

**Proventus Capital Partners III AB (publ)**  
**Org nr 556926-8021**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2020**

The Board of Directors and Chief Executive Officer of Proventus Capital Partners III AB (publ) hereby present the annual report for the financial year 1 January 2020 - 31 December 2020.

Contents	Page
- Directors' Report	2
- Income statement	4
- Balance sheet	5
- Statement of cash flows	8
- Additional disclosures	9

Unless otherwise stated, all amounts refer to thousands of Swedish kronor (SEK '000). Figures in parentheses refer to the previous year.

## **DIRECTORS' REPORT**

### **OPERATIONS**

Proventus Capital Partners III AB, which is a wholly-owned subsidiary of P Capital Partners AB (corp. ID 556930-7027) operates a corporate lending business. The company is an alternative investment fund within the meaning of the Swedish Alternative Investment Fund Managers Act (2013:561) and is managed by the parent company, P Capital Partners, which since 18 June 2014 holds a licence from the Swedish Financial Supervisory Authority for the management of alternative investment funds under the Alternative Investment Fund Managers Act (2013:561).

The business is focused on direct loans to businesses and the acquisition of listed bonds and other debt securities. The company's main currency is Swedish kronor (SEK). Any investments made in other currencies are normally hedged to Swedish kronor. The investments are made alongside Proventus Capital Partners III KB (corp. ID 969736-8125).

The operations are funded with capital contributed by the owner and through profit participating debentures from primarily institutional investors. The total funding commitments to the company are SEK 10,840 million. From 4 December 2018, Proventus Capital Partners III was closed to new investments, as the P Capital group started its newest fund - Proventus Capital Partners IV. That month a final capital call was made and no more capital calls will be made. A total of SEK 10,298 million has been contributed to the company, corresponding to 95 per cent of total funding.

Profit-sharing with holders of profit participation debentures of the company is settled in Swedish kronor. The annual accounts are prepared in Swedish kronor.

### **SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR**

The investment portfolio has been built up gradually since 2014 and consisted at the end of the reporting date of twenty-two (twenty-four) investments. Approximately 99% (93%) of the portfolio is invested in direct lending to businesses. The value of the loan portfolio was SEK 3,597 (4,647) million of which SEK 3,217 million belongs to the company. The portfolio of listed bonds including accrued interest amounted to SEK 17 (351) million at the end of the financial year of which SEK 15 million belongs to the company.

During the first quarter a Corona-virus, causing the disease Covid-19, spread over the globe and turned into a pandemic. This had severe effects on human life, the economy as a whole and for financial markets. The effect on credit markets was initially significant but the situation stabilized after massive stimulus from governments and central banks. Part of the economy still had a very rough time and companies in the tourism, restaurant and travel sectors have been severely affected. The impact on the company's borrowers has been mixed where some have been severely negatively impacted while others have been affected only marginally. During the first quarter one of the company's borrowers went into UK Administration which led to realized credit losses. There was later one further realized credit loss and also increased reserves for credit losses. One public bond was also sold at the start of the year with good profits and one of the loans was refinanced at the end of the year after having developed really well. Overall, the portfolio looks fairly stable and credit reserves did not increase during the second half of the year.

### **RESULTS AND FINANCIAL POSITION**

Net profit for the financial year was SEK 103 (0.0) million and equity at the end of the period was SEK 128 (30) million. The cumulative return on the portfolio since its inception is SEK 1,708 (1,741) million of which SEK 1,527 million belongs to the company.

## SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

In January and March two of the outstanding loans were repaid in full. No other significant events have transpired since the end of the financial year.

## OUTLOOK

The company's target is to generate a 10 per cent net annual return for the holders of profit participation debentures. Due to the composition of the portfolio, the development since the inception, the period of low interest which has been prevalent together with current problems in the global economy, returns are estimated to be lower.

## OWNERSHIP

Proventus Capital Partners III AB (publ) with registered office in Stockholm has the following ownership structure:

Shareholder	No. of shares
P Capital Partners AB	5 000
Total	5 000

## PROPOSED DISPOSITION OF EARNINGS

Group contributions in a total amount of SEK 103 (40.2) million have been received and SEK 0 (0) million have been made to the parent company. The Board believes that the reported equity after group contributions is adequate with regard to the equity requirements arising from the nature, scope and risks of the business. The proposed group contribution is therefore deemed defensible with regard to what is stated in Ch. 17 Sec. 3 paragraphs 2-3 of the Swedish Companies Act.

The Board proposes that the available funds be allocated as follows:

Non-restricted reserves	24 643 548
Profit for the year	102 987 819
Total	127 631 367 SEK

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

Dividend to shareholders	102 987 820
To be carried forward	24 643 547
	127 631 367 SEK

### Opinion of the Board of Directors regarding the proposed dividend

It is the assessment of the Board of Directors that the proposed dividend does not hinder the company from fulfilling its obligations in the short and long run, nor from doing necessary investments. The proposed dividend is therefor in line with what is described in Chapter 17, Section 3 of the Swedish Companies Act.

The results of the operations during the financial year and the financial position at the end of the financial year are presented in the following income statement, balance sheet and additional disclosures.

## CORPORATE GOVERNANCE REPORT

In accordance with the requirements specified in Ch. 6 Sec. 8 of the Swedish Annual Accounts Act, the company has prepared a corporate governance report. The report can be obtained from the company and is distributed upon request.

## INCOME STATEMENT

	Note	1 Jan 2020- 31 Dec 2020	1 Jan 2019- 31 Dec 2019
Interest income using the effective interest method	5	306 949	336 533
Interest income and similar income	5	582 722	889 203
Interest expenses and similar charges	5	-468 381	-676 406
Net expected credit losses	1	-382 516	-544 689
Administrative expenses	4	-39 104	-44 803
<b>Operating income</b>		<b>-330</b>	<b>-40 162</b>
Group contributions received		103 318	40 220
Group contributions made		0	0
<b>Profit before tax</b>		<b>102 988</b>	<b>58</b>
Tax	6	0	-29
<b>Profit for the year</b>		<b>102 988</b>	<b>29</b>

## STATEMENT OF COMPREHENSIVE INCOME

Profit for the year	102 988	29
Other comprehensive income	-	-
Other comprehensive income for the year, net after tax	-	-
<b>Total comprehensive income for the year</b>	<b>102 988</b>	<b>29</b>

**BALANCE SHEET**

<b>ASSETS</b>	<u>Note</u>	<u>2020-12-31</u>	<u>2019-12-31</u>
<b>Non-current assets</b>			
Long-term financial investments	7	<u>3 216 679</u>	<u>4 099 117</u>
<b>Total non-current assets</b>		<b>3 216 679</b>	<b>4 099 117</b>
<b>Current assets</b>			
Current receivables			
Accounts receivables		38	507
Receivables from group companies		104 462	241 951
Tax receivables		1 153	1 603
Other current receivables		10 273	1 422
Short-term investments	8	122 684	372 653
Accrued expenses and deferred income		<u>39</u>	<u>0</u>
		238 649	618 136
Cash and cash equivalents		<u>487 244</u>	<u>968 332</u>
<b>Total current assets</b>		<b>725 893</b>	<b>1 586 468</b>
<b>TOTAL ASSETS</b>		<b><u>3 942 572</u></b>	<b><u>5 685 585</u></b>

**BALANCE SHEET**

<b>EQUITY AND LIABILITIES</b>	<u>Note</u>	<u>2020-12-31</u>	<u>2019-12-31</u>
<b>Equity</b>			
Restricted equity			
Share capital (5,000 shares with a quotient value of 100)		500	500
		500	500
Non-restricted equity			
Retained earnings		24 644	29 631
Profit for the year		102 988	29
		127 632	29 660
<b>Total equity</b>		<b>128 132</b>	<b>30 160</b>
<b>Non-current liabilities</b>			
Other non-current liabilities	9	3 799 013	5 598 888
<b>Total non-current liabilities</b>		<b>3 799 013</b>	<b>5 598 888</b>
<b>Current liabilities</b>			
Trade payables		584	132
Liabilities to group companies		2 761	44 700
Tax liabilities		0	0
Other current liabilities	10	10 421	11 114
Accrued expenses and deferred income	11	1 661	591
<b>Total current liabilities</b>		<b>15 427</b>	<b>56 537</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>3 942 572</b>	<b>5 685 585</b>

**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Retained earnings	Other paid-in capital	Total capital
<b>Opening balance, 1 January 2019</b>	<b>500</b>	<b>-343</b>	<b>29 389</b>	<b>29 546</b>
<b>Comprehensive income</b>				
Profit for the year		29		29
Other comprehensive income				
<b>Total other comprehensive income</b>		<b>29</b>		<b>29</b>
<b>Transactions with shareholders</b>				
Shareholder contributions received*)			6 000	6 000
Shareholder contributions repaid*)			-5 415	-5 415
<b>Total transactions with shareholders</b>			<b>585</b>	<b>585</b>
<b>Closing balance, 31 December 2019</b>	<b>500</b>	<b>-314</b>	<b>29 974</b>	<b>30 160</b>
<b>Comprehensive income</b>				
Profit for the year		102 988		102 988
Other comprehensive income				
<b>Total other comprehensive income</b>		<b>102 988</b>		<b>102 988</b>
<b>Transactions with shareholders</b>				
Shareholder contributions received*)			0	0
Shareholder contributions repaid*)			-5 016	-5 016
<b>Total transactions with shareholders</b>			<b>-5 016</b>	<b>-5 016</b>
<b>Closing balance, 31 December 2020</b>	<b>500</b>	<b>102 674</b>	<b>24 958</b>	<b>128 132</b>

\*) The operations are funded partly through contingent capital contributions from the owners. The terms of repayment for the contributions are that repayments have been made of the fund's investments.

## STATEMENT OF CASH FLOWS

	<u>Note</u>	<u>2020</u>	<u>2019</u>
<b>Cash flow from operations</b>	12	<b>692 977</b>	<b>903 429</b>
Interest paid		-816 411	-133 417
Interest received		0	-266 741
Change in current receivables		1 603	-1 518
Change in recievables from group companies		231 230	1 337 821
Change in liabilities to group companies		-32 680	-921 097
Change in current liabilities		-2 461	2 388
<b>Cash flow from operating activities</b>		<b>74 258</b>	<b>920 865</b>
Disposal of/decrease in shares in group companies		0	5 309 568
Acquisition of/increase in short-term investments		0	-373 159
Disposal of/decrease in short-term investments		198 718	92 732
Acquisition of/increase in long-term fin. investments		-405 008	-5 533 265
Disposal of/decrease in long-term fin. investments		842 390	1 184 045
<b>Cash flow from investing activities</b>		<b>636 100</b>	<b>679 921</b>
Group contribution paid		-6 377	-5 254
Shareholder contributions received		0	6 000
Shareholder contributions repaid		-5 016	-5 415
Increase in non-current liabilities		382	0
Decrease in non-current liabilities		-1 180 435	-642 054
<b>Cash flow from financing activities</b>		<b>-1 191 446</b>	<b>-646 723</b>
<b>Cash flow for the year</b>		<b>-481 088</b>	<b>954 063</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>968 332</b>	<b>14 269</b>
<b>Cash and cash equivalents at end of year</b>		<b>487 244</b>	<b>968 332</b>



## NOTES TO THE ACCOUNTS AND ACCOUNTING POLICIES

### Note 1 Accounting policies

The annual accounts of the company have been prepared in accordance with the Swedish Annual Accounts Act (1995:1554), Recommendation RFR 2 (2008:25) of the Swedish Financial Reporting Board and the Swedish Alternative Investment Fund Managers Act (2013:561).

The company applies the alternative rule under RFR 2 for accounting of group contributions, which means that group contributions are accounted for as appropriations in the income statement.

### Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency have been valued at closing rates. Currency forwards are used to hedge investments in other currencies. Profits from revaluations of investments are therefor matched by corresponding losses on the currency forwards and vice versa. The following exchange rates have been used in valuation of assets and liabilities:

EUR 10,0375 (10,4336); USD 8,1886 (9,3171); GBP 11,0873 (12,2145)

### Classification of non-current and current assets in the balance sheet

Non-current assets include loan receivables which are intended to be held to maturity. Current assets include short-term investments and bank deposits.

### Valuation rules

Non-current financial assets in foreign currency are valued at amortised cost adjusted to the closing rate, as described above.

### Financial instruments: recognition and measurement

Financial assets are classified as loan receivables and short-term investments.

The classification depends on the purpose for which the financial asset was acquired. The classification of financial assets is determined by management upon initial recognition.

Loan receivables are financial assets which are not derivatives, have determinable payments and are not listed on an active market. They are included in non-current assets.

Short-term investments are financial instruments which are traded on a regulated market and derivatives. Derivatives with negative values are classified as other current liabilities.

Short-term investments are measured at fair value. Changes in value are recognised through profit or loss as interest income and similar income (profits) or interest expenses and similar charges (losses).

Profit participation debentures are recognised at cost, which depends on the underlying return on the company's assets. A positive return on profit participation debentures is accounted for as an interest expense for the company and is included in the market value. A negative return on profit participation debentures is accounted for as an interest income in accordance with the effective interest method and is included in the market value.

Other receivables and liabilities are stated in the balance sheet at their nominal value or at the value that is expected to be received.

In autumn 2016, the International Accounting Standards Board adopted the standard IFRS 9 Financial Instruments, which became effective on 1 January 2018. Under the standard, the recognition of credit losses should be based on expected loss events and not on incurred loss events. The majority of the Company's financial assets refer to loans that are currently classified as held-to-maturity assets and measured at amortised cost, which meet the criteria for measurement at accrued cost in accordance with IFRS 9.

Financial assets which are subject to impairment have been divided into three categories based on the risk of default. The first category includes assets whose credit risk has not increased significantly at the reporting date, in the second a significant increase in the credit risk has occurred and in the third there is objective evidence of impairment. For assets in the first category, an impairment loss should be recognised based on expected losses over the next twelve months, and in categories two and three expected losses for the whole term of the asset should be recognised. This means that impairment losses for expected losses should be recognised on initial recognition. For financial liabilities, the classification and measurement are not changed.

The following table shows how loans have been classified in accordance with IFRS 9.

**2020**

	Total	Category 1	Category 2	Category 3
Loans on 1 Jan 2020	4 036 335	2 916 840	514 785	604 710
<i>Re-classifications</i>				
Re-classification from cat. 1 to cat. 2		-230 451	230 451	
Re-classification from cat. 1 to cat. 3		-682 667		682 667
Re-classification from cat. 2 to cat. 3			-514 785	514 785
Re-classification from cat. 3 to cat. 2				
Re-classification from cat. 3 to cat. 1		32 774		-32 774
Loans repaid	-533 740	-289 579	0	-244 161
Loans paid	240 705	63 141	14 747	162 817
Change in accrued interest	-20 187	-9 025	-6	-11 156
Booked from accounts	-727 085	0	0	-727 085
Revaluation currency/other adjustments	-255 179	-167 490	-13 875	-73 813
Loans on 31 Dec 2020	2 740 849	1 633 542	231 316	875 990
	Total	Category 1	Category 2	Category 3
Reservation on 1 Jan 2020	-582 389	-21 117	-5 722	-555 550
<i>Re-classifications</i>				
Re-classification from cat. 1 to cat. 2		1 665	-1 665	
Re-classification from cat. 1 to cat. 3		6 648		-6 648
Re-classification from cat. 2 to cat. 3			5 723	-5 723
Re-classification from cat. 3 to cat. 1		-405		405
Loans repaid	7 075	2 159	0	4 916
Loans paid	-37 820	-1 254	-449	-36 117
Change regarding "PDs/LGDs/EADs"	-195 791	-10 288	-4 711	-180 792
Realized reservations	555 550			555 550
Revaluation currency/other adjustments	20 879	1 717	408	18 753
Reservation on 31 Dec 2020	-232 496	-20 873	-6 417	-205 206

During the year there were realised credit losses on loan in addition to what is presented in the table above of SEK 164 million and SEK 12.5 million in anticipated losses on trade receivables from re-invoicing to a borrower in Category 3.

**2019**

	Total	Category 1	Category 2	Category 3
Loans on 1 Jan 2019	114 923	114 923	0	0
<i>Re-classifications</i>				
Re-classification from cat. 1 to cat. 2				
Re-classification from cat. 1 to cat. 3				
Re-classification from cat. 2 to cat. 3				
Re-classification from cat. 3 to cat. 2				
Re-classification from cat. 3 to cat. 1				
Loans repaid	-1 530 914	-1 196 768	-334 145	0
Loans paid	5 139 457	3 707 780	822 948	608 729
Change in accrued interest	2 981	13 654	4 549	-15 223
Booked from accounts	0	0	0	0
Revaluation currency/other adjustments	309 889	277 252	21 433	11 204
Loans on 31 Dec 2019	4 036 335	2 916 840	514 785	604 710
	Total	Category 1	Category 2	Category 3
Reservation on 1 Jan 2019	0	0	0	0
<i>Re-classifications</i>				
Re-classification from cat. 1 to cat. 2				
Re-classification from cat. 1 to cat. 3				
Re-classification from cat. 2 to cat. 1				
Loans repaid	13 382	8 004	5 377	
Loans paid	-37 438	-19 761	-17 677	
Change regarding "PDs/LGDs/EADs"	-557 463	-8 701	6 788	-555 550
Change in model assumptions				
Revaluation currency/other adjustments	-870	-659	-210	
Reservation on 31 Dec 2019	-582 389	-21 117	-5 722	-555 550

The following table shows how financial assets and liabilities have been classified in accordance with IFRS 7

2020	Total	Assets/ liabilities at fair value through profit or loss	Loan and other receivables	Other financial liabilities
<b>Assets</b>				
Loans	2 504 546		2 504 546	
Preference shares	712 133	712 133		
Receivables from group companies	104 462		104 462	
Tax receivables	1 153		1 153	
Other current receivables	10 350		10 350	
Derivates	107 487	107 487		
Bonds	15 197	15 197		
Cash and cash equivalents	487 244		487 244	
<b>Total</b>	<b>3 942 572</b>	<b>834 817</b>	<b>3 107 755</b>	
<b>Liabilities</b>				
Profit participation debentures	3 799 013			3 799 013
Trade payables	584			584
Liabilities to group companies	2 761			2 761
Other current liabilities	10 421			10 421
Accrued expenses	1 661			1 661
<b>Total</b>	<b>3 814 440</b>			<b>3 814 440</b>
<b>2019</b>				
	<b>Total</b>	<b>Assets/ liabilities at fair value through profit or loss</b>	<b>Loan and other receivables</b>	<b>Other financial liabilities</b>
<b>Assets</b>				
Loans	3 453 947		3 453 947	
Preference shares	645 169	645 169		
Trade receivables	507		507	
Receivables from group companies	241 951		241 951	
Tax receivables	1 603		1 603	
Other receivables	1 422		1 422	
Derivates	67 744	67 744		
Bonds	304 909	304 909		
Cash and cash equivalents	968 332		968 332	
<b>Total</b>	<b>5 685 585</b>	<b>1 017 822</b>	<b>4 667 762</b>	
<b>Liabilities</b>				
Profit participation debentures	5 598 888			5 598 888
Trade payables	132			132
Liabilities to group companies	44 700			44 700
Other current liabilities	11 114			11 114
Accrued expenses	591			591
<b>Total</b>	<b>5 655 425</b>			<b>5 655 425</b>

**Assets at fair value**

The tables below contain information on how fair value has been determined for financial instruments measured at fair value in the balance sheet. The breakdown of how fair value is determined is based on three levels:

Level 1: in accordance with prices quoted on an active market for the same instrument

Level 2: based on directly or indirectly observable market data not included in Level 1

Level 3: based on non-observable inputs in the market

**The following table shows the company's asset and liabilities at fair value at 31 December 2020**

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Assets at fair value through profit or loss				
- Long-term investment, preference shares			712 133	712 133
- Securities held for trading		15 197		15 197
- Derivates used for hedging		107 487		107 487
<b>Total assets</b>	<b>0</b>	<b>122 684</b>	<b>712 133</b>	<b>834 817</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivates used for hedging				
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**The following table shows the company's asset and liabilities at fair value at 31 December 2019**

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Assets at fair value through profit or loss				
- Long-term investment, preference shares			645 169	645 169
- Securities held for trading		304 909		304 909
- Derivates used for hedging		67 744		67 744
<b>Total assets</b>	<b>0</b>	<b>372 653</b>	<b>645 169</b>	<b>1 017 822</b>
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss				
- Derivates used for hedging				
<b>Total liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

The following is a description of the principal methods and assumptions used in determining the fair values of the financial assets and liabilities presented in the tables above.

*Short-term investments and other financial investments*

Bonds are marked at quoted bid prices. If a current price is not available the latest quoted price is used coupled with an individual assessment of the price. In these cases, the price is determined on the basis of:

- Historical prices of the quoted instrument.
- A price obtained by the company from an independent broker on or close to the reporting date.
- Prices of other instruments with comparable maturities issued by the same issuer.
- The price of the issuer's CDS contracts if this information is available.

All deviations from quoted prices or individually assessed prices are documented by the investment organisation.

*Derivatives*

For currency contracts fair value is determined based on quoted exchange rates for each currency. The fair value of interest rate swaps is based on discounted estimated future cash flows in accordance with the terms and maturity dates of the contract and using the market rate for similar instruments at the balance sheet date.

*Other assets and liabilities that are not carried at fair value*

The company's best estimate is that the carrying amount of those financial assets and liabilities that are not carried at fair value is essentially the same as fair value. For the loan portfolio as a whole, there has been no significant change in the underlying credit risk that would affect the amortised cost and indicate a significant difference compared to the fair value.

*Investor reporting*

The issued profit participation debentures entitle the holder to a return from the first issue date, 14 May 2014. The company conducted no operations prior to 14 August 2014, which means that the full reported profit is shared in accordance with agreements with the investors.

	2020-01-01 2020-12-31	2019-01-01 2019-12-31	2014-05-14 2020-12-31
Interest income, dividends and change in value	-30 921	-78 652	-32 415
Income from investments in group companies	0	0	1 579 291
Other interest income and similar income	226 351	12 540	241 378
Write-down of profit participation debentures	279 227	747 159	1 026 386
Interest expense and similar charges	-238 913	-4 970	-323 592
Administrative expenses	-39 104	-44 803	-303 228
<b>Profit before profit-sharing</b>	<b>196 640</b>	<b>631 274</b>	<b>2 187 820</b>
Share of profit, profit participation debentures	-196 970	-671 436	-2 101 075
<b>Profit before tax and group contributions</b>	<b>-330</b>	<b>-40 162</b>	<b>86 745</b>

*Profit participation debentures*

Changes in the amortised cost of the company's outstanding profit participation debentures are dependent on the underlying return on the company's assets. No portion of the return on the profit participation debentures is guaranteed by the company and the holders bear the same risk as the company's owners in respect of invested capital. All investors will receive, if conditions permit, a lowest returns amounting to stibor + 2 per cent, but at least 5 per cent annually before profit-sharing between the company and investors occur. Any net profit exceeding the hurdle rate is divided 80/20 between the investors and Proventus Capital Partners III AB. Realised gains on holdings in the portfolio less expenses for the period are distributed on a quarterly basis. Profit-sharing is settled in Swedish kronor, which means that all reporting to investors is in Swedish kronor.

**Note 2 Financial risks**

The company is exposed to interest rate risk, credit risk, currency risk and liquidity risk. The lenders bear the same risk as the shareholders of the company and the return is dependent on the outcome of the company's portfolio management activities. The loans have no guaranteed return or guaranteed right to repayment. The return is contingent on the realisation of profits and is settled quarterly if the conditions for payment under the terms of the debentures have been met. Due to this structure, the company's risks, as described below, are minimized.

Interest rate risks and credit risks

The company has limited interest rate risk as a change in the interest rate level does not have a significant impact. The interest paid to the company's debenture holders depends on the return of the company's assets. The return from the issued loans and bonds generally have variable interest rate. The manager limits the interest rate risk in the loans by having variable interest income with an added margin. As a result, the interest margin remains unchanged over time. For longer fixed-rate loans, the interest rate can be swapped to 90 days to reduce the interest rate risk. Each borrower's creditworthiness and the associated required return are assessed at the time of issuing the loan. The manager applies an internal risk and pricing model which takes into account factors such as the company's industry, market conditions, the company's profitability and debt level. Based on the model, the lowest interest rate and terms for each commitment are determined. All commitments are monitored continuously and any need for provisions is assessed on a quarterly basis. Overall, the portfolio has delivered below expectations but overall the credit quality as a whole is deemed to be of relatively ok quality. Therefore, the valuation of loans are deemed to be fair.

The company's bond portfolio is exposed to interest rate risk, credit risk and in some cases also currency risk. As the focus of investments is on high-yield bonds the price of the bonds is influenced by interest rate risk but primarily by credit risk. The risk is assessed using the same model that is used for the loan portfolio.

To limit the risk, the company has internally limited the size of each commitment in the loan and bond portfolios based on the total available funds.

Currency risks

In cases where investments are made in other currencies than Swedish kronor the underlying investment is hedged to minimise the currency risk. The concluded futures contracts normally have maturities of three months, after which new contracts are concluded to hedge the investment. Over time, this means that realised gains and losses will arise on the hedging instruments while underlying investment will remain unrealised. The currency effect in the result of the change in value in the underlying investment and the hedging instrument will cancel each other out. Changes in exchange rates therefore do not have a significant impact.

Liquidity risk

The Company's liquidity risk consists partly in the possibility of realising holdings in the loan and bond portfolios but also in the ability to repay borrowed funds. Both risks reflect each other. The overall liquidity risk for the company is deemed to be low. The operations are funded partly through profit participation debentures and partly through equity. Profit participation debentures are paid back as receivables fall due and liquidity flows in or as returns are realised. Profit participation debentures are impacted the Company's return and under the applicable terms may not be repaid unless funds are available.

As a result of the company's investments in direct loans and high-yield bonds it may in certain cases be difficult to realise the holdings. As the holders of the profit participation debentures are in any case not permitted to demand repayment, with the exception of realised gains/payments falling due, the overall liquidity risk is low. The company has the right to raise short-term funding to increase flexibility.

The following table of undiscounted cash flows shows the company's financial receivables and liabilities by remaining maturity at the balance sheet date. Each loan and bond as at the balance sheet date have been reviewed and the date of repayment has been estimated. The interest rate is based on a contracted expected return at the time of issuance. Currency forwards have been recognised on a net basis. The settlement procedure for these varies. In some cases, the gross amount is exchanged and in other cases the contract is settled on a net basis. However, all forward contracts are concluded with established counterparties, and the risk that only one flow in the contract will be exchanged and thus constitute a risk for the company is viewed as purely theoretical. Payments under the profit participation debentures follow the expected interest flows for the loan portfolio as well as repayments where the return is dependent on the performance of the loan portfolio.

<b>Undiscounted cash flows 2020</b>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1–2 years</b>	<b>3–5 years</b>	<b>6+ years</b>
Loans and pref. shares	3 592 435	1 081 295	2 511 139		
Receivables from group companies	104 462	104 462			
Other current receivables	11 503	11 503			
Bonds	18 676	1 465	17 211		
Derivates	107 487	107 487			
Cash and cash equivalents	487 244	487 244			
<b>Total</b>	<b>4 321 806</b>	<b>1 793 456</b>	<b>2 528 350</b>	<b>0</b>	<b>0</b>
Liabilities to group companies	-2 761	-2 761			
Other current liabilities	-12 666	-12 666			
Profit participation debentures	-4 233 534	-1 382 353	-2 851 181		
<b>Total</b>	<b>-4 248 961</b>	<b>-1 397 780</b>	<b>-2 851 181</b>	<b>0</b>	<b>0</b>
<b>Undiscounted cash flows 2019</b>	<b>Total</b>	<b>&lt; 1 year</b>	<b>1–2 years</b>	<b>3–5 years</b>	<b>6+ years</b>
Loans and pref. shares	4 900 980	1 582 434	2 333 155	985 391	
Receivables from group companies	241 951	241 951			
Other current receivables	1 422	1 422			
Bonds	324 684	255 816	68 869		
Derivates	67 744	67 744			
Cash and cash equivalents	968 332	968 332			
<b>Total</b>	<b>6 505 114</b>	<b>3 117 698</b>	<b>2 402 024</b>	<b>985 391</b>	<b>0</b>
Liabilities to group companies	-44 700	-44 700			
Other current liabilities	-11 838	-3 727	-8 111		
Profit participation debentures	-6 249 872	-2 542 216	-2 388 730	-1 318 926	
<b>Total</b>	<b>-6 306 410</b>	<b>-2 590 643</b>	<b>-2 388 730</b>	<b>-1 318 926</b>	<b>0</b>

### Note 3 Critical accounting estimates and assessments

The company reviews its loans on a quarterly basis to assess the need for provisions. The assessment is made individually for each loan. An in-depth analysis of each commitment is made on a quarterly basis to assess whether the borrower will be able to meet the agreed terms.

### Note 4 Administrative expenses

During financial year 2020, total fees of SEK 0.5 million were paid to Öhrlings PricewaterhouseCoopers AB, broken down by the following categories:

PwC:	2020	2019
Audit engagement	373	791
Tax advisory services	154	1120
	<u>527</u>	<u>1 911</u>

Intra-group purchases and sales:

Administrative expenses include management fees in the amount of SEK 6.5 (6.1) million billed by P Capital Partners AB during 2020.

Average number of employees: The company has as last year no had no employees during the financial year.

Remuneration: Remuneration has been paid to staff in the parent company which manages the company's investments. Total fixed remuneration was during the year SEK 25 million and variable remuneration was SEK 1 million which was divided by 9 employees.

**Note 5 Interest income, interest expenses and similar income/charges**

	<u>2020</u>	<u>2019</u>
Interest income in accordance with the effective interest method		
Interest income in accordance with the effective interest method	306 949	332 546
Total	<u>306 949</u>	<u>332 546</u>
Interest income and similar income		
Interest income and change in value from bonds	10 181	69 392
Other interest income	65	251
Dividends	66 963	60 112
Currency profits (re-valuations and currency forwards)	213 712	9 547
Write-down of profit participation debentures	279 227	747 159
Other financial income	12 574	2 742
Total	<u>582 722</u>	<u>889 203</u>
Interest expenses and similar charges		
Interest expenses profit participation debentures	-196 970	-671 436
Other interest expenses	-690	-3 903
Change in value from bonds	-32 498	0
Currency losses (re-valuations and currency forwards)	-238 223	-1 067
Total	<u>-468 381</u>	<u>-676 406</u>
Interest income from assets at fair value	10 246	33 764
Interest income from assets at amortised cost	306 949	332 546
	<u>317 195</u>	<u>366 310</u>
Interest expense from liabilities at fair value	-690	-3 903
Interest expense from liabilities at amortised cost	-196 970	-671 436
	<u>-197 660</u>	<u>-675 339</u>

**Note 6 Tax**

	<u>2020</u>	<u>2019</u>
Reported profit before tax	102 988	58
Tax calculated at applicable rate, 21.4%	-22 039	-12
Tax effect from non-deductible expenses	-58 035	-134 129
Tax effect from non-taxable income	200 624	141 067
Tax attributable to reported profit/loss for previous years	0	-29
Reported tax expense	<u>0</u>	<u>-29</u>

Since the autumn 2017, the company has an ongoing correspondence with the Swedish tax authorities regarding a loss in one of Proventus Capital Partners III's commitments. In 2018, the tax authorities have limited the discussion to the question whether the subsidiary Proventus Capital Partners III KB performs operations from a fiscal point of view, which would limit Proventus Capital Partners III's right to deduct tax losses in 2017. Proventus Capital Partners III claims that the limited partnership definitely performs taxable operations, and no provision for additional tax has not been made in the year-end reports for 2018-2020.

**Note 7 Non-current financial assets**

	<u>2020-12-31</u>	<u>2019-12-31</u>
Loans	2 498 247	3 427 462
Preference shares	712 133	645 169
Accrued interest	6 299	26 485
Total	<u>3 216 679</u>	<u>4 099 117</u>

Other long-term investments refer to direct loans to businesses. At the end of the financial year, the portfolio comprised twenty-one loans and one investment in preference shares. Maturities will vary and are estimated at one to three years.

## Note 8 Short-term investments

	<u>2020-12-31</u>		<u>2019-12-31</u>	
	Cost	Fair value	Cost	Fair value
Derivates	-	107 487	-	67 744
Bonds	81 257	14 648	279 717	303 481
Accrued interest	-	549	-	1 428
	<u>81 257</u>	<u>122 684</u>	<u>279 717</u>	<u>372 653</u>

Derivatives are currency forwards for the purpose of hedging the loan and bond portfolios and are held at fair value.

### Composition of the portfolio

<b>2020-12-31</b>	Nominal value local currency	Average price	Fair value local currency	Currency rate	Fair value SEK
Bonds (USD)	8 944	20.0%	1 789	8.1886	<u>14 648</u> 14 648
<b>2019-12-31</b>	Nominal value local currency	Average price	Fair value local currency	Currency rate	Fair value SEK
Bonds (USD)	35 240	92.4%	32 572	9.3171	<u>303 481</u> 303 481

## Note 9 Other non-current liabilities

### *Profit participation debentures*

The holders of profit participation debentures have undertaken to provide funding of up to SEK 10,780 million. The owners' contributions under the same agreement is SEK 60 million. Since the investment period has ended no additional funding is available.

The lenders bear the same risk as the shareholders of the company with regard to the return on invested capital. However, the shareholders have a greater responsibility for the business and a duty to distribute the return to the holders of the profit participation debentures in accordance with the contractual provisions. The debentures have no guaranteed return or guaranteed right to repayment. The return is contingent on the realisation of profits and is settled quarterly if the terms of the loans have been met, see also the information under "Accounting principles".

### Return, profit participation debentures

<b>SEK</b>	Maturity	<u>2020-12-31</u>		<u>2019-12-31</u>	
		Nominal value	Carrying amount	Nominal value	Carrying amount
Profit participation debentures	2014-2024	4 484 076	3 799 013	5 385 284	5 598 888
Unrealised gain			-685 063		213 604
Realised gain			<u>1 759 753</u>		<u>943 342</u>
Total accumulated income, profit participation debentures			<u>1 074 690</u>		<u>1 156 946</u>

The profit participation debentures are listed on the Miscellaneous Nordic AIF Sweden segment under Main Regulated at NGM in Stockholm.

## Note 10 Other liabilities

	<u>2020-12-31</u>	<u>2019-12-31</u>
Other current liabilities	10 421	11 114
Currency forwards	-	-
Total	<u>10 421</u>	<u>11 114</u>

Currency forwards for the purpose of hedging the loan and bond portfolios and are held at fair value.

## Note 11 Accrued expenses and deferred income

	<u>2020-12-31</u>	<u>2019-12-31</u>
Audit engagement cost	358	537
Other accrued expenses	<u>1 303</u>	<u>54</u>
Total	<u>1 661</u>	<u>591</u>



**Note 12 Cash flow from operating activities**

	<u>2020</u>	<u>2019</u>
<b>Profit for the year</b>	<b>102 988</b>	<b>29</b>
<i>Adjustments for non-cash items, etc.:</i>		
Unrealised change in value, currency forwards	-39 743	-67 744
Unrealised change in value, short-term investments	90 116	-23 507
Unrealised change in value, loans	424 870	391 217
Group contributions received	-103 289	-40 087
Allocated interest expenses	196 970	671 140
Allocated interest income and dividends	21 065	-27 619
<b>Cash flow from operations</b>	<b>692 977</b>	<b>903 429</b>

Reconciliation of liabilities arising from financing activities

	CB 31 Dec 2019	New Loans	Repaid Loans	Non-cash items *)	CB 31 Dec 2020
Other non-current liabilities	5 598 888	0	-1 717 619	-82 256	3 799 013
<b>Total liabilities from financing activities</b>	<b>5 598 888</b>	<b>0</b>	<b>-1 717 619</b>	<b>-82 256</b>	<b>3 799 013</b>

\*) Non-cash items refer to write-downs of the profit participation debentures and accrued interest to debenture holders.

**Note 13 Contingent liabilities**

	<u>2020-12-31</u>	<u>2019-12-31</u>
Contingent liability in the capacity of general partner of Proventus Capital Partners III KB	379	5 992
Funding commitments made to existing borrowers	45 450	65 001
Guarantor for overdraft facility in Proventus Capital Partners III KB	0	500 000
	<u>45 829</u>	<u>570 993</u>

**Note 14 Related party transactions**

Proventus Capital Partners III AB (publ) is owned by P Capital Partners AB (556930-7027), which is the parent company of the group.

The parent company provides services to the company, for which it receives a management fee that is based on total capital, the fee has been invoiced at a quarterly basis. The fee, which is included in administrative expenses, was SEK 23.1 (32.8) million in 2020. Group contributions of SEK 103 (40) million were received by Proventus Capital Partners III AB from the parent company.

**Note 15 Proposed disposition of earnings**

The Board proposes that the available funds be allocated as follows:

Non-restricted reserves	24 643 548
Profit for the year	<u>102 987 819</u>
Total	127 631 367

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

Dividend to shareholders	102 987 820
To be carried forward	<u>24 643 547</u>
Total	127 631 367

Stockholm as of the day of my digital signature

Anders Thelin  
Chairman

Daniel Sachs  
Chief Executive Officer

Christian Reiner

Åsa Hansdotter

Martin Gorne

Our auditor's report was submitted as of the day of our digital signature  
Öhrlings PricewaterhouseCoopers AB

Daniel Algotsson  
Authorised Public Accountant and Auditor in Charge



## Auditor's report

Unofficial translation

To the general meeting of the shareholders of Proventus Capital Partners III AB (publ), corporate identity number 556926-8021

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### Report on the annual accounts

#### *Opinions*

We have audited the annual accounts of Proventus Capital Partners III AB (publ) for the year 2020.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Proventus Capital Partners III AB (publ) as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for Proventus Capital Partners III AB (publ).

Our opinions in this report on the annual accounts are consistent with the content of the additional report that has been submitted to the company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

#### *Basis for Opinions*

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Proventus Capital Partners III AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

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

#### *Our audit approach*

##### **Audit scope**

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

##### **Key audit matters**

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

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*Key audit matter*

*The manner in which our audit addressed the Key audit matter*

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**Valuation of non-current financial assets (loan receivables)**

*We refer to the Administration Report and description of Proventus Capital Partners III AB's ("PCP") Accounting principles, Note 1, Significant accounting estimates and assessments, Note 3 and Non-current assets, Note 7.*

PCP's loan receivables amounted to 2 498 MSEK as at 31 December 2020, which is equivalent to 63% of the PCP's balance sheet total. Consequently, these loan receivables comprise a significant portion of PCP's balance sheet and are classified as non-current financial assets. The loan receivables are reported according to amortized cost method.

The valuation involves both quantitative and qualitative components. The assessment of loan impairment involves a number of areas which are subjective and are based on the management's judgements. PCP reviews its loan receivables on a quarterly basis and, then, amongst other things, reviews the manner in which the specific borrower is capable of fulfilling the loan contract terms, its future payment capacity and the existing collaterals. The assessment of a requirement for a loan impairment is made individually for each loan contract and impairment is to be undertaken when the decrease in value can be assumed to be permanent.

The significance of the estimations and judgements involved in determining the need for loan impairments is critical and can, if the estimations and judgements are incorrect, result in significant misstatements in the financial reporting. This implies that the valuation of loan receivables is a Key audit matter in the audit.

In the audit, we have both focused on the internal control regarding the valuation of loan receivables and on the company's executed impairment testing as at 31 December 2020.

The audit team has obtained and evaluated PCP's own assessments and compilations regarding possible loan impairment requirements for the period. This was done to ensure that the assessment complies with PCP's guidelines for valuation and impairment testing.

Furthermore, we have had meetings with PCP's personnel responsible for the valuation of loan receivables during which important assumptions and judgements have been discussed. Our work has had, as its general starting point, the loan portfolio in its entirety and we have, thereafter, focused, on a random sample basis, on specific loan receivables. Furthermore, we have, through random sampling, checked to determine if the borrowers pay interest and undertake amortization in accordance with the established terms of the loan contracts.

By definition, the assessment of impairment requirements regarding loan receivables is associated with an inherent degree of uncertainty. As a result of our audit, we have not reported any significant observations to the Audit Committee.

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**Responsibilities of the Board of Director's and the Managing Director**

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

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is



however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

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

### *Auditor's responsibility*

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

A further description of our responsibility for the audit of the annual accounts is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

## **Report on other legal and regulatory requirements**

### *Opinions*

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Director's and the Managing Director of Proventus Capital Partners III AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

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

### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of Proventus Capital Partners III AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

### *Responsibilities of the Board of Director's and the Managing Director*

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

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### *Auditor's responsibility*

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

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or



- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

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

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: [www.revisorsinspektionen.se/revisornsansvar](http://www.revisorsinspektionen.se/revisornsansvar). This description is part of the auditor's report.

Stockholm 30 March 2021

Öhrlings PricewaterhouseCoopers AB

Daniel Algotsson  
Authorized Public Accountant