DDM HOLDING AG

Corporate Registration Number: CHE-115906312

Q3 interim report | 1 January – 30 September 2018

ddm

Record collections and successful refinancing lowering the cost of funding

Highlights third quarter 2018

- Net collections increased by 153% to EUR 16.8M (Q3 2017: EUR 6.6M)
- Cash EBITDA increased by 188% and amounted to EUR 14.7M (Q3 2017: EUR 5.1M)
- Adjusted net profit for the period of EUR 0.3M excluding non-recurring items**
- Gross ERC at the end of September 2018 was EUR 250M (Q4 2017: EUR 250M)
- Cash on hand available for investments at the end of September 2018 was EUR 50M

Highlights nine months 2018

- Net collections increased by 74% to EUR 42.9M (9M 2017: EUR 24.7M)
- Cash EBITDA increased by 76% and amounted to EUR 37.2M (9M 2017: EUR 21.1M)
- Adjusted net profit for the period of EUR 2.4M excluding non-recurring items**
- Investments in the Balkans and the Czech Republic totaling approximately EUR 36M
- Henrik Wennerholm appointed as Chief Executive Officer
- The financial targets communicated at the beginning of 2018 has been removed

Significant events after the third quarter

- Refinancing raised EUR 12M of senior secured bonds lowering the cost of funding
- Investments in the Balkans of about EUR 6M following regulatory approval
- Buy-out of co-investor in Hungary for approximately EUR 1M

Amounts in EUR '000s (unless specified otherwise)	**1 Jul–30 Sep 2018***	**1 Jul–30 Sep 2017***	**1 Jan–30 Sep 2018***	**1 Jan–30 Sep 2017***	**Full Year 2017**
Net collections	16,754	6,611	42,928	24,721	37,434
Revenue from management fees	282	297	943	1,323	1,876
Operating expenses	(2,322)	(1,806)	(6,716)	(4,927)	(7,039)
Cash EBITDA	14,714	5,102	37,155	21,117	32,271
Amortization, revaluation and impairment of invested assets	(10,414)	(2,009)	(22,336)	(12,387)	(18,959)
Operating profit	4,268	3,047	14,721	8,620	13,169
Net profit / (loss) for the period**	(547)	735	1,425	(1,104)	664
Selected key figures					
Total assets	186,594	120,056	186,594	120,056	183,577
Net debt	94,797	83,656	94,797	83,656	86,048
Equity ratio	17.3%	24.3%	17.3%	24.3%	16.8%
Cash flow from operating activities before working capital changes	10,647	1,318	26,756	13,495	21,639
Gross ERC 120 months (EUR M)	250	255	250	255	250
Earnings per share before and after dilution (EUR)	(0.04)	0.05	0.11	(0.09)	0.05
Average number of shares during the period	13,560,447	13,560,447	13,560,447	12,070,288	12,408,738
Total number of shares at the end of the period	13,560,447	13,560,447	13,560,447	13,560,447	13,560,447

* Unaudited

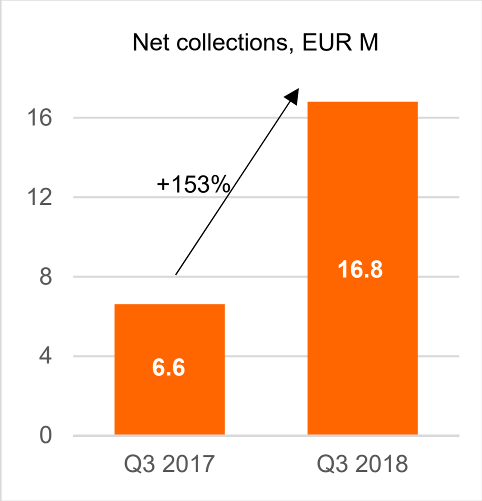
** The results for Q3 2018 and 9M 2018 were negatively impacted by EUR 0.8M and EUR 1.0M respectively of non-recurring items relating to deferred taxes and interests in associates. The results for 9M 2017 and the full year 2017 were negatively impacted by c. EUR 3.1M of non-recurring items due to the bond refinancing in Q1 2017.

The information in this interim report requires DDM Holding AG to publish the information in accordance with the EU Market Abuse Regulation and the Securities Market Act. The information was submitted for publication on 8 November 2018 at 08:00 CET.

DDM Holding AG is a specialized multinational investor and manager of distressed assets.

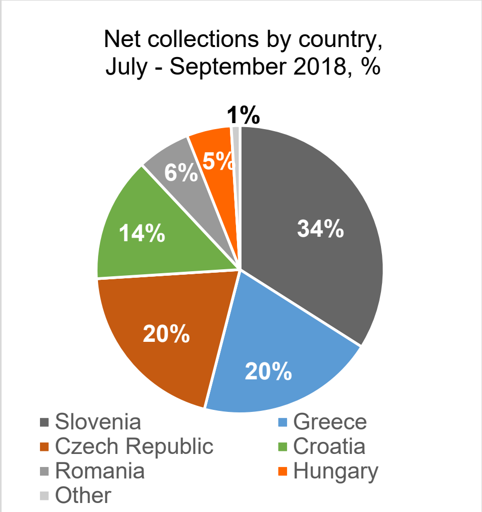
Comment by the CEO

I am delighted to report record net collections of EUR 16.8M in the third quarter and encouraged by the opportunities that lie ahead of us. A key focus during the quarter has been to intensify the strategic shift from being an investor in unsecured consumer loans to becoming a specialized investor in secured corporate and consumer portfolios. To achieve this, we have reviewed the business model and made organizational improvements to better position DDM as top-tier and effective workout partner. Another key priority is to continue to further decrease the cost of financing, an important factor when continuing our growth journey. Another important measure has been to remove the previously communicated investment target since DDM's rate of growth will continue to vary from quarter to quarter due to the opportunistic business model.



All-time-high net collections

During the third quarter an all-time-high net collections of EUR 16.8M was achieved, an increase of 153% compared to Q3 2017, and by 74% for the first nine months of 2018 compared to the same period last year. The increase was driven by collections in Slovenia, Croatia, Greece and the Czech Republic following the significant acquisitions in these jurisdictions in the second half of 2017 and Q1 2018.

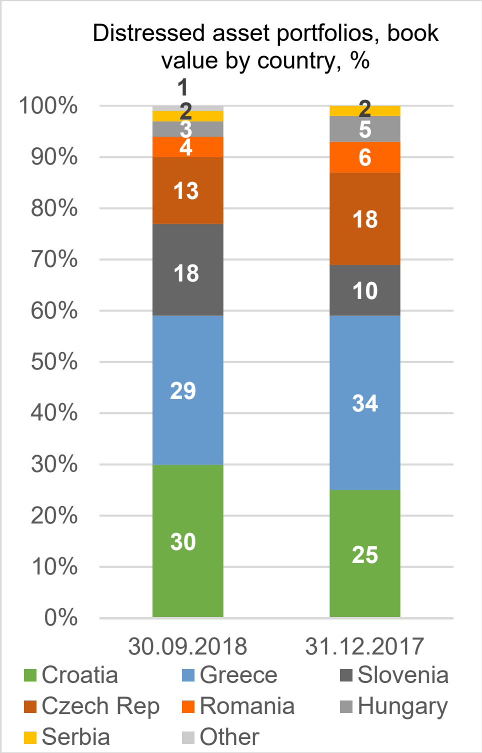


Supportive cash flow and lower cost of funding

Cash flows also continued to be supportive from an increasingly geographically diversified portfolio. Significant progress was also made during the quarter to continue to lower the cost of funding when the Company successfully reached an agreement to refinance the EUR 10M senior secured bonds maturing on November 6, 2018 by way of issuing EUR 12M senior secured bonds. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged by the Company at 8% per annum for another six months. Funding of the business remains a focus area and we will continue to work on this going forward to further improve flexibility, decrease the cost of capital and support our rapid growth.

Strategic shift to corporate secured portfolios

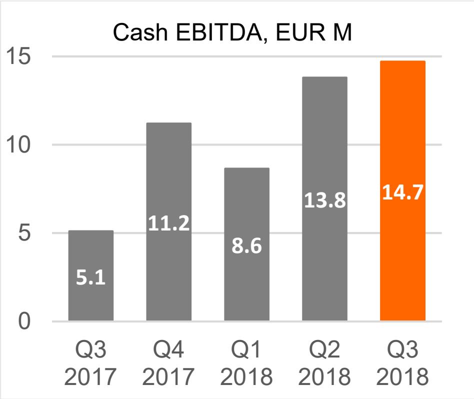
Operational performance and organizational review have been key focus areas during the quarter following the strategic shift from investing in consumer unsecured portfolios to secured primarily corporate portfolios. The composition of the portfolio has changed greatly over the past 12 months, with secured portfolios now making up the majority share of our overall portfolio of assets. Consequently this will cause increased variability in our collections from quarter to quarter due to the timing of larger settlements from corporate portfolios.



Since the end of the third quarter, DDM has invested a further EUR 6M in the Balkans following regulatory approval and bought-out a co-investor for approximately EUR 1M in a portfolio in Hungary.

Revenue from management fees were EUR 0.3M in the quarter and EUR 0.9M for the first nine months of 2018, compared to EUR 0.3M and EUR 1.3M for the corresponding periods in 2017. Revenue from management fees were higher in 2017 due to the significant collections from Hungary received in the prior period. Operating expenses were EUR 2.3M in the third quarter and EUR 6.7M for the first nine months of 2018, EUR 0.5M and EUR 1.8M higher than for the corresponding periods in 2017, mainly as a result of management changes and strengthening the team. Cash EBITDA for the third quarter totaled EUR 14.7M and EUR 37.2M for the first nine months of 2018, increases of 188% and 76% respectively compared to 2017, as a result of net collections increasing more than the operational expenses.

The quarter includes negative revaluation of EUR 0.6M and impairment of portfolios of EUR 1.1M primarily relating to portfolios in the Balkans.



The adjusted net result was a profit of EUR 0.3M for Q3 2018 and a profit of EUR 2.4M for the first nine months of 2018 after adjusting respectively for EUR 0.8M and EUR 1.0M of non-recurring costs relating to deferred taxes and interests in associates.

Our strong operational performance resulted in cash flow from operating activities before working capital changes of EUR 10.6M in the third quarter compared to EUR 1.3M in Q3 2017, and EUR 26.8M for the first nine months of 2018 compared to EUR 13.5M for the first nine months of 2017.

Market outlook
The sale of non-performing assets is continuing among the banking industry players in the CEE region and supply of new corporate NPL portfolios in 2018 has been supported by number of large one-off transactions. The most active markets for DDM are currently in the Balkan region and Greece. We expect further interesting opportunities in Greece given the end of its third successive bailout program ending years of austerity. We also continue to see positive price development of real estate prices in our region supporting our business and further transactions.

DDM's business model is flexible and opportunistic and we believe that there will continue to be good business opportunities for us. However, DDM's rate of growth and financial results will continue to vary from quarter to quarter, impacted by the timing of significant investments and larger settlements from corporate portfolios.

We aim to deliver sizeable and profitable growth in 2018 as we continue to focus on our markets in SEE and CEE where we have strong market knowledge and relationships.

Baar, 8 November 2018
DDM Holding AG
Henrik Wennerholm, CEO

Financial calendar

DDM intends to publish financial information on the following dates:

Q4 and full year report 2018:	21 February 2019
Annual report 2018:	29 March 2019

Other financial information from DDM is available on DDM's website: www.ddm-group.ch.

This report has not been reviewed by the Company's auditors.

Presentation of the report

The report and presentation material are available at www.ddm-group.ch on 8 November 2018, at 08:00 CET.

CEO Henrik Wennerholm and CFO Fredrik Olsson will comment on the DDM Group's results during a conference call on 8 November 2018, starting at 10:00 CET. The presentation can be followed live at www.ddm-group.ch and/or by telephone with dial-in numbers: SE: +46 8 566 426 97, CH: +41 225 675 548 or UK: +44 203 008 9807.

Consolidated Income Statement

Amounts in EUR '000s	Notes	1 Jul–30 Sep 2018*	1 Jul–30 Sep 2017*	1 Jan–30 Sep 2018*	1 Jan–30 Sep 2017*	Full Year 2017
Reconciliation of revenue on invested assets:						
Net collections		*16,754*	*6,611*	*42,928*	*24,721*	*37,434*
Amortization of invested assets		*(8,679)*	*(2,007)*	*(20,804)*	*(12,597)*	*(19,164)*
Interest income on invested assets		**8,075**	**4,604**	**22,124**	**12,124**	**18,270**
Revaluation and impairment of invested assets		*(1,735)*	*(2)*	*(1,532)*	*210*	*205*
Revenue on invested assets	**8**	**6,340**	**4,602**	**20,592**	**12,334**	**18,475**
Revenue from management fees	**8**	**282**	**297**	**943**	**1,323**	**1,876**
Personnel expenses		(1,264)	(1,006)	(3,374)	(2,619)	(3,422)
Consulting expenses		(674)	(505)	(1,997)	(1,499)	(2,381)
Other operating expenses		(384)	(295)	(1,345)	(809)	(1,236)
Amortization and depreciation of tangible and intangible assets		(32)	(46)	(98)	(110)	(143)
Operating profit		**4,268**	**3,047**	**14,721**	**8,620**	**13,169**
Financial expenses		(4,172)	(2,218)	(11,887)	(9,089)	(12,016)
Unrealized exchange profit / (loss)		39	(136)	(508)	(455)	594
Realized exchange profit / (loss)		(77)	47	(244)	100	(526)
Net financial expenses		**(4,210)**	**(2,307)**	**(12,639)**	**(9,444)**	**(11,948)**
Profit / (loss) before income tax		**58**	**740**	**2,082**	**(824)**	**1,221**
Tax expense		(605)	(5)	(657)	(280)	(557)
Net profit / (loss) for the period		**(547)**	**735**	**1,425**	**(1,104)**	**664**
Net profit / (loss) for the period attributable to:						
Owners of the Parent Company		(547)	735	1,425	(1,104)	664
Earnings per share before and after dilution (EUR)		(0.04)	0.05	0.11	(0.09)	0.05
Average number of shares		13,560,447	13,560,447	13,560,447	12,070,288	12,408,738
Number of shares at the end of period		13,560,447	13,560,447	13,560,447	13,560,447	13,560,447

* Unaudited

Consolidated Statement of Comprehensive Income

Amounts in EUR '000s	1 Jul–30 Sep 2018*	1 Jul–30 Sep 2017*	1 Jan–30 Sep 2018*	1 Jan–30 Sep 2017*	Full Year 2017
Net profit / (loss) for the period	**(547)**	**735**	**1,425**	**(1,104)**	**664**
Other comprehensive income for the period					
Items that will not be reclassified to profit or loss:					
Actuarial gain / (loss) on post-employment benefit commitments	–	–	–	–	(184)
Deferred tax on post-employment benefit commitments	–	–	–	–	44
Items that may subsequently be reclassified to profit or loss:					
Currency translation differences	(4)	–	(4)	–	57
Other comprehensive income for the period, net of tax	**(4)**	–	**(4)**	–	**(83)**
Total comprehensive income for the period	**(551)**	**735**	**1,421**	**(1,104)**	**581**
Total comprehensive income for the period attributable to:					
Owners of the Parent Company	**(551)**	**735**	**1,421**	**(1,104)**	**581**

* Unaudited

Consolidated Balance Sheet

Amounts in EUR '000s	Notes	30 September 2018*	31 December 2017
ASSETS			
Non-current assets			
Goodwill	6	4,160	4,160
Intangible assets	6	1,442	1,526
Tangible assets	5	41	54
Interests in associates		–	600
Distressed asset portfolios	4	121,323	105,547
Other long-term receivables from investments	4	3,597	5,865
Deferred tax assets	3	719	1,403
Other non-current assets		118	116
Total non-current assets		**131,400**	**119,271**
Current assets			
Accounts receivable		2,759	4,994
Other receivables		1,351	603
Prepaid expenses and accrued income		941	591
Cash and cash equivalents		50,143	58,118
Total current assets		**55,194**	**64,306**
TOTAL ASSETS		**186,594**	**183,577**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		11,780	11,780
Share premium		21,030	21,030
Other reserves		(544)	(540)
Retained earnings including net profit / (loss) for the period		69	(1,356)
Total shareholders' equity attributable to Parent Company's shareholders		**32,335**	**30,914**
Long-term liabilities			
Loans	7	134,940	134,166
Post-employment benefit commitments		1,063	913
Deferred tax liabilities	3	289	490
Total long-term liabilities		**136,292**	**135,569**
Current liabilities			
Accounts payable		1,200	858
Tax liabilities		1,173	814
Accrued interest		3,565	3,822
Accrued expenses and deferred income		2,029	1,600
Loans	7	10,000	10,000
Total current liabilities		**17,967**	**17,094**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**186,594**	**183,577**

* Unaudited

Consolidated Cash Flow Statement

Amounts in EUR '000s	1 Jul– 30 Sep 2018*	1 Jul– 30 Sep 2017*	1 Jan– 30 Sep 2018*	1 Jan– 30 Sep 2017*	Full Year 2017
Cash flow from operating activities					
Operating profit	4,268	3,047	14,721	8,620	13,169
Adjustments for non-cash items:					
Amortization of invested assets	*8,679*	*2,007*	*20,804*	*12,597*	*19,164*
Revaluation and impairment of invested assets	*1,735*	*2*	*1,532*	*(210)*	*(205)*
Depreciation, amortization and impairment of tangible and intangible assets	*32*	*46*	*98*	*110*	*143*
Other items not affecting cash	*85*	*(87)*	*224*	*259*	*(2,653)*
Interest paid	(4,127)	(3,697)	(10,574)	(7,849)	(7,947)
Interest received	–	–	–	6	6
Tax paid	(25)	–	(49)	(38)	(38)
Cash flow from operating activities before working capital changes	**10,647**	**1,318**	**26,756**	**13,495**	**21,639**
Working capital adjustments					
(Increase) / decrease in accounts receivable	(574)	2,314	2,235	461	(2,118)
(Increase) / decrease in other receivables	309	(202)	(1,284)	(778)	(892)
Increase / (decrease) in accounts payable	79	(678)	342	(606)	(710)
Increase / (decrease) in other current liabilities	426	383	429	483	681
Net cash flow from operating activities	**10,887**	**3,135**	**28,478**	**13,055**	**18,600**
Cash flow from investing activities					
Purchases of distressed asset portfolios and other long-term receivables from investments	–	(69,069)	(36,186)	(74,662)	(95,579)
Proceeds from divestment of distressed asset portfolios and other long-term receivables from investments	–	–	–	–	13,570
Purchases of tangible and intangible assets	(1)	(4)	(3)	(19)	(22)
Net cash flow received / (used) in investing activities	**(1)**	**(69,073)**	**(36,189)**	**(74,681)**	**(82,031)**
Cash flow from financing activities					
Proceeds from issuance of ordinary shares	–	–	–	4,240	4,240
Share premium	–	–	–	5,518	5,518
Proceeds from issuance of loans	–	–	–	83,023	158,212
Repayment of loans	–	–	–	(39,645)	(56,645)
Net cash flow received / (used) in financing activities	–	**–**	–	**53,136**	**111,325**
Cash flow for the period	**10,886**	**(65,938)**	**(7,711)**	**(8,490)**	**47,894**
Cash and cash equivalents less bank overdrafts at beginning of the period	**39,315**	**67,725**	**58,118**	**10,599**	**10,599**
Foreign exchange gains / (losses) on cash and cash equivalents	(58)	(26)	(264)	(348)	(375)
Cash and cash equivalents less bank overdrafts at end of the period	**50,143**	**1,761**	**50,143**	**1,761**	**58,118**

* Unaudited

Consolidated Statement of Changes in Equity

Amounts in EUR '000s	Share capital	Share premium	Other reserves	Retained earnings incl. net profit / (loss) for the period	Total equity
Balance at 1 January 2017	**7,540**	**15,512**	**(584)**	**(1,893)**	**20,575**
Net loss for the period	–	–	–	(1,104)	**(1,104)**
Other comprehensive income					
Actuarial gain / (loss) on post-employment benefit commitments	–	–	–	–	–
Currency translation differences	–	–	–	–	–
Deferred tax on post-employment benefit commitments	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**–**	**(1,104)**	**(1,104)**
Transactions with owners					
New share issue	4,240	5,518	–	–	**9,758**
Total transactions with owners	**4,240**	**5,518**	–	–	**9,758**
Balance at 30 September 2017*	**11,780**	**21,030**	**(584)**	**(2,997)**	**29,229**
Balance at 1 January 2018	**11,780**	**21,030**	**(540)**	**(1,356)**	**30,914**
Net profit for the period	–	–	–	1,425	**1,425**
Other comprehensive income					
Actuarial gain / (loss) on post-employment benefit commitments	–	–	–	–	**–**
Currency translation differences	–	–	(4)	–	**(4)**
Deferred tax on post-employment benefit commitments	–	–	–	–	**–**
Total comprehensive income	**–**	**–**	**(4)**	**1,425**	**1,421**
Transactions with owners					
Total transactions with owners	**–**	**–**	**–**	**–**	**–**
Balance at 30 September 2018*	**11,780**	**21,030**	**(544)**	**69**	**32,335**

* Unaudited

Notes

Note 1. Basis of preparation

These consolidated financial statements (the “financial statements”) of DDM Holding AG and its subsidiaries (together "DDM" or "the Company") have been prepared in accordance with IAS 34 Interim Financial Reporting, are unaudited, and should be read in conjunction with DDM’s last annual consolidated financial statements as of and for the year ended 31 December 2017. DDM’s principal accounting policies are set out in Note 3 to the consolidated financial statements in the Annual Report 2017 and conform with International Financial Reporting Standards (IFRS) as adopted by the EU.

As of 1 January 2018 there are several new IFRS standards. IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers have been applied from 1 January 2018.

The DDM Group’s business model is to invest in distressed assets and collect the contractual cash flows. Consequently, the cash flows consist only of payments of principal and interest (*solely payments of principal and interest*, “SPPI”). In exceptional cases, portfolios might be sold (e.g. exit of a market, significant increase in a risk of default, etc.), and would therefore have to be assessed on a case by case basis and, if applicable, treated differently. Therefore IFRS 9’s changes to classification and measurement of financial instruments have not had an impact on the recognition and valuation of the invested assets, as these continue to be valued at amortized cost.

The expected credit loss model under IFRS 9 has not had an additional direct impact on DDM’s invested assets, as the lifetime expected credit losses are included in the estimated cash flows when calculating the effective interest rate on initial recognition of such assets. A significant increase in the credit risk would result in a revaluation and/or impairment of the invested asset, which is the recognition of the additional expected credit loss. As DDM invests in distressed assets (stage 3), no change in a different stage (stage 1 or 2) is expected.

The table below shows a comparison of the measurement of DDM’s financial instruments according to IAS 39 and IFRS 9:

	Valuation under IAS 39	Valuation under IFRS 9
Assets		
Accounts receivable	Amortized cost	Amortized cost
Other receivables	Amortized cost	Amortized cost
Distressed asset portfolios	Amortized cost	Amortized cost
Other long-term receivables from investments	Amortized cost	Amortized cost
Liabilities		
Accounts payable	Amortized cost	Amortized cost
Other payables	Amortized cost	Amortized cost
Short-term loans	Amortized cost	Amortized cost
Long-term loans	Amortized cost	Amortized cost

IFRS 15 is not applicable to revenue on invested assets, as this is the result of the application of the amortized cost method. IFRS 15 is applicable to revenue from management fees, however as revenue is already recognized based on the satisfaction of performance obligations IFRS 15 has not had an impact on DDM’s financial statements.

All amounts are reported in thousands of Euros (EUR k), unless stated otherwise. Rounding differences may occur.

Subsidiaries
Subsidiaries are all entities (including special purpose entities) over which DDM Holding AG has control. DDM Holding AG controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are de-consolidated from the date on which control ceases. Intercompany transactions, balances, and unrealized gains on transactions between group companies are eliminated.

Subsidiaries	Consolidation method	Domicile	30 September 2018	31 December 2017
DDM Group AG	Fully consolidated	Switzerland	100%	100%
DDM Invest I AG	Fully consolidated	Switzerland	100%	100%
DDM Invest II AG	Fully consolidated	Switzerland	100%	100%
DDM Invest III AG	Fully consolidated	Switzerland	100%	100%
DDM Invest IV AG	Fully consolidated	Switzerland	100%	100%
DDM Invest VII AG	Fully consolidated	Switzerland	100%	100%
DDM Invest X AG	Fully consolidated	Switzerland	100%	100%
DDM Invest XX AG	Fully consolidated	Switzerland	100%	100%
DDM Debt AB	Fully consolidated	Sweden	100%	100%
DDM Finance AB	Fully consolidated	Sweden	100%	100%
DDM Treasury Sweden AB	Fully consolidated	Sweden	100%	100%
DDM Facility Debt AB	Fully consolidated	Sweden	100%	–
DDM Facility Finance AB	Fully consolidated	Sweden	100%	–
DDM Invest VII d.o.o.	Fully consolidated	Slovenia	100%	100%
DDM Debt Management d.o.o Beograd	Fully consolidated	Serbia	100%	100%
DDM Debt Romania S.R.L	Fully consolidated	Romania	100%	–

Associates
Associates are all entities over which DDM Holding AG has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Interests in associates are accounted for using the equity method. The carrying amount (including goodwill) of equity accounted investments is tested annually for impairment.

Associates	Consolidation method	Domicile	30 September 2018	31 December 2017
Profinance doo Beograd	Equity method	Serbia	49.67%	49.67%

The goodwill within interests in associates was generated in relation to the acquisition of 49.67% of Profinance doo Beograd in the year 2015. Based on the expected future performance of Profinance doo Beograd, management has recognized an impairment of EUR 0.6M against the carrying amount.

Post-employment benefit commitment
The post-employment benefit commitment is calculated on an annual basis. In 2017 and 2018 one quarter of the estimated annual post-employment benefit commitment has been recorded in the consolidated interim financial statements of DDM Holding AG per quarter, with an adjustment in fourth quarter of each respective year for the final actuarial valuation.

Note 2. Currency translation

All entities prepare their financial statements in their functional currency. At 30 September 2018 all fully consolidated group entities have EUR as their functional currency, except for DDM Debt Management d.o.o Beograd, which has Serbian Dinar (RSD) as its functional currency, and DDM Debt Romania S.R.L, which has Romanian Leu (RON) as its functional currency.

Note 3. Deferred taxes

Income tax expense reported for the business year includes the income tax expense of consolidated subsidiaries (calculated from their taxable income with the tax rate applicable in the relevant country). Income tax expense also includes deferred taxes, which have been recognized on the temporary differences arising from the distressed asset portfolios and other long-term receivables from investments (difference between the reported book values for tax and accounting purposes). Deferred income tax assets on temporary differences and tax losses carried forward are reported to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized. The amount of deferred tax assets is reduced when they are utilized or when it is no longer deemed likely that they will be utilized. The Company does not have group taxation; hence each legal entity is taxed separately. Under Swiss law, net operating losses can be carried forward for a period of up to seven years.

Note 4. Distressed asset portfolios and other long-term receivables from investments

DDM invests in distressed asset portfolios, where the receivables are directly against the debtor, and in other long-term receivables from investments, where the receivables are against the local legal entities holding the portfolios of loans.

Other long-term receivables from investments
DDM owns 100% of the shares in the local legal entities holding the leasing portfolios. However, for each investment there is a co-investor holding a majority stake in the leasing portfolio, and therefore DDM does not control the investment as the co-investor has significant rights which if exercised could block decisions related to relevant activities to collect the portfolios. The economic substance of the investments are the underlying portfolios of loans. As a result, the underlying assets which represent other long-term receivables from investments are recognized in the financial statements. The receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, adjusted for

revaluation and impairment. The fair value of 100% of the equity is immaterial, and therefore equity accounting is not carried out. The following investments are treated in this manner:

Entity	Domicile	30 September 2018	31 December 2017
FinAlp Zrt.	Hungary	100%	100%
Lombard Pénzügyi és Lízing Zrt.	Hungary	100%	100%
Lombard Ingatlan Lízing Zrt.	Hungary	100%	100%
Lombard Bérlet Kft.	Hungary	100%	100%

Distressed asset portfolios and other long-term receivables from investments

Distressed asset portfolios and other long-term receivables from investments are purchased at prices significantly below the nominal amount of the receivables. DDM determines the carrying value by calculating the present value of estimated future cash flows of each investment using its effective interest rate at initial recognition by DDM. The original effective interest rate is determined on the date the portfolio / receivable was acquired based on the relationship between the purchase price of the portfolio / receivable and the projected future cash flows as per the acquisition date. Changes in the carrying value of the portfolios / receivables include interest income on invested assets before revaluation and impairment for the period, as well as changes to the estimated projected future cash flows, and are recognized in the income statement under "Revenue on invested assets".

If the fair value of the investment at the acquisition date exceeds the purchase price, the difference results in a "gain on bargain purchase" in the income statement within the line "net collections". The gain on bargain purchase relates to the fair value measurement of the investment (purchase price allocation).

Cash flow projections are made at the portfolio / receivable level since each portfolio / receivable consists of a large number of homogeneous amounts of receivables. Assumptions must be made at each reporting date as to the expected timing and amount of future cash flows. Cash flows include the nominal amount, reminder fees, collection fees and late interest that are expected to be received from debtors less forecasted collection costs. These projections are updated at each reporting date based on actual collection information, planned collection actions as well as macroeconomic scenarios and the specific features of the assets concerned. Changes in cash flow forecasts are treated symmetrically i.e. both increases and decreases in forecast cash flows affect the portfolios' book value and as a result "Revenue on invested assets". If there is objective evidence that one or more events have taken place that will have a positive impact on the timing or amount of future cash flows, or a negative impact on the timing of future cash flows then this is recorded within the line "Revaluation of invested assets".

On each reporting date, DDM assesses whether there is objective evidence that a portfolio / receivable is impaired. A portfolio / receivable is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event"), and that loss event (or events) has an impact on the estimated amount of future cash flows of the portfolio / receivable and can be estimated reliably. This is recorded within the line "Impairment of invested assets".

If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement (within the line "Impairment of invested assets").

If DDM sells a portfolio / receivable for a higher or lower amount than its carrying value, the resulting gain or loss on disposal is recognized in the consolidated income statement (within the lines "Revaluation of invested assets" or "Impairment of invested assets" respectively).

The carrying values of distressed asset portfolios and other long-term receivables from investments are distributed by currency as follows:

Distressed asset portfolios and other long-term receivables from investments by currency EUR '000s	30 September 2018	31 December 2017
EUR	74,107	53,427
HRK	25,947	27,368
CZK	16,817	19,595
HUF	3,597	5,865
RSD	2,384	2,417
RON	1,836	2,411
RUB	232	329
Total	**124,920**	**111,412**

The directors consider there to be no material differences between the financial asset values in the consolidated balance sheet and their fair value.

Note 5. Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the income statement during the period in which they are incurred.

The major categories of tangible assets are depreciated on a straight-line basis as follows:

Furniture	5 years
Computer hardware	5 years

The Company distributes the amount initially recognized for a tangible asset between its significant components and depreciates each component separately. The carrying amount of a replaced component is derecognized when replaced. The residual value method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate. Impairment and gains and losses on disposals of tangible assets are included in other operating expenses.

Note 6. Intangible assets

(i) Identifiable intangible assets

The Company's identifiable intangible assets are stated at cost less accumulated amortization and include the "FUSION" computer software that was developed in-house in cooperation with external IT consultancy firms that has a finite useful life. FUSION is the proprietary IT system which integrates investment data, case data, payment data and activity data into one effective and comprehensive IT system. This asset is capitalized and amortized on a straight-line basis in the income statement over its expected useful life of 20 years.

(ii) Goodwill

On the date of the acquisition, the assets and liabilities of acquired subsidiaries or businesses are valued at fair value and in accordance with uniform group policies. The excess of the acquisition price over the revalued net assets of the acquired company or the acquired parts of the business is recognized as goodwill in the balance sheet. Goodwill is tested annually for impairment or at any time if an indication of impairment exists.

Note 7. Borrowings

The Group had the following borrowings outstanding during the periods ending 30 September 2018 and/or 31 December 2017:

Bond loan EUR 50M
On 11 December 2017, DDM Debt AB (publ) ("DDM Debt") issued EUR 50M of senior secured bonds at 8% within a total framework amount of EUR 160M. The bonds with ISIN number SE0010636746 have a final maturity date of 11 December 2020 and are listed on the Corporate Bond list at Nasdaq Stockholm. The bonds contain a number of financial covenants. Please refer to the "Bond loan EUR 85M" section below for further details. The net proceeds are for acquiring additional debt portfolios.

Senior secured notes EUR 10M
DDM Finance AB ("DDM Finance") raised EUR 10M in a bridge financing transaction in early November 2017. DDM Finance used the net proceeds from the bridge financing to provide a shareholder loan to DDM Debt. Under the terms and conditions investors receive a share pledge over the shares of DDM Finance, and any downstream loans to DDM Finance's direct subsidiary are pledged to investors as intercompany loans.

On 24 September 2018, the Company reached an agreement to refinance its subsidiary DDM Finance EUR 10M senior secured bonds maturing on November 7, 2018 by way of issuing EUR 12M senior secured bonds through DDM Finance. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged at 8% per annum for another six months.

Revolving credit facility EUR 17M
DDM Debt agreed a super senior revolving credit facility of EUR 17M with a Swedish bank on 28 September 2017. The revolving credit facility is available to finance investments and for general corporate purposes. The facility was for an initial six month term, and was extended for a further six months until 28 September 2018.

Bond loan EUR 85M
EUR 50M of senior secured bonds at 9.5% were issued by DDM Debt on 30 January 2017, within a total framework amount of EUR 85M. The bonds with ISIN number SE0009548332 have a final maturity date of 30 January 2020 and are listed on the Corporate Bond list at Nasdaq Stockholm. The proceeds were used to refinance existing debt within the DDM Group, with the remaining balance of about EUR 10M used for portfolio investments. In April 2017, DDM Debt successfully completed a EUR 35M tap issue under the EUR 85M senior secured bond framework. The bond tap issue was placed at a price of 101.5%, representing a yield to maturity of c. 9%.

DDM Debt's financial instruments contain a number of financial covenants, including limits on certain financial indicators. The financial covenants according to the terms and conditions of the senior secured bonds are: an equity ratio of at least 15.00%, net interest bearing debt to cash EBITDA below 4:1, and net interest bearing debt to ERC below 75.00%. DDM's management carefully monitors these key financial indicators, so that it can quickly take measures if there is a risk that one or more limits may be exceeded. Please also refer to the financial statements of DDM Debt. DDM Debt complied with all bond covenants for the periods ending 30 September 2018 and 31 December 2017.

DDM Debt has pledged the shares in its subsidiaries as security under the terms and conditions. Certain bank accounts are also assigned to the bond agent and the bondholders as part of the bond terms. DDM Finance is a guarantor of the bonds. In addition, the investors receive a first ranking share pledge over the shares of DDM Debt and any downstream loans to DDM Debt's subsidiaries are pledged to the investors as intercompany loans. The terms and conditions of DDM Debt's senior secured bonds contain a number of restrictions, including relating to distributions, the nature of the business, financial indebtedness, disposals of assets, dealings with related parties, negative pledges, new market loans, mergers and demergers, local credits and intercompany loans. The terms and conditions are available in their entirety on our website.

Other loans

In March 2016, DDM was granted loans totaling EUR 4M with maturities within twelve months, in addition to EUR 2M of loans already held. EUR 2M of these loans were repaid during the third quarter of 2016, and EUR 2M was repaid during the first quarter of 2017. The outstanding EUR 2M loan has a maturity date of 1 October 2019.

Bond loan SEK 300M

A bond loan was issued in June 2013, totaling SEK 300M at 13% interest by DDM Treasury Sweden AB ("DDM Treasury"). The bonds were voluntarily fully redeemed by DDM Treasury on 20 February 2017 in connection with the issuance of the EUR 50M bond loan in January 2017 (see "Bond loan EUR 85M" section above for details). In connection with the redemption, the bond holders were paid the applicable call option amount, being 104% of the nominal amount, plus accrued but unpaid interest.

Bond loan EUR 11M

A bond loan totaling EUR 11M was issued by DDM Debt in July 2016. The bond at 13% interest had a maturity date of 15 July 2017 and mandatory repayments during the period. DDM Debt voluntarily fully redeemed the remaining outstanding nominal amount of the bonds of EUR 3.1M plus accrued but unpaid interest on 20 February 2017, in connection with the issuance of the EUR 50M bond loan in January 2017 (see "Bond loan EUR 85M" section above for details).

Maturity profile and carrying value of borrowings:

EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Total
at 30 September 2018						
Senior secured notes	10,000	–	–	–	–	**10,000**
Bond loan, 8%	–	–	48,889	–	–	**48,889**
Bond loan, 9.5%	–	84,051	–	–	–	**84,051**
Loans	–	2,000	–	–	–	**2,000**
Total	**10,000**	**86,051**	**48,889**	**–**	**–**	**144,940**
at 31 December 2017						
Senior secured notes	10,000	–	–	–	–	**10,000**
Bond loan, 8%	–	–	48,597	–	–	**48,597**
Bond loan, 9.5%	–	–	83,569	–	–	**83,569**
Loans	–	2,000	–	–	–	**2,000**
Total	**10,000**	**2,000**	**132,166**	**–**	**–**	**144,166**

Note: Bond loans are initially reported at fair value net of transaction costs incurred and subsequently stated at amortized cost using the effective interest method.

Fair value of borrowings:

EUR '000s	IFRS 9 category	Fair value category	Fair value	Carrying value
at 30 September 2018				
Senior secured notes	Financial liabilities at amortized cost	Level 2	10,000	10,000
Bond loan, 8%	Financial liabilities at amortized cost	Level 2	49,250	48,889
Bond loan, 9.5%	Financial liabilities at amortized cost	Level 2	86,063	84,051
Loans	Financial liabilities at amortized cost	Level 2	2,000	2,000
Total			**147,313**	**144,940**
at 31 December 2017				
Senior secured notes	Financial liabilities at amortized cost	Level 2	10,000	10,000
Bond loan, 8%	Financial liabilities at amortized cost	Level 2	50,000	48,597
Bond loan, 9.5%	Financial liabilities at amortized cost	Level 2	87,975	83,569
Loans	Financial liabilities at amortized cost	Level 2	2,000	2,000
Total			**149,975**	**144,166**

The levels in the hierarchy are:

- Level 1 – Quoted prices on active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly (such as prices) or indirectly (such as derived from prices). The fair value of the bond loans is calculated based on the bid price for a trade occurring close to the balance sheet date.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).

Note 8. Revenue recognition

Revenue on invested assets is the net amount of the cash collections (net of direct collection costs), amortization, revaluation and impairment of invested assets.

Net collections is comprised of gross collections from the distressed asset portfolios and other long-term receivables held by DDM, minus commission and fees to third parties. As the collection procedure is outsourced, the net amount of cash collected is recorded as "Net collections" within the line "Revenue on invested assets" in the consolidated income statement. DDM discloses the alternative performance measure "Net collections" in the consolidated income statement separately, as it is an important measurement for DDM to monitor the performance of the portfolios and measure the cash available for operating expenses and to service its debt. DDM believes that disclosing net collections as a separate performance measure in the consolidated income statement improves the transparency and understanding of DDM's financial statements and performance, meeting the expectations of its investors.

Collection costs are comprised of all expenses directly attributable to the collection of distressed asset portfolios and other long-term receivables from investments, such as collection fees, commission, transaction costs, non-recoverable VAT on amounts collected and Swiss VAT where applicable. The collection costs differ from portfolio to portfolio depending on the country/jurisdiction and the specific features of the assets concerned.

EUR '000s	1 Jul–30 Sep 2018	1 Jul–30 Sep 2017	1 Jan–30 Sep 2018	1 Jan–30 Sep 2017	Full Year 2017
Net collections by country:					
Slovenia	5,750	1,865	12,493	8,324	10,564
Czech Republic	3,340	1,550	9,311	4,895	7,252
Greece	3,314	–	8,512	–	1,958
Croatia	2,334	289	5,441	289	3,592
Romania	955	1,300	3,126	3,813	5,042
Hungary	815	1,558	3,298	7,162	8,365
Serbia	215	–	437	–	111
Russia	21	33	63	143	188
Slovakia	10	16	177	95	362
Bosnia	–	–	70	–	–
Net collections	**16,754**	**6,611**	**42,928**	**24,721**	**37,434**
Amortization of invested assets	(8,679)	(2,007)	(20,804)	(12,597)	(19,164)
Interest income on invested assets before revaluation and impairment	**8,075**	**4,604**	**22,124**	**12,124**	**18,270**
Revaluation of invested assets	(640)	388	(437)	813	808
Impairment of invested assets	(1,095)	(390)	(1,095)	(603)	(603)
Revenue on invested assets	**6,340**	**4,602**	**20,592**	**12,334**	**18,475**
Revenue from management fees	**282**	**297**	**943**	**1,323**	**1,876**

Revenue from management fees relates to revenue received from co-investors where DDM manages the operations of the assets, but does not own 100% of the portfolio. For Hungary these fees are calculated based on the performance of the corresponding portfolio, and for Greece these fees are calculated based on the time spent on portfolio management. The fees from Hungary are received on a monthly basis, one month in arrears.

Note 9. Subsequent events

On 24 September 2018, the Company reached an agreement to refinance its subsidiary DDM Finance EUR 10 million senior secured bonds maturing on November 7, 2018 by way of issuing EUR 12 million senior secured bonds through DDM Finance. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged at 8% per annum for another six months.

During October 2018, DDM acquired an investment in the Balkans of about EUR 6M following regulatory approval and acquired a portfolio in Hungary totaling approximately EUR 1M.

There were no other significant events occurring after the balance sheet date and through the date of issuance of this report.

Definitions

DDM
DDM Holding AG and its subsidiaries, including DDM Group AG, DDM Debt AB (publ) and their subsidiaries.

Amortization of invested assets
The carrying value of invested assets are amortized over time according to the effective interest rate method.

Cash EBITDA
Net collections and revenue from management fees, less operating expenses.

Earnings per share / EPS
Net earnings for the period, attributable to owners of the Parent Company, divided by the weighted average number of shares during the period.

EBITDA
Earnings before interest, taxes, depreciation of fixed assets and amortization of intangible assets as well as amortization, revaluation and impairment of invested assets.

Estimated Remaining Collections / ERC
Estimated Remaining Collections refers to the sum of all future projected cash collections before collection costs from acquired portfolios. ERC is not a balance sheet item, however it is provided for informational purposes.

Equity
Shareholders' equity at the end of the period.

Equity ratio
The ratio of shareholders' equity to total assets at the end of the period.

Impairment of invested assets
Invested assets are reviewed at each reporting date and impaired if there is objective evidence that one or more events have taken place that will have a negative impact on the amount of future cash flows.

Invested assets
DDM's invested assets consist of purchases of distressed asset portfolios and other long-term receivables from investments.

Net collections
Gross collections in respect of the invested assets held by DDM minus commission and fees to third parties.

Net debt
Long-term and short-term loans, liabilities to credit institutions (bank overdrafts) less cash and cash equivalents.

Non-recurring items
One-time costs not affecting the Company's run rate cost level.

Operating expenses
Personnel, consulting and other operating expenses.

Revaluation of invested assets
Invested assets are reviewed at each reporting date and revalued if there is objective evidence that one or more events have taken place that will have a positive impact on the timing or amount of future cash flows, or a negative impact on the timing of future cash flows.

About DDM

DDM Holding AG (First North: DDM) is a multinational investor in and manager of distressed assets, offering the prospect of attractive returns from the expanding Southern, Central and Eastern European market. Since 2007, the DDM Group has built a successful platform in Southern, Central and Eastern Europe, and has acquired 2.3 million receivables with a nominal value of over EUR 3.5BN.

For sellers (banks and financial institutions), management of portfolios of distressed assets is a sensitive issue as it concerns the relationship with their customers. For these sellers it is therefore critical that the acquirer handles the underlying individual debtors professionally, ethically and with respect. DDM has longstanding relations with sellers of distressed assets, based on trust and the Company's status as a credible acquirer.

The banking sector in Southern, Central and Eastern Europe is subject to increasingly stricter capital ratio requirements resulting in distressed assets being more expensive for banks to keep on their balance sheets. As a result, banks are increasingly looking to divest portfolios of distressed and other non-core assets.

DDM Holding AG, the Parent Company, is a company incorporated and domiciled in Baar, Switzerland and listed on Nasdaq First North in Stockholm, Sweden, since August 2014.

ddm

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