# **Annual Report** // Volvofinans Bank AB

# 2014

VOLVOFINANS

# Increased profitability and improved KPIs

# 7

## Introduction and financial statements



# 27

## Notes




**Production:** Circus PR & reklam, circuscom.se
**Printed by:** Alfredssons


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


// Introduction and financial statements
7

# Message from the President

**January–December 2014 highlights**

- Profit before appropriations and tax: SEK 330.6 million (276.2)
- Return on equity: 8.1% (6.8)
- Lending as at 31 December: SEK 24.8 billion (24.0)
- Credit losses, net: SEK 11.9 million (28.3)
- Core tier 1 capital ratio: 21.9% (19.7)

“The Car Bank now aims to face the future with humility and sees major opportunities to streamline the development of products and services in our niche.”
Conny Bergström

**► Volvofinans Bank's profit for the full year 2014 totalled SEK 330.6 million, an increase of 20% on the same period last year.**

Volvofinans Bank's profit for the full year 2014 totalled SEK 330.6 million, an increase of 20% on the same period last year.

New car sales in Sweden were very strong during the year and the total market grew by 12.7%, and with 303,948 passenger cars registered, 2014 was the seventh best year ever. Once again, Volvo managed to secure its leading position and even managed to increase its market share a little to 20.2%, which strongly reflects an upgraded passenger car programme. Volvo's intensive brand initiatives have been extremely successful and have returned Volvo to its position as one of the country's strongest brands. Among the Volvo dealership's three other brands, Renault, Ford and Dacia, it was the latter that distinguished itself by doubling its market share to 1.6%.

There was also an increase in volumes in the truck market, +8.3% to 4,710 HGVs (>16 tonnes). Volvo was once more the biggest truck brand with a market share of 44.2%, with its strong range of models winning the prestigious battle against Scania.

The positive sales increase, generated by a strong focus on the brand, a strong product range and a very strong sales initiative at the dealerships, has resulted in an increase in turnover for the Swedish Volvo dealers. There are a number of indications that the business's overall profit for 2014 will have reached a new record level. All things being equal, increased sales mean an increase in financing volumes at Volvofinans Bank. Therefore, we can also report that the bank's financial penetration increased by 2.3 per cent during the year, in relation to the financing of new car purchases in the consumer and small business area, the Sales Finance Cars. The factors described above explain the increase in the bank's lending of around SEK 1 billion during the year.

Turnover for the Volvo Card - SEK 11.1 billion - has increased on the previous year, with increased use of the card in connection with service/repairs thus compensating for a slight fall in fuel volumes, which reflect general losses in the market.

The Bank's profit is its highest ever, driven by improved net interest income, which in turn is the result of lower lending costs and increased lending. During the year, Volvofinans Bank has been able to lend continuously at lower and lower credit margins in the bond market. A greater appetite for risk among investors has, in general, put pressure on margins in the market, but some of this can also be explained by greater confidence in Volvofinans Bank as a safe investment alternative. In order to meet our commitments to both supervisory authorities and investors, we have successfully built up a high capital base that consists entirely of the highest quality - equity.

We must of course deliver safe, secure savings and financing solutions for our customers. For example, identity theft, skimming and phishing are some of the security threats that attracted high levels of media attention during 2014. These threats place demands on new implementation of effective security solutions in the bank's IT systems and digital channels, something which we are working intensively on at the bank.

In general, developments are moving rapidly in the field of IT when it comes to Mobile Banking, a trend that Volvofinans Bank is monitoring very closely and for which we have a plan in place. In this area we are working together with our manufacturers in order to make use of their marketing initiatives. This is particularly true in the case of Volvo Cars, where the company is making a major effort to assume a leading position in the mobile area.

Good profitability in the bank is a prerequisite for being able to develop and reinforce our position as market leader. Our chosen niche position as the “Car Bank”, in which we aim to finance and manage our customers' car ownership, defines which part of the market we want to conquer together with our extremely strong brands. Moreover, through our fuel concept, fleet administration and used vehicle financing, we are striving to achieve our vision: “In every driver's thoughts”. We are investing and seeing manageable growth in all businesses.

The world at large is sending out various signals that there will be no growth. We are dealing with all of this within the framework of our risk scenarios, so that we can change course as necessary should this prove to be the case. We would, however, like to view the various injections into the market together with a low oil price as ingredients of our new strategy for a 2015 that will continue to be profitable and successful.

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 20 March 2015.

# Products and services for simple, hassle-free car ownership

## The Volvo Card

▸ **The Volvo Card 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 as a car ownership account for repairs, servicing, spare parts/accessories and to pay for 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, around 900,000 purchases are made at Volvo dealerships using the Volvo Card every month, providing the Bank, the dealers and other business partners with a unique opportunity for selective communication with customers. The Volvo Card offers customers low fuel prices through Tanka, while also giving them access to a network of over 1,000 service stations through its collaboration with partner OKQ8.

The target group for the Volvo Card is Volvo and Renault drivers, but also other car owners in Sweden, whatever car they drive, whenever they need fuel, a car wash, tyres, etc.

During the course of the year the Volvo Card and Tanka have increased their presence on the market by launching a new communication concept that strengthens the relationship with the local Tanka service station.

Exciting integration work is underway as part of Volvo's new generation of vehicles incorporating digital solutions and this will ensure that the Volvo Card occupies a leading position in future mobile Banking.


## Sales Finance Cars

▸ **The Swedish passenger vehicle market was very strong in 2014, reaching a level of 305,000 vehicles.**

Volvo consolidated its market-leading position with a market share of just over 20%, with four of its models featuring in the top six best-selling vehicles. Renault and Dacia increased their market shares during the year. The transport vehicle market also had a strong year, with Renault and Ford occupying good market positions.

In conjunction with the general agents for Volvo and Renault, Volvofinans Bank has continued to develop interesting new package deals for customers over the year, with Private Leasing being much in demand from consumers.

The Bank occupies a very strong market position in sales financing and is based on a business model where the Volvo dealerships have both incentives and credit liability. The basic idea is that the Volvo dealerships – after performing a standard credit check – sell and finance the vehicle to the customer and then transfer the contract to Volvofinans Bank with collateral in the financed item. The dealers bear the credit risk via recourse agreements, while Volvofinans Bank takes care of providing attractive funding, administration, packaging and marketing.

VOLVO INCLUSIVE PRIVATLEASING

RENAULT relax

## Fleet Finance

▸ **Volvofinans Bank is represented in the Fleet business area by Svensk Vagnparksfinans, which provides financing and administration of vehicle fleets with at least five vehicles, regardless of car marque.**

Svensk Vagnparksfinans offers its customers both financial leasing with administration and operational leasing. Operational leasing currently accounts for the majority of new sales. The number of contracts administered at year-end was over 29,000 vehicles, making the company the market leader. Several innovations were introduced during the year, including a popular Shared fuel function that helps to streamline costs.

## Sales Finance Trucks and the Volvo Truck Card

▸ **Volvo became the market leader in the over 16 tonne segment with a market share of 44%. The business model for Sales Finance Trucks is based on the same principles as for passenger cars.**

The haulage industry is seeing increasing demand for leasing solutions – both financial and operational – which gives hauliers greater flexibility in running their businesses. Combined with our well-established financing product Volvo Truck Loan, this enables customers to choose the solution that best suits them and their haulage business. Through our close cooperation with Volvo Trucks and the Volvo dealerships, we are continually producing concepts and products that meet customers' needs for modern solutions.

The Volvo Truck Card is primarily a service market card for servicing, repairs, washing, etc., which is used to simplify truck ownership. Volvo Trucks also provides a range of ancillary services and software, such as Service and Repair agreements that can also be included in the financial solutions or invoiced via the Volvo Truck Card. There is also the option to use the card for diesel through a collaboration with the Swedish Volvo dealer network and Shell Diesel.

# The Swedish Volvo Dealers 2014

### Comprehensive sales network

The Volvo dealerships form a nationwide network of dealers, of which 55 are privately owned and two are listed companies. Together they have some 200 sales outlets and just over 250 workshops. Volvo Cars Sverige AB, the general agent for passenger cars, has ownership interests in three sales companies. Bilia AB, a listed company, owns the largest passenger car company and AB Volvo owns the largest truck company. These listed companies represent about 40% of Volvo and Renault sales in Sweden in the car and truck markets respectively.

The Volvo dealerships comprise a total of 35 owners and ownership groups. Volvo dealership operations have a passenger car division and a truck division. Most of the companies (40) sell passenger cars only, while 18 specialise in truck sales (heavy > 7 tonne trucks) while the remaining two sell both cars and trucks.

### 2014 figures for the Volvo Dealership

Sales through Volvo dealerships totalled approximately SEK 42.0 billion in 2014, with an overall profit of around SEK 1,100 million, compared with the SEK 800 million reported for 2013.

### Broader business

The product range offered by Volvo dealerships is the most comprehensive in the Swedish automotive business. It includes everything from passenger cars and delivery vehicles (Volvo, Renault and Ford) to heavy trucks and buses (Volvo). We are continuing to broaden our business with sales of additional brands via the Volvo dealerships. In recent years, Volvo, Renault, Ford, Dacia, Jaguar and Land Rover have been joined by Hyundai, Mazda, Toyota, Nissan and BMW. Consequently, our access to the market via the Volvo dealerships is wider than before.

### Volvofinans Bank is the Volvo dealership Bank

The Bank's remit is to acquire funds to finance the Volvo dealers' loans and lease contracts and thereby support the Volvo dealers' businesses. Working collaboratively with Volvofinans Bank, the Swedish Volvo dealership is the market leader in vehicle-related services such as financing and credit card operations.

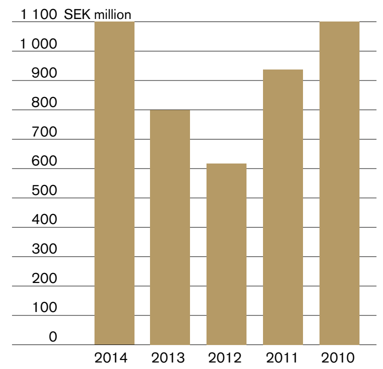
## Volvo Dealerships 2010–2014

### BALANCE SHEET SUMMARY

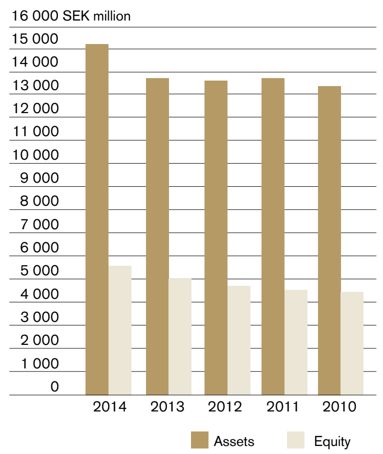
| | Forecast 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Property and equipment | 2,700 | 2,670 | 2,477 | 2,328 | 2,312 |
| Lease vehicles | 2,200 | 2,359 | 2,236 | 2,627 | 2,466 |
| Contractual receivables | 800 | 793 | 639 | 441 | 268 |
| Inventories | 5,400 | 4,920 | 4,479 | 4,602 | 4,380 |
| Other | 4,100 | 3,748 | 3,633 | 3,714 | 3,854 |
| **Total assets (SEK million)** | **15,200** | **14,490** | **13,464** | **13,712** | **13,280** |
| | | | | | |
| Equity and untaxed reserves | 5,600 | 5,032 | 4,787 | 4,581 | 4,452 |
| Non-current liabilities | 3,000 | 3,021 | 3,405 | 3,234 | 2,921 |
| Current liabilities | 6,600 | 6,437 | 5,272 | 5,897 | 5,907 |
| **Total liabilities and equity (SEK million)** | **15,200** | **14,490** | **13,464** | **13,712** | **13,280** |
| | | | | | |
| Loans and leases on Volvofinans' balance sheet (SEK million) | 19,200 | 17,782 | 15,714 | 15,477 | 14,499 |
| Adjusted balance | 34,400 | 32,272 | 29,178 | 29,189 | 27,779 |
| | | | | | |
| **Sales and income** | | | | | |
| Sales (SEK million) | 42,000 | 38,965 | 38,400 | 42,361 | 38,359 |
| **Profit (SEK million)** | **1,100** | **800** | **618** | **931** | **1,100** |
| | | | | | |
| **KPI** | | | | | |
| Return on equity | 20% | 17% | 15% | 20% | 25% |
| Return on total capital | 9% | 8% | 7% | 8% | 10% |
| Equity/assets ratio | 37% | 35% | 36% | 33% | 34% |

Note: Since some dealership annual reports were not available at the time of publication, certain figures for 2014 are taken from forecasts.

**Volvo dealers, income**




**Volvo dealers, assets and equity**



# Report of the Board of Directors

► The Board of Directors and President of Volvofinans Bank AB (publ) hereby submit their report for 2014. Hereinafter referred to as the Bank.

## OWNERSHIP SITUATION

Since its establishment in 1959, the Bank has been 50% owned by Swedish Volvo dealerships via their holding company, AB Volverkinvest. The sixth Swedish National Pension Fund owns 40% and the remaining 10% is owned by Volvo Personvagnar AB.

## MISSION

The Bank shall actively support sales of the products marketed in the Volvo dealership development company, Volvohandeln, on the Swedish market by providing product and sales financing, while reporting favourable earnings.

## GROUP STRUCTURE

The Bank has its registered office in Göteborg, Sweden.

The Bank, Volvo PV Fordonspark AB, Volvohandlarföreningen Ek För and Volvohandelns PV Försäljnings AB – also full partners – jointly own three limited partnership companies, one of which conducts commission sales among the Volvo dealerships in Sweden, the second of which runs a hiring operation for companies within Volvo Personvagnar AB, and the third of which is dormant.

Volvofinans Leasing AB, Autofinans Nordic AB, Automanagement AR AB and Volvofinans IT AB are wholly-owned dormant subsidiaries.

Pursuant to Chapter 7, Section 6a of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), as of 31 December 2010 the Bank does not prepare consolidated accounts, since activities in subsidiaries are of negligible value.

## VOLUMES/LENDING

At the end of the year, there were 200,358 (192,689) contracts in the loan and leasing portfolio, which is a 4.0% increase on the previous year. The size of the portfolio is affected by the market for new passenger vehicles and trucks in Sweden, and by used vehicle sales through the Swedish Volvo dealerships.

The table below shows the Bank's market shares in the form of the inflow of contracts in relation to sales of new Volvo/Renault/Ford vehicles and in relation to used vehicle sales through Swedish Volvo dealerships.

| Penetration, % | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| New cars | 46 | 47 | 51 | 49 | 49 |
| Used cars | 38 | 37 | 35 | 37 | 36 |
| New trucks | 47 | 42 | 43 | 47 | 49 |

The above figures for trucks do not include sales through the Volvo Truck Centre, which is owned by AB Volvo.

The Bank's lending at year-end (including leases) totalled SEK 24.8 billion (24.0), which is a 3.3% increase on the previous year. Lending consisted primarily of leases, loans, contract credits, dealer inventory credits and credit card credits.

The table below shows the percentage distribution of lending by segment compared with the preceding year.

| Sales financing | 2014 SEK billion | % | 2013 SEK billion | % | Change SEK billion |
|---|---|---|---|---|---|
| Cars | 20.9 | 84 | 19.8 | 82 | 1.1 |
| Trucks and Buses | 2.1 | 9 | 2.2 | 10 | - 0.1 |
| Inventory credit | 0.2 | 1 | 0.3 | 1 | - 0.1 |
| Credit card credit | 1.6 | 6 | 1.7 | 7 | - 0.1 |
| Total | 24.8 | 100 | 24.0 | 100 | 0.8 |

Volvo Car Leasing increased by SEK 0.7 billion (11%) and Volvo Car Loan and Volvo Truck Loan increased by SEK 0.4 billion (4%). Contract lending, where Volvo dealers have a credit with an underlying loan or leasing contract as security, has fallen by SEK 56.7 million or 21%.

The credit card credits remained unchanged from last year. Sales through the Volvo Card totalled SEK 11.1 billion (10.8) for the year, with a total of 7.7 million (7.7) invoices/statements of account delivered to customers. Card purchases using the Volvo Card in 2014 totalled 24.7 (24.1) million.

The number of corporate customers for whom Svensk Vagnparksfinans manages car administration has increased over the year. Overall, 29,364 (27,078) cars were administered at year-end.

Sales through the Truck Card are lower than the previous year and, in 2014, goods and services amounting to some SEK 428 million (463) were purchased via the 24,115 (25,000) cards.

## PROFIT

Profit before credit loss expenses was SEK 342.6 million (304.5), which is an increase of 12.5% over the previous year. Depreciation of property, plant and equipment relates primarily to lease items. This was affected by the leasing volumes and the rate of depreciation based on contractual residual values at the end of the lending period.

Net credit losses totalled SEK 11.9 million (28.3); see Note 14.

Despite this, the profit for the year before appropriations and tax totals SEK 330.6 million (276.2), an increase of 20%. This increase in profit is primarily accounted for by improved borrowing margins, higher lending volume and lower credit losses. The Group's return on equity amounted to 8.14 (6.80). The main remit of the Bank is to provide sales support to the Swedish Volvo dealership network, and it should combine this with a long-term return at an acceptable level for the owners.

## CREDIT RISKS AND CREDIT LOSSES

Loan and lease credit accounts for 79% (79) of the Bank's total credit lending for vehicle financing. The dealers have transferred or pledged these with collateral in the form of the vehicle through right of repossession or ownership rights. The dealer bears the ultimate credit risk for these credit contracts where required by the Bank.

The Bank may incur a loss on these contracts in the following instances:

1. The end customer suspends payments.
2. The dealer lacks the means to pay and
3. The market value of the repossessed vehicle is less than the residual value shown in the contract.

At 31 December 2014, loan and leasing contracts were distributed as follows. The unutilised portion of current contracts amounted to SEK 2.8 (2.6) billion at year-end.

Inventory financing that requires 100% collateral represents 1% (1) of total lending and is secured through chattel mortgages, the unutilised portion of the contract portfolio or sureties received.

The remaining financing, which is not guaranteed by dealers, amounts to 21% (21), of which 14% (14) comprises own sales financing and 7% (7) credit card credit.

Total problem credits (i.e. receivables overdue by more than 90 days) are SEK 155.5 million (164.7), comprising SEK 142.8 million (151.5) within Loans and Leases, of which SEK 132.5 million (140.0) relates to agreements whereby the Bank has a right of recourse against the Volvo dealer, and credit card receivables of SEK 12.7 million (13.2), which is equivalent to 0.0% (0.0) of credit card lending.

The value of credit card receivables, which amounts to SEK 1.6 billion (1.7), is reported after impairment of problem credits. The provision is 1,3% (1,4) of the value of the receivables. Risk exposure to private individuals is minimised through low average debt levels. At the end of the year, the average debt per active credit card was SEK 3,904 (4,125).

## CAPITAL PROCUREMENT

Tha Bank's principal objectives for capital procurement activities in accordance with the Group's Financial Policy are:

- To secure the requisite financing for loans.
- To ensure that borrowing is arranged on the best possible terms.
- To ensure that fixed-interest periods for borrowing largely match those for lending.
- To ensure that liquidity risks are minimised as far as possible.

The table below shows the Bank's financing framework and borrowing potential and the extent to which these facilities had been drawn as at 31 December 2014.

| Nominal amounts in SEK million | Limit | Drawn |
|---|---|---|
| Nordic Commercial Paper Programme | 8,000 | 650 |
| Euro Commercial Paper Programme | 4,736 | – |
| MTN programme | 15,000 | 7,595 |
| Short-term financing framework via Banks | 3,900 | – |
| Long-term financing framework via Banks | 1,550 | 1,550 |
| Deposits, public | – | 13,774 |
| Total | 33,186 | 23,569 |

The Bank is largely financed through deposits, primarily from private individuals, but also from the Volvo dealerships. Deposit volumes have fallen during the year as a consequence of increased competition and low interest rates. There was a decrease in deposits via the Bank's online savings account of SEK 1.0 billion during the year, which totalled SEK 11.7 billion (12.7) as of 31 December 2014. Net outflows were at their highest during the first and third quarters, while a net inflow was realised during the fourth quarter. The Bank's total deposits amounted to SEK 13.8 billion (14.3), accounting for 58% (59) of the Bank's financing.

The credit market during the year was characterised by increasing risk appetite and lower borrowing margins. There was very strong demand for the Bank's bond issues. Bonds worth SEK 2.5 billion were issued during the year, with maturities of up to five years. Short-term commercial paper were issued on an on an ongoing basis, with very good demand. At the end of the year, outstanding financing via the Bank's market loans programme amounted to a nominal SEK 8.2 billion (8.3).

| | Number of contracts | Average contract, SEK thousand | Collateral value, SEK million | Credit utilised, SEK million | Borrowing (loan ratio) | Market value, SEK million | Surplus value, SEK million | Surplus,% |
|---|---|---|---|---|---|---|---|---|
| Loans | 113,145 | 100 | 11,341 | 10,633 | 94 | 14,826 | 4,192 | 39 |
| Leases | 87,213 | 166 | 14,468 | 12,399 | 86 | 12,935 | 537 | 4 |
| Total | 200,358 | 129 | 25,809 | 23,032 | 89 | 27,761 | 4,729 | 21 |

In addition to deposits and market borrowing, operations were financed through Bank loans, in the amount of SEK 1.6 billion (1.6). The proportion of long-term financing with a remaining term of more than one year was 67% (68).

The table below shows the maturity structure for the Bank's total financing at 31 December 2014.

| | SEK million | % |
|---|---|---|
| Within 1 year | 3,265 | 33 |
| 1-3 years | 3,980 | 41 |
| 3-5 years | 2,550 | 26 |
| More than 5 years | – | – |
| | 9,795 | 100 |
| No term: | | |
| - Deposits, public | 13,774 | |
| - Equity (including tax portion of untaxed reserves) | 3,973 | |
| **Total** | **27,542** | |

## RATING

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

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

On 29 May 2014, Volvofinans Bank – like many other European Banks – had its credit outlook changed from "stable" to "negative". The reason for the rating agency's decision was entirely a consequence of the EU's new system risk management framework, and more specifically the EU's new Bank Recovery and Resolution Directive.

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

## CORPORATE GOVERNANCE

### Bank's Board of Directors

Members and deputies are elected annually at the Annual General Meeting for the period until the end of the first Annual General Meeting held in the year following the appointment of the directors.

Notice to attend the Annual General Meeting, as well as notices of extraordinary general meetings in which the issue of changes to the articles of association will be taken up, shall be issued at most six weeks and at least four weeks before the Annual General Meeting. Notice of extraordinary meetings shall be issued at most six weeks and at least two weeks before the General Meeting.

The Annual General Meeting does not confer any authority on the Board to decide whether the Bank shall issue new shares or acquire own shares.

The rules of procedure of the Board of Directors have been drawn up in compliance with the requirements of the Swedish Companies Act. The rules of procedure and annexes complement and support the application of the Swedish Companies Act and the other legislation, rules and recommendations that are to be applied within the Bank. The rules of procedure are reviewed annually and updated as required. Updates to the rules of procedure are adopted at the first Board meeting after the Annual General Meeting, or at another Board meeting if required.

The Board convenes at least four times annually (March, June, September and December). Additional Board meetings are convened whenever required. Apart from the Chairman of the Board, Board members have no defined area of responsibility within the Board except for a credit committee, an audit committee and a remuneration committee. The latter deals with senior executive remuneration issues.

Board meeting documentation is distributed one week before the meeting and includes written material with comments on matters to be addressed at the meeting. The agenda enclosed with the notice of the meeting must clearly state the nature and scope of each matter. Minutes of each meeting are kept and include discussions (brief description), measures and decisions.

### Direct and indirect shareholdings in the Bank

Autofinans Nordic AB, Automanagement AR AB, Volvofinans Leasing AB and Volvofinans IT AB are wholly owned dormant subsidiaries. See Note 22.

The Bank owns 33% of Volvohandelns PV Försäljnings AB, 25% of Volvohandelns PV Försäljnings KB, 25% of VCC Tjänstebilar KB and 25% of VCC Försäljnings KB. See Note 21.

At the Annual General Meeting, each shareholder is entitled to one vote for each of the shares they own and represent.

### Internal monitoring

The Bank has a special responsibility through the handling of the clients', suppliers' and partners' money. The large number of transactions means that even small errors may have large financial consequences. Good internal monitoring and quality and security issues shall therefore be the focus in all the Bank's activities, and staff from all departments shall regularly engage in this work. Internal monitoring refers to the Bank's organisation and all procedures that aim to safeguard accurate and complete accounting and ensure that the Bank's resources are allocated in accordance with the intentions of the Board of Directors and the President.

Internal monitoring can be divided into:

- Administrative checks – promote efficiency and ensure that the Bank's resources are allocated in accordance with the intentions of the Board of Directors and the President.
- Accounting checks – ensure accurate and complete accounting.
- Internal IT checks – ensure that functions and procedures, manual and automatic, function in accordance with the prevailing set of rules.

The Bank has three functions that work towards providing support for management so that they can continually provide good and improved internal monitoring in relation to financial reporting.

### Internal auditing

There is an independent audit function within the Bank that shall work according to the Swedish Financial Supervisory Authority's regulations and requirements. The assignment also includes IT auditing. An important assignment for the internal audit is to independently verify that employees are following the policies and rules found in the Bank's directives, guidelines and instructions for financial reporting. The function reports directly to the Bank's Board of Directors.

### Risk control and compliance

Risk control is responsible for continually following up and controlling risks and risk management, as well as regularly proposing improvements with regard to risk management, risk policies, instructions and reports.

Compliance constitutes a support so that the Bank operates according to applicable legislation and regulations and good internal rules as well as good practice and standards.

The work of Risk control and Compliance is audited annually by the Bank's Internal Audit function.

### Control environment

The basic shell of the internal monitoring of financial reporting is constructed around the Bank's directives, guidelines and instructions, as well as the structure of responsibility and authority that has been customised to the Bank's organisation to create and maintain a satisfactory control environment. Policies for internal monitoring are collected in the Bank's IQ handbook, and the directives and guidelines for financial reporting are collected in the Bank's various handbooks.

The established company culture in which managers and employees work is fundamental for the control environment. The Bank works actively on communication and training in relation to basic values, which are described in the Bank's Policy for Ethical Guidelines. Good morale, ethics and integrity shall permeate the organisation.

### Risk assessment

Risks in relation to financial reporting are assessed and monitored by the Board. Assessing the degree of risk that errors will arise in financial reporting is done according to a number or criteria. Complex accounting policies can, for example, result in a risk that the financial reporting may be incorrect for the items covered by such policies. Assessment of a certain asset or liability from different assessment criteria may also involve a risk. The same applies for complex and/or changed business conditions.

### Control activities

The Board of Directors and Management Group constitute the overall control organ for the Bank. More control activities are applied in the ongoing business processes to ensure that any errors or deviations in financial reporting are prevented, discovered and corrected. Control activities range from everything from auditing profit yield at Board meetings to specific account reconciliations and analyses in the ongoing processes for financial reporting. The Bank's management shall ensure that control activities in financial processes are appropriate and in accordance with the Bank's guidelines and instructions. Management shall also ensure that the authorisation structure is designed such that the same person cannot carry out an activity and subsequently check the same activity. Control activities within IT security and maintenance are also an important part of the Bank's internal controls for financial reporting.

### Information and communication

Guidelines and instructions in relation to financial reporting are updated and communicated regularly by management to all affected employees.

### Follow up and monitoring

Ongoing responsibility for following up lies with the management group and accounts department. In addition, the Internal Audit, Risk control and Compliance functions carry out follow up and monitoring of activities. The results of assessment activities are reported to the management and the Board.

## EVENTS AFTER THE BALANCE SHEET DATE

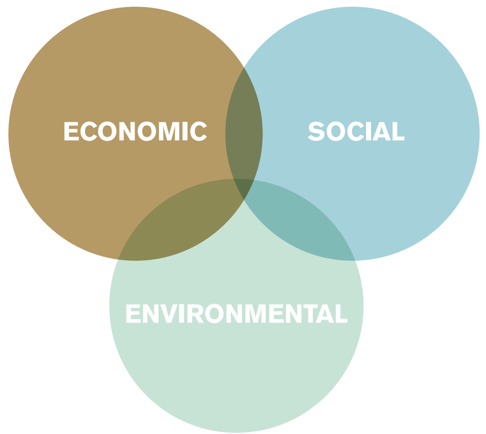
No significant events have occurred since the balance sheet date.

## OUTLOOK FOR FUTURE DEVELOPMENT

Despite all the uncertainty in relation to the economy, the Bank can look forward to a bright future, thanks to the stable ownership of the Bank, a very strong capital base, and well-established, well-functioning business models. Combined with the broadening of our financial services to our many customers, both private individuals and companies, this means there is significant development potential.

## SUSTAINABILITY REPORT

As an initial step in the preparation of a sustainability report, the Bank reports the current situation and how the Bank will further develop its sustainability work in 2015. In terms of the three dimensions of Economic, Social and Environmental sustainability, the Bank already has a strong commitment to sustainable development.




### Economic sustainability

The Bank has strong economic sustainability, as can be seen from its KPIs. The focus here is on maintaining strong KPIs, thereby demonstrating a strong financial foundation. Core tier 1 capital is well above the Swedish Financial Supervisory Authority's standard level. Stable annual profits also demonstrate the economic stability of the Bank. The Bank's liquidity coverage ratio at the year-end was 201%, with an average for 2014 of 219%. The Liquidity Coverage Ratio (LCR) is a short-term measure of liquidity and constitutes an element of reporting to the Swedish Financial Supervisory Authority in respect of liquidity risk. The Bank complies with Swedish anti-money laundering legislation.

The Bank has a responsibility and objective to operate long-term, sound credit provision. The Bank's credit provision is based on an extensive credit check to determine whether the customer fulfils the conditions required in order to repay their debt. In doing so, the Bank contributes to the proper functioning of the credit market. The liquidity risk is discussed on page 40 and the KPIs on page 21.

### Social sustainability
At the end of 2014, the Bank had 193 (186) employees, of which 169 (165) were based in Göteborg. The remainder of the workforce was stationed at our office in Stockholm. The average number of employees was 183 (182). Generally speaking there is a greater proportion of women than men, while at senior executive level, three out of the seven are women. At Board level, the proportion of women is one in six. Appropriate skills represent a key competitive advantage. The development of the workforce is of major strategic significance. In 2014, the Bank launched an internal development programme aimed at developing ten talented members of staff during 2015. The Bank focuses on several activities in the area of health care, such as opportunities for exercise and massage during working hours, subsidies for exercise activities and opportunities for health checks. A sound balance between work and leisure time is conducive to good work performance. More information is available in the Personnel section.

### Environmental sustainability
The Bank shall pursue long-term environmental programmes aimed at minimising its impact on the environment as far as this is technically possible and financially feasible, including in relation to product development. The Bank also contributes to environmental sustainability by financing hybrid and other environmentally friendly vehicles. The Bank also contributes with financing relating to purchases of Renault's electric vehicles and battery rental, as well as AB Volvo's investments in environmentally friendly hybrid buses, including the electric buses set to operate in Göteborg's public transport system in 2015. The Bank also takes responsibility by housing its offices in an environmentally certified building.

## ENVIRONMENT
The Bank shall pursue long-term environmental programmes aimed at minimising its impact on the environment as far as this is technically possible and financially feasible. This will be achieved by:

- conducting operations in compliance with current environmental legislation and other relevant environmental requirements
- working in a preventive manner and striving to attain continual improvements among employees and suppliers
- pursuing an open dialogue with personnel, customers, suppliers and other stakeholders
- capitalising on the commitment and environmental awareness of the workforce
- taking into account the environmental implications in service development programmes and changes in operations

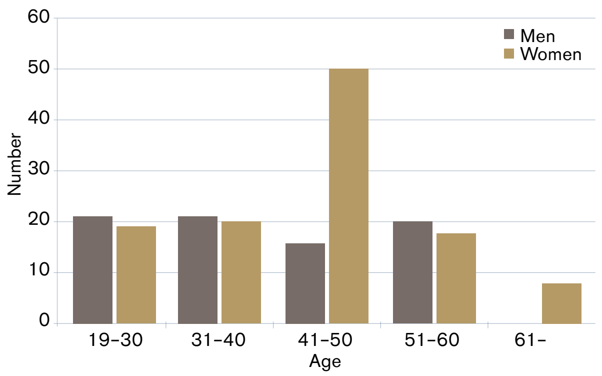
## PERSONNEL
At the end of 2014, the Bank had 193 (186) employees, of which 169 (165) were based in Göteborg. The remainder of the workforce was stationed at our office in Stockholm. The average number of employees was 183 (182).

Appropriate skills represent a key competitive advantage. The development of the workforce is of major strategic significance. It is essential that the Bank invests in skills development to keep pace with rapid changes and cope with advanced technical tasks. Management development remains an important and prioritised aspect.

The Bank has been actively working on its company culture during the year. A strong culture and a happy workforce are a factor for success. A favourable workplace environment is critical for the Bank's profitability as it stimulates performance and personal development. The Bank is aware of the importance of good physical and psychosocial conditions and actively promotes a positive climate.

The Bank focuses on several activities in the area of health care, such as opportunities for exercise and massage during working hours, subsidies for exercise activities and opportunities for health checks. A sound balance between work and leisure time is conducive to good work performance.

Information on salaries and remuneration, etc., is provided in Note 11.




## REMUNERATION
In accordance with the stipulations of the Swedish Financial Supervisory Authority, information relating to the Bank's remuneration policy and its application must be published at least once a year and no later than with the publication of the annual report.

### Preparation and decision
The Bank's Board of Directors has appointed a remuneration committee from among its members, which is tasked with preparing key remuneration decisions and proposing measures consistent with the application of the relevant remuneration policy. The Board has appointed Chairman Urmas Kruusval, Tommy Andersson and Synnöve Trygg as members of the remuneration committee.

An independent control function is involved in the assessment and evaluation process of the Bank's remuneration system. The control function reports the results of its audit to the Board prior to the production of the annual report.

### Risk analysis
A risk analysis must be performed before a decision can be made on the adoption of a remuneration policy, or on other significant changes to the Bank's remuneration system. The risk analysis must identify and take into account risks associated with the Bank's remuneration policy and remuneration system which may result in a worsening of the Bank's profits or financial position in the future. On the basis of the risk analysis, the Bank must identify employees who could influence the Bank's risk level, who are referred to as separately regulated staff.

### Remuneration model
Remuneration and other employment conditions must be competitive in order to ensure that the Bank is able to attract and retain skilled staff who contribute to the long-term growth of the Bank's value.

The Bank's remuneration must promote effective risk management and not encourage excessive risk-taking. The basis of remuneration must be fixed remuneration. In some cases remuneration may be supplemented with a variable portion. Variable remuneration is based on individual goals that have been approved by the Board. Goals based on a profit assessment must use risk-adjusted profit measures.

The Bank may decide that variable remuneration should be forfeit, in whole or in part, where it is subsequently evident that the employee, the profit centre or the Bank has failed to meet the profit criteria. The Bank must also be able to refrain from paying out variable remuneration where its position has deteriorated considerably.

### Variable remuneration
The Bank's intention in the use of variable remuneration is to stimulate employees to achieve set goals that are of particular importance to the Bank. Variable remuneration is paid as a supplement to fixed remuneration for a few positions within the Bank's marketing, trading and customer service functions. Variable remuneration may amount to no more than 20% of the fixed salary. No variable remuneration is paid to members of the Bank's executive management. Nor is such remuneration paid to employees who make decisions about credit/limits or who work within the control functions that deal with compliance, risk control and internal audit.

### Deferred remuneration
For positions that exert a not insignificant influence on the Bank's risk level and that may possibly attract a bonus, 50% of the variable remuneration shall not be paid until three years after the income period.

### Other remuneration
The Bank may, in addition to remuneration in cash, offer employees benefits, such as in the form of a company car or healthcare and fitness benefits. Pension solutions are in line with collective agreements. The Bank may agree special pension and severance conditions.

### Expensed amounts
The total amounts expensed during the financial year for remuneration by staff category and business area are shown in the tables below.

| Staff category* | Fixed remunera-tion (SEK million) | Variable remunera-tion (SEK million) | Number of staff with fixed remu-neration | Number of staff with variable re-muneration |
|---|---|---|---|---|
| Executive management | 8.1 | – | 8 | – |
| Other employees, including other employees who could influence the Bank's risk level** | 76.2 | 0.8 | 175 | 16 |
| **Total** | **84.3** | **0.8** | **183** | **16** |

* The "Executive management" category comprises the President and other members of the company management who are directly answerable to the Board of Directors or the President. The "Other employees who could influence the Bank's risk level" category comprises others who have been defined as separately regulated staff. Those responsible for the Bank's control function are members of the executive management.

** In accordance with the stipulations and general recommendations of the Swedish Financial Supervisory Authority, no quantitative information is provided for staff categories in which there are only a few individuals, for reasons of confidentiality. Quantitative information for the "Miscellaneous Employees" category is therefore reported together with the "Other Employees" category.

| | Total (SEK million) |
|---|---|
| Passenger vehicle market | 81.3 |
| Truck market | 3.9 |
| **Total** | **85.2** |

Expensed remuneration for the financial year amounted to SEK 85.2 million. Variable remuneration was paid entirely in cash. No remuneration was deferred and no variable remuneration has been promised.

There are no expensed amounts in relation to severance pay for the year. There is no additional promised severance pay and no guaranteed variable remuneration in relation to newly appointed staff.

## PROFIT DISTRIBUTION
### Proposed distribution of profits

Amounts in SEK thousand

| | 2014 |
|---|---|
| Retained earnings | 63,912 |
| Net profit for the year | 1,007,271 |
| At the disposal of the Annual General Meeting | 1,071,183 |
| The Board proposes that the amount be distributed as follows: SEK 257,27 per share to be distributed to shareholders | 257,271 |
| **Retained earnings to be carried forward** | **813,912** |

## CAPITAL BASE
The framework for capital adequacy and major risk exposures requires institutes to have a capital base corresponding to at least the total capital requirement for credit risk, market risk and operating risk at all times as well as the calculated capital requirement for additional identified risks in operations in line with the Bank's internal capital assessment process. Following the proposed profit distribution, the capital base totals

SEK 3,026 million (3,052) and the final minimum capital requirement totals SEK 1,104 million (1,239). A specification of the items is presented in "Risk and capital management".

The Board believes that the Bank's equity as reported in the annual report is sufficiently large in relation to the scope and risk of operations.

The earnings and financial position of the Bank are otherwise disclosed in the following statement of comprehensive income, balance sheet and statement of cash flows.

## FIVE-YEAR SUMMARY

| | 2010 | 2011 | 2012 | 2013 | Amounts in SEK million 2014 |
|---|---|---|---|---|---|
| **Condensed balance sheet** | | | | | |
| Chargeable treasury bills etc. | – | 100 | 1,025 | 1,292 | 1,171 |
| Lending to credit institutions | 1,520 | 2,506 | 1,776 | 2,585 | 1,785 |
| Lending to the public | 13,914 | 14,638 | 13,087 | 12,479 | 12,651 |
| Bonds and other interest-bearing securities | – | 1,005 | 635 | 1,272 | 837 |
| Intangible non-current assets | 40 | 29 | 23 | 9 | 6 |
| Property, plant and equipment | 9,238 | 10,391 | 11,192 | 11,488 | 12,196 |
| Shares and participations in the group and in associates and other companies | 59 | 16 | 16 | 19 | 21 |
| Other assets | 659 | 791 | 890 | 719 | 632 |
| **Total assets** | **25,430** | **29,476** | **28,644** | **29,863** | **29,299** |
| Borrowing | 19,692 | 24,019 | 23,064 | 24,130 | 23,602 |
| Other liabilities | 1,595 | 1,577 | 1,610 | 1,591 | 1,724 |
| Subordinated liabilities | 203 | – | – | – | – |
| Guarantee fund loan | 200 | – | – | – | – |
| Untaxed reserves | 3,255 | 3,210 | 3,443 | 3,443 | 2,482 |
| Equity | 485 | 670 | 527 | 699 | 1,491 |
| **Total liabilities and equity** | **25,430** | **29,476** | **28,644** | **29,863** | **29,299** |
| | | | | | |
| **Condensed statement of comprehensive income** | | | | | |
| Interest income | 445 | 746 | 755 | 594 | 516 |
| Lease income | 2,531 | 2,968 | 3,269 | 3,477 | 3,517 |
| Interest expenses | - 364 | - 843 | - 854 | - 646 | - 470 |
| Dividends received | 15 | 4 | 3 | 2 | 3 |
| Commission income | 304 | 305 | 321 | 333 | 345 |
| Commission expenses | - 19 | - 19 | - 19 | - 21 | - 20 |
| Net result of financial transactions | 1 | 3 | - 20 | - 15 | - 4 |
| **Total income** | **2,913** | **3,164** | **3,455** | **3,724** | **3,887** |
| General administration expenses | - 223 | - 224 | - 260 | - 268 | - 269 |
| Other operating expenses* | - 2,406 | - 2,661 | - 2,926 | - 3,152 | - 3,275 |
| Credit losses, net | - 17 | - 17 | - 35 | - 28 | - 12 |
| **Total expenses** | **- 2,646** | **- 2,902** | **- 3,221** | **- 3,448** | **- 3,556** |
| **Income before tax** | **267** | **262** | **234** | **276** | **331** |
| **Net profit**** | **197** | **193** | **173** | **215** | **1,007** |

* Including depreciation/amortisation of property, plant and equipment and intangible non-current assets.
** Net profit refers to profit after standard tax. In 2013, the tax rate was changed from 26.3% to 22%.

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| **KPI** | | | | | |
| Return on equity,% | 7.34 | 6.79 | 5.68 | 6.80 | 8.14 |
| Risk capital/balance sheet total,% | 16.29 | 13.02 | 13.71 | 13.15 | 12.68 |
| Deposits/Lending,% | 10.86 | 28.40 | 48.55 | 59.52 | 55.44 |
| Income/risk-weighted assets,% | 1.29* | 1.46 | 1.43 | 1.73 | 2.40 |
| Return on total assets,% | 0.79 | 0.70 | 0.60 | 0.73 | 3.40 |
| | | | | | |
| Capital adequacy ratio with transitional rules | 1.93* | 2.07 | 2.31 | 2.38 | 2.37 |
| Capital adequacy level with transitional rules,% | 15.43* | 16.58 | 18.50 | 19.06 | 18.97 |
| Core tier 1 capital ratio with transitional rules,% | 14.45* | 16.58 | 18.50 | 19.06 | 18.97 |
| | | | | | |
| Capital adequacy ratio without transitional rules | – | 2.37 | 2.62 | 2.46 | 2.74 |
| Capital adequacy ratio without transitional rules,% | – | 18.99 | 20.97 | 19.70 | 21.93 |
| Core tier 1 capital ratio without transitional rules,% | – | 18.99 | 20.97 | 19.70 | 21.93 |
| | | | | | |
| Net interest/ø lending,% | 1.09 | 1.01 | 1.08 | 1.12 | 1.33 |
| Credit losses/ø lending,% | 0.07 | 0.06 | 0.12 | 0.11 | 0.04 |
| Operating expense/ø lending,% | 1.16 | 1.07 | 1.15 | 1.10 | 1.26 |
| E/I ratio | 0.52 | 0.53 | 0.59 | 0.54 | 0.51 |
| E/I ratio, excl. credit losses | 0.49 | 0.50 | 0.53 | 0.49 | 0.49 |
| E/I ratio, excl. net interest and credit losses | 0.92 | 0.95 | 1.08 | 0.97 | 1.04 |
| Average number of employees | 186 | 174 | 177 | 182 | 183 |

* According to the Basel II standard.

## DEFINITIONS OF THE KPI IN THE LONG-TERM OUTLOOK

**RETURN ON EQUITY**

Income after standard tax divided by the opening adjusted equity.
In the case of the Bank, equity is calculated after a standard tax of untaxed reserves.

**RISK CAPITAL**

The total of equity, guarantee fund loans, debenture loans and tax liabilities in untaxed reserves.

**Risk-weighted assets**

Definition, see page 46.

**Core tier 1 capital ratio, capital adequacy level and capital adequacy ratio**

Definition, see page 46.

**Ø lending**

The average of the preceding year's lending and leasing items.

**E/I ratio**

Operating expense in relation to operating income less depreciation on lease items.

## INCOME STATEMENT

| 1 January – 31 December | 2014 | Amounts in SEK thousand 2013 |
|---|---|---|
| **Operating income** | | |
| Interest income, Note 5 | 515,616 | 593,590 |
| Lease income, Note 6 | 3,517,264 | 3,477,151 |
| Interest expenses, Note 5 | - 470,094 | - 645,923 |
| **Net interest** | **3,562,786** | **3,424,818** |
| | | |
| Dividends received, Note 7 | 2,822 | 2,487 |
| Commission income, Note 8 | 345,550 | 333,086 |
| Commission expenses, Note 9 | - 20,273 | - 21,291 |
| Net result of financial transactions, Note 10 | - 4,281 | - 14,618 |
| **Total operating income** | **3,886,604** | **3,724,482** |
| | | |
| **Operating expenses** | | |
| General administration expenses, Note 11 | - 269,002 | - 267,903 |
| Depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets, Note 12 | - 3,222,350 | - 3,117,831 |
| Other operating expenses, Note 13 | - 52,661 | - 34,212 |
| **Total operating expenses** | **- 3,544,013** | **- 3,419,946** |
| | | |
| **Profit before credit losses** | **342,591** | **304,536** |
| Credit losses, net, Note 14 | - 11,944 | - 28,309 |
| **Operating profit** | **330,647** | **276,227** |
| | | |
| Appropriations, Note 15 | 961,539 | – |
| Tax on income for the year, Note 16 | - 284,915 | - 61,134 |
| **Net profit for the year*** | **1,007,271** | **215,093** |

* Net profit for the year coincides with total comprehensive income for the year.

## BALANCE SHEET

| | 31/12/2014 | Amounts in SEK thousand 31/12/2013 |
|---|---|---|
| **Assets** | | |
| Chargeable treasury bills, etc., Note 17 | 1,170,846 | 1,291,747 |
| Lending to credit institutions, Note 18 | 1,784,781 | 2,585,494 |
| Lending to the public, Note 19 | 12,650,593 | 12,478,791 |
| Bonds and other interest-bearing securities, Note 20 | 837,297 | 1,272,558 |
| Shares and participations in associated and other companies, Note 21 | 14,735 | 11,913 |
| Shares and participations in Group companies, Note 22 | 6,740 | 6,740 |
| Intangible non-current assets, Note 23 | 5,561 | 8,756 |
| Property, plant and equipment, inventory, Note 24 | 1,313 | 1,411 |
| Property, plant and equipment, lease items, Note 25 | 12,194,744 | 11,486,812 |
| Other assets, Notes 25, 26 | 596,242 | 676,366 |
| Prepaid expenses and accrued income, Note 27 | 36,535 | 42,641 |
| **Total assets** | **29,299,387** | **29,863,229** |
| | | |
| **Liabilities and equity** | | |
| Liabilities to credit institutions, Note 28 | 1,550,000 | 1,550,000 |
| Deposits and borrowing from the public, Note 29 | 13,773,551 | 14,265,506 |
| Securities issued, Note 28 | 8,278,759 | 8,314,508 |
| Other liabilities, Notes 26, 30 | 876,180 | 756,300 |
| Accrued expenses and prepaid income, Note 31 | 848,069 | 834,726 |
| **Total liabilities** | **25,326,559** | **25,721,040** |
| | | |
| Untaxed reserves, Note 32 | 2,481,645 | 3,443,184 |
| | | |
| **Equity, Note 33** | | |
| Restricted equity: | | |
| Share capital, (1,000,000 shares, par value SEK 400) | 400,000 | 400,000 |
| Statutory reserve fund | 20,000 | 20,000 |
| Unrestricted equity: | | |
| Retained earnings | 63,912 | 63,912 |
| Net profit for the year | 1,007,271 | 215,093 |
| **Total equity** | **1,491,183** | **699,005** |
| **Total liabilities and equity** | **29,299,387** | **29,863,229** |
| | | |
| Memorandum items | | |
| Pledged assets | – | – |
| Contingent liabilities | – | – |

## CHANGES IN EQUITY

| | Restricted equity | | Unrestricted equity | Amounts in SEK thousand |
|---|---|---|---|---|
| | Share capital | Statutory reserve fund | Retained earnings, incl. net profit for the year | Total equity |
| **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 |
| | | | | |
| **Opening equity, 1 January 2014** | **400,000** | **20,000** | **279,005** | **699,005** |
| Net profit for the year | | | 1,007,271 | 1,007,271 |
| **Total change before transactions with shareholders** | **–** | **–** | **1,007,271** | **1,007,271** |
| Dividends | – | – | - 215,093 | - 215,093 |
| **Closing equity, 31 December 2014** | **400,000** | **20,000** | **1,071,183** | **1,491,183** |

## STATEMENT OF CASH FLOWS

| | 2014 | Amounts in SEK thousand 2013 |
|---|---|---|
| **Operating activities** | | |
| Operating profit | 330,647 | 276,227 |
| **Adjustment for items not included in cash flow** | | |
| Unrealised portion of net result of financial transactions | - 4,281 | - 14,371 |
| Depreciation, amortisation and impairment | 3,232,162 | 3,094,561 |
| Credit losses | 22,123 | 5,582 |
| Disposal of intangible non-current assets | – | 3,441 |
| Tax paid | - 284,914 | - 61,134 |
| **Changes in operating assets and liabilities** | | |
| Chargeable treasury bills and other bills | 120,901 | - 267,058 |
| Lending to credit institutions | 800,713 | - 809,913 |
| Lending to the public | - 191,311 | 602,045 |
| Bonds and other interest-bearing securities | 435,261 | - 637,211 |
| Other assets | 83,616 | 172,164 |
| Liabilities to credit institutions | – | - 750,000 |
| Borrowing from the public | - 491,955 | 2,477,925 |
| Securities issued | - 35,748 | - 661,168 |
| Other liabilities | 137,503 | - 4,483 |
| **Cash flows from operating activities** | **4,154,717** | **3,426,607** |
| | | |
| **Investing activities** | | |
| Investments in shares and participations | - 2,822 | - 2,487 |
| Acquisition of property, plant and equipment | - 7,134,710 | - 6,463,201 |
| Sale of property, plant and equipment | 3,197,908 | 3,082,481 |
| **Cash flows from investing activities** | **- 3,939,624** | **- 3,383,207** |
| | | |
| **Financing activities** | | |
| Dividend paid | - 215,093 | - 43,400 |
| **Cash flows from financing activities** | **- 215,093** | **- 43,400** |
| | | |
| **Cash flow for the year** | | |
| Cash and cash equivalents at start of year | – | – |
| Cash flows from operating activities | 4,154,717 | 3,426,607 |
| Cash flows from investing activities | - 3,939,624 | - 3,383,207 |
| Cash flows from financing activities | - 215,093 | - 43,400 |
| **Cash and cash equivalents at end of year** | **–** | **–** |
| | | |
| **Interest payments in the statement of cash flows** | | |
| Interest received | 508,881 | 583,699 |
| Interest paid | - 402,428 | - 538,873 |

# 27

# Notes

**Notes to the income statement and the balance sheet.**

**Amounts in SEK thousand unless otherwise stated.**

**Volvofinans Bank AB, hereinafter the Bank, operates exclusively in the Swedish market.**

## 1. INFORMATION ABOUT THE BANK

The Bank is 50% owned by the Swedish Volvo dealerships through the holding company AB Volverkinvest, 40% owned by the Sixth Swedish National Pension Fund and 10% owned by Volvo Personvagnar AB. The Bank conducts sales financing activities and credit card operations and has its registered office in Göteborg, Sweden. Its address is Bohusgatan 15, Box 198, SE-401 23 Göteborg, Sweden.

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

## 2. RISK AND CAPITAL MANAGEMENT

### Background

Volvofinans Bank AB (publ), corporate ID number 556069-0967, is covered by Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and by Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms.

The new regulations have also been incorporated into Swedish law, while a large number of stipulations and general recommendations have also been issued by the Swedish Financial Supervisory Authority.

This annual report provides the information required by the above legislation and stipulations.

On 14 April 2011, the Swedish Financial Supervisory Authority (Finansinspektionen, FI) approved the Bank's IRB application to allow the calculation of capital requirements for credit risk using internal models (IRB) for household exposures and non credit-obligation asset exposures. At the same time, the Bank was given permanent exemption to use the standardised method for exposures to the Swedish government, Sweden's RiksBank and Swedish municipalities, as well as for the exposure categories of state and institutional exposures. The Bank was also given temporary permission to use the standardised method for portfolios that are insignificant in size until 31 December 2016. In 2014, the Bank was given permission from the Swedish Financial Supervisory Authority to use internal risk classification (basic) for the Bank's corporate exposures.

### Risk management

The Bank's risk management process, for which the Board of Directors has overall responsibility, aims to identify and analyse the risks faced by the Bank in its activities and determine an appropriate risk appetite (limits) and put effective internal monitoring systems in place. Risks are monitored and inspections are conducted regularly to ensure that limits are not exceeded. Risk policies and risk management systems are reviewed regularly to ensure they are appropriate and reflect current market conditions and the products and services offered. By means of training and clear processes, the Bank creates the conditions for reliable risk control, in which each employee understands his/her role and responsibility.

The Bank has an integrated function for independent risk control that reports directly to the President. The task of the Risk control function is to analyse the development of the risks and, if necessary, propose changes to control documents and processes. The function is also responsible for the design, implementation, reliability and monitoring of the Bank's risk classification system. A number of RCS coordinators were appointed by the function and these are responsible for the company's management of issues relating to risk, compliance and security within their respective areas. These people therefore represent the contacts for the function at the company.

### Risk Strategy

The Bank's risk strategy and risk appetite shall:

- be an instrument of control in order to achieve the Bank's strategic objectives
- take into account the Bank's unique business model in the Swedish Volvo dealership network
- take into account the Bank's position of being perceived as the "Car Bank"
- be adapted to the Bank's different business areas
- be systematic, structured and permeate the entire organisation

The Bank has identified the following risk categories as being the most important in terms of achieving the strategic objectives:

- Credit risk
- Operational risk
- Concentration risk (credit risk)
- Interest rate risk
- Counterparty risk
- Liquidity risk
- Reputational risk
- Strategic risk
- Residual value risk

The Bank's overall risk strategy is based on the continuous analysis of the various risk factors to which the Bank is exposed in its operations. These risk factors can be broadly divided into:

- risks that the Bank is willing to accept, as they may contribute to higher returns or the achievement of objectives
- risks that the Bank attempts to minimise, as they cannot be expected to contribute to higher returns or the achievement of objectives

Credit risk, concentration risk (credit risk) and residual value risk all belong in the first category and are to be optimised within the risk appetite established by the Board of Directors in order to achieve the strategic objectives.

Operational risk, interest rate risk, counterparty risk, reputational risk, liquidity risk and strategic risk belong to the second category, for which the Bank has a low risk appetite. The costs of managing these risks must be proportionate to the direct or indirect losses that may be incurred should the risk be realised.

All risks must be managed in both a preventive and reactive manner through good risk management as the first line of defence and good risk control as the second line of defence. The risk control function regularly follows up all risks and ensures that they remain within the specified risk appetite.

The Bank's risk management must include preventive measures aimed at reducing and preventing risks and damage. The risk in the products and services offered by the Bank must be weighed against the economically justifiable expected return. In order to achieve good profitability and at the same time maintain an acceptable risk level, operations must utilise and integrate the results of the Bank's internal capital and liquidity assessment (IKU). The potential consequences from a risk and capital perspective must be taken into account in major business decisions.

### Risk appetite

**Overall risk appetite**

The Bank's overall measure of risk appetite is based on the total capital ratio, which must be at least 18.5%. The Bank's core tier 1 capital ratio must also be at least 13.8%.

**Credit risk**

Credit risk refers to the risk that the Bank's counterparties may, for some reason, fail to fulfil their contractual obligations in respect of payment. These contracts may include various forms of monetary loans, leases, guarantees, investments or derivative agreements.

The Board has the overall responsibility for the Bank's credit risk exposure. Using special instructions within certain frameworks, the Board has delegated responsibility to various executives.

The Bank's credit provision is characterised by stringent targets in terms of ethics, quality and control. Although credit risk constitutes a major risk exposure, the Bank's credit losses in relation to outstanding credit volumes are minimal.

Credit provision among Volvo dealers takes place following a credit risk assessment using the Bank's credit rating tool, VF Score. VF Score produces a risk classification of a customer by processing the financial and internal credit information it has about the customer through a proprietary scorecard and rules. The tool produces a credit recommendation for approval, review or rejection based on the rules and points scored. Based on the recommendation and other known information about the customer, a credit decision is made to the effect that credit is either granted or refused by the instance that is entitled to make the decision in accordance with each unit's credit granting instructions.

Credit provision for loans and leases shall be selective insofar as credit customers must be of such high quality that credit losses can be kept at a consistently low level. Quality requirements must never be disregarded in an effort to attain a high credit volume. Credit provision, for which the Bank assumes a direct risk vis-à-vis the counterparty, consists primarily of car fleet financing through finance or operating leases for medium-sized and large companies. As the focus is on credit quality, business is only concluded with financially stable companies following detailed credit checks. The Bank's credit rating system, VF Score, also has a scorecard and rules for the expert assessment of large companies.

The Bank's routines for monitoring payments that are due and unsettled receivables are aimed at minimising credit losses by identifying payment problems among borrowers early on and promptly managing dunning matters. Special dunning processes automatically monitor payments and provide notification when dunning action is required.

**Quantifying credit risk**

The Bank uses an internal risk classification system to measure credit risk. The system is based on models that measure credit risk on the basis of three factors: Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). A default is defined as being where a counterparty is more than 90 days late with a payment or where the institute has made an earlier assessment that the counterparty will not be able to fulfil its commitments. Moreover, a Conversion Factor (CF) is computed for calculating the amounts for off-balance sheet exposures. Statistical scoring models have been used since January 2007 for household exposures (private individuals and small and medium-sized limited companies), while an expert-based model was introduced at the end of 2007 for company exposures (companies with revenues in excess of SEK 400 million or exposure at Volvofinans of over SEK 5 million).

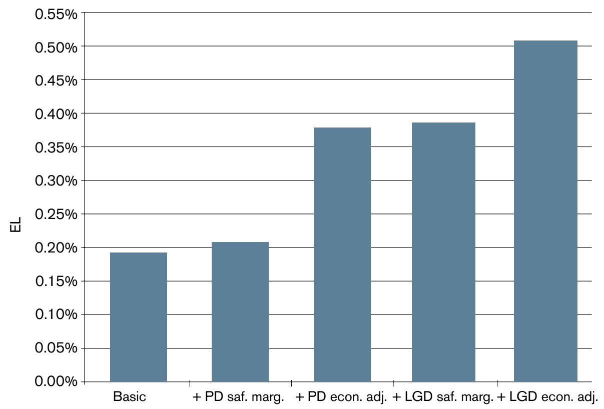
For household exposures, the risk of default is calculated for each individual exposure using statistical risk models, which are a component of risk modelling. Each exposure is allocated a risk category in PD on the basis of the individual risk estimate. A risk category therefore consists of a number of exposures with similar risk profiles and risk levels, which have also undergone a standardised risk process. The Bank refers to this process as risk classification.

Product categories are used in the LGD and EAD risk aspects. For LGD, there is an underlying risk category structure for certain products, based on the level of borrowing for example. The level of loss in the financing portfolio is estimated for the end customer. This is in spite of the fact that the Bank has recourse agreements with each dealer. This recourse means that the dealer takes over the debt when a payment becomes 180 days overdue. The Bank has only suffered negligible credit losses in these portfolios, primarily because of the aforementioned business model.

A risk estimate is calculated for each risk category or product category, which describes the average risk for the risk category. The risk estimate for the risk category includes a safety margin designed to take into account uncertainty in the data, data quality and data access. The risk estimate for the risk category is adjusted in line with the prevailing economic conditions. PD should reflect the average of a business cycle and LGD/CF should mirror a recession. The Bank defines the period from the early 1990s onwards as a complete business cycle. The method used by the Bank to adjust for economic conditions with regard to PD is intended to keep the PD of the portfolios in the respective IRB sub-portfolio at a constant level. This means that the adjustment factor changes over time, with the proviso that it can never fall below 1. The measure used for unfavourable economic conditions is the years of crisis in the early 1990s. The Bank refers to the above process as risk category estimation. All the Bank's models fulfil the requirements of the regulations for at least five years of outcome data. In its risk category estimation, the Bank has made very conservative projections and applied large safety margins for both basic estimates and estimates adjusted for economic conditions. This is in order to ensure that the estimates used for capital adequacy do not result in the credit risk being underestimated.

The chart below provides an overview of how expected loss (EL) for the Bank's household exposures is affected by the different adjustments applied to PD and LGD. The diagram shows that the final estimate is more than 100% larger than the basic estimate.

**Comparison with external rating agencies**



The relationship between an external credit rating agency's rating (Standard & Poor's) and the Bank's own risk categories for PD is shown in the table below. The comparison is only indicative and is not intended to represent any binding relationship between the internal risk categories and Standard & Poor's rating.

| Internal risk category | Indicative rating according to Standard & Poor's |
|---|---|
| 1 | AAA to A- |
| 2 | BBB+ to BBB- |
| 3–4 | BB+ to B+ |
| 5–6 | B to B- |
| 7 | CCC/C |
| Default | D |

**Average risk weight per exposure category**

**Household exposures**

The table below shows the average risk weight per risk category for household exposures ("Other" subgroup). The table shows the reported exposure of the risk category as well as the exposure amount, taking into account the conversion factor (CF).

| Risk category | Reported exposure | Amount of exposure | Risk-weighted amount | Risk weight as a% |
|---|---|---|---|---|
| 1 | 8,133,641 | 13,553,282 | 1,819,677 | 13.43% |
| 2 | 4,443,977 | 6,677,429 | 1,719,930 | 25.76% |
| 3–4 | 2,963,037 | 3,449,594 | 1,384,882 | 40.15% |
| 5–6 | 861,354 | 923,889 | 494,207 | 53.49% |
| 7 | 159,561 | 163,726 | 88,616 | 54.12% |
| Defaulted | 101,749 | 108,119 | 94,129 | 87.06% |
| **Total** | **16,663,318** | **24,876,038** | **5,601,441** | **22.52%** |

* According to the "Total sum of all exposures without taking credit risk protection into account" table, the total amount of household exposures is SEK 26.3 billion compared with SEK 24.9 billion shown above. For the higher amount, the CF is calculated at 100% and, for the lower amount, the CF is calculated at 87% for Private individuals and 84% for Companies.

**Corporate exposures**

The table below shows the average risk weight per risk category for Corporate exposures, basic internal method.

| Risk category | Reported exposure | Amount of exposure | Risk-weighted amount | Risk weight as a% |
|---|---|---|---|---|
| 1 | 2,553,746 | 2,574,281 | 1,126,199 | 43.75% |
| 2 | 1,274,437 | 1,289,212 | 1,120,523 | 86.92% |
| 3–4 | 860,488 | 874,566 | 1,052,614 | 120.36% |
| 5–6 | 219,597 | 219,597 | 397,260 | 180.90% |
| 7 | 5,261 | 5,261 | 8,687 | 165.13% |
| Defaulted | 28,385 | 28,385 | 0 | 0.00% |
| **Total** | **4,941,915** | **4,991,302** | **3,705,283** | **74.23%** |

* According to the "Total sum of all exposures without taking credit risk protection into account" table, the total amount of corporate exposures is SEK 5.4 billion compared with SEK 5.0 billion shown above. The higher amount includes some off-balance sheet commitments.

**Validation**

One of the most important elements of an internal risk classification system is the validation of the system. Validation is performed at least once a year and Risk control is responsible for the validation process and for performing this function.

The validation process must include a documented qualitative analysis and assessment of the design and application of the risk classification systems. A quantitative validation is performed on the accuracy of the model and it must be ensured that there are no systematic deviations. The results and conclusions from the validation are reported to the Board of Directors.

The table below shows predictions and outcomes (EL and LGD are average exposure-weighted, while PD is quantity-weighted). The large difference between prediction and outcome is the result of the various conservative projections that the Bank used while developing the model.

| Prediction and outcome for IRB-approved exposures Exposure category | EL Prediction | PD Prediction | PD Outcome | LGD Prediction | LGD Outcome |
|---|---|---|---|---|---|
| Households, Other | 0.51% | 1.11% | 0.52% | 33% | 15% |
| Company | 0.69% | 1.31% | 0.49% | 45% | N/A* |

* Prescribed values for LGD are used for corporate exposures (basic internal method).

## Other areas of application for the risk classification system

The risk classification system forms an integrated part of governance, the credit process, risk management and internal capital allocation. The Bank system also uses impairment, risk-adjusted pricing and market measures.

## FUTURE REGULATIONS

The Swedish Financial Supervisory Authority has decided that Banks need to publish information about their internally assessed capital requirements as of the balance sheet date of 31 March 2015.

The Swedish Financial Supervisory Authority has decided that the countercyclical capital buffer for Sweden is to be activated and set at 1 per cent. This countercyclical capital buffer shall apply as of 13 September 2015. The countercyclical capital buffer will be increased when the total growth in credit is considered to bring about systemic risk. The buffer is activated during boom periods, when there is high credit growth. In bad times, which can arrive quickly and without warning, when there is a shortage of capital, the buffer is deactivated or reduced. As a rule of thumb, the buffer will vary between 0 and 2.5%. The Swedish Financial Supervisory Authority will stipulate the countercyclical capital buffer in Sweden for each quarter.

The current floor rules in the internal method for credit risks (Basel I floor) will remain in place up to and including 2017. As the Bank calculated risk-weighted assets using the Basel II standardised approach, the Bank is allowed to calculate its floor rules using the standardised approach instead.

Work is currently underway at international level in relation to future capital requirements, with the Basel Committee conducting a comprehensive review in order to improve the comparability of the Banks' capital measures. This work involves discussions on future standardised approaches for calculating capital requirements for credit, market and operational risks. The Basel Committee proposes the possible introduction of a capital floor based on the standardised approach for those Banks that use internal models. However, there is still a great deal of uncertainty with regard to the formulation of the new regulations and the date of their implementation, meaning that it is currently too early to draw any conclusions about the possible impact on the Bank.



At the end of 2014, the Swedish Financial Supervisory Authority presented its proposals for standardised approaches for Pillar 2 risks, including concentration risks and interest rate risks. The Swedish Financial Supervisory Authority will apply these during 2015. It is also likely that the capital requirements for the above risks will be clarified.

The European Commission has decided that the implementation of the LCR requirement will take place from 1 October 2015, with the Member States phasing in the LCR requirement at the previously suggested rate (60%/80%/100% each year). Individual Member States cannot change the 1 October date, but may nevertheless require more rapid implementation (e.g. 100% from 1 October).

There will be additional reporting with regard to liquidity in 2015.

An evaluation of gross solvency (leverage ratio) is underway. The introduction of any minimum requirement is expected to take place in 2018. The Bank's gross solvency at 31 December 2014 was 10.2%. A requirement to publish the measure of gross solvency was nevertheless introduced from 1 January 2015.

## CREDIT EXPOSURE

The Bank's maximum exposure to credit risk is presented below by class of financial instrument. The term "maximum credit exposure" includes undrawn credit card limits and 20% of undrawn dealer limits. There are no other loan pledges. For derivative instruments, an additional amount is calculated based on the term, the nature of the risk and the nominal amount. This is done for all derivative contracts, both those with positive and those with negative market values.

### Total amount of all exposures irrespective of credit risk protection

All exposures are within Sweden.

| Credit risk according to standardised method | 2014 | 2013 |
|---|---|---|
| Exposures to governments and central Banks | 150,981 | 162,326 |
| Exposures to municipalities and comparable public bodies and authorities | 1,204,808 | 1,341,239 |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | 4,830 | 5,668 |
| Institutional exposure* | 1,876,344 | 2,721,613 |
| Corporate exposures | 341,528 | 5,926,220 |
| Household exposures | 425,706 | 423,604 |
| Unsettled items | 25,399 | 73,754 |
| Covered bonds | 837,297 | 1,272,558 |
| Share exposures | 21,475 | – |
| Other items | 9,821 | 10,833 |
| **Total according to the standardised method** | **4,898,189** | **11,937,815** |
| | | |
| **Credit risk according to IRB** | | |
| Corporate exposure | 5,395,145 | – |
| Household exposures | 26,321,290 | 25,216,384 |
| Non-credit-obligation asset exposures | 2,217,925 | 2,200,450 |
| **Total according to IRB** | **33,934,360** | **27,416,834** |
| **Total credit risk** | **38,832,549** | **39,354,649** |

* SEK 3.4 million (7.3) of which is add-on.

### Total amount of all exposures with credit risk protection taken into account

As presented in the table above, the Bank's total credit risk exposure amounts to SEK 38,833 million (39,355) irrespective of credit risk protection. The recourse agreements with the dealers reduce the credit risk considerably. The right of recourse is to the amount of SEK 19,272 million (18,356). The Bank also has securities for trade and loan receivables in the form of guarantees to the amount of SEK 629 million (629), chattel mortgages of SEK 263 million (284), property mortgage certificates for SEK 2 million (5) and pledged loans and leases for SEK 2,107 million (2,112). The Bank's total exposure to credit risk, with credit risk protection taken into account, is thus SEK 16,559 million (17,970).

The Bank does not use credit risk protection to reduce the capital requirement.

### Reconciliation of carrying amounts on the balance sheet

The table below presents a reconciliation of the carrying amounts of assets on the balance sheet and the amounts disclosed in the previous table as exposures irrespective of credit risk protection.

| | 2014 | 2013 |
|---|---|---|
| Total assets as per the balance sheet | 29,299,387 | 29,863,229 |
| **Additional items** | | |
| Total impairment | 57,016 | 52,265 |
| Undrawn limits accounts receivables | 9,918,998 | 9,797,312 |
| Undrawn limits lending to Volvo dealers | 246,935 | 172,375 |
| Price increase for counterparty risk in a derivative | 3,378 | 7,286 |
| **Outgoing items** | | |
| Non-credit-obligation asset exposures* | - 687,604 | - 529,062 |
| Intangible non-current assets | - 5,561 | - 8,756 |
| **Total** | **38,832,549** | **39,354,649** |

* Adjustment of the carrying amount of lease items that do not give rise to any exposure in capital adequacy reporting.

### Average exposure for the period

| Credit risk according to standardised method | 2014 | 2013 |
|---|---|---|
| Exposures to governments and central Banks | 152,234 | 188,993 |
| Exposures to municipalities and comparable public bodies and authorities | 1,243,427 | 1,155,543 |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | 5,124 | 5,397 |
| Institutional exposures | 1,417,100 | 2,456,897 |
| Corporate exposures | 355,326 | 6,066,528 |
| Household exposures | 436,446 | 431,223 |
| Unsettled items | 16,064 | 74,027 |
| Covered bonds | 985,145 | 942,572 |
| Share exposures | 19,359 | – |
| Other items | 10,284 | 10,802 |
| **Total according to the standardised method** | **4,640,509** | **11,331,982** |
| | | |
| **Credit risk according to IRB** | | |
| Corporate exposure | 5,516,968 | – |
| Household exposures * | 25,831,686 | 25,102,477 |
| Non-credit-obligation asset exposures | 2,347,079 | 2,308,663 |
| **Total according to IRB** | **33,695,733** | **27,411,140** |
| **Total** | **38,336,242** | **38,743,122** |

* In terms of Household Exposures, the Bank has exposures in the "Small and medium-sized enterprises" and "Other household exposures" subgroups.

## Distribution of exposures by branch and exposure category

| 2014 | Trade: repair of motor vehicles | Transport and warehousing | Operations within legal, finance, etc. | Other | Total |
|---|---|---|---|---|---|
| Exposures to governments and central Banks | – | 30 | 829 | 150,122 | 150,981 |
| Exposures to municipalities and comparable public bodies and authorities | – | – | – | 1,204,808 | 1,204,808 |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | – | – | – | 4,830 | 4,830 |
| Institutional exposures | – | – | – | 1,876,344 | 1,876,344 |
| Corporate exposures, standardised and IRB | 1,204,538 | 1,318,040 | 1,307,875 | 1,906,220 | 5,736,673 |
| Household exposures, standardised and IRB | 986,354 | 1,384,221 | 869,631 | 23,506,790 | 26,746,996 |
| Unsettled items | 13,272 | 4,388 | 2,665 | 5,074 | 25,399 |
| Covered bonds | – | – | – | 837,297 | 837,297 |
| Share exposures | – | – | – | 21,475 | 21,475 |
| Other items | – | – | – | 9,821 | 9,821 |
| Non-credit-obligation asset exposures IRB | – | – | – | 2,218,671 | 2,218,671 |
| **Total** | **2,204,164** | **2,706,679** | **2,181,000** | **31,741,452** | **38,833,295** |

| 2013 | Trade: repair of motor vehicles | Transport and warehousing | Operations within legal, finance, etc. | Other | Total |
|---|---|---|---|---|---|
| Exposures to governments and central Banks | – | 30 | 1,043 | 161,253 | 162,326 |
| Exposures to municipalities and comparable public bodies and authorities | – | – | – | 1,341,239 | 1,341,239 |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | – | – | – | 5,668 | 5,668 |
| Institutional exposures | – | – | – | 2,721,613 | 2,721,613 |
| Corporate exposures | 1,258,330 | 1,404,463 | 1,367,455 | 1,895,972 | 5,926,220 |
| Household exposures, standardised and IRB | 991,234 | 1,438,348 | 824,689 | 22,385,717 | 25,639,988 |
| Unsettled items | 6,485 | 62,600 | 2,433 | 2,236 | 73,754 |
| Covered bonds | – | – | – | 1,272,558 | 1,272,558 |
| Other items | – | – | – | 10,833 | 10,833 |
| Non-credit-obligation asset exposures IRB | – | – | – | 2,201,356 | 2,201,356 |
| **Total** | **2,256,049** | **2,905,441** | **2,195,620** | **31,998,445** | **39,355,555** |

## Remaining term of exposures, by exposure category

Contractually remaining term (carrying amount) and expected date of recovery.

| 2014 | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 5 years | More than 5 years | Total cash flow | No term |
|---|---|---|---|---|---|---|
| Exposures to governments and central Banks | 132,656 | 5,102 | 13,223 | – | 150,981 | – |
| Exposures to municipalities and comparable public bodies and authorities | 142,298 | 276,039 | 784,618 | 1,853 | 1,204,808 | – |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | 1,085 | 972 | 2,773 | – | 4,830 | – |
| Institutional exposures | 1,794,988 | 7,745 | 73,611 | – | 1,876,344 | – |
| Corporate exposures | 1,642,557 | 1,925,371 | 2,159,858 | 8,887 | 5,736,673 | – |
| Household exposures, standardised and IRB | 12,435,080 | 3,279,849 | 10,944,486 | 87,582 | 26,746,997 | – |
| Unsettled items | 25,399 | – | – | – | 25,399 | – |
| Covered bonds | 166,000 | 127,000 | 544,297 | – | 837,297 | – |
| Share exposures | – | – | – | – | – | 21,475 |
| Other items | – | – | – | – | – | 9,820 |
| Non-credit-obligation asset exposures IRB | 233,436 | 871,400 | 1,096,321 | 2,920 | 2,204,077 | 14,594 |
| **Total** | **16,573,499** | **6,493,478** | **15,619,187** | **101,242** | **38,787,406** | **45,889** |

| 2013 | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 5 years | More than 5 years | Total cash flow | No term |
|---|---|---|---|---|---|---|
| Exposures to governments and central Banks | 144,853 | 11,573 | 5,900 | – | 162,326 | – |
| Exposures to municipalities and comparable public bodies and authorities | 249,012 | 392,735 | 698,170 | 1,322 | 1,341,239 | – |
| Exposures to administrative bodies, non-commercial undertakings and religious societies | 1,198 | 1,268 | 3,202 | – | 5,668 | – |
| Institutional exposures | 2,594,252 | 7,066 | 120,295 | – | 2,721,613 | – |
| Corporate exposures | 1,673,967 | 2,158,147 | 2,080,024 | 14,082 | 5,926,220 | – |
| Household exposures, standardised and IRB | 12,410,259 | 3,477,328 | 9,662,180 | 90,221 | 25,639,988 | – |
| Unsettled items | 73,754 | – | – | – | 73,754 | – |
| Covered bonds | 50,000 | 431,000 | 791,558 | – | 1,272,558 | – |
| Other items | – | – | – | – | – | 10,833 |
| Non-credit-obligation asset exposures IRB | 217,585 | 896,856 | 1,073,983 | 1,066 | 2,189,490 | 11,866 |
| **Total** | **17,414,880** | **7,375,973** | **14,435,312** | **106,691** | **39,332,856** | **22,699** |

## Impairment

Problem credits (receivables more than 90 days overdue) amount to SEK 155,532 (164,733). The Bank's impairment for loans that are more than 90 days overdue and are therefore considered as uncertain (individual impairments), and impairments for losses in groups of loans that it has still not been possible to attribute to individual receivables, are divided as shown in the table below.

| | Individual impairments | Impairment for losses by groups of loans that it is still not possible to attribute to individual receivables | Total |
|---|---|---|---|
| Opening balance, 01/01/2013 | - 51,403 | - 12,503 | - 63,906 |
| OB includes reserve for receivables reported in 2013 as confirmed credit losses | 17,212 | – | 17,212 |
| Reversal of credit losses on capital receivables for the year | 25,157 | 47 | 25,204 |
| Impairment of credit losses on capital receivables for the year | - 9,186 | - 3,844 | - 13,031 |
| Reversal of credit losses on interest receivables for the year | 17 | – | 17 |
| Impairment of credit losses on interest receivables for the year | - 549 | – | - 549 |
| Write-off of confirmed credit losses for the year | - 18,308 | – | - 18,308 |
| Received from previous years' confirmed losses | 1,096 | – | 1,096 |
| **Closing balance, 31/12/2013** | **- 35,964** | **- 16,301** | **- 52,265** |
| Of which write-down of interest receivables | – | – | 804 |
| | | | |
| Opening balance, 01/01/2014 | - 35,964 | - 16,301 | - 52,265 |
| OB includes reserve for receivables reported in 2014 as confirmed credit losses | 17,060 | – | 17,060 |
| Reversal of credit losses on capital receivables for the year | 21,586 | 7713 | 29,299 |
| Impairment of credit losses on capital receivables for the year | - 31,182 | - 2,814 | - 33,996 |
| Reversal of credit losses on interest receivables for the year | 246 | – | 246 |
| Impairment of credit losses on interest receivables for the year | - 300 | – | -300 |
| Write-off of confirmed credit losses for the year | - 18,105 | – | - 18,105 |
| Received from previous years' confirmed losses | 1,045 | – | 1,045 |
| **Closing balance, 31/12/2014** | **- 45,614** | **- 11,402** | **- 57,016** |
| Of which write-down of interest receivables | | | 858 |

## Impairment by asset item

| | 2014 | 2013 |
|---|---|---|
| **Impairment** | | |
| Lending to the public, individual impairment | 8,203 | 9,170 |
| Lending to the public, collective impairment | 15,282 | 16,765 |
| **Lending to the public, total** | **23,485** | **25,935** |
| | | |
| Property, plant and equipment, total impairment | 31,535 | 21,722 |
| **Property, plant and equipment, total** | **31,535** | **21,722** |
| | | |
| Other assets, individual impairment | 1,996 | 4,596 |
| Other assets, reserve leasing income PV | – | 12 |
| **Other assets, total** | **1,996** | **4,608** |
| | | |
| **Total impairment** | | |
| | 57,016 | 52,265 |
| **Effect on income** | | |
| Property, plant and equipment, reversal | 13,647 | 24,418 |
| Property, plant and equipment, impairment | - 23,460 | - 1,147 |
| **Impairment of property, plant and equipment, Note 12** | **- 9,813** | **23,271** |
| | | |
| Plus adjustments for effective interest income on doubtful interest receivables | – | – |
| Changes to write downs of capital receivables according to the above | - 10,536 | - 11,884 |
| Changes to reversal of capital receivables according to the above | 15,652 | 787 |
| Confirmed credit losses for the year, net | - 18,105 | - 18,308 |
| Received from previous years' confirmed credit losses | 1,045 | 1,096 |
| **Credit losses, net, according to Note 14** | **- 11,944** | **- 28,309** |

## Exposures that are individually evaluated for impairment*, by key sector

| 2014 | Receivables before impairment | Individual impairment | Carrying amount | Fair value collateral |
|---|---|---|---|---|
| Private individuals | 30,029 | - 13,386 | 16,643 | 17,957 |
| Trade in and servicing of motor vehicles | 13,424 | - 429 | 12,996 | 12,940 |
| Transport | 68,970 | - 1,403 | 67,566 | 63,731 |
| Operations within legal, finance, science and technology | 2,882 | - 57 | 2,826 | 2,662 |
| Other sectors | 7,946,772 | - 27,110 | 7,919,662 | 7,234,421 |
| Total | 8,062,077 | - 42,385 | 8,019,693 | 7,331,711 |

| 2013 | Receivables before impairment | Individual impairment | Carrying amount | Fair value collateral |
|---|---|---|---|---|
| Private individuals | 32,026 | - 7,414 | 24,612 | 19,922 |
| Trade in and servicing of motor vehicles | 5,595 | - 531 | 5,064 | 5,160 |
| Transport | 91,887 | - 1,014 | 90,873 | 87,087 |
| Operations within legal, finance, science and technology | 2,355 | - 70 | 2,285 | 2,310 |
| Other sectors | 8,269,841 | - 26,069 | 8,243,772 | 7,315,846 |
| Total | 8,401,704 | - 35,098 | 8,366,606 | 7,430,325 |

* A receivable subject to impairment testing is an uncertain receivable, i.e. a receivable where the payments will probably not be fulfilled under the terms of the contract.

For more information, see Note 3 Financial assets measured at amortised cost.

## Exposures that are individually evaluated for impairment, by segment

| 2014 | Receivables before impairment | Individual impairment | Carrying amount | Fair value collateral |
|---|---|---|---|---|
| Household* | 105,350 | -9,751 | 95,599 | 84,117 |
| Company | 7,956,727 | -32,634 | 7,924,094 | 7,247,594 |
| Total | 8,062,077 | -42,385 | 8,019,693 | 7,331,711 |

| 2013 | Receivables before impairment | Individual impairment | Carrying amount | Fair value collateral |
|---|---|---|---|---|
| Household* | 92,074 | - 9,598 | 82,476 | 73,760 |
| Company | 8,309,630 | - 25,500 | 8,284,130 | 7,356,565 |
| Total | 8,401,704 | - 35,098 | 8,366,606 | 7,430,325 |

* Household is defined as private individuals and companies with sales of less than SEK 400 million or exposure with the Bank of less than SEK 5 million.

## Exposures past due that are not individually evaluated for impairment, by key sector

| 2014 | Carrying amount excl. provision by group | Fair value collateral |
|---|---|---|
| Private individuals | 71,448 | 56,883 |
| Trade in and servicing of motor vehicles | 19,538 | 17,740 |
| Transport | 44,307 | 42,324 |
| Operations within legal, finance, science and technology | 18,837 | 11,980 |
| Other sectors | 69,039 | 63,037 |
| Total | 223,169 | 191,964 |

| 2013 | Carrying amount excl. provision by group | Fair value collateral |
|---|---|---|
| Private individuals | 86,133 | 71,542 |
| Trade in and servicing of motor vehicles | 25,244 | 23,143 |
| Transport | 61,325 | 58,880 |
| Operations within legal, finance, science and technology | 137,971 | 9,099 |
| Other sectors | 76,510 | 56,234 |
| Total | 387,184 | 218,897 |

## Exposures past due that are not individually evaluated for impairment, by segment

| 2014 | Carrying amount excl. provision by group | Fair value collateral |
|---|---|---|
| Household* | 154,619 | 147,700 |
| State, local government and county council | 1,011 | 882 |
| Company | 67,539 | 43,382 |
| Total | 223,169 | 191,964 |

| 2013 | Carrying amount excl. provision by group | Fair value collateral |
|---|---|---|
| Household* | 187,420 | 167,867 |
| State, local government and county council | 656 | 530 |
| Company | 199,108 | 50,501 |
| Total | 387,184 | 218,897 |

* Household is defined as private individuals and companies with sales of less than SEK 400 million or exposure with the Bank of less than SEK 5 million.

## Age analysis of exposures past due that are not individually evaluated for impairment

| Carrying amount excl. provision by group | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Overdue by 61-89 days | 23,506 | 63,082 |
| Overdue by 31-60 days | 89,380 | 225,311 |
| Overdue by 01-30 days | 110,283 | 98,791 |
| Total | 223,169 | 387,184 |

## Receivables with renegotiated terms that are not evaluated for impairment

In those cases where a contract is renegotiated with a customer, the due date may be moved forward. An assessment of the financed item is carried out when a contract is renegotiated. All renegotiated contracts are secured with adequate collateral. As at 31/12/2014, the total capital liabilities in relation to renegotiated agreements amounted to SEK 30 million (37).

There are no contracts for which capital liabilities have been written down or for which interest concessions have been agreed with the borrower.

## Disclosures about the credit quality of receivables that are not impaired

The credit quality of receivables that are not impaired is very high. In the case of 88% (87) of household receivables, there is a very low risk, with the corresponding figure for corporate receivables at 90% (91). For further information about risk classes and risk class estimates, see the section on Credit Risk on page 29.

## Lending to credit institutions

The credit quality of lending to credit institutions is very high. This item consists primarily of balances with the major Swedish Banks that have ratings in the Aa2–A3 range on Moody's Scale on the balance sheet date.

## COUNTERPARTY RISK

The Bank enters into derivative contracts with the sole purpose of eliminating interest rate risks and foreign exchange risks in interest-bearing loans and borrowings. The derivatives contracts consist of interest rate swaps and interest rate options. Counterparty risks arise when the Bank has entered into a derivative contract with a counterparty and there is the risk that the counterparty is unable to fulfil its contractual obligations. If the contract has a positive market value, default on the part of the counterparty entails a loss for the Bank. Netting agreements have been entered into with all derivative counterparties to limit the Bank's risk. Under a netting agreement, the positive and negative values of all derivative contracts with the counterparty are offset in the event of default. The counterparties may only consist of Banks with which the Bank has a financing agreement and which have a high rating. The Bank's financial policy prescribes limits for counterparty risk and these limits are continuously monitored. In the event that counterparty risk exceeds the limit, as a result of market movements, no new business may be entered into unless the counterparty provides adequate collateral for the counterparty risk in excess of the limit.

The size of the counterparty risk is influenced by the market value and varies with changes in market rates. The market value of swaps is determined using discounted cash flows. The discount interest rates are based on official market rates. The Black-Scholes model is used to price interest rate options and the implied volatilities are based on official market rates. As part of risk cover in the event that the settlement amount differs from the Bank's estimated market value in connection with default, a supplement is added. Standardised methods based on the nature of the underlying asset and the life of the underlying contract determine the calculation of the supplement. The supplementary amount is calculated using nominal amounts, both for contracts with a positive value and those with a negative value. At year-end, the Bank's compensation for counterparty risk in derivative contracts totalled SEK 71,656 thousend (115,407). The supplementary amount was calculated as SEK 3,379 thousend (7,286). The nominal amount for the Bank's outstanding derivative contracts at year-end was SEK 1,653 million (2,535).

The table below shows the Bank's counterparty exposure, i.e. the compensation (market value) and supplementary amount for potential changes in risk, by credit rating class according to Moody's Scale. See also Note 35.

| SEK million | | 2014 | | 2013 | |
|---|---|---|---|---|---|
| Rating (short) | Rating (long) | Compensa-tion amount | Supple-mentary amount | Compensa-tion amount | Supple-mentary amount |
| P-1 | Aa2 | 2.3 | 0.1 | – | – |
| P-1 | Aa3 | – | – | 6.0 | 0.9 |
| P-1 | A1 | 44.1 | 2.0 | 97.7 | 5.8 |
| P-1 | A2 | 18.3 | 0.1 | – | – |
| P-2 | A3 | 7.0 | 1.2 | – | – |
| P-2 | Baa1 | – | – | 11.7 | 0.6 |
| **Total** | 71.7 | 3.4 | 115.4 | 7.3 | |

The Bank is currently adapting to EMIR, the EU's Regulation on OTC Derivatives, Central Counterparties and Trade Repositories. EMIR's obligations for reporting derivative contracts to trade repositories and techniques for managing risks that have already come into force are being handled adequately by the Bank.

## CONCENTRATION RISK

The Bank's definition of credit concentration risk:

- Significant exposures to customers or groups of customers that are interrelated through their corporation.
- Significant exposures to groups of counterparties in which the probability of default relates to factors such as type of industry, geographical area, etc.
- Concentration in a certain form of collateral, such as a particular car marque.

The Bank's portfolio is not very diversified, as it largely consists of various forms of car financing, which results in a concentration that centres on cars as collateral. In addition, the Bank's activities are concentrated in the Swedish market.

The 30 largest customers account for 8% (9) of total lending. The Bank's single largest lending market is Transport, which accounts for 7% (8) of total lending (see table on page 32). The Bank uses a system that provides it with a picture of the overall counterparty commitment.

## MARKET RISK

### Interest rate risk in other operations

Interest rate risk is the present and future risk that net interest income declines as a result of unfavourable changes in the interest rate while at the same time lending and borrowing have different fixed interest terms (known as interest rate risk in the Banking book).

The Bank endeavours to minimise this interest rate risk by aligning the fixed interest term for borrowing to that of lending. In the event the Bank judges that lending with long fixed interest rate periods is beneficial, interest rate swap agreements will be used to arrange this. Swap agreements are used when loans are made at a fixed interest rate. The Bank also offers customers financing at floating interest rates with an interest rate cap, and in this case, the Bank manages the interest rate risk by buying equivalent interest rate ceiling agreements at a portfolio level.

The financial policy states the extent to which it may be exposed to interest rate risk. The policy is updated as required and is approved by the Board. The Board of Directors is informed regularly of the interest rate risk. The Bank performs a monthly stress test on the interest rate risk using a gap analysis to determine the impact on net interest income over a period of 12 months in the event of a parallel shift in the interest rate curve of one percentage point. The finance policy states limits that determine the size of the impact on earnings and how large the gaps may be for each period. As at 31/12/2014, the interest rate risk amounted to SEK 66.1 million (52.7), which is equivalent to 2.2% (1.7%) of the capital base. In this calculation, equity, including untaxed reserves, is placed without a term. If the interest rate risk is instead measured as the economic impact in accordance with the Swedish Financial Supervisory Authority's regulations, but with the same assumption about interest rate shocks as above, the total on 31/12/2014 is SEK 6.2 million (6.4). Assuming a reasonable change in interest rate and a parallel shift in the interest rate curve of 0.25%, the estimated impact on the net interest income over a period of 12 months on 31/12/2014 is SEK 16.5 million (13.2).

Lending at fixed interest rates amounted to just over 0.2% of total lending on 31/12/2014. An interest rate risk exists in those cases where customers want early redemption of fixed rate loans, and where legislation and regulations prevent the Bank from extracting compensation for differences in interest rates. Developments are monitored on a monthly basis and provisions are made regularly to hedge the risk. The assumption made is that 20% of the annual average credit volume is redeemed when 12 months of the portfolio's average original term has expired, at a decrease in interest rate of 1.5%.

### Fixed interest terms for the Group's interest-bearing assets and liabilities

| Nominal amounts in SEK million | Up to 1 month | > 1 month, up to 3 months | > 3 months, up to 6 months | > 6 months, up to 1 year | > 1 year, up to 3 years | > 3 years, up to 5 years | > 5 years | Equity | Total |
|---|---|---|---|---|---|---|---|---|---|
| **2014** | | | | | | | | | |
| Interest-bearing assets | 27,857 | 1,450 | 1 | 9 | 35 | 15 | – | – | 29,367 |
| Interest-bearing liabilities | - 15,455 | - 6,643 | - 425 | - 150 | - 400 | - 200 | – | – | - 23,273 |
| Equity | – | – | – | – | – | – | – | - 3,427 | - 3,427 |
| Derivative instruments (nominal amount) | - 179 | - 931 | 425 | 150 | 359 | 176 | – | – | – |
| **Total** | 12,223 | - 6124 | 1 | 9 | - 6 | - 9 | – | - 3,427 | 2,667 |
| **Cumulative exposure** | 12,223 | 6,099 | 6,100 | 6,109 | 6,103 | 6,094 | 6,094 | 2,667 | |
| **2013** | | | | | | | | | |
| Interest-bearing assets | 26,818 | 1,529 | 2 | 14 | 34 | 22 | 1 | – | 28,420 |
| Interest-bearing liabilities | - 15,486 | - 6,370 | - 250 | - 250 | - 1,375 | – | – | – | - 23,731 |
| Equity | – | – | – | – | – | – | – | - 3,385 | - 3,385 |
| Derivative instruments (nominal amount) | - 373 | - 1,435 | 247 | 235 | 1,353 | - 27 | – | – | – |
| **Total** | 10,959 | - 6,276 | - 1 | - 1 | 12 | - 5 | 1 | - 3,385 | 1,304 |
| **Cumulative exposure** | 10,959 | 4,683 | 4,682 | 4,681 | 4,693 | 4,688 | 4,689 | 1,304 | |

## FOREIGN CURRENCY RISK

The Bank does not engage in foreign currency lending and its borrowing is normally in SEK, which means the company is not exposed to exchange rate fluctuations. Exchange rate risk arises when the Bank chooses to borrow funds in foreign currencies. The financial policy is to eliminate any risk of foreign exchange rate fluctuation. Interest rate and currency swap agreements are entered into for borrowing in foreign currency to eliminate any risk of foreign exchange rate fluctuation. The agreements that the Bank enters into have matching terms and conditions with the financing in foreign currencies, such as nominal amounts and interest rate payment dates, to ensure that any risk of foreign exchange rate fluctuation is effectively eliminated. However, minor effects may arise during the maturity period since there may be differences in the evaluation method for the hedged item and the hedge derivative. Currency exposure at year-end was zero (0).

For the carrying amounts of assets and liabilities in foreign currencies where such exist, see Notes 26 (Derivatives – assets and liabilities) and 28 (Liabilities to credit institutions and securities issued). There are no assets or liabilities in foreign currencies other than any which may be indicated here.

## RESIDUAL VALUE RISK

The residual value risk is the risk that the residual value on a vehicle guaranteed by the Bank on the final day of the lease is lower than the actual market value and the Bank thereby sustains a loss. On 31/12/2014, the Bank reported impairment losses of SEK 21.3 million (13.6), due to the latent residual value risk, which are recognised as depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets. For some leases, the dealers guarantee the residual value of the leasing object upon expiry of the contract period. The guaranteed residual value is to the amount of SEK 2,906 million (2,718).

## SHAREHOLDING RISK IN OTHER OPERATIONS

Shareholdings consist of unlisted shares valued at cost of acquisition in line with the cost method.

| | 2014 | 2013 |
|---|---|---|
| **Balance sheet value** | | |
| Group companies | 6,740 | 6,740 |
| Associated and other companies | 14,735 | 11,913 |
| **Total** | 21,475 | 18,653 |
| **Fair value** | | |
| Group companies | 6,787 | 6,787 |
| Associated and other companies | 14,735 | 11,913 |
| **Total** | 21,522 | 18,700 |
| **Unrealised gains or losses** | | |
| Group companies | – | – |
| Associated and other companies | 10,687 | 7,865 |
| **Total** | 10,687 | 7,865 |

## OPERATIONAL RISKS

Operational risk pertains to the risk of loss as a result of:

- Inappropriate or ineffective internal processes
- Human error
- Defective systems
- External events

The definition also includes legal risk.

Operational risk is divided into the following areas: internal irregularities, external crime, employment conditions and working environment, business conditions, disruptions and interruptions to operations and systems, transaction management and process control, technology and employees/organisation.

Operational risk exists in all operations in the Bank and in interaction with external parties. To identify operational risk, risk identification and internal assessment workshops are conducted on a regular basis with key personnel in the organisation. All identified operational risks are categorised according to handling and possible impact and are classified as “low risk”, “medium risk” and “high risk”. Managing operational risk is regulated in the Policy for operational risks.

The aim is that risk of loss is eliminated or prevented, limited and/or compensated in a targeted and organised manner using control documentation, policies and processes. These are collated in the Bank's four handbooks.

Management of operational risk is an ongoing process that is conducted using tools such as self-assessment and incident reporting to capture past incidents. These tools are also used to identify, monitor and correct operational risks. The Board and Company Management have overall responsibility for operational risks and are responsible for creating good risk awareness at the Bank.

The business areas/departments are responsible for the management of operational risk in their own businesses. All employees are responsible for protecting the Bank's assets against damage, abuse or loss. Incidents are reported to the manager or directly to an incident management system. The Bank's risk control unit is responsible for reviewing and monitoring operational risks. The risk control unit is responsible for compiling and reporting risk to the President and for following up risk-limiting actions from self-assessments as well as for monitoring changes in operations that may involve a change in exposure to operational risk.

## LIQUIDITY RISK

Liquidity risk is the risk that 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.

Liquidity risk arises when lending and borrowing have mismatched maturity periods. When lending has a longer term than borrowing, refinancing will be required on several occasions. If the refinancing requirement on any one day is substantial, or if the capital market becomes illiquid, this may result in a liquidity shortfall.

Liquidity risk is managed in accordance with the Bank's financial policy. The Policy describes financial risks, including the liquidity risk, and states the extent to which the liquidity risk may occur. The President is responsible for ensuring that the policy is updated whenever required and is presented to the Board of the Bank for approval. In addition to the financial policy, there is the Bank's framework for managing liquidity risk, which is a control document containing guidelines, instructions and strategies for managing liquidity risk. The Bank's liquidity and financing strategy, as well as the preparedness plan, form central elements of this document. The framework is revised on a continuous basis and is approved once a year by the Board of Directors. The Bank's CFO is responsible for updating the document. The financial policy and the control document are basic documents governing the operations of the finance department, but they are also available to all personnel.

The operational work for managing liquidity risk is carried out at the Bank's finance department, where the current liquidity position is monitored daily. Analysis and internal reporting of due date structure and financing requirements are carried out on an ongoing basis. All this is with the aim of ensuring good payment preparedness and minimising the impact of any potential liquidity problems. The Bank also reports net cash outflows in order to ensure that the Bank's risk tolerance is not exceeded and the accumulated flows remain within defined limits. Monthly liquidity risk reporting to the Swedish Financial Supervisory Authority is compiled by the Bank's accounts department, in close cooperation with the finance department.

The Bank's Liquidity Coverage Ratio (LCR) calculated in accordance with Article 415 of the EU Capital Requirements Regulation (CRR) totalled 201% at the year-end and averaged 219% in 2014 (since March when reporting in accordance with CRR began). The Liquidity Coverage Ratio is a short-term measure of liquidity and constitutes an element of reporting to the Supervisory Authorities in respect of liquidity risk.

In order to ensure flexible borrowing and to manage periods of disruptions to refinancing, the Bank has a liquidity reserve. At year-end, this amounted to SEK 3.8 billion (5.2). The composition of the reserve, as regulated by the finance policy, should consist of immediately available Bank funds and high-quality liquid interest-bearing securities in SEK. Balances held with other Banks amounted to SEK 1.8 billion (47%) and the securities component to a nominal SEK 2.0 billion (53%). The size of the liquidity reserve must be such that operations can continue unrestricted in the event of a serious strain on liquidity, without the addition of new external financing, for a period of at least three months by using only the funds of the reserve. The Bank's liquidity reserve must not fall below 10% of lending, i.e. the items “lending to the public” and “lease items” on the balance sheet. At 31/12/2014, this ratio was 15% (21).



### Liquidity reserve

| Amounts in SEK million, securities according to market value | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Balances held at other Banks | 1,785 | 2,585 |
| Securities issued by the Swedish government | 100 | 100 |
| Securities issued by municipal authorities and other public bodies | 1,071 | 1,192 |
| Other covered bonds | 837 | 1,273 |
| **Total** | **3,793** | **5,150** |

The Bank's credit facilities represent an important supplement to the liquidity reserve. These back up lines are mostly agreed with the Bank's core Banks. The back-up lines of credit are normally not drawn upon and at year-end they totalled SEK 2.5 billion (2.5). They may be drawn upon on the same day for amounts up to SEK 1.5 billion over a 1–7 day term or otherwise 2–3 Banking days after being requested. The agreements do not include “Material Adverse Change” (MAC) clauses or any financial covenants that may prevent utilisation. In addition to the above credit facilities with Banks, an agreement has been signed with the Bank's shareholders, AB Volverkinvest and the Sixth Swedish National Pension Fund, for a liquidity injection of up to SEK 1.2 billion in the event of any liquidity problems.

### Other liquidity-generating facilities

| Undrawn limits, SEK million | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Overdraft facilities at credit institutions | 200 | 200 |
| Credit facilities at credit institutions and owners | 3,700 | 3,700 |
| **Total** | **3,900** | **3,900** |

According to the Bank's financial policy, all short-term borrowing (< 1 year) and 20% of deposits must be covered by credit facilities and liquidity reserve. Furthermore, the Bank is endeavouring to diversify its borrowing sources in respect of the forms of borrowing and geographical markets. In order to retain the loan maturity spread, amounts due in a single calendar week are limited. The proportion of long-term borrowing must be at least 60%; at 31/12/2014, this proportion was 67% (68)

In order to reduce the proportion of market borrowing, and thereby also the refinancing risk, the Bank launched an online savings account in 2010. These deposits are made by private individuals and represent more than half of the Bank's total financing. The majority of savings account customers are people with whom we already have a relationship, i.e. customers who have previously used one of the Bank's other services. There are no fixed terms for savings in this account, in spite of which the deposit volume has remained highly stable over time, as it is spread across a large number of depositors. The account is covered by the government deposit guarantee scheme.

### Liquidity exposure – Contractually remaining term (nominal amount)

The interest rate flows in the table below are based on the interest rate on the balance sheet date, in those cases where loans and borrowing agreements have floating rates.

| 2014<br>SEK million | Paid on demand | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 3 years | More than 3 year and up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Chargeable treasury bills | – | 221 | 223 | 732 | – | – | 1,176 |
| Lending to credit institutions | 1,785 | – | – | – | – | – | 1,785 |
| Lending to the public | – | 3,713 | 5,172 | 9,283 | 2,703 | 545 | 21,416 |
| Bonds and other interest-bearing securities | – | 166 | 127 | 546 | – | – | 839 |
| Property, plant and equipment, lease items | – | 570 | 1,910 | 1,871 | 33 | – | 4,384 |
| Other assets, derivatives | – | 13 | 37 | 20 | 1 | – | 71 |
| **Total** | **1,785** | **4,683** | **7,469** | **12,452** | **2,737** | **545** | **29,671** |
| Financial liabilities | | | | | | | |
| Liabilities to credit institutions | – | 206 | 561 | 415 | 405 | – | 1,587 |
| Deposits and borrowing from the public | 13,566 | 209 | – | – | – | – | 13,775 |
| Securities issued | – | 1,094 | 1,581 | 3,708 | 2,180 | – | 8,563 |
| Other liabilities, derivatives | – | – | – | – | – | – | – |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Total** | **13,566** | **1,509** | **2,142** | **4,123** | **2,585** | **0** | **23,925** |
| Net cash flow | - 11,781 | 3,174 | 5,327 | 8,329 | 152 | 545 | |
| Undrawn credit facilities | 1,700 | 3,700 | 2,950 | 1,000 | – | – | |
| **Liquidity gap** | **- 10,081** | **6,874** | **8,277** | **9,329** | **152** | **545** | |

| 2013<br>SEK million | Paid on demand | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 3 years | More than 3 year and up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|---|
| Financial assets | | | | | | | |
| Chargeable treasury bills | – | 312 | 337 | 640 | – | – | 1,289 |
| Lending to credit institutions | 2,585 | – | – | – | – | – | 2,585 |
| Lending to the public | – | 3,926 | 5,065 | 8,887 | 2,650 | 502 | 21,029 |
| Bonds and other interest-bearing securities | – | 50 | 431 | 785 | – | – | 1,266 |
| Property, plant and equipment, lease items | – | 494 | 2,097 | 1,407 | 29 | – | 4,027 |
| Other assets, derivatives | – | 26 | 30 | 59 | – | – | 116 |
| **Total** | **2,585** | **4,808** | **7,960** | **11,778** | **2,679** | **502** | **30,312** |
| Financial liabilities | | | | | | | |
| Liabilities to credit institutions | – | 10 | 31 | 1,572 | – | – | 1,613 |
| Deposits and borrowing from the public | 14,166 | 1 | 2 | 101 | – | – | 14,269 |
| Securities issued | – | 1,207 | 2,161 | 4,008 | 1,409 | – | 8,786 |
| Other liabilities, derivatives | – | – | – | – | – | – | – |
| Subordinated liabilities | – | – | – | – | – | – | – |
| **Total** | **14,166** | **1,218** | **2,194** | **5,682** | **1,409** | **–** | **24,668** |
| Net cash flow | - 11,580 | 3,589 | 5,766 | 6,097 | 1,271 | 502 | |
| Undrawn credit facilities | 1,700 | 3,700 | 2,950 | – | – | – | |
| **Liquidity gap** | **- 9,880** | **7,289** | **8,716** | **6,097** | **1,271** | **502** | |

### Maturity analysis for liabilities including derivatives (nominal amounts)

In addition to the nominal amounts shown, the table below also includes the interest rate flows in those cases where borrowing agreements have floating rates, at the interest rates that the market forecasts on the balance sheet date for the various future interest rate payment dates.

| 2014<br>SEK million | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 3 years | More than 3 year and up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Liabilities to credit institutions | - 206 | - 561 | - 416 | - 408 | – | - 1,591 |
| Securities issued | - 1,094 | - 1,580 | - 3,713 | - 2,196 | – | - 8,583 |
| Other liabilities, derivatives | - 209 | – | – | – | – | - 209 |
| Other assets, derivatives | 13 | 37 | 19 | – | – | 69 |
| **Total** | **- 1,496** | **- 2,104** | **- 4,110** | **- 2,604** | **–** | **- 10,314** |

| 2013<br>SEK million | Less than 3 months | More than 3 months and up to 1 year | More than 1 year and up to 3 years | More than 3 year and up to 5 years | More than 5 years | Total |
|---|---|---|---|---|---|---|
| Liabilities to credit institutions | - 10 | - 30 | - 1,575 | – | – | - 1,615 |
| Securities issued | - 1,151 | - 2,030 | - 3,864 | - 1,386 | – | - 8,431 |
| Other liabilities, derivatives | - 1 | - 2 | - 101 | – | – | - 104 |
| Other assets, derivatives | 26 | 32 | 58 | – | – | 116 |
| **Total** | **- 1,136** | **- 2,030** | **- 5,482** | **- 1,386** | **–** | **- 10,034** |

## STRATEGIC RISKS

Strategic risks refer to the risk of loss as a result of changes in market conditions and unfavourable business decisions, erroneous implementation of decisions or a lack of awareness of changes in market conditions. The Bank's definition of strategic risks includes earnings risk, customer behaviour, competitor behaviour, changes in regulations and general economic conditions.

The primary goal of risk management is to ensure that the Bank is aware of its strategic position and to enable it to prepare in good time for a declining market and stiffer or new competition. The Bank works proactively to chart its strategic position and prepares itself at an early stage to handle changes in market and competition conditions. Risk identification and self-assessment workshops with senior executives are conducted regularly in an effort to identify strategic risks. In addition, there are well-developed strategies for how the organisation should work with customers and cope with competition.

## REPUTATIONAL RISKS

Reputational risk means the risk of loss as a result of a negative perception of the Bank on the part of customers, counterparties, shareholders, investors, and official authorities. The objective of risk management is to ensure that the Bank is perceived as highly transparent by all stakeholders and that stakeholders have a positive impression of the Bank.

Reputational risk is the most difficult risk to cover. The Bank has taken steps to deal with this risk as far as this is possible. There are regular risk identification and self-assessment workshops for senior executives. During the course of the year (and at least quarterly), the Bank meets with its Banks and investors in order to detect any negative signals. Press releases and information on the website are natural features of the Bank's information programmes.

There is also a policy for complaint management. This describes the procedures for managing complaints, including the appointment of complaints managers and clear reporting channels.


## CAPITAL ADEQUACY ANALYSIS

The Bank's capital requirements are set in accordance with the Swedish Credit Institutions and Securities Companies (Special Supervision) Act (2014:968) and by the EU's Capital Requirements Directive CRD IV/CRR which has been incorporated into Swedish legislation with additional definitions and detailed guidelines issued by the Swedish Financial Supervisory Authority.

For the Bank's part, the rules help to strengthen the Bank's resistance to financial losses and thus protect the Bank's customers. The rules require the Bank's capital base (equity and any debenture loans, etc.) to cover the prescribed minimum capital requirements with a margin, which includes the capital requirements for credit risk, market risk and operational risk, and also to cover calculated capital requirements for other identified risks in its activities in accordance with the Bank's internal capital assessment process.

The Bank has a specific plan regarding the size of the capital base for a number of years ahead (according to IKU), which is based on the risk profile, identified risks in respect of probability and financial impact, stress tests and scenario analyses, expected lending expansion and financing potential, as well as new legislation, competitors' behaviour and other factors in the business world.

The review of the long-term plan is an integral part of work involved in the Bank's internal capital assessment. The plan is followed up continually and a documented annual review is conducted to ensure that risk is correctly monitored and reflects the real risk profile and capital requirements. Like significant credit decisions and investments, each amendment/supplement to policies/strategy documents established by the Board is always related to the current and future capital requirements.

The statutory capital requirement, in accordance with Pillar 1, is summarised as follows with specifications in accordance with the following section.

### Capital base

(Including the Board's profit distribution proposal)

| | 2014 | 2013 |
|---|---|---|
| **Core tier 1 capital** | | |
| Equity | 1,233,912 | 483,912 |
| Untaxed reserves 78.0% (78.0%) | 1,935,683 | 2,685,683 |
| Less: Intangible non-current assets | - 5,561 | - 8,756 |
| Less: AVA | - 1,981 | – |
| Less: Shortfall in IRB provisions | - 135,637 | - 109,144 |
| **Total core tier 1 capital** | **3,026,416** | **3,051,695** |
| **Total capital base** | **3,026,416** | **3,051,695** |
| **Capital base according to Basel II** | **3,028,397** | **3,051,695** |

### Capital requirement and risk-weighted exposure amount

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | Capital requirement | Risk-weighted exposure amount | Capital requirement | Risk-weighted exposure amount |
| **Credit risk according to standardised method** | | | | |
| Exposures to governments and central Banks | – | – | – | – |
| Exposures to local government and comparable public bodies and authorities | – | – | – | – |
| Exposures to administrative bodies, non-commercial entities and religious societies | 324 | 4,048 | 386 | 4,825 |
| Institutional exposures | 30,017 | 375,207 | 43,541 | 544,263 |
| Corporate exposures | 25,335 | 316,682 | 443,472 | 5,543,400 |
| Household exposures | 20,419 | 255,238 | 22,929 | 286,613 |
| Unsettled items | 2,917 | 36,463 | 8,850 | 110,625 |
| Covered bonds | 6,692 | 83,646 | 10,180 | 127,250 |
| Share exposures | 1,718 | 21,475 | – | – |
| Other items | 786 | 9,821 | 867 | 10,838 |
| **Total capital requirement for credit risk using the standardised method** | **88,206** | **1,102,578** | **530,225** | **6,627,813** |
| | | | | |
| **Credit risk according to IRB** | | | | |
| Corporate exposure | 296,423 | 3,705,283 | – | – |
| Household exposures | 448,115 | 5,601,441 | 445,901 | 5,573,763 |
| Non-credit-obligation asset exposures | 177,434 | 2,217,925 | 176,036 | 2,200,450 |
| **Total capital requirement for credit risk according to IRB** | **921,972** | **11,524,648** | **621,937** | **7,774,213** |
| | | | | |
| Operational risk according to Base indicator method | 92,768 | 1,159,598 | 87,089 | 1,088,613 |
| Credit valuation adjustment (CVA) | 1,175 | 14,692 | – | – |
| **Total minimum capital requirement and risk-weighted exposure amount** | **1,104,121** | **13,801,517** | **1,239,251** | **15,490,638** |
| Total capital requirement according to transitional rules | 1,276,044 | 15,950,552 | 1,280,786 | 16,009,825 |

The Bank fulfils the minimum level for its capital base, which corresponds to a capital base that at least amounts to the total minimum capital requirement, and has a capital base that exceeds starting capital (the capital that was required when the company received permission to conduct financing operations).

## Capital adequacy

| | 2014 | 2013 |
|---|---|---|
| **Without transitional rules** | | |
| Risk-weighted assets | 13,801,517 | 15,490,638 |
| Capital adequacy ratio ** | 2.74 | 2.46 |
| Core tier 1 capital ratio,% *** | 21.93 | 19.70 |
| Capital adequacy level,% **** | 21.93 | 19.70 |
| | | |
| **With transitional rules** | | |
| Risk-weighted assets * | 15,950,552 | 16,009,825 |
| Capital adequacy ratio ** | 2.37 | 2.38 |
| Core tier 1 capital ratio,% *** | 18.97 | 19.06 |
| Capital adequacy level,% **** | 18.97 | 19.06 |

* Risk-weighted assets means all assets in accordance with the balance sheet, excluding intangible assets and including undrawn limits and add-on derivatives (risk-weighted in accordance with the Basel II Capital Adequacy Regulations).
** Total capital base in relation to total capital requirement.
*** Core tier 1 capital in relation to risk-weighted exposure amount.
**** Capital base in relation to risk-weighted exposure amount.

## Capital and buffer requirements

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Minimum capital requirement | Capital conservation buffer | Total | Minimum capital requirement | Capital conservation buffer | Total |
| **Per cent** | | | | | | |
| Core tier 1 capital | 4.5 | 2.5 | 7.0 | 4.5 | – | 4.5 |
| Tier 1 capital | 6.0 | 2.5 | 8.5 | 6.0 | – | 6.0 |
| Total capital base | 8.0 | 2.5 | 10.5 | 8.0 | – | 8.0 |
| | | | | | | |
| **Amount** | | | | | | |
| Core tier 1 capital | 621,068 | 345,038 | 966,106 | 697,079 | – | 697,079 |
| Tier 1 capital | 828,091 | 345,038 | 1,173,129 | 929,438 | – | 929,438 |
| Total capital base | 1,104,121 | 345,038 | 1,449,159 | 1,239,251 | – | 1,239,251 |
| **Total Pillar I capital requirement** | | | 1,449,159 | | | 1,239,251 |

### Capital management
The Bank's strategies and methods for valuing and maintaining the capital base requirement derive from the Bank's risk management. Risk management is aimed at identifying and analysing the risks that the Bank encounters in its operations and setting appropriate limits for them and ensuring that controls are in place. Risks are monitored and inspections are conducted regularly to ensure that limits are not exceeded. The Bank has an integrated function for independent risk control – directly subordinate to the President – which is tasked with analysing the development of risks and proposing changes to control documentation and processes as required.

To ascertain whether the internal capital is sufficient for current and future operations, and to ensure that the capital is of the appropriate magnitude and composition, the Bank has a proprietary process for internal capital assessment. This process is a tool that ensures that the Bank can clearly and correctly identify, evaluate and manage all the risks to which the Bank is exposed and make an assessment of its internal capital requirement in relation to this. This process includes appropriate governance and control functions and risk management systems. Internal capital assessment is carried out at least once each year.

The starting point for internal capital assessment is risk identification and self-assessment workshops involving key personnel in the organisation. Risks have been quantified on the basis of the method considered most relevant by the Bank for each risk category. An assessment of each risk category has subsequently been made with regard to whether additional capital is required to cover the specific risk category. The assessment is based on the Pillar 1 capital requirement and further capital is added where this is considered necessary for other risks. The internal capital assessment is then stress-tested to ensure that the capital level can be maintained even in pressure situations. The pressure situations are forward-looking and are based on a three-year business plan.

## 3. ACCOUNTING POLICIES
### Contents


The Bank's annual accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) (1995:1559) and the stipulations and general recommendations of the Swedish Financial Supervisory Authority in respect of credit institutions and securities companies (FFFS 2008:25), in accordance with the amendment provisions in FFFS 2009:11, as well as the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. The Bank applies so-called legally limited IFRS, referring to standards that have been adopted for application with the limitations that arise from Recommendation RFR 2 and FFFS 2008:25. This means that all IFRS and interpretation statements approved by the EU are applied as far as possible within the framework of the Swedish Annual Accounts Act and with due consideration of the relationship between accounting and taxation.

The annual accounts were approved for publication by the Board on 16 March 2015. The income statement and balance sheet will be put forward for adoption at the Annual General Meeting on 11 June 2015.

The accounting principles outlined below have been applied consistently to all periods shown in the financial reports unless otherwise indicated.

### 3.1 Basis of preparation of the Bank's financial statements
Assets and liabilities are reported at their historical acquisition cost. Financial assets and liabilities are measured at their amortised cost, apart from certain financial assets and liabilities, which are measured at fair value (see Note 35) or when hedge accounting at fair value is applied.

### 3.2 Functional currency and reporting currency
The Bank's functional currency is the Swedish krona (SEK) and the financial statements are presented in SEK. All amounts, unless otherwise stated, are rounded to the nearest thousand.

### 3.3 Assessments and estimates in the financial statements
Preparation of the financial statements in compliance with IFRS requires the Bank's management to make critical judgements, accounting estimates and assumptions that affect the application of the accounting

policies and the carrying amounts of assets, liabilities, income and expenses. Estimates and assumptions are based on historical experience and a number of factors that appear reasonable in the prevailing circumstances. The results of these estimates and assumptions are then used to assess the reported values for assets and liabilities that do not otherwise appear clearly from other sources. Actual outcomes may deviate from these estimates and assessments. The Bank has also primarily made the following critical judgements when applying significant accounting policies.

- Whether or not the hedge relationship is effective
- Whether the Bank assumes significant risks and benefits from the seller on acquisition of receivables and agreements
- Impairment testing of lease items in the event of a risk of falling residual value
- Investments held to maturity

Areas in which uncertainty about estimates may exist are assumptions about credit loss impairment, impairment of leased assets and the assessment of residual value.

Estimates and assumptions are reviewed regularly. Changes in estimates are reported in the period during which the estimates were made if the change affects only that particular period, or in that period in which the amendment is made and future periods if the change affects the particular period and future periods.

## 3.4 Changes in accounting policies

Changes to IFRS with application from and for 2014 that have had a significant effect on the Bank's financial reporting.

IAS 32 Financial Instruments: Presentation. The change relates to a clarification of the rules on when the offsetting of financial assets and liabilities is permitted.

IAS 39 Financial Instruments. Novation of derivatives and continuation of hedge accounting. The change means that companies are able to continue using hedge accounting despite a change to the counterparty of the derivatives contract as a result of legislation.

### 3.4.1 New IFRS and interpretations awaiting application

A number of new or amended IFRS come into force at the beginning of the new financial year and have not been applied early in the preparation of these financial statements. There are no plans to early adopt new/revised IFRS that will apply from the beginning of the next financial year onwards. The expected effects on the Bank's financial statements as a result of applying the new or revised IFRS are described below. In addition to this, the other new IFRS are not expected to affect the Bank's financial statements.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. IASB has produced a whole package of changes for the reporting of financial instruments in the form of IFRS 9. The package includes a new model for the classification and measurement of financial instruments, a forward-looking 'expected loss' impairment model and a simplified approach to hedge accounting. IFRS 9 is effective from 1 January 2018 and earlier application is permitted once the EU has adopted the standard. The EU plans to approve the standard in 2015.

IFRS 15 Revenue Recognition is a general model for the recognition of all revenue and is effective from 1 January 2017.

Any impact of the future standard has not yet been evaluated.

## 3.5 Information concerning financial risk

Disclosures about financial risk are reported in the section on Risk and Capital Management and capital adequacy analysis, page 28.

## 3.6 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses and about which separate financial information is available. The performance of an operating segment is assessed regularly by the Bank's management to evaluate segment performance and to decide how to allocate resources to the operating segment. See Note 4 for further information on segments. Since the consolidated accounts are not prepared, the segment information for the parent Bank is presented.

## 3.7 Subsidiaries and associated companies

Participations in subsidiaries and associated companies are reported at the Bank according to the cost method. All received dividends are recognised as income.

## 3.8 Foreign currency

**Transactions in foreign currencies**

The Bank's functional currency is the Swedish krona (SEK). Transactions in foreign currency are translated to the functional currency at the exchange rate prevailing on the transaction date. Monetary assets and liabilities in foreign currency are translated to the functional currency at the rate prevailing on the balance sheet date. Exchange rate differences arising in relation to translation are reported in the income statement . Non-monetary assets and liabilities recognised at historical cost are translated at the exchange rate prevailing on the transaction date. Non-monetary assets and liabilities recognised at fair value are translated to the functional currency at the exchange rate at the date when fair value was determined.

## 3.9 Interest income and interest expense

Interest income on receivables and interest expense on liabilities are calculated and reported using the effective interest rate method. The effective interest rate is the rate that makes the present value of all estimated future incoming and outgoing payments during the anticipated fixed interest period equal to the reported value of the receivable or payable. Where relevant, interest income and interest expense include accrual amounts of fees received that are included in the effective interest rate, transaction costs and any discounts, premiums and other differences between the original value of the receivable/payable and the amount settled on maturity.

Interest income and interest expense presented in the statement of income consist of:

- Interest on financial assets and liabilities measured at amortised cost using the effective interest rate method, including interest on problem credits
- Interest from derivatives for which hedge accounting is not applied is measured at fair value through the income statement
- Paid and accrued interest on derivatives that are hedging instruments and for which hedge accounting is applied
- Interest on financial assets and liabilities reported at fair value

In the case of interest derivatives used to hedge financial assets, the paid and accrued interest is reported as interest income, while in the case of interest derivatives that hedge financial liabilities, these are reported as part of interest expenses. Unrealised changes in the value of derivatives are reported in the item "Net result of financial transactions" (see page 49).

## 3.10 Commission and fees income

Income from fees and commissions is recognised when the amount of income can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Bank, the stage of completion of the transaction at the balance sheet date can be measured reliably, and the costs incurred and the costs to complete the services can be measured reliably. Income is valued at the fair value of what has been received or will be received.

## 3.11 Commission and fees earned when a specific service is performed

Such commission and fees are generally related to a specifically completed transaction and are immediately reported as income. These fees and commission include various types of notification fees and charge card and credit card fees.

## 3.12 Commission expenses

Expenses for services received insofar as they are not to be viewed as interest, such as expenses for clearing and Bank giro, depot charges and expenses paid to Upplysningscentralen (Sweden's credit information agency), are reported here. Transaction costs recognised in the measurement of the effective rate of interest are not reported here.

## 3.13 Commission and fees included in the effective interest rate

Commission and fees that form an integral part of the effective interest rate are reported for financial instruments valued at amortised cost as part of the acquisition cost of the related liability accrued using the effective interest rate method and are therefore reported as interest expenses and not as commission expenses. Such commission and fees consist primarily of arrangement fees for loans and fees for the provision of credit facilities or other types of loan pledge where it is likely that the credit facility will be drawn.

## 3.14 Classification of leases and recognition of lease income

Financial leasing agreements are reported in accordance with RFR 2 according to the applicable rules for operational leasing agreements, including the disclosure requirement. All leases are thus recognised in accordance with the rules for operating leases, which stipulate that assets for which leasing agreements are concluded (irrespective of whether the agreements are financial or operational) must be reported on the same line in the balance sheet as the corresponding assets owned by the Bank. The "Lease income" item in the income statement includes gross lease income, i.e. before scheduled depreciation.

Lease income (see Note 6 for further information) – net from financial leases that are reported as operating leases – includes scheduled depreciation that is accrued and reported according to the annuity method over the term of the lease (see also Basis of depreciation). This means that these agreements give rise to a higher net income at the beginning of the term of the agreement and a lower net income at the end of the contractual term.

Lease income (see Note 6 for further information) – net from lease agreements where the financial implications are that operating leases include scheduled depreciation that is accrued and reported according to the annuity method over the term of the lease (see also Basis of depreciation). This means that net income remains constant over the term of the agreement.

## 3.15 General administration expenses

General administration expenses encompass personnel costs, including wages/salaries and fees, bonuses and commission, pension costs, payroll fees and other social security expenses. Rental, auditing, training, IT, telecommunications, travel and entertainment expenses are also reported here.

## 3.16 Taxes

Income taxes consist of current tax and deferred tax. Income taxes are reported in the income statement , except where the underlying transaction is reported directly against equity, in which case the associated tax effect is reported in equity.

Current tax is tax that is to be paid or received during the current tax year, based on the tax rates enacted or substantively enacted at the balance sheet date; this also includes any adjustments of current tax attributable to previous periods.

Deferred tax is calculated in accordance with the balance sheet method on the basis of temporary differences between the reported values and the values for tax purposes of assets and liabilities. Temporary differences are not recognised for differences arising in connection with the initial reporting of goodwill or for the initial reporting of assets and liabilities that are not acquisitions of operations, which on the date of the transaction do not affect either reported or taxable earnings. In addition, temporary differences attributable to shares in associated companies that are not expected to be reversed in the foreseeable future are not recognised.

The valuation of deferred tax is based on how the underlying assets or liabilities are realised or settled. Deferred tax is calculated using the tax rates and the tax law that is enacted or substantively enacted at the balance sheet date.

Deferred tax receivables in respect of deductible temporary differences and loss carry-forwards are reported only insofar as these are likely to be utilised. The value of deferred tax receivables is reduced when it is deemed unlikely that these will be utilised. The "Tax on income for the year" item includes current tax, deferred tax and tax for previous years.

## 3.17 Net result of financial transactions

The "Net result of financial transactions" item includes the realised and unrealised changes in value resulting from financial transactions. The net result of financial transactions consists of:

- Capital gains/losses from the sale of financial liabilities valued at amortised cost
- Realised and unrealised changes in the value of derivative instruments that are financial hedging instruments, but for which hedge accounting is not applied
- Capital gains/losses from the sale of financial assets at fair value through the income statement
- Realised changes in the fair value of hedged items in respect of hedged risk in the hedging of fair value
- Unrealised changes in the fair value of derivatives for which hedge accounting at fair value is applied
- Unrealised changes in the fair value of hedged items in respect of hedged risk in the hedging of fair value
- Unrealised changes in the fair value of assets at fair value through the income statement
- Exchange rate fluctuations

## 3.18 Financial instruments

Financial instruments reported on the balance sheet include, on the assets side, chargeable treasury bills, lending to credit institutions, lending to the public, bonds and other interest-bearing securities and other assets and accrued income. Chargeable treasury bills, bonds and other interest-bearing securities are currently classified partly as financial assets at fair value through the income statement and partly as investments held to maturity. Financial assets in the category of financial assets at fair value through the income statement are valued on an ongoing basis at fair value, with value changes reported in the income statement . Other assets include trade receivables as well as positive market values for derivatives. Accrued income consists of accrued interest income. Financial instruments on the liabilities side include liabilities to credit institutions, borrowing from the public, securities issued, subordinated liabilities and other liabilities and accrued expenses. Other liabilities include accounts payable and negative values for derivatives. Accrued expenses are accrued interest expenses.

#### 3.18.1 Reporting in and removal from the balance sheet

A financial asset or financial liability is reported in the balance sheet when the Bank becomes a party to the instrument pursuant to the instrument's contractual terms and conditions.

A financial asset is removed from the balance sheet when the rights in the agreement are realised or expire or the Bank loses control over them. This also applies to some financial assets. A financial liability is removed from the balance sheet when the obligation in the agreement is fulfilled or otherwise expires. This also applies to some financial liabilities.

A financial asset and a financial liability are offset and reported as a net amount in the balance sheet only when there is a legal right to offset amounts and there is the intention to settle the items as a net amount or simultaneously realise the asset and settle the liability.

The acquisition and sale of financial assets are reported on the transaction date, which is the date on which the Bank pledges to acquire or sell the asset. Loan pledges are not reported in the balance sheet. Loan receivables are reported in the balance sheet in connection with the loan amount being paid out to the borrower. An impairment for loan pledges granted is made if the pledge is irrevocable and is granted to the borrower whereby a need for impairment testing is identified before the loan is paid out or where the lending rate does not cover the Bank's borrowing costs required to finance the loan.

#### 3.18.2 Classification and valuation

Financial instruments are initially reported at the instrument's fair value plus a supplement for transaction costs, except for derivatives and those instruments that fall in the category of financial asset reported at fair value in the income statement , which are reported at fair value excluding transaction costs. A financial instrument is classified on initial reporting partly on the basis of the purpose for which the instrument was acquired, but also on the basis of the options available in IAS 39. Classification determines how the financial instrument is to be valued after initial reporting as described below.

The Bank classifies financial instruments into six categories in accordance with IAS 39:

**Loan receivables and trade receivables**
Include the Bank's lending, trade receivables and certain other assets.

**Financial assets at fair value through the income statement**
Financial assets at fair value through the income statement consist of derivatives with a positive closing value that are not included in hedge accounting, including other chargeable securities as well as bonds and other interest-bearing securities where these at the time of acquisition have been classified as financial assets at fair value. The Bank values bonds in the liquidity portfolio at fair value through the income statement so that the portfolio reflects the changes in prices on an active market.

**Financial liabilities at fair value through the income statement**
Consist of derivatives with a negative closing value.

**Investments held to maturity**
Consist of other chargeable securities as well as bonds and other interest-bearing securities where these at the time of acquisition have been classified as investments held to maturity.

**Non-financial liabilities**
Consist of discounts, negotiated commission and other liabilities.

**Other financial liabilities**
Consist of the Bank's borrowing, partly from credit institutions and partly through securities issued, as well as other liabilities such as accounts payable.

Note 35, Fair value assets and liabilities by category, shows the category to which the Bank's financial assets and liabilities belong.

When financial assets and liabilities are reported initially, they are valued at fair value. Loan receivables and trade receivables and other financial liabilities are then valued continually at their amortised cost. Amortised cost is calculated using the effective interest rate method. The instruments are valued continually using the effective rate of interest.

The Bank uses derivative instruments to protect itself against the interest rate risk of fixed-interest borrowing and the exchange rate risk of borrowing in foreign currency. The derivative instruments not used in hedge accounting fall into the category of financial assets at fair value through the income statement . These derivatives represent financial hedges and are used in risk management for floating rate borrowing in foreign currency, but the Bank has concluded that there is no reason to apply hedge accounting for them. These instruments are measured at fair value with changes in value reported through the income statement .

#### 3.18.3 Measurement of financial instruments at fair value

The methods used to measure financial instruments at fair value are described in Note 35.

## 3.19 Hedge accounting

The Bank uses derivatives to hedge against interest rate risks and foreign exchange risks. It uses hedge accounting for the interest rate risk of fixed-interest borrowing and for the derivatives used to reduce the inherent risk. The Bank applies hedge accounting to financial hedging relations only where the effect on earnings, in the opinion of the Bank, would be far too misleading if hedge accounting were not applied. The Bank applies hedge accounting, fair value hedging.

For other financial hedging, where the effect on earnings of not applying hedge accounting is deemed to be more limited, hedge accounting is not applied in view of the additional administrative work involved in hedge accounting.

Hedge accounting means that the hedge instrument (derivative) is measured at fair value. The value of the hedged item is adjusted according to market rate changes. The change in value is not affected by any change in the Bank's credit spread. The effect of the changes in value is recognised through the income statement .

Meeting the requirements of hedge accounting in line with IAS 39 requires that there is a definite link to the hedged item. Further requirements are that the hedge is effective in offsetting the designated risk in the hedged item, that hedging documentation is drawn up, and that the effectiveness can be measured reliably. Hedge accounting may be applied only if the hedging relationship is expected to be highly effective and in retrospect has a level of effectiveness in the range of 80–125 %. In cases where the conditions for hedge accounting are no longer fulfilled, the derivative instrument is recognised at fair value with the change in value through the income statement . Hedge accounting ceases in the event that the hedge instrument is sold, in the event that the hedge relationship no longer meets the terms and conditions, or where the hedging relationship is discontinued. When the hedging relationship ceases, the accumulated gains and losses that adjusted the hedged item are accrued in the income statement . The value adjustment is immediately recognised in the income statement in those cases where the hedged item is sold and the gains or losses are realised.

## 3.20 Embedded derivatives

The primary rule is that embedded derivatives are separated from the host contract. Embedded derivatives are not separated if their financial characteristics and risks are closely associated with the host contract's financial characteristics and risks. The Bank has embedded derivatives in the form of interest rate cap agreements for some of its lending. However, the derivatives are not separated as the risks are closely associated with the host contract.

## 3.21 Testing for impairment of loan receivables

On each reporting date, the Bank assesses whether there is any objective evidence to indicate that a loan receivable or group of loan receivables require impairment as a result of one or more events (loss events) after the receivable was initially recognised and that these loss events have an impact on the estimated future cash flows from the receivable or group of receivables.

The Bank assesses whether problem credits should be reviewed for impairment and whether a credit loss should be reported on an individual basis. Impairment is reported on the balance sheet in a special impairment account that reduces the carrying amount of the receivable and is reported as a credit loss in the income statement . See Note 14.

Objective evidence that loan receivables should be reviewed individually for impairment may be that the borrower is more than 90 days behind with contractual payments. Other objective evidence may be information regarding substantial financial difficulties that has come to the notice of the Bank through an analysis of financial statements, or in some other way, as part of the ongoing evaluation of a customer's creditworthiness, which is an integral component of the Bank's system and procedures for managing credit risk.

The Bank also determines the need for individual impairment testing based on the following loss events:

a) significant financial difficulties of the debtor;
b) a breach of contract, such as failure to pay or delayed payment of interest or capital amount;
c) granting by the lender, for financial or legal reasons that relate to the borrower's financial difficulties, of a concession that the lender would not otherwise have considered;
d) it is likely that the borrower will declare Bankruptcy or undergo some other form of financial restructuring; or
e) observable data indicates that there is a measurable reduction in the future cash flows from a group of financial assets after these assets were reported initially, although the reduction cannot be identified as pertaining to any of the individual financial assets in the group.

Concessions granted to the Bank's borrowers as a result of the financial difficulties of the borrower may also constitute objective evidence that the loan must be evaluated individually for impairment. The same principle is applied to leases, although the financial guarantees provided by the dealers are then also taken into account.

Household loans that are evaluated individually for impairment and where no impairment has been identified are included in an additional evaluation with other loans with similar credit risk characteristics in order to determine whether impairment exists on a group level. There is no equivalent group impairment evaluation for corporate credits. One reason for evaluating for impairment at group level is that, despite the loan not being considered doubtful on an individual level, the Bank does not have full knowledge of all the factors that are relevant for an individual evaluation on the balance sheet date. An additional group impairment has therefore been made to deal with this information lag and to make provision for losses that have arisen but have not yet come to the Bank's attention.

## 3.22 Credit losses and impairment of financial instruments

**Vehicle financing**
The Bank's stock of credit consists primarily of vehicle financing. Loan and lease credit accounts for the majority of the total lending for financing of vehicles. This is transferred or pledged to the Bank by the dealer, with collateral in the form of the vehicles through right of repossession or ownership rights. Under these agreements, the dealer bears the ultimate credit risk for these credit contracts where required by the Bank.

In order for impairment to be recognised and a loss to arise for the Bank due to these contracts, the following circumstances would have to occur:

1. The end customer suspends payments.
2. The dealer lacks the means to pay and
3. the market value of the repossessed vehicle is less than the residual value shown in the contract.

## 3.23 Impairment for credit losses

#### 3.23.1 Household segment

In the case of household exposures, individual credit losses that have occurred and losses that have occurred in the group of loans, but which can still not be attributed to individual loans using statistical risk models, are evaluated to ascertain any need for impairment.

Lending to the household segment is divided into risk categories. A risk category consists of a number of exposures with similar risk profiles and risk levels, which have undergone a standardised risk process (risk classification) and which have similar credit risk characteristics. A risk estimate is calculated for each risk category, which describes the probability that payments on the loan will be more than 90 days late over the next 12 months. The risk estimate for defaulted receivables (receivables overdue by more than 90 days) is 100%.

The Bank considers that when payments on loans are more than 90 days overdue (defaulted receivables), there is objective evidence that the loans should be individually evaluated for impairment. In addition to this evidence, the Bank takes into account other information that indicates the inability of the customer to fulfil contractual obligations. In the case of the additional collective impairment where it has not yet been possible to attribute the need for impairment to individual credits, the Bank regards customers that migrate to a less favourable risk category as observable evidence that the group of loans should be evaluated for impairment.

The Bank derives the expected cash flows for the loans and groups of loans for which impairment has been recognised from the data and information that has been collected within the framework of the Bank's method of determining capital requirement. The future cash flows are determined using the same fundamental principles that are used in capital adequacy, i.e. loss given default (LGD) and probability of default (PD). Since there are a number of differences between the rules for capital adequacy and a neutral estimate of expected future cash flows, this data is revised in a number of respects so that it provides an adequate base for impairment evaluation.

#### 3.23.2 Corporate segment

Impairment of corporate credit risk is based on a manual review of all receivables. The Bank considers that when payments are more than 90 days overdue there is observable evidence that loans in the corporate segment should be evaluated for impairment. In addition to this evidence, the Bank takes into account other information that indicates the inability of the customer to fulfil contractual obligations.

The carrying amount after impairment of assets in the categories of loan receivables and trade receivables, which are reported at amortised cost, is calculated as the present value of future cash flows, discounted at the effective rate of interest that applied when the asset was initially recognised. Short-term assets are not discounted. Any impairment is reported in the income statement .

In the case of doubtful receivables, for which the reported value after impairment is calculated as the total discounted value of future cash flows, the change in the impaired amount is reported as interest insofar as the increase does not depend on the reassessment of the expected cash flows. In the event of a change in the assessment of expected future cash flows from a doubtful loan between two assessment dates, this change is reported as a credit loss or recovery of a credit loss.

#### 3.23.3 Reversal of impairment

Impairment is reversed if there is evidence that the need to review for impairment no longer exists and there has been a change in the underlying assumption for the measurement of the impaired amount. An impairment of a loan receivable is reversed if the borrower is expected to fulfil all contractual payments in accordance with the original or restructured loan conditions. Reversal of the impairment of loans (credit losses) is reported as a decrease in credit losses.

Any impairment of loan receivables and trade receivables that is reported at amortised cost is reversed if a subsequent increase in the recoverable value can objectively be attributed to an event that occurred after the impairment was made.

#### 3.23.4 Write-off of loan receivables

Loan receivables classified as doubtful are written off from the balance sheet when the credit loss is deemed confirmed, which is when the receiver in Bankruptcy has submitted an estimate of the payment in the Bankruptcy, the composition proposal is accepted, or the receivable is conceded in some other manner when the loan receivable is sold to a third party. Following write-off, loan receivables are no longer reported in the balance sheet. The recovery of previous write-offs is reported as a decrease in credit losses on the "Credit losses, net" line.

## 3.24 Property, plant and equipment

#### 3.24.1 Assets owned

Property, plant and equipment are reported as assets on the balance sheet if it is likely that future economic benefits will flow to the Bank and the acquisition cost of the assets can be measured reliably.

Property, plant and equipment are reported at acquisition cost after deductions for accumulated depreciation and any impairment, as well as additions for any write-ups.

The reported value for any property, plant and equipment is removed from the balance sheet on scrapping or sale, or when no future economic benefit is expected from the use or scrapping/sale of the asset. Gains or losses arising from the sale or scrapping of an asset consist of the difference between the sale price and the asset's carrying amount, less the direct selling expenses. Gains and losses are reported as other operating income/expenses.

#### 3.24.2 Leased assets for which the Bank is the lessor

All leases are recognised in accordance with the rules for operating leases, which stipulate that assets for which leasing agreements are concluded (irrespective of whether the agreements are financial or operational) must be reported on the same line in the balance sheet as the corresponding assets owned by the Bank.

#### 3.24.3 Additional expenses

Additional expenses are added to the acquisition cost only in the event that it is likely that future economic benefits associated with the asset will flow to the Bank and the acquisition cost can be measured reliably. All other additional expenses are reported as a cost in the period in which they arise.

A key factor in determining when an additional expense is added to the acquisition cost is whether the expense pertains to the replacement of identified components, or parts thereof, in which case such expenses are capitalised. Expenses are also added to the acquisition cost when new components are created. Any non-depreciated reported values for replaced components, or parts of components, are discarded and expensed in connection with the replacement. Repairs are expensed continually.

#### 3.24.4 Basis of amortisation

Depreciation is applied on a linear basis over the estimated useful life of equipment. Finance leases that are reported as operating leases are depreciated according to the annuity method and operating leases are depreciated on a linear basis. The estimated useful life of inventories is 5 years and of lease items is according to the contractual term. The depreciation methods applied and the residual value and useful life of assets are reviewed at the end of each year.

#### 3.24.5 Impairment, description of residual value reserve

The Bank continually assesses the need for the impairment of assets used in operational leasing. Impairment is necessary if the carrying amount exceeds the value in use. If the carrying amount exceeds the value in use, the value of the asset is written down to this amount. The value in use is determined alongside the present value of outstanding rents and the present value of the anticipated selling price. The anticipated selling price is obtained from two independent external parties. Impairment is reversed if the carrying amount is lower than the value in use.

Impairment and reversal of impairment are recognised in the income statement as depreciation, amortisation and impairment of property, plant and equipment and intangible non-current assets.

## 3.25 Property, plant and equipment

#### 3.25.1 Development

Development expenses, where the results or other knowledge are applied in order to achieve new or enhanced products or processes, are reported as an asset on the balance sheet if the product or process is technically and commercially viable and the Bank has sufficient resources to complete the development and can subsequently use or sell the intangible non-current asset. The carrying amount includes directly attributable expenses, such as materials and services, employee benefits, registration of legal rights, amortisation of patents and licences and borrowing costs in accordance with IAS 23. Other development expenditure is expensed in the income statement as it arises. The development costs recognised in the balance sheet are reported at acquisition cost less accumulated depreciation and any impairment.

#### 3.25.2 Licences

Acquired licences are reported at acquisition cost less accumulated amortisation and impairment.

#### 3.25.3 Additional expenses

Additional expenses for capitalised intangible non-current assets are only reported as an asset in the balance sheet if they increase the future economic benefits arising from the specific asset to which they are attributable. All other expenditure is expensed as it arises.

#### 3.25.4 Basis of amortisation

Amortisation is reported in the income statement on a linear basis over the estimated useful life of the intangible non-current asset. The useful life periods are reviewed at least annually. Amortisable intangible non-current assets are amortised as of the date that they become available for use. The estimated useful life of the assets is:

- Software 3–5 years
- Licences 3 years

## 3.26 Impairment of property, plant and equipment and intangible non-current assets, and shares in subsidiaries and associates

#### 3.26.1 Impairment testing

The reported values for the Bank's assets are tested at each balance sheet date to determine whether there are any indications that impairment is required. Any indication of an impairment requirement is calculated in accordance with IAS 36, Impairment of Assets.

If it is not possible to determine significant independent cash flows for a particular asset when evaluating impairment, the assets should be grouped at the lowest level at which it is possible to identify significant independent cash flows. This is referred to as a cash-generating unit.

Impairment is reported when the reported value of an asset or cash-generating unit (group of units) exceeds the recoverable amount. Any impairment is reported in the income statement . The impairment of assets attributable to a cash-generating unit (group of units) is allocated initially to goodwill. Subsequently, a proportional impairment is made of other assets included in the unit (group of units).

The recoverable amount is the higher of the fair value, less selling expenses, and the value in use. In calculating the value in use, future cash flow is discounted using a discount factor that takes into account the risk-free rate of interest and the risk associated with the specific asset.

#### 3.26.2 Reversal of impairment

Impairment is reversed if there is an indication that the need to review for impairment no longer exists and there has been a change in the underlying assumption for the measurement of the recoverable amount. A reversal is made only insofar as the asset's carrying amount after reversal does not exceed the carrying amount that should have been reported, less depreciation, if no impairment had been made.

## 3.27 Liabilities and equity

When the Bank issues a financial instrument it shall classify the instrument, or its component parts on initial recognition, as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset and an equity instrument. Instruments that can be classified as equity in accordance with legislation or other stipulations are nevertheless reported as equity even where the substance of the contractual arrangement indicates that the instrument is a debt instrument.

#### 3.27.1 Share capital

**Dividends**

Dividends are reported as a liability following the approval of the Annual General Meeting.

#### 3.27.2 Severance pay

##### 3.27.2.1 Retirement pension through insurance

The Bank's pension plans for salaried personnel covered by collective agreement are secured by means of insurance agreements with Alecta. Under IAS 19, a defined-contribution plan is a plan for remuneration following the termination of employment, according to which the Bank pays fixed fees to a separate legal entity and has no legal or informal obligation to pay further fees if the legal entity does not have sufficient assets to pay all benefits to employees that are attributable to the period of service during the current period and earlier. A defined-benefit pension plan is defined as any plan for benefits following the termination of employment other than a defined contribution plan.

The pension plan for the Bank's employees is deemed to be a multi-employer defined benefit plan. However, the Bank has concluded that UFR 10 "Reporting of pension plans in ITP 2 that are financed through insurance with Alecta" is also applicable to the Bank's pension plan. The Bank does not have sufficient information to allow for recognition under IAS 19, and pension plans are therefore recognised as defined-contribution plans under UFR 10. The Bank's obligations relating to fees for defined-contribution plans are recognised as expense in the income statement at the rate they are earned by employees providing service to the Bank during a period.

##### 3.27.2.2 Termination benefits

The cost of remuneration relating to the termination of employment of personnel is only recognised if the Bank is demonstrably obliged, without any realistic possibility of recourse, by a formal detailed plan to terminate employment before the normal date. Where benefits are offered to encourage voluntary redundancy, a cost is reported if it is likely that the offer will be accepted and the number of employees accepting the offer can be measured reliably.

**3.27.2.3 Short-term remuneration**

Short-term employee benefits are calculated without discounting and reported as a cost when the related services are performed. A provision is reported for the expected cost involved in bonus payments where the Bank has a legally binding or informal obligation to make such payments as a result of the performance of services by employees and the obligation can be measured reliably.

### 3.28 Appropriations

Appropriations include allocations to, and utilisation of, untaxed reserves. Untaxed reserves are reported including the deferred tax liability.

### 3.29 Group contribution

Group contributions received from subsidiaries are reported in the income statement according to the same principles as dividends from subsidiaries. Group contributions paid to subsidiaries are reported in the income statement .

## 4. SEGMENT REPORTING

The Bank's operations are divided into operating segments based on the business areas that the Bank's chief operating decision maker is monitoring. Operations are organised so that the management monitors the profit, returns and cash flows generated by the various services.
The internal reporting procedures are therefore structured so that the management can monitor the performance of all services. The Sales Finance Cars, The Sales Finance Trucks and the Volvo Truck Card (Trucks), The Fleet Finance (Fleet) and the Volvo Card (Card) segments have been identified by the Bank in 2014 on the basis of these reporting procedures.

All operating income proceeds from external customers and all the Bank's operations take place in Sweden.

The management monitors and reviews the following items in the income statement and balance sheet.

| Jan – Dec 2014 | Cars | Trucks | Fleet | Card | Total |
|---|---|---|---|---|---|
| Operating income* | 234,736 | 32,981 | 108,421 | 301,688 | 677,826 |
| Expenses** | - 73,021 | - 14,406 | - 63,646 | - 184,162 | - 335,235 |
| Credit losses*** | 129 | - 85 | 2,601 | - 14,589 | - 11,944 |
| Operating profit | 161,844 | 18,490 | 47,376 | 102,937 | 330,647 |
| Appropriations | 470,651 | 53,770 | 137,772 | 299,346 | 961,539 |
| Tax on profit for the year | - 139,459 | - 15,933 | - 40,823 | - 88,700 | - 284,915 |
| Net profit for the year | 493,036 | 56,327 | 144,325 | 313,583 | 1,007,271 |
| Lending volume Ø, SEK million | 15,256 | 2,223 | 5,081 | 1,133 | 23,693 |
| Number of contracts Ø | 163,586 | 6,004 | 58,098 | – | 227,688 |
| Average number of active accounts | – | 2,002 | – | 453,173 | 455,175 |

| Jan – Dec 2013 | Cars | Trucks | Total |
|---|---|---|---|
| Operating income* | 564,628 | 29,706 | 594,334 |
| Expenses** | - 275,568 | - 14,230 | - 289,798 |
| Credit losses*** | - 28,125 | - 184 | - 28,309 |
| Operating profit | 260,935 | 15,292 | 276,227 |
| Appropriations | – | – | – |
| Tax on profit for the year | - 58,078 | - 3,056 | - 61,134 |
| Net profit for the year | 202,857 | 12,236 | 215,093 |
| Lending volume Ø, SEK million | 25,069 | 2,796 | 27,865 |
| Number of contracts Ø | 221,370 | 6,219 | 227,589 |

* Operating income including depreciation and impairment of lease items.
** Including depreciation/amortisation of property, plant and equipment and intangible non-current assets excluding depreciation on lease items.
*** Including impairment.

There are no large customers that account for ten or more per cent of the Bank's revenue.

# Income statement

## 5. INTEREST INCOME AND INTEREST EXPENSE

| | 2014 | 2013 |
|---|---|---|
| **Interest income** | | |
| Lending to credit institutions | 5,998 | 22,445 |
| Lending to the public | 487,166 | 542,795 |
| Interest-bearing securities | 22,452 | 28,051 |
| Other interest income | – | 299 |
| **Total** | **515,616** | **593,590** |
| Of which interest income from financial items not measured at fair value | 493,164 | 593,048 |
| **Interest expenses** | | |
| Liabilities to credit institutions | - 34,181 | - 51,495 |
| Deposits and borrowing from the public | - 222,626 | - 291,334 |
| Cost of deposit guarantee | - 12,082 | - 9,820 |
| Interest-bearing securities | - 169,976 | - 262,040 |
| Other interest expenses | - 31,229 | - 31,234 |
| **Total** | **- 470,094** | **- 645,923** |
| Of which interest expenses from financial items not measured at fair value | 423,769 | 566,479 |
| **Total net interest** | **45,522** | **- 52,333** |

Interest income from items measured at fair value is negative. The income relates to the swaps used to eliminate the risk of interest rate changes in fixed rate lending. No interest has been reported as income in relation to problem credits.


## 6. LEASE INCOME AND ACCUMULATED NET INTEREST

All leases are recognised on the balance sheet as operating leases (even if the content of the contract constitutes financial leasing) and the income from these leases is recognised as lease income (gross).

### Lease income, net

| | 2014 | 2013 |
|---|---|---|
| Lease income from contracts recognised as operating leases | 3,517,264 | 3,477,151 |
| Scheduled depreciation on leases recognised as operating leases | - 3,208,778 | - 3,130,150 |
| **Lease income from contracts recognised as operating leases, net** | **308,486** | **347,001** |

### Accumulated net interest

| | 2014 | 2013 |
|---|---|---|
| Lease income from financial leases (recognised as operating leases on the balance sheet) | 2,256,002 | 2,312,249 |
| Scheduled depreciation on financial leases (recognised as operating leases on the balance sheet) | - 2,058,138 | - 2,081,721 |
| **Lease income net from finance leases** | **197,864** | **230,528** |
| Interest income | 515,616 | 593,590 |
| Interest expenses | - 470,094 | - 645,923 |
| **Accumulated net interest*** ** | **243,386** | **178,195** |
| | | |
| **Total net lease and interest income** | | |
| Lease income from contracts recognised as operating leases, net | 308,486 | 347,001 |
| Net interest according to Note 4 | 45,522 | - 52,333 |
| **Total net lease and interest income** | **354,008** | **294,668** |
| | | |
| Interest margin** | 1.01% | 0.69% |
| Average rate of interest, lending | 3.06% | 3.37% |
| Average rate of interest on deposits (incl. cost of deposit guarantee) | 1.72% | 2.35% |

* Financial leases are reported as operating leases, net.
** Total interest income as a percentage of the average balance sheet total minus total interest expenses as a percentage of the average balance sheet total excluding average equity and untaxed reserves.
*** Accumulated net interest is influenced partly by the interest expenses of financing operating leases and partly by the Bank building up a liquidity reserve.

## 7. DIVIDENDS RECEIVED

| | 2014 | 2013 |
|---|---|---|
| Shares and participations in associated companies | 2,822 | 2,487 |
| **Total** | **2,822** | **2,487** |

## 8. COMMISSION INCOME

| | 2014 | 2013 |
|---|---|---|
| Commission income Credit card | 195,947 | 189,794 |
| Commission income Loans and Leases | 149,603 | 143,292 |
| **Total** | **345,550** | **333,086** |

## 9. COMMISSION EXPENSES

| | 2014 | 2013 |
|---|---|---|
| Commission money transmission services | - 3,645 | - 3,543 |
| Other commission | - 16,628 | - 17,748 |
| **Total** | **- 20,273** | **- 21,291** |

## 10. NET RESULT OF FINANCIAL TRANSACTIONS

| | 2014 | 2013 |
|---|---|---|
| Interest-bearing securities | - 4,281 | - 14,618 |
| **Total** | **- 4,281** | **- 14,618** |

### Gains/losses by valuation category, including exchange rate changes

| | 2014 | 2013 |
|---|---|---|
| Derivative assets* designed for risk management, hedge accounting not applied | – | - 2 |
| Financial assets at fair value through the income statement | - 2,932 | - 2,040 |
| Derivative liabilities* designed for risk management, hedge accounting not applied | - 444 | 358 |
| Financial liabilities at amortised cost** | - 1,487 | - 10,499 |
| Change in fair value of derivatives that are hedge instruments in fair value hedges | - 36,695 | - 36,695 |
| Change in fair value of hedged items in respect of hedged risk in fair value hedges | 37,277 | 34,260 |
| **Total** | **- 4,281** | **- 14,618** |

* Derivative assets/liabilities are financial assets/liabilities held for trading.
** Also includes realised gains and losses in the repurchase of own borrowings.

## 11. GENERAL ADMINISTRATION EXPENSES

| | 2014 | 2013 |
|---|---|---|
| Salaries and remuneration | - 86,753 | - 87,959 |
| Social security expenses | - 27,955 | - 26,971 |
| Cost of pension premiums* | - 10,801 | - 10,171 |
| Payroll tax | - 2,580 | - 2,428 |
| Other personnel costs | - 2,872 | - 3,284 |
| **Total personnel costs** | **- 130,961** | **- 130,813** |
| Postage and telephone | - 4,797 | - 3,699 |
| IT costs | - 105,526 | - 108,196 |
| Consulting services | - 2,995 | - 2,275 |
| Rent and other premises costs | - 10,533 | - 10,592 |
| Other | - 14,190 | - 12,328 |
| **Total other general administrative costs** | **- 138,041** | **- 137,090** |
| **Total general administration costs** | **- 269,002** | **- 267,903** |

* Total pension premiums amount to SEK 10,801 (10,171), of which 5,514 (5,098) relate to Alecta ITP 2 pensions

The anticipated fees for the next reporting period for ITP2 insurance arranged through Alecta amount to 5,622 (5,514). The Bank's share of the total fees for the plan and the Bank's share of the total number of active members in the plan are 0.03 and 0.03 % respectively. The collective consolidation level is equal to the market value of Alecta's assets as a percentage of the insurance commitments calculated using Alecta's insurance methods and assumptions, which are not compliant with IAS 19. The collective consolidation level is normally permitted to vary between 125 and 155 %. If Alecta's collective consolidation level falls below 125 % or exceeds 155 %, measures must be taken in order to create the conditions for the consolidation level to return to its normal range. Measures in the event of low consolidation may include increasing the agreed price for new business and expanding existing benefits. Measures in the event of high consolidation may include implementing premium reductions. At the end of 2014, Alecta's surplus in the form of the collective consolidation level was 143 % (148).

### Salaries and other remuneration distributed among the senior executives and other employees, as well as social security expenses

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Senior executives (14 people) | Other employees | Total | Senior executives (18 people) | Other employees | Total |
| Salaries and other remuneration | - 9,731 | - 77,022 | - 86,753 | - 16,321 | - 71,638 | - 87,959 |
| of which variable remuneration | – | (- 841) | (- 841) | – | (- 867) | (- 867) |
| **Total** | **- 9,731** | **- 77,022** | **- 86,753** | **- 16,321** | **- 71,638** | **- 87,959** |
| Social security expenses * | | - 41,336 | | | | - 39,570 |
| * of which pension costs | | (- 13,381) | | | | (- 12,599) |

### Salaries and remuneration to senior executives

| | Basic salary/fee | Variable remuneration | Other benefits | Pension expenses | Total |
|---|---|---|---|---|---|
| **2014** | | | | | |
| Chairman of the Board | - 392 | – | – | – | - 392 |
| Board Members (5 people) | - 1,193 | – | – | – | - 1,193 |
| President | - 2,323 | – | - 152 | - 767 | - 3,242 |
| Other senior executives (7 people) | - 5,823 | – | - 480 | - 1,483 | - 7,785 |
| **Total** | **- 9,731** | **–** | **- 632** | **- 2,250** | **- 12,612** |
| **2013** | | | | | |
| Chairman of the Board | - 335 | – | – | – | - 335 |
| Board Members (5 people) | - 855 | – | – | – | - 855 |
| President | - 5,259 | – | - 134 | - 757 | - 6,150 |
| Other senior executives (11 people) | - 9,872 | – | - 628 | - 2,469 | - 12,969 |
| **Total** | **- 16,321** | **–** | **- 762** | **- 3,226** | **- 20,309** |

Fees are paid to the Board members in accordance with the decision of the Annual General Meeting. Remuneration to the President is determined by the Board after a proposal from the remuneration committee. The retirement age, according to contract, is 65. In the event of the termination of the employment of the President by the Bank, severance pay shall consist of 6 months' salary and a maximum of an additional 12 months if new employment is not secured. The remuneration committee consists of the Chairman of the Board and two other Board members. Variable remuneration does not apply to the Bank's management, to employees who make decisions about credit/limits or who work within the Compliance, Risk control and Internal Audit control functions.

### Remuneration of the Board of Directors

| Name | Position | 2014 | 2013 |
|---|---|---|---|
| Urmas Kruusval | Chairman | - 392 | - 335 |
| Anders Gustafsson | Member | - 155 | - 130 |
| Bob Persson | Member | - 155 | - 130 |
| Per Avander | Member | - 155 | - 130 |
| Tommy Andersson | Member | - 253 | - 204 |
| Synnöve Trygg | Member | - 210 | – |
| Christina Brinck | Deputy/Member | - 110 | - 130 |
| Janola Gustafson | Deputy | - 77 | - 33 |
| Jonas Eriksson | Deputy | - 33 | - 65 |
| Patrik Tolf | Deputy | - 45 | – |
| Owe Orrbeck | Deputy | – | - 33 |
| **Total** | | **- 1,585** | **- 1,190** |

### Employee information

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| | Men | Women | Total | Men | Women | Total |
| Average number of employees | 74 | 109 | 183 | 72 | 110 | 182 |
| **Executive management, by gender distribution** | | | | | | |
| President | 1 | – | 1 | 1 | – | 1 |
| Board of Directors | 5 | 1 | 6 | 5 | 1 | 6 |
| Other senior executives | 4 | 3 | 7 | 6 | 5 | 11 |
| **Total** | **10** | **4** | **14** | **12** | **6** | **18** |

### Fees and cost compensation for auditors

| KPMG | 2014 | 2013 |
|---|---|---|
| Auditing assignments | - 1,300 | - 1,300 |
| Auditing activities in addition to the audit | - 143 | - 134 |
| Tax advice | - 6 | - 33 |
| Other services | - 468 | - 970 |
| **Total** | **- 1,917** | **- 2,437** |

## 12. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY PLANT AND EQUIPMENT AND INTANGIBLE NON-CURRENT ASSETS

| | 2014 | 2013 |
|---|---|---|
| Scheduled amortisation | - 3,212,537 | - 3,141,102 |
| Reversed impairment for the year | 13,647 | 24,418 |
| Impairment | - 23,460 | - 1,147 |
| **Total** | **- 3,222,350** | **- 3,117,831** |
| **Scheduled amortisation** | | |
| Equipment | - 564 | - 563 |
| Lease items | - 3,208,778 | - 3,130,150 |
| Intangible non-current assets | - 3,195 | - 10,389 |
| **Total** | **- 3,212,537** | **- 3,141,102** |
| **Impairment, net** | | |
| Lease items | - 9,813 | 23,271 |
| **Total** | **- 9,813** | **23,271** |

## 13. OTHER OPERATING EXPENSES

| | 2014 | 2013 |
|---|---|---|
| Fees to central organisations | - 2,083 | - 1,872 |
| Insurance costs | - 351 | - 371 |
| Marketing costs | - 49,210 | - 31,936 |
| Other operating expenses | - 1,017 | - 33 |
| **Total** | **- 52,661** | **- 34,212** |

## 14. CREDIT LOSSES, NET

| | 2014 | 2013 |
|---|---|---|
| **Specific provision for collectively valued receivables*** | | |
| Write-off of confirmed credit losses for the year | - 18,105 | - 18,308 |
| Impairment for the year | - 7,722 | - 7,658 |
| Received from previous years' confirmed credit losses | 1,045 | 1,096 |
| Reversed provisions no longer required for probable credit losses | 7,939 | 739 |
| **Net cost for specific provisions for collectively valued receivables for the year** | **- 16,843** | **- 24,131** |
| **Collective provision for losses incurred but not yet reported**** | | |
| Impairment for the year | - 2,814 | - 4,225 |
| Reversed provisions no longer required for probable credit losses | 7,713 | 47 |
| **Net cost for the year for collective provisions** | **4,899** | **- 4,178** |
| **Total net costs** | **- 11,944** | **- 28,309** |

* Relates to credit losses on receivables individually identified as uncertain where the reserves are based on historical experience from similar loans.
** Relates to credit losses on receivables that have not yet been identified as uncertain but where there is a need for impairment within a group of loans.

## 15. APPROPRIATIONS

| | 2014 | 2013 |
|---|---|---|
| Change in tax allocation reserve | 101,744 | – |
| Unscheduled depreciation | 859,795 | – |
| **Total** | **961,539** | **–** |

## 16. TAX ON PROFIT FOR THE YEAR

| | 2014 | 2013 |
|---|---|---|
| Tax expense for the year | - 284,915 | - 61,134 |
| **Total reported tax expense** | **- 284,915** | **- 61,134** |

| | 2014 | 2014 | 2013 | 2013 |
|---|---|---|---|---|
| **Reconciliation of effective tax** | | | | |
| Income before tax | | 1,292,185 | | 276,227 |
| Tax at applicable tax rate | - 22.0% | - 284,281 | - 22.0% | - 60,770 |
| Non-deductible expenses | - 0.1% | - 636 | - 0.2% | - 432 |
| Untaxable income | 0.0% | 2 | 0.0% | 68 |
| **Reported effective tax** | **- 22.1%** | **- 284,915** | **- 22.2%** | **- 61,134** |

# Balance sheet

## 17. CHARGEABLE TREASURY BILLS ETC.

| | Nominal value | Carrying amount | Nominal value | Carrying amount |
|---|---|---|---|---|
| | 31/12/2014 | 31/12/2014 | 31/12/2013 | 31/12/2013 |
| Securities issued by governments | 100,000 | 99,974 | 100,000 | 99,827 |
| Securities issued by municipal authorities and other public bodies | 1,070,000 | 1,070,872 | 1,189,000 | 1,191,920 |
| **Total** | **1,170,000** | **1,170,846** | **1,289,000** | **1,291,747** |

## 18. LENDING TO CREDIT INSTITUTIONS

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Outstanding receivables in Swedish currency, gross | 1,784,781 | 2,585,494 |
| of which to Swedish business Banks | 1,784,780 | 2,585,490 |
| of which payable on demand | 1,784,781 | 2,585,494 |

## 19. LENDING TO THE PUBLIC

The Bank's total lending, including lease items, amounts to SEK 24,845,337 (23,965,603). The stated values are reduced after credit risk impairment for each credit. The values are SEK 23,486 (25,935) lower than the gross value of the receivables. (See also Note 24 and the table Impairment by asset item.)

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Outstanding receivables in Swedish currency, gross | 12,674,079 | 12,504,726 |
| Impairment for credit losses | - 23,486 | - 25,935 |
| **Carrying amount, net** | **12,650,593** | **12,478,791** |
| **Impairment** | | |
| Opening balance, 1 January | - 25,935 | - 15,140 |
| Impairment for the year | - 10,112 | - 16,592 |
| Reversed provisions no longer required for probable credit losses | 12,561 | 5,797 |
| **Closing balance, 31 December** | **- 23,486** | **- 25,935** |

## 20. BONDS AND OTHER INTEREST-BEARING SECURITIES

| | Nominal value | Carrying amount | Nominal value | Carrying amount |
|---|---|---|---|---|
| | 31/12/2014 | 31/12/2014 | 31/12/2013 | 31/12/2013 |
| Securities issued by non-financial companies | 835,000 | 837,297 | 1,266,238 | 1,272,558 |
| **Total** | **835,000** | **837,297** | **1,266,238** | **1,272,558** |

## 21. SHARES AND PARTICIPATIONS IN ASSOCIATED AND OTHER COMPANIES

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Unlisted securities** | | |
| Reported value, 1 January | 11,913 | 9,426 |
| Participation in the results of limited partnerships for the year | 2,822 | 2,487 |
| **Reported value 31 December** | **14,735** | **11,913** |

| | Profit | Equity | Share of equity | Carrying amount |
|---|---|---|---|---|
| **2014** | | | | |
| Visa Inc C | – | 48 | – | 48 |
| Volvohandelns PV Försäljnings AB, corp. ID no. 556430-4748, Göteborg, Sweden | 1,918 | 33,481 | 11,049 | 1,000 |
| Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Göteborg, Sweden | 11,565 | 57,157 | 11,242 | 11,242 |
| VCC Tjänstebilar KB, corp. ID no. 969673-1950, Göteborg, Sweden | - 697 | 9,391 | 1,493 | 1,493 |
| VCC Försäljnings KB, corp. ID no. 969712-0153, Göteborg, Sweden | – | 3,524 | 952 | 952 |
| **Total** | **12,786** | **103,601** | **24,736** | **14,735** |
| **2013** | | | | |
| Visa Inc C | – | 48 | – | 48 |
| Volvohandelns PV Försäljnings AB, corp. ID no. 556430-4748, Göteborg, Sweden | 2,018 | 31,563 | 10,416 | 1,000 |
| Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Göteborg, Sweden | 10,258 | 47,092 | 8,351 | 8,351 |
| VCC Tjänstebilar KB, corp. ID no. 969673-1950, Göteborg, Sweden | - 311 | 10,088 | 1,562 | 1,562 |
| VCC Försäljnings KB, corp. ID no. 969712-0153, Göteborg, Sweden | – | 3,524 | 952 | 952 |
| **Total** | **11,965** | **92,315** | **21,281** | **11,913** |

Volvohandelns PV Försäljnings AB is the general partner in all limited partnership companies.

## 22. SHARES AND PARTICIPATIONS IN GROUP COMPANIES

| | Corp. ID no. | Registered office | Result 2014 |
|---|---|---|---|
| **Unlisted securities** | | | |
| Automanagement AR AB | 556268-7052 | Göteborg | – |
| Volvofinans IT AB | 556004-3621 | Göteborg | – |
| Volvofinans Leasing AB | 556037-5734 | Göteborg | – |
| Autofinans Nordic AB | 556094-7284 | Göteborg | – |

| | Number of shares | Nom. value | Carrying amount 2014 | Carrying amount 2013 |
|---|---|---|---|---|
| **Shares in wholly-owned Group companies** | | | | |
| Automanagement AR AB | 2,000 | 200 | 240 | 240 |
| Volvofinans IT AB | 400 | 200 | 240 | 240 |
| Volvofinans Leasing AB | 10,000 | 1,000 | 1,200 | 1,200 |
| Autofinans Nordic AB | 50,000 | 5,000 | 5,060 | 5,060 |
| **Total carrying amount of shareholdings** | | | **6,740** | **6,740** |


## 23. INTANGIBLE NON-CURRENT ASSETS

| | Research expenditure | Licences | Total |
|---|---|---|---|
| **Accumulated acquisition cost** | | | |
| Opening balance, 01/01/2013 | 115,414 | 5,759 | 121,173 |
| Scrapping | - 3,441 | – | - 3,441 |
| **Closing balance, 31/12/2013** | **111,973** | **5,759** | **117,732** |
| Opening balance, 01/01/2014 | 111,973 | 5,759 | 117,732 |
| Scrapping | – | – | – |
| **Closing balance, 31/12/2014** | **111,973** | **5,759** | **117,732** |
| **Accumulated amortisation** | | | |
| Opening balance, 01/01/2013 | - 92,828 | - 5,759 | - 98,587 |
| Amortisation for the year | - 10,389 | – | - 10,389 |
| **Closing balance, 31/12/2013** | **- 103,217** | **- 5,759** | **- 108,976** |
| Opening balance, 01/01/2014 | - 103,217 | - 5,759 | - 108,976 |
| Amortisation for the year | - 3,195 | – | - 3,195 |
| **Closing balance, 31/12/2014** | **- 106,412** | **- 5,759** | **- 112,171** |
| **Carrying amounts** | | | |
| 31/12/2013 | 8,756 | – | 8,756 |
| **31/12/2014** | **5,561** | **–** | **5,561** |

Revised values are mainly attributable to the Basel II project and related licences, as well as the development of the Bank's account system, online Banking and CRM system. During 2013, the Bank expensed actual costs of 3,441 as a decision was made in 2013 that the project would not be completed.

## 24. PROPERTY, PLANT AND EQUIPMENT, INVENTORY AND LEASE ITEMS

| | Equipment | Lease items | Total |
|---|---|---|---|
| **Acquisition cost** | | | |
| Opening balance, 01/01/2013 | 25,276 | 15,751,288 | 15,776,564 |
| Acquisitions | 811 | 6,462,390 | 6,463,201 |
| Divestments | – | - 5,882,793 | - 5,882,793 |
| Scrapping | - 40 | – | - 40 |
| **Closing balance, 31/12/2013** | **26,047** | **16,330,885** | **16,356,932** |
| Opening balance, 01/01/2014 | 26,047 | 16,330,885 | 16,356,932 |
| Acquisitions | 466 | 7,134,243 | 7,134,709 |
| Divestments | – | - 6,107,110 | - 6,107,110 |
| Scrapping | – | – | – |
| **Closing balance, 31/12/2014** | **26,513** | **17,358,018** | **17,384,531** |
| | | | |
| **Amortisation** | | | |
| Opening balance, 01/01/2013 | - 24,113 | - 4,515,785 | - 4,539,898 |
| Amortisation for the year | - 563 | - 3,130,150 | - 3,130,713 |
| Divestments | – | 2,823,584 | 2,823,584 |
| Scrapping | 40 | – | 40 |
| **Closing balance, 31/12/2013** | **- 24,636** | **- 4,822,351** | **- 4,846,987** |
| Opening balance, 01/01/2014 | - 24,636 | - 4,822,351 | - 4,846,987 |
| Amortisation for the year | - 564 | - 3,208,778 | - 3,209,342 |
| Divestments | – | 2,899,390 | 2,899,390 |
| Scrapping | – | – | – |
| **Closing balance, 31/12/2014** | **- 25,200** | **- 5,131,739** | **- 5,156,939** |
| | | | |
| **Impairment** | | | |
| Opening balance, 01/01/2013 | – | - 44,993 | - 44,993 |
| Reversed impairment for the year | – | 24,418 | 24,418 |
| Impairment for the year | – | - 1,147 | - 1,147 |
| **Closing balance, 31/12/2013** | **–** | **- 21,722** | **- 21,722** |
| Opening balance, 01/01/2014 | – | - 21,722 | - 21,722 |
| Reversed impairment for the year | – | 13,647 | 13,647 |
| Impairment for the year | – | - 23,460 | - 23,460 |
| **Closing balance, 31/12/2014** | **–** | **- 31,535** | **- 31,535** |
| | | | |
| **Carrying amounts** | | | |
| 01/01/2013 | 1,163 | 11,190,510 | 11,191,673 |
| **31/12/2013** | **1,411** | **11,486,812** | **11,488,223** |
| 01/01/2014 | 1,411 | 11,486,812 | 11,488,223 |
| **31/12/2014** | **1,313** | **12,194,744** | **12,196,057** |

## 25. OTHER ASSETS

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Positive values for derivative instruments | 72,376 | 115,407 |
| Tax assets | 29,985 | 40,785 |
| Trade receivables | 410,046 | 450,255 |
| Other assets | 83,835 | 69,919 |
| **Total** | **596,242** | **676,366** |

Trade receivables are netted with a risk provision of 1,995 (4,596) for Svensk Vagnparksfinans' vehicle administration as well as an interest provision of SEK - (12) for Car Lease income.


## 26. DERIVATIVES – ASSETS AND LIABILITIES

The Bank's derivative contracts are entered into directly with the counterparty. They are not cleared via the standardised marketplace. The derivatives' accrued interest is recognised in prepaid expenses and accrued income and in accrued expenses and prepaid income. This note discloses the portion of the market value arising from future changes in market interest rates.

The total value of derivative assets, including accrued interest, totalled SEK 72.4 million (115.4) and the value of derivative liabilities, including accrued interest, totalled SEK 0.7 million (0.3).

| 2014 | Up to 1 year | 1–5 years | > 5 years | Total | Assets (positive market values) | Liabilities (negative market values) |
|---|---|---|---|---|---|---|
| **Derivatives for which hedge accounting is not applied** | | | | | | |
| **Interest-related contracts** | | | | | | |
| Options | 2,500 | 10,500 | – | 13,000 | – | – |
| Swaps | – | 65,083 | – | 65,083 | – | 720 |
| **Currency-related contracts** | | | | | | |
| Swaps | – | – | – | – | – | – |
| **Total** | **2,500** | **75,583** | **–** | **78,083** | **–** | **720** |
| **Derivatives for which hedge accounting is applied (fair value hedging)** | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | 975,000 | 600,000 | – | 1,575,000 | 72,376 | – |
| **Currency-related contracts** | | | | | | |
| Swaps | – | – | – | – | – | – |
| **Total** | **975,000** | **600,000** | **–** | **1,575,000** | **72,376** | **–** |
| **Total** | **977,500** | **675,583** | **–** | **1,653,083** | **72,376** | **720** |
| **Currency distribution of market value** | | | | | | |
| SEK | 977,500 | 675,583 | – | 1,653,083 | 72,376 | 720 |
| EUR | – | – | – | – | – | – |
| **Total** | **977,500** | **675,583** | **–** | **1,653,083** | **72,376** | **720** |

| 2013 | Up to 1 year | 1–5 years | > 5 years | Total | Assets (positive market values) | Liabilities (negative market values) |
|---|---|---|---|---|---|---|
| **Derivatives for which hedge accounting is not applied** | | | | | | |
| **Interest-related contracts** | | | | | | |
| Options | 16,500 | 32,813 | – | 49,313 | – | – |
| Swaps | 21,000 | 49,375 | – | 70,375 | – | 281 |
| **Currency-related contracts** | | | | | | |
| Swaps | – | – | – | – | – | – |
| **Total** | **37,500** | **82,188** | **–** | **119,688** | **–** | **281** |
| **Derivatives for which hedge accounting is applied (fair value hedging)** | | | | | | |
| **Interest-related contracts** | | | | | | |
| Swaps | 1,040,000 | 1,375,000 | – | 2,415,000 | 115,407 | – |
| **Currency-related contracts** | | | | | | |
| Swaps | – | – | – | – | – | – |
| **Total** | **1,040,000** | **1,375,000** | **–** | **2,415,000** | **115,407** | **–** |
| **Total** | **1,077,500** | **1,457,188** | **–** | **2,534,688** | **115,407** | **281** |
| **Currency distribution of market value** | | | | | | |
| SEK | 1,077,500 | 1,457,188 | – | 2,534,688 | 115,407 | 281 |
| EUR | – | – | – | – | – | – |
| **Total** | **1,077,500** | **1,457,188** | **–** | **2,534,688** | **115,407** | **281** |

## 27. PREPAYMENTS AND ACCRUED INCOME

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Prepaid expenses and deferred income | 19,552 | 19,385 |
| Accrued interest income | 6,735 | 9,891 |
| Other accrued income | 10,248 | 13,365 |
| Total | 36,535 | 42,641 |

## 28. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

### Currency distribution

| 2014 | SEK | EUR | Total |
|---|---|---|---|
| Liabilities to credit institutions | 1,550,000 | – | 1,550,000 |
| Securities issued | 8,278,759 | – | 8,278,759 |
| Total | 9,828,759 | | 9,828,759 |

| 2013 | SEK | EUR | Total |
|---|---|---|---|
| Liabilities to credit institutions | 1,550,000 | – | 1,550,000 |
| Securities issued | 8,314,508 | – | 8,314,508 |
| Total | 9,864,508 | – | 9,864,508 |

For contract term distribution, see the section on Risk and capital management.

## 29. DEPOSITS AND BORROWING FROM THE PUBLIC

All deposits and borrowing are stated in SEK.

### Deposits from the public

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Deposits by customer category** | | |
| Public sector | 37 | 40 |
| Corporate sector | 12,769 | 13,807 |
| Household sector | 12,688,179 | 13,718,870 |
| Of which company owners | (2,456,725) | (2,656,291) |
| Other | 3,012 | 3,256 |
| Total deposits | 12,703,997 | 13,735,973 |

### Borrowing from the public

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Borrowing by customer category** | | |
| Corporate sector | 1,068,438 | 529,553 |
| Other | 1,116 | – |
| Total borrowing | 1,069,554 | 529,553 |
| Of which Group companies | 6,787 | 6,787 |
| Of which associates | 119,621 | 142,799 |
| Total deposits and borrowing from the public | 13,773,551 | 14,265,506 |

## 30. OTHER LIABILITIES

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Negative values for derivative instruments | 720 | 281 |
| Accounts payable | 272,470 | 332,830 |
| Tax liability | 220,775 | – |
| Payable to customers | 62,805 | 66,546 |
| Other liabilities | 319,410 | 356,643 |
| Total | 876,180 | 756,300 |

## 31. ACCRUALS AND DEFERRED INCOME

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| Accrued interest expenses | 67,665 | 107,049 |
| Other accrued liabilities | 55,489 | 44,127 |
| Prepaid income | 724,915 | 683,550 |
| Total | 848,069 | 834,726 |

## 32. UNTAXED RESERVES

| | 31/12/2014 | 31/12/2013 |
|---|---|---|
| **Accumulated unscheduled depreciation** | | |
| Opening balance, 1 January | 3,341,440 | 3,341,440 |
| Change for the year | - 859,795 | – |
| Closing balance, 31 December | 2,481,645 | 3,341,440 |
| **Tax allocation reserve** | | |
| Opening balance, 1 January | 101,744 | 101,744 |
| Change for the year | - 101,744 | – |
| Closing balance, 31 December | – | 101,744 |
| Closing balance, 31 December | 2,481,645 | 3,443,184 |

## 33. EQUITY

### Dividends

Dividends reported during the year amounted to 215,093, which is equivalent to SEK 215.09 per share. The proposed dividend is 257,271, which is equivalent to SEK 257.27 per share.

### Statutory reserve fund

The purpose of the reserve fund has been to save a portion of the net earnings not used to cover losses carried forward.

### Retained profit or loss

Balance sheet gain or loss is determined in the Bank by the previous year's unrestricted equity after any profit distribution. Together with profit for the year, the balance sheet gain or loss comprises unrestricted equity, i.e. the amount available for distribution to shareholders.

## 34. INFORMATION ABOUT DERIVATIVES THAT CAN BE OFFSET

Financial assets and liabilities that are subject to offsetting, which are covered by a legally binding framework agreement to offset, or by a similar agreement. See also the chapter on counterparty risk.

| 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 | 72,376 | - 720 | 71,656 |

1) No amounts have been reported net in the balance sheet. There are no securities in the form of cash or financial instruments.

## 35. CARRYING AMOUNT BY CATEGORY OF FINANCIAL INSTRUMENT AND INFORMATION ABOUT FAIR VALUE

### Methods for determining fair value.

The financial instruments measured at fair value by the Bank in its balance sheet are the derivative instruments and the chargeable treasury bills, other chargeable securities, and the bonds & other interest bearing securities classified at fair value in accordance with IFRS 13 Measurement of fair value. Since the derivative instruments have no quoted price on an active market (Level 1), the Bank uses a discounted cash flow analysis to determine the fair value of the instruments.

Only observable market data is used for discounting (Level 2). Chargeable treasury bills, other chargeable securities and bonds and other interest-bearing securities are considered to have prices on an active market (Level 1). "Active market" indicates that listed prices for financial instruments are easily and regularly available on a stock exchange, with a dealer or broker, or via other companies that provide price information. The price must represent actual and regularly occurring transactions based on the buying rate on the balance sheet date, without any adjustment or supplement for transaction costs at the time of acquisition. There have been no transfers between levels during the year.

Disclosures about fair value of lending to the public have been calculated by discounting contractual cash flows using discount rates based on a current spread of loans. Disclosures about fair value of liabilities to credit institutions, securities issued and subordinated liabilities have been calculated using estimated, current spreads of borrowings.

The financial assets classified as investments held to maturity are valued on the balance sheet at their amortised cost. Investments held to maturity have been market valued in accordance with quoted prices on an active market; no chargeable treasury bills are included here.

For other financial assets and liabilities, the carrying amount is a good approximation of fair value due to a short remaining term.

| Assets | Level 1 | Level 2 | Level 3 | Total Fair value | Total Carrying amount |
|---|---|---|---|---|---|
| Chargeable treasury bills etc. | 1,170,856 | | | 1,170,856 | 1,170,846 |
| Lending to credit institutions | | 1,784,781 | | 1,784,781 | 1,784,781 |
| Lending to the public | | 12,626,958 | | 12,626,958 | 12,650,593 |
| Bonds & other interest-bearing securities | | 837,297 | | 837,297 | 837,297 |
| Other assets | | | 596,242 | 596,242 | 596,242 |
| Prepayments and accrued income | | | 36,535 | 36,535 | 36,535 |
| Total | 1,170,856 | 15,249,036 | 632,777 | 17,052,668 | 17,076,294 |

| Liabilities | Level 1 | Level 2 | Level 3 | Total Fair value | Total Carrying amount |
|---|---|---|---|---|---|
| Liabilities to credit institutions | 1,562,335 | | | 1,562,335 | 1,550,000 |
| Deposits and borrowing from the public | | 13,774,055 | | 13,774,055 | 13,773,551 |
| Securities issued | 8,376,379 | | | 8,376,379 | 8,278,759 |
| Other liabilities | | 876,180 | | 876,180 | 876,180 |
| Accruals and deferred income | | | 848,069 | 848,069 | 848,069 |
| Total | 9,938,714 | 14,650,235 | 848,069 | 25,437,018 | 25,326,559 |

| Assets, 31/12/2014 | Loan and trade receivables | Financial assets at fair value through the income statement | Investments held to maturity | Derivatives used in hedge accounting | Other assets | Total | Fair value |
|---|---|---|---|---|---|---|---|
| Chargeable treasury bills etc. | – | 1,070,872 | 99,974 | – | – | 1,170,846 | 1,170,856 |
| Lending to credit institutions | 1,784,781 | – | – | – | – | 1,784,781 | 1,784,781 |
| Lending to the public | 12,650,593 | – | – | – | – | 12,650,593 | 12,626,958 |
| Bonds and other interest-bearing securities | – | 837,297 | – | – | – | 837,297 | 837,297 |
| Shares and participations in associates & other companies | – | – | – | – | 14,735 | 14,735 | – |
| Shares and participations in Group companies | – | – | – | – | 6,740 | 6,740 | – |
| Intangible non-current assets | – | – | – | – | 5,561 | 5,561 | – |
| Property, plant and equipment, inventory | – | – | – | – | 1,313 | 1,313 | – |
| Property, plant and equipment, lease items | – | – | – | – | 12,194,744 | 12,194,744 | – |
| Other assets | 6 | – | – | 72,376 | 523,860 | 596,242 | 596,242 |
| Prepayments and accrued income | 6,736 | – | – | – | 29,799 | 36,535 | 36,535 |
| **Total assets** | **14,442,116** | **1,908,169** | **99,974** | **72,376** | **12,776,752** | **29,299,387** | |

| Liabilities, 31/12/2014 | 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 | 1,562,335 |
| Deposits and borrowing from the public | – | – | – | 13,773,551 | 13,773,551 | 13,774,055 |
| Securities issued | – | – | – | 8,278,759 | 8,278,759 | 8,376,379 |
| Other liabilities | 720 | 319,410 | – | 556,050 | 876,180 | 876,180 |
| Accruals and deferred income | – | 780,404 | – | 67,665 | 848,069 | 848,069 |
| **Total liabilities** | **720** | **1,099,814** | **–** | **24,226,025** | **25,326,559** | |

| Assets, 31/12/2013 | Loan and trade receivables | Financial assets at fair value through the income statement | 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** | |

## 36. EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred since the balance sheet date.

## 37. RELATED PARTIES

There have been no transactions with subsidiaries during the year, as these are dormant.

The Bank has liabilities to: Volvofinans IT AB 238 (238), Volvofinans Leasing AB 1,243 (1,243), Autofinans Nordic AB 5,066 (5,066) and Automanagement AR AB 240 (240).

There are no loans to senior executives. See also Note 11 for transactions with senior executives.

# The Board of Directors' signatures

The Board of Directors and the President confirm that in preparing the annual accounts they have complied with generally accepted accounting practices in Sweden. The annual accounts and the consolidated financial statements provide a true and fair picture of the Bank's position and performance. The report of the Board of Directors provides a true and fair picture of the development of the operations, position and performance as well as describing material risks and uncertainties relating to the Bank.

Göteborg, Sweden, 16 March 2015

Urmas Kruusval
Chairman of the Board

| | | |
|---|---|---|
| Tommy Andersson<br>Board Member | Anders Gustafsson<br>Board Member | Per Avander<br>Board Member |
| Bob Persson<br>Board Member | Synnöve Trygg<br>Board Member | Conny Bergström<br>President |

The auditor's report was submitted on 17 March 2015

KPMG AB

Roger Mattsson
Authorised Public Accountant



# Auditor's report

To the general meeting of the shareholders of Volvofinans Bank AB (publ), corp. ID no. 556069-0967

## Report on the annual accounts

We have performed an audit on the annual accounts of Volvofinans Bank AB (publ) for the year 2014.

### Responsibility of the Board of Directors and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation of annual accounts that provide a true and fair view in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and for the internal controls the Board of Directors and the President deem necessary in order to prepare annual accounts that are free from material misstatement, whether intentional or accidental.

### Responsibility of the auditor

Our responsibility is to express an opinion on the annual accounts based on our audit. We have conducted the audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. These standards require that we comply with the requirements of professional ethics and plan and carry out our audit in order to obtain reasonable assurance that the annual accounts are free from material misstatement.

An audit includes using various methods to obtain audit evidence supporting the amounts and disclosures in the annual accounts. The auditor determines which measures are to be carried out, among other things by assessing the risks of material misstatement in the annual accounts, whether intentional or accidental. When making this risk assessment, the auditor considers those elements of internal control that are relevant to how the company prepares its annual accounts in order to give a true and fair view with the intention of designing audit procedures that are adapted to the circumstances, but not with the intention of providing a statement on the effectiveness of the company's internal control. An audit also includes an assessment of the appropriateness of the accounting principles applied and of the reasonableness of the assumptions made by the Board and the President in the report, as well as an assessment of the overall presentation of the annual accounts.

We consider the audit evidence we have obtained to be adequate and appropriate to form the basis for our opinion.

### Opinion

It is our opinion that the annual accounts have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and provide in all material respects a true and fair view of the financial position of Volvofinans Bank AB (publ) at 31 December 2014 and of its financial result and cash flows for the year in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. The report of the Board of Directors is consistent with the other parts of the annual accounts.

We therefore recommend that the Annual General Meeting adopt the income statement and the balance sheet.

## Report on other requirements under law and other statutes

In addition to our audit of the annual accounts, we have also performed a review of the proposed allocation of the company's profit or loss, as well as the administration of the Board of Directors and the President of Volvofinans Bank AB (publ) for the 2014 financial year.

### Responsibility of the Board of Directors and the President

The Board of Directors is responsible for the proposed allocation of the company's profit or loss, and the Board of Directors and the President are responsible for administration in accordance with the Swedish Companies Act.

### Responsibility of the auditor

Our responsibility is to express an opinion, with reasonable certainty, on the proposed allocation of the company's profit or loss and on the administration on the basis of our audit. We have conducted our audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion concerning the Board's proposed allocation of the company's profit or loss, we have examined the Board's stated motivation and a selection of documents for this in order to be able to assess whether the proposal complies with the Swedish Companies Act.

As a basis for our opinion concerning discharge from liability, we have, in addition to our audit of the annual accounts, examined significant decisions, actions taken and the circumstances of the company in order to be able to determine the liability, if any, to the company of any Board member or the President. We also examined whether any Board member or the President has in any other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We consider the audit evidence we have obtained to be adequate and appropriate to form the basis for our opinion.

### Opinion

We recommend that the Annual General Meeting appropriate the profit in accordance with the proposal in the report of the Board of Directors and discharge the Board members and the Managing Director from liability for the financial year.

Göteborg, Sweden, 17/03/2015
KPMG AB

Roger Mattsson
Authorised Public Accountant

# Board of Directors, Auditors and Senior Executives

### Board of Directors

Urmas Kruusval
Chairman of the Board
Sixth Swedish National Pension Fund, Göteborg

Tommy Andersson
Chairman of the Volvo Dealer Association, Göteborg
Chairman of the Association, MRF

Anders Gustafsson
President, Volvo Personbilar Sverige AB, Göteborg

Bob Persson
Chairman of the Board of Directors,
AB Persson Invest, Östersund

Per Avander
President of Bilia AB and Chairman
of Bilia Personbilar AB

Synnöve Trygg

Christina Brinck
Deputy
Sixth Swedish National Pension Fund,
Investment Director, Göteborg

Janola Gustafson
Deputy
President, The Volvo Dealer Association, Göteborg

Patrik Tolf
Deputy
Deputy CFO & Head of Group Finance

### Auditors

Roger Mattsson
Authorised Public Accountant, Göteborg

Mikael Ekberg
Deputy
Authorised Public Accountant, Göteborg

### Senior Executives

Conny Bergström
President and CEO

Per Lindahl
Marketing Director

Hans Jörgen Möller
CFO

Lars Norland
Treasurer

Maria Allgulander
Head of Administration

Margareta Johansson
Human Resource Manager

Marianne Moberg
IT Manager

Ulrika Wennberg
Customer Service Manager

Christian Torgersson
Risk Manager

Volvofinans Bank AB (publ) • Corporate ID no. 556069-0967
Bohusgatan 15 • Box 198 • SE-401 23 Göteborg, Sweden
Tel.: +46 (0)31-83 88 00 • www.volvofinans.se