# 2013

Year-end Report
Volvofinans Bank AB

VOLVOFINANS

# Message from the President

2013 as a whole was a very successful year for Volvofinans Bank. Profit amounted to SEK 276 million (SEK 234 million in 2012) with a return on equity of 6.8% (5.7), which is one of the best profit levels we have seen in the last 10 years.

This result has been generated by a low interest rate market where STIBOR has been around 1%, a level at which banks generally find it difficult to earn interest on their own capital base. The year has also seen the adoption of a new strategy focusing on car ownership and where our niche position as the "car bank" is stronger than ever. Alongside this, we have further developed our four business areas: The Volvo Card, Sales Finance Cars, Sales Finance Trucks and Fleet Finance. Doing this means that in future we can make our product development more specific, as well as further enhancing the potential for managing and developing profitability within each business area.

Our strong capital base and good liquidity, in combination with our continued increase in deposits from private individuals – making the bank less reliant on market borrowing – have influenced the credit rating agency Moody's opinion of Volvofinans Bank. In February, Volvofinans Bank was upgraded to "stable outlook", a level at which we remained for the rest of the year. In parallel with this, the company has also continued to work very actively on meeting the Swedish Financial Supervisory Authority's strict requirements for Swedish banks by a good margin. As a whole the hard work of the last few years has provided us with good stability and balance, meaning that we can continue to maintain aggressive and reliable product development.

## The financial situation

Generally speaking, 2013 should be characterised as the year of recover for the global finance market. This recovery has been fuelled by the ever-increasing economic activity in the USA over the course of the year, due to factors such as falling unemployment and an increasing willingness to invest in residential construction and stock markets. As usual, in Europe it is Germany that is the financial locomotive. It is pleasing to see some improvements in the crisis-hit countries of Portugal and, in particular, Ireland.

According to the barometer of the National Institute of Economic Research, the Swedish economy has developed positively, from weak economic growth to stronger growth than normal during the fourth quarter. The short-term market interest rate, expressed as STIBOR 3 months, remained unchanged for most of the year at around 1.20%, but the lack of inflationary pressure finally forced the Riksbank to act and end the year with lowering the repo rate in December.

## Our business areas

### Volvo Card


The Volvo Card (Volvokort) is an important contributor to Volvofinans Bank's overall profitability and serves as a method of payment for private and corporate customers at all Volvo dealers. The card is used for repairs, servicing, spare parts/accessories and fuel at the Volvo dealers' "Tanka" chain of service stations. These cards are also offered with VISA for use as a general method of payment outside Volvo dealerships.

In total, 900,000 purchases were made at Volvo dealerships using the Volvo card every month during the year. This means that almost eight million account statements were sent out to car owners, providing the bank, dealers and other business partners with a unique opportunity for selective communication with customers. The Volvo card offers low fuel prices to the customers through Tanka, while also giving them access to a extensive network of service stations with more than 1,000 sites in Sweden thanks to its partner OKQ8. Tanka service stations receive around 12 million customer visits annually, making this a fantastic market place for Volvo dealerships and Volvofinans Bank. The increasing popularity of the card over the year was also demonstrated by the number of new card holders this year being 10% higher than in the previous year.

The target groups for the Volvo card are specifically Volvo and Renault owners, but more generally all car owners in Sweden (four and a half million cars), who need fuel and a car wash. Sweden has one of the oldest car populations in Europe, with 4 out of 10 cars being more than 10 years old. Consequently the Volvo card is not directly affected by the fact that sales of new cars sometimes fluctuate strongly as the card concept is aimed more at the aftersales market.

The Volvo card also offers a card to truck owners for fuel and other vehicle owner services which, besides the credit facility, have the same function as the Volvo cards corporate arrangements for car owners.


### Sales Finance Cars

The total Swedish market for passenger cars fell by just under 4% during the year, from approx. 280,000 to approx. 270,000 cars. From a historical perspective, this is still a strong market for passenger cars, with the Swedish Volvo dealerships' strongest brands of Volvo and Renault among the winners on the market. Volvo had a market share of 20%, in spite of a more expensive and more profitable model mix, with four car models among the six most popular in terms of sales. Renault also launched its low-price brand Dacia on the market in earnest. Renault has had major sales success in Europe in the last few years with Dacia.

Volvofinans Bank's strong partnerships with its general agents, at Volvo and Renault, have presented a number of strong packages to the market, with tailored car ownership solutions being presented to the customers in a very attractive way. Individual financing solutions are becoming less common, something which is also strengthening the competitiveness of Volvofinans Bank. The trend, both internationally and in Sweden, is towards selling a total monthly cost to the customers, and the Volvo dealerships' sales of private leasing have been a major success at those dealerships which have actively marketed the solution. Added to this are the used car sales that take place through Volvo dealerships, which totalled just over 70,000 vehicles.

The bank has a very strong market position within the business area as well as a unique business model. The basic idea behind the business model is that Volvofinans dealers sell and finance – after a credit check – the vehicles to the customers and then transfer the contracts to Volvofinans with collateral in the financed items. The dealers bear the credit risk via recourse agreements while Volvofinans borrows on the market and provides the dealers with access to the financial markets. The low risk weighting we have in our sales financing is thus even lower in practice because Volvofinans Bank is not making any credit losses on this lending. The Volvo dealerships, which almost exclusively comprise the strongest car dealership companies in the area in which they operate, have also continued to boost their balance sheets by producing a better overall performance than the previous year, approx. SEK 725 million.


### Sales Finance Trucks

The truck market in Sweden consists of two large segments: trucks over 16 tonnes, where Volvo and Scania dominate, and light commercial vehicles up to 3.5 tonnes, where the Swedish Volvo dealerships are represented by Ford and Renault, which together have around 20% of the market.

In the heavy goods vehicles market, which fell by approx. 6%, Volvo had a very successful year and ended the period as the market leader with a market share of approx. 44% (1,913 vehicles), compared with Scania which had just over 40% (1,747 vehicles). The launch of a brand new range of models, at the same time as maintaining sales of the old models, is thought to be the reason for the success.

The volumes for Volvo Trucks have gone down as far as Volvofinans Bank is concerned, based on the fact that the bank chose not to prioritise trucks during 2011–2012, instead opting to prioritise car financing. New discussions are currently underway between the parties regarding the development of ownership concepts similar to those for passenger vehicles.


### Fleet Finance

Volvofinans Bank is represented by Svensk Vagnparksfinans within the Fleet business area, where we lease and manage vehicle fleets for all brands. We have long-standing experience of this business, with a customer portfolio of just over 27,000 vehicles and a market share of more than 20%. The concept is targeted at companies with fleets of more than five cars. During the year intensified sales work has led to contracts with the company for approx. 2,000 new cars. This shows that the concept is very competitive and that the customers appreciate the company's services. It is mainly so-called operational leases, where the customer is offered a fixed monthly cost, that are on the increase, and they now account for approx. 70% of all new business. Profitability within this business area during the year has been good and is an important contributor to Volvofinans Bank.

## Our funding

Public deposits, primarily via our savings accounts, continue to increase sharply and totalled SEK 14.3 billion at the end of the year, which represents almost 60% of Volvofinans' financing requirements. The increase in deposits was achieved through initiatives offering attractive savings terms and promotion of the bank as a niche bank. The remainder of the market borrowing is mainly done through bonds, where the attractiveness of Volvofinans Bank is also reflected in the lower funding cost the bank has secured for its new borrowing.

## Financial performance

Profit for the year was SEK 276.2 million, which is 18% better than last year. The profit has primarily been positively affected by strong net interest income, although an increase in net commission and lower costs for credit losses have also had a positive impact. The expansion of the bank's strong liquidity reserve has had a negative impact on the profit, but still strengthened the bank's position. Lending to the public and property, plant and equipment, lease items, totalled SEK 24.0 billion, compared with SEK 24.3 billion in 2012, a drop of SEK 0.3 billion or 1%. This reduction is attributable to the trucks operation. The risks in our borrowing portfolios are still at low levels. The credit losses identified are entirely attributable to the bank's credit card operations, due to the previously described sales financing business model, and totalled SEK 18.3 million for the year. Problem credits for the credit card operations are at a very low level thanks to the sale of receivables for collection in 2012 and our outsourcing of debt collection activities. At the end of the year the liquidity reserve was SEK 5.1 billion, accounting for just over 60% of the bank's total outstanding market borrowing.

## Our capital situation

The capital base, which is wholly made up of core tier 1 capital, remains at SEK 3.1 billion and accounts for 10% of the balance sheet total. The core tier 1 capital ratio with transitional rules was 19%. The Board of Directors of Volvofinans Bank has stipulated that the core tier 1 capital ratio, in addition to official requirements, must at all times be sufficiently high to attract the necessary market borrowing and boost the bank's rating. In quantitative terms this means that the lowest the core tier 1 capital ratio can be is 15%, provided that the level meets the aforementioned criteria.

In light of the bank's good capital situation, even when complying with future framework requirements, it is proposed that all of the profit for 2013 be distributed to the shareholders.

## The future of Volvofinans Bank

With its new, clearer, strategy as the "car bank", Volvofinans Bank has made further progress towards developing niche products together with our closest partners. When it comes to the tough competition associated with developing attractive car models, the software, i.e. the financing, insurance, administration and card products, is becoming increasingly important. Volvofinans Bank has a very close partnership in place not only with Volvo Car Corporation, Volvo Trucks and Renault but also with the Swedish Volvo dealerships. Thanks to our cooperation with the insurance company Volvia, we can create unique system solutions and packages for different customer groups, something which our general car financing rivals are unable to do.

In recent years Volvofinans Bank has built up a strong capital base and liquidity reserve. We are continuing to see good conditions for profit, making us well prepared for the future challenges ahead of us. The car bank now intends to look forward dutifully and foresees great opportunities to hone our product and service development within our niche without jeopardising our stability in any way. There is a wonderful attitude of always wanting to improve at Volvofinans Bank, and to sum up that means as President I'm looking forward to 2014 with great confidence.

Conny Bergström
President
Volvofinans Bank AB

The information contained in this report is that which Volvofinans Bank AB (publ), corporate ID no. 556069-0967, is obliged to publish in accordance with the Swedish Securities Market Act (SFS 2007:528). This report was submitted for publication at 4.15 pm on 21 February 2014.

# Financial reports

## Ownership/Operations

Since its establishment in 1959, Volvofinans Bank has been 50% owned by Swedish Volvo dealerships via their holding company AB Volverkinvest. The Sixth Swedish National Pension Fund (AP-fonden) owns 40% and Volvo Car Corporation (Volvo Personvagnar AB) 10%.

The primary task of Volvofinans Bank is to actively support sales of products marketed by Volvo dealers on the Swedish market by providing product and sales financing, while reporting favourable earnings.

Volvofinans Bank AB is the parent company in a Group with a dormant subsidiary. Based on chapter 7, section 6a of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), as of 31 December 2010 Volvofinans does not prepare consolidated financial statements as activities in the subsidiary are of negligible value.

## Volumes/lending

Sales of new passenger cars in Sweden fell by 4% compared with the previous year. A total of 269,599 (279,899) passenger vehicles were registered. The number of Volvo, Renault and Ford registrations was 76,357 (76,770), and their combined market share was 28% (27).

44% (44) of all passenger car business, new and used, within the Swedish Volvo dealerships generates a financial contract with Volvofinans Bank. New and used vehicle penetration is 49% and 37% respectively. Volvofinans Bank finances the Swedish Volvo dealers' truck sales, apart from those that take place through the AB Volvo-owned Volvo Truck Centre. Penetration for new trucks was 47% (43).

The total contract portfolio (loan and leasing contracts) amounted to 192,689 contracts (193,735). The truck and bus element of the contract portfolio totalled 6,072 contracts (6,471), which is 3% of the total.

The number of corporate customers for whom Svensk Vagnparksfinans manages the car administration has increased. Administration with cost follow-up was being provided for 27,078 (33,869) cars at the end of the reporting period, a fall of 20%.

Goods and services purchased using the Volvo card totalled SEK 10.8 billion and the number of accounts actively purchasing is half a million per month. Goods and services to a value of SEK 463 million were purchased using the 25,000 The Volvo Truck card. The lending volume was SEK 24.0 billion, compared with SEK 24.3 billion in the previous year, a reduction of SEK 0.3 billion or 1%. The truck and bus share of lending was SEK 2.2 billion (2.6), which corresponds to 9% of total lending.

Volvofinans Bank's operating segments are the passenger car market and the truck market. The passenger car market segment includes financing for passenger cars through loans and leases, vehicle administration and the Volvokort credit card. The truck market segment includes financing for trucks and buses as well as the Volvo Truck Card. The operating income, operating profit, number of contracts and lending volume for Volvofinans Bank's lines of business are presented below. Operating income is defined as the net of interest income, interest expenses, leasing net, dividends received, net result of financial transactions, commission income and commission expenses. Expenses are defined as general administration expenses and other operating expenses. Volvofinans Bank is of the opinion that it is not relevant to divide up its liabilities among the various segments. Borrowing is determined by the total requirement and cannot be attributed to a specific segment.

| Jan–Dec 2013 | Cars | Trucks | Total |
|---|---|---|---|
| Number of contracts (average) | 221,370 | 6,219 | 227,589 |
| Lending volume, SEK million (average) | 25,069 | 2,796 | 27,865 |
| Operating income, SEK thousand | 564,628 | 29,706 | 594,334 |
| Expenses, SEK thousand | -275,568 | -14,230 | -289,798 |
| Credit losses, net, SEK thousand | -28,125 | -184 | -28,309 |
| Operating profit, SEK thousand | 260,935 | 15,292 | 276,227 |

| Jan–Dec 2013 | Loans | Leases | Total |
|---|---|---|---|
| Number of contracts | 110,242 | 82,447 | 192,689 |
| Average contract, SEK thousand | 100 | 166 | 128 |
| Collateral value, SEK million | 10,993 | 13,663 | 24,656 |
| Credit utilised, SEK million | 10,241 | 11,766 | 22,007 |
| Borrowing (loan ratio) | 93 | 86 | 89 |
| Market value, SEK million | 13,817 | 12,040 | 25,857 |
| Surplus value, SEK million | 3,575 | 274 | 3,849 |
| Surplus value, % | 35 | 2 | 17 |

## Profit

Volvofinans Bank's profit before credit loss expenses is SEK 304.5 million (269.2). The profit has been positively affected by higher lending margins, lower interest expenses and improved net commission. Lower credit losses also led to an 18% increase in the profit for the year to SEK 276.2 million (234.2).

## Credit risks and credit losses

Credit risk continues to be very low as most of the credit risk for loans and leases is borne by the Volvo dealers. Problem credits are all receivables that are overdue by more than 90 days. Volvofinans Bank's problem credits for credit card receivables totalled SEK 13.2 million (0.4) after the sale of debt collection stock and for loan and lease lending SEK 151.5 million (147.9). With regard to loan and leasing lending, in addition to the collateral in the financed items, there are recourse agreements in place meaning that the dealer bears the credit risk for the majority, SEK 140.0 million. There are no loans for which interest concessions have been agreed and nor has any property been received to provide security for receivables. Confirmed customer losses relate to credit card operations. Anticipated credit loss impairment for the retail segment is determined using statistical risk models and for the corporate segment by means of a manual assessment.

**Amounts in SEK thousand**

| Credit losses, net | 2013 | 2012 |
|---|---|---|
| **Individually valued receivables** | | |
| Write-off of confirmed credit losses for the year | -18,308 | -62,729 |
| Impairment for the year | -8,039 | -2,890 |
| Received from previous years' confirmed credit losses | 1,096 | 80 |
| Reversed provisions no longer required for probable credit losses | 739 | 29,419 |
| Net cost for individually valued receivables for the year | -24,512 | -36,120 |
| **Group valued receivables** | | |
| Impairment for the year | -3,844 | -3,012 |
| Reversed provisions no longer required for probable credit losses | 47 | 4,047 |
| Net cost for grouped valued receivables for the year | -3,797 | 1,035 |
| Total net costs | -28,309 | -35,085 |

## Capital procurement

Deposits from private individuals accounted for most of Volvofinans Bank's capital procurement in 2013. Savings with the bank's e-savings account increased by SEK 2.5 billion (+25%) to SEK 12.7 billion by the end of the year. Total deposits accounted for 59% (51) of the bank's financing. At 31 December 2013, total deposits amounted to SEK 14.3 billion (11.8).

There was good demand for both short-term and long-term market borrowing. At the end of the year, outstanding financing via the bank's market loans programme amounted to a nominal SEK 8.3 billion (8.9). Bonds worth SEK 2.8 billion with maturities of up to five years were issued. The repurchase of own bonds worth SEK 1.9 billion with a short remaining term took place during the year.

In addition to market borrowing, operations were financed through bank loans, in the amount of SEK 1.6 billion (2.3). The proportion of long-term financing with a remaining term of more than one year was 68% (72).

## Financial risks

The bank's operations are continually exposed to a number of financial risks.

Liquidity risk is the risk that Volvofinans Bank's payment obligations cannot be met on maturity without significant costs in terms of the means of payment or – in a worst-case scenario – cannot be met by any means. To deal with liquidity instability, Volvofinans Bank has not only a liquidity reserve, with high-quality liquid securities and unrestricted deposits in another bank, but also agreed credit facilities that can be utilised at short notice.

Deposits with a remaining period of less than one year together with a proportion of borrowing must be covered at all times by the liquidity reserve and unutilised credit facilities.

At 31 December, the liquidity reserve totalled SEK 5.1 billion (3.4) equally divided (50%) between deposits in other banks and holdings in securities. Volvofinans Bank's liquidity reserve must be no less than 5% of lending at all times. At the year-end this proportion was 21% (14). In addition to the liquidity reserve, unutilised available loan facilities totalled SEK 3.9 billion (5.4).

Volvofinans Bank's liquidity coverage ratio at the year-end was 310%, as stipulated by the Swedish Financial Supervisory Authority.

Interest rate risk is the current and future risk that net interest income declines as a result of unfavourable changes in the interest rate. The vast majority of Volvofinans Bank's lending and all borrowing follow the short-term market interest rate, which involves a limited interest rate risk.

Currency risk is the risk of unfavourable changes in exchange rates. All of Volvofinans Bank's lending is in Swedish kronor and any borrowing in foreign currency is hedged, which means the bank is not exposed to fluctuations in exchange rates.

## Rating

Volvofinans Bank has international credit ratings from Moody's Investors Service as follows:

- Short-term financing: P-2
- Long-term financing: Baa2

Following a review completed on 5 February 2013 the bank's ratings were confirmed; at the same time, the outlook was changed from negative to stable.

You will find a detailed analysis from Moody's on our website, volvofinans.se.

## Capital adequacy

Capital adequacy means that capital requirements are connected to the total risk profile of the institute, which in the case of Volvofinans Bank entails a lower minimum capital requirement.

Volvofinans Bank calculates the capital requirement for credit risk using the standardised method, which means that all exposures are allocated to one of fifteen exposure categories with a different risk weighting for each category. Since June 2011, the retail portfolio's credit risk has been calculated in accordance with IRB. The capital requirement for operational risk is calculated using the base indicator method, which means that the capital requirement is 15% of the average operating income for the last three financial years.

## Events after the balance sheet date

No significant events have occurred since the balance sheet date.

## Year-end Report

The report provides a true and fair picture of the bank's operations, position and performance, and describes material risks and uncertainties relating to the bank.

Gothenburg, February 2014

Conny Bergström
President

## Calendar

| | |
|---|---|
| 21 March 2014 | Annual Report |
| 23 May 2014 | Interim Report January–March |
| 12 June 2014 | Annual General Meeting |
| 22 August 2014 | Interim Report January–June |
| 17 November 2014 | Interim Report January–September |
| 20 February 2015 | Year-end Report 2014 |

The reports will be available for viewing on our website: volvofinans.se

If you have any questions, please contact our President, Conny Bergström, on +46 (0)31 83 88 00.

This report has not been the subject of special examination by the company's auditors.

In the event of conflict in interpretation or differences between this interim report the Swedish version, the latter will prevail..

## KPI

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Return on equity, % | 6.80 | 5.68 |
| Risk capital/Balance sheet total, % | 13.15 | 13.71 |
| Operating profit/Risk-weighted assets, % | 1.73 | 1.43 |
| Capital adequacy ratio – with transitional rules | 2.38 | 2.31 |
| Capital adequacy level, % – with transitional rules | 19.06 | 18.50 |
| Core tier 1 capital ratio, % – with transitional rules | 19.06 | 18.50 |
| Credit losses/Lending, % | 0.11 | 0.12 |
| E/I ratio | 0.54 | 0.59 |
| E/I ratio, excl. credit losses | 0.49 | 0.53 |

## Income statement

**Amounts in SEK thousand**

| | 2013 Q4 | 2013 Q3 | 2012 Q4 | 2013 Jan–Dec | 2012 Jan–Dec |
|---|---|---|---|---|---|
| Interest income | 149,292 | 147,943 | 167,309 | 593,590 | 755,122 |
| Lease income | 879,453 | 883,093 | 835,675 | 3,477,151 | 3,269,077 |
| Interest expenses | -157,173 | -158,481 | -186,732 | -645,923 | -854,131 |
| Dividends received | 593 | 713 | 735 | 2,487 | 2,755 |
| Commission income | 87,429 | 83,483 | 80,263 | 333,086 | 321,415 |
| Commission expenses | -5,684 | -6,699 | -4,164 | -21,291 | -18,932 |
| Net result of financial transactions* | -5,006 | -3,942 | -3,235 | -14,618 | -20,499 |
| **Total operating income** | **948,904** | **946,110** | **889,851** | **3,724,482** | **3,454,807** |
| | | | | | |
| General administration expenses | -74,692 | -60,496 | -70,349 | -267,903 | -259,969 |
| Depreciation of property, plant and equipment and amortisation of intangible non-current assets | -791,120 | -791,335 | -746,761 | -3,117,831 | -2,892,077 |
| Other operating expenses | -10,065 | -7,340 | -9,505 | -34,212 | -33,519 |
| **Total operating expenses** | **-875,877** | **-859,171** | **-826,615** | **-3,419,946** | **-3,185,565** |
| | | | | | |
| **Income before credit losses** | **73,027** | **86,939** | **63,236** | **304,536** | **269,242** |
| Credit losses, net | -11,321 | -4,297 | -19,060 | -28,309 | -35,085 |
| **Income before appropriations and tax** | **61,706** | **82,642** | **44,176** | **276,227** | **234,157** |
| Appropriations | - | - | -233,370 | - | -233,370 |
| Tax | -13,939 | -18,181 | 49,178 | -61,134 | -787 |
| **Income** | **47,767** | **64,461** | **-140,016** | **215,093** | **-** |
| | | | | | |
| *Net result of financial transactions | | | | | |
| Interest-bearing securities and related derivatives | -5,006 | -3,942 | -3,235 | -14,618 | -20,499 |
| **Total** | **-5,006** | **-3,942** | **-3,235** | **-14,618** | **-20,499** |

## Balance sheet

Amounts in SEK thousand

| | 31/12/2013 | 31/12/2012 |
|---|---|---|
| Chargeable treasury bills etc. | 1,291,747 | 1,024,689 |
| Lending to credit institutions | 2,585,494 | 1,775,581 |
| Lending to the public | 12,478,791 | 13,087,254 |
| Bonds and other interest-bearing securities | 1,272,558 | 635,347 |
| Shares and participations in associates and other companies | 11,913 | 9,426 |
| Shares and participations in Group companies | 6,740 | 6,740 |
| Intangible non-current assets | 8,756 | 22,586 |
| Property, plant and equipment, inventory | 1,411 | 1,163 |
| Property, plant and equipment, lease items | 11,486,812 | 11,190,510 |
| Other assets* | 676,366 | 795,132 |
| Prepayments and accrued income | 42,641 | 95,204 |
| **Total assets** | **29,863,229** | **28,643,632** |
| | | |
| Liabilities to credit institutions | 1,550,000 | 2,300,000 |
| Deposits and borrowing from the public | 14,265,506 | 11,787,581 |
| Securities issued | 8,314,508 | 8,975,675 |
| Other liabilities* | 756,300 | 751,676 |
| Accruals and deferred income | 834,726 | 858,204 |
| **Total liabilities** | **25,721,040** | **24,673,136** |
| | | |
| Untaxed reserves | 3,443,184 | 3,443,184 |
| **Equity** | **483,912** | **527,312** |
| **Operating profit for the year** | **215,093** | **-** |
| **Total liabilities and equity** | **29,863,229** | **28,643,632** |
| | | |
| * Of which derivative instruments with positive and negative market value | | |
| Derivative instruments with positive market value | 115,407 | 169,073 |
| Derivative instruments with negative market value | -281 | -621 |

## Change in equity

**Amounts in SEK thousand**

| | Share capital | Statutory reserve fund | Retained earnings | Equity |
|---|---|---|---|---|
| Opening equity, 1 January 2012 | 400,000 | 20,000 | 250,012 | 670,012 |
| Net profit for the year | - | - | - | - |
| Total change before transactions with shareholders | - | - | - | - |
| Dividends | - | - | -142,700 | -142,700 |
| **Closing equity, 31 December 2012** | **400,000** | **20,000** | **107,312** | **527,312** |
| | **Share capital** | **Statutory reserve fund** | | |
| Opening equity, 1 January 2013 | 400,000 | 20,000 | 107,312 | 527,312 |
| Net profit for the year | - | - | 215,093 | 215,093 |
| Total change before transactions with shareholders | - | - | 215,093 | 215,093 |
| Dividends | - | - | -43,400 | -43,400 |
| **Closing equity, 31 December 2013** | **400,000** | **20,000** | **279,005** | **699,005** |

## Cash flow statement

| Amounts in SEK thousand | 2013 Jan–Dec | 2012 Jan–Dec |
|---|---|---|
| **Operating activities** | | |
| Operating profit | 276,227 | 234,157 |
| | | |
| **Adjustment of items not included in cash flow** | | |
| Unrealised portion of net result of financial transactions | -14,371 | -20,499 |
| Depreciation, amortisation and impairment | 3,094,561 | 2,888,964 |
| Credit losses | 5,582 | 104,114 |
| Disposal of intangible non-current assets | 3,441 | - |
| Tax paid | -61,134 | -787 |
| | | |
| **Changes in operating assets and liabilities** | | |
| Chargeable treasury bills etc. | -267,058 | -925,003 |
| Lending to credit institutions | -809,913 | 730,357 |
| Lending to the public | 602,045 | 1,459,658 |
| Bonds and other interest-bearing securities | -637,211 | 369,700 |
| Other assets | 172,164 | -98,963 |
| Liabilities to credit institutions | -750,000 | -1,033,800 |
| Borrowing from the public | 2,477,925 | 4,676,939 |
| Securities issued | -661,168 | -4,612,259 |
| Other liabilities | -4,483 | 53,195 |
| **Cash flows from operating activities** | **3,426,607** | **3,825,773** |
| | | |
| **Investing activities** | | |
| Acquisition of intangible non-current assets | - | -8,251 |
| Investments in shares and participations | -2,487 | - |
| Sale/redemption of shares and participations | - | 67 |
| Acquisition of property, plant and equipment | -6,463,201 | -6,339,437 |
| Sale of property, plant and equipment | 3,082,481 | 2,664,547 |
| **Cash flows from investing activities** | **-3,383,207** | **-3,683,073** |
| | | |
| **Financing activities** | | |
| Dividend paid | -43,400 | -142,700 |
| **Cash flows from financing activities** | **-43,400** | **-142,700** |
| | | |
| **Cash flow for the year** | | |
| Cash and cash equivalents at start of year | - | - |
| Cash flows from operating activities | 3,426,607 | 3,825,773 |
| Cash flows from investing activities | -3,383,207 | -3,683,073 |
| Cash flows from financing activities | -43,400 | -142,700 |
| **Cash and cash equivalents at end of year** | **-** | **-** |

## Capital adequacy

Amounts in SEK thousand

| Capital base | 31/12/2013 | 31/12/2012 |
|---|---|---|
| **Core tier 1 capital** | | |
| Equity | 483,912 | 483,912 |
| Share of equity of untaxed reserves | 2,685,683 | 2,685,683 |
| Intangible non-current assets | -8,756 | -22,586 |
| IRB shortfall | -109,144 | -124,797 |
| **Total core tier 1 capital** | **3,051,695** | **3,022,212** |
| **Total capital base** | **3,051,695** | **3,022,212** |
| | | |
| **Risk-weighted assets** | | |
| Credit risk IRB (retail) | 7,774,213 | 6,513,100 |
| Credit risk according to standardised method | 6,627,813 | 6,853,125 |
| Operational risk according to base indicator method | 1,088,613 | 1,045,950 |
| **Total risk-weighted assets** | **15,490,638** | **14,412,175** |
| | | |
| Adjustment for floor rules during the introductory phase of Basel II | 519,188 | 1,920,063 |
| **Total risk-weighted assets** | **16,009,825** | **16,332,238** |
| | | |
| **Capital adequacy without transitional rules** | | |
| Risk-weighted assets | 15,490,638 | 14,412,175 |
| Capital requirement, credit risk IRB (retail) | 621,937 | 521,048 |
| Capital requirement, credit risk according to standardised method | 530,225 | 548,250 |
| Capital requirement, operational risk | 87,089 | 83,676 |
| **Total minimum capital requirement without transitional rules** | **1,239,251** | **1,152,974** |
| Capital adequacy ratio | 2.46 | 2.62 |
| Capital adequacy level, % | 19.70 | 20.97 |
| Core tier 1 capital ratio, % | 19.70 | 20.97 |
| | | |
| **Capital adequacy with transitional rules** | | |
| Risk-weighted assets | 16,009,825 | 16,332,238 |
| Capital requirement, credit risk IRB (retail) | 621,937 | 521,048 |
| Capital requirement, credit risk according to standardised method | 530,225 | 548,250 |
| Capital requirement, operational risk | 87,089 | 83,676 |
| Capital requirement, adjustment for floor rules | 41,535 | 153,605 |
| **Total minimum capital requirement with transitional rules** | **1,280,786** | **1,306,579** |
| Capital adequacy ratio | 2.38 | 2.31 |
| Capital adequacy level, % | 19.06 | 18.50 |
| Core tier 1 capital ratio, % | 19.06 | 18.50 |
| | | |
| **Capital adequacy according to the Basel II standard** | | |
| Risk-weighted assets | 21,717,663 | 22,365,250 |
| Capital requirement, credit risk according to standardised method | 1,650,324 | 1,705,544 |
| Capital requirement, operational risk | 87,089 | 83,676 |
| **Total minimum capital requirement according to the Basel II standard** | **1,737,413** | **1,789,220** |
| | | |
| Capital adequacy ratio | 1.76 | 1.69 |
| Capital adequacy level, % | 14.05 | 13.51 |
| Core tier 1 capital ratio, % | 14.05 | 13.51 |

## Lease income and accumulated net interest

Amounts in SEK thousand

| | 2013 Q4 | 2013 Q3 | 2012 Q4 | 2013 Jan–Dec | 2012 Jan–Dec |
|---|---|---|---|---|---|
| Lease income | 879,454 | 883,093 | 835,675 | 3,477,151 | 3,269,077 |
| Scheduled amortisation | -791,959 | -795,331 | -747,453 | -3,130,150 | -2,880,665 |
| Interest income | 149,292 | 147,943 | 167,309 | 593,590 | 755,122 |
| Interest expenses | -157,173 | -158,481 | -186,732 | -645,923 | -854,131 |
| **Accumulated net interest** | **79,614** | **77,223** | **68,799** | **294,668** | **289,403** |

## Information about derivatives that can be offset

Financial assets and liabilities that are subject to offsetting, and which are covered by a legally binding framework agreement on netting or similar agreement.

Amounts in SEK thousand

| Amounts which are not to be offset in the balance sheet | Net amount of reported financial assets [1] | Net amount of reported financial liabilities [1] | Net amount / Asset (+), Liability (-) |
|---|---|---|---|
| **Derivatives** | **115,407** | **-281** | **115,126** |

[1] No amounts have been reported as net in the balance sheet; there are no securities in the form of cash or financial instruments.

## Fair value assets and liabilities by category

### Assets

Amounts in SEK thousand

| 31/12/2013 | Loan and trade receivables | Financial assets at fair value through the statement of comprehensive income | Investments held to maturity | Derivatives used in hedge accounting | Other assets | Total | Fair value |
|---|---|---|---|---|---|---|---|
| Chargeable treasury bills | - | - | 99,827 | - | - | 99,827 | 99,835 |
| Other chargeable securities | - | 1,191,920 | - | - | - | 1,191,920 | 1,191,920 |
| Lending to credit institutions | 2,585,494 | - | - | - | - | 2,585,494 | 2,585,494 |
| Lending to the public | 12,478,791 | - | - | - | - | 12,478,791 | 12,441,475 |
| Bonds and other interest-bearing securities | - | 1,272,558 | - | - | - | 1,272,558 | 1,272,558 |
| Shares and participations in associated companies | - | - | - | - | 11,913 | 11,913 | - |
| Shares and participations in Group companies | - | - | - | - | 6,740 | 6,740 | - |
| Intangible non-current assets | - | - | - | - | 8,756 | 8,756 | - |
| Property, plant and equipment, inventory | - | - | - | - | 1,411 | 1,411 | - |
| Property, plant and equipment, lease items | - | - | - | - | 11,486,812 | 11,486,812 | - |
| Other assets | 450,255 | 31 | - | 115,376 | 110,704 | 676,366 | 676,366 |
| Prepayments and accrued income | 9,891 | - | - | - | 32,750 | 42,641 | 42,641 |
| **Total assets** | **15,524,431** | **2,464,509** | **99,827** | **115,376** | **11,659,086** | **29,863,229** | |

### Liabilities

| 31/12/2013 | | Financial liabilities at fair value through the income statement | Non-financial liabilities | Derivatives used in hedge accounting | Other financial liabilities | Total | Fair value |
|---|---|---|---|---|---|---|---|
| Liabilities to credit institutions | | - | - | - | 1,550,000 | 1,550,000 | 1,573,104 |
| Deposits and borrowing from the public | | - | - | - | 14,165,506 | 14,165,506 | 14,165,506 |
| Borrowing from the corporate sector | | - | - | - | 100,000 | 100,000 | 101,707 |
| Securities issued | | - | - | - | 8,314,508 | 8,314,508 | 8,438,962 |
| Other liabilities | | 281 | 356,643 | - | 399,376 | 756,300 | 756,300 |
| Accruals and deferred income | | - | 727,677 | - | 107,049 | 834,726 | 834,726 |
| **Total liabilities** | | **281** | **1,084,320** | **-** | **24,636,439** | **25,721,040** | |

## Accounting policies

Volvofinans Bank prepares its reports in accordance with legally limited IFRS, referring to standards that have been adopted for application with the limitations that arise from Recommendation RFR2 and FFFS 2008:25. The Company applies the same valuation and accounting policies as in the latest annual report. See note 33 of the 2012 annual report for a description of the methods used to calculate fair value.

IFRS 7 Financial Instruments: Disclosures has meant additional disclosure requirements for the offsetting of financial assets and financial liabilities. These disclosure requirements apply to all reported financial instruments which are offset in accordance with section 42 of IAS 32, as well as reported instruments which are covered by a legally binding framework agreement to offset, or by a similar agreement, whether or not they are offset in accordance with section 42 of IAS 32.

IFRS 13 Fair Value Measurement represents a new uniform standard for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The new standard has not meant any change to the way in which Volvofinans Bank calculates fair value, nor does it mean that there are any new items which must be measured at fair value.

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