submit a written request to the Board no later than one week before the earliest date on which notice of the meeting may be published (ie, the request must be received no later than seven weeks prior to the AGM). Pursuant to Chapter 7 § 32 of the Swedish Companies Act, all shareholders are entitled to ask the Board of Directors and CEO questions about matters addressed during the AGM and about the financial situation of the Company and the Group.

2016 Annual General Meeting

The most recent AGM was held on 29 April 2016 in Stockholm. Sixty-nine shareholders, representing 35 per cent of the votes in the Company, were present at the AGM. The CEO, the majority of Board members, the Company's auditor and the CFO also participated in the AGM. In accordance with recommendations from the Board and the Nomination Committee, the AGM resolved, among other things:

- To adopt the balance sheet and income statement
- To distribute a dividend of SEK 0.75 per share
- 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 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
- On fees for the Board chair and other Board members
- To re-elect KPMG, represented by Anders Bäckström, as auditor for the period through the close of the next AGM and to pay the auditor's fee based on approved invoice;
- On instructions for the Nomination Committee;
- To adopt guidelines for remuneration for senior executives.

The complete minutes of the 2016 AGM are available at www.hoistfinance.com.

2017 Annual General Meeting

The 2017 AGM will be held on Friday 28 April 2017 at 11:00 at the IVA Conference Centre, Grev Turegatan 16, Stockholm.

Nomination Committee

The Nomination Committee is comprised of representatives of the three largest shareholders, as recorded in the shareholders' register as at the final banking day in August of each year, and the Chairman of the Board, who is also responsible for convening the committee's first meeting. If a shareholder who is offered to serve on the Nomination Committee declines, the inquiry shall instead be offered to the largest shareholder in line. The committee's composition will be changed to reflect any changes to shareholder structure.

The Nomination Committee submits proposals for the election of the AGM chairman, members of the Board of Directors and Chairman of the Board, and for Board member compensation and election of auditors. The committee conducts its work in the interest of all shareholders. Instructions for the Nomination Committee and options for submitting suggestions to the committee are available on the Company's website, www.hoistfinance.com.

The Nomination Committee is comprised of the following members: Ingrid Bonde (Chair of the Board of Hoist Finance), Jan Andersson (representing Swedbank Robur Fonder AB), Per Josefsson (representing Carve Capital AB) and Staffan Ringvall (representing Handelsbanken Fonder). The committee held six recorded meetings ahead of the 2017 AGM and maintained regular contact between meetings. The committee also held individual interviews with current and proposed Board members.

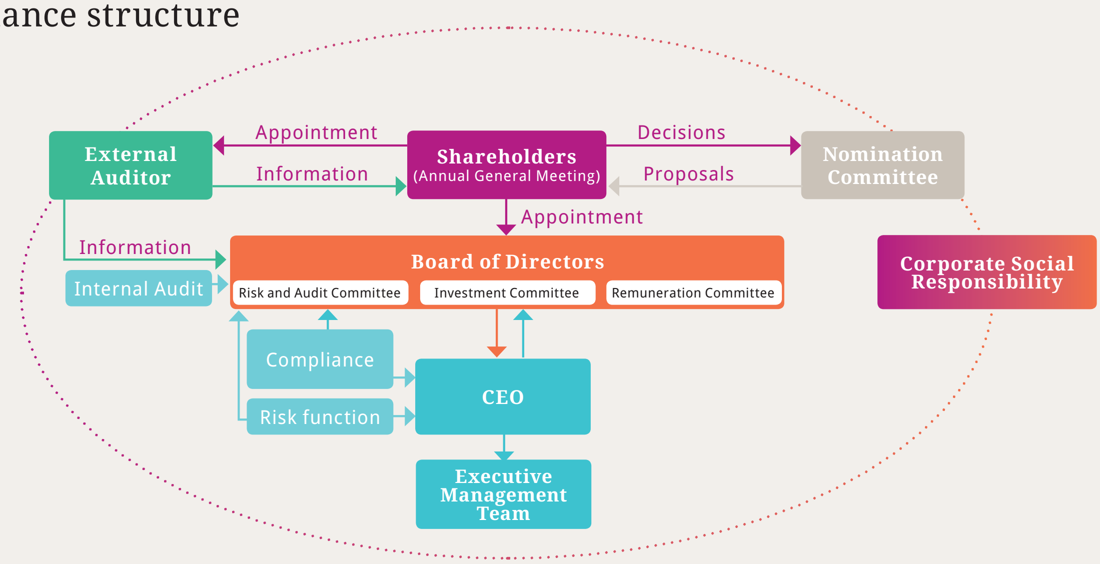
The Nomination Committee's proposals, report on committee work done in preparation for the 2017 AGM, and information on proposed Board members are published in conjunction with the AGM notice.

Board of Directors

Pursuant to the Articles of Association, Hoist Finance's Board of Directors shall be 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 also chairs the Company's Management Investment Committee (which is otherwise comprised of people with operational roles). All Board members, with

Governance structure



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 the Board members, please see the section on the company's Board of Directors and Executive Management team and the Company's website, www.hoistfinance.com.

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. The Banking and Financing Business Act also regulates the duties and work of the Board of Hoist Kredit (a regulated credit company) and, to a certain degree, the Board of Hoist Finance (the financial parent company).

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 11 recorded Board meetings were held in 2016: seven ordinary meetings, one statutory meeting and three extra ordinary meetings. All Board members attended these meetings, with exception of the Board meetings held on 16 March (in which Gunilla Wikman did not participate) and 29 April (in which Costas Thoupos did not participate). The CFO and the Board's secretary participated in Board meetings. The Company's employees and auditors may be summoned to committee meetings to provide details on specific reports or 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 respective 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 Finance'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

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 och 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

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 Finance. 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 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 Finance. 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 Finance 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 Finance'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 Finance 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 Finance'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 Finance 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 Finance 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 Finance'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 Finance 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 competent 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 Finance 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 Finance 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.

Pensions

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.

Warrant programme

The Company has one outstanding warrant programme for key executives.

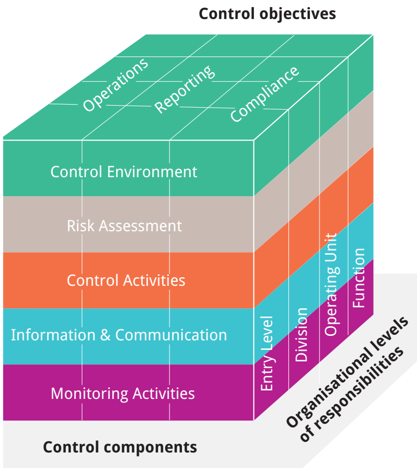
The extraordinary general meeting held on 22 October 2014 resolved to issue warrants to key executives. Twenty-six employees acquired a total of 222,041 warrants within the scope of this programme. Pursuant to the warrants' terms and conditions, the subscription price and the number of shares for which each warrant entitles the holder to subscribe were restated. For 194,748 of these warrants, holders are now entitled to subscribe for three new shares at a subscription price of SEK 63.40 per share. For the remaining 27,293 warrants, holders may subscribe for three new shares at a subscription price of SEK 55.47 per share. Of the original 194,748 warrants, 57,048 have been repurchased and cancelled by the company. The warrants may be exercised as from the first day after the Company's shares were admitted to trading on Nasdaq Stockholm through 31 December 2017.

Internal governance and control

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 Finance 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 Finance 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 Finance 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 Finance.

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 also provides recommendations to relevant persons, based on the function's findings, and monitors whether the measures are subsequently implemented; and 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 Finance.

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.

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.

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 Arkitekter/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.

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 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.

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.

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.

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 owned through Carrara Communication AB.

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.

Executive Management Team

1 Jörgen Olsson

CEO
Hoist Finance 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 owned privately and through Deciso AB.

2 Karin Beijer

Group Head of HR
Consultant at Hoist Finance 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 owned through Co Go Consulting AB.

3 Henrik Gustafsson

Regional Director Central East Europe
Hoist Finance 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.

4 Charles de Munter

Regional Director Mid Europe
Hoist Finance 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.

5 Najib Nathoo

Regional Director West Europe and Head of Hoist Finance UK
Hoist Finance 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.

6 Pontus Sardal

Chief Financial Officer and Deputy Chief Executive Officer
Hoist Finance 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 owned through Yasli Investments Ltd. and through related parties.

7 Anders Wallin

Chief Information Officer
Hoist Finance 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.

Financial statements

Consolidated income statement

SEK thousand	Note	2016	2015
Net revenue from acquired loans	1,2	2,404,955	2,004,524
Interest income[1]	2	2,558	38,279
Interest expense	2	–300,288	–361,370
Net interest income		**2,107,225**	**1,681,433**
Fee and commission income		116,817	166,705
Net financial income[1]	3	–97,529	–50,941
Other income		13,651	10,629
Total operating income		**2,140,164**	**1,807,826**
General administrative expenses			
Personnel expenses	5	–672,355	–651,354
Other operating expenses	6	–966,697	–874,016
Depreciation and amortisation of tangible and intangible assets	16,17	–52,796	–46,866
Total operating expenses		**–1,691,848**	**–1,572,236**
Profit before credit losses		**448,316**	**235,590**
Net credit losses	7	–1,260	–5,298
Profit from shares and participations in joint ventures	8	86,042	54,839
Profit before tax		**533,098**	**285,131**
Income tax expense	10	–115,949	–54,609
Net profit for the year		**417,149**	**230,522**
Profit attributable to			
Owners of Hoist Finance AB (publ)		417,149	230,522
Basic earnings per share, SEK[2]	11	5,07	2,90
Diluted earnings per share, SEK[2] [3]	11	4,97	2,84

1) Market value changes were reclassified from Interest income to Net financial income as from Q1 2016. Comparative figures have been reclassified pursuant to this change.
2) Following the 1:3 share split, each warrant entitles the holder to subscribe for three new shares.
3) Includes effect of 164,993 outstanding warrants.

Consolidated statement of comprehensive income

SEK thousand	2016	2015
Net profit for the year	**417,149**	**230,522**
Other comprehensive income		
Items that will not be reclassified to profit or 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 or loss	**–23,001**	**–41,282**
Other comprehensive income for the year	**–24,905**	**–39,049**
Total comprehensive income for the year	**392,244**	**191,473**
Profit attributable to		
Owners of Hoist Finance AB (publ)	392,244	191,473

Consolidated balance sheet

SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Cash		3,073	281
Treasury bills and treasury bonds	12,13,29	2,273,903	3,077,827
Lending to credit institutions	12,13,29	1,061,285	858,516
Lending to the public	12,29	35,789	77,994
Acquired loan portfolios	12,14,29	12,385,547	11,014,699
Bonds and other securities	12,13,29	2,538,566	1,303,214
Participations in joint ventures	8	241,276	205,557
Intangible assets	16	243,340	235,632
Tangible assets	17	40,815	41,623
Other assets	18	193,470	501,062
Deferred tax assets	10	47,269	62,688
Prepayments and accrued income	19	85,593	72,384
Total assets		**19,149,926**	**17,451,477**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from the public	12,29	11,848,956	12,791,377
Tax liabilities	10	52,887	21,639
Other liabilities	20	432,865	357,284
Deferred tax liabilities	10	163,264	183,999
Accrued expenses and deferred income	21	203,442	180,941
Provisions	22	55,504	52,116
Senior unsecured liabilities	12,29	3,125,996	1,238,469
Subordinated liabilities	23,29	341,715	336,892
Total liabilities		**16,224,629**	**15,162,717**
Equity	24		
Share capital		26,906	26,178
Other contributed equity		2,073,215	1,755,676
Reserves		–67,095	–44,094
Retained earnings including profit for the year		892,271	551,000
Total equity		**2,925,297**	**2,288,760**
Total liabilities and equity		**19,149,926**	**17,451,477**

Consolidated statement of changes in equity

SEK thousand	Share capital	Other contributed capital	Reserves Translation reserve	Retained earnings incl. profit for the year	Total equity
Opening balance 1 Jan 2016	**26,178**	**1,755,676**	**-44,094**	**551,000**	**2,288,760**
Comprehensive income for the year					
Net profit for the year				417,149	417,149
Other comprehensive income for the year			–23,001	–1,904	–24,905
Total comprehensive income for the year			**–23,001**	**415,245**	**392,244**
Transactions reported directly in equity					
Dividend				–58,974	–58,974
New share issue	728	34,568			35,296
Additional Tier 1 capital		283,335[1)]			283,335
Warrants, repurchased and cancelled		–2,066			–2,066
Interest paid on capital contribution				–15,000	–15,000
Tax effect on items reported directly in equity		1,702			1,702
Total transactions reported directly in equity	**728**	**317,539**		**–73,974**	**244,293**
Closing balance 31 Dec 2016	**26,906**	**2,073,215**	**–67,095**	**892,271**	**2,925,297**

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 equity
Opening balance 1 Jan 2015	**21,662**	**1,003,818**	**–2,812**	**374,522**	**1,397,190**
Comprehensive income for the year					
Net profit for the year				230,522	230,522
Other comprehensive income for the year			–41,282	2,233	–39,049
Total comprehensive income for the year			**–41,282**	**232,755**	**191,473**
Transactions reported directly in equity					
New share issue	4,516	745,545[1)]			750,061
Warrants, repurchased and cancelled		–842		–3,177	–4,019
Interest paid on capital contribution				–15,000	–15,000
Acquisition of minority shareholding in subsidiary				–32,584	–32,584
Tax effect on items reported directly in equity		7,155		–5,516	1,639
Total transactions reported directly in equity	**4,516**	**751,858**		**–56,277**	**700,097**
Closing balance 31 Dec 2015	**26,178**	**1,755,676**	**–44,094**	**551,000**	**2,288,760**

1) Nominal amount of SEK 778 million has been reduced by transaction costs of SEK 33 million.

Consolidated cash flow statement

SEK thousand		2015	2014
OPERATING ACTIVITIES			
Gross collections on acquired loan portfolios		4,281,632	3,631,031
Paid-in interest		12,619	71,214
Provisions received		116,817	166,705
Other operating income		13,651	10,629
Interest paid		–285,001	–338,950
Operating expenses		–1,627,242	–1,479,862
Net cash flow from financial transactions		–97,529	–50,941
Capital gain on redemption of joint venture certificates		42,526	44,404
Income tax paid		–49,602	–45,453
Total		**2,407,871**	**2,008,777**
Increase/decrease in acquired loans incl. translation differences		–3,277,061	–4,054,424
Increase/decrease in joint venture certificates		9,267	15,277
Increase/decrease in lending to the public		41,421	73,940
Increase/decrease in deposits from the public		–957,707	1,781,668
Increase/decrease in other assets		296,511	–290,002
Increase/decrease in other liabilities		246,197	–277,073
Increase/decrease in provisions		3,388	–16,588
Change in other balance sheet items		–17,718	71,862
Total		**–3,655,702**	**–2,695,340**
Cash flow from operating activities		**–1,247,831**	**–686,563**
INVESTING ACTIVITIES			
Investments in intangible assets		–35,756	–31,156
Investments in tangible assets		–18,360	–20,551
Investments in business acquisitions	Note 15	–40,788	–50,569
Investments in/divestments of bonds and other securities		–1,245,413	615,093
Cash flow from investing activities		**–1,340,317**	**512,817**
FINANCING ACTIVITIES			
Issued Additional Tier 1 capital		285,396	–
New share issue		35,296	750,061
Warrants, repurchased and cancelled		–2,066	–4,019
Issued bonds		2,771,917	–
Repurchase of issued bonds		–976,284	–229,833
Buy-back of issued bonds		–58,000	–
Dividend paid		–58,974	–
Interest paid on capital contribution		–7,500	–15,000
Cash flow from financing activities		**1,989,785**	**501,209**
Cash flow for the year		**–598,363**	**327,463**
Cash at the beginning of the year		3,936,624	3,609,161
Cash at the end of the year[1]		**3,338,261**	**3,936,624**

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

Parent Company income statement

SEK thousand	Note	2016	2015
Net sales	4	**195,846**	**148,458**
Other external expenses	6	–219,855	–184,423
Personnel expenses	5	–7,100	–8,873
Depreciation and amortisation	16,17	–4,891	–7,170
Total operating expenses		**–231,846**	**–200,466**
Operating profit		**–36,000**	**–52,008**
Other interest income	2	10,555	–4,457
Interest expense	2	–1,602	–927
Total income from financial items		**8,953**	**–5,384**
Profit from participations in Group companies	9	210,000	182,890
Appropriations (tax allocation reserve provision)		–36,483	–22,977
Profit/loss before tax		**146,470**	**102,521**
Income tax expense	10	–29,150	–24,829
Net profit for the year[1]		**117,320**	**77,692**

1) Net profit for the year equals the total comprehensive income for the year.

Parent Company balance sheet

SEK thousand	Note	31 Dec 2016	31 Dec 2015
ASSETS			
Non-current assets			
Licences and software	16	25,169	19,475
Total intangible assets		**25,169**	**19,475**
Equipment	17	2,417	3,142
Total tangible assets		**2,417**	**3,142**
Shares and participations in subsidiaries	15	1,687,989	1,687,989
Total financial assets		**1,687,989**	**1,687,989**
Total non-current assets		**1,715,575**	**1,710,606**
Current assets			
Receivables, Group companies		257,501	209,519
Accounts receivables		–	55
Other receivables		402	1,015
Prepayments and accrued income	19	8,506	7,467
Total current receivables		**266,409**	**218,056**
Cash and bank balances	12	328,457	125,414
Total current assets		**594,866**	**343,470**
TOTAL ASSETS		**2,310,441**	**2,054,076**

Parent Company balance sheet, continued

SEK thousand	Note	31 Dec 2016	31 Dec 2015
EQUITY, PROVISIONS AND LIABILITIES			
Equity	24		
Restricted equity			
Share capital		26,906	26,178
Statutory reserve		3,098	3,098
Development expenditure fund		1,215	–
Total restricted equity		**31,219**	**29,276**
Non-restricted equity			
Other contributed equity		1,693,638	1,661,136
Retained earnings		–1,272	–18,775
Profit/loss for the year		117,320	77,692
Total non-restricted equity		**1,809,686**	**1,720,053**
Total equity		**1,840,905**	**1,749,329**
Untaxed reserves		**59,995**	**23,512**
Provisions			
Pension provisions	22	24	35
Total provisions		**24**	**35**
Non-current liabilities			
Intra-Group loans	33	65,000	40 100
Total non-current liabilities		**65,000**	**40 100**
Current liabilities			
Accounts payable		12,863	7,596
Tax liabilities		27,157	16,078
Liabilities, Group companies		298,153	213,443
Other current liabilities		3,506	–
Accrued expenses and deferred income	21	2,838	3,983
Total current liabilities		**344,517**	**241,100**
Total equity, provisions and liabilities		**2,310,441**	**2,054,076**

Parent Company statement of changes in equity

SEK thousand	Restricted equity			Non-restricted equity			
	Share capital	Statutory reserve	Development expenditure fund	Other contributed capital	Retained earnings	Profit for the year[2])	Total sharehold-ers' equity
Opening balance 1 Jan 2016	**26,178**	**3,098**		**1,661,136**	**–18,775**	**77,692**	**1,749,329**
Transfer of previous year's net profit/loss					77,692	–77,692	
Comprehensive income for the year							
Profit for the year						117,320	117,320
Total comprehensive income for the year						**117,320**	**117,320**
Transactions reported directly in equity							
Dividend					–58,974		–58,974
New share issue	728			34,568			35,296
Warrants, repurchased and cancelled				–2,066			–2,066
Transfer between restricted and non-restricted equity			1,215		–1,215		0
Total transactions reported directly in equity	**728**		**1,215**	**32,502**	**–60,189**	**0**	**–25,744**
Closing balance 31 Dec 2016	**26,906**	**3,098**	**1,215**	**1,693,638**	**–1,272**	**117,320**	**1,840,905**

1) Profit/loss for the year corresponds to ”comprehensive income for the year”.

SEK thousand	Restricted equity		Non-restricted equity			
	Share capital	Statutory reserve	Other contributed capital	Retained earnings	Profit for the year[2])	Total shareholders' equity
Opening balance 1 Jan 2015	**21,662**	**3,098**	**909,278**	**–28,062**	**12,464**	**918,440**
Transfer of previous year's net profit/loss				12,464	–12,464	–
Comprehensive income for the year						
Profit for the year					77,692	77,692
Total comprehensive income for the year					**77,692**	**77,692**
Transactions reported directly in equity						
New share issue	4,516		745,545[1])			750,061
Warrants, repurchased and cancelled			–842	–3,177		–4,019
Tax effect on items reported directly in equity			7,155			7,155
Total transactions reported directly in equity	**4,516**		**751,858**	**–3,177**	**0**	**753,197**
Closing balance 31 Dec 2015	**26,178**	**3,098**	**1,661,136**	**–18,775**	**77,692**	**1,749,329**

1) Nominal amount of SEK 778 million has been reduced by transactions costs of SEK 33 million.
2) Profit/loss for the year corresponds to ”comprehensive income for the year”.

Parent Company cash flow statement

SEK thousand	2016	2015
OPERATING ACTIVITIES		
Paid-in interest	11,222	10
Other operating income	195,846	148,458
Interest paid	–1,603	–927
Operating expenses	–226,391	–182,379
Net cash flow from financial transactions	–667	–4,467
Income tax paid	–15,727	–1,930
Total	**–37,320**	**–41,235**
Increase/decrease in intra-Group transactions	246,727	130,784
Increase/decrease in other assets	536	3,263
Increase/decrease in other liabilities	31,451	–2,273
Total	**278,714**	**131,774**
Cash flow from operating activities	**241,394**	**90,539**
INVESTING ACTIVITIES		
Investments in intangible assets	–12,116	–15,101
Disposal of intangible assets	–	21,383
Investments in tangible assets	–491	–1,965
Investments in subsidiaries	–	–759,003
Cash flow from investing activities	**–12,607**	**–754,686**
FINANCING ACTIVITIES		
New share issue	35,296	750,061
Paid-in premium for warrants	–2,066	–4,019
Dividend paid	–58,974	
Cash flow from financing activities	**–25,744**	**746,042**
Cash flow for the year	**203,043**	**81,895**
Cash at the beginning of the year	125,414	43,519
Cash at the end of the year[1]	**328,457**	**125,414**

1) Consists of lending to credit institutions.

Accounting principles

1 Corporate information

The Annual Report is issued as of 31 December 2016 by Hoist Finance AB (publ), CIN 556012-8489, the Parent Company of the Hoist Finance 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 2015 were approved by the Board of Directors on 15 March 2017 and will be presented for adoption at the 2017 Annual General Meeting on 28 April 2017.

2 Statement of compliance

The consolidated accounts for Hoist Finance 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 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 22.3.

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. The operation 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 years were not applied in advance as at the issuance of these financial statements. Hoist Finance does not currently intend to early adopt the standards. 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 also introduces a new model for impairment of financial assets. The aim with the new model is eg, that expected credit losses will be recognised at an earlier stage. 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 Finance'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. Evaluation on how the new standard will effect the classification of surplus liquidity is underway.

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 provision 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 Finance does not currently calculate collective provisions 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 Finance 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 credit loss provision is reported for these loan portfolios corresponding to the accumulated change in expected 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 credit loss provision 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 expected 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 Finance applies hedge accounting in cases where currency hedges are used to limit exchange rate 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 is effective as from annal periods beginning on or after 1 January 2018. Earlier application is permitted. The standard will be applied by the Hoist Finance 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 based on that the revenue is recognised when or as the entity satisfies a performance obligation by transferring control of a promised good or service to a customer, which can be satisfied over time or at a specific point in time.

While Hoist Finance 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 Finance'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 Finance 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 revenue accruals between periods is not expected be otherwise affected. Finally, IFRS 15 includes increased disclosure requirements regarding revenue, which will expand the content of note disclosures.

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 leases and leases of low-value assets) will initially be reported as an asset with right of use and a liability in the lessee's balance sheet, being the future lease payments. Asset depreciation 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 is effective as from annal periods beginning on or after 1 January 2019. Earlier application is permitted. The EU is expected to endorse the standard in 2017.

Hoist Finance does not currently intend to apply IFRS 16 in advance.

The standard is to be applied either using the full retrospective approach, which requires entities to retrospectively apply the new standard to each prior reporting period or, using the modified retrospectic approach, recognising the cumulative effect as an adjustment to the opening balance of equity. Hoist Finance 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 Finance's balance sheet. The information provided in Note 28 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 Finance's financial reports.

- Amended IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures
- Amended IFRS 11 Joint Arrangements
- Amended IAS 1 Presentation of Financial Statements
- Amended IAS 19 Employee Benefits

No other IFRS 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 32.

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

An operating segment is a part of the Group that operates a business from which it can generate revenue and incur expenses and for which independent financial information is available. This information serves as a governance tool and is reviewed on a regular basis by chief operating decision makers to evaluate performance and allocate resources to the segment.

For Hoist Finance, 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. See Note 1 for additional information on the operating segments.

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 Regional Central East Europe. Comparative figures in this report have been revised in accordance with the new 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. Group companies and branches 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 23 “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 option” 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 28.

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 comprised 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 impairments 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 Finance'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 loans is reported under 'Net revenue from acquired loan portfolios' 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 Finance 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 of the earliest 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 the profit and loss accounts.

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 Earnings per share
Basic earnings per share are calculated by dividing net profit for the year attributable to Hoist Finance AB (publ) shareholders, adjusted for interest on capital instruments recorded in equity, by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, consisting of rights to performance shares in the long-term warrant programmes.

Potential ordinary shares are only considered to be dilutive on the balance sheet date if a conversion to ordinary shares would reduce the earnings per share. The rights are further considered dilutive only when the exercise price, plus of future services, is lower than the period's average share price.

19 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.

Dividend
Proposed dividends are reported as a liability after having been approved by the Annual General Meeting.

20 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 Finance'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 Finance Group.

See section 6, Consolidation, for the definition of "subsidiaries and joint ventures".

Further information on Hoist Finance Group companies is presented in Note 15, Group companies.

Key senior management
Key senior executives 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 senior management.

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 Finance and other related parties is presented in Note 34, Related-party transactions.

21 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'.

22 Parent Company accounting principles
The Parent Company's financial statements have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554) and the regulatory code issued by the Swedish Financial Supervisory Authority on Annual Reports in Credit institution and Securities Companies (FFFS 2008:25), including applicable amendments. The Swedish Financial Board's RFR 2 "Accounting for legal entities" 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.

22.1 Group contributions and dividends

Group contributions

Hoist Finance applies the main rule in RFR2 IAS 27.2. Group contributions received from Group companies are reported in the income statement. The net of Group contributions paid or received for optimising the Group's tax expense is reported as appropriation in the Parent Company. Group contributions from the Parent Company to subsidiaries are reported as an increase in participations in Group companies, net of tax.

Dividends

Dividends paid to Hoist Finance AB (publ) shareholders are reported as a liability following the approval of the Annual General Meeting. Dividends from subsidiaries and associated companies are reported as 'Dividends received'.

22.2 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.

22.3 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.

22.4 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.

23 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 loans	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	2,558	38,279
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]	–3,283	28,103
Interest expense	–300,288	–361,370
Net interest income	**2,107,225**	**1,681,433**
Fee and commission income	116,817	166,705
Net financial income/expense[1]	–97,529	–50,941
Other income	13,651	10,629
Total operating income	**2,140,164**	**1,807,826**
General administrative expenses		
Personnel expenses	–672,355	–651,354
Other operating expenses	–966,697	–874,016
Depreciation and amortisation of tangible and intangible assets	–52,796	–46,866
Total operating expenses	**–1,691,848**	**–1,572,236**
Profit before credit losses	**448,316**	**235,590**
Net credit losses	–1,260	–5,298
Profit from shares and participations in joint ventures	86,042	54,839
Profit before tax	**533,098**	**285,131**

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	13,651	10,629
Total revenue	**2,627,306**	**2,246,873**
Personnel expenses	–672,355	–651,354
Collection costs[1]	–595,915	–509,598
Other operating expenses[1]	–370,782	–364,418
Depreciation and amortisation of tangible and intangible assets	–52,796	–46,866
Total operating expenses	**–1,691,848**	**–1,572,236**
EBIT	**935,458**	**674,637**
Interest income excl. run-off consumer loan portfolio[2]	–3,283	28,103
Interest expense	–300,288	–361,370
Net financial income[2][3]	–98,789	–56,239
Total financial items	**–402,360**	**–389,506**
Profit before tax	**533,098**	**285,131**

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	–2,620	13,651
Total revenue	**874,808**	**818,712**	**850,980**	**82,806**	**2,627,306**
Personnel expenses	–231,502	–111,301	–181,875	–147,677	–672,355
Collection costs	–246,005	–221,228	–128,682	–	–595,915
Other operating expenses	–112,356	–53,821	–49,924	–154,681	–370,782
Depreciation and amortisation of tangible and intangible assets	–11,977	–7,210	–7,299	–26,310	–52,796
Total operating expenses	**–601,840**	**–393,560**	**–367,780**	**–328,668**	**–1,691,848**
EBIT	**272,968**	**425,152**	**483,200**	**–245,862**	**935,458**
Interest income excl. run-off consumer loan portfolio	101	–	3,513	–6,897	–3,283
Interest expense	–3	–102	–1,347	–298,836	–300,288
Net financial income[4]	–207,219	–182,721	–181,453	472,604	–98,789
Total financial items	**–207,121**	**–182,823**	**–179,287**	**166,871**	**–402,360**
Profit before tax	**65,847**	**242,329**	**303,913**	**–78,991**	**533,098**

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	–4,084	10,629
Total revenue	**700,402**	**715,430**	**780,286**	**50,755**	**2,246,873**
Personnel expenses	–237,937	–93,021	–172,412	–147,984	–651,354
Collection costs [4]	–214,681	–160,775	–134,142	–	–509,598
Other operating expenses [4]	–102,522	–51,014	–39,760	–171,122	–364,418
Depreciation and amortisation of tangible and intangible assets	–6,931	–6,786	–7,195	–25,954	–46,866
Total operating expenses	**–562,071**	**–311,596**	**–353,509**	**–345,060**	**–1,572,236**
EBIT	**138,331**	**403,834**	**426,777**	**–294,305**	**674,637**
Interest income excl. run-off consumer loan portfolio[5]	164	38	2,120	25,781	28,103
Interest expense	69	–77	–1,597	–359,765	–361,370
Net financial income [5] [6]	–157,672	–147,943	–179,310	428,686	–56,239
Total financial items	**–157,439**	**–147,982**	**–178,787**	**94,702**	**–389,506**
Profit before tax	**–19,108**	**255,852**	**247,990**	**–199,603**	**285,131**

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**

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

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, at amortised cost	2,300,190	1,940,601	–	–
of which, at fair value	104,765	63,923	–	–
Income from loan portfolios	**2,404,955**	**2,004,524**	**–**	**–**
Lending to credit institutions				
Interest income, banks	6,038	4,494	952	10
Interest-bearing securities	–9,321	23,609	–	–
Loan receivables	5,841	10,176	–667	–4,467
Intra-Group loan receivables	–	–	10,270	–
Interest income	**2,558**	**38,279**	**10,555**	**–4,457**
Interest expense, deposits from the public	–134,199	–188,501	–	–
Other interest expense, financial liabilities				
of which, at amortised cost	–155,716	–129,262	–	–
of which, at fair value	–10,373	–43,607	–1,602	–927
Interest expense	**–300,288**	**–361,370**	**–1,602**	**–927**
Net interest income	**2,107,225**	**1,681,433**	**8,953**	**–5,384**

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

Note 3 Net financial income

SEK thousand	GROUP 2016	GROUP 2015
Exchange rate fluctuations	–71,460	–29,851
Profit/Loss from financial assets and liabilities at fair value through profit/loss, net	–1,391	–5,014
Profit/Loss from financial assets and liabilities at amortised cost	–9,589	–42,541
Profit/Loss from financial assets and liabilities held for trading, net	–15,089	26,465
Total	**–97,529**	**–50,941**

Note 4 Net sales

SEK thousand	PARENT COMPANY 2016	PARENT COMPANY 2015
Intra-Group income	195,846	148,458
Other	–	0
Total	**195,846**	**148,458**

Note 5 Personnel expenses

Total personnel expenses and remuneration

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Salaries[1) 2)]	–516,758	–505,523	–7,883	–5,656
Pension expenses	–21,933	–17,841	–	–
Social fees	–93,498	–92,363	–792	–4,120
Other personnel-related expenses	–45,718	–39,175	–3,845	–1,070
Total	**–677,907**	**–654,902**	**–12,520**	**–10,846**

1) Includes fixed and variable remuneration.

2) Invoiced remuneration from Senior Executives is specified in the note. The total amounts to SEK 5,553 thousand (3,548) in the Group. The amount is included in Consultancy services in note 6 "Other operating expenses".

The Parent Company has had one employee in addition to the Chief Executive Officer, who is employed by both the Parent Company and Hoist Kredit AB (publ).

Of which, salaries and other compensation to senior executives

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
To senior executives[1)]				
Fixed salaries and benefits	–33,828	–30,106	–7,368	–5,665
Performance-based compensation	–5,231	–3,066	–	–
Total	**–39,059**	**–33,172**	**–7,368**	**–5,665**

1) Senior executives include Board members, the President/CEO and the Executive Management Team. Former Board members are included. One EMT member invoices via own company; see Note 34. Five Board members invoiced fees via own companies during 2016; see Note 33. Senior executives during the year: 13 (13) individuals, of which Board members 6 (6) and CEO 1 (1).

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 2017.

Senior are the Chief Executive Officer and other management employees in Hoist Finance 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 Finance 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 Finance 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 Finance 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 Finance 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[2]	1,633	1,900	1,633	1,900
Other Board members:				
Liselotte Hjorth[3]	675	658	608	592
Annika Poutiainen[4]	667	683	600	600
Per-Eric Skotthag	200	600	200	600
Gunilla Wikman[5]	633	667	600	600
Magnus Uggla	367	–	367	–
Achim Prior[6]	–	117	–	–
Jörgen Olsson[7]	–	–	–	–
Costas Thoupos[8]	–	–	–	–
Total	**4,175**	**4,625**	**4,008**	**4,292**

1) Board and Committee member fees are comprised of a fixed annual amount, exclusive of social fees. 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) Ingrid Bonde took over as Board chair as from the 16 November 2014 extraordinary general meeting. As from November 2013, fee is invoiced via I. Bonde AB; see Note 34.
3) 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 34. Also includes remuneration of SEK 67 thousand (67) from subsidiary.
4) 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 34. Also includes remuneration of SEK 67 thousand (83) from subsidiary.
5) Gunilla Wikman joined the Board as at the 22 October 2014 extraordinary general meeting. Gunilla Wikman's Board fee has been paid to Carrara AB, a related company, since as from December 2016; see Note 34. Also includes remuneration of SEK 100 thousand (67) from subsidiary. Ms Wikman stepped down from the subsidiary board of directors in May 2016.
6) Achim Prior resigned as of the 16 November 2014 extraordinary general meeting. Includes remuneration from subsidiary.
7) Jörgen Olsson receives no Board fee; he is employed by both the Parent Company and Hoist Kredit, and receives remuneration from Hoist Kredit.
8) Costas Thoupos receives no Board fee; he is employed by a subsidiary and receives remuneration of 4,968 thousand (5,528).

Salaries and benefits[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	–15,483	–11,793	–5,231	–3,066	–1,671	–612	–22,385	–15,472
Total	**–23,014**	**–19,154**	**–5,231**	–3,066	**–1,671**	–799	**–29,916**	**–23,020**

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 34.

Directors' remuneration

Board members of the Parent Company and its subsidiary Hoist Kredit received remuneration in 2016 from Hoist Finance 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 Finance (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 2015 (7,361), in line with Hoist Finance'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 were exercised during 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.

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 EMT members but one were offered performance-based compensation at a maximum of 50 per cent of fixed 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.

Note 5 Personnel expenses, continued

Pension costs

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

1) Pension costs are comprised of pension premiums for defined-contribution pension plans expensed during the year (costs for services rendered during the current and previous years and settlements as defined by IAS 19). One-hundred per cent of total pension costs are 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 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 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. Twenty-six 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 company. In 2016, SEK 1,106 thousand was paid for these repurchased warrants and reported in shareholders' equity. Each warrant entitled the original holder to subscribe for one new share in the 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 company the option of repurchasing some or all of the warrants or shares issued through exercise of the warrants.

Warrant liquidity is reported in 'Shareholders' equity'. The 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 company's current equity in total. In accordance with the warrants' terms 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 company the option of repurchasing some or all of the warrants or the shares issued through exercise of the warrants.

Note 5 Personnel expenses, continued

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
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**

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	62	38
Boards of Directors	75	25	66	34
of which, Parent Company	*43*	*57*	*43*	*57*

Note 6 Other operating expenses[1)]

	GROUP		PARENT COMPANY	
SEK thousand	2016	2015	2016	2015
Collection costs	–595,933	–509,598	–	–
Consultancy services[2)]	–141,844	–182,716	–43,125	–69,903
Intra-Group consultancy services	–	–	–136,232	–87,870
Other intra-Group expenses	–	–	–7,547	–7,399
IT expenses	–76,159	–51,268	–13,816	–9,145
Telecom expenses	–12,536	–15,183	–174	–2,209
Premises costs	–62,817	–59,329	–8,310	–6,557
Travel expenses	–26,741	–23,149	–520	–199
Restructuring costs	–106	–2,207	–	–
Bank charges	–16,544	–10,922	–92	–38
Sales and marketing expenses	–4,461	–4,190	–410	–392
Other expenses	–29,556	–15,454	–9,629	–711
Total	**–966,697**	**–874,016**	**–219,855**	**–184,423**

1) Comparative figures have been adjusted due to the reclassification of banking fees to collection costs.
2) Consultancy services also include fees invoiced by Senior executives, specified in not 5 "Personnel expenses".

Note 7 Credit losses

SEK thousand	GROUP 2016	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**

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 PricewaterhouseCoopers 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	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**

SEK thousand	BEST III 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.

SEK thousand	PQH 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

Group contributions totalling SEK 210 (183) million were paid by subsidiary Hoist Kredit AB (publ) to Hoist Finance AB (publ) during the year.

Note 10 Tax

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Current tax expense/revenue				
Tax expense/revenue for the year	–73,510	–5,345	–31,471	–22,673
Tax adjustment attributable to previous years	93	–7,736	2,321	–2,156
Total	**–73,417**	**–13,081**	**–29,150**	**–24,829**
Deferred tax expense/revenue				
Deferred tax attributable to temporary differences	–42,532	–41,528	–	–
Total	**–42,532**	**–41,528**	–	–
Total reported tax expense	**–115,949**	**–54,609**	**–29,150**	**–24,829**

SEK thousand	GROUP 2016	GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Profit before tax	**533,098**	**285,131**	**146,470**	**102,521**
Tax calculated at 22% (Swedish) tax rate	–117,307	–62,729	–32,223	–22,555
Effect of different tax rates in different countries	5,944	13,669	–	–
Non-taxable revenue	45,280	14,997	26	1
Non-deductible expenses	-25,332	–2,731	–90	–10
Adjustments with reference to previous years	93	–7,736	2,321	–2,156
Utilisation of previously uncapitalised loss carry-forwards	9,432	12,424	–	–
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	–	–
Other	–22,013	7,845	816	–110
Total tax expense	**–115,949**	**–54,609**	**–29,150**	**–24,829**

The Group's effective tax rate was 21.75 per cent (19.15) at 31 December 2016.

Current tax reported directly in the Group's equity totalled SEK 2 million as at 31 December 2016, and refers to tax on transaction costs associated with the issue of Additional Tier 1 capital.
For the Parent Company, no current tax was reported in equity. Last year, current tax on items reported directly in equity in the Group totalled SEK 2 million and referred to tax on interest paid on capital contribution net of tax on IPO costs. '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.

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Deferred tax		
Deferred tax assets	47,269	62,688
Deferred tax liabilities	–163,264	–183,999
Total	**–115,995**	**–121,311**

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	65,732	–8,736			–1,796	82,276
Joint ventures	–33,382	–9,420				–42,830
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	–18,750	–12,214				–30,964
Other	–836	–15,029		3,170	–1,098	–13,793
Total	**–121,311**	**–42,532**	**654**	**37,200**	**9,993**	**–115,995**

SEK thousand	Opening balance	Income statement	Other comprehensive income	Acquired via acquisition of companies	Translation difference	Closing balance
	GROUP, 31 December 2015					
Change in deferred tax						
Loss carry-forwards	64,978	–14,291		16,864	–1,820	65,732
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		–18,750				–18,750
Other	1,663	–9,674		7,350	–175	–836
Total	**20,466**	**–41,528**	**–781**	**–102,454**	**2,986**	**–121,311**

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 Earnings per share

Basic earnings per share

SEK thousand	2016	2015
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, before dilution		
Net profit for the year attributable to Parent Company shareholders	417,149	230,522
Interest on capital contribution	–15,688	–11,700
Profit attributable to Parent Company shareholders, before dilution	401,461	218,822
Basic weighted average number of shares outstanding, before dilution, adjusted for 1:3 share split approved by February 2015 AGM	79,188,675	75,376,085

Diluted earnings per share

SEK thousand	2016	2015
Net profit for the year attributable to Hoist Finance AB (publ) shareholders, after dilution		
Profit attributable to Parent Company shareholders, before dilution	401,461	218,822
Profit attributable to Parent Company shareholders, after dilution	**401,461**	**218,822**
Weighted average number of shares outstanding, after dilution		
Basic weighted average number of shares during the year, before dilution	79,188,675	75,376,085
Effect of options	1,526,704	1,745,570
Weighted average number of shares during the year, after dilution	**80,715,379**	**77,121,655**
The weighted average number of shares was affected by new share issues in 2015 and 2016		
Basic earnings per share, SEK	**5.07**	**2.90**
Diluted earnings per share, SEK	**4.97**	**2.84**

Instruments which may result in future dilution and changes after the balance sheet date. The company has two long-term warrant programmes; see Note 5 for details.

Note 12 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		42,918	635,128	1,809,328			2,487,374	397,991
Lending to credit institutions	1,036,749	43,296					1,080,045	
Lending to the public		1,406	10,924	22,298	2,809	4,874	42,311	27,172
Bonds and other securities		704,411	930,420	397,991			2,032,822	1,809,328
Total assets with fixed/contractual maturity	**1,036,749**	**835,363**	**1,833,362**	**2,229,617**	**2,809**	**4,874**	**5,942,774**	**2,234,491**
Acquired loan portfolios[1]		868,850	2,507,413	9,402,985	5,374,317		18,153,565	14,777,301
Total assets with no fixed/anticipated maturity		**868,850**	**2,507,413**	**9,402,985**	**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**
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**	**1,143,092**	**2,191,516**	**4,846,464**			**15,763,926**	**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, antic-ipated 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	799,199	37,215					836,414	
Lending to the public		3,011	22,024	48,761	5,777	8,713	88,286	57,474
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	**799,199**	**605,021**	**1,511,465**	**2,353,815**	**5,777**	**33,713**	**5,308,990**	**2,362,528**
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**
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**	**1,250,325**	**1,381,184**	**3,824,255**			**14,675,833**	**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. A fee is assessed for premature withdrawals from fixed-term deposits.

See Note 31 for information on the Group's management of liquidity risk.

Note 12 Maturity analysis, continued

PARENT COMPANY, 31 December 2016

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								
Lending to credit institutions	328,457						328,457	
Receivables, Group companies		257,501					257,501	
Total liabilities with fixed maturity	**328,457**	**257,501**					**585,958**	
Liabilities								
Intra-Group loans		199	597	65,398			66,194	65,398
Liabilities, Group companies	286,463	10,726					297,189	
Total liabilities with fixed maturity	**286,463**	**10,925**	**597**	**65,398**			**363,383**	**65,398**

PARENT COMPANY, 31 December 2015

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								
Lending to credit institutions	125,414						125,414	
Receivables, Group companies		209,519					209,519	
Total liabilities with fixed maturity	**125,414**	**209,519**					**334,933**	
Liabilities								
Intra-Group loans		125	376	41,502			42,003	41,502
Liabilities, Group companies	113,307	97,152					210,459	
Total liabilities with fixed maturity	**113,307**	**97,277**	**376**	**41,502**			**252,462**	**41,502**

Note 13 Financial assets

SEK thousand	GROUP 31 Dec 2016	31 Dec 2015
Swedish banks	686,967	63,163
Foreign banks	374,318	795,353
Total, lending to credit institutions	**1,061,285**	**858,516**
of which, pledged assets[1)]	*478*	*639*
Interest-bearing securities		
Eligible treasuries, Swedish government	2,273,903	1,181,728
Other eligible securities	–	1,896,099
Total, treasury bills and treasury bonds	**2,273,903**	**3,077,827**
Bonds and other securities		
Credit institutions	–	10,000
Mortgage institutions	2,474,849	1,268,214
Total bonds and other securities	**2,474,849**	**1,278,214**
Total interest-bearing securities	**4,748,752**	**4,356,041**
of which, unlisted securities	–	–
Shares and other participating interests		
Unlisted[2)]	–	25,000
Total, shares and other participating interests	**–**	**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. See Note 30 for additional information on credit quality.

Note 14 Acquired loan portfolios

SEK thousand	GROUP 31 Dec 2016	31 Dec 2015
Opening balance	11,014,699	8,586,782
Acquisitions	3,329,382	4,370,259
Adjustment of acquisition analysis	–29,536	–
Translation differences	–22,785	–315,835
Changes in value		
Based on opening balance forecast (amortisation)	–1,911,916	–1,587,651
Based on revised estimates (revaluation)	5,703	–38,856
Carrying value	**12,385,547**	**11,014,699**
Profit/loss revaluations reported in income statement	**–1,906,213**	**–1,626,507**

of which, at fair value

SEK thousand	GROUP 31 Dec 2016	31 Dec 2015
Opening balance	1,177,808	1,460,229
Translation differences	52,874	–53,671
Changes in value		
Based on opening balance forecast (amortisation)	–186,090	–167,331
Based on revised estimates (revaluation)	68	–61,419
Carrying value	**1,044,660**	**1,177,808**
Profit/loss revaluations reported in income statement	**–186,022**	**–228,750**

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/measured at amortised cost. For additional information on accounting principles in accordance with the IFRS, please refer to the Accounting Principles section.

Note 14 Acquired loan portfolios, continued

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 purchased.

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 that reflect forecasted collections derived from the loans' nature and age. These are subsequently used to calculate the value of all portfolios.

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 Finance, 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.

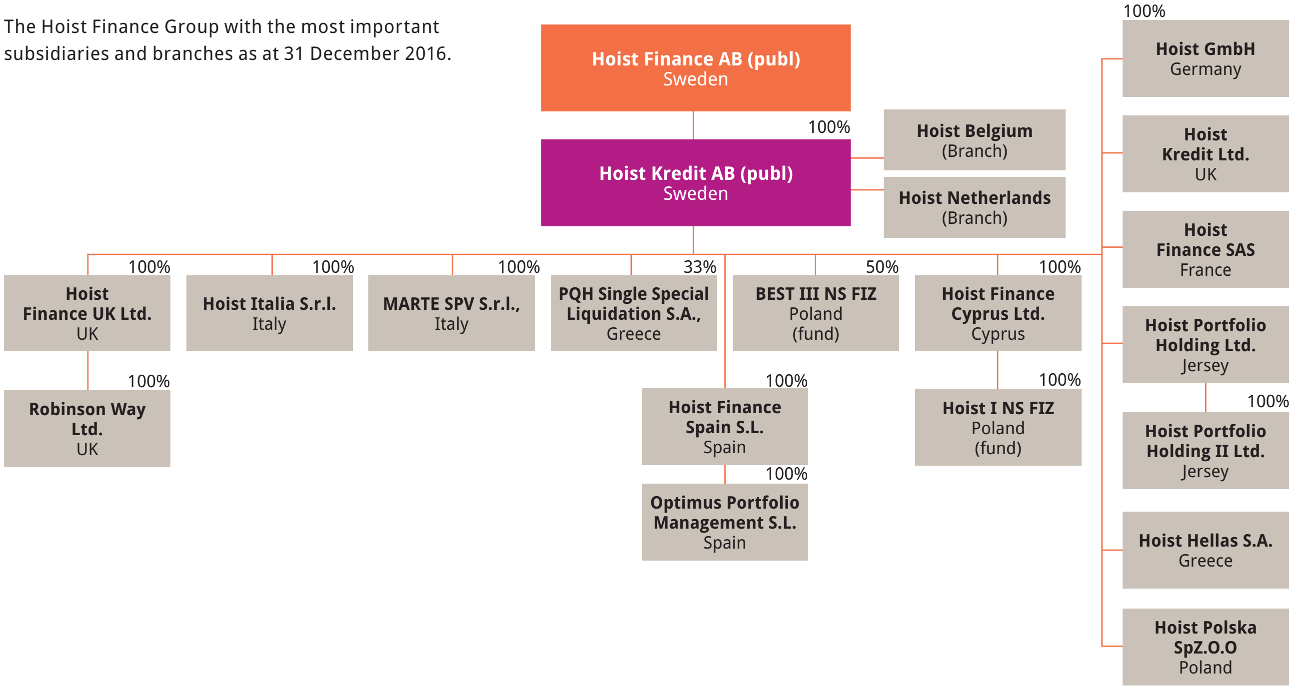
Sensitivity analysis

While Hoist Finance 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:

	GROUP	
SEK thousand	**31 Dec 2016**	**31 Dec 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*
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 15 Group companies

The Hoist Finance Group with the most important subsidiaries and branches as at 31 December 2016.



Hoist Finance AB (publ), corporate identity number 556012-8489 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 Kredit AB (publ) [5]	556329-5699	Stockholm	100	642,200	353,358	–86,167
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 [6]	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	Warszaw	100	22	–46	0
HOIST I NS FIZ[3]	RFI702	Warszaw	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) It is contemplated to carry out a merger between Hoist Finance and Hoist Kredit where Hoist Finance will be the surviving entity.
6) 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.

Note 15 Group companies, continued

Ownership percentage corresponds to share of voting power. All shares are unlisted. Hoist Kredit AB (publ) is a registeredregistered credit institution. Information on number of shares in Group companies is available upon request.

SEK thousand	31 Dec 2016	31 Dec 2015
Hoist Kredit AB (publ)	1,687,989	1,687,989
Total carrying value	**1,687,989**	**1,687,989**
Accumulated cost		
Opening balance	**1,687,989**	**928,986**
Shareholders' contribution	–	759,003
Closing balance	**1,687,989**	**1,687,989**

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 million[1)] 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 Finance 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 Finance'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 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 Finance 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 any impact on previously reported net assets. Acquired loan portfolios after adjustment totalled SEK 1,469 million.

Final acquisition balance sheet, Compello Holdings 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 16 Intangible assets

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**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	226,211	199,200	42,927	57,995
Investments for the year	35,756	31,584	12,116	15,101
Investments for the year, acquired companies[1]	–	9,692	–	–
Reclassification	–5,044	–10,463	–2,748	–30,169
Translation differences	1,882	–3,802		–
Acquisition value, closing balance	**258,804**	**226,211**	**52,295**	**42,927**
Accumulated depreciation, opening balance	–113,542	–78,507	–23,452	–26,124
Reclassification	–	–10,120	–	–
Accumulated depreciation, acquired companies	–35,836	–35,813	–3,674	–6,115
Depreciation of the year	1,703	8,787	–	8,787
Translation differences	–988	2,111	–	–
Accumulated depreciation, closing balance	**–148,663**	**–113,542**	**–27,126**	**–23,452**
Carrying value	**110,141**	**112,669**	**25,169**	**19,475**
Intangible assets	**243,340**	**235,632**	**25,169**	**19,475**

1) Refers to acquired company Kancelaria Navi Lex SpZ.O.O.

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 Finance 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 17 Tangible assets

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Machinery				
Acquisition value, opening balance	128,808	114,057	6,463	4,498
Investments for the year	18,360	20,123	491	1,965
Investments for the year, acquired companies	23	3,946	–	–
Divestments and disposals	–2,042	–5,654	–	–
Translation differences	–1,009	–4,091	–	–
Reclassification	–	428	–	–
Acquisition value, closing balance	**144,141**	**128,809**	**6,954**	**6,463**
Accumulated depreciation, opening balance	–87,185	–82,057	–3,321	–2,266
Divestments and disposals	250	5,654	–	–
Depreciation of the year	–16,960	–13,636	–1,216	–1,055
Translation differences	569	2,853		–
Accumulated depreciation, closing balance	**–103,326**	**–87,186**	**–4,537**	**–3,321**
Carrying value	**40,815**	**41,623**	**2,417**	**3,142**
Equipment	**40,815**	**41,623**	**2,417**	**3,142**

Note 18 Other assets

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Non-current financial assets	322	286
Non-current receivables	1,371	1,774
Derivatives[1]	29,167	314,680
Preliminary tax paid	9,068	20,149
VAT receivables	20,802	43,560
Accounts receivable	30,354	25,574
Advance payments to suppliers	60,807	65,926
Other current receivables	41,579	29,113
Total other assets	**193,470**	**501,062**

1) See Note 30.

Note 19 Prepayments and accrued income

	GROUP		PARENT COMPANY	
SEK thousand	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Prepaid expenses	49,463	45,937	8,506	7,467
Other accrued income	36,130	26,447	–	–
Total	**85,593**	**72,384**	**8,506**	**7,467**

Note 20 Other liabilities

SEK thousand	GROUP 31 Dec 2016	GROUP 31 Dec 2015
Non-current liabilities	20,580	69,427
Accounts payable	55,981	92,439
Derivatives[1]	5,397	1,651
Employee withholding tax on deposit interest	35,168	49,035
Employee withholding tax	17,231	14,396
Collateral received	151,300	–
Other current liabilities	147,208	130,336
Total	**432,865**	**357,284**

1) See Note 29.

Note 21 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	44,944	56,067	253	340
Accrued interest expenses	33,446	30,106	–	–
Accrued fee & commission expense	2,572	23,553	–	–
Accrued transaction costs	22,945	–	–	–
Accrued legal costs	18,394	10,487	–	–
Accrued collection costs	9,716	–	–	–
Other accrued expenses	71,425	60,728	2,585	3,643
Total	**203,442**	**180,941**	**2,838**	**3,983**

Note 22 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	24,402	27 086	7,037	19,381	15,311	17,969	5,366	4,268	52,116	68,704
Provision	–	–	4,232	7,569	3,388	2,768	2,788	5,469	10,408	15,806
Amount released	–295	–233	–8,023	–18,382	–3,595	–3,148	–137	–5,556	–12,050	–27,319
Change in value	3,112	–2,451	291	–145	1,345	–2,278	282	–201	5,030	–5,075
Reclassification	–	–	–	–1,386	–	–	–	1,386	–	–
Closing balance	**27,219**	**24 402**	**3,537**	**7,037**	**16,449**	**15,311**	**8,299**	**5,366**	**55,504**	**52,116**

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 Finance AB (publ) and 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.

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Net pension provision, reported in the balance sheet				
Defined-benefit commitment	30,456	27,330	24	35
Fair value of plan assets	3,237	2,928	–	–
Net pension provision	**27,219**	**24,402**	**24**	**35**
Pension commitments				
Opening balance	27,330	30,233	35	49
Expenses for services performed during current period	10	24	10	7
Interest expense	669	702	0	1
Pension payments	–901	–855	–12	–12
Actuarial gains (–)/losses (+)	2,037	–1,577	–	–
Currency effects, etc.	1,320	–1,187	–	–
Other	–9	–10	–9	–10
Closing balance	**30,456**	**27,330**	**24**	**35**
Assets under management				
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	141	–124	–	–
Closing balance	**3,237**	**2,928**	**–**	**–**

All plan assets are invested in investment funds.

Note 23 Subordinated liabilities

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

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 24 Equity

Share capital. The Hoist Finance AB (publ) Articles of Association specify that the Company's share capital shall total a minimum of SEK 15 million and a maximum of SEK 60 million.

	GROUP	
Number of shares	2016	2015
Opening balance	**78,532,684**	**21,661,628**
1:3 share split	–	43,323,256
New share issue	2,186,883	13,547,800
Closing balance	**80,719,567**	**78,532,684**

The quota value is SEK 0.33 per share**.**

The total number of shares at 31 December 2015 was 78,532,684, all of which were ordinary shares. Additional shares were issued in 2016 through exercise of warrants. The total number of shares at 31 December 2016 was 80,719,567. All shares are fully paid.

The translation reserve comprises all exchange differences arising through translation of foreign operations less hedging effects.

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 and 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.

Hoist Finance AB (publ) issued warrants as resolved at the extraordinary general meetings held on 6 December 2013 and 22 October 2014, for which it received a total of SEK 5 million. SEK 4 million of this amount has been repaid through Hoist Finance AB (publ)'s repurchase and cancellation of certain warrants. Each warrant entitles the holder to subscribe for three newly issued shares. Upon full exercise of all warrants, Hoist Finance AB's share capital will increase by a total of SEK 0.2 million. During 2016, 2,186,883 new shares were issued through the redemption of warrants.

Retained earnings are comprised of accrued earnings in the Parent Company, subsidiaries and joint ventures. For financial year 2016 the Board will propose distribution of a dividend of SEK 1.30 per share, corresponding to a total of SEK 104,935,437.

Note 25 Audit fee

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
KPMG				
Audit engagements	–8,189	–9,980	–3,957	–3,765
Audit-related engagements	–846	–4,164	–846	–4,164
Tax-related services	–1,870	–5,894	–	–3,655
Other non-audit-related engagements	–426	–295	–426	–295
Total	**–11,331**	**–20,333**	**–5,228**	**–11,879**

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

Not 26 Pledged assets

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

Not 27 Contingent liabilities

	GROUP		PARENT COMPANY	
SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**31 Dec 2015**
Commitments [1]	1,565,944	651,054	–	–

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

Note 28 Lease contracts

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

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

Finance leasing

	GROUP			
	Nominal value	Present value	Nominal value	Present value
SEK thousand	31 Dec 2016	31 Dec 2016	31 Dec 2015	31 Dec 2015
Future minimum lease payments				
Within 1 year	187	174	402	366
Years 1–5	279	261	659	622
Total	**466**	**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 0.2 million as at the balance sheet date. No variable fees were charged to net profit for the year.

Operating leasing

	GROUP		PARENT COMPANY	
SEK thousand	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Payment obligations under non-cancellable lease contracts				
Within 1 year	30,872	25,133	6,097	7,513
Years 1–5	67,446	58,589	6,132	15,026
Year 5 and thereafter	32,887	37,071	–	–
Total	**131,225**	**120,793**	**12,229**	**22,539**

The Group's lease expenses total SEK 30 million (23). The corresponding figure for the Parent Company is SEK 7 million (5). No variable fees were charged to net profit for the year.

Note 29 Financial instruments

Carrying value and fair value of financial instruments

GROUP, 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 instruments	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			1,061,285				1,061,285	1,061,285
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*
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			133,061				133,061	133,061
Total	**28,971**	**5,793,412**	**12,574,095**	**63,717**	**196**		**18,460,391**	**18,579,069**
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						411,220	411,220	411,220
Total	**5,397**					**15,727,887**	**15,733,284**	**15,955,247**

1) See Note 30.

Carrying value and fair value of financial instruments

GROUP, 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 instruments	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			858,516				858,516	858,516
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*
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			120,900				120,900	120,900
Total	**312,990**	**5,533,849**	**10,894,582**	**25,000**	**1,690**		**16,768,111**	**16,945,602**
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						346,919	346,919	346,919
Total	**1,651**					**14,713,657**	**14,715,308**	**14,815,832**

1) See Note 30.

Note 29 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	–	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 14.

Derivatives used for hedging (see Note 30) 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 players/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 the limited impact of discounting.

Note 30 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 31 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.

Note 31 Risk management, continued

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 Finance'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 Finance 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 Finance's portfolios are non-performing. A more important parameter for Hoist Finance'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 Finance's liquidity reserve is managed in accordance with the Group's Treasury Policy, which regulates the share that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures given counterparty credit rating.

The table to the right 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	**5,788,574**	**5,155,521**
of which, in liquidity portfolio	***4,748,752***	**4,356,041**

Note 31 Risk management, continued

The credit risk associated with exposures in Hoist Finance's liquidity reserve is managed in accordance with the Group's Treasury Policy, which regulates the share that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures given counterparty credit rating.

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 assets and 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 30, Derivative Instruments.

31 Dec 2015

SEK thousand	Gross amount of financial assets and 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**

Operational risk

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

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

- Unauthorised activities and internal fraud
- External fraud
- Employment practices and 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 Finance 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 Hoist Finance to an acceptable level. The analysis includes an assessment of a given risk's probability of occurrence and what its consequences (impact) would be, lists the steps taken by Hoist Finance to manage the risks, and details additional measures that need to be taken. Assessments are not made by a single person – they are done in workshops, as discussion and different perspectives are vital to the identification of relevant risks.
3. Process for approval and quality assurance for new and amended products, services, markets, processes, IT systems and major changes in Hoist Finance's operations and organisation.
4. Business Continuity Management (BCM) provides a framework for planning for and responding to events and business disruptions to ensure the continuation of business operations at an acceptable predefined level. Hoist Finance's BCM is comprised of Disruption and Crisis Management:
   - Disruptions are managed with Business Continuity Plans
   - Crises are managed by 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.

Note 31 Risk management, continued

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 Finance calculates the Group's unhedged exposure to the aggregate value of net assets denominated in currencies other than SEK. The Group's translation exposure is then managed through linear derivative contracts.

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 FX risk in EUR	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Net assets on the balance sheet, EUR M	501		596	
Currency forwards, EUR M	–502		–594	
Net exposure, EUR M	–1		2	
A 10% increase in EUR/SEK FX rate impacts Group results by (SEK thousand)	–241	–0.01%	1,394	0.06%
A 10% decrease in EUR/SEK FX rate impacts Group results by (SEK thousand)	241	0.01%	–1,394	–0.06%

Group FX risk in GBP	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Net assets on the balance sheet, GBP M	329		279	
Currency forwards, GBP M	–327		–279	
Net exposure, GBP M	2		0	
A 10% increase in GBP/SEK FX rate impacts Group results by (SEK thousand)	1,854	0.06%	–335	–0.01%
A 10% decrease in GBP/SEK FX rate impacts Group results by (SEK thousand)	–1,854	–0.06%	335	0.01%

Group FX risk in PLN	31 Dec 2016	Impact on equity	31 Dec 2015	Impact on equity
Net assets on the balance sheet, PLN M	872		860	
Currency forwards, PLN M	–867		–854	
Net exposure, PLN M	5		6	
A 10% increase in PLN/SEK FX rate impacts Group results by (SEK thousand)	1,032	0.04%	1,263	0.06%
A 10% decrease in PLN/SEK FX rate impacts Group results by (SEK thousand)	–1,032	–0.04%	–1,263	–0.06%

Hoist Finance 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.

Note 31 Risk management, continued

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.

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 instantaneous effect impact on profit/loss a 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 14.

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

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

Funding

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
SEK thousand	31 Dec 2016	31 Dec 2015	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
Shareholders' 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**	**17,468,775**	**17,053,139**

1) Maturity analysis tables of the Group's liabilities are not discounted. See Note 12 for assets and liabilities.

Note 31 Risk management, continued

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	31 Dec 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**

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity totalled SEK 5,789 million (5,156) at 31 December, exceeding the limit and the target level by a significant margin.

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

- An outflow from HoistSpar of over 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 Finance'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 Finance is capable of incurring under extremely adverse circumstances. This loss figure is compared to the Pillar 1 capital requirement and, if the simulated losses exceed the Pillar 1 amount, the excess is covered with additional Pillar 2 capital.

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

Hoist Finance 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 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 Finance has sufficient capacity to absorb unexpected events without risking its solvency, and that Hoist Finance is well-capitalised for continued growth.

ILAAP

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

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

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

Note 32 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.

Own funds, SEK thousand	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
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.

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.

Note 32 Capital adequacy assessment, continued

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-weighted 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	–	–	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)	**0**	**664**	**0**	**664**
Total risk-weighted exposure amount	**16,787,477**	**14,839,833**	**14,732,462**	**13,293,059**

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Own funds requirements, SEK thousand	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**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	–	–	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)	**0**	**53**	**0**	**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	–	–
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**

Note 32 Capital adequacy assessment, continued

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.

	Hoist Finance consolidated situation		Hoist Kredit AB (publ)	
Capital ratios and capital buffers, %	**31 Dec 2016**	**31 Dec 2015**	**31 Dec 2016**	**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 33 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 14, 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 after 1 July 2011 are measured at amortised cost and the IRR is based on the initial cash flow projection defined at the acquisition date for specific portfolios. All amendments in cash flow forecasts are subject to final decisions. For a sensitivity analysis, please refer to Note 14.

Changes in tax expenses

Hoist Finance operates cross-border and manages its consolidated tax issues relating to subsidiaries in several jurisdictions. The Group is, therefore, exposed to potential tax risks arising from varying interpretation and application of existing laws, treaties, regulations, and guidance in areas including income tax and VAT (Value Added Tax).

Note 34 Related-party transactions

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

	GROUP Other related parties-Senior Executives	
SEK thousand	31 Dec 2016	31 Dec 2015
Assets		
Other assets	515	468
Liabilities		
Other liabilities	–	–

	GROUP Other related parties-Senior Executives	
SEK thousand	2016	2015
Operating income		
Interest income	36	11
Operating expense		
Other expenses[1]	–5,553	–3,665

	PARENT COMPANY			
	Group companies		Other related parties	
SEK thousand	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Current receivables				
Receivables, Group companies	257,501	209,519	–	–
Non-current liabilities				
Intra-Group loans	65,000	40,100	–	–
Current liabilities				
Liabilities, Group companies	298,153	213,443	–	–

	PARENT COMPANY			
	Group companies		Other related parties-Senior Executives	
SEK thousand	2016	2015	2016	2015
Net sales	195,846	148,458	–	–
Operating expense				
Other external expenses	–143,779	–95,269	–5,419	–1,973
Profit from financial items				
Interest income	10,270	–	–	–
Interest expense	–1,354	–925	–	–
Earnings from participations in Group companies				
Group contribution	210,000	182,890	–	–

[1]Specification of other expenses

	GROUP Other related parties-Senior Executives	
SEK thousand	2016	2015
Alpha Leon AB	–855	–683
Carrara Communication AB	–66	–
Co Go Consulting AB	–3,360	–2,865
I. Bonde AB	–329	–
Lindenau, Prior & Partner GbR	–	–117
Firma Liselotte Hjorth	–461	–
Uggla Advisory AB	–482	–
Total	**–5,553**	**–3,665**

The above amounts are comprised of fees including social fees.

Not 35 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 36 Reconciliation alternative performance measures

Return on book

SEK thousand	2016	2015
EBIT	935,458	674,637
+ Operating expenses, Central Functions	328,668	345,060
EBIT excl. operating expenses, Central Functions	1,264,126	1,019,697
Average carrying value, acquired loans[1]	11,968,471	10,099,774
Return on book, %	**10.6**	**10.1**

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

EBITDA, adjusted

SEK thousand	2016	2015
Net profit for the year	417,149	230,522
+ Income tax expense	115,949	54,609
+ Portfolio revaluation	–5,703	38,856
– Interest income (excl. interest income from run-off consumer loan portfolio)	3,283	–28,103
+ Interest expenses	300,288	361,370
+/– Net financial income, incl. net credit losses	98,789	56,239
+ Depreciation and amortisation of tangible and intangible assets	52,796	46,866
EBITDA	**982,551**	**760,359**
+ Amortisation, run-off consumer loan portfolio	26,171	60,434
+ Amortisation, acquired loan portfolios	1,911,916	1,587,651
EBITDA, adjusted	**2,920,638**	**2,408,444**
Carrying value, run-off consumer loan portfolio	32,194	58,365

Not 37 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 capital	1,693,638,046
Losses carried forward	–1,271,919
Net profit for the year	117,319,890
Total	**1,809,686,017**

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

	SEK
Dividend to shareholders, SEK 1.30 per share	104,935,437
Carried forward to:	
Other contributed capital	1,693,638,046
Retained earnings	11,112,534
Total	**1,809,686,017**

The total proposed dividend, totalling SEK 105 million, is based on the number of shares as at 31 December 2016. The total dividend amount may change during the period preceding the record date, depending on warrant redemption. It is the Board's assessment that the proposed dividend is justifiable in view of the requirements imposed on consolidated equity by the Group's operations, scope and risks, and in the view of the Group's need for consolidation, liquidity and financial position in other respects.

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 FINANCE AB, CORP. ID 556012-8489

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Hoist Finance AB for the year 2016, except for the corporate governance statement on pages 59–69. The annual accounts and consolidated accounts of the company are included on pages 50–124 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, 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 Annual Accounts Act. 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 59–69. 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 note 1, note 12, note 14, note 29, note 31 and note 33 and accounting principles on pages 82 and 84 in the annual account and consolidated accounts for detailed information and description of the matter.

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 1–48 and 128–131. 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 and 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 scepticism 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 Finance 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, the Annual Accounts 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 skepticism 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 the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess 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 59–69 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 and the Annual Accounts Act for Credit Institutions and Securities Companies.

Stockholm 15 March 2017

KPMG AB
Anders Bäckström
Auktoriserad revisor

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	166,817	166,705
Profit from shares and participations in joint ventures	86,042	54,839
Other income	13,651	10,629
Total revenue	**2,627,306**	**2,246,873**
Personnel expenses	–672,355	–651,354
Collection costs	–595,915	–509,598
Other operating expenses	–370,782	–364,418
Depreciation and amortisation of tangible and intangible assets	–52,796	–46,866
Total operating expenses	**–1,691,848**	**–1,572,236**
EBIT	**935,458**	**674,637**
Funding		
Interest income excl. run-off consumer loan portfolio	–3,283	28,103
Interest expense	–300,288	–361,370
Net financial income/expense	–98,789	–56,239
Total financial items	**–402,360**	**–389,506**
Profit before tax	**533,098**	**285,131**

Statutory income statement, Group

SEK thousand	2016	2015
Net revenue from acquired loan portfolios	2,404,955	2,004,524
Interest income	2,558	38,279
Interest expense	–300,288	–361,370
Net interest income	**2,107,225**	**1,681,433**
Fee and commission income	116,817	166,705
Net financial income/expense	–97,529	–50,941
Other income	13,651	10,629
Total operating income	**2,140,164**	**1,807,826**
General administrative expenses		
Personnel expenses	–672,355	–651,354
Other operating expenses	–966,697	–874,016
Depreciation and amortisation of tangible and intangible assets	–52,796	–46,866
Total operating expenses	**–1,691,848**	**–1,572,236**
Profit before credit losses	**448,316**	**235,590**
Net credit losses	–1,260	–5,298
Profit from shares and participations in joint venture	86,042	54,839
Profit before tax	**533,098**	**285,131**

Hoist Finance 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 Finance regards the acquisition and management of acquired loan portfolios as the Group's core operational 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 Finance's operating profit (EBIT), income and expenses attributable to the acquisition and management of loan portfolios, run-off consumer loan portfolios, fee and commission income, profit from joint ventures as well as general administration are regarded as our operational activity.

Interest expenses for deposit-taking are regarded as financing expenses.

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.

Basic earnings per share
Net profit for the year, adjusted for interest on capital instruments recorded in equity, divided by the weighted average number of outstanding shares.

Capital requirements – Pillar 1
Minimum capital requirements for credit risk, market risk and operational risk.

Capital requirements – Pillar 2
Capital requirements beyond those stipulated in Pillar 1.

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.

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

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 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 assets
Net result for the year as a percentage of total assets at the end of the year.

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 turnover 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 or loss from joint ventures and other income.

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

Shareholder information

Investor Relations

Hoist Finance's Investor Relations department is responsible for providing relevant information to – and being available for talks and meetings with – shareholders, investors, analysts and the media. During the year Hoist Finance conducted a number of international road shows and participated in numerous capital market activities. The company also held regular analyst meetings.

Analysts who continuously monitor Hoist Finance

Carnegie	Viktor Lindeberg
Citibank	Owen Jones
Macquire	Hugh Miller
Morgan Stanley	Anil Sharma
Nordea	Maths Liljedahl Ermin Keric
Pareto Securities	Vegard Toverud Sindre Sunde

Annual General Meeting

The AGM of the shareholders of Hoist Finance AB (publ) will be held on Friday 28 April 2017, at 11:00 CET, at the IVA Conference Centre, Grev Turegatan 16, Stockholm. Registration will open at 10:00 CET.

Notification of attendance

Shareholders who wish to attend the AGM are required to 1) be listed in the shareholders' register maintained by Euroclear Sweden AB no later than Friday 21 April 2017 and 2) notify the company of their intention to attend no later than Monday 24 April 2017.

The notification must include the shareholder's name, address, phone number, the number of shares held and the number of assistants attending (maximum of two).

The notification should be sent to:
Hoist Finance AB (publ)
Annual General Meeting
Box 7848
103 99 Stockholm
Sweden, or
arsstamma2016@hoistfinance.com

Nominee shareholders wishing to vote at the AGM must temporarily register the shares in their own names in the shareholders' register maintained by Euroclear Sweden AB. This registration should be arranged well ahead of Friday 21 April 2017.

Proposed dividend

The Board of Directors proposes a dividend of SEK 1.30 (0.75) per share.

The record date for the right to receive dividends is 3 May 2017. If the proposal is accepted by the AGM, dividends are expected to be distributed by Euroclear Sweden AB on 8 May 2017.

Annual report

Printed versions of the Annual Report will be sent to the year's new shareholders approximately one week before the AGM. Due to environmental considerations, in future printed versions of the report will only be distributed upon request.

IR Contact
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Group Head of IR
Tel: +46 (0) 8-555 177 90
E-mail: info@hoistfinance.com

Hoist Finance AB (publ)
Box 7848, SE 103 99 Stockholm
Tel: +46 (0) 8-555 177 90

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.

Production: Vero Kommunikation/Meze design.
Photo: Przemyslaw Jasinski, Björn Tesch, Shutterstock, Johnér.
Print: Åtta45

This is Hoist Finance's first integrated sustainability report and has been prepared in accordance with G4 GRI at the Core level. While Hoist Finance does not yet fulfil the standard requirements for GRI reporting, the following GRI index is presented based on data and information available for 2016 in order to create transparency about the company's work with sustainability issues. Please contact Group Head of IR Michel Jonson with questions concerning sustainability.

GRI Standard Disclosures

Aspect	Indicator	Name of indicator	Reference	Fulfilment
Organisational Profile	G4 1	Statement from the most senior decision-maker of the organisation	p. 8-9	○
	G4 3	Name of the organisation	p.3	●
	G4 4	Primary brands, products and services	p. 4-5,30-31, 43	●
	G4 5	Location of organisation's headquarters	p.59	●
	G4 6	Countries in which the organisation operates	p.19	●
	G4 7	Nature of ownership and legal form	p.47	●
	G4 8	Markets served	p. 19-25	●
	G4 9	Scale of the organisation	p. 6-7	◐
	G4 10	General information on organisation's employees	p. 40-41	◐
	G4 11	Employees covered by collective bargaining agreements		○
	G4 12	Organisation's supply chain	p. 4-5	●
	G4 13	Significant changes during the reporting period regarding organisation's size, structure, ownership or supply chain	p. 8	●
	G4 14	Use of precautionary approach or principle	p. 42	◐
	G4 15	Externally developed economic, environmental and social charters, principles or other iniatives to which the organisation subscribes or which it endorses		○
	G4 16	Memberships in associations and national or international advocacy organisations		○
Identified Material Aspects and Boundaries	G4 17	Entities included in the organisation's consolidated financial statements		○
	G4 18	Process for defining the report content and the Aspect Boundaries		○
	G4 19	Material Aspects identified in the process for defining report content		○
	G4 20	Aspect Boundary within the organisation for each material Aspect		○
	G4 21	Aspect Boundary outside the organisation for each material Aspect		○
Stakeholder Engagement	G4 24	Stakeholder groups engaged by the organisation		○
	G4 25	Basis for identification and selection of stakeholders with whom to engage		○
	G4 26	Approach to stakeholder engagement		○
	G4 27	Key topics and concerns raised through stakeholder engagement		○
Report Profile	G4 28	Reporting period	p. 36	●
	G4 29	Date of most recent previous report		●
	G4 30	Reporting cycle		●
	G4 31	Contact person	p. 130-131	●
	G4 32	GRI content index	p. 131	●
	G4 33	External assurance		○
Governance	G4 34	Governance structure	p. 59-65	◐
Ethics and Integrity	G4 56	Organisation's values, principles, standards and norms of behaviour concerning ethics and integrity	p. 37, 63	●
	G4 58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisational integrity	p. 38-39, 41	●

Specific Standard Disclosures

Aspect	Indicator	Name of indicator	Reference	Fulfillment
Economic	G4-EC1	Generated and distributed economic value	p.36	●
	G4-EC3	Coverage of organisation's defined benefit plan obligations	Note 10, p. 96	●
	G4-SO8	Significant fines and non-monetary sanctions for non-compliance with laws and regulations	p.39	●
Environmental	G4-EN3	Direct and indirect energy consumption within the organisation		○
	G4-EN15	Direct greenhouse gas emissions (Scope 1)		○
	G4-EN16	Indirect greenhouse gas emissions (Scope 2)		○
	G4-EN17	Other indirect greenhouse gas emissions (Scope 3)		○
	G4-EN18	Greenhouse gas emissions intensity		○
	Egen	Amount of paper and e-waste		○
Employment	G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region	p.40-41	◐
	G4-LA6	Sickness absence, health and safety	p. 41,56	○
	G4-LA9	Average hours of training per employee by gender and employee category		○
	G4-LA12	Composition of governance bodies and breakdown of employees	p. 40	◐
	G4-LA13	Ratio of basic salary and remuneration of women to men		○
Human Rights	G4-HR3	Number of incidents of discrimination and corrective actions taken	p. 40	●
	G4-FS14	Availability of financial services for disadvantaged groups		○
Anti-corruption	G4-SO3	Total number and percentage of operations assessed for risks related to corruption	p. 39	◐
	G4-SO4	Communication and training on anti-corruption policies and procedures	p. 39	○
	G4-SO5	Confirmed incidents of corruption and actions taken	p. 39	●
Product and Service Labelling	G4-PR5	Surveys measuring customer satisfaction	p. 38	●
	G4-PR8	Complaints regarding breaches of customer privacy and losses of customer data		○
Supplier Environmental Assessment	G4-EN32	Percentage of new suppliers that were screened using environmental criteria		○
	G4-HR10	Percentage of new suppliers that were screened using human rights criteria		○
	G4-LA14	Percentage of new suppliers that were screened using labour practices criteria		○
	G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society		○

● Achieved ◐ Partially achieved ○ Not achieved

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