# Risk, Liquidity and Capital Management
# Pillar 3 – 2022

Hoist Finance AB (publ)
Corp.id.no. 556012-8489

# Contents

# 1 Introduction

## 1.1 Hoist Finance in brief

Hoist Finance AB (publ) together with its subsidiaries is a pan-European financial group ("Hoist Finance" or the "Group") active within debt purchasing and receivables management. It is a leading debt restructuring partner to international banks. Present in elven countries across Europe, Hoist Finance offers a broad spectrum of flexible and tailored solutions for the acquisition and management of non-performing and performing loans. Hoist Finance AB (publ), the ultimate parent company, is licensed and regulated as a credit market company under the supervision of the Swedish Financial Supervisory Authority (SFSA). In Sweden, Germany and the UK, Hoist Finance offers a retail deposit service that is the major funding source for the Group.

Hoist Finance's share has since March 2015 been listed on Nasdaq Stockholm, with the largest single shareholder holding 17.3 per cent of all outstanding shares as of 31 December 2022. The second largest shareholder holds 15.5 per cent of all outstanding shares as of the same date. No other individual shareholder held more than 10 per cent of the capital and/or votes at that point in time.

In October 2022, Hoist Finance completed a divestment of its UK credit management subsidiary including its unsecured NPL portfolios. A portfolio of secured loans and Group functions remain operating in the UK.

## 1.2 Pillar 3 report

This Pillar 3 report provides information about risk management, capital and liquidity adequacy. The report is in reference to the information that shall be disclosed on a yearly basis in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, Commission Implementing Regulation (EU) No 1423/2013 ("CRR") as amended by Regulation (EU) No 2019/876 of the European Parliament and of the Council of 20 May 2019 ("CRR 2"), the SFSA's regulations regarding prudential requirements and capital buffers (FFFS 2014:12), the SFSA's regulations regarding management of liquidity risks in credit institutions and investment firms (FFFS 2010:7), Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and other dedicated guidelines and regulations of EBA. The information is given on the basis of the consolidated situation of Hoist Finance group, for Hoist Finance AB (publ) the required information is disclosed on an institutional level, see Annex I – Hoist Finance AB (publ).

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

## 1.3 Hoist Finance's risk profile

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

| Description | Risk profile | Risk management |
|---|---|---|
| **Credit risk**<br>The risk to earnings and/or capital arising from a counterparty's failure to repay principal or interest at the stipulated time or failure to otherwise perform as agreed. | Credit risk refers mainly to acquired loan portfolios and the risk that collections will be lower than forecasted in case of non-performing loans. For acquired performing loans the risk refers to a loss if the borrower fails to meet their credit obligation. Other credit risk exposures are (i) cash deposits with banks, (ii) investments in fixed income instruments, and (iii) counterparty risk relating to hedging of FX and interest rate risk. | Credit risk in acquired loan portfolios is monitored, analysed and managed by the management in each country and by the Group's Business Control function. Other credit risks are analysed and managed by the Treasury function.<br>The Group's Risk Control function analyses and controls all credit risk exposures. |
| **Operational risk**<br>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.<br>The "dual-control" is applied to critical decisions and is supported by back-up routines, e.g., in the form of ratified business continuity plans. |
| **ICT- and Security risk**<br>The risk associated with incidents that affect the confidentiality, accuracy and accessibility of ICT assets. | The ICT incidents are typically scalable and can potentially give rise to other risks, such as financial, regulatory and operational risks. | Security function is focusing on safeguarding customer data and business-critical information. The function is engaged through all three layers of defence that actively work with security. |
| **Market risk**<br>The risk to earnings, capital or liquidity arising from adverse movements in market prices. This includes FX risk and interest rate risk. | The main FX risks arise from the fact that the loan portfolios (the assets) are denominated in EUR, PLN and GBP, while the reporting currency is SEK and the majority of liabilities are denominated in SEK and EUR.<br>Interest rate movements have an effect on net interest income. | Market risks are hedged continuously by the Group's Treasury function and independently analysed and controlled by the Group's Risk Control function. |
| **Liquidity risk**<br>The risk of difficulties in obtaining funding and thus, not being able to meet payment obligations at maturity without encountering significantly higher financing costs. | Liquidity risk in Hoist Finance stems primarily from the risk of unexpected outflow of deposits, the risk of cash outflow due to mark-to-market of hedging derivatives and the re-financing risk of existing wholesale funding. | The Group has a significant liquidity reserve to cover potential outflows of liquidity.<br>Liquidity risk is monitored on daily and monthly basis by Group's Treasury function and independently analysed and controlled by the Group's Risk Control function. |

## 1.4 Risk development 2022

The global economy was in recovery from the Covid pandemic when Russia launched an attack on Ukraine in February 2022. Prior to Russia's attack most macro-economic outlooks painted a relatively mild recessionary scenario for the nearest future, but towards the end of 2022 the macro-economic outlook was weakened driven by uncertainties about the geopolitical developments and potential for escalation of the war in Ukraine.

**Credit risk** is closely monitored to ascertain that risk exposures are kept within risk appetite and limits. Hoist Finance primarily focuses on purchasing non-performing loans. In order to further diversify the existing stock of assets, Hoist Finance will continue to assess upcoming opportunities to acquire portfolios of non-performing secured loans as well as select portfolios of performing loans.

**Operational risk** - Hoist Finance operational risk management framework is established to prevent operational risk events from occurring along with preparatory measures to limit harmful effects should they occur. During 2022 environmental, social and governance factors have been further integrated in operational risk- and control self-assessments. Incidents have occurred during 2022, but its combined effects on Hoist Finance have been managed well within risk limits.

**Market risk -** Market risks were managed well within risk appetite and limits as Hoist Finance continuously hedges both interest rate risk and FX risk in the short and medium term.

**Liquidity risk** - Hoist Finance benefits from a liquidity reserve substantially larger than regulatory requirements. Liquidity risk was managed well within internal limits, set as add-ons on the regulatory minimum requirements.

## 1.5 Significant risks and uncertainties

The main risk for Hoist Finance is the risk of loss from potential undercollection of non-performing loan portfolios in relation to the valuation of those portfolios when they were acquired by Hoist Finance. Another main risk type is operational risk, a broad risk area managing risks driven by people, processes, information and communication technology (ICT) and external events (e.g. pandemics, external crime, climate change, etc). Operational risks are categorized based on the Basel event types and sub-categories, of which compliance breaches, e.g. conduct, money laundering, privacy etc are key categories. Further, liquidity risk and market risk are main risk types for Hoist Finance. Market risks arise when there are imbalances between assets and liabilities and these are denominated in different currencies or interest rates, market risks are managed within acceptable levels by use of derivatives. Liquidity risk arise due to imbalances in expected cash-flows between payables and receivables. Liquidity risk is managed by a funding strategy seeking to reduce the imbalances mentioned and by managing a buffer with highly liquid assets.

There are great many uncertainties in any forward-looking analysis and given the geopolitical developments during 2022, the level of uncertainty about the macro-economic outlook is more uncertain than it has been in decades.

Collection performance came out in line with expectations in 2022 and investment activities picked up following the reduction of risk weights for non-performing loans from 150 to 100 per cent in July 2022[1]. Largely driven by the geopolitical tensions and its effect on, not least, energy prices the macro-economic outlook got progressively more negative throughout 2022. Although Hoist Finance has no business, directly or indirectly, with neither Russia nor Ukraine, most governments in the EU have clearly sided with Ukraine. This means that while there may not be any imminent threat of physical war for any of our markets of operation other forms of threats have increased, not least cyber warfare. All in all, the geopolitical tensions, their effects on the macro-economic development and ultimately the household disposable income were the key drivers of risks during 2022.

Hoist Finance is continuously monitoring developments and the economic outlook. These are key sources of information which we take into close consideration into business planning, e.g. by stress testing risk variables and setting risk limits, buffers and business continuity plans to ensure resilience against adverse but plausible events.

[1] COMMISSION DELEGATED REGULATION (EU) 2022/954 of 12 May 2022 amending the regulatory technical standards laid down in Delegated Regulation (EU) No 183/2014 as regards the specification of the calculation of specific and general credit risk adjustments

# 2 The Board of Directors’ risk declaration and risk statement

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

**Risk declaration**

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

**Risk statement**

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

Managing and exposing oneself to credit risk constitutes a central part of the Group’s business and help the Group to reach its highly set goals.

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

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

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

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

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

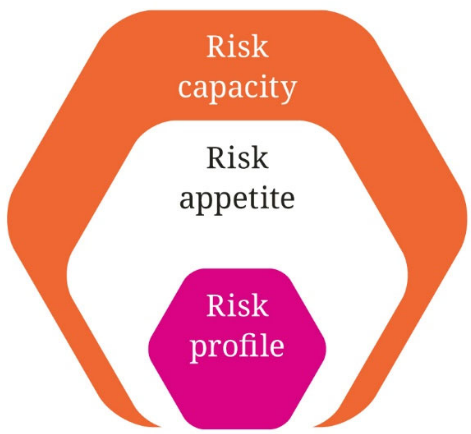
# 3 Risk Management

## 3.1 Introduction

Risk is an inherent part of any business operation. Without assuming risks, it is impossible for a business to achieve a reward and ensure long-term profitability. Risk management is at the heart of Hoist Finance business, helping Hoist Finance customers to recover. Hoist Finance's mission is to protect its customers, the reputation of selling banks that Hoist Finance cooperate with, colleagues, Hoist Finance itself, investors and society, while enabling sustainable growth. This is achieved through informed risk decision-making and through risk management. Hoist Finance acquires and manages receivables and thereby actively exposes itself to credit risk. This is Hoist Finance's core business, in which the Group has been successful for the last 20 years.

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

At any time, the company's risk profile must be within the risk appetite decided by the Board, which in turn must be within the risk capacity.




## 3.2 Risk management framework

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

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

Hoist Finance's core business and risk strategy is to generate revenue through controlled exposures to credit risk in the form of purchased loan portfolios of various exposure classes (non-performing unsecured and secured, as well as performing portfolios). Other types of risk, such as operational risks and market risks are undesired but sometimes unavoidable. These risks are minimised as far as it is economically justifiable.

Based upon regulatory and internal requirements, Hoist Finance has identified the following key risk areas:

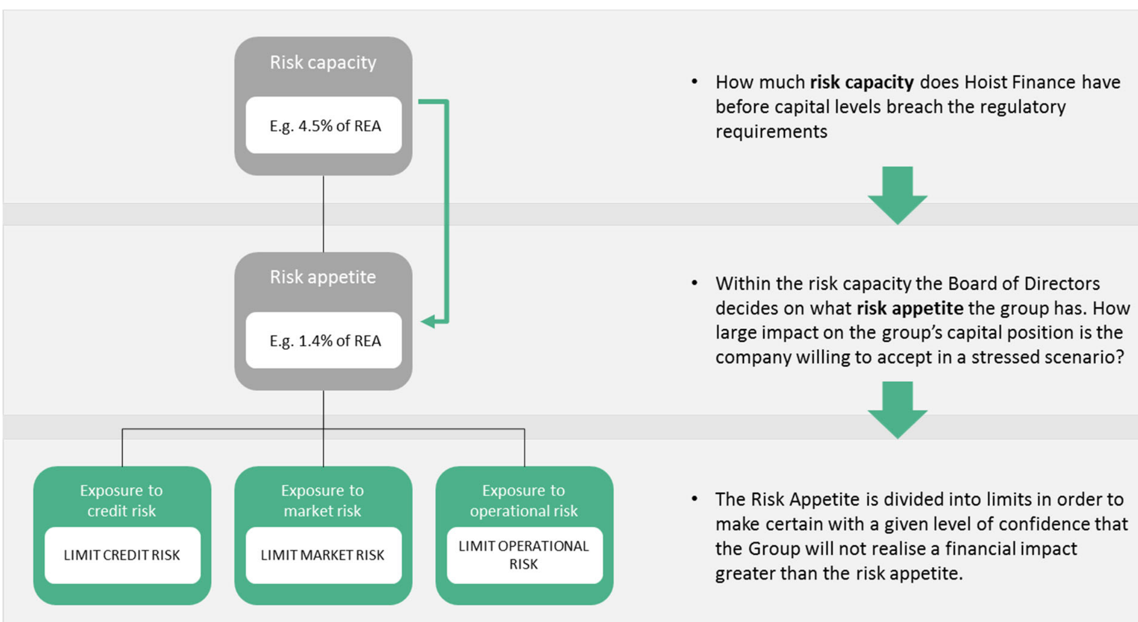
- Stress testing,

- Risk governance,
- Committee structure
- Risk appetite and detailed analysis of the principal risk categories
- Framework by which risks are identified, managed, mitigated and monitored.

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

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

These principles are summarised in the figure below:




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

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

3.3 Governance and internal control

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

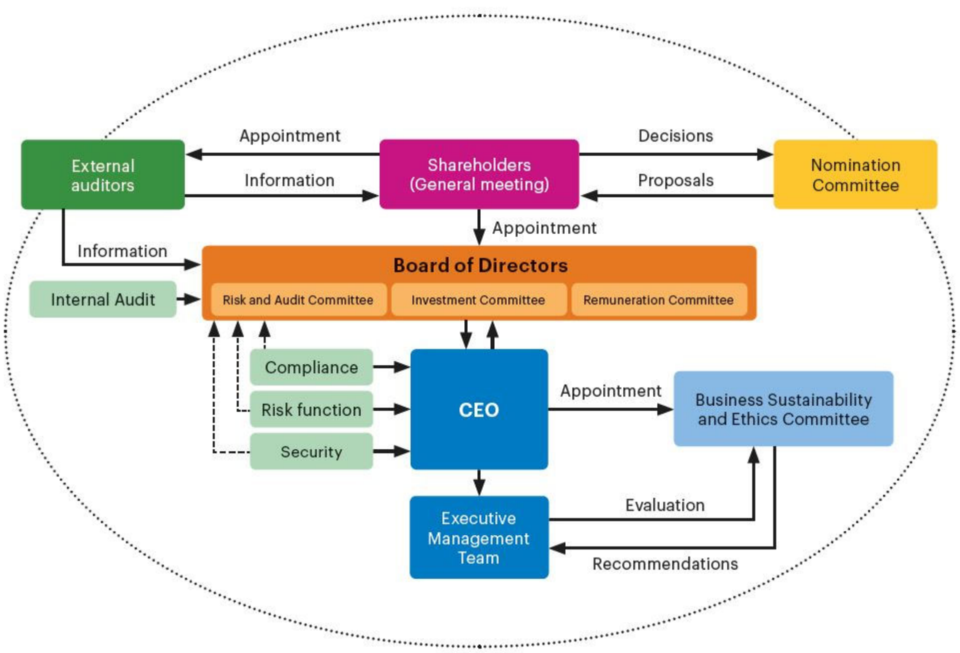
Hoist Finance's roles and responsibilities regarding internal control and risk management are structured in three lines of defence.

**1st Line of Defence:** The business organisation is the first line of defence, and the business units and subsidiaries bear full responsibility for the risks that arise in day-to-day operations. The local offices often have the most relevant knowledge as they are closest to the customers and the 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, Compliance and Security functions are independent control functions. This means that they are not involved in the business operations and that they report independently to the CEO and the Board of Directors. The second line of defence is responsible for identification, quantification, analysis and reporting of all risks.

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

The figure below shows Hoist Finance's governance structure.




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

The Risk Control function continuously analyses, controls and reports on the Group's risk exposures (credit risk, operational risk, market risk and liquidity risk), capital and liquidity adequacy to the CEO and the Board of Directors. The Risk Control function also evaluates compliance with new regulations on risk management, capital adequacy and liquidity adequacy and assists in implementing the new regulations within the organisation. Strong emphasis is placed on risk reporting to the relevant parties in a clear manner. Risks within the Group are handled according to set policies and instructions. Reports on risk exposures, liquidity and capital adequacy from Risk Control to the CEO, the Risk and Audit Committee and the Board of Directors are delivered in writing monthly and otherwise when necessary. The operations are also reviewed by the Compliance function and the Internal Audit function. The Compliance function is responsible for the overall assessment of compliance risks.

Below is a brief description of the key functions within Hoist Finance's risk governance:

The Board is ultimately responsible 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 (RACO) assists the Board by continuously monitoring the risks that may affect financial reporting and by recommending manuals, policies and accounting policies. 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 a central level, while local management is responsible for this at a local level.

For the purpose of managing the operations, the CEO consults with the Executive Management Team on matters of major importance or of importance as to principles. The Executive Management Team's role is among other things to prepare and implement strategies, manage matters related to corporate governance, the organisation and sustainability, and monitor the Company's financial performance.

The Asset and Liability Committee (ALCO) is also at the CEO's disposal for the purpose of managing the operations. ALCO is inter alia responsible for deciding on the conditions, including interest rate levels, for all funding, deciding on hedging strategies for market and financial risks, and deciding the duration, size and liquidity of the liquidity portfolio.

For a description of the Risk Control function's responsibility, please see the section further above on the function.

For further information on corporate governance and the risk organisation, please see the corporate governance section in the Annual Report disclosed on the Group's webpage: http://www.hoistfinance.com.

## 3.4 Risk Culture

Within Hoist Finance there is deep insight and understanding of how a sound risk culture is critical for efficient risk management. Therefore, structured efforts are ongoing to support and promote a sound risk culture within the company. Hoist Finance defines a sound risk culture as:

- **transparency**, where information is shared as far as possible and all communication and feedback is clear, concise and constructive**,**
- **teamwork**, where the atmosphere is open and it is easy to share and learn from experience, both from successes and failures,
- **balance between risk/reward**, where all decisions and considerations take into account both the risk and the reward that the decision entails. The company also believe that independent

credible challenge and constructive discussions is critical for a sophisticated decision-making on risk and reward and

- **sound incident management**, where incidents are reported, analysed and actions taken to mitigate risks insofar as it is economically justifiable and where a sound, learning risk culture promotes learning from mistakes to continuously improve.

Promoting the risk culture is a long-term and continuous endeavour that permeates everything Hoist Finance does. Internal rules, remuneration systems, incentives, ethical guidelines, formal educational initiatives and other governing mechanisms within the company are designed to ensure that the risk culture develops in a positive direction. Hoist Finance strive to improve the risk culture further and have initiated work to broaden the risk management to ensure inclusion of risks outside the traditional risk types for a bank. These risks include e.g. climate change and lack of social inclusion. This work is done in close collaboration with our Sustainability team and via active participation in the Business Ethics and Sustainability Committee.

# 4 Capital position

Hoist Finance capital position continues to be adequate with buffers above regulatory requirements. The information in this section regards the basis of the consolidated situation of Hoist Finance, which includes the regulated entity Hoist Finance AB (publ), its fully owned subsidiaries and joint ventures. The difference between the consolidated accounts and the consolidated situation for capital adequacy purposes is as follows. Joint ventures are consolidated with the equity method in the consolidated accounts, whereas the proportional method is used for the consolidated situation. Securitised assets are recognised in the consolidated accounts but are removed from the accounting records for the consolidated situation. Hoist Finance's participating interest in the securitised assets is always covered.

## 4.1 Highlights 2022

In July 2022 EU regulation[2] amending the calculation of specific and general credit risk adjustments went into force. The amending provisions implied lowering of unsecured NPL risk weights acquired at a significant discount from 150 per cent to 100 per cent. The reduction of the risk weight due to the changes in regulation, contributed to a CET1 ratio increase of 2.67 per cent.

The full year 2022 profit contribution to own funds let to an increase of CET1 ratio by 2.34 per cent. In addition to that, the divestment of operations in the UK had a positive impact to the CET1 of 1.97 per cent.

| **Hoist Finance consolidated situation** | **31 Dec 2022** | **30 July 2022** | **31 Dec 2021** |
|---|---|---|---|
| Common Equity Tier 1 (CET1) capital | 4,172 | 3,480 | 3,317 |
| Total risk exposure amounts (TREA) | 26,313 | 36,234 | 34,710 |
| **Common Equity Tier 1 ratio (%)** | **15.85%** | **9.60%** | **9.56%** |
| CET1 capital requirements (%) | 8.09% | 7.52% | 7.91% |
| CET1 available after meeting the CET1 capital requirements (%) | 7.77% | 2.08% | 1.64% |

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

## 4.2 Key figures

At the year-end 2022, the CET1 capital ratio, i.e. the CET1 capital in relation to the Risk Exposure Amount (REA), was 15.85 per cent (9.56). This compares with the regulatory CET1 capital requirement of 8.09 per cent (7.91) of REA.

During the year 2022 total REA decreased from SEK 34 710m to SEK 26 313m, mainly due to the reduction of the risk weight and the divestment of operations in the UK. Since Hoist Finance's core business is to acquire non-performing loan portfolios the risk exposure amount for "Exposures in default" is by far the largest. Therefore, REA changes are mainly driven by REA for credit risk that decreased in 2022 to SEK 21 809m (30 257).

The leverage ratio was 16.79 per cent (14.27) and exceeds the regulatory leverage ratio requirement by a significant margin (the BCBS's and CRR2 requirement is 3 per cent).

[2] COMMISSION DELEGATED REGULATION (EU) 2022/954 of 12 May 2022 amending the regulatory technical standards laid down in Delegated Regulation (EU) No 183/2014 as regards the specification of the calculation of specific and general credit risk adjustments

The Group's Liquidity Coverage Ratio (LCR) was 1 136 per cent (931) as of 31 December 2022, compared to the regulatory requirement of 100 per cent. NSFR ratio as of 31 December 2022 was 116 per cent (116) and exceeds the NSFR ratio requirement, which is 100 per cent.

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

| | | Hoist Finance consolidated situation, SEK m | | |
|---|---|---|---|---|
| | | 31 Dec 22 | 30 Jun 22 | 31 Dec 21 |
| | **Available own funds (amounts)** | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 4,172 | 3,480 | 3,317 |
| 2 | Tier 1 capital | 5,278 | 4,586 | 4,423 |
| 3 | Total capital | 6,181 | 5,439 | 5,260 |
| | **Risk-weighted exposure amounts** | | | |
| 4 | Total risk exposure amount | 26,313 | 36,234 | 34,710 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | |
| 5 | Common Equity Tier 1 ratio (%) | 15.85% | 9.60% | 9.56% |
| 6 | Tier 1 ratio (%) | 20.06% | 12.66% | 12.74% |
| 7 | Total capital ratio (%) | 23.49% | 15.01% | 15.16% |
| | **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | | | |
| EU 7a | Additional own funds requirements to address risks other than the risk of excessive leverage (%) | 1.76% | 1.32% | 2.02% |
| EU 7b | of which: to be made up of CET1 capital (percentage points) | 0.99% | 0.52% | 0.91% |
| EU 7c | of which: to be made up of Tier 1 capital (percentage points) | 1.32% | 0.69% | 1.22% |
| EU 7d | Total SREP own funds requirements (%) | 9.76% | 9.32% | 10.02% |
| | **Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)** | | | |
| 8 | Capital conservation buffer (%) | 2.50% | 2.50% | 2.50% |
| EU 8a | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | | | |
| 9 | Institution specific countercyclical capital buffer (%) | 0.10% | 0.00% | 0.00% |
| EU 9a | Systemic risk buffer (%) | | | |
| 10 | Global Systemically Important Institution buffer (%) | | | |
| EU 10a | Other Systemically Important Institution buffer (%) | | | |
| 11 | Combined buffer requirement (%) | 2.60% | 2.50% | 2.50% |
| EU 11a | Overall capital requirements (%) | 12.36% | 11.83% | 12.52% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 10.36% | 4.58% | 4.14% |
| | **Leverage ratio** | | | |
| 13 | Total exposure measure | 31,433 | 30,694 | 31,003 |
| 14 | Leverage ratio (%) | 16.79% | 14.94% | 14.27% |
| | **Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)** | | | |
| EU 14a | Additional CET1 leverage ratio requirements (%) | | | |
| EU 14b | Additional AT1 leverage ratio requirements (%) | | | |
| EU 14c | Additional T2 leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% |
| | **Total SREP leverage ratio requirements (%)** | | | |
| EU 14e | Applicable leverage buffer | | | |
| EU 14f | Overall leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% |
| | **Liquidity Coverage Ratio** | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value -average) | 4,963 | 4,328 | 4,758 |
| EU 16a | Cash outflows - Total weighted value | 2,252 | 2,355 | 2,130 |
| EU16b | Cash inflows - Total weighted value | 2,526 | 2,341 | 2,106 |
| 16 | Total net cash outflows (adjusted value) | 604 | 630 | 541 |
| 17 | Liquidity coverage ratio (%) | 879% | 740% | 911% |
| | **Net Stable Funding Ratio** | | | |
| 18 | Total available stable funding | 27,094 | 27,463 | 28,261 |
| 19 | Total required stable funding | 23,356 | 25,427 | 24,463 |
| 20 | NSFR ratio (%) | 116% | 108% | 116% |

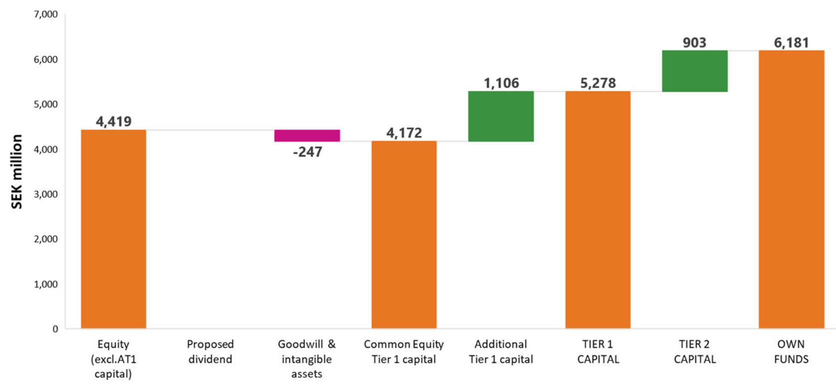
| | Hoist Finance consolidated situation, SEK m | Total risk exposure amounts (TREA) | | Total own funds requirements |
|---|---|---|---|---|
| | | 31 Dec 22 | 31 Dec 21 | 31 Dec 22 |
| 1 | **Credit risk (excluding CCR)** | **20,228** | **28,324** | **1,618** |
| 2 | Of which the standardised approach | 20,228 | 28,324 | 1,618 |
| 3 | Of which the Foundation IRB (F-IRB) approach | 0 | 0 | 0 |
| 4 | Of which slotting approach | 0 | 0 | 0 |
| EU 4a | Of which equities under the simple riskweighted approach | 0 | 0 | 0 |
| 5 | Of which the Advanced IRB (A-IRB) approach | 0 | 0 | 0 |
| 6 | **Counterparty credit risk - CCR** | **302** | **372** | **24** |
| 7 | Of which the standardised approach | 174 | 192 | 14 |
| 8 | Of which internal model method (IMM) | 0 | 0 | 0 |
| EU 8a | Of which exposures to a CCP | 0 | 0 | 0 |
| EU 8b | Of which credit valuation adjustment - CVA | 129 | 181 | 10 |
| 9 | Of which other CCR | 0 | 0 | 0 |
| 15 | **Settlement risk** | **0** | **0** | **0** |
| 16 | **Securitisation exposures in the non-trading book (after the cap)** | **1,581** | **1,888** | **126** |
| 17 | Of which SEC-IRBA approach | 0 | 0 | 0 |
| 18 | Of which SEC-ERBA (including IAA) | 743 | 1,156 | 59 |
| 19 | Of which SEC-SA approach | 665 | 585 | 53 |
| EU 19a | Of which 1250% / deduction | 173 | 146 | 14 |
| 20 | **Position, foreign exchange and commodities risks (Market risk)** | **0** | **0** | **0** |
| 21 | Of which the standardised approach | 0 | 0 | 0 |
| 22 | Of which IMA | 0 | 0 | 0 |
| EU 22a | **Large exposures** | **0** | **0** | **0** |
| 23 | **Operational risk** | **4,375** | **4,272** | **350** |
| EU 23a | Of which basic indicator approach | 0 | 0 | 0 |
| EU 23b | Of which standardised approach | 4,375 | 4,272 | 350 |
| EU 23c | Of which advanced measurement approach | 0 | 0 | 0 |
| 24 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 0 | 0 | 0 |
| 29 | **Total** | **26,486** | **34,857** | **2,119** |

## 4.3 Own funds

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

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

Common Equity Tier 1 capital mainly comprises equity after various adjustments, while Additional Tier 1 (AT1) capital and Tier 2 capital are made up of perpetual AT1 notes and subordinated loans respectively. A link between equity and the regulatory total capital as of 31 December 2022 is presented below.




## 4.4 Capital ratios and buffers

Regulation (EU) No 575/2013 of the European Parliament and the Council requires credit institutions to maintain Common Equity Tier 1 capital of at least 4.5 per cent, Tier 1 capital of at least 6 per cent, and a total capital ratio (capital in relation to risk exposure amount) of 8 per cent. Credit institutions are also required to maintain specific capital buffers, pursuant to the Capital Buffer Act (SFSA 2014:966) and New Capital Requirements for Swedish Banks (FI Ref. 20-20990). Hoist Finance is currently required to maintain a capital conservation buffer of 2.5 per cent of the total risk exposure amount and an institution-specific countercyclical buffer of 0.1 per cent of the total risk exposure amount.

**Hoist Finance consolidated situation 31 Dec 2022, SEK m**

| | 31 Dec 2022 |
|---|---|
| Total risk exposure amount | 26,313 |
| **Institution specific countercyclical buffer rate** | **0.10%** |
| Institution specific countercyclical buffer requirement | 25 |

Hoist Finance is required to maintain an institution-specific countercyclical buffer as a percentage of the total risk exposure amount. The buffer is determined for each country by the countries' relevant authorities. In 2020, in the course on the pandemic, in order to counteract the economic austerity, the countercyclical buffer was decreased to 0 per cent by counties' authorities. Therefore, as at the end of 2020 and 2021 Hoist Finance's specific countercyclical buffer amounted 0 per cent. During 2022 the authorities of some countries have started to raise the countercyclical buffer for their countries. The table presents countries with the countercyclical buffer other than 0 per cent as of 31 December 2022.

| | Denmark | Finland | Norway | Romania | Sweden | United Kingdom |
|---|---|---|---|---|---|---|
| **Countercyclical capital buffer rate** | **2.00%** | **2.00%** | **2.00%** | **0.50%** | **1.00%** | **1.00%** |

## 5 Funding

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

Hoist Finance AB (publ) has offered deposits for retail customers and corporates in Sweden since 2009 under the HoistSpar brand, where customers can save up to SEK 1 050 000. A new deposit programme was established in Germany in 2017, with customers allowed to save up to EUR 95 000. In 2021, additional deposit programme was established in UK, with customers allowed to save up to GBP 75 000. The Swedish, German and UK deposit products offer both current account (42 per cent of total volumes) and fixed-term deposits (58 per cent of total volumes) As of December 2022, Hoist Finance AB (publ) had SEK 3 915m and SEK 2 771m in current account and fixed-term deposits in SEK, respectively, and SEK 2 928m and SEK 7 926m in current account and fixed-term deposits in EUR, respectively, and SEK 965m and SEK 14m in current account and fixed-term deposits in GBP, respectively.

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

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

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

The Italian special purpose vehicle Giove SPV S.r.l issued bonds totalling EUR 21m (63) during the year in three tranches, secured by Italian unsecured NPLs. The two subordinated tranches in the transaction structure, corresponding to 15 per cent of total issue amount, have been 91 per cent subscribed by external investors.

In 2022 Hoist Finance AB (publ) issued subordinated bonds totalling SEK 80m under the company’s EMTN programme. The company also prematurely redeemed all outstanding bonds in full during the year for an outstanding Tier 2 capital instrument of EUR 80m maturing in 2027.

| **Funding** | **Hoist Finance consolidated situation, SEK m** | |
|---|---|---|
| | **31 Dec 2022** | **31 Dec 2021** |
| Current account deposits | 7,810 | 7,138 |
| Fixed-term deposits | 10,772 | 11,031 |
| Debt securities issued | 5,545 | 5,059 |
| Additional Tier 1 capital | 1,106 | 1,106 |
| Subordinated debts | 903 | 837 |
| Equity | 4,639 | 3,835 |
| Other | 1,724 | 1,367 |
| **Balance Sheet Total** | **32,500** | **30,373** |

# 6 Internal capital and liquidity adequacy assessment process

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

The capital and liquidity assessment process is developed and reviewed at least once per year. The annual review focuses on ensuring that the process and Risk Appetite is always relevant to the current risk profile and the Group's operations. The Board of Directors decides on any changes to the process, and Internal Audit verifies that the process is carried out pursuant to the Board of Directors' instructions.

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

## 6.1 ICAAP

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

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

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

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

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

The own funds requirements produced by ICAAP is used by Management as a decision-making tool when making future plans for the Group. ICAAP thus adds a further dimension to the Group's decision-making, above and beyond strategic and day-to-day planning – before being made, strategic plans, future forecasts and immediate management decisions are always reviewed against the background of own funds requirements.

## 6.2 ILAAP

The Internal Liquidity Adequacy Assessment Process ("ILAAP") is the framework by which Hoist Finance evaluates if it maintains liquidity and funding of sufficient volume, quality and duration to ensure its continued operations under both normal and stressed scenarios. The ILAAP is the tool, by which Hoist

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

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

# 7 CREDIT RISK

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

## 7.1 The Group's credit risk profile

Credit risk in the Group stems mainly from:

- acquired loan portfolios,
- the liquidity reserve,
- counterparty credit risk as a result of hedging activities.

### *7.1.1 Credit risk associated with acquired loan portfolios*

Hoist Finance has a diverse product and service offering in the markets where it operates, including unsecured and secured non-performing loans to individuals and SME's as well as performing loans. The non-performing unsecured loan portfolios are acquired at prices that typically vary between 5 and 35 per cent of the face value (principal amount) outstanding at the time of acquisition. The non-performing secured loan portfolios are acquired at ca 30-50 per cent of the face value and performing at ca 75-95 per cent of the face value. The price depends on the portfolios' specific characteristics and composition in terms of e.g. loan size, age, the presence and type of collaterals, type of loans, as well as debtor age, location, type, etc. Credit risk in the portfolios relates primarily to the Group overpaying for a portfolio – i.e., recovering less from the portfolio than expected – resulting in higher than expected portfolio carrying amount impairments and lower revenue. Total credit risk exposure is equal to the carrying value of the assets.

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

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

### *7.1.2 Credit risk associated with the liquidity reserve*

The credit risk associated with exposures in Hoist Finance's liquidity reserve is managed in accordance with the Group's Treasury Policy, which regulates the share that may be invested in assets issued by individual counterparties. Restrictions include limits on exposures given counterparty credit rating. Hoist Finance's liquidity reserve mainly consists of Swedish government and municipal bonds, German government bonds, covered bonds and also includes short-term lending to other banks.

The table to the right shows Standard & Poor's credit rating for exposures in Hoist Finance's liquidity reserve of 31 December 2022 as compared with 31 December 2021.

As of 31 December 2022, the weighted average maturity for liquidity portfolio assets was 1.37 years (1.83) and the modified duration was 0.28 years (0.35). Maturity and modified duration are important measures for evaluating Hoist Finance's credit spread risks and interest rate risks.

| Rating | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|
| AAA | 70.0% | 72.2% |
| AA+ | 8.5% | 0.0% |
| AA | 0.0% | 0.0% |
| AA- | 4.0% | 13.0% |
| A+ | 0.0% | 0.0% |
| A | 12.3% | 10.1% |
| A- | 2.1% | 0.5% |
| BBB+ | 2.0% | 3.5% |
| BBB | 0.2% | 0.0% |
| BBB- | 0.0% | 0.1% |
| BB+ | 0.2% | 0.2% |
| BB | 0.0% | 0.0% |
| BB- | 0.0% | 0.0% |
| B+ | 0.0% | 0.0% |
| B | 0.0% | 0.0% |
| B- | 0.8% | 0.5% |
| N/A | 0.0% | 0.0% |
| **Total, SEK m** | **8,897** | **7,119** |

### 7.1.3 Counterparty credit risk as a result of hedging activities

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

To avoid counterparty credit risks associated with these derivatives, the Group uses ISDA and CSA agreements for all derivative counterparties. These agreements allow for netting and daily settlement of credit risk and, accordingly, counterparty credit risk with derivative counterparties corresponds at most to a one-day fluctuation of the derivative's value. The CSA agreement is backed by cash collateral. Derivative transactions are only conducted with stable counterparties with a minimum credit rating of A-, which also serves to limit the counterparty credit risk.

## 7.2 Additional information on credit risk

### 7.2.1 Past due loans and impairments

Hoist Finance specialises in acquiring portfolios of non-performing loans originated by large international banks and other financial institutions with whom Hoist Finance has strong and long-term relationships. These loan portfolios have been acquired at a significant discount relative to the face value. The price corresponds to the discounted value of expected future collections that is derived using performance data Hoist Finance has accumulated over 20 years. Many of the contracts in the portfolios that Hoist Finance acquires have been terminated for more than one year when the transactions are made.

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

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

The Group monitors and evaluates actual collections in relation to forecasts, which are the basis for portfolio valuation. Should negative deviations occur, the Group first take additional operational measures in order to reduce the risk of deviations in the future. In the event that additional operational measures do not have, or is believed not to have, the intended effect a revised forecast is created for future collections. The forecast is also adjusted upwards in cases where the portfolios exhibit collections that are estimated to sustainably exceed the current forecast. Forecast adjustments are managed by the internal Revaluation Committee, which reports to the Board's Investment Committee.

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

### 7.2.2 *Credit risk exposures*

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

## Credit risk exposures by exposure class

**Hoist Finance consolidated situation, SEK m**

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

**Hoist Finance consolidated situation, SEK m**

| 31 Dec 2021 | Original exposure | Exposure amount | of which: off-balance sheet items | Average exposure amount | Risk exposure amount after SME supporting factor | Average risk weight % | Capital requirement |
|---|---|---|---|---|---|---|---|
| Central governments or central banks | 1,301 | 1,301 | 0 | 1,144 | 0 | 0% | 0 |
| Regional governments or local authorities | 513 | 513 | 0 | 750 | 0 | 0% | 0 |
| Institutions | 3,416 | 3,416 | 0 | 3,129 | 761 | 22% | 61 |
| Corporates | 253 | 253 | 0 | 250 | 253 | 100% | 20 |
| *of which: SME* | *0* | *0* | *0* | *0* | *0* | *0%* | *0* |
| Retail | 20 | 20 | 0 | 33 | 15 | 75% | 1 |
| *of which: SME* | *20* | *12* | *0* | *6* | *12* | *57%* | *1* |
| Secured by mortgages on immovable property | 634 | 634 | 0 | 655 | 324 | 51% | 26 |
| Exposures in default | 19,049 | 19,049 | 1,368 | 18,280 | 26,431 | 139% | 2,114 |
| *of which: SME* | *577* | *577* | *0* | *820* | *1,229* | *150%* | *98* |
| Covered bonds | 3,502 | 3,502 | 0 | 3,703 | 350 | 10% | 28 |
| Equity exposures | 0 | 0 | 0 | 0 | 0 | 0% | 0 |
| Other items | 382 | 382 | 0 | 459 | 382 | 100% | 31 |
| Securitisation positions | 1,933 | 1,933 | 0 | 2,005 | 1,741 | 96% | 139 |
| **Total** | **31,003** | **31,003** | **1,368** | **30,408** | **30,257** | | **2,421** |

## Geographical breakdown of exposure amount

**Hoist Finance consolidated situation, SEK m**

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

**Hoist Finance consolidated situation, SEK m**

| 31 Dec 2021 | Central governments or central banks | Regional governments or local authorities | Institutions | Corporates | Retail | Secured by mortgages on immovable property | Exposures in default | Covered bonds | Equity | Other items | Securitisation positions | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Sweden | 553 | 513 | 2 085 | 77 | 0 | 0 | 0 | 3 138 | 0 | 148 | 0 | **6 514** |
| UK | 7 | 0 | 314 | 87 | 12 | 226 | 4 266 | 0 | 0 | 63 | 0 | **4 975** |
| Italy | 10 | 0 | 494 | 48 | 0 | 0 | 3 029 | 0 | 0 | 24 | 1 933 | **5 539** |
| Poland | 7 | 0 | 205 | 9 | 4 | 408 | 3 414 | 0 | 0 | 12 | 0 | **4 060** |
| Germany | 512 | 0 | 80 | 13 | 3 | 0 | 2 571 | 0 | 0 | 32 | 0 | **3 212** |
| France | 206 | 0 | 102 | 10 | 0 | 0 | 1 848 | 0 | 0 | 46 | 0 | **2 212** |
| Netherlands | 3 | 0 | 49 | 3 | 0 | 0 | 869 | 0 | 0 | 9 | 0 | **934** |
| Spain | 2 | 0 | 33 | 4 | 0 | 0 | 1 171 | 0 | 0 | 14 | 0 | **1 223** |
| Greece | 0 | 0 | 31 | 0 | 0 | 0 | 1 590 | 0 | 0 | 3 | 0 | **1 626** |
| Belgium | 0 | 0 | 10 | 0 | 0 | 0 | 169 | 0 | 0 | 0 | 0 | **180** |
| Cyprus | 0 | 0 | 0 | 0 | 0 | 0 | 54 | 0 | 0 | 22 | 0 | **76** |
| Austria | 0 | 0 | 3 | 0 | 0 | 0 | 68 | 0 | 0 | 0 | 0 | **71** |
| Romania | 0 | 0 | 10 | 1 | 0 | 0 | 0 | 0 | 0 | 8 | 0 | **19** |
| Norway | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 246 | 0 | 0 | 0 | **246** |
| Denmark | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 117 | 0 | 0 | 0 | **117** |
| **Total** | **1 301** | **513** | **3 416** | **253** | **20** | **634** | **19 049** | **3 502** | **0** | **382** | **1 933** | **31 003** |

## 7.3 Securitisation

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

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

The Marathon Class A notes, Class B notes and Class J are due in October 2034, and bear a fixed, annual interest rate of 1.8 per cent, 8 per cent and 15 per cent respectively. The Class A notes and the Class B notes have been assigned ratings by credit rating agencies DBRS Rating Limited, Moody's Italia S.r.l., and Scope Rating GMBH.

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

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

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

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

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

Furthermore, Hoist Finance fulfils the requirement to maintain material net economic interest according to rules on risk retention requirements in the CRR by applying a vertical 5 per cent risk retention of the nominal amounts of notes issued.

For the retained securitised positions that are externally rated Hoist Finance applies the External Ratings-Based Approach (SEC-ERBA) to assign risk weights. For the retained part of junior tranche issued by Marathon Hoist Finance reduces its own funds according to Art. 36 clause 1 k) of the CRR.

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

| Hoist Finance consolidated situation 31 Dec 2022, SEK m | | | | | |
|---|---|---|---|---|---|
| **Securitisation exposures in the banking book and associated regulatory capital requirements** | **Exposure values (by RW bands)** | | | | |
| | **≤20% RW** | **>20% to 50% RW** | **>50% to 100% RW** | **100% to <1,250% RW** | **1,250% RW** |
| *Traditional securitisation* | | | 1,489 | 17 | 14 |
| Of which securitisation | | | 1,489 | 17 | 14 |
| Of which retail underlying | | | 1,489 | 17 | 14 |
| Of which wholesale | | | | | |
| **Total exposures** | | | **1,489** | **17** | **14** |

| Hoist Finance consolidated situation 31 Dec 2022, SEK m | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Securitisation exposures in the banking book and associated regulatory capital requirements** | **External ratings based approach** | | | **Standardised Approach** | | | **Article 269a Treatment of NPE securitisation** | | |
| | **Exposure values** | **RWA** | **Capital charge after cap** | **Exposure values** | **RWA** | **Capital charge after cap** | **Exposure values** | **RWA** | **Capital charge after cap** |
| *Traditional securitisation* | 905 | 743 | 59 | 11 | 75 | 6 | 590 | 590 | 47 |
| Of which securitisation | 905 | 743 | 59 | 11 | 75 | 6 | 590 | 590 | 47 |
| Of which retail underlying | 905 | 743 | 59 | 11 | 75 | 6 | 590 | 590 | 47 |
| Of which wholesale | | | | | | | | | |
| **Total exposures** | **905** | **743** | **59** | **11** | **75** | **6** | **590** | **590** | **47** |

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

# 8 Operational risk

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

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

Hoist Finance manages operational risk by continuously improving its internal procedures and day-to-day control routines and by training employees in risk management and risk management techniques.

The Operational Risk function is deployed across each of the markets to support the delivery of the framework. The operational risk officers are based in the main countries (Italy, Spain, Germany and Poland) with responsibility of additional markets in order to cover all Hoist Finance jurisdictions.

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

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

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

Hoist Finance adopts the Standardised Approach to calculate the own fund requirement for operational risk. It is documented through Instruction for calculating own requirement for operational risk.

The risk identification and assessment are at the core of the operational risk management framework, formalised within Operational risk policy (reviewed on yearly basis for the Board of Directors approval) that describes how Hoist Finance shall manage its operational risks and the related framework. The operational risk framework outlines how to analyse, control, report and mitigate the operational risks that the Hoist Finance is and can be exposed to. The tools used to mitigate operational risks include e.g. Risk Control Self Assessments, incident reporting, New Product Approval Process, third parties monitoring, Business Continuity Management oversight and Key Risk Indicators.

Therefore, the Risk Control function, through the operational risk officers in each country, has established the following routines:

- **Sound incident management**, where incidents are reported, analysed and actions taken to mitigate risks insofar as it is economically justifiable and where a sound, learning risk culture promotes learning from mistakes to continuously improve. Significant reported incidents are included in the risk report submitted to the Board and the management in the countries. The process is detailed in dedicated instructions reviewed on a yearly basis for the Board of Directors approval. The instructions are applicable to all employees within Hoist Finance and clarifies why, how, when and by whom an incident shall be reported. The Instruction provides explanatory information around incidents and describes the internal processes for how incidents are handled, including incident categorization and criteria. Risk Control functions in each business unit will analyse, follow up and report on incidents to management. Those incidents reported with red severity are reviewed in a monthly meeting with Compliance, Data Protection, Security and Cybersecurity.

- **Risk Control Self-Assessment - RCSA**, the process to identify, quantify, analyse and thereby determine measures to reduce operational risks at Hoist Finance to an acceptable level. It is conducted at least on annual basis in each market and at Group 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. Guidance on the process and requirement to meet is prepared and distributed to the participants by Risk Control before the lunch of the yearly run.
- **New Product Approval Process - NPAP**, the process to conduct when a new activity (e.g. entering new markets; diversify the asset class, new IT system) or significantly amended products, services, proposal come up from the business. The purpose of the NPAP is to ensure that in launching or implementing a New/Amended Activity the applicable rules are followed, the associated risks are assessed and understood, and that adequate resources are available to manage the associated risks.
- **Change Management Process**: Operational risk has a close relationship with Change Manager to be sure all the new projects are following the proper path. An internal template has been created (Pre-Change Assessment) to guide employees to cover the proper process(es). Regular meetings are set up between Change manager and Head of operational risk to discuss those cases where there is not a clear route.
- **Key Risk Indicators – KRIs** reported to the Management and the Board of Directors on a regular basis in order to follow up measurable operational risks and provide early warning when risks have increased.
- **Risk education and awareness** in operational risks through e-learning module, classroom and face to face trainings especially addressed to the new employees. Monthly communications regarding operational risk topics are sent to all employees via email.
- **Business Continuity Management cycle oversight** to ensure it is run according to the Business Continuity Management (BCM) policy that provides a framework to plan for and respond to events and business disruptions in order to continue business operations at an acceptable predefined level. Hoist Finance's BCM is comprised of Disruption and Crisis Management where Disruptions are managed with Business Continuity Plans and Crises are managed by a predefined Crisis Management Team with Risk Control acting as administrator. Annual training is also delivered via the Risk Control function to support business readiness in the event of a crisis.
- **Monitoring,** with particular regard to the third parties in the collection business (i.e. Debt Collection Agency- DCA) and critical providers, ensuring that the Altman Z-Score is calculated to measure the financial health of a DCA to prevent outsourcing to a DCA that risk going bankrupt.
- **Reporting** – on a regular basis the risk report is provided to senior management and to the Board of Directors. Additionally, Hoist Finance has established a committee in each country where operates. The Committee is to be known as the quarterly Local Compliance and Risk Committee, which shall manage and monitor compliance and risk at Country Level. The Local Compliance and Risk committee will report into Hoist Finance Compliance who will escalate major findings and risks to the Risk and Audit Committee (RACO) and the Board of Directors.

## 8.1 ICT risk

ICT risk refers to the risk associated with incidents that affect the confidentiality, accuracy and accessibility of ICT assets. These incidents are typically scalable and can potentially give rise to other risks, such as financial, regulatory and operational risks.

Security work at Hoist Finance remains focused on safeguarding customer data and business-critical information. The strict regulatory compliance standards for information security are regularly tightened, so this is a prioritised area of Hoist Finance's security work.

During the year significant increase in the number of cyber-attacks targeting the financial industry has been observed, as well as increasingly sophisticated attack methods. Hoist Finance launched several initiatives and implemented a range of measures during the year to combat these attacks.

Hoist Finance Executive Management Team and the Board of Directors remain highly involved in security management work. Management and the Board are regularly updated through quarterly reports on security management KPIs and monitoring of any incidents or specific projects.

Hoist Finance has functions in all three layers of defence that actively work with security. The first line of defence is focused on the operational level, the second line on control and measurement and the third line on internal audits.

An important element of Hoist Finance security work is ensuring that the employees have a high degree of security awareness. During the year Hoist Finance invested in a new training tool that trains and test the employees on a regular basis. Results are closely monitored to enable identification of any gaps in achieving the objectives.

# 9 Market Risk

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

## 9.1 Foreign exchange risk

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

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

- Certain income and expense items arising in different currencies, resulting in a transaction risk.
- Any imbalance between the value of assets and liabilities in different currencies gives rise to a translation risk or balance-sheet risk.

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

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

**Translation risk** – The Group's presentation currency is SEK, while its three main functional currencies are EUR, GBP and PLN. The Group's loan portfolios (assets) are mainly denominated in foreign currency, while the Group's deposits from the public (liabilities) are denominated in SEK, EUR and GBP. This imbalance between assets and liabilities in different currencies entails a translation risk (balance-sheet risk).

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

The Group has no significant positions in currencies other than EUR, GBP and PLN. As at year end the Group also had minor exposure in RON. The tables below show the Group's exposure per currency. The tables also present the translation risk expressed as sensitivity in a movement of 10 per cent in the exchange rate between SEK and each currency.

**Group's FX risk in EUR**

| | 31 Dec 2022 | Impact on equity | 31 Dec 2021 | Impact on equity |
|---|---|---|---|---|
| Net assets on the balance sheet, EUR million | -67 | | -113 | |
| Forward hedge, EUR million | 67 | | 116 | |
| Net Exposure, EUR million | 0 | | 3 | |
| If the EUR/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand | 193 | 0.00% | 2,686 | 0.05% |
| If the EUR/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand | -193 | 0.00% | -2,686 | -0.05% |

**Group's FX risk in PLN**

| | 31 Dec 2022 | Impact on equity | 31 Dec 2021 | Impact on equity |
|---|---|---|---|---|
| Net assets on the balance sheet, PLN million | 1,904 | | 1,860 | |
| Forward hedge, PLN million | -1,881 | | -1,844 | |
| Net Exposure, PLN million | 23 | | 16 | |
| If the PLN/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand | 5,428 | 0.09% | 3,492 | 0.07% |
| If the PLN/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand | -5,428 | -0.09% | -3,492 | -0.07% |

**Group's FX risk in GBP**

| | 31 Dec 2022 | Impact on equity | 31 Dec 2021 | Impact on equity |
|---|---|---|---|---|
| Net assets on the balance sheet, GBP million | 84 | | 408 | |
| Forward hedge, GBP million | -84 | | -409 | |
| Net Exposure, GBP million | 0 | | -1 | |
| If the GBP/SEK rate increases by 10%, this will have an impact on the consolidated profit of SEK thousand | 214 | 0.00% | -621 | -0.01% |
| If the GBP/SEK rate decreases by 10%, this will have an impact on the consolidated profit of SEK thousand | -214 | 0.00% | 621 | 0.01% |

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

## 9.2 Interest rate risk

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

The Group's interest rate risk originates in changes in interest rates that may affect the company's revenues and expenses to varying extents. Changes in interest rates may affect Hoist Finance's revenues from loan portfolios as well as the liquidity reserve, while the cost of funding these assets may also change.

A sudden and permanent interest rate increase may adversely impact the Group's profit to the extent interest rates and interest expense for loans and deposits from the public are affected more by the increase than are revenues from loan portfolios and the liquidity reserve. To ensure that the exposure is within the Group's risk appetite, the Group's Treasury function manages and reduces these interest rate risks by continuously hedging the Group's interest rate exposure through linear interest rate derivatives denominated in EUR, GBP and PLN. Hoist Finance also applies hedge accounting for interest derivatives.

Pursuant to accounting policies, however, the effects of interest rate changes are recognised as income at different times. For instance, the Group's liquidity reserve and interest derivatives are valued at fair value, so changes in interest rates have an instantaneous impact on Group results.

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

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

| Total items valued at fair value including derivatives, SEK m | Impact on profit or loss 31 Dec 2021 | | Impact on equity | Impact on profit or loss 31 Dec 2020 | | Impact on equity |
|---|---|---|---|---|---|---|
| | -100 bps | +100 bps | | -100 bps | +100 bps | |
| Liquidity portfolio | 19 | -19 | | 18 | -18 | |
| Interest rate swaps | -196 | 196 | | -127 | 127 | |
| **Total** | **-177** | **177** | **-3.08%** | **-109** | **109** | **-2.20%** |

The table below shows the instantaneous impact on profit/loss of a parallel shift of 100 basis points in market interest rates.

| Total effect of change in interest rate, SEK m | Impact on profit or loss 31 Dec 2021 | | Impact on equity | Impact on profit or loss 31 Dec 2020 | | Impact on equity |
|---|---|---|---|---|---|---|
| | **-100 bps** | **+100 bps** | | **-100 bps** | **+100 bps** | |
| Efficient net interest income (over one year) | 18 | -18 | | 13 | -13 | |
| Efficient derivatives (momentum effect) | -196 | 196 | | -127 | 127 | |
| **Total effect of change in short interest rate** | **-179** | **179** | **-3.11%** | **-114** | **114** | **-2.30%** |

Hoist Finance has strict limits for maximum allowed interest rate exposure. Limits are in place to reduce earnings risk, economic value risk and credit spread risk. To calculate the own funds requirement for the Interest rate risk in the Banking book Hoist is required to consider gap risk, credit spread risk and basis spread risk.

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

# 10 Liquidity Risk

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

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

The Group's overall liquidity strategy is to maintain a liquidity buffer of highly liquid assets designed to mitigate Hoist Finance's liquidity risks and, in addition, to make liquidity available for financial obligations related to loan portfolio acquisitions. Hoist Finance liquidity buffer consist of cash deposits in other banks and highly liquid and low risk covered and government bonds, with low interest- and credit spread risk profile. The total liquidity buffer as of year-end 2022 amounted to SEK equivalent 8 897m. The split on assets was 31 per cent cash in banks, 49 per cent covered bonds, 7 per cent regional government and 13 per cent government bonds. The entire liquidity buffer is classified as Held for Trading in accounting, and hence all changes in market value are fully accounted for in the income statement.

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

The Group has a diversified funding base with a diversified maturity structure. Funding is mainly raised in the form of deposits from the public and through the capital markets through the issuance of senior unsecured debts, own funds instruments and equity. Hoist Finance offers retail deposits in Sweden, Germany, and UK. Forty-two per cent (41) of deposits from the public are payable on demand (current accounts), while approximately 58 per cent (59) of the Group's deposits from the public are locked into longer maturities (fixed-term deposits) ranging from one to five years. More than 99 per cent of deposits are backed by the deposit guarantee scheme. The retail deposits give the Group a competitive advantage, as they are stable, flexible and provide access to funding at relatively low cost.

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 periodically presented to the Executive Management and the Board of Directors.
- Monthly reporting: Among other, the Group reports liquidity- and funding metrics, current exposures and limit controls, detailed account of the composition of the liquidity buffer as well as the current funding structure to the Executive Management.
- Stress testing: The Group conducts stress tests of the liquidity situation. These tests vary in nature to demonstrate the risk from multiple angles and to preclude negative results due to defects in stress test methodology.
- Interest rate adjustment: The size of deposits from the public can be managed by adjusting offered interest rates.

- Well-diversified deposit portfolio with no concentration risks: The highest savings amount is SEK 1 050 000. The risk of large outflows is further reduced through the coverage of more than 99 per cent of deposits by the deposit guarantee scheme.
- Liquidity portfolio: Liquidity investments are made in low-risk, high-liquidity interest-bearing securities, which allows for swift cash conversion if needed.

Hoist Finance has a low appetite for assuming liquidity risk why potential future liquidity gaps are covered by generous liquidity reserves. Hoist Finance's liquidity reserve is largely made up of Swedish government and municipal bonds, German government bonds, covered bonds, and also includes short-term lending to other banks.

The Group's Treasury Policy specifies a limit and a target level for the amount of available liquidity. Available liquidity was within target level as per 31 December 2022 and totalled SEK 8 997m (7 119).

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

- An outflow from deposits from the public of over 10 per cent of total deposits over a 30-day period.
- A lowering or removal of Hoist Finance's credit rating by an official rating institute.

## 10.1 Liquidity Coverage Ratio

The Group's Liquidity Coverage Ratio (LCR) was 1 136 per cent (931) as of 31 December 2022, compared to the regulatory requirement of 100 per cent.

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

## 10.2 Net Stable Funding Ratio

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

# 11 Definitions

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

# 12 Annex I – Hoist Finance AB (publ)

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

| | | Hoist Finance AB (publ), SEK m | | |
|---|---|---|---|---|
| | | 31 Dec 22 | 30 Jun 22 | 31 Dec 21 |
| | **Available own funds (amounts)** | | | |
| 1 | Common Equity Tier 1 (CET1) capital | 3,610 | 3,518 | 3,498 |
| 2 | Tier 1 capital | 4,716 | 4,625 | 4,605 |
| 3 | Total capital | 5,619 | 5,477 | 5,442 |
| | **Risk-weighted exposure amounts** | | | |
| 4 | Total risk exposure amount | 24,695 | 32,122 | 29,880 |
| | **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | |
| 5 | Common Equity Tier 1 ratio (%) | 14.62% | 10.95% | 11.71% |
| 6 | Tier 1 ratio (%) | 19.10% | 14.40% | 15.41% |
| 7 | Total capital ratio (%) | 22.75% | 17.05% | 18.21% |
| | **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | | | |
| EU 7a | Additional own funds requirements to address risks other than the risk of excessive leverage (%) | 1.53% | 1.44% | 1.54% |
| EU 7b | of which: to be made up of CET1 capital (percentage points) | 0.86% | 0.81% | 0.87% |
| EU 7c | of which: to be made up of Tier 1 capital (percentage points) | 1.15% | 1.08% | 1.16% |
| EU 7d | Total SREP own funds requirements (%) | 9.53% | 9.44% | 9.54% |
| | **Combined buffer and overall capital requirement (as a percentage of risk-weighted exposure amount)** | | | |
| 8 | Capital conservation buffer (%) | 2.50% | 2.50% | 2.50% |
| EU 8a | Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | | | |
| 9 | Institution specific countercyclical capital buffer (%) | | | |
| EU 9a | Systemic risk buffer (%) | | | |
| 10 | Global Systemically Important Institution buffer (%) | | | |
| EU 10a | Other Systemically Important Institution buffer (%) | | | |
| 11 | Combined buffer requirement (%) | 2.59% | 2.50% | 2.50% |
| EU 11a | Overall capital requirements (%) | 12.13% | 11.94% | 12.04% |
| 12 | CET1 available after meeting the total SREP own funds requirements (%) | 9.25% | 5.64% | 6.34% |
| | **Leverage ratio** | | | |
| 13 | Total exposure measure | 31,072 | 31,551 | 31,502 |
| 14 | Leverage ratio (%) | 15.18% | 14.89% | 14.62% |
| | **Additional own funds requirements to address the risk of excessive leverage (as a percentage of total exposure measure)** | | | |
| EU 14a | Additional CET1 leverage ratio requirements (%) | | | |
| EU 14b | Additional AT1 leverage ratio requirements (%) | | | |
| EU 14c | Additional T2 leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% |
| | **Total SREP leverage ratio requirements (%)** | | | |
| EU 14e | Applicable leverage buffer | | | |
| EU 14f | Overall leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% |
| | **Liquidity Coverage Ratio** | | | |
| 15 | Total high-quality liquid assets (HQLA) (Weighted value -average) | 4,963 | 4,328 | 4,758 |
| EU 16a | Cash outflows - Total weighted value | 2,919 | 2,902 | 2,456 |
| EU16b | Cash inflows - Total weighted value | 1,942 | 1,688 | 1,458 |
| 16 | Total net cash outflows (adjusted value) | 1,281 | 1,235 | 1,020 |
| 17 | Liquidity coverage ratio (%) | 524% | 405% | 488% |
| | **Net Stable Funding Ratio** | | | |
| 18 | Total available stable funding | 25,559 | 26,430 | 27,337 |
| 19 | Total required stable funding | 21,182 | 20,955 | 21,860 |
| 20 | NSFR ratio (%) | 121% | 126% | 125% |

| | Hoist Finance AB (publ), SEK m | Total risk exposure amounts (TREA) | | Total own funds requirements |
|---|---|---|---|---|
| | | 31 Dec 22 | 31 Dec 21 | 31 Dec 22 |
| 1 | **Credit risk (excluding CCR)** | **20,704** | **25,441** | **1,656** |
| 2 | Of which the standardised approach | 20,704 | 25,441 | 1,656 |
| 3 | Of which the Foundation IRB (F-IRB) approach | 0 | 0 | 0 |
| 4 | Of which slotting approach | 0 | 0 | 0 |
| EU 4a | Of which equities under the simple riskweighted approach | 0 | 0 | 0 |
| 5 | Of which the Advanced IRB (A-IRB) approach | 0 | 0 | 0 |
| 6 | **Counterparty credit risk - CCR** | **302** | **372** | **24** |
| 7 | Of which the standardised approach | 174 | 192 | 14 |
| 8 | Of which internal model method (IMM) | 0 | 0 | 0 |
| EU 8a | Of which exposures to a CCP | 0 | 0 | 0 |
| EU 8b | Of which credit valuation adjustment - CVA | 129 | 181 | 10 |
| 9 | Of which other CCR | 0 | 0 | 0 |
| 15 | **Settlement risk** | **0** | **0** | **0** |
| 16 | **Securitisation exposures in the non-trading book (after the cap)** | **1,581** | **1,888** | **126** |
| 17 | Of which SEC-IRBA approach | 0 | 0 | 0 |
| 18 | Of which SEC-ERBA (including IAA) | 743 | 1,156 | 59 |
| 19 | Of which SEC-SA approach | 665 | 585 | 53 |
| EU 19a | Of which 1250% / deduction | 173 | 146 | 14 |
| 20 | **Position, foreign exchange and commodities risks (Market risk)** | **0** | **0** | **0** |
| 21 | Of which the standardised approach | 0 | 0 | 0 |
| 22 | Of which IMA | 0 | 0 | 0 |
| EU 22a | **Large exposures** | **0** | **0** | **0** |
| 23 | **Operational risk** | **2,281** | **2,326** | **182** |
| EU 23a | Of which basic indicator approach | 0 | 0 | 0 |
| EU 23b | Of which standardised approach | 2,281 | 2,326 | 182 |
| EU 23c | Of which advanced measurement approach | 0 | 0 | 0 |
| 24 | Amounts below the thresholds for deduction (subject to 250% risk weight) | 0 | 0 | 0 |
| 29 | **Total** | **24,868** | **30,026** | **1,989** |

# 13 Annex II – Disclosure of own funds

Disclosure according to Article 4 in Commission implementing regulation (EU) 2021/637 of 15 March 2021.

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 |
|---|---|---|
| 1 | Capital instruments and the related share premium accounts | 1,913 |
| | *of which: Instrument type 1* | 30 |
| | *of which: Instrument type 2* | 1,883 |
| | *of which: Instrument type 3* | |
| 2 | Retained earnings | 1,801 |
| 3 | Accumulated other comprehensive income (and other reserves) | 90 |
| EU-3a | Funds for general banking risk | |
| 4 | Amount of qualifying items referred to in Article 484 (3) CRR and the related share premium accounts subject to phase out from CET1 | |
| 5 | Minority interests (amount allowed in consolidated CET1) | |
| EU-5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 801 |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **4,605** |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | |
| 7 | Additional value adjustments (negative amount) | -6 |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -247 |
| 9 | Empty set in the EU | |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | -116 |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | |
| 13 | Any increase in equity that results from securitised assets (negative amount) | |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | |
| 15 | Defined-benefit pension fund assets (negative amount) | |
| 16 | Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount) | |
| 17 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | |
| 20 | Empty set in the EU | |
| EU-20a | Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative | -14 |
| EU-20b | of which: qualifying holdings outside the financial sector (negative amount) | |
| EU-20c | of which: securitisation positions (negative amount) | -14 |
| EU-20d | of which: free deliveries (negative amount) | |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | |
| 22 | Amount exceeding the 17,65% threshold (negative amount) | |
| 23 | of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | |
| 24 | Empty set in the EU | |
| 25 | of which: deferred tax assets arising from temporary differences | |
| EU-25a | Losses for the current financial year (negative amount) | |
| EU-25b | Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount) | |
| 26 | Empty set in the EU | |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | |
| 27a | Other regulatory adjustments to CET1 capital (including IFRS 9 transitional adjustments when relevant) | -51 |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-433** |
| **29** | **Common Equity Tier 1 (CET1) capital** | **4,172** |

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 |
|---|---|---|
| **Additional Tier 1 (AT1) capital: instruments** | | |
| 30 | Capital instruments and the related share premium accounts | 1,107 |
| 31 | of which: classified as equity under applicable accounting standards | 1,107 |
| 32 | of which: classified as liabilities under applicable accounting standards | |
| 33 | Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 as described in Article 486(3) CRR | |
| EU-33a | Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1 | |
| EU-33b | Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1 | |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | |
| 35 | of which: instruments issued by subsidiaries subject to phase out | |
| **36** | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **1,107** |
| **Additional Tier 1 (AT1) capital: regulatory adjustments** | | |
| 37 | Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount) | |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | |
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | |
| 41 | Empty set in the EU | |
| 42 | Qualifying T2 deductions that exceed the T2 items of the institution (negative amount) | |
| 42a | Other regulatory adjustments to AT1 capital | |
| **43** | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **0** |
| **44** | **Additional Tier 1 (AT1) capital** | **1,107** |
| **45** | **Tier 1 capital (T1 = CET1 + AT1)** | **5,278** |
| **Tier 2 (T2) capital: instruments and provisions** | | |
| 46 | Capital instruments and the related share premium accounts | 903 |
| 47 | Amount of qualifying items referred to in Article 484 (5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR | |
| EU-47a | Amount of qualifying items referred to in Article 494a (2) CRR subject to phase out from T2 | |
| EU-47b | Amount of qualifying items referred to in Article 494b (2) CRR subject to phase out from T2 | |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | |
| 49 | of which: instruments issued by subsidiaries subject to phase out | |
| 50 | Credit risk adjustments | |
| **51** | **Tier 2 (T2) capital before regulatory adjustment** | **903** |
| **Tier 2 (T2) capital: regulatory adjustments** | | |
| 52 | Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount) | |
| 53 | Direct, indirect and synthetic goldings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | |
| 54 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | |
| 54a | Empty set in the EU | |
| 55 | Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | |
| 56 | Empty set in the EU | |
| EU-56a | Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount) | |
| EU-56b | Other regulatory adjustments to T2 capital | |
| **57** | **Total regulatory adjustments to Tier 2 (T2) capital** | **0** |
| **58** | **Tier 2 (T2) capital** | **903** |
| **59** | **Total capital (TC = T1 + T2)** | **6,181** |
| **60** | **Total risk weighted assets** | **26,313** |

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 |
|---|---|---|
| 61 | Common Equity Tier 1 (as a percentage of risk exposure amount) | 15.85% |
| 62 | Tier 1 (as a percentage of risk exposure amount) | 20.06% |
| 63 | Total capital (as a percentage of risk exposure amount) | 23.49% |
| 64 | Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus systemically important institution buffer expressed as a percentage of risk exposure amount) | 7.10% |
| 65 | of which: capital conservation buffer requirement | 2.50% |
| 66 | of which: countercyclical buffer requirement | 0.10% |
| 67 | of which: systemic risk buffer requirement | |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer | |
| 68 | Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) | 11.35% |
| **Amounts below the thresholds for deduction (before risk-weighting)** | | |
| 72 | Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | |
| 73 | Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | |
| 74 | Empty set in the EU | |
| 75 | Deferred tax assets arising from temporary differences (amount below 10% threshold , net of related tax liability where the conditions in Article 38 (3) are met) | |
| **Applicable caps on the inclusion of provisions in Tier 2** | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap) | |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | |
| 80 | Current cap on CET1 instruments subject to phase-out arrangements | |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | |
| 82 | Current cap on AT1 instruments subject to phase-out arrangements | |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | |
| 84 | Current cap on T2 instruments subject to phase out arrangements | |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | |

HoistFinance

# 14 Annex III – Disclosure of Leverage Ratio

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

| **Additional information** | | |
|---|---|---|
| 1 | Description of the processes used to manage the risk of excessive leverage | Hoist Finance has maintained a monthly leverage ratio significantly higher above the regulatory leverage ratio requirement (3 per cent). |
| 2 | Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers | The leverage ratio was stable during 2022 |

## Summary reconciliation of accounting assets and leverage ratio exposures

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|---|
| | | Applicable Amount | Applicable Amount |
| 1 | Total assets as per published financial statements | 32,500 | 30,372 |
| 2 | Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | -1,303 | -1,005 |
| 3 | (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013) | | |
| 4 | Adjustments for derivative financial instruments | 703 | 804 |
| 5 | Adjustments for securities financing transactions (SFTs) | | |
| 6 | Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures) | 79 | 1,368 |
| EU-6a | (Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013) | | |
| EU-6b | (Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013) | | |
| 7 | Other adjustments | -546 | -537 |
| **8** | **Total leverage ratio exposure measure** | **31,433** | **31,003** |

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

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|---|
| | | CRR leverage ratio exposures | CRR leverage ratio exposures |
| **EU-1** | **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **30,796** | **28,722** |
| EU-2 | Trading book exposures | | |
| EU-3 | Banking book exposures, of which: | 30,796 | 28,722 |
| EU-4 | Covered bonds | 4,094 | 3,502 |
| EU-5 | Exposures treated as sovereigns | 3,003 | 1,814 |
| EU-6 | Exposures to regional governments, MDB, international organisations and PSE **not** treated as sovereigns | 0 | 0 |
| EU-7 | Institutions | 2,627 | 2,612 |
| EU-8 | Secured by mortgages of immovable properties | 566 | 634 |
| EU-9 | Retail exposures | 17 | 20 |
| EU-10 | Corporate | 244 | 253 |
| EU-11 | Exposures in default | 18,195 | 17,680 |
| EU-12 | Other exposures (eg equity, securitisations, and other non-credit obligation assets) | 2,051 | 2,208 |

## Leverage ratio common disclosure

| SEK m | Hoist Finance consolidated situation | 31 Dec 2022 | 31 Dec 2021 |
|---|---|---|---|
| | | CRR leverage ratio exposures | CRR leverage ratio exposures |
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | | |
| 1 | On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral) | 31,197 | 29,367 |
| 2 | (Asset amounts deducted in determining Tier 1 capital) | -546 | -537 |
| **3** | **Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)** | 30,650 | 28,831 |
| **Derivative exposures** | | | |
| 4 | Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin) | | |
| 5 | Add-on amounts for PFE associated with *all* derivatives transactions (mark-to-market method) | | |
| EU-5a | Exposure determined under Original Exposure Method | 703 | 804 |
| 6 | Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | | 0 |
| 7 | (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | | 0 |
| 8 | (Exempted CCP leg of client-cleared trade exposures) | | 0 |
| 9 | Adjusted effective notional amount of written credit derivatives | | 0 |
| 10 | (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | | 0 |
| **11** | **Total derivative exposures (sum of lines 4 to 10)** | 703 | 804 |
| **Securities financing transaction exposures** | | | |
| 12 | Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions | | |
| 13 | (Netted amounts of cash payables and cash receivables of gross SFT assets) | | |
| 14 | Counterparty credit risk exposure for SFT assets | | |
| EU-14a | Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b(4) and 222 of Regulation (EU) No 575/2013 | | |
| 15 | Agent transaction exposures | | |
| EU-15a | (Exempted CCP leg of client-cleared SFT exposure) | | |
| **16** | **Total securities financing transaction exposures (sum of lines 12 to 15a)** | 0 | 0 |
| **Other off-balance sheet exposures** | | | |
| 17 | Off-balance sheet exposures at gross notional amount | 79 | 1,368 |
| 18 | (Adjustments for conversion to credit equivalent amounts) | | |
| **19** | **Other off-balance sheet exposures (sum of lines 17 to 18)** | 79 | 1,368 |
| **Exempted exposures in accordance with CRR Article 429(7) and (14) (on and off balance sheet)** | | | |
| EU-19a | (Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet)) | | |
| EU-19b | (Exposures exempted in accordance with Article 429(14) of Regulation (EU) No 575/2013 (on and off balance sheet)) | | |
| **Capital and total exposure measure** | | | |
| **20** | **Tier 1 capital** | 5,278 | 4,423 |
| **21** | **Total leverage ratio exposures (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)** | 31,433 | 31,003 |
| **Leverage ratio** | | | |
| **22** | **Leverage ratio** | 16.79% | 14.27% |
| **Choice on transitional arrangements and amount of derecognised fiduciary items** | | | |
| EU-23 | Choice on transitional arrangements for the definition of the capital measure | | |
| EU-24 | Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013 | | |

# 15 Annex IV – References to Regulation

References to Hoist Finance Pillar 3 report

| Legal basis | Row number | Qualitative information - Free format | Reference in Hoist Finance Pillar 3 report |
|---|---|---|---|
| Point (f) of Article 435(1) CRR | (a) | Disclosure of concise risk statement approved by the management body | Sections 3.1 and 3.2 |
| Point (b) of Article 435(1) CRR | (b) | Information on the risk governance structure for each type of risk | Section 3.3 |
| Point (e) of Article 435(1) CRR | (c) | Declaration approved by the management body on the adequacy of the risk management arrangements. | Chapter 2 |
| Point (c) of Article 435(1) CRR | (d) | Disclosure on the scope and nature of risk disclosure and/or measurement systems. | Chapters 4 and 7-10 |
| Point (c) of Article 435(1) CRR | (e) | Disclose information on the main features of risk disclosure and measurement systems. | Chapters 7-10 |
| Point (a) of Article 435(1) CRR | (f) | Strategies and processes to manage risks for each separate category of risk. | Chapters 3 and 7-10 |
| Points (a) and (d) of Article 435(1) CRR | (g) | Information on the strategies and processes to manage, hedge and mitigate risks, as well as on the monitoring of the effectiveness of hedges and mitigants. | Sections 9.1 and 9.2 |