ANNUAL REPORT / VOLVOFINANS BANK AB

2016

VOLVOFINANS

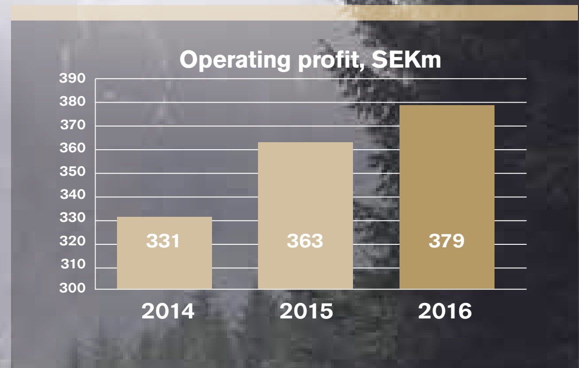
Summary January – December 2016

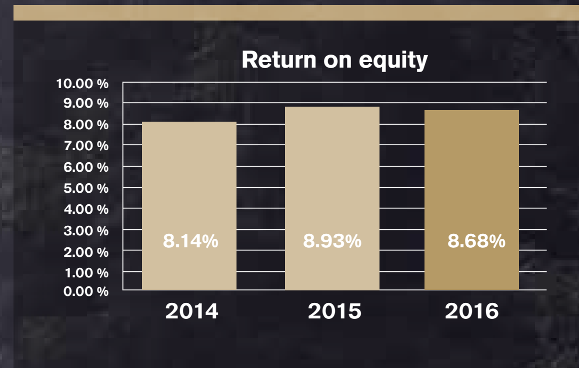
SHAREHOLDERS

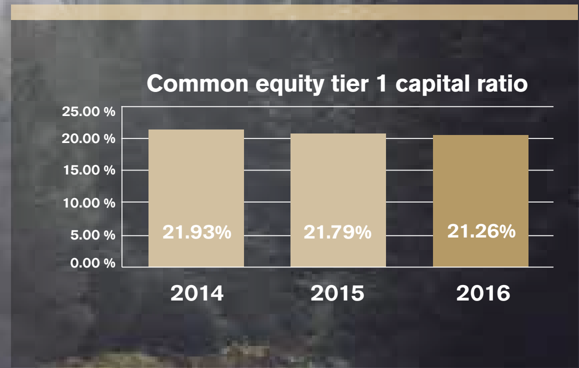
Established in 1959, the bank is 50% owned by the Swedish Volvo dealerships through their holding company, AB Volverkinvest. In August 2016, Volvo Car Corporation acquired the Sixth AP Fund's shares and now owns 50% (10).

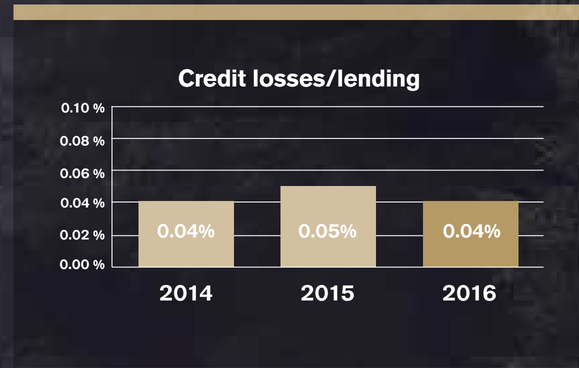
MISSION

The bank's mission is actively to support sales of the products that are marketed through Volvo dealerships in the Swedish market by providing product and sales finance while ensuring good profitability.









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

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Introduction and financial statements

Message from the President

Record results, for the third year running

► **2016 was, yet again, a record year for Swedish new car sales with more than 372,000 registrations, up by almost 8% from last year's previous record of 345,000. The new car market was driven by a strong economy, extremely low interest rates and an increased interest in private leasing. Moreover, there has been great interest shown in Volvo Cars' new models and the combination of ordering both new and existing models simultaneously has been very successful.**

We can also state that Volvofinans Bank has delivered record profits for the third year in a row, amounting to 379 million (363) with lending growing by 3.8 billion. Credit losses, in percentual terms, remain in line with last year and the common equity tier 1 capital ratio remained above 21%. In short, an increase in profits, secure and stable as per usual and in line with the bank's business model and risk appetite.

The business area Sales Finance Cars continues to benefit from a strong car market. This increase in sales of both passenger cars and light commercial vehicles has also strengthened the Swedish Volvo dealers by having larger stocks of both newer and used cars, which has also created new opportunities in the service market.

Through better packaged loan and lease products, the bank has also managed to increase its penetration in the number of financed cars. This, along with a growing market, created the strong growth in loans and contributed to the record profits. It is also positive that the order book of Volvo cars is higher than ever.

Also during the year, we successfully launched CarPay, which is the bank's major investment in FinTech. The reaction has greatly exceeded our expectations and since its launch in April 2016, around 200,000 customers have downloaded and logged into the app. CarPay's promise is to create a smarter car ownership solution for the customer. Thus, via integrated solutions in the eco-system for car ownership – in all its forms – the bank wants to offer better car ownership economics, as well as saving time for its customers. Moreover, a number of exciting launches incorporating new functionality is planned for the year.

Within the framework of our credit card business, fuel volumes have increased in a market that has remained relatively unchanged – which is again very positive. Meanwhile, card commissions have decreased in light of the new EU regulatory framework at a time when the financial statements have been burdened by higher costs, primarily related to our new digital mobile IT infrastructure. This new venture is primarily cost-driven and at the same time planned.

In the Fleet Finance, the bank has been very successful in competing with other banks and financial institutions during 2016. In this particular business area, with larger companies being the target audience, the market has grown by 1%, while Volvofinans Bank has grown by 10%. With customers appreciating the bank's user-friendly management tools – which is an important competitive factor – efforts to digitize the bank's products and processes continue even in this business area.

In the business area Sales Finance Trucks, the market for heavy trucks (over 16 tonnes) grew by 22% with Volvo becoming the biggest on the market, beating Scania to the top-spot with a strong finish. Furthermore, in order to further boost our competitiveness in this business area we have increased our investments in personnel and IT.

The guiding principle of the bank's strategy going forward is innovation with a foundation built on security. By continuing to develop smart features that make car usage simpler, we will create new opportunities to finance the customer's auto-related consumption. In the future, we will also see a number of new features being developed by both Volvo Cars and Volvo Trucks, where payment flows are handled seamlessly. Thus, through its investment in digital technology, the bank is well-equipped to meet its owners' and partners' needs for new services such as internet sales, car-sharing and other subscription services.

After yet another record year, we now look forward to an exciting 2017, where Volvofinans Bank has all the prerequisites to deliver a good result. Volvo Cars is doing better than ever with the launch of exciting new models and Volvo Trucks continues to develop positively. Together with our solid and fiercely competitive Volvo dealers, we can offer difficult-to-beat finance deals on a – according to forecasts – slightly cooler, but still very strong car market.

Conny Bergström
President
Volvofinans Bank AB

JANUARY–DECEMBER 2016 IN SUMMARY

- Profit before appropriations and tax: SEK 379.0 million (363.0)
- Return on equity: 8.7% (8.9)
- Lending as at 31 December: SEK 31.2 billion (27.4)
- Net credit losses: SEK 13.5 million (11.9)
- Common equity tier 1 capital ratio: 21.3% (21.8)

"During the year, we successfully launched CarPay, which is the bank's major investment in FinTech. The reaction has greatly exceeded our expectations and since its launch in April 2016, around 200,000 customers have downloaded and logged into the app."

The Swedish Volvo dealers, 2016

A COMPREHENSIVE SALES NETWORK

The Swedish Volvo dealers form a nationwide retail network that includes 54 privately owned dealerships and two listed dealerships with around 200 sales outlets and over 250 workshops. In addition, the general agent, Volvo Car Sverige AB, also has stakes in three sales companies. Stock exchange-listed Bilia AB owns the largest passenger car company while AB Volvo owns the largest truck company. These listed companies account for nearly 40% of Volvo and Renault sales in Sweden's car and truck markets.

The dealer network comprises 35 different owners and groups of owners. The operations of the network are divided into passenger car and truck operations. The majority of the companies, 40, sell only cars while 16 sell only trucks ("heavy" trucks >7 tonnes) and the last two sell both cars and trucks.

VOLVO DEALERS – 2016 IN FIGURES

Net sales in the Volvo dealer network in 2016 amounted to approximately SEK 50.0 billion, with earnings totalling around SEK 1,800 million, up from SEK 1,581 million in 2015.

A BROADER BUSINESS

The Volvo dealers' product range is by far the broadest among Swedish auto dealers, covering everything from passenger cars and delivery vehicles (Volvo, Renault and Ford) to heavy trucks and buses (Volvo). Our business has continued to broaden as Volvo dealers have started to sell additional brands. In addition to Volvo, Renault, Ford, Dacia and Land Rover, brands such as Hyundai, Mazda, Toyota, Nissan and BMW have been added in recent years. Through the Volvo dealer network we thus gain access to a larger market than previously.

VOLVOFINANS BANK IS THE SWEDISH VOLVO DEALERS' BANK

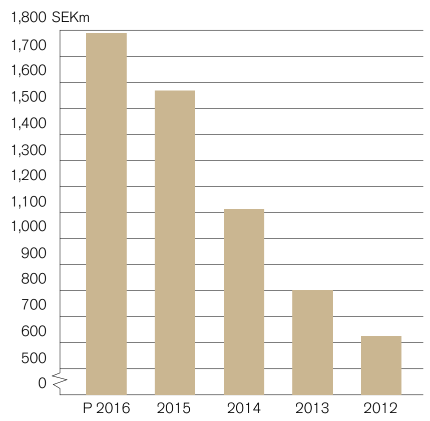
The bank's mission is to raise money for financing the dealers' loan and lease contracts; in other words, to support their business operations. Working in close collaboration with Volvofinans Bank, the Swedish Volvo dealers are market leaders in terms of finance, credit card and other vehicle-related services.

Volvo dealerships 2016-2012

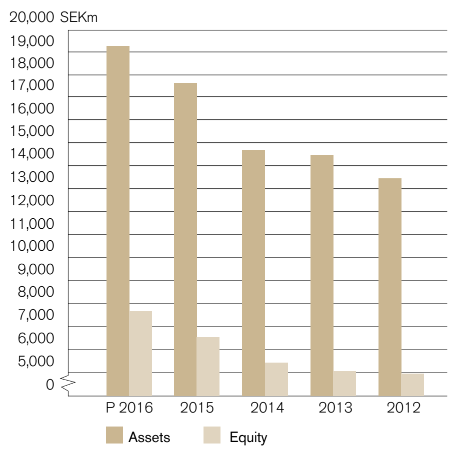
Condensed balance sheet	Forecast 2016	2015	2014	2013	2012
Property, fixtures and fittings	3,500	3,329	2,684	2,670	2,477
Lease vehicles	1,500	1,450	1,616	2,359	2,236
Contract receivables	1,200	1,181	1,189	793	639
Inventories	6,300	5,845	4,785	4,920	4,479
Other	6,800	5,870	4,506	3,748	3,633
Total assets (SEKm)	**19,300**	**17,675**	**14,780**	**14,490**	**13,464**
Equity and untaxed reserves	7,800	6,589	5,406	5,032	4,787
Non-current liabilities	2,500	2,364	1,795	3,021	3,405
Current liabilities	9,000	8,722	7,579	6,437	5,272
Total equity and liabilities (SEKm)	**19,300**	**17,675**	**14,780**	**14,490**	**13,464**
Loans and leases in Volvofinans Bank's balance sheet (SEKm)	19,000	17,595	18,734	17,782	15,714
Adjusted balance	38,300	35,270	35,514	32,272	29,178
Net sales and earnings					
Net sales	50,000	46,732	42,474	38,965	38,400
Profit (SEKm)	**1,790**	**1,581**	**1,111**	**800**	**618**
Key performance indicators					
Return on equity, %	23	24	22	17	15
Return on total capital, %	10	10	9	8	7
Equity/assets ratio %	40	37	37	35	36

Note: The figures for 2016 are based partly on forecasts, as final annual reports for all dealerships were not available at the time of publication.

Volvo dealerships, earnings



Volvo dealerships, assets and equity



Report of the Board of Directors

► The Board of Directors and Chief Executive Officer of Volvofinans Bank AB (publ) hereby present their report on operations in 2016. Hereinafter referred to as the bank.

SHAREHOLDERS

Established in 1959, the bank is 50% owned by the Swedish Volvo dealerships through their holding company, AB Volverkinvest. In August 2016, Volvo Car Corporation acquired the Sixth AP Fund's shares and now owns 50% (10).

MISSION

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GROUP STRUCTURE

The bank has its registered office in Göteborg.

Together with Volvo PV Fordonspark AB, Volvohandlarföreningen Ek för and Volvohandelns PV Försäljnings AB, which is also a general partner, the bank owns three limited partnerships. One of these sells on commission through the Swedish Volvo dealer network, another provides rental services to companies in Volvo Car Corporation and the third provides rental services to companies within both Volvo Car Corporation and AB Volvo.

Volvofinans Leasing AB, Autofinans Nordic AB, CarPay Sverige 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 Investment Firms, the bank does not prepare consolidated financial statements as of 31 December 2010, as the activities of the subsidiaries are of minor importance.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

In August 2016, Volvo Car Corporation acquired the Sixth AP Fund's shares and now owns 50% (10).

VOLUMES/LENDING

At year-end, there were 229,473 contracts (212,470) in the bank's loan and lease portfolios, corresponding to an increase of 8.0% on the previous year. The size of the portfolios is influenced by new vehicle sales for Volvo Cars and Volvo Trucks in Sweden and sales of used vehicles through the Swedish Volvo dealerships.

The table below shows the bank's market shares in the form of the inflow of contracts relative to new car sales (Volvo/Renault/Ford) and sales of used vehicles through the Volvo dealerships.

Penetration, %	2012	2013	2014	2015	2016
New cars	51	49	49	49	54
Used cars	35	37	36	35	36
New trucks	43	47	49	50	54

For Volvo Trucks the figures do not include sales made through Volvo Truck Center, which is owned by AB Volvo.

The bank's lending, including leases, stood at SEK 31.2 billion (27.4) at year-end, an increase of 13.9% on the previous year. Lending consists mainly of leases, loans, contract credits, dealer inventory credits and credit card credits.

The following table shows the percentage distribution of lending by segment compared with the previous year.

Sales finance	2016 SEKbn	%	2015 SEKbn	%	Change SEKbn
Cars	27.3	87	23.5	85	3.8
Trucks and Buses	2.1	7	2.2	8	- 0.1
Inventory credits	0.2	1	0.2	1	0.0
Credit card credits	1.6	5	1.5	6	0.1
Total	**31.2**	**100**	**27.4**	**100**	**3.8**

Volvo Car Leasing increased by SEK 2.3 billion, or 29%, and Volvo Car Loans and Volvo Truck Loans grew by 1.1 billion, or 10%. Collateral assignment, where Volvo dealers have a credit with underlying loan contracts or leasing contracts as collateral, increased by SEK 2.9 million or 1%.

The volume of credit card credits was largely flat year-on-year. Net sales through the Volvo Card totalled SEK 12.1 billion (11.0) and 8.2 million (7.7) invoices/account statements were delivered to customers. 26.4 (25.0) million card purchases were made using the Volvo Card in 2016.

The number of corporate customers for whom Fleet Finance handles car administration increased during the year, with 36,635 cars (31,410) being administered at year-end.

Net sales through the Volvo Truck Card were down year on year, with goods and services purchased in 2016 using the 17,992 cards (21,109) totalling SEK 399 million (414).

PERFORMANCE

Profit before credit losses was SEK 392.4 million (374.9), corresponding to an increase of 4.7% on the previous year. Depreciation of property, plant and equipment refers mainly to lease assets. The depreciation charge was affected by lease volumes and the rate of depreciation, based on contractual residual values at the end of the lease term.

Net credit losses totalled SEK 13.5 billion (11.9), see Note 14.

Profit for the year before appropriations and tax amounted to SEK 379.0 million (363.0), corresponding to an increase of 4.4%. The increase in earnings is primarily accounted for by increased borrowing volumes. The return on equity was 8.68% (8.93).

CREDIT RISKS AND CREDIT LOSSES

Out of the bank's total lending for vehicle finance, 79% (80) refers to loans and leases which dealers have transferred or pledged, posting vehicles as collateral through right of repossession or ownership rights. The dealer bears the ultimate credit risk for these credit contracts if required by the bank.

The bank can incur a loss on these contracts if all of the following events occur:

1. The customer suspends payments.
2. The dealer lacks the ability to pay.
3. The market value of the repossessed vehicle is less than the remaining debt under the contract.

At 31 December 2016, the breakdown of loan and lease contracts was as follows. The unencumbered portion of outstanding contracts at year-end was SEK 3.0 billion (3.0).

Inventory financing requiring 100% collateral accounts for 1% (1) of total lending and is secured through floating charges, the unencumbered portion of contract portfolios and guarantees received.

The remaining financing, for which no collateral is provided by dealers, accounts for 21% (20), of which 16% (15) refers to sales finance and 5% (5) to credit card credits.

Total problem credits (receivables which are more than 90 days overdue) amounted to SEK 96.6 million (102.1) and consisted of loans and leases of SEK 84.9 million (91.3), of which SEK 76.3 million (82.9) referred to contracts under which the bank has a right of recourse against Volvo dealers, and credit card receivables of SEK 11.6 million (10.8), accounting for 0.8% (0.7) of total credit card lending.

The value of credit card receivables, SEK 1.6 billion (1.5), is stated after impairment for problem loans. The provision represents 1.2% (1.2) of the value of the receivables. Risk exposure to private individuals is limited through a low average debt. At year-end, the average debt per active credit card was SEK 3,334 (3,737).

	Number of contracts	Average contract, SEKt	Collateral value, SEKm	Credit used, SEKm	Loan-to-value ratio, %	Market value, SEKm	Surplus value, SEKm	Surplus, %
Loans	122,685	110	13,471	12,859	95	18,711	5,852	46
Leases	106,788	167	17,804	15,378	86	16,729	1,351	9
Total	**229,473**	**136**	**31,275**	**28,237**	**90**	**35,440**	**7,203**	**26**

CAPITAL PROCUREMENT

The bank's principal objectives for capital raising, as defined in its financial policy, are to:

- Secure the necessary loan funding.
- Ensure that the bank is able to borrow on the best possible terms.
- Ensure that fixed-rate terms on the bank's borrowings match those for lending as closely as possible.
- Ensure that liquidity risk is minimised.

The bank's financing facilities and borrowing arrangements and drawn portions at 31 December 2016 are shown in the table below.

Nominal amounts in SEKm	Limit	Drawn
Nordic commercial paper programme	8,000	450
European commercial paper programme	4,777	–
MTN programme	15,000	11,928
Short-term financing facilities with banks	3,200	–
Long-term financing facilities with banks	1,350	1,350
Retail deposits	–	15,412
Total	**32,327**	**29,140**

The deposit volume for savings accounts continues to grow, and in 2016 funds deposited increased by SEK 1.2 billion to a balance of SEK 14.0 billion (12.8) as at 31 December. Total deposits, including balances on Volvo Card accounts and deposits from Volvo dealers, amounted to SEK 15.4 billion (14.3) and accounted for 53% (55) of the bank's financing.

Bonds worth SEK 4.5 billion were issued during the year, with maturities from two years up to just over five years. Commercial papers are issued at regular intervals in the market; utilisation was SEK 0.5 billion at year-end. Driven by the growth in lending, the bank's outstanding market borrowings increased to SEK 12.4 billion (10.8) in nominal terms.

In addition to deposits and market borrowings, the bank funded its operations through bank credits, which totalled SEK 1.4 billion (1.0). The share of long-term financing (≥12 months) from the financial markets and banking sector was 75% (70).

In addition to drawings on the above bank credits, there are contracted cheque and credit facilities with banks of SEK 3.0 billion (2.7). In December 2016, the bank chose not to extend the facility from the bank's owners of around SEK 1.2 billion.

The maturity structure for the bank's total financing at 31 December 2016 is shown in the table below.

	SEKm	%
Within 1 year	3,444	25
1-3 years	5,991	44
4-5 years	3,733	27
Over 5 years	583	4
	13,751	100
No term:		
- Retail deposits	15,389	
- Equity (incl. tax portion of untaxed reserves)	4,409	
Total	33,549	

RATING

The bank has the following international credit ratings from Moody's Investors Service:

- Short-term financing: P-2
- Long-term financing: A3
- Outlook: Stable

A detailed up-to-date analysis from Moody's is available at volvofinans.se.

CORPORATE GOVERNANCE REPORT

The bank's Board of Directors

Directors and Deputy Directors are elected annually at the Annual General Meeting for the period until the end of the first Annual General Meeting that is held after the year in which the Director was appointed. The election of the Board of Directors is based on the bank's recruitment and diversity policy.

Notice of the Annual General Meeting and notice of an extraordinary general meeting at which questions relating to an amendment of the Articles of Association will be discussed must be given no earlier than six weeks and no later than four weeks before the AGM. Notice of other EGMs must be given no earlier than six weeks and no later than two weeks before the meeting.

The Board of Directors currently has no authorisation from the AGM to approve the issue of new shares or buy-back of the company's own shares.

The rules of procedure for the Board of Directors have been drawn up in compliance with the requirements of the Swedish Companies Act. The rules of procedure and the annexes thereto complement and support the application of the Companies Act and those other laws, regulations and recommendations which the bank is required to apply. The rules of procedure are reviewed annually and updated when required. The updated rules of procedure are submitted for adoption at the first meeting of the Board following the AGM or at another Board meeting if required.

The Board convenes at least four times a year. Additional Board meetings are called when required. Apart from the Chairman, there is no internal division of responsibilities among the members of the Board. The Board shall, at the board meeting following election, appoint at least two members to the Board's credit, audit, IT and remuneration committees. The Remuneration Committee handles matters relating to remuneration of senior executives.

Board meeting materials are distributed about one week before the day of the meeting and contain written documentation and comments on the matters to be addressed. An agenda describing the nature and scope of each item is enclosed with the notice of the meeting. At each meeting minutes are taken, which contain a brief description of discussions, measures and resolutions.

Direct and indirect shareholdings in the bank

Autofinans Nordic AB, CarPay Sverige AB, Volvofinans Leasing AB and Volvofinans IT AB are 100% 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 AGM each person entitled to vote has the right to vote the full number of shares represented by him or her.

Internal control

In managing its customers', suppliers' and business partners' money, the bank has a special responsibility. Due to the large number of transactions, even minor errors can have significant economic consequences. The bank therefore places a strong emphasis on good internal control, and on quality and security issues in all functions, routinely engaging staff from all departments in this work. Internal control refers to the bank's organisation and all those procedures which are aimed at ensuring that the bank's accounting is correct and complete, and that its resources are allocated in accordance with the intentions of the Board and the President.

Internal control can be divided into:

- Administrative controls – to promote efficiency and ensure that the bank's resources are managed in accordance with the intentions of the Board and the President.
- Accounting controls – to assure correct and complete accounting.
- Internal IT controls – to ensure that functions and procedures, both manual and automated, comply with the applicable regulations.

The bank has three functions which support management in ensuring good and improved internal control in respect of financial reporting.

Internal auditing

The bank has an independent internal audit function whose activities are governed by the regulations and requirements of the Swedish Financial Supervisory Authority. Its remit also includes IT auditing. An important duty of the internal audit function is to verify independently that the employees adhere to the principles and rules that are defined in the bank's directives, guidelines and instructions for financial reporting. The function reports directly to the Board of Directors.

Risk control and compliance

The bank's risk control function is responsible for ongoing monitoring of risks and risk management and is tasked with making proposals for improvements to risk management procedures, risk policies, instructions and reports.

Compliance is a support function which ensures that the bank operates in accordance with applicable laws, regulations, internal rules, and good practice and standards.

The activities of the risk control and compliance functions are audited each year by the bank's internal audit function.

Control environment

The backbone of internal control over financial reporting consists of the bank's directives, guidelines and instructions as well as the structure of responsibilities and authority that has been adapted to the bank's organisation with the aim of creating and maintaining a satisfactory control environment. Principles for internal control are contained in the bank's IQ manual, and directives and guidelines for financial reporting are contained in the various manuals used in the bank.

Fundamental to the control environment is the company culture that has been established and in which managers and employees work. The bank actively communicates and instructs its employees in its core values, which are set forth in the bank's ethical guidelines policy. The bank seeks to ensure that all employees maintain a high standard of morals, ethics and integrity.

Risk assessment

Risks related to financial reporting are assessed and monitored by the Board. The assessment of the risk that errors will occur in financial reporting is based on a number of criteria. Complex accounting policies, for example, can create a risk of incorrect financial reporting in respect of those items which are covered by the policies. The measurement of a certain asset or liability on the basis of different assessment criteria can also constitute a risk. The same applies to complex and/or changed business conditions.

Control activities

The Board and management team constitute the bank's top-level control bodies. Several control activities are applied in the bank's day-to-day business process to ensure that any errors or deviations in financial reporting are prevented, detected and corrected. Control activities cover everything from the review of results at management meetings to the reconciliation of specific accounts and analyses in ongoing financial reporting processes. The management team is tasked with ensuring that the bank's control activities for financial processes are appropriate and in line with the bank's guidelines and instructions. Management should also ensure that authority structures are not designed so as to permit the same individual to perform an activity and then verify the same activity. Control activities in IT security and maintenance are an essential part of the bank's internal control over financial reporting.

Information and communication

Guidelines and instructions for financial reporting are updated and communicated by management on an ongoing basis.

Follow-up and monitoring

Responsibility for ongoing follow-up rests with the management team and accounts department. In addition, the internal audit, risk control and compliance functions also follow up and monitor the operations. Results of evaluation activities are reported to management and the Board. The bank normally also holds four meetings a year with the Credit Committee, Audit Committee, Remuneration Committee and IT Committee.

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date.

OUTLOOK

Despite the many uncertainties concerning the economic outlook, the bank is optimistic about the future in view of the bank's stable ownership, very strong capital base, and proven and well-functioning business models. Coupled with the broadening of our financial services to our many customers, both private and corporate, this creates a significant potential for development.

SUSTAINABILITY REPORTING

The bank's sustainability policy guides all our continuing sustainability efforts. During 2016, the bank implemented a GAP analysis against ISO26000 in order to identify strengths and weaknesses. The bank has also implemented a stakeholder analysis. The GAP analysis and stakeholder analysis form the basis for prioritisation of future sustainability efforts. The bank has also analysed the new legal requirement for sustainability reporting and will prepare reporting and supporting documentation in 2017.

The bank will also strive to establish sustainability as a natural part of its business activities. The goal is to develop at least one product that focuses on sustainability. Sustainability now forms an integral part of all new products since it is a requirement under our NPA process (New Product Approval Process).

Economic sustainability

The bank's financial sustainability is strong, and this is reflected in our key performance indicators. The bank's common equity tier 1 capital ratio is well above the standards prescribed by the Swedish Financial Supervisory Authority (FSA). The bank's financial stability is also shown in its continuously stable annual profits. This is evident in key performance indicators such as the capital adequacy ratio of 21.3% (21.8) and leverage ratio of 9.83% (10.10). The bank's liquidity coverage ratio stood at 119% at year-end (205) and averaged 177% (237) in 2016. The liquidity coverage ratio (LCR) is a short-term liquidity ratio and forms part of the bank's liquidity risk reporting to the Swedish Financial Supervisory Authority. In addition, the bank reported a stable and safe Net Stable Funding Ratio (NSFR) of 144% (143) in December 2016. The bank complies with Swedish anti-money laundering legislation. The bank has a responsibility to and aims to provide sound, long-term lending services. The bank's lending activities are based on a thorough credit assessment process that is designed to determine whether the customer will be able to fulfil its obligations. The bank thereby helps to ensure a functioning credit market. Liquidity risk is described on page 43 and key performance indicators on page 21.

Social sustainability

The bank's cooperation with Childhood continues and gives our customers an opportunity to support vulnerable children together with the bank. Initiatives to encourage job applicants and contacts with academia are important for the bank. The bank has a well-functioning whistleblower function and conducts continuous training in issues relating to security, ethics and money laundering. During the year, staff exposed to risk of corruption received extensive anti-bribery and anti-corruption training. The company adopted an anti-corruption policy during the year. These activities previous formed part of the bank's ethics policy, but have now been given increased focus to improve compliance with current legislation. See the Personnel section for more information on employee issues.

Ecological sustainability

The bank continuously reviews its direct environmental impact. In 2016, the bank reduced its electricity consumption while the proportion of electronic dispatches (e-billing) increased. The bank currently has an electricity contract that is classified as a good environmental choice according to the Swedish Society for Nature Conservation. The bank promotes ecological sustainability by funding hybrid and other cars classified as green. It provides finance for purchases of Volvo's hybrid cars, Renault's electric cars and battery rental and also for AB Volvo's initiatives in the area of environmentally friendly hybrid buses and electric buses. The bank also takes responsibility by renting office space in an environmentally certified building.

Consumption category	2016	2015	Change
Electricity consumption (kWh)	319,115	312,742	6,373
Paper bills to customers, %	68	71	- 3

PERSONNEL

At year-end 2016, the bank had 202 (192) employees, of whom 168 (165) were based in Göteborg and the remaining work force at our office in Stockholm. The average number of employees was 189 (184). Overall, women outnumber men in the workforce and account for four out of nine senior executives.

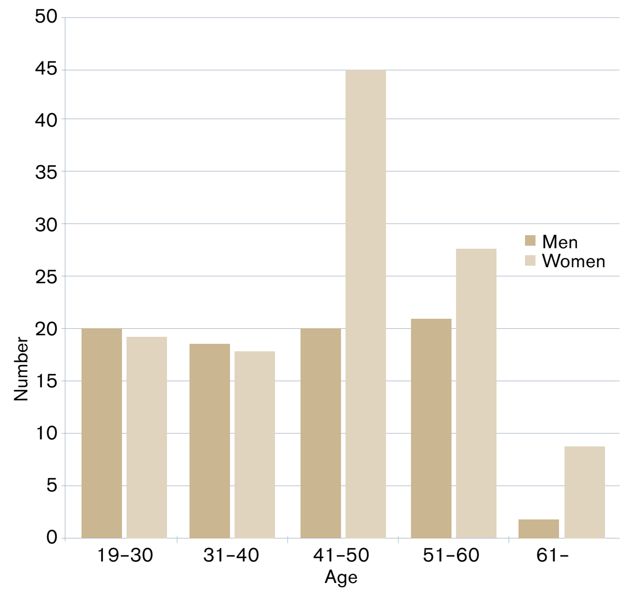
The right skills are an important competitive factor. Employee development and training are strategically important and an important investment for the bank. The bank has an internal development programme that is aimed at helping talented employees to develop their skills. Leadership training remains a priority area. Performance appraisals and development reviews are conducted each year.

A good work environment is of great importance for the bank's profitability, as it stimulates strong performances and personal development. The bank is therefore keen to ensure that it continues to provide a good physical and psychosocial work environment. A good balance between work and free time is essential to strong performance at work. The bank takes a proactive approach to employee health and implemented a number of fitness programmes during the year. The bank also offers subsidised sport and fitness fees and massage.

A strong culture is a success factor. During the year the bank continued to work actively on strengthening the company culture.

The bank conducts an annual employee survey to follow up its employees' views on issues such as work climate, commitment and leadership. Participation in the survey is high and this year's results once again exceeded those for the previous year as well as the benchmark.

Information on salary payments and remuneration is provided in Note 11.



DIVERSITY POLICY

The bank aims to ensure that the composition of the Board of Directors is appropriate with regard to the company's operations, stage of development and other circumstances, and that it is marked by diversity and breadth in terms of the skills, experience and background of the board members appointed by the Annual General Meeting.

To meet these objectives, the bank strives to ensure a broad pool of characteristics and skills, and emphasises that diversity in terms of age, gender, geographic origin, education and professional background are important factors to consider when electing new board members.

REMUNERATION

Under the regulations of the Swedish Financial Supervisory Authority, the bank is required to publish information on its remuneration policy and its application at least annually and no later than in connection with the publication of the annual report.

Preparation and decision-making process

The Board of Directors of the bank has appointed a Remuneration Committee from among its members that is tasked with preparing decisions on important remuneration matters and proposing measures for following up the application of the current remuneration policy. The Board has appointed Chairman Urmas Kruusval, Tommy Andersson, Synnöve Trygg and Patrik Tolf as members of the Remuneration Committee.

An independent control function participates in the process of assessing and evaluating the bank's remuneration system. The control function reports the results of its assessment to the Board.

Risk analysis

Before a resolution can be taken on the adoption of a remuneration policy or on other material changes to the bank's remuneration system a risk analysis must be made. The risk analysis should aim to identify and take account of risks associated with the bank's remuneration policy and remuneration system that could have an adverse impact on the bank's future results and financial position. Based on the risk analysis, the bank then seeks to identify those employees whose duties have a material impact on the company's risk profile.

Remuneration model

Remuneration and other terms of employment should be competitive to ensure that the bank is able to attract and retain skilled employees with the ability to help increase the long-term value of the company. The remuneration paid by the bank should promote effective risk management and discourage excessive risk-taking. The bulk of the remuneration paid should consist of fixed remuneration. In some cases additional variable remuneration may be paid. Variable remuneration is based on individual targets that have been approved by the Board.

The bank can also decide to reclaim all or part of the variable remuneration paid if it is subsequently shown that the employee, profit centre or bank failed to meet the performance criteria. The bank can also opt not to pay variable remuneration if its financial position deteriorates materially.

Variable remuneration

The purpose of variable remuneration is to stimulate the employees to achieve especially important targets defined by the bank. Variable remuneration is offered as a supplement to fixed remuneration for a small number of positions in the bank's marketing, car trading and customer service functions. Variable remuneration is capped at 20% of the fixed remuneration. No variable remuneration is paid to members of the bank's management team. Nor is it paid to employees who make decisions on credits/limits or in internal control functions that deal with compliance, risk control and internal auditing.

Deferred remuneration

For employees working in positions in which they exercise a not insignificant influence on the bank's risk level and who are eligible for bonuses, 50% of the variable remuneration should be withheld until three years after the performance period if the remuneration exceeds SEK 100,000.

Other remuneration

The bank may, in addition to cash remuneration, offer its employees benefits in the form of a company car, health and fitness allowance or other benefits. The bank's pension solutions are based on the applicable collective agreements. The bank may conclude agreements on individual pension terms and termination conditions.

Expensed amounts

The total amounts of remuneration charged to expense in the financial year by employee category and business area are presented in the following tables.

Employee category*	Fixed remuneration, SEKm	Variable remuneration, SEKm	No. of people receiving fixed remuneration	No. of people receiving variable remuneration
Executive management	14.6	–	10	–
Other employees, incl. other employees who can influence the bank's risk level**	86.3	1.7	179	16
Total	**100.9**	**1.7**	**189**	**16**

* The "Executive management" category consists of the President and other members of the management team who report directly to the Board or the President. The category "Other employees who can influence the bank's risk level" comprises other persons that have been defined as employees whose duties have a material impact on the company's risk profile. The risk manager is included as co-opted member of the executive management.

** In accordance with the regulations and general recommendations of the Swedish Financial Supervisory Authority, quantitative information is not provided for employee categories with a small number of individuals. Quantitative information for the "Other employees" category is therefore provided together with the "Other employees" category.

Business area	Total, SEKm
Passenger car market	96.9
Truck market	5.7
Total	**102.6**

Remuneration of SEK 102.6 million was charged as an expense for the financial year.

Variable remuneration consists entirely of cash. No remuneration is deferred and no variable remuneration has been promised. No amounts related to severance pay were expensed during the year. No further promises of severance pay or of guaranteed variable remuneration in connection with recruitment have been made.

Appropriation of profits

The bank's Annual General Meeting has at its disposal available profits as per the balance sheet of a total of SEK 760 million.

	Amounts in SEKt 2016
Opening balance of retained earnings	760,439
Profit for the year	–
At the disposal of the AGM	**760,439**
The Board of Directors proposes that the above amount be appropriated as follows: Dividend of SEK 73.90 per share to the shareholders	73,899
Carried forward	**686,540**

The Board of Directors has decided that the size of the proposed dividend, a total of SEK 73,899 million (47,500), is justifiable considering the nature, scope, consolidation requirements, risks, liquidity, and general financial position of the business.

Unrealised changes in the value of assets and liabilities measured at fair value had a net impact on equity of SEK 12.6 million.

CAPITAL BASE

Under the regulations governing capital adequacy and large exposures, each institution is required at all times to maintain a minimum capital base equal to the sum of the capital requirements for credit risks, market risks and operational risks, in addition to the calculated capital requirement for further identified risks in the operations in accordance with the bank's internal capital adequacy assessment process. Following the proposed distribution of profits, the bank will have a capital base of SEK 3,497 million (3,264) and a minimum capital requirement of SEK 1,316 million (1,198). A specification of the items is presented in the section Risk and capital management.

The Board's assessment is that the bank's equity, as reported in the annual accounts, is adequate in relation to the scope and risk of the operations.

For more information about the bank's results and financial position, see the following income statement, balance sheet and cash flow statement.

FIVE-YEAR SUMMARY

Condensed balance sheet	2016	2015	2014	2013	Amounts in SEKm 2012
Chargeable treasury bills, etc.	1,041	1,081	1,171	1,292	1,025
Loans and advances to credit institutions	786	1,999	1,785	2,585	1,776
Loans and advances to customers	15,205	13,690	12,651	12,479	13,087
Bonds and other debt securities	1,724	836	837	1,272	635
Shares and interests in associates and other companies	26	24	21	19	16
Intangible assets	11	7	6	9	23
Property, plant and equipment	15,978	13,693	12,196	11,488	11,192
Other assets	703	671	632	719	890
Total assets	**35,474**	**32,001**	**29,299**	**29,863**	**28,644**
Borrowings	29,158	26,185	23,602	24,130	23,064
Other liabilities	1,907	1,738	1,724	1,591	1,610
Untaxed reserves	3,223	2,844	2,482	3,443	3,443
Equity	1,186	1,234	1,491	699	527
Total liabilities and equity	**35,474**	**32,001**	**29,299**	**29,863**	**28,644**
Condensed income statement					
Interest income	395	402	516	594	755
Lease income	4,019	3,619	3,517	3,477	3,269
Interest expense	- 182	- 252	- 470	- 646	- 854
Dividends received	2	2	3	2	3
Commission income	353	359	345	333	321
Commission expense	- 25	- 22	- 24	- 21	- 19
Net income/expense from financial transactions	- 1	- 6	- 4	- 15	- 20
Other operating income	2	2	–	–	–
Total income	**4,563**	**4,104**	**3,883**	**3,724**	**3,455**
General administrative expenses	- 312	- 280	- 265	- 268	- 260
Other operating expenses*	- 3,859	- 3,449	- 3,275	- 3,152	- 2,926
Net credit losses	- 13	- 12	- 12	- 28	- 35
Total expenses	**- 4,184**	**- 3,741**	**- 3,552**	**- 3,448**	**- 3,221**
Profit before tax	**379**	**363**	**331**	**276**	**234**
Profit for the year	**-**	**-**	**1,007**	**215**	**-**

* Including depreciation of property, plant and equipment and amortisation of intangible assets.

Key performance indicators	2016	2015	2014	2013	2012
Return on equity, %	8.68	8.93	8.14	6.80	5.68
Risk capital/total assets, %	12.22	12.60	12.68	13.15	13.71
Deposits/lending, %	49.43	52.33	55.44	59.52	48.55
Earnings/risk-weighted assets, %	2.30	2.42	2.40	1.73	1.43
Return on total assets, %	0.88	0.92	3.40	0.73	0.60
Total capital ratio, %	21.26	21.79	21.93	19.70	20.97
Common equity tier 1 capital ratio, %	21.26	21.79	21.93	19.70	20.97
Net interest income/ø lending, %	1.44	1.38	1.33	1.12	1.08
Credit losses/lending, %	0.04	0.04	0.04	0.11	0.12
Operating expenses/lending, %	1.24	1.23	1.26	1.10	1.15
Cost/income ratio	0.51	0.50	0.51	0.54	0.59
Cost/income ratio excl. credit losses	0.49	0.48	0.49	0.49	0.53
Cost/income ratio excl. net interest income and credit losses	1.15	1.03	1.04	0.97	1.08
Average number of employees	189	184	183	182	177

Definitions of alternative performance measures and key performance indicators in accordance with Swedish capital adequacy regulations can be found under: https://www.volvofinans.se/about-us/definition-of-key-performance-indicators/

INCOME STATEMENT

1 January–31 December

Operating income	**2016**	**Amounts in SEKt 2015**
Interest income, Note 5	394,899	402,487
Lease income, Note 6	4,018,985	3,619,222
Interest expense, Note 5	- 182,166	- 251,689
Net interest income	**4,231,718**	**3,770,020**
Dividends received, Note 7	2,213	2,062
Commission income, Note 8	353,193	358,770
Commission expense, Note 9	- 24,645	- 22,302
Net income/expense from financial transactions, Note 10	- 1,325	- 5,895
Other operating income	1,745	1,375
Total operating income	**4,562,899**	**4,104,030**
Operating expenses		
General administrative expenses, Note 11	- 311,738	- 280,192
Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets, Note 12	- 3,816,622	- 3,403,677
Other operating expenses, Note 13	- 42,121	- 45,274
Total operating expenses	**- 4,170,481**	**- 3,729,143**
Profit before credit losses	**392,418**	**374,817**
Net credit losses, Note 14	- 13,450	- 11,858
Operating profit	**378,968**	**363,029**
Appropriations, Note 15	- 378,497	- 362,580
Tax on profit for the year, Note 16	- 471	- 449
Profit for the year*	**-**	**-**

* Profit for the year is the same as comprehensive income for the year.

BALANCE SHEET

Assets	**31 Dec 2016**	**Amounts in SEKt 31 Dec 2015**
Chargeable treasury bills, etc., Note 17	1,040,542	1,080,515
Loans and advances to credit institutions, Note 18	786,666	1,998,980
Loans and advances to customers, Note 19	15,205,317	13,690,417
Bonds and other debt securities, Note 20	1,723,526	835,501
Shares and interests in associates and other companies, Note 21	19,009	16,797
Shares and interests in Group companies, Note 22	6,742	6,742
Intangible assets, Note 23	11,123	7,874
Property, plant and equipment, fixtures and fittings, Note 24	1,632	1,535
Property, plant and equipment, lease assets, Note 24	15,976,197	13,691,740
Other assets, Notes 25, 26	670,588	638,979
Prepaid expenses and accrued income, Note 27	32,811	32,177
Total assets	**35,474,153**	**32,001,257**
Liabilities and equity		
Liabilities to credit institutions, Note 28	1,350,000	1,000,000
Retail deposits and borrowings, Note 29	15,412,413	14,329,062
Securities issued, Note 28	12,395,088	10,856,491
Other liabilities, Notes 26, 30	787,412	788,450
Accrued expenses and deferred income, Note 31	1,120,097	949,117
Total liabilities	**31,065,019**	**27,923,120**
Untaxed reserves, Note 32	3,222,722	2,844,225
Equity, Note 33		
Restricted equity:		
Share capital (1,000,000 shares with a quotient value of SEK 400)	400,000	400,000
Statutory reserve	20,000	20,000
Development fund	5,973	-
Non-restricted equity:		
Retained earnings	760,439	813,912
Profit for the year	–	-
Total equity	**1,186,412**	**1,233,912**
Total liabilities and equity	**35,474,153**	**32,001,257**

STATEMENT OF CHANGES IN EQUITY

Amounts in SEKt

	Restricted equity			Non-restricted equity	
Opening equity	**Share capital**	**Statutory reserve**	**Development fund**	**Retained earnings incl. profit for the year**	**Total equity**
1 January 2015	400,000	20,000	–	1,071,183	1,491,183
Profit for the year	–	–	–	–	–
Total change before transactions with shareholders	**400,000**	**20,000**		**1,071,183**	**1,491,183**
Dividend	–	–	–	- 257,271	- 257,271
Closing equity, 31 December 2015	**400,000**	**20,000**	–	**813,912**	**1,233,912**
Opening equity,					
1 January 2016	400,000	20,000	–	813,912	1,233,912
Profit for the year	–	–	–	–	–
Transfer self-generated development costs	–	–	5,973	- 5,973	–
Total change before transactions with shareholders	**400,000**	**20,000**	**5,973**	**807,939**	**1,233,912**
Dividend	–	–	–	- 47,500	- 47,500
Closing equity, 31 December 2016	**400,000**	**20,000**	**5,973**	**760,439**	**1,186,412**

CASH FLOW STATEMENT

Operating activities	**2016**	**Amounts in SEKt 2015**
Operating profit	378,968	363,029
Adjustment for non-cash items		
Unrealised portion of net income/expense from financial transactions	1,062	- 5,895
Depreciation, amortisation and impairment	3,816,622	3,420,208
Credit losses	15,975	19,135
Tax paid	47,722	- 284,745
Changes in operating assets and liabilities		
Chargeable treasury bills	39,973	90,331
Loans and advances to customers	- 1,530,012	- 1,058,273
Bonds and other debt securities	- 888,026	1,797
Other assets	- 81,298	245,231
Liabilities to credit institutions	350,000	- 550,000
Retail borrowings	1,083,351	555,511
Securities issued	1,538,598	2,577,731
Other liabilities	168,888	19,214
Cash flow from operating activities	**4,941,822**	**5,393,274**
Investing activities		
Capitalised development expenditure	- 6,248	- 4,412
Investments in shares and interests	- 2,212	- 2,064
Acquisition of property, plant and equipment	- 9,576,364	- 8,080,394
Sale of property, plant and equipment	3,478,188	3,165,066
Cash flow from investing activities	**- 6,106,636**	**- 4,921,804**
Financing activities		
Dividend paid	- 47,500	- 257,271
Cash flow from financing activities	**- 47,500**	**- 257,271**
Cash flow for the year		
Cash and cash equivalents at beginning of year	1,998,980	1,784,781
Cash flow from operating activities	4,941,822	5,393,274
Cash flow from investing activities	- 6,106,636	- 4,921,804
Cash flow from financing activities	- 47,500	- 257,271
Cash and cash equivalents at end of year	**786,666**	**1,998,980**
Cash interest paid		
Interest received	391,486	399,041
Interest paid	172,128	- 224,337

26 Notes

Notes

Notes to the income statement and balance sheet.

Unless otherwise specified, amounts are stated in SEK thousand.

Volvofinans Bank AB, hereinafter "the bank", operates 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. Volvo Car Corporation acquired the Sixth AP Fund's shares in August 2016 and now owns 50% (10). The bank conducts sales finance and credit card operations and has its registered office in Göteborg. The address is Bohusgatan 15, PO Box 198, SE-401 23 Göteborg, Sweden.

Pursuant to Chapter 7, Section 6a of the Swedish Annual Accounts Act for Credit Institutions and Investment Firms Act, the bank does not prepare consolidated financial statements as of 31 December 2010, as the activities of the subsidiaries are of minor importance.

2. RISK AND CAPITAL MANAGEMENT

Background

Volvofinans Bank AB (publ), corporate ID number 556069-0967, is subject to the EU regulations 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 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 regulations have been incorporated into Swedish law. In addition, a large number of regulations and general recommendations have been issued by the Swedish Financial Supervisory Authority (FSA).

This annual report provides the information required under the aforementioned laws and regulations.

In spring 2011 the FSA approved the bank's IRB application for permission to use the internal ratings-based (IRB) approach for calculating capital requirements for credit risk for retail exposures and non-credit obligation asset exposures. Three years later, in spring 2014, the Swedish Financial Supervisory Authority approved the bank's application for permission to apply internal models also for the bank's corporate exposures. The bank has been granted a permanent exemption to use the standardised approach for exposures to the Swedish State, the Swedish National Bank and Swedish local authorities as well as for the exposure classes sovereign and institutional exposures and portfolios which are insignificant in size. The Swedish Financial Supervisory Authority's memo on risk weightings for companies that came into force during the year did not affect the bank because the estimates in the corporate exposure model are conservative and already take sufficient account of weak economic climate.

Risk management

The bank's risk management, for which ultimate responsibility rests with the Board of Directors, is aimed at identifying and assessing risks in the activities of the bank, and to determine an appropriate risk appetite (limits) for these and ensure that effective internal control systems have been put in place. Risks are monitored and controls are performed on a regular basis to ensure that limits are not exceeded. Risk policies and risk management systems are reviewed regularly to ensure that they are correct and reflect current market conditions as well as the products and services offered. Through training and clear processes, the bank creates a basis for good risk control, ensuring that each employee understands his or her role and responsibility.

The bank has a central function for independent risk control that reports directly to the President. The risk control function is tasked with analysing changes in the risks and, where necessary, proposing changes to governing documents and processes. The function is responsible for the design, implementation, reliability and monitoring of the bank's risk classification system. The function has also appointed a number of so-called RCS coordinators to manage the business's risk, compliance and security issues in their respective areas. These individuals thus serve as the risk control function's contact persons in the bank.

Risk strategy

The bank's risk strategy and risk appetite should:

- serve as policy instruments for achieving the bank's strategic objectives
- take account of the bank's unique business model in the Swedish Volvo system
- take account of the bank's desire to be viewed as the "Car Bank"
- be adapted to the various business areas in the bank
- be systematic, structured and permeate the entire organisation

The bank has identified the following risk categories as the most important risks for the bank to manage in order to meet the bank's 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 continuous analysis of those risk factors to which the bank is exposed through its activities. These risk factors can broadly be divided into:

- risks that the bank is willing to accept, as they can contribute to higher returns or the achievement of objectives
- risks that the bank seeks to minimise, as they cannot be expected to contribute to higher returns or the achievement of objectives

The first category includes credit risk, concentration risk (credit risk) and residual value risk, which the bank seeks to optimise within the risk appetite defined by the Board in order to achieve its strategic objectives.

The second category includes operational risk, interest rate risk, counterparty risk, reputational risk, liquidity risk and strategic risk, for which the bank has a low risk appetite. The costs of managing these risks should be proportionate to the direct or indirect loss that could be incurred if the risk were to materialise.

All risks should be managed both preventively and reactively through good risk management in the first line of defence as well as good risk control in the second line of defence. The risk control function monitors all risks on a regular basis and ensures that they remain within the defined risk appetite.

The bank's risk management should be marked by preventive measures that are designed to prevent or limit risks and any damage. In the products and services offered by the bank the risk should be weighed against the expected return subject to what is economically justifiable. To achieve good profitability while maintaining an acceptable level of risk, the bank should use and integrate the results of its internal capital and liquidity adequacy assessment processes (ICAAP and ILAAP). Important business decisions must take account of potential consequences from a risk and capital perspective.

Risk appetite

Overall risk appetite

The bank's measure of overall risk appetite is the total capital ratio, which must not fall below 18.5%. The bank also seeks to maintain a common equity tier 1 capital ratio of at least 13.8%.

Credit risk

Credit risk refers to the risk deemed to exist at any given time that the bank's counterparties, for whatever reason, will fail to fulfil their contractual obligations in respect of payment. Such contracts may refer to various forms of monetary loans, leases, guarantees, investments or derivatives contracts.

The Board has overall responsibility for the bank's credit risk exposure. Through a set of instructions, the Board has delegated this responsibility to various executives, subject to certain limits.

The bank has defined high ethical, quality and control standards for its lending activities. Although the credit risk is a large risk exposure, the bank's credit losses have been very small in relation to the outstanding loan volume.

Loans are issued subject to a credit assessment using the bank's credit rating tool, VF Score. VF Score contains financial information and internal credit information about the customer, which is processed using proprietary score cards and rules to produce a risk classification of the customer. Based on the score and rules, the tool generates a credit recommendation – approve, review or reject. Using the recommendation and other known information about the customer as a basis, a credit decision is then made. In practice, this means that the role that is authorised to make a decision under the credit approval instructions for each unit either approves or rejects the loan. For private individuals applying for card credit, the decision-making process is now automated.

The granting of credit in the form of loans and leases should be selective in the sense that the bank's credit customers must be of such quality that credit losses can be kept at a consistently low level. The quality requirement must never be set aside in an effort to achieve a high credit volume. Credit issuance in which the bank assumes a direct counterparty risk mainly comprises fleet finance, through finance or operating leases, for medium-sized and large enterprises. With a strong focus on credit quality, the bank concludes contracts only with financially stable companies, subject to a thorough credit assessment. The bank has also defined a scorecard and rules in VF Score for expert-based assessment of large companies.

The bank's procedures for monitoring overdue payments and unsettled receivables are aimed at minimising credit losses through early detection of payment problems among borrowers and prompt handling of the demand process. Overdue debts are monitored with the help of specific demand processes which automatically monitor outstanding debts and issue reminders when a demand measure needs to be taken.

Quantification of credit risks

Within the framework of the bank's internal ratings-based (IRB) system, the bank's own estimates of risk parameters will be quantified. These risk estimates are used for granting of credit, capital adequacy and risk management. The IRB method is based on three different risk parameters: probability of default (PD), Loss Given Default (LGD) and exposure at default (EAD). A conversion factor (CF) is also estimated for calculating EAD for off-balance sheet exposures.

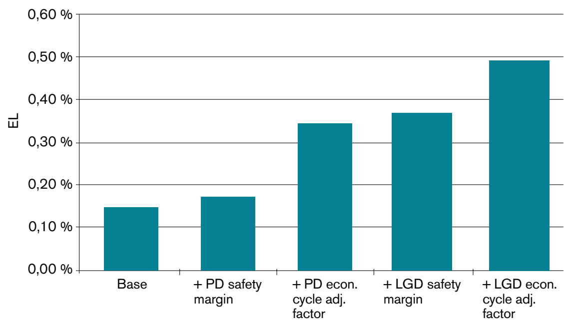
Statistical scoring models have been used for retail exposures (private individuals and small and medium-sized limited companies) since January 2007 and for corporate exposures (companies with sales of over SEK 400 million or exposures with the bank of more than SEK 5 million) an expert-based model was introduced in late 2007.

For retail exposures the default risk is estimated individually for each exposure using statistical risk models, which form part of the bank's risk modelling techniques. Based on the individual risk estimate, each exposure is assigned to a risk category in the PD dimension. A risk category consists of a number of exposures with similar risk profiles and risk levels, which have undergone a standardised risk process. The bank refers to this process as risk classification.

Product categories are used in the LGD and EAD risk dimensions. As regards the LGD dimension, there is an underlying risk category structure for certain products based, for example, on the loan-to-value ratio. An estimate is made of the potential loss in the financing portfolio for each end customer, Even though the bank has concluded a recourse agreement with each dealer. Under the recourse agreement, the dealer takes over receivables for which payment is more than 180 days overdue. Thanks largely to this business model, the bank has incurred only negligible credit losses in these portfolios.

For each risk category or product category a risk estimate is calculated that describes the average risk for the category. The risk estimates for the risk category include a safety margin that is designed to take account of uncertainty in the data, data quality and data access. The risk estimates for the risk category are adjusted in response to changes in economic conditions. PD should reflect the business cycle average while LGD/CF should reflect a period of low economic activity. The bank defines the period from the early 1990s onwards as a full business cycle. The method used by the bank to adjust risk estimates in the PD dimension to changes in economic conditions is designed to keep PD in each IRB sub-portfolio at a constant level. This means that the adjustment factor changes over time, with the limitation that it is never permitted to fall below 1. The crisis years in the early 1990s are used as a benchmark for an adverse economic environment. The bank refers to the above process as risk category estimation. All of the bank's models meet the regulatory requirement of at least five years of outcome data. In its risk category estimation, the bank has made very conservative assumptions and applied wide safety margins for its basic estimates as well as estimates that have been adjusted for economic conditions. The aim is to ensure that the estimates used in determining capital requirements do not result in the credit risk being underestimated.

The following chart provides an overview of how expected loss (EL) for the bank's retail exposures is affected by the adjustments that are made in the PD and LGD dimensions. The chart shows that the final estimate is more than 100% larger than the basic estimate.



Comparison with external rating agencies

The relationship between the rating made by an external credit rating agency (Standard & Poor's) and the bank's own risk categories in the PD dimension are presented in the following table. The comparison is indicative only and is not intended to represent any fixed relationship between the bank's internal risk categories and Standard & Poor's rating.

Internal risk category	Standard & Poor's indicative rating
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 by exposure class

Retail exposures

The following table shows the average risk weight by risk category for retail exposures ("Other" sub-group). The table shows reported exposures for each risk category as well as exposure amount, taking account of the conversion factor (CF).

Risk category	Reported exposure	Exposure amount	Risk-weighted amount	Risk weight, %
1	10,422,881	16,131,654	2,205,257	13.67
2	5,346,375	7,488,420	1,931,954	25.80
3 – 4	3,956,079	4,434,250	1,600,809	36.10
5 – 6	986,837	1,040,157	518,596	49.86
7	176,557	180,506	87,649	48.56
In default	67,009	73,101	68,654	93.82
Total	**20,955,738**	**29,348,088**	**6,412,919**	**21.85**

Excluding the effect of credit risk protection, the total for all retail exposure amounts is SEK 30.7 billion rather than SEK 29.3 billion, as shown in the table. In calculating the higher amount, CF has been set at 100% while the lower amount is based on a CF of 87% for private customers and 84% for corporate customers.

Corporate exposures

The following table shows the average risk weight by risk category for corporate exposures, using the basic internal method.

Risk category	Reported exposure	Exposure amount	Risk-weighted amount	Risk weight, %
1	3,058,782	3,123,840	1,385,541	44.35
2	2,042,227	2,051,692	1,829,755	89.18
3 – 4	1,258,990	1,258,990	1,514,030	120.26
5 – 6	190,326	190,326	317,468	166.80
7	26,661	26,661	43,672	163.81
In default	11,251	11,251	–	0.00
Total	**6,588,237**	**6,662,760**	**5,090,466**	**76.40**

According to the table Total amount of all exposures excluding the effect of credit risk protection, the total for all corporate exposure amounts is SEK 7.2 billion, compared with SEK 6.7 billion in the above table. The higher amount includes certain off-balance sheet commitments.

Validation

One of the most important elements of an internal risk classification system is the validation of the system. The system is validated at least once a year, and responsibility for the validation process and implementation is held by the risk control function.

The validation process must include a documented qualitative analysis and assessment of the design and use of the risk classification system. A quantitative validation is made of the accuracy of the models and measures are taken to ensure that no systematic deviations occur. The results and conclusions of the validation are reported to the Board.

The table below shows predictions and outcomes (EL and LGD are exposure-weighted averages while PD is quantity-weighted). The significant difference between predictions and outcomes is due to the conservative assumptions used by the bank in developing the model.

Predictions and outcomes for IRB exposures	EL	PD	PD	LGD	LGD
Exposure class	**Prediction**	**Prediction**	**Outcome**	**Prediction**	**Outcome**
Retail, other	0.48%	1.11%	0.43%	32%	16%
Corporate	0.94%	1.72%	0.65%	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 is an integral part of the bank's governance, credit, risk management and internal capital allocation processes. The bank also uses the system for impairment and risk-adjusted pricing.

FUTURE REGULATIONS

An international initiative is also underway relating to future capital requirements in the form of a major review conducted by the Basel Committee with the aim of improving the comparability of banks' capital measures. As part of this initiative, there is a discussion about future standardised approaches for calculating capital requirements for credit, market and operational risks. The Basel Committee has submitted a proposal that could lead to the introduction of a capital floor based on the standardised approach and minimum leverage ratio requirements for those banks which use internal models. The plan includes restrictions on using internal models for companies. Definition and classification of defaulted receivables are also subject to regulatory review. There is still considerable uncertainty about the formulation of the new regulations and the timing of their implementation, and it is therefore still too early to draw any conclusions about what the potential impact may be for the bank.

CREDIT EXPOSURE

The bank's maximum credit exposure by category of financial instrument is presented below. Maximum credit exposure includes undrawn credit card limits and 20% of undrawn dealer limits. There are no other loan commitments. For derivative instruments, an additional amount is calculated based on the maturity, the nature of the risk and the nominal amount. This is done for all derivatives, including derivatives with positive and negative market values.

Total amount of all exposures excluding the effect of credit risk protection

All exposures refer to Sweden.

Credit risk, standardised approach	2016	2015
Exposures to central governments and central banks	125,778	218,567
Exposures to local authorities and comparable associations as well as agencies	1,160,329	1,199,467
Exposures to administrative bodies, non-commercial undertakings and religious associations	5,294	5,555
Institutional exposures*	822,169	2,040,154
Corporate exposures	748,814	288,772
Retail exposures	479,814	543,855
Unsettled items	15,963	2,774
Covered bonds	1,123,419	835,501
Equity exposures	25,751	23,539
Other items	12,010	11,659
Total, standardised approach	**4,519,341**	**5,169,843**
Credit risk using the IRB approach		
Corporate exposures	7,187,322	5,838,948
Retail exposures	30,816,966	28,033,995
Non-credit obligation asset exposures	2,310,597	2,488,700
Total, IRB approach	**40,314,885**	**36,361,643**
Total credit risk	**44,834,226**	**41,531,486**

* Of which, add-on of SEK 6.3 million (4.5).

Total amount of all exposures including the effect of credit risk protection

As shown in the table above, the bank has a total credit risk exposure of SEK 44,834 million (41,531) excluding the effect of credit risk protection.

The bank's recourse agreements with the dealerships significantly reduce the credit risk. The right of recourse is in the amount of SEK 23,106 million (21,400). The bank also has collateral for loans and receivables in the form of guarantees of SEK 129 million (629), floating charges of SEK 266 million (263), property mortgages of SEK 2 million (2) and pledged loans and leases of SEK 1,993 million (2,129). The bank's total credit risk exposure, including the effect of credit risk protection, is thus SEK 19,338 million (17,108).

The bank does not use credit risk protection to reduce its capital requirement.

Reconciliation to carrying amounts in the balance sheet

The following table shows a reconciliation of carrying amounts of assets in the balance sheet to the amounts of exposures for credit risk excluding the effect of credit risk protection shown in the preceding table.

	2016	2015
Total assets as stated in the balance sheet	35,474,153	32,001,257
Additional items		
Total impairment	92,597	69,712
Undrawn limits, accounts receivable	10,137,964	10,070,230
Undrawn limits, lending to Volvo dealers	424,153	256,039
Margin for counterparty risk in derivatives	6,284	4,493
Outgoing items		
Non-credit obligation asset exposures*	- 1,289,802	- 862,371
Intangible assets	- 11,123	- 7,874
Total	**44,834,226**	**41,531,486**

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

Average exposure for the year

Credit risk, standardised approach	2016	2015
Exposures to central governments and central banks	105,673	121,697
Exposures to local authorities and comparable associations as well as agencies	1,026,371	1,343,245
Exposures to administrative bodies, non-commercial undertakings and religious associations	5,246	4,690
Institutional exposures	1,248,932	1,564,855
Corporate exposures	873,258	304,505
Retail exposures	464,936	493,239
Unsettled items	10,599	3,497
Covered bonds	895,362	879,752
Equity exposures	24,092	21,991
Other items	27,339	21,060
Total, standardised approach	**4,681,808**	**4,758,531**
Credit risk using the IRB approach		
Corporate exposures	6,522,712	5,642,217
Retail exposures*	29,754,827	27,083,154
Non-credit obligation asset exposures	2,660,265	2,465,403
Total, IRB approach	**38,937,804**	**35,190,774**
Total	**43,619,612**	**39,949,305**

* "Retail exposures" includes exposures in the sub-groups "Small and medium-sized enterprises" and "Other retail exposures".

Distribution of exposures by sector and exposure class

2016	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	709	125,069	125,778
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,160,329	1,160,329
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	5,294	5,294
Institutional exposures	–	–	–	822,169	822,169
Corporate exposures, standardised and IRB	2,146,239	1,662,941	1,073,703	3,053,253	7,936,136
Retail exposures, standardised and IRB	1,219,237	1,756,305	1,138,375	27,182,863	31,296,780
Unsettled items	1,369	1,391	900	12,303	15,963
Covered bonds	–	–	–	1,123,419	1,123,419
Equity exposures	–	–	–	25,751	25,751
Other items	–	–	–	12,010	12,010
Non-credit obligation asset exposures, IRB	–	–	–	2,310,597	2,310,597
Total	**3,366,845**	**3,420,637**	**2,213,687**	**35,833,057**	**44,834,226**

2015	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	724	217,843	218,567
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,199,467	1,199,467
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	5,555	5,555
Institutional exposures	–	–	–	2,040,154	2,040,154
Corporate exposures, standardised and IRB	1,487,559	1,439,520	980,639	2,220,002	6,127,720
Retail exposures, standardised and IRB	1,079,592	1,482,658	1,008,319	25,007,281	28,577,850
Unsettled items	1,204	462	998	110	2,774
Covered bonds	–	–	–	835,501	835,501
Equity exposures	–	–	–	23,539	23,539
Other items	–	–	–	11,659	11,659
Non-credit obligation asset exposures, IRB	–	–	–	2,488,700	2,488,700
Total	**2,568,355**	**2,922,640**	**1,990,680**	**34,049,811**	**41,531,486**

Exposures, remaining term to maturity by exposure class

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

2016	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 central governments and central banks	108,807	9,167	7,804	–	125,778	–
Exposures to local authorities and comparable associations as well as agencies	356,065	392,368	411,896	–	1,160,329	–
Exposures to administrative bodies, non-commercial undertakings and religious associations	418	813	4,063	–	5,294	–
Institutional exposures	791,989	8,325	21,855	–	822,169	–
Corporate exposures, standardised and IRB	2,599,540	2,200,247	3,094,586	41,763	7,936,136	–
Retail exposures, standardised and IRB	13,081,874	4,679,668	13,391,555	143,683	31,296,780	–
Unsettled items	15,963	–	–	–	15,963	–
Covered bonds	8,419	344,000	771,000	–	1,123,419	–
Equity exposures	–	–	–	–	–	25,751
Other items	–	–	–	–	–	12,010
Non-credit obligation asset exposures, IRB	178,685	753,926	1,361,432	2,099	2,296,142	14,455
Total	**17,141,760**	**8,388,514**	**19,064,191**	**187,545**	**44,782,010**	**52,216**

2015	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 central governments and central banks	201,855	4,705	12,007	–	218,567	–
Exposures to local authorities and comparable associations as well as agencies	57,112	278,617	863,621	118	1,199,467	–
Exposures to administrative bodies, non-commercial undertakings and religious associations	1,187	1,668	2,700	–	5,555	–
Institutional exposures	2,005,632	9,099	25,423	–	2,040,154	–
Corporate exposures, standardised and IRB	1,688,157	2,274,610	2,137,064	27,889	6,127,720	–
Retail exposures, standardised and IRB	12,720,547	3,986,963	11,745,322	125,018	28,577,850	–
Unsettled items	2,774	–	–	–	2,774	–
Covered bonds	200,000	435,000	200,501	–	835,501	–
Equity exposures	–	–	–	–	–	23,539
Other items	–	–	–	–	–	11,659
Non-credit obligation asset exposures, IRB	220,056	903,281	1,349,887	1,420	2,474,644	14,056
Total	**17,097,320**	**7,893,943**	**16,336,525**	**154,445**	**41,482,232**	**49,254**

Impairment

Problem loans (receivables which are more than 90 days past due) were SEK 102,136 thousand (155,532). The bank has recognised impairment losses on loans which are more than 90 days past due and which are therefore classified as doubtful debts (individual impairment). A breakdown of impairment losses on groups of loans that it has not yet been possible to attribute to individual receivables is shown in the table below.

	Individual impairment	Collective impairment of losses which it has not yet been possible to attribute to individual receivables	Total
Opening balance, 1 January 2015	- 45,614	- 11,402	- 57,016
OB includes provisions for receivables which were recognised as actual credit losses in 2015	15,300	–	15,300
Adjustment between loans and leases	434	–	434
Reversal of credit losses on principal receivables for the year	21,321	5,265	26,586
Impairment for credit losses on principal receivables for the year	- 36,798	- 2,878	- 39,676
Reversal of credit losses on interest receivables for the year	51	–	51
Impairment for credit losses on interest receivables for the year	- 91	–	- 91
Write-off of actual credit losses for the year	- 16,501	–	- 16,501
Recovery of actual credit losses from previous years	1,201	–	1,201
Closing balance, 31 December 2015	**- 60,697**	**- 9,015**	**- 69,712**
Of which, impairment of interest receivables	–	–	898
Opening balance, 1 January 2016	- 60,697	- 9,015	- 69,712
OB includes provisions for receivables which were recognised as actual credit losses in 2016	14,796	–	14,796
Reversal of credit losses on principal receivables for the year	26,141	4,184	30,325
Impairment for credit losses on principal receivables for the year	- 49,632	- 3,411	- 53,043
Reversal of credit losses on interest receivables for the year	2	–	2
Impairment for credit losses on interest receivables for the year	- 168	–	- 168
Write-off of actual credit losses for the year	- 16,049	–	- 16,049
Recovery of actual credit losses from previous years	1,253	–	1,253
Closing balance, 31 December 2016	**- 84,354**	**- 8,242**	**- 92,596**
Of which, impairment of interest receivables	–	–	1,064

Impairment by asset item

Impairment	2016	2015
Loans and advances to customers, specific impairment	8,632	7,974
Loans and advances to customers, collective impairment	11,386	12,361
Loans and advances to customers, total	**20,018**	**20,335**
Property, plant and equipment, total impairment	72,131	48,067
Property, plant and equipment, total	**72,131**	**48,067**
Other assets, individual impairment	447	1,310
Other assets, total	**447**	**1,310**
Total impairment	**92,596**	**69,712**
Effect on earnings		
Property, plant and equipment, reversal	19,366	14,383
Property, plant and equipment, impairment	- 43,430	- 30,916
Adjustment between trade receivables and leases	-	434
Impairment of property, plant and equipment, Note 12	**- 24,064**	**- 16,099**
Changes in impairment of principal receivables in accordance with the above	- 9,613	- 8,760
Change in reversal of principal receivables in accordance with the above	10,959	12,202
Net actual credit losses for the year	- 16,049	- 16,501
Recovery of actual credit losses from previous years	1,253	1,201
Net credit losses, in accordance with Note 14	**- 13,450**	**- 11,858**

Individually impaired exposures* by key sector

2016	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Private individuals	26,171	- 6,918	19,253	13,638
Sale and service of motor vehicles	2,632	- 102	2,530	2,167
Transport	15,923	- 416	15,507	14,387
Legal, financial, scientific and technological activities	17,923	- 94	17,829	16,377
Other sectors	9,536,183	- 740	9,535,443	7,860,420
Total	**9,598,832**	**- 8,270**	**9,590,562**	**7,906,989**

2015	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Private individuals	24,134	- 12,509	11,625	14,233
Sale and service of motor vehicles	3,455	- 145	3,310	2,827
Transport	23,194	- 738	22,456	20,975
Legal, financial, scientific and technological activities	2,220	- 64	2,156	1,896
Other sectors	8,483,279	4,677	8,487,956	7,982,932
Total	**8,536,282**	**- 8,779**	**8,527,503**	**8,022,863**

* An impaired receivable is a doubtful debt, i.e. a receivable for which payments are unlikely to be made in accordance with the terms of the contract.

Individually impaired exposures by segment

2016	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Retail*	69,519	- 7,967	61,552	51,945
Corporate	9,529,313	- 303	9,529,010	7,855,044
Total	**9,598,832**	**- 8,270**	**9,590,562**	**7,906,989**

2015	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Retail*	70,009	- 7,599	62,410	52,133
Corporate	8,466,273	- 1,180	8,465,093	7,970,730
Total	**8,536,282**	**- 8,779**	**8,527,503**	**8,022,863**

* Retail is defined as private individuals and companies with sales of less than SEK 400 million or exposures with the bank of less than SEK 5 million.

Past-due exposures not individually evaluated for impairment by key sector

2016	Carrying amount excl. collective provision	Fair value of collateral
Private individuals	66,828	55,439
Sale and service of motor vehicles	23,700	12,248
Transport	31,306	29,881
Legal, financial, scientific and technological activities	81,409	6,239
Other sectors	148,253	74,858
Total	**351,496**	**178,665**

2015	Carrying amount excl. collective provision	Fair value of collateral
Private individuals	62,139	50,003
Sale and service of motor vehicles	26,570	19,917
Transport	51,365	49,275
Legal, financial, scientific and technological activities	91,668	5,394
Other sectors	124,398	92,347
Total	**356,140**	**216,936**

Past-due exposures not individually evaluated for impairment by segment

2016	Carrying amount excl. collective provision	Fair value of collateral
Retail*	130,611	115,820
Central, regional and local government	803	661
Religious associations	7	–
Corporate	220,075	62,184
Total	**351,496**	**178,665**

2015	Carrying amount excl. collective provision	Fair value of collateral
Retail*	142,852	126,247
Central, regional and local government	1,318	1,157
Religious associations	7	–
Corporate	211,963	89,532
Total	**356,140**	**216,936**

* Retail is defined as private individuals and companies with sales of less than SEK 400 million or exposures with the bank of less than SEK 5 million.

Aged debt analysis of overdue exposures not individually evaluated for impairment

Carrying amount excl. collective provision	31 Dec 2016	31 Dec 2015
61-89 days past due	21,162	74,165
31-60 days past due	222,522	143,368
01-30 days past due	107,812	138,607
Total	**351,496**	**356,140**

Renegotiated unimpaired receivables

In some cases the contract is renegotiated with the customer, which may result in the due date being moved forward. A valuation of the financed asset is made when a contract is renegotiated. All renegotiated contracts are secured by adequate collateral. At 31 December 2016 the total amount of principal under renegotiated contracts was SEK 6.9 million (9.4).

There are no contracts for which the principal has been written down or remission of interest has been agreed with the borrower.

Disclosures on credit quality of unimpaired receivables

The credit quality of unimpaired receivables is very good. For 88% (89) of retail receivables, the risk is very low and the corresponding figure for corporate receivables is 93% (90). For more information on risk category and risk category estimates, see the Credit risk section on page 29.

Loans and advances to credit institutions

The credit quality of loans and advances to credit institutions is very high. The item consists mainly of deposits with the big Swedish banks, which at the balance sheet date had ratings of Aa3–A2 on Moody's scale.

COUNTERPARTY RISK

The bank enters into derivatives solely for the purpose of eliminating interest rate risk and foreign exchange risk in interest-bearing loans and borrowings. The derivatives contracts currently consist only of interest rate swaps. Counterparty risk arises when the bank has entered into a derivative contract with a counterparty and refers to the risk that the counterparty will be unable to fulfil its contractual obligations. If the contract has a positive market value a default by the counterparty would result in a loss for the bank. To limit the risk, the bank has concluded netting agreements with all derivatives counterparties. Under a netting agreement, the positive and negative values of all derivatives with the same counterparty are netted in the event of default. The bank only uses counterparties with which it has a financing agreement and which have a high rating. The bank's financial policy specifies limits for counterparty risk, which are monitored continuously. In the event that a counter-party risk exceeds the limit as a result of market movements, no new deals may be concluded until the counterparty has posted adequate collateral for counterparty risk in excess of the limit.

The size of the counterparty risk is affected by the market value and varies with changes in market interest rates. The market value of swaps is determined using discounted cash flows. The discount rates are based on official market rates. Black-Scholes is used to price interest rate options and implied volatilities are based on official market rates. To account for the risk that the settlement amount will differ from the bank's estimated market value in case of default, a margin is added. The margin is determined using various standardised approaches depending on the nature of the underlying asset and the term of the contract.

The nominal amounts of contracts with positive as well as negative values are used to calculate the margin. At year-end, the compensation for counterparty risk in derivatives was SEK 18,440 thousand (25,698). The margin was calculated at SEK 6,284 thousand (4,493). The nominal amount of the bank's outstanding derivatives at year-end was SEK 1,266 million (1,306). The following table shows the bank's counterparty exposure, i.e. the compensation (market value) and the margin for potential changes in the risk by credit rating category on Moody's scale.

SEKm		2016		2015	
Rating (short-term)	Rating (long-term)	Compensa-tion	Margin	Compensa-tion	Margin
P-1	Aa2	–	–	–	–
P-1	Aa3	0.0	2.0	18.7	0.1
P-1	A1	18.4	4.3	–	–
P-1	A2	–	–	7.0	4.4
P-2	A3	–	–	–	–
P-2	Baa1	–	–	–	–
Total		**18.4**	**6.3**	**25.7**	**4.5**

The bank is in the process of adapting to EMIR, the EU's regulation on OTC derivatives, central counterparties and trade repositories. The provisions on reporting of derivatives to trade repositories and risk mitigation techniques in EMIR that have already come into force are being handled adequately by the bank.

CONCENTRATION RISK

The bank's definition of concentration risk refers to:

- Large exposures to customers or groups of connected customers.
- Large exposures to groups of counterparties for which the probability of default is connected with factors such as sector, geographic area, etc.
- Concentration in a certain type of collateral, e.g. a certain car make.

The bank's portfolio is not very diversified, as it largely consists of different forms of car finance, creating a concentration risk to cars as collateral. The bank's activities are also concentrated to the Swedish market.

The 30 largest customers account for 10.0% (7.9) of total lending. The sector accounting for the single largest share of the bank's lending is transport, with 8% (7) of total lending (see the table on page 33). The bank uses a system which enables it to obtain an easy overview of its overall counterparty exposure.

MARKET RISK

Interest rate risk in other operations

Interest rate risk is the present and future risk of a decline in net interest income due to unfavourable changes in interest rates owing to the differing fixed-rate terms of loans and deposits (so-called interest rate risk in the banking book). The bank endeavours to minimise interest rate risk by matching fixed-rate terms of borrowings with those of loans. If the bank deems that borrowings with long fixed-rate terms are advantageous, interest rate swaps are used to manage the resulting interest rate risk. Swap contracts are also used when the bank makes fixed-rate loans. The bank also offers customers variable-rate financing with capped interest rates. In this case the bank manages the interest rate risk by purchasing an equivalent interest rate cap agreement at portfolio level.

The financial policy specifies the permissible interest rate risk. The policy is updated when required and submitted for adoption by the Board. Interest rate risk is reported to the Board on an ongoing basis. Each month the bank stress-tests the interest rate risk through a gap analysis which shows the impact on net interest income over a 12-month period from an interest rate shock resulting in an immediate parallel shift in the yield curve of 1%. The financial policy prescribes limits for the size of this impact in relation to earnings and the size of the gaps for each time period. At 31 December 2016, the interest rate risk was SEK 64.6 million (62.7), representing 2.0% (1.9) of the capital base.

In this calculation no term has been used for equity including un-taxed reserves. Assuming a reasonable change in interest rates and a parallel shift in the yield curve of 0.25%, the estimated impact on net interest income over a 12-month period would be SEK 16.1 million (15.7) as at 31 December 2016. If the interest rate risk were instead to be measured as the impact on the economic value in accordance with the regulations of the Swedish Financial Supervisory Authority, based on an assumption of a 2 basis point interest rate shock, this impact would be SEK 11.2 million (12.9) as at 31 December 2016. Fixed-rate loans accounted for only 0.4% (0.1%)of total lending at 31 December 2016. In cases where customers wish to redeem fixed-rate loans early, and where the bank due to applicable laws and regulations is unable to charge early redemption fees, this creates an interest rate risk exposure. The bank monitors the exposure on a monthly basis and makes ongoing provisions to hedge the risk. It is assumed that 20% of the average credit volume for the year will be redeemed when 12 months of the original average maturity of the portfolio has passed, in case of a 1.5% decline in interest rates.

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

Nominal amounts in SEKm 2016	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
Interest-bearing assets	32,750	1,696	2	24	70	19	1	–	34,562
Interest-bearing liabilities	- 19,262	- 8,118	- 324	0	- 500	- 650	0	–	- 28,854
Equity	–	–	–	–	–	–	–	- 3,702	- 3,702
Derivatives (nominal amount)	- 492	- 542	0	-10	419	624	0	–	- 1
Total	**12,996**	**- 6,964**	**- 322**	**14**	**-11**	**- 7**	**1**	**- 3,702**	**2,005**
Cumulative exposure	**12,996**	**6,032**	**5,710**	**5,724**	**5,713**	**5,706**	**5,707**	**2,005**	
2015									
Interest-bearing assets	29,728	1,313	70	5	66	9	2	–	31,193
Interest-bearing liabilities	- 17,367	- 6,428	- 879	- 400	- 200	- 650	–	–	- 25,924
Equity	–	–	–	–	–	–	–	- 3,453	- 3,453
Derivatives (nominal amount)	14	- 1,013	200	-3	165	637	–	–	–
Total	**12,375**	**- 6,128**	**- 609**	**- 398**	**31**	**- 4**	**2**	**- 3,453**	**1,816**
Cumulative exposure	**12,375**	**6,247**	**5,638**	**5,240**	**5,271**	**5,267**	**5,269**	**1,816**	

CURRENCY RISK

The bank does not engage in foreign currency lending and normally borrows in Swedish kronor, and is therefore not exposed to changes in exchange rates. Foreign exchange risk arises in cases where the bank chooses to borrow money in foreign currency. The financial policy states that no foreign exchange risk may exist. When borrowing in foreign currency, the bank enters into interest rate and currency swap agreements to eliminate the foreign exchange risk. Effective elimination of the foreign exchange risk is achieved by ensuring that the terms, nominal amounts and interest payment dates of the concluded agreements match the terms of the bank's foreign currency financing. However, there may be a minor impact on earnings during the term due to differences in the valuation methods used for the hedged item and hedging derivative. The bank's currency exposure amount at year-end was 0. For carrying amounts of assets and liabilities in foreign currency, where these exist, see Notes 26 (Derivatives – assets liabilities) and 28 (Liabilities to credit institutions and securities issued). Other than what may be stated here, there are no assets or liabilities in foreign currency.

RESIDUAL VALUE RISK

Residual value risk is the risk that the residual value of a vehicle guaranteed by the bank on the last day of the lease will be lower than the actual market value, and that the bank will thus incur a loss. At 31 December 2016 the bank had recognised an impairment loss of SEK 68.5 million (43.4) related to residual value risk, which is included in depreciation and impairment of property, plant and equipment. Guaranteed residual values amounted to SEK 3,585 million (3,336), which includes both own and transferred contracts. The carrying amount of operating leases directly guaranteed by the bank stood at SEK 3,123 million at 31 December 2016. The guaranteed residual value of these contracts amounted to SEK 1,983 million.

EQUITY RISK IN OTHER OPERATIONS

The shareholding consists of unlisted shares valued at cost using the cost method.

Balance sheet value	2016	2015
Associates and other companies	19,009	16,797
Group companies	6,742	6,742
Total	**25,751**	**23,539**
Fair value		
Associates and other companies	19,009	16,797
Group companies	6,789	6,789
Total	**25,798**	**23,586**
Unrealised gain or loss		
Associates and other companies	14,961	12,749
Group companies	–	–
Total	**14,961**	**12,749**

OPERATIONAL RISKS

Operational risk refers to the risk of loss due to:

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

The definition also includes legal risk.

Operational risks have been divided into the following areas: internal irregularities, external crime, employment conditions and work environment, business conditions, disruptions and interruptions in operations and systems, transaction management and process control, technology and employees/organisation.

Operational risks exist in all activities of the bank and in its interaction with external parties. To identify operational risks, the bank arranges risk identification and self-assessment workshops with key individuals in the company on a regular basis. All identified operational risks are categorised based on their management and impact as "low", "medium" or "high" risk. The management of operational risks is governed by the operational risk policy.

The objective is to eliminate or prevent, limit and/or compensate for the risk of damage through a deliberate and organised approach involving the use of governing documents, policies and processes. These are contained in the bank's four manuals. The management of operational risk is an ongoing process involving the use of tools such as self-assessments and incident reporting to capture risks that have occurred, and to identify, monitor and address ongoing operational risks. The Board of Directors and management have overall responsibility for operational risk and for creating a high level of risk awareness at the bank.

The business areas/departments are responsible for managing operational risks in their own areas of activity. All employees have a duty to protect the assets managed by the bank from damage, abuse or loss. Incidents are reported to the employee's manager or directly in an incident management system. The bank's risk control unit is responsible for follow-up and control of operational risks. The unit is also responsible for compiling information on operational risks and reporting to the President, and for following up risk limitation measures from the self-assessments and monitoring changes in the operations that could affect the bank's exposure to operational risk.

PENSION RISKS

The bank's pension plans are secured through an insurance policy with Alecta. In view of the provisions on old-age pensions and family pensions in the ITP 2 supplementary pension plan, the bank's pension plan is considered a multi-employer defined benefit pension plan. Under Recommendation UFR 10 of the Swedish Financial Reporting Board, however, there is no basis for recognising an ITP 2 plan that is funded through an insurance policy with Alecta as a defined benefit plan, and it should therefore be accounted for as a defined contribution plan in accordance with IAS 19. The bank's obligations in respect of defined contribution plans are recognised as an expense in the income statement. Pension premiums for 2016 amounted to SEK 13,513 thousand (12,598), of which SEK 6,985 thousand (6,580) refers to Alecta ITP 2 pensions.

In the traffic light method used by the Swedish Financial Supervisory Authority for pension risk in Pillar 2 baseline requirements, assets and liabilities are measured at fair value. Fair value is determined using market valuations of assets while liabilities are measured using best estimates of retirement benefit obligations. The company is then exposed to a number of stress scenarios defined by the Swedish Financial Supervisory Authority.

LIQUIDITY RISK

Liquidity risk is the risk that the bank will be unable to fulfil its payment obligations at maturity without incurring a significantly higher payment method cost or, in the worst case, that it will be unable to fulfil its payment obligations at all.

Liquidity risk arises when maturities on loans and borrowings are not matched When loans have longer maturities than borrowings multiple rounds of refinancing are required. If the need for refinancing on any individual day becomes significant, or if the capital market becomes illiquid, this could result in a shortfall of liquidity.

Liquidity risk is managed in accordance with the bank's financial policy. The policy describes financial risks, including liquidity risk, and specifies the permissible liquidity risk. The President is responsible for ensuring that the policy is updated as required and presented for adoption by the bank's Board of Directors. In addition to the financial policy, the bank has established a framework for management of liquidity risk, which is a governing document containing guidelines, instructions and strategies for the management of liquidity risk. The bank's liquidity and financing strategy and contingency plan constitute central parts of the aforementioned document. The framework is revised on an ongoing basis and submitted for approval by the Board annually.

The bank's CFO is responsible for ensuring that the document is updated. The financial policy and governing document are fundamental to the activities of the finance department, but are available to all employees. Stress tests of the liquidity risk are performed as part of the bank's ICAAP and ILAAP processes and on several occasions during the course of the year.

Operational activities for managing liquidity risk are performed in the bank's finance department, where the bank's liquidity position is monitored on a day-to-day basis. Analysis and internal reporting of maturity structure and funding requirements are performed on an ongoing basis, all with the aim of ensuring a strong liquidity position and minimising the impact in the event of liquidity problems. The bank's net cash outflows are also reported to ensure that the bank's risk tolerance is not exceeded and that accumulated cash flows remain within defined limits. Reports on liquidity risk are compiled by the bank's accounts department in close collaboration with the finance department and reported to the Swedish Financial Supervisory Authority on a monthly and quarterly basis.

The bank's liquidity coverage ratio (LCR) at year-end, as calculated in accordance with Article 415 of the EU's Capital Requirements Regulation (CRR), was 119% and averaged 177% in 2016. LCR is a short-term liquidity ratio and forms part of the bank's liquidity risk reporting to the regulators. The bank's net stable funding ratio (NSFR) at year-end was 144% and averaged 144% in 2016.

To create flexibility in its borrowing and ensure that it is able to ride out periods of strained refinancing conditions, the bank maintains a liquidity reserve. At year-end this reserve stood at SEK 3.6 billion (3.9). The reserve, whose composition is regulated in the financial policy, should consist of demand deposits with banks and high-quality liquid debt securities in Swedish kronor. Deposits with other banks were SEK 0.8 billion (22%) while the securities portion had a nominal value of SEK 2.8 billion (78%). The size of the liquidity reserve should be such as to ensure that the company is able to continue operating without hindrance in case of serious liquidity strains, with no injection of new external funding, for a period of at least three months by using only the funds available in the reserve. Furthermore, the bank's liquidity reserve must always be at least 10% of total lending, i.e. the items "loans and advances to customers" and "lease assets" in the balance sheet; as at 31 December 2016 this ratio was 11% (14).

Liquidity reserve

Amounts in SEKm, securities at market value	31 Dec 2016	31 Dec 2015
Deposits with other banks	787	1,999
Securities issued by the Swedish State	–	–
Securities issued by local authorities and other public sector entities	1,041	1,081
Other covered bonds	1,124	836
Securities issued by non-financial companies	600	–
Total	**3,552**	**3,916**

Of the bank's total liquidity reserve of SEK 3,552 million, SEK 2,951 million was accounted for by securities and deposits with other banks which qualify as liquidity reserve in accordance with the Swedish Financial Supervisory Authority's regulations (FFFS 2010:7) on management of liquidity risk.

The bank's credit facilities constitute a significant complement to the liquidity reserve. These back-up lines have mostly been agreed with the bank's core banks. The back-up lines are not normally used and stood at SEK 3.0 billion (2.5) at year-end. Up to SEK 1.0 billion can be drawn on the same day for a period of 1–7 days; in other cases, two to three business days after the request. The agreements do not contain any material adverse change (MAC) clauses or financial covenants that could prevent the bank from drawing on the facilities.

Other liquidity-providing facilities

Undrawn limits, SEKm	31 Dec 2016	31 Dec 2015
Overdraft facilities with credit institutions	200	200
Credit facilities with credit institutions and shareholders	3,000	3,700
Total	**3,200**	**3,900**

Under the bank's financial policy, all short-term borrowings (<1 year) and 20% of deposits must be covered by credit facilities and the liquidity reserve. The bank also strives to diversify its sources of borrowing, with regard to both the forms of borrowing and geographic markets. To obtain an appropriate distribution of loan maturities, the amount falling due in any individual calendar week is limited. The share of long-term borrowing must be at least 60%. At 31 December 2016, this share stood at 75% (70).

In order to reduce the share of market borrowing, and thus also the refinancing risk, the bank launched an online savings account in 2010. The deposits come from private individuals and account for more than half of the bank's financing. The majority of the bank's savings account customers are customers with which the bank has an existing relationship, i.e. customers that have previously used the bank's other services or who have been savings account customers for more than a year. Although the savings account has no term, this deposit volume has been very stable over time, as it is spread across a large number of depositors. The bank's savings account is covered by the government's deposit guarantee scheme.

Liquidity exposure – contractual remaining term (nominal amounts)

The interest flows in the table below are based, in case of variable-rate loans and borrowings, on the interest rate at the balance sheet date.

2016

amounts in SEKm

Financial assets	Payable on demand	<3 months	>3 months, up to 1 year	>1 year, up to 3 years	>3 years, up to 5 years	>5 years	Total
Chargeable treasury bills	–	340	350	347	–	–	1,037
Loans and advances to credit institutions	787	–	–	–	–	–	787
Loans and advances to customers	–	1,952	6,311	11,387	3,313	737	23,700
Bonds and other debt securities	–	600	344	771	–	–	1,715
Property, plant and equipment, lease assets	–	505	1,932	3,449	99	7	5,992
Other assets, derivatives	–	4	8	19	8	–	39
Total	**787**	**3,401**	**8,945**	**15,973**	**3,420**	**744**	**33,270**
Financial liabilities							
Liabilities to credit institutions	–	1	405	746	139	68	1,359
Retail deposits and borrowings	15,389	24	–	–	–	–	15,413
Securities issued	–	674	2,404	5,377	3,683	503	12,641
Other liabilities, derivatives	–	–	- 1	- 2	–	–	- 3
Subordinated debts	–	–	–	–	–	–	–
Total	**15,389**	**699**	**2,808**	**6,121**	**3,822**	**571**	**29,410**
Net cash flow	**- 14,602**	**2,702**	**6,137**	**9,852**	**- 402**	**173**	
Undrawn credit facilities	1,000	3,000	2,500	–	–	–	
Liquidity gap	**- 13,602**	**5,702**	**8,637**	**9,852**	**- 402**	**173**	

2015

amounts in SEKm

Financial assets	Payable on demand	<3 months	>3 months, up to 1 year	>1 year, up to 3 years	>3 years, up to 5 years	>5 years	Total
Chargeable treasury bills	–	240	235	814	–	–	1,289
Loans and advances to credit institutions	1,999	–	–	–	–	–	1,999
Loans and advances to customers	–	3,795	5,553	10,257	2,929	644	23,178
Bonds and other debt securities	–	200	435	200	–	–	835
Property, plant and equipment, lease assets	–	565	2,172	2,301	49	4	5,091
Other assets, derivatives	–	2	22	4	- 1	–	27
Total	**1,999**	**4,802**	**8,417**	**13,576**	**2,977**	**648**	**32,419**
Financial liabilities							
Liabilities to credit institutions	–	102	104	611	202	–	1,019
Retail deposits and borrowings	14,200	129	–	–	–	–	14,329
Securities issued	–	1,377	2,116	4,690	2,904	–	11,087
Other liabilities, derivatives	–	- 1	2	–	- 7	–	- 6
Subordinated debts	–	–	–	–	–	–	–
Total	**14,200**	**1,607**	**2,222**	**5,301**	**3,099**	**-**	**26,429**
Net cash flow	**- 12,201**	**3,196**	**6,194**	**8,273**	**- 122**	**648**	
Undrawn credit facilities	1,000	3,700	1,000	1,000	–	–	
Liquidity gap	**- 11,201**	**6,896**	**7,194**	**9,273**	**- 122**	**648**	

Maturity analysis of liabilities including derivatives (nominal amounts)

The interest flows in the table below are based, in case of variable-rate loans and borrowings, on the interest rates which the market is forecasting on the balance sheet date for the various future interest payment dates.

2016	<3 months	>3 months, up to 1 year	>1 year, up to 3 years	>3 years, up to 5 years	>5 years	amounts in SEKm Total
Liabilities to credit institutions	- 1	- 405	- 746	- 139	- 68	- 1,359
Securities issued	- 674	- 2,404	- 5,377	- 3,683	- 503	- 12,641
Other liabilities, derivatives	0	1	2	–	–	3
Other assets, derivatives	4	8	19	8	–	39
Total	**- 671**	**- 2,800**	**- 6,102**	**- 3,814**	**- 571**	**-13,958**

2015	<3 months	>3 months, up to 1 year	>1 year, up to 3 years	>3 years, up to 5 years	>5 years	amounts in SEKm Total
Liabilities to credit institutions	- 102	- 104	- 611	- 202	–	- 1,019
Securities issued	- 1,377	- 2,116	- 4,690	- 2,904	–	- 11,087
Other liabilities, derivatives	- 1	3	0	- 7	–	- 5
Other assets, derivatives	2	22	4	- 1	–	27
Total	**- 1,478**	**- 2,195**	**- 5,297**	**- 3,114**	**–**	**- 12,084**

STRATEGIC RISKS

Strategic risk refer to the risk of loss due to changes in market conditions and unfavourable business decisions, inappropriate adaptation of decisions or a failure to respond to changes in the market. The bank's definition of strategic risk includes earnings risks, customer and competitor behaviour, changes to statutes and economic conditions.

The primary objective of risk management is to ensure that the bank is aware of its strategic position and enable it to prepare itself at an early stage for a slowing market and increased or new competition. The bank works proactively to assess its strategic position and takes early action to prepare itself for changes in the market and competitive environment. Risk identification and self-assessment workshops with senior executives are held continuously with the aim of identifying strategic risks. The bank also has well developed strategies for how the organisation should work with customers and handle the competition.

REPUTATIONAL RISKS

Reputational risk refers to the risk of loss due to a negative perception of the bank by customers, counterparties, shareholders, investors and regulators. The objective of risk management is to ensure that the bank is perceived as highly transparent by all stakeholders and that these stakeholders have a good image of the bank.

Reputational risks are the most difficult to protect yourself against. The bank has taken measures to ensure that this risk is managed to the extent that it is possible. Risk identification and self-assessment workshops with senior executives are held continuously. Over the course of the year (at least quarterly), the bank meets with other banks and with investors to identify any negative signals. Press releases and information on the website are natural elements of the bank's communication activities.

The bank also has a policy for handling complaints. The policy describes procedures for complaints handling by complaints officers as well as clear reporting paths.

CAPITAL ADEQUACY ANALYSIS

The determination of the bank's statutory capital requirement is made in accordance with the Swedish Special Supervision of Credit Institutions and Investment Firms Act (2014:968) and the EU's Capital Requirements Regulation and Directive (CRD IV/CRR), which has been incorporated into Swedish law, with further definitions and detailed guidelines issued by the Swedish Financial Supervisory Authority.

As far as the bank is concerned, the rules help to strengthen the bank's resilience to financial losses and thus protect the bank's customers. Under the rules, the bank's capital base (equity and any debentures raised, etc.) must comfortably cover the prescribed minimum capital requirement, which consists of the capital requirements for credit risks, market risks and operational risks, as well as the calculated capital requirement for further identified risks in the operations in accordance with the bank's internal capital adequacy assessment process.

The bank has an adopted plan for the size of its capital base over the next few years (in accordance with ICAAP and ILAAP), which is based on risk profile, identified risks with regard to probability and economic impact, stress tests and scenario analysis, expected expansion of lending and financing opportunities, as well as new legislation, actions of competitors and other changes in external factors.

The review of the long-term plan is an integral part of the bank's internal capital adequacy assessment process. The plan is followed up continuously and an annual documented review is made to ensure that the risks have been duly taken into account and reflect the bank's actual risk profile and capital needs. Any changes or additions to the policy/strategy document adopted by the Board are assessed against current and future capital requirements, as with important credit decisions and investments.

Statutory Pillar 1 capital requirements are summarised as follows, with specifications in the subsequent sections.

Internally assessed capital requirement

	31 Dec 2016	31 Dec 2015
Pillar 1 capital requirements	1,315,990	1,198,243
Pillar 2 capital requirements	360,998	336,541
Combined buffer requirements	657,995	524,231
Capital requirements	**2,334,983**	**2,059,015**
Capital base	**3,497,209**	**3,264,114**
Capital surplus	**1,162,226**	**1,205,099**

Leverage ratio

	31 Dec 2016	31 Dec 2015
Core capital	3,497,209	3,264,114
Exposure measure	35,576,384	32,323,450
Leverage ratio, %	**9.83**	**10.10**

Capital base

(Including the Board's proposed appropriation of retained earnings)

Common equity tier 1 capital	31 Dec 2016	31 Dec 2015
Equity	1,112,513	1,186,412
Share of equity of untaxed reserves	2,515,723	2,218,495
Intangible non-current assets	- 11,123	- 7,874
AVA	- 2,184	- 1,946
IRB shortfall	- 115,720	- 130,973
Common equity tier 1 capital	**3,497,209**	**3,264,114**
Total capital base	**3,497,209**	**3,264,114**
Capital base according to Basel I	**3,612,929**	**3,395,087**

Capital requirement and risk-weighted exposure amount

Credit risk, standardised approach	2016 Capital requirement	2016 Risk-weighted exposure amount	2015 Capital requirement	2015 Risk-weighted exposure amount
Exposures to central governments and central banks	–	–	–	–
Exposures to local authorities and comparable associations as well as agencies	–	–	–	–
Exposures to administrative bodies, non-commercial undertakings and religious associations	356	4,447	380	4,746
Institutional exposures	13,150	164,381	32,637	407,965
Corporate exposures	53,214	665,180	20,746	259,321
Retail exposures	23,557	294,460	25,690	321,121
Unsettled items	1,739	21,737	193	2,409
Covered bonds	8,978	112,230	6,677	83,467
Equity exposures	2,060	25,751	1,883	23,539
Other items	961	12,009	933	11,659
Total capital requirements for credit risks using the standardised approach	**104,016**	**1,300,195**	**89,139**	**1,114,227**
Credit risk using the IRB approach				
Corporate exposures	407,237	5,090,466	334,655	4,183,184
Retail exposures	513,033	6,412,918	475,435	5,942,936
Non-credit obligation asset exposures	184,848	2,310,597	199,096	2,488,700
Total capital requirements for credit risks using the IRB approach	**1,105,118**	**13,813,981**	**1,009,186**	**12,614,820**
Operational risk using the Basic Indicator Approach	105,638	1,320,447	99,000	1,237,501
Credit valuation adjustment (CVA)	1,218	15,225	919	11,493
Total minimum capital requirement and risk-weighted exposure amount	**1,315,990**	**16,449,878**	**1,198,243**	**14,978,041**
Total requirement using transitional rules	2,041,168	25,514,599	1,793,152	22,414,395

The bank meets the minimum capital base requirement, which is a capital base of at least the total minimum capital requirement, and has a capital base which exceeds the initial capital (the capital that was required when the company received a license to provide financing services).

Capital adequacy

Without transitional rules	2016	2015
Risk-weighted assets*	16,449,878	14,978,041
Common equity tier 1 capital ratio, % **	21.26	21.79
Total capital ratio, % ***	21.26	21.79
With transitional rules		
Risk-weighted assets*	25,514,599	22,414,395
Common equity tier 1 capital ratio, % **	14.16	15.15
Total capital ratio, % ***	14.16	15.15

* Risk-weighted assets refer to all assets as stated in the balance sheet excluding intangible assets and including undrawn limits and add-on derivatives (risk-weighted in accordance with the Basel II capital adequacy rules).
** Common equity tier 1 capital ratio in relation to risk-weighted exposure amount.
*** Capital base in relation to risk-weighted exposure amount.

Capital and buffer requirements

Per cent	2016 Common equity tier 1 capital requirement	2016 Tier 1 capital requirement	2016 Total capital base requirement	2015 Common equity tier 1 capital requirement	2015 Tier 1 capital requirement	2015 Total capital base requirement
Minimum capital requirement	4.5	6.0	8.0	4.5	6.0	8.0
Capital conservation buffer	2.5	2.5	2.5	2.5	2.5	2.5
Countercyclical buffer	1.5	1.5	1.5	1.0	1.0	1.0
Total	**8.5**	**10.0**	**12.0**	**8.0**	**9.5**	**11.5**
Amount						
Minimum capital requirement	740,245	986,993	1,315,990	674,012	898,682	1,198,243
Capital conservation buffer	411,247	411,247	411,247	374,451	374,451	374,451
Countercyclical buffer	246,748	246,748	246,748	149,780	149,780	149,780
Total capital requirement	**1,398,240**	**1,644,988**	**1,973,985**	**1,198,243**	**1,422,913**	**1,722,474**
Total capital requirement, Pillar 1			**1,973,985**			**1,722,474**

The internal capital evaluation as at 31 December 2016 resulted in an internal capital requirement of SEK 1,677 million (1,535). If the combined buffer requirement is included, the bank's total capital requirement is SEK 2,335 million (2,059). The capital surplus, calculated on the basis of the internal capital requirement including buffer requirements, is thus SEK 1,162 million (1,205).

Capital management

The bank's strategies and methods for assessing and maintaining the capital base requirement are determined by its risk management. The bank's risk management is designed to identify and analyse the risks which arise in the course of its operations, define appropriate limits for such risks and ensure that the required controls have been introduced. Risks are monitored and controls are performed on a regular basis to ensure that limits are not exceeded. The bank has an integrated function for independent risk control that reports directly to the President and whose duty it is to analyse changes in risks and propose amendments to governance documents and processes where required.

To assess whether the internal capital is adequate to serve as a basis for current and future activities and to ensure that the capital is of the right size and composition, the bank has its own internal capital adequacy assessment process. The process is a tool which ensures that the bank in a clear and correct manner identifies, measures and manages all risks to which it is exposed and makes an assessment of its internal capital adequacy requirement in relation thereto. This includes ensuring that the bank has appropriate governing and control functions and risk management systems in place. The internal capital adequacy assessment process is performed at least once a year.

The ICAAP process is based on the risk identification and self-assessment workshops that are held with key individuals in the company. The risks are quantified using the method which the bank deems to be appropriate for each type of risk. An assessment is made for each type of risk with regard to whether additional capital is required to cover the specific risk type. The assessment is based on Pillar 1 capital requirements and additional capital is added where necessary for other risks. The internal capital adequacy assessment is then stress-tested to ensure that the bank's capital level can be maintained also in stressed scenarios. The stressed scenarios are forward-looking and based on a three-year business plan.

3. ACCOUNTING POLICIES

The bank's annual report has been prepared in accordance with the Annual Accounts for Credit Institutions and Investment Firms Act (1995:1559), the Regulations and General Recommendations of the Swedish Financial Supervisory Authority on Annual Accounts of Credit Institutions and Investment Firms (FFFS 2008:25) in accordance with the amending regulation in FFFS 2009:11 and Recommendation RFR 2 Financial Reporting for Legal Entities of the Swedish Financial Reporting Board. The bank applies IFRS with certain limitations contained in Swedish statutes, which refers to the standards that have been adopted for application subject to the limitations contained in RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU have been applied insofar as this is possible subject to the Swedish Annual Accounts Act and with regard to the relationship between accounting and taxation.

The annual report was approved for publication by the Board of Directors on 22 March 2017. The income statement and balance sheet will be submitted for adoption at the Annual General Meeting on 27 June 2017.

Unless otherwise indicated, the accounting policies described below have been applied consistently for all periods presented in the financial statements.

3.1 Measurement bases for the preparation of the bank's financial statements

Assets and liabilities are stated at historical cost. Financial assets and liabilities are recognised at amortised cost, with the exception of certain financial assets and liabilities that are measured at fair value (see Note 35) or when fair value hedge accounting is applied.

3.2 Functional currency and reporting currency

The bank's functional currency is the Swedish krona and the financial statements are presented in Swedish kronor. Unless otherwise indicated, all figures are rounded to the nearest thousand.

3.3 Judgements and estimates in the financial statements

Preparing financial statements in accordance with IFRS requires that the bank's management make judgements and estimates as well as assumptions which affect the application of the accounting policies and the recognised amounts of assets, liabilities, income and expenses. The estimates and assumptions applied are based on historical experience and other factors which are deemed reasonable under current circumstances. The results of these estimates and assumptions are then used to determine carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgements. The bank has mainly made the following critical judgements in applying significant accounting policies:

- Whether hedge relationships are effective or not
- Whether the bank has assumed significant risks and benefits from the seller on acquisition of receivables and agreements
- Impairment testing of lease assets where there is a risk that residual values will decline
- Held-to-maturity investments

Areas where uncertainty about estimates may exist are assumptions about impairment for credit losses, impairment of lease assets and assessment of residual values.

Estimates and assumptions are reviewed regularly. Changes in estimates are recognised in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

3.4 Changes in accounting policies

No amendments to IFRS had a material impact on the bank's financial statements in 2016.

3.4.1 New IFRS and interpretations that have not yet been applied

A number of new or amended IFRS will take effect only in coming financial years and have not been applied in advance in preparing these financial statements. The bank is not planning to apply in advance new or amended standards that will become applicable as of the next financial year or thereafter. The following is a description of the expected impact on the bank's financial statements of the application of the following new or amended IFRS. Other new or amended standards are not expected to affect the bank's financial statements.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. Through IFRS 9, the IASB has completed a number of amendments relating to the recognition of financial instruments. The changes include new bases for the classification and measurement of financial instruments, a forward-looking impairment model and simplified criteria for hedge accounting. IFRS 9 becomes effective on 1 January 2018. Earlier application is permitted provided that the EU adopts the standard. The bank has decided not to apply IFRS 9 in advance. If the bank changes it measurement approach on the basis of the new models in the Classification and measurement section, this could have a significant effect on loss provisions for credit risk, balance sheet and income statement. The bank has taken a position on a specific model, which is to be reviewed and discussed with an external party. In the section Impairment, the bank has sketched out a basic model within its IFRS 9 project for management of expected loss provisions for credit risk on the basis of the new regulation. The bank has started to evaluate different hedge accounting options according to IFRS 9, but has not yet taken a definitive decision on how to proceed within the framework of IFRS 9. A parallel run for evaluation is planned from 31 March 2017 and will continue during the year. The bank does not yet have any estimates of the effects of IFRS 9 on the income statement and balance sheet.

IFRS 15 revenue recognition will come into force on 1 January 2018. The introduction is not expected to have any significant impact on the bank's financial position, performance or cash flow.

IFRS 16 Leases is a new standard for financial reporting of leases and becomes effective on 1 January 2019. The introduction is not expected to have any significant impact on the bank's financial position, performance or cash flow.

Further liquidity reporting, Additional Monitoring Metrics (AMM), will be introduced in 2018.

3.5 Disclosures on financial risk

Disclosures on financial risk are provided in the section Risk and capital management and in the capital adequacy analysis on page 47.

3.6 Segment reporting

An operating segment is a component of the bank that engages in business from which it may earn revenues and incur expenses, for which separate financial information is available and whose results are regularly reviewed by the bank's management for the purpose of evaluating the results and allocating resources to the operating segment. See Note 4 for further segment information. As consolidated financial statements are not prepared, no segment information is provided for the bank.

3.7 Subsidiaries and associates

The bank accounts for interests in subsidiaries and associates using the cost method. All dividends received are recognised as income.

3.8 Foreign currency

The bank's functional currency is the Swedish krona. Transactions in foreign currency are translated to the functional currency using the exchange rate at the transaction date. Monetary assets and liabilities in foreign currency are translated into the functional currency at the closing rate. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities stated at historical cost are translated using the exchange rate at the transaction date. Non-monetary assets and liabilities at fair value are translated to the functional currency at the rate applying at the time of measurement at fair value.

3.9 Interest income and interest expense

Interest income on receivables and interest expense on liabilities are calculated using the effective interest method. The effective interest rate is the interest rate at which the present value of all estimated future incoming and outgoing payments during the expected fixed-rate term is equal to the recognised value of the receivable or liability. Interest income and interest expense includes, where applicable, accrued 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 claim or liability and the amount settled at maturity.

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

- Interest on financial assets and liabilities measured at amortised cost using the effective interest method, including interest on problem loans
- Interest on derivatives for which hedge accounting is not applied is measured at fair value through profit or loss
- Interest paid and accrued on derivatives that are hedging instrument and for which hedge accounting is applied
- Interest on financial assets measured at fair value

Interest paid and accrued is recognised as interest income for interest rate derivatives which hedge financial assets and as a part of interest expense for interest rate derivatives which hedge financial liabilities. Unrealised changes in the value of derivatives are recognised in the item "Net income/expense from financial transactions" (see Note 10).

3.10 Commission and fee income

Commission and fee income is recognised when the income can be measured reliably, it is probable that the economic benefits associated with the transaction will accrue to the bank, the degree of completion at the balance sheet date can be measured reliably, and the expenditures and remaining expenses to complete the service contract can be measured reliably. Income is measured at the fair value of the consideration received or receivable.

3.11 Commissions and fees earned when a specific service is performed

These commissions and fees are generally related to a specific transaction and are recognised as income immediately. These fees and commissions include various types of notice fees, and debit and credit card fees.

3.12 Commission expense

This item comprises fees for services received to the extent that they are not classified as interest, e.g. clearing and bank giro expenses, custodial fees and fees paid to Upplysningscentralen, a business and credit reference agency. Transaction costs that are taken into account in calculating the effective interest rate are not recognised here.

3.13 Commissions and fees that are included in the effective interest rate

Commissions and fees that are an integral part of the effective interest rate are recognised for all financial instruments measured at amortised cost as part of the cost of the related liability, which is allocated to accounting periods using the effective interest method and is thus accounted for as interest expense and not as commission expense. These commissions and fees, which mainly comprise loan arrangement fees and fees for the provision of credit facilities or other types of loan commitments in cases where it is likely that the credit facility will be drawn.

3.14 Classification of leases and recognition of lease income

In accordance with RFR 2, finance leases are accounted for according to the rules which apply for operating leases, including the disclosure requirements. All leases are thus accounted for in accordance with the rules for operating leases, which means that assets for which a lease has been concluded (irrespective of whether the contracts are finance or operating leases) are recognised in the same line of the balance sheet as for the corresponding assets owned by the bank. In the "Lease income" item in the balance sheet lease income is recognised on a gross basis, i.e. before scheduled depreciation.

Net lease income (see also Note 6) from finance leases that are accounted for as operating leases includes scheduled depreciation that is allocated over the term of the lease and recognised using the annuity method (see also basis of depreciation). This means that these contracts give rise to a higher net income at the beginning of the contract term and a lower net income at the end of the contract term. Net lease income from leases which constitute operating leases based on their economic substance includes scheduled depreciation that is allocated over the term of the lease and recognised on a straight-line basis (see also basis of depreciation). This means that net income remains constant over the term of the contract.

3.15 General administrative expenses

General administrative expenses comprise staff costs, including salaries and fees, bonuses and commissions, retirement benefit costs, payroll tax and other social security contributions. The item also includes rental, audit, training, IT, telecom, travel and entertainment expenses.

3.16 Taxes

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

Current tax is tax that is payable or receivable in respect of the current year at tax rates that have been enacted or substantively enacted at the balance sheet date. This also includes adjustments of current tax attributable to previous periods.

Deferred tax is calculated using the balance sheet liability method for all temporary differences between the carrying amounts and tax bases of assets and liabilities. Temporary differences are not taken into account for differences arising on initial recognition of goodwill or on initial recognition of assets and liabilities that are not business combinations, which at the time of the transaction do not affect either the accounting or tax profit. Nor are temporary differences attributable to interests in associates that are not expected to be reversed in the foreseeable future taken into account.

The measurement of deferred tax is based on how the underlying assets or liabilities are expected to be realised or settled. Deferred tax is calculated based on the tax rates and tax rules that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets relating to temporary differences and tax losses are recognised only to the extent that it is likely that it will be possible to use them. The measurement of deferred tax assets is reduced when it is no longer expected that it will be possible to use the assets. Tax on profit for the year includes current tax, deferred tax and tax in respect of prior years.

3.17 Net income/expense from financial transactions

The item "Net income/expense from financial transactions" includes realised and unrealised changes in value arising from financial transactions.

Net income/expense from financial transactions comprises:

- Capital gains and losses from sales of financial liabilities measured at amortised cost
- Realised and unrealised changes in the value of derivatives that are financial hedging instruments, but where hedge accounting is not applied.
- Capital gains and losses from sales of financial assets valued at fair value through profit or loss
- Realised changes in fair value of hedged item attributable to the hedged risk in a fair value hedge
- Unrealised changes in fair value of derivatives for which fair value hedge accounting is applied
- Unrealised changes in fair value of hedged item attributable to the hedged risk in a fair value hedge
- Unrealised changes in fair value of assets valued at fair value through profit or loss
- Exchange rate changes

3.18 Financial instruments

Financial instruments recognised in the balance sheet include, on the asset side, chargeable treasury bills, loans and advances to credit institutions, loans and advances to customers, bonds and other debt securities, and other assets and accrued income. Chargeable treasury bills, and bonds and other debt securities are today classified partly as financial assets at fair value through profit or loss and partly as held-to-maturity investments. Financial instruments in the category financial assets at fair value through profit or loss are measured at fair value on an ongoing basis and changes in value are recognised in the income statement. Other assets include trade receivables and derivatives with positive market values. Accrued income consists of accrued interest income. Financial instruments on the debt side include liabilities to credit institutions, retail borrowings, securities issued, subordinated debts and other liabilities and accrued expenses. Other liabilities include trade payables and derivatives with negative market values. Accrued expenses refer to accrued interest expenses.

3.18.1 Recognition and derecognition
A financial asset or financial liability is recognised in the balance sheet when the bank becomes a party to the contractual terms of the instrument. A financial asset is derecognised when the rights under the contract are realised, expire or when the bank loses control over them. The same applies to a portion of a financial asset. A financial liability is derecognised when the obligation under the contract is discharged or otherwise extinguished. The same applies to a portion of a financial liability.

A financial asset and financial liability are netted in the balance sheet only when there exists a legal right to offset the amounts and there is an intention to settle the items on a net basis or to simultaneously realise the asset and settle the liability.

Acquisitions and sales of financial assets are recognised at the transaction date, which is the date on which the bank undertakes to acquire or sell the asset. Loan commitments are not recognised in the balance sheet. Loans are recognised in the balance sheet upon payment of the loan amount to the borrower. An impairment loss on a loan commitment is recognised if the commitment is irrevocable and is made to a borrower for which impairment has been identified even before the loan is paid out or when the lending rate does not cover the bank's borrowing costs for funding the loan.

3.18.2 Classification and measurement
Financial instruments are recognised initially at the fair value of the instrument plus transaction costs, except for derivatives and those instruments which are classified as financial assets at fair value through profit or loss, which are recognised at fair value excluding transaction costs. Upon initial recognition, a financial instrument is classified 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. The classification determines how the financial instrument will be valued after initial recognition, as described below.

The bank divides financial instruments into six different categories in accordance with IAS 39:

Loans and receivables
This category comprises loans, trade receivables and certain other assets.

Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss consist of derivatives with positive closing prices that are not included in hedge accounting. Other chargeable securities and bonds and other debt securities where these were classified on acquisition as financial assets measured at fair value. The bank measures bonds in the liquidity portfolio at fair value through profit or loss to ensure that the portfolio reflects changes in prices in an active market.

Financial liabilities at fair value through profit or loss
Consists of derivatives with negative closing prices.

Held-to-maturity investments
Consists of other chargeable securities, and bonds and other debt securities if these were classified on acquisition as held-to-maturity investments.

Non-financial liabilities
Consists of discounts, negotiated commissions and other liabilities.

Other financial liabilities
Consists of the bank's borrowings, partly through credit institutions and partly through issued securities, as well as certain other liabilities, such as trade payables.

The categories to which the bank's assets and liabilities have been classified are described in Note 35.

Financial assets and liabilities are measured at fair value on initial recognition. Loans and receivables and other financial liabilities are subsequently measured at amortised cost. Amortised cost is calculated using the effective interest method. The instruments are measured using the effective interest rate on an ongoing basis.

The bank uses derivatives to hedge the interest rate risk in its fixed-rate borrowings and the currency risk in its foreign-currency borrowings. Those derivatives which are not used in hedge accounting fall into the category financial assets at fair value through profit or loss. These derivatives constitute economic hedges and are used to manage the risk in variable-rate borrowings in foreign currency, but the bank has made the assessment that there are no grounds to apply hedge accounting for these. These instruments are measured at fair value and changes in value are recognised through profit or loss.

3.18.3 Measurement of financial instruments at fair value
For a description of the methods applied in fair value measurement of financial instruments, see Note 35.

3.19 Hedge accounting
The bank hedges financial interest rate and foreign exchange risk through derivatives. Hedge accounting is used for the interest rate risk in fixed-rate borrowings and for those derivatives which are used to reduce the risk in this borrowing. The bank only applies hedge accounting for those economic hedge relationships in which the impact on earnings would, in the view of the bank, become too misleading unless hedge accounting is applied. The bank applies hedge accounting, fair value hedge.

For other economic hedges in which the impact on earnings of not applying hedge accounting is deemed to be limited, hedge accounting is not applied in view of the additional administrative work involved in using hedge accounting.

Under hedge accounting, the hedging instrument (the derivative) is measured at fair value. The value of the hedged item is adjusted to changes in market interest rates. The change in value is not affected by any changes in the bank's credit spread. The effect of the change in value is recognised through profit or loss.

To meet the requirements for hedge accounting contained in IAS 39, there must be an explicit link to the hedged item. The hedge must also effectively protect against the intended risk in the hedged item, hedging documentation must have been prepared and the effectiveness of the hedge must be reliably measurable. Hedge accounting may only be applied if the hedge relationship is expected to be highly effective and can subsequently be shown to have had an effectiveness of 80–125%. If the criteria for hedge accounting are no longer met, derivatives are stated at fair value and the change in value is recognised through profit or loss. Hedge accounting ceases if the hedging instrument is sold, or if the hedge relationship no longer meets the criteria or ceases. When the hedge relationship ceases, accumulated gains and losses that have adjusted the hedged item are recognised through profit or loss and allocated over a period of time until the expected maturity of the hedged item. If the hedged item is sold and realised the change in value is recognised in the income statement immediately.

3.20 Embedded derivatives
The general rule is that embedded derivatives must be separated from the host contract. An embedded derivative is not separated if its economics and risks are closely related to those of the host contract. The bank has embedded derivatives in the form of interest rate cap agreements for a part of its lending. The derivatives are not separated, however, as the risks are closely associated with the host contract.

3.21 Impairment testing of loans
At each reporting date the bank assesses whether there exists objective evidence of impairment of a loan or group of loans as a consequence of one or several events (loss events) occurring after the initial recognition of the receivable, and whether these loss events affect the estimated future cash flows from the receivable or group of receivables.

The bank assesses problem loans for impairment and whether a credit loss should be recognised on an individual basis. Impairment losses are recognised in the balance sheet in a separate impairment account, which reduces the carrying amount of the receivable, and are accounted for as a credit loss in the income statement, see Note 14.

Objective evidence of impairment of loans under the individual assessment exists, for example, if the borrower's contractual payments are more than 90 days past due. Another example of objective evidence is information on significant financial difficulties that the bank has become aware of, for example, by analysing financial statements or in the course of monitoring the customer's creditworthiness, as part of the bank's systems and procedures for management of credit risk.

The bank also identifies individually impaired loans based on the following loss events:

1. Significant financial difficulty of the debtor.
2. A default or delinquency in interest or principal payments, or other breach of contract.
3. The granting by the lender, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider.
4. A growing likelihood that the borrower will enter bankruptcy or other financial reorganisation.
5. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

Concessions granted by the bank due to a borrower's financial difficulty can also constitute objective evidence that the loan is individually impaired.

Retail loans that are assessed for impairment on an individual basis and for which no impairment has been identified are included in an additional assessment together with other loans with similar credit risk characteristics to test for impairment at group level. An equivalent collective impairment test is not performed for corporate credits. One reason why impairment may exist at group level even though the loans have not been considered doubtful at the individual level is that the bank does not have full knowledge of all those factors which at the balance sheet date are relevant for an individual assessment. To manage this lag in obtaining information and to make provisions for losses that have been incurred but have not yet come to the knowledge of the bank, an additional, collective impairment loss has been recognised.

3.22 Credit losses and impairment of financial instruments

Vehicle finance

The bank's credit portfolio consists mainly of vehicle finance. Total lending in respect of vehicle finance mainly comprises loans and leases that have been transferred or pledged to the bank by the dealer, with collateral in the form of vehicles through right of repossession or ownership rights. Under the agreement with the dealer, the dealer bears the ultimate credit risk for these credit contracts if required by the bank.

An impairment loss is recognised and a loss incurred by the bank as a result of these contracts in the following circumstances:

1. The customer suspends payments.
2. The dealer lacks the ability to pay.
3. The market value of the repossessed vehicle is less than the remaining debt under the contract.

3.23 Impairment for credit losses

3.23.1 Retail segment

For retail exposures, impairment is calculated for individually incurred credit losses as well as for losses in the group of loans that it is not yet possible to attribute to individual loans using statistical risk models.

Loans to the retail segment are 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). For each risk category, a risk estimate which describes the probability that payments on the loans will become more than 90 days past due over a 12-month period is calculated. For receivables in default (more than 90 days past due) the risk estimate is 100%.

The bank regards payments which are overdue by more than 90 days (receivables in default) as observable evidence of individual impairment. In addition to this evidence, the bank also considers other information indicating that the customer is unable to meet his payment obligations. For the additional collective impairment, for which it has not yet been possible to attribute the impairment to individual credits, the bank regards the migration of a customer to lower risk category as observable evidence of impairment of the group of loans.

The bank derives expected cash flows for impaired loans and groups of loans based on the data and information that has been gathered through the bank's method for defining capital requirements. As a basis for assessing future cash flows, the bank uses the same basic concepts that are used in the capital adequacy assessment process, i.e. loss given default (LGD) and probability of default (PD). Due to the existence of a number of differences between the capital adequacy regulations and a neutral estimate of expected future cash flows, a number of corrections are made to the data to make it adequate for calculating impairment.

3.23.2 Corporate segment

Impairment for credit risks for corporate customers is based on a manual review of all receivables. The bank regards payments which are overdue by more than 90 days as observable evidence of impairment in the corporate segment. In addition to this evidence, the bank also considers other information indicating that the customer is unable to meet his payment obligations.

The carrying amount after impairment of assets in the loans and trade receivables category, which are recognised at amortised cost, is determined by discounting the present value of future cash flows at the effective interest rate applying at the time of the initial recognition of the asset. Assets with short maturities are not discounted. Impairment losses are recognised in the income statement.

For doubtful debts, for which the carrying amount after impairment is calculated as the total discounted value of future cash flows, the change in the impairment is recognised as interest to the extent that the increase is not due to a new assessment of the expected cash flows. In case of a change in the assessment of expected future cash flows from a doubtful debt between two assessments, this change is recognised as a credit loss or recovery of credit losses.

3.23.3 Reversal of impairment losses

An impairment loss is reversed if there is evidence that the impairment no longer exists and there has been a change in the assumptions used as a basis for calculating the amount of impairment. An impairment loss on a loan is reversed if the borrower is expected to meet all its contractual payments under the original or restructured loan terms. Reversals of impairment losses on loans (credit losses) are accounted for as a reduction of credit losses. Goodwill is excluded from these rules in all situations.

Impairment losses on loans receivable and trade receivables at amortised cost are reversed if a later increase in the recoverable amount can objectively be attributed to an event occurring after the recognition of the impairment loss.

3.23.4 Write-off of loans

Loans receivable which have been classified as doubtful are written off from the balance sheet when the credit loss is considered an actual credit loss, which occurs when the administrator has submitted an estimate of the distribution of assets in a bankruptcy, a composition with creditors has been agreed or the debt has otherwise been remitted, or if the loan is sold to an external party.

After being written off, loans are no longer recognised in the balance sheet. Recovery of previously written off loans is recognised as a reduction of credit losses in the net credit losses line in the income statement.

3.24 Property, plant and equipment

3.24.1 Owned assets

Property, plant and equipment are recognised as an asset in the balance sheet if it is probable that the future economic benefits will accrue to the bank and the cost of the asset can be reliably measured.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment, plus any revaluation.

The carrying amount of an item of property, plant and equipment is derecognised on disposal or sale or when no future economic benefits are expected from the use or disposal/sale of the asset. Gains or losses arising on the sale or disposal of an asset consist of the difference between the consideration paid and the carrying amount of the asset less any direct selling expenses. Gains and losses are accounted for as other operating income/expenses.

3.24.2 Lease assets for which the bank is a lessor

All leases are accounted for in accordance with the rules for operating leases, which means that assets for which a lease has been concluded (irrespective of whether the contracts are finance or operating leases) are recognised in the same line of the balance sheet as for the corresponding assets owned by the bank.

3.24.3 Subsequent expenditures

Subsequent expenditures are added to the cost only if it is likely that the future economic benefits associated with the asset will accrue to the company and the cost can be reliably calculated. All other subsequent expenditures are recognised in the income statement in the periods in which they are incurred.

The decisive factor in determining when a subsequent expenditure is added to cost is whether the expenditure is related to replacement of identified components, or their parts, at which such expenditures are capitalised. In cases where a new component is created, this expenditure is also added to cost. Any undepreciated carrying amounts for replaced components, or their parts, are disposed of and recognised as an expense at the time of replacement. Repairs are recognised as expenses on an ongoing basis.

3.24.4 Basis of amortisation

Finance leases that are accounted for as operating leases are depreciated using the annuity method while all operating leases are depreciated on a straight-line basis. Assets are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives of fixtures and fittings are 3–5 years, and for lease assets in accordance with the contracts' terms of 1–6 years, and are written down to the estimated residual value. The applied depreciation methods and residual values and useful lives of assets are reviewed at each closing date.

3.25 Intangible assets

3.25.1 Development

Development expenditure, where results or other knowledge are applied to achieve new or improved products or processes, is capitalised in the balance sheet if the product or process is technically and commercially feasible and the bank has sufficient resources to complete development and to use or sell the intangible asset. The carrying amount includes all directly attributable expenditure, e.g. the cost of materials and services, remuneration of employees, registration of a legal right, amortisation of patents and licenses. Other development expenditure is recognised as an expense in the income statement as incurred. Development expenditure that has been capitalised in the balance sheet is recognised at cost less accumulated amortisation and any impairment.

3.25.2 Licenses

Acquired licenses are stated at cost less accumulated amortisation and impairment.

3.25.3 Subsequent expenditures

Subsequent expenditures for capitalised intangible assets are recognised as an asset in the balance sheet only when they increase the future economic benefits for the specific asset to which they relate. All other expenditure is recognised as incurred.

3.25.4 Basis of amortisation

Amortisation is recognised in the income statement on a straight-line basis over the expected useful life of the intangible asset. Expected useful lives are reviewed at least annually. Amortisable intangible assets are amortised from the date when they become available for use. The estimated useful lives are:

- Software 3–5 years
- Licenses 3 years

3.26 Impairment of property, plant and equipment and intangible assets and investments in subsidiaries and associates

3.26.1 Impairment testing

The carrying amounts of the bank's assets are tested for impairment at the balance sheet date. If there is an indication of impairment, the recoverable amount of the asset is calculated in accordance with IAS 36.

If, in testing for impairment, it is not possible to assign essentially independent cash flows to a particular asset, the assets are grouped to the lowest level where it is possible to identify essentially independent cash flows – a "cash-generating unit".

An impairment loss is recognised when the carrying amount of an asset or cash-generating unit (group of units) exceeds the recoverable amount. Impairment losses are recognised in the income statement. Impairment of assets attributable to a cash-generating unit (group of units) is allocated to goodwill in the first hand. Proportionate impairment losses are then recognised for assets included in the unit (group of units).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted using a discount rate which reflects the risk-free rate and the risk associated with the asset.

The bank continuously assesses assets used operating leases for impairment. Impairment occurs if the carrying amount is higher than the recoverable amount, which is the higher of the fair value less costs to sell or the value in use. Value in use is determined as the present value of remaining rents and the present value of the expected residual value. Assessment of the expected residual value is obtained from an external supplier.

An impairment loss is reversed if the value in use is less than the carrying amount.

Impairment losses and reversals of impairment losses are recognised as depreciation and impairment of property, plant and equipment in the income statement.

3.26.2 Reversal of impairment losses

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the assumptions on which the calculation of the recoverable amount was based. A reversal is only made to the extent that the carrying amount of the asset after the reversal does not exceed the carrying amount that would have been recognised, less any depreciation, if no impairment loss had been recognised.

3.27 Liabilities and equity

When the bank issues a financial instrument, this instrument, or its components, are recognised on initial recognition as a financial liability, as a financial asset or as an equity instrument on the basis of the economic substance of the terms which apply for the instrument and in accordance with the definitions of financial liability, financial asset and equity instrument. However, instruments which must for legal or statutory reasons be classified as equity are recognised as equity even if the economic substance of the terms of the instrument is that the instrument is a debt instrument.

3.27.1 Share capital

3.27.1.1 Dividends

Dividends are recognised as a liability on approval of the dividend by the Annual General Meeting.

3.27.1.2 Fund for development expenditure

The capitalised amount of self-generated development costs is transferred from unrestricted equity to the fund for development expenditure (development fund) under restricted equity. The fund will decrease in line with depreciation/amortisation or impairment of expenditure.

3.27.2 Post-employment benefits

3.27.2.1 Retirement benefits through insurance

The bank's pension plans for collectively agreed occupational pensions are secured through an insurance policy with Alecta. Under IAS 19, a defined contribution plan is a plan for post-employment benefits under which the bank pays fixed contributions to a separate legal unit and has no legal or constructive obligation to pay further contributions in the event that this legal entity does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. A defined benefit pension plan is defined as a plan for post-employment benefits that is not a defined contribution plan.

The pension plan for the bank's employees is considered a multi-employer defined benefit pension plan. However, the bank has made the assessment that Recommendation UFR 10 Financial Reporting of the ITP2 Pension Plan that is Funded through Insurance with Alecta of the Swedish Financial Reporting Board is applicable also for the bank's pension plan. The bank does not have sufficient information to recognise these pension plans in accordance with IAS 19 and therefore recognises the plans as defined contribution plans in accordance with UFR 10. The bank's obligations in respect of contributions to defined contribution plans are recognised as an expense in the balance sheet as they are earned through the employees' performance of services for the bank over a period.

3.27.2.2 Termination benefits

An expense for remuneration in connection with the termination of employees is only recognised if the bank is demonstrably obliged, without a realistic possibility of withdrawal, by a formal detailed plan to terminate an employment before the normal time. When remuneration is paid as an offer to encourage voluntary termination, an expense is recognised if it is likely that the offer will be accepted and the number of employees that will accept the offer can be reliably estimated.

3.27.2.3 Short-term employee benefits

Short-term employee benefits are not discounted and are recognised as an expense when the related services are rendered. A provision is recognised for the expected expense for bonus payments when the bank has a valid legal or constructive obligation to make such payments in consequence of receiving services from employees and the obligation can be reliably measured.

3.28 Group contributions and Appropriations

Group contributions are recognised in accordance with the alternative rule in RFR 2, and both paid and received Group contributions are recognised as appropriations.

Appropriations comprise provisions to and withdrawals from untaxed reserves. Untaxed reserves are recognised inclusive of deferred tax liability.

4. SEGMENT REPORTING

The bank's operations are divided into operating segments based on which areas of operation are monitored by the bank's chief operating decision maker. The operations are organised so as to enable management to monitor the results, returns and cash flows generated by the various services. The internal reporting is arranged so that management is able to monitor the results of all services. It is on the basis of this reporting that the bank identified in 2016 the segments Sales Finance Cars, Sales Finance Trucks, Fleet Finance and the Volvo Card.

All operating income comes from external customers and all of the bank's operations are conducted in Sweden. The following items in the income statement and balance sheet are monitored by management.

Jan–Dec 2016	Cars	Trucks	Fleet	Card	Total
Operating income*, SEKt	311,730	34,164	124,718	278,670	749,282
Expenses**, SEKt	- 85,676	- 19,551	- 69,575	- 182,062	- 356,864
Credit losses, SEKt	35	-110	320	- 13,695	- 13,450
Operating profit, SEKt	226,089	14,503	55,463	82,913	378,968
Appropriations, SEKt	- 225,808	- 14,485	- 55,394	- 82,810	- 378,497
Tax on profit for the year, SEKt	- 281	- 18	- 69	- 103	- 471
Profit for the year, SEKt	-	-	-	-	-
Lending volume Ø, SEKm	19,619	2,446	5,737	1,559	29,361
Number of contracts Ø	171,626	5,863	61,768	-	239,257
Number of active accounts Ø	-	1,827	-	448,413	450,240

Jan–Dec 2015	Cars	Trucks	Fleet	Card	Total
Operating income*, SEKt	256,035	27,704	122,241	295,822	701,802
Expenses**, SEKt	- 80,548	- 15,567	- 59,305	- 171,495	- 326,915
Credit losses, SEKt	197	153	252	-12,460	- 11,858
Operating profit, SEKt	175,684	12,290	63,188	111,867	363,029
Appropriations, SEKt	- 175,467	- 12,275	- 63,110	- 111,728	- 362,579
Tax on profit for the year, SEKt	- 218	- 15	- 78	- 138	- 449
Profit for the year, SEKt	-	-	-	-	-
Lending volume Ø, SEKm	16,514	2,120	5,566	1,577	25,777
Number of contracts Ø	171,626	5,884	62,141	-	239,652
Number of active accounts Ø	-	1,850	-	457,942	459,792

* Operating income includes depreciation and impairment of lease assets.
** Including depreciation of property, plant and equipment and amortisation of intangible assets, excluding depreciation and impairment oflease assets.

Income statement

5. INTEREST INCOME AND INTEREST EXPENSE

Interest income	2016	2015
Loans and advances to credit institutions	–	–
Loans and advances to customers	392,580	398,387
Debt securities	1,964	4,027
Other interest income	355	73
Total	**394,899**	**402,487**
Of which, interest income from financial items not measured at fair value	393,136	398,460
Interest expense		
Liabilities to credit institutions	- 11,791	- 13,819
Retail deposits and borrowings	- 89,879	- 114,071
Cost for deposit guarantee scheme	- 13,806	- 12,263
Debt securities	- 39,707	- 83,165
Other interest expenses	- 26,983	- 28,371
Total	**- 182,166**	**- 251,689**
Of which, interest expense from financial items not measured at fair value	176,527	236,321
Net interest income	**212,733**	**150,798**

Interest income from items measured at fair value is negative. The income refers to the swaps that are used to eliminate the interest rate risk in the bank's fixed-rate lending. No interest has been recognised as income in respect of problem loans.

6. LEASE INCOME AND COMBINED NET INTEREST INCOME

All leases are accounted for as operating leases in the balance sheet (even if the lease is a finance lease based on the substance of the contract) and the (gross) income from these contracts is recognised as lease income.

Net lease income

	2016	2015
Lease income from contracts recognised as operating leases	4,018,985	3,619,222
Scheduled depreciation for contracts recognised as operating leases	- 3,788,745	- 3,384,800
Net lease income from contracts recognised as operating leases	**230,239**	**234,422**

Combined net interest income

	2016	2015
Lease income from finance leases (recognised as operating leases in the balance sheet)	2,451,186	2,207,798
Scheduled depreciation for finance leases (recognised as operating leases in the balance sheet)	- 2,310,768	- 2,064,800
Net lease income from finance leases*	**140,418**	**142,998**
Interest income	394,899	402,487
Interest expense	- 182,166	- 251,689
Combined net interest income**	**353,151**	**293,796**

Total lease and net interest income

	2016	2015
Net lease income from contracts recognised as operating leases	230,239	234,422
Net interest income in accordance with Note 5	212,733	105,798
Total lease and net interest income	**442,972**	**385,220**
Interest margin***	1.23%	1.11%
Average lending rate	1.97%	2.25%
Average deposit rate (incl. cost for deposit guarantee scheme)	0.72%	0.95%

* Finance leases recognised as operating leases, net.
** Combined net interest income is affected partly by interest expenses for financing operating leases and partly by the building-up of a liquidity reserve by the bank.
*** Total interest income as a percentage of average total assets less total interest expense as a percentage of average total assets excluding average equity and untaxed reserves.

7. DIVIDENDS RECEIVED

	2016	2015
Shares and interests in associates	2,213	2,062
Total	**2,213**	**2,062**

8. COMMISSION INCOME

	2016	2015
Commission income, credit cards	174,078	190,877
Commission income, loans and leases	179,115	167,893
Total	**353,194**	**358,770**

9. COMMISSION EXPENSE

	2016	2015
Commissions, payment processing	- 3,858	- 3,696
Other commissions	- 20,787	- 18,606
Total	**- 24,645**	**- 22,302**

10. NET RESULT OF FINANCIAL TRANSACTIONS

	2016	2015
Debt securities	-1,325	- 5,895
Total	**- 1,325**	**- 5,895**

Gain/loss by measurement category including exchange rate changes

	2016	2015
Derivative assets* intended for risk management, no hedge accounting	365	264
Financial assets at fair value through profit or loss	- 1,928	- 4,973
Derivative liabilities* intended for risk management, no hedge accounting	- 68	- 111
Financial liabilities at amortised cost**	–	–
Change in fair value of derivatives that are hedging instruments in a fair value hedge	8,321	- 22,276
Change in fair value of hedged item attributable to the hedged risk in a fair value hedge	- 8,015	21,201
Total	**- 1,325**	**- 5,895**

* Derivative assets/liabilities are financial assets/liabilities that are held for trading.
** Also include realised premium or discount on repurchase of debt.

11. GENERAL ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and fees	- 102,645	- 93,073
Social security contributions	- 32,226	- 29,039
Cost for pension premiums*	- 13,298	- 12,379
Payroll tax	- 3,140	- 2,912
Other staff costs	- 3,367	- 3,462
Total staff costs	**- 154,676**	**- 140,865**
Postage and telephone	- 4,135	- 4,984
IT costs	- 118,813	- 105,820
Consulting services	- 6,454	- 4,197
Contract staff	- 3,568	- 1,018
Rents and other premises costs	- 10,555	- 10,520
Other	- 13,537	- 12,788
Total other general administrative expenses	**- 157,062**	**- 139,327**
Total general administrative expenses	**- 311,738**	**- 280,192**

* Total pension premiums were SEK 13,513 thousand (12,598), of which SEK 6,985 thousand (6,580) refer to Alecta ITP 2 pensions.

Expected fees in the next reporting period for ITP2 insurance policies with Alecta are SEK 6,332 thousand (6,058). The bank's share of the total contributions to the plan and the bank's share of the total number of active members of the plan is 0.03 and 0.03%, respectively. The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policyholders calculated using Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective funding ratio should normally be permitted to vary within a range of 125-155%. If Alecta's collective funding ratio were to fall below 125% or exceed 155% it would be necessary to take measures that will enable the ratio return to the normal range. In case of a low collective funding ratio one measure that can be taken is to raise the agreed price for new subscriptions and expansion of the existing benefits. A high collective funding ratio can be addressed by reducing premiums. At year-end 2016, Alecta's surplus in the form of the collective funding ratio was 148% (153).

Breakdown of salaries and other remuneration by senior executives and other employees, and social security contributions

	2016			2015		
	Senior executives (20 people)	Other employees	Total	Senior executives (19 people)	Other employees	Total
Salaries and other remuneration	-14,632	- 88,013	- 102,645	-13,517	- 79,556	- 93,073
of which, variable remuneration	–	(- 1,687)	(- 1,687)	–	(- 1,138)	(- 1,138)
Total	**- 14,632**	**- 88,013**	**- 102,645**	**- 13,517**	**- 79,556**	**- 93,073**
Social security contributions	- 8,516	- 40,148	- 48,664	- 7,823	- 36,508	- 44,331
of which, retirement benefit costs	(- 3,504)	(- 12,934)	(- 16,438)	(- 3,933)	(- 11,358)	(- 15,291)

Salaries and remuneration of senior executives

2016	Basic salary/fee	Variable remuneration	Other benefits	Retirement benefit cost	Total
Chairman of the Board	- 750	–	–	–	- 750
Vice Chairman of the Board	- 701	–	–	–	- 701
Directors (8 people)	- 1,621	–	–	–	- 1,621
President	- 2,463	–	- 168	- 751	- 3,382
Other senior executives (9 people)	- 9,097	–	- 631	- 2,753	- 12,481
Total	**- 14,632**	**–**	**- 799**	**- 3,504**	**- 18,935**
2015					
Chairman of the Board	- 588	–	–	–	- 588
Vice Chairman of the Board	- 561				- 561
Directors (6 people)	- 1,297	–	–	–	- 1,297
President	- 2,371	–	- 131	- 724	- 3,226
Other senior executives (11 people)	- 8,700	–	- 615	- 2,521	- 11,836
Total	**- 13,517**	**–**	**- 746**	**- 3,245**	**- 17,508**

The members of the Board receive Directors' fees in accordance with the resolution of the AGM. The remuneration payable to the President is decided by the Board based on a proposal from the Remuneration Committee. The contractual retirement age is 65 years. In case of termination of the President's employment contract by the bank, the President is entitled to severance pay for six months plus a period of up to 12 months if new employment is not found. The Remuneration Committee consists of the Chairman of the Board and three further Directors. Variable remuneration is not paid to members of the bank's management team, employees who make decisions on credits/limits or in the compliance, risk control and internal audit control functions.

Remuneration of the Board of Directors

Name	Position (2016/2015)	2016	2015
Urmas Kruusval	Chairman	- 750	- 588
Anders Gustafsson	Director	- 214	- 197
Bob Persson	Director	- 124	- 267
Christina Brinck	Deputy/Director	–	- 45
Per Avander	Deputy/Director	- 150	- 190
Tommy Andersson	Director	- 425	- 350
Synnöve Trygg	Vice Chairman/Director	- 701	- 561
Patrik Tolf	Director/Deputy	- 294	- 98
Janola Gustafson	Co-opted/Deputy	- 50	–
Vidar Andersch	Deputy	- 63	- 50
Margareta Alestig Johnson	Director	- 125	- 100
Björn Rentzhog	Deputy	- 70	–
Pascal Bellemans	Deputy	- 53	–
Kristian Elvefors	Deputy	- 53	–
Total		**- 3,072**	**- 2,446**

Employee information

	2016			2015		
	Men	Women	Total	Men	Women	Total
Average number of employees	80	109	189	79	105	184
Gender distribution in management						
President	1	–	1	1	–	1
Board	9	1	10	7	3	10
Other senior executives	5	4	9	4	4	8
Total	**15**	**5**	**20**	**12**	**7**	**19**

Auditors' fees and expenses

KPMG	2016	2015
Audit engagement	- 1,350	- 1,300
Audit services in addition to audit engagement	- 215	- 289
Tax advisory services	- 55	- 125
Other services	- 350	- 180
Total	**-1,970**	**-1,894**

12. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2016	2015
Scheduled depreciation and amortisation	- 3,792,558	- 3,387,577
Reversal of impairment losses for the year	19,366	14,383
Impairment	- 43,430	- 30,916
Adjustment between loans and leases	–	434
Total	**- 3,816,622**	**- 3,403,677**

Scheduled depreciation and amortisation		
Fixtures and fittings	- 814	- 678
Lease assets	- 3,788,745	- 3,384,800
Intangible assets	- 2,999	- 2,099
Total	**- 3,792,558**	**- 3,387,577**

Net impairment		
Lease assets	- 24,064	- 16,099
Total	**- 24,064**	**- 16,099**

13. OTHER OPERATING EXPENSES

	2016	2015
Fees to central organisations	- 2,431	- 1,966
Insurance costs	- 942	- 383
Marketing costs	- 37,453	- 42,156
Other operating expenses	- 1,295	- 769
Total	**- 42,121**	**- 45,274**

14. NET CREDIT LOSSES

Specific provision for collectively valued loans*	2016	2015
Write-off of actual credit losses for the year	- 16,049	- 16,501
Impairment for the year	- 6,202	- 5,882
Recovery of actual credit losses from previous years	1,253	1,201
Reversal of no-longer-required provisions for expected credit losses	6,775	6,937
Net expense for the year for specific provisions for collectively valued loans	**- 14,223**	**- 14,245**

Collective provision for losses incurred but not yet reported**		
Impairment for the year	- 3,411	- 2,878
Reversal of no-longer-required provisions for expected credit losses	4,184	5,265
Net expense for the year for collective provisions	**773**	**2,387**
Total net expense	**- 13,450**	**- 11,858**

* Refers to credit losses on loans which have been individually identified as doubtful and where the provisions have been determined on the basis of experience of similar loans.

** Refers to credit losses on loans which have not yet been identified as doubtful, but where impairment exists in a group of loans.

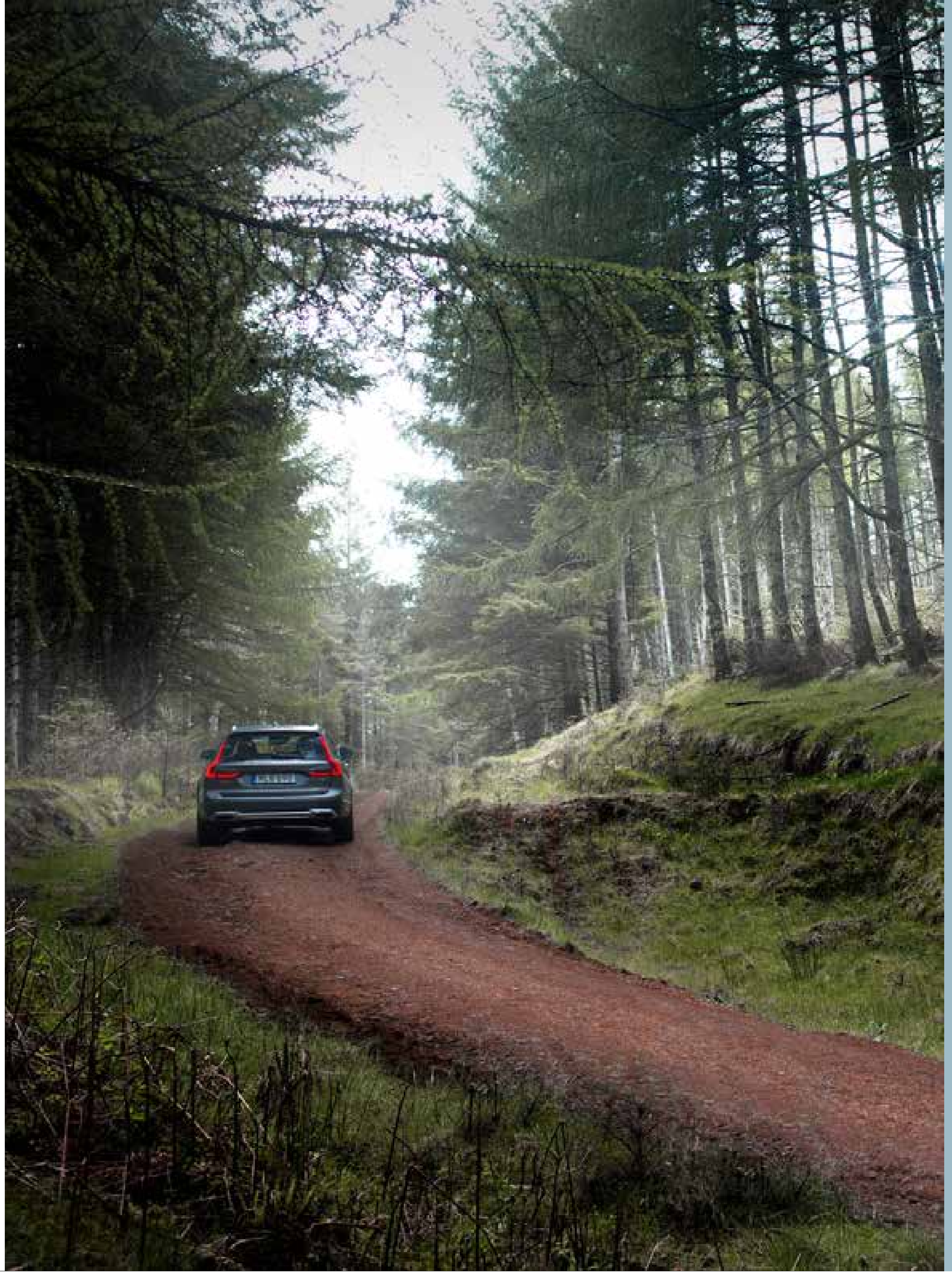
15. APPROPRIATIONS

	2016	2015
Accelerated depreciation	378,497	362,580
Total	**378,497**	**362,580**

16. TAX ON PROFIT FOR THE YEAR

	2016	2015
Tax expense for the year	- 471	- 449
Total reported tax expense	**- 471**	**- 449**

Reconciliation of effective tax	2016	2016	2015	2015
Profit before tax		471		449
Tax at applicable tax rate	- 22.0%	- 104	- 22.0%	- 99
Non-deductible expenses	- 95.7%	- 451	- 82.4%	- 370
Non-taxable income	17.7%	84	4.4%	20
Reported effective tax	**- 100.0%**	**- 471**	**- 100.0%**	**- 449**



Balance sheet

17. CHARGEABLE TREASURY BILLS, ETC.

	Nominal value 31 Dec 2016	Carrying amount 31 Dec 2016	Nominal value 31 Dec 2015	Carrying amount 31 Dec 2015
Securities issued by the State	–	–	–	–
Securities issued by local authorities and other public sector entities	1,037,000	1,040,542	1,080,000	1,080,515
Total	**1,037,000**	**1,040,542**	**1,080,000**	**1,080,515**

18. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	31 Dec 2016	31 Dec 2015
Gross outstanding receivables in Swedish currency	786,666	1,998,980
of which, to Swedish commercial banks	786,663	1,998,978
of which, payable on demand	786,666	1,998,980

19. LENDING TO THE PUBLIC

The bank's total lending including lease assets is SEK 31.18 billion (27.38). The stated values are reduced by impairment for credit risk for each credit. The values are SEK 20,018 thousand (20,335) lower than the gross values of the receivables. (See also Note 24 and the table Impairment by asset item.)

	31 Dec 2016	31 Dec 2015
Gross outstanding receivables in Swedish currency	15,225,335	13,710,752
Impairment for credit losses	- 20,018	- 20,335
Net carrying amount	**15,205,317**	**13,690,417**
Impairment		
Opening balance, 1 January	- 20,335	- 23,486
Impairment for the year	- 9,736	- 8,590
Reversal of no-longer-required provisions for expected credit losses	10,054	11,741
Closing balance, 31 December	**- 20,018**	**- 20,335**

20. BONDS AND OTHER INTEREST BEARING SECURITIES

	Nominal value 31 Dec 2016	Carrying amount 31 Dec 2016	Nominal value 31 Dec 2015	Carrying amount 31 Dec 2015
Securities issued by non-financial corporations	1,115,000	1,123,419	835,000	835,501
Non-financial corporations	600,000	600,107	–	–
Total	**1,715,000**	**1,723,526**	**835,000**	**835,501**

21. SHARES AND INTERESTS IN ASSOCIATES AND OTHER COMPANIES

Unlisted securities	31 Dec 2016	31 Dec 2015
Carrying amount, 1 January	16,797	14,735
Share of profit for the year of limited partnerships	2,212	2,062
Carrying amount, 31 December	**19,009**	**16,797**

2016	Profit	Equity	Share of equity	Carrying amount
Visa Inc C	–	48	–	48
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Göteborg	- 554	34,599	11,418	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Göteborg	9,964	75,413	15,806	15,806
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Göteborg	1,139	10,671	1,694	1,694
VCC Försäljnings KB, corp. ID no. 969712-0153, Göteborg	- 5,010	- 1,585	459	459
Total	**5,539**	**119,146**	**29,377**	**19,009**

2015	Profit	Equity	Share of equity	Carrying amount
Visa Inc C	–	48	–	48
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Göteborg	1,672	35,153	11,600	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Göteborg	8,292	65,448	13,315	13,315
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Göteborg	141	9,532	1,506	1,506
VCC Försäljnings KB, corp. ID no. 969712-0153, Göteborg	- 99	3,425	928	928
Total	**10,006**	**113,606**	**27,349**	**16,797**

* Volvohandelns PV Försäljnings AB is general partner in all limited partnerships.

22. SHARES AND INTERESTS IN GROUP COMPANIES

Unlisted securities	Corp. ID no.	Regd office	Profit 2016
CarPay Sverige AB	556268-7052	Göteborg	–
Volvofinans IT AB	556004-3621	Göteborg	–
Volvofinans Leasing AB	556037-5734	Göteborg	–
Autofinans Nordic AB	556094-7284	Göteborg	–

Shares in wholly owned Group companies	Number of shares	Nom. value	Carrying amount, 2016	Carrying amount, 2015
CarPay Sverige AB	2,000	200	240	240
Volvofinans IT AB	400	200	242	242
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			**6,742**	**6,742**

23. INTANGIBLE ASSETS

Accumulated cost	Development expenditure	Licenses	Total
Opening balance, 1 Jan 2015	111,973	5,759	117,732
Purchases for the year	4,412	–	4,412
Disposals	–	–	–
Closing balance 31 Dec 2015	**116,385**	**5,759**	**122,144**
Opening balance, 1 Jan 2016	116,385	5,759	122,144
Purchases for the year	6,248	–	6,248
Disposals	–	–	–
Closing balance 31 Dec 2016	**122,633**	**5,759**	**128,392**
Accumulated amortisation			
Opening balance, 1 Jan 2015	- 106,412	- 5,759	- 112,171
Depreciation for the year	- 2,099	–	- 2,099
Closing balance 31 Dec 2015	**- 108,511**	**- 5,759**	**- 114,270**
Opening balance, 1 Jan 2016	- 108,511	- 5,759	- 114,270
Depreciation for the year	- 2,999	–	- 2,999
Closing balance 31 Dec 2016	**- 111,510**	**- 5,759**	**- 117,269**
Carrying amounts			
31 Dec 2015	7,874	–	7,874
31 Dec 2016	**11,123**	**–**	**11,123**

24. PROPERTY, PLANT AND EQUIPMENT, FIXTURES AND FITTINGS, AND LEASE ASSETS

Cost	Fixtures and fittings	Lease assets	Total
Opening balance, 1 Jan 2015	26,513	17,358,018	17,384,531
Purchases	900	8,079,493	8,080,393
Sales	–	- 6,422,029	- 6,422,029
Disposals	- 128	–	- 128
Closing balance, 31 Dec 2015	**27,285**	**19,015,482**	**19,042,767**
Opening balance, 1 Jan 2016	27,285	19,015,482	19,042,767
Purchases	910	9,575,453	9,576,363
Sales	–	- 6,578,286	- 6,578,286
Disposals	- 7,108	–	- 7,108
Closing balance, 31 Dec 2016	**21,087**	**22,012,649**	**22,033,736**
Depreciation			
Opening balance, 1 Jan 2015	- 25,200	- 5,131,739	- 5,156,939
Depreciation for the year	- 678	- 3,384,800	- 3,385,478
Sales	–	3,240,864	3,240,864
Disposals	128	–	128
Closing balance, 31 Dec 2015	**- 25,750**	**- 5,275,675**	**- 5,301,425**
Opening balance, 1 Jan 2016	- 25,750	- 5,275,675	- 5,301,425
Depreciation for the year	- 814	- 3,788,745	- 3,789,559
Sales	–	3,100,099	3,100,099
Disposals	7,108	–	7,108
Closing balance, 31 Dec 2016	**- 19,456**	**- 5,964,321**	**- 5,983,777**
Impairment			
Opening balance, 1 Jan 2015	–	- 31,535	- 31,535
Reversal of impairment losses for the year	–	14,383	14,383
Impairment for the year	–	- 30,916	- 30,916
Closing balance, 31 Dec 2015	**–**	**- 48,067**	**- 48,067**
Opening balance, 1 Jan 2016	–	- 48,067	- 48,067
Reversal of impairment losses for the year	–	19,366	19,366
Impairment for the year	–	- 43,430	- 43,430
Closing balance, 31 Dec 2016	**–**	**- 72,131**	**- 72,131**
Of which impairment of residual value risk	–	- 68,508	- 68,508
Carrying amounts			
1 Jan 2015	1,313	12,194,744	12,196,057
31 Dec 2015	**1,535**	**13,691,740**	**13,693,275**
1 Jan 2016	1,535	13,691,740	13,693,275
31 Dec 2016	**1,632**	**15,976,197**	**15,977,829**

25. OTHER ASSETS

	31 Dec 2016	31 Dec 2015
Positive value of derivatives	18,440	25,698
Tax asset	109,693	202,943
Trade receivables	458,824	322,210
Other assets	83,631	88,128
Total	**670,588**	**638,979**

Trade receivables are offset against a risk provision of SEK 447 thousand (1,310) and recognised on a net basis in respect of Fleet Finance's car administration.

26. DERIVATIVES – ASSETS AND LIABILITIES

The bank's derivatives are entered into directly with the counterparty. They are not cleared through a standardised marketplace. Accrued interest on derivatives is recognised in prepaid expenses and accrued income and accrued expenses and deferred income. This note presents that portion of the market value which arises from future changes in market interest rates. The total value of derivative assets including accrued interest is SEK 18.4 million (25.7) and the value of derivative liabilities including accrued interest is SEK 1.8 million (4.8).

2016

Derivatives for which hedge accounting is not applied	Up to 1 year	1-5 years	>5 years	Total	Assets (positive market values)	Liabilities (negative market values)
Interest rate-related contracts						
Options	–	–	–	–	–	–
Swaps	9,167	106,750	–	115,917	31	- 303
Currency-related contracts						
Swaps	–	–	–	–	–	–
Sum	**9,167**	**106,750**	**-**	**115,917**	**31**	**- 303**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	–	1,150,000	–	1,150,000	18,409	- 1,474
Currency-related contracts						
Swaps (EUR)	–	–	–	–	–	–
Sum	**-**	**1,150,000**	**-**	**1,150,000**	**18,409**	**- 1,474**
Total	**9,167**	**1,256,750**	**-**	**1,265,917**	**18,440**	**- 1,777**
Breakdown of market value by currency						
SEK	9,167	1,256,750	–	1,265,917	18,440	- 1,777
EUR	–	–	–	–	–	–
Sum	**9,167**	**1,256,750**	**-**	**1,265,917**	**18,440**	**- 1,777**

2015

Derivatives for which hedge accounting is not applied	Up to 1 year	1-5 years	>5 years	Total	Assets (positive market values)	Liabilities (negative market values)
Interest rate-related contracts						
Options	3,500	–	–	3,500	–	–
Swaps	4,042	48,583	–	52,625	–	- 583
Currency-related contracts						
Swaps (EUR)	–	–	–	–	–	–
Sum	**7,542**	**48,583**	**-**	**56,125**	**-**	**- 583**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	400,000	850,000	–	1,250,000	25,698	- 4,218
Currency-related contracts						
Swaps (EUR)	–	–	–	–	–	–
Sum	**400,000**	**850,000**	**-**	**1,250,000**	**25,698**	**- 4,218**
Total	**407,542**	**898,583**	**-**	**1,306,125**	**25,698**	**- 4,801**
Breakdown of market value by currency						
SEK	407,542	898,583	–	1,306,125	25,698	- 4,801
EUR	–	–	–	–	–	–
Sum	**407,542**	**898,583**	**-**	**1,306,125**	**25,698**	**- 4,801**

27. PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2016	31 Dec 2015
Prepaid expenses	14,887	16,708
Accrued interest income	3,413	3,396
Other accrued income	14,511	12,073
Total	**32,811**	**32,177**

28. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

Breakdown by currency

2016	SEK	EUR	Total
Liabilities to credit institutions	1,350,000	–	1,350,000
Securities issued	12,395,088	–	12,395,088
Total	**13,745,088**	**–**	**13,745,088**

2015	SEK	EUR	Total
Liabilities to credit institutions	1,000,000	–	1,000,000
Securities issued	10,856,491	–	10,856,491
Total	**11,856,491**	**–**	**11,856,491**

For a breakdown by maturity, see the section Risk and capital management.

29. RETAIL DEPOSITS AND BORROWINGS

All deposits and borrowings are in SEK.

Retail deposits

Deposits by customer category	31 Dec 2016	31 Dec 2015
Public sector	36	49
Corporate sector	25,868	14,448
Retail sector	14,808,068	13,696,329
Of which, individual business owners	(2,802,981)	(2,600,871)
Other	104	166
Total deposits	**14,834,076**	**13,710,992**

Retail borrowings

Borrowings by customer category	31 Dec 2016	31 Dec 2015
Corporate sector	576,018	616,446
Other	2,319	1,624
Total borrowing	**578,337**	**618,070**
Of which, Group companies	6,789	6,789
Of which, associates	165,135	117,266
Total retail deposits and borrowings	**15,412,413**	**14,329,062**

30. OTHER LIABILITIES

	31 Dec 2016	31 Dec 2015
Negative value of derivatives	1,777	4,801
Trade payables	426,124	449,569
Liability to customer	89,002	70,789
Other liabilities	270,518	263,291
Total	**787,421**	**788,450**

31. ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2016	31 Dec 2015
Accrued interest expense	10,037	27,302
Other accrued expenses	90,211	68,836
Deferred income	1,019,849	852,979
Total	**1,120,097**	**949,117**

32. UNTAXED RESERVES

Accumulated accelerated depreciation	31 Dec 2016	31 Dec 2015
Opening balance, 1 January	2,844,225	2,481,645
Change for the year	378,497	362,580
Closing balance, 31 December	**3,222,722**	**2,844,225**

33. EQUITY

Dividend

The dividend recognised during the year was SEK 47,500 thousand, which equates to SEK 47.50 per share. The proposed dividend is SEK 73,899 thousand and equates to SEK 73.90 per share.

Retained earnings

Retained earnings in the bank comprise non-restricted equity for the year after payment of any dividend. Retained earnings and profit for the year make up non-restricted equity, which is the amount that is available for distribution to the shareholders.

34. DISCLOSURE ON NETTING OF DERIVATIVES

The bank has concluded ISDA or framework agreements for all derivatives. These agreements give the parties the right to offset the market value of liabilities against the market value of receivables from the counterparty in case of a serious default. Under set-off rights and obligations provided for in the ISDA and framework agreements, the parties have the right to offset derivative receivables against derivative liabilities in the event that the counterparty defaults on its contractual obligations.

Amounts that are not netted in balance sheet	Net amount of recognised financial assets *	Net amount of recognised financial liabilities *	Net amount/ asset (+), liability (-)
Derivatives	18,440	- 1,777	16,663

* No amounts have been netted in the balance sheet. There is no collateral in the form of cash or financial instruments.

35. CARRYING AMOUNT BY CATEGORY OF FINANCIAL INSTRUMENT AND FAIR VALUE DISCLOSURES

Methods for determining fair value

The financial instruments measured at fair value by the bank in the balance sheet are derivative instruments and those chargeable treasury bills, other chargeable securities, and bonds and other debt securities that are classified according to IFRS 13 Fair Value Measurement. As the bank's derivatives are not quoted on an active market (Level 1), the bank uses an analysis of discounted cash flows to determine the fair value of the instruments. Only observable market data is used for discounting (Level 2). Chargeable treasury bills, other chargeable securities, bonds and other debt securities are deemed to be quoted on an active market (Level 1). Active market means that quoted prices for financial instruments are readily and regularly available from an exchange, dealer, broker or other companies which provide price information. The price must represent actual and regularly occurring transactions based on the bid price on the balance sheet date without adjustment for transaction costs on acquisition. No transfers between the levels were made during the year. Other categories of financial instrument belong to Level 3.

Fair value disclosures for loans and advances to customers have been calculated by discounting contractual cash flows at a discount rate that is based on a current lending spread. Fair value disclosures for liabilities to credit institutions, securities issued and subordinated debts have been calculated based on estimated current lending spreads.

Those financial assets which have been classified as held-to-maturity investments are measured at amortised cost in the balance sheet. Held-to-maturity investments, which include chargeable treasury bills, have been marked to market based on quoted prices on an active market.

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

2016 Assets	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Chargeable treasury bills, etc.	1,040,542	–	–	1,040,542	1,040,542
Loans and advances to credit institutions	–	786,666	–	786,666	786,666
Loans and advances to customers		15,170,698	–	15,170,698	15,205,317
Bonds and other debt securities	1,123,419	600,107	–	1,723,526	1,723,526
Other assets	–	–	670,588	670,588	670,588
Prepaid expenses and accrued income	–	–	32,811	32,811	32,811
Total	**2,163,961**	**16,557,471**	**703,399**	**19,424,831**	**19,459,450**

2016 Liabilities	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Liabilities to credit institutions	–	1,347,075	–	1,347,075	1,350,000
Retail deposits and borrowings	–	15,412,385	–	15,412,385	15,412,413
Securities issued	12,432,897	–	–	12,432,897	12,395,088
Other liabilities	–	787,421	–	787,421	787,421
Accrued expenses and deferred income	–	–	1,120,097	1,120,097	1,120,097
Total	**12,432,897**	**17,546,881**	**1,120,097**	**31,099,875**	**31,065,019**

2015 Assets	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Chargeable treasury bills, etc.	1,080,515	–	–	1,080,515	1,080,515
Loans and advances to credit institutions	–	1,998,980	–	1,998,980	1,998,980
Loans and advances to customers	–	13,654,961	–	13,654,961	13,690,417
Bonds and other debt securities	835,501	–	–	835,501	835,501
Other assets	–	–	638,979	638,979	638,979
Prepaid expenses and accrued income	–	–	32,177	32,177	32,177
Total	**1,916,016**	**15,653,941**	**671,156**	**18,241,113**	**18,276,569**

2015 Liabilities	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Liabilities to credit institutions	995,147	–	–	995,147	1,000,000
Retail deposits and borrowings	–	14,329,091	–	14,329,091	14,329,062
Securities issued	10,841,637	–	–	10,841,637	10,856,491
Other liabilities	–	788,450	–	788,450	788,450
Accrued expenses and deferred income	–	–	949,117	949,117	949,117
Total	**11,836,784**	**15,117,541**	**949,117**	**27,903,442**	**27,923,120**

Assets, 31 Dec 2016	Loans receivable and trade receivables	Financial assets at fair value through profit or loss FVO	Held-to-maturity investments	Derivatives used for hedging	Other assets	Total	Fair value
Chargeable treasury bills, etc.	–	1,040,542	–	–	–	1,040,542	1,040,542
Loans and advances to credit institutions	786,666	–	–	–	–	786,666	786,666
Loans and advances to customers	15,205,317	–	–	–	–	15,205,317	15,170,698
Bonds and other debt securities	–	1,123,419	600,107	–	–	1,723,526	1,723,526
Shares and interests in associates and other companies	–	–	–	–	19,009	19,009	–
Shares and interests in Group companies	–	–	–	–	6,742	6,742	–
Intangible assets	–	–	–	–	11,123	11,123	–
Property, plant and equipment, fixtures and fittings	–	–	–	–	1,632	1,632	–
Property, plant and equipment, lease assets	–	–	–	–	15,976,197	15,976,197	–
Other assets	458,824	31	–	18,409	193,324	670,588	670,588
Prepaid expenses and accrued income	32,811	–	–	–	–	32,811	32,811
Total assets	**16,483,618**	**2,163,992**	**600,107**	**18,409**	**16,208,027**	**35,474,153**	

Liabilities, 31 Dec 2016	Financial liabilities at fair value through profit or loss FVO	Non-financial liabilities	Derivatives used for hedging	Other financial liabilities	Total	Fair value
Liabilities to credit institutions	–	–	–	1,350,000	1,350,000	1,347,075
Retail deposits and borrowings	–	–	–	15,412,413	15,412,413	15,412,385
Securities issued	–	–	–	12,395,088	12,395,088	12,432,897
Other liabilities	303	270,518	1,474	515,126	787,421	787,421
Accrued expenses and deferred income	–	1,110,060	–	10,037	1,120,097	1,120,097
Total liabilities	**303**	**1,380,578**	**1,474**	**29,682,664**	**31,065,019**	

Assets, 31 Dec 2015	Loans and receivables	Financial assets at fair value through profit or loss FVO	Held-to-maturity investments	Derivatives used for hedging	Other assets	Total	Fair value
Chargeable treasury bills, etc.	–	1,080,515	–	–	–	1,080,515	1,080,515
Loans and advances to credit institutions	1,998,980	–	–	–	–	1,998,980	1,998,980
Loans and advances to customers	13,690,417	–	–	–	–	13,690,417	13,654,961
Bonds and other debt securities	–	835,501	–	–	–	835,501	835,501
Shares and interests in associates and other companies	–	–	–	–	16,797	16,797	–
Shares and interests in Group companies	–	–	–	–	6,742	6,742	–
Intangible assets	–	–	–	–	7,874	7,874	–
Property, plant and equipment, fixtures and fittings	–	–	–	–	1,535	1,535	–
Property, plant and equipment, lease assets	–	–	–	–	13,691,740	13,691,740	–
Other assets	322,210	–	–	25,698	291,071	638,979	638,979
Prepaid expenses and accrued income	32,177	–	–	–	–	32,177	32,177
Total assets	**16,043,784**	**1,916,016**	**-**	**25,698**	**14,015,759**	**32,001,257**	

Liabilities, 31 Dec 2015	Financial liabilities at fair value through profit or loss FVO	Non-financial liabilities	Derivatives used for hedging	Other financial liabilities	Total	Fair value
Liabilities to credit institutions	–	–	–	1,000,000	1,000,000	995,147
Retail deposits and borrowings	–	–	–	14,329,062	14,329,062	14,329,091
Securities issued	–	–	–	10,856,491	10,856,491	10,841,637
Other liabilities	583	263,291	4,218	520,358	788,450	788,450
Accrued expenses and deferred income	–	921,815	–	27,302	949,117	949,117
Total liabilities	**583**	**1,185,106**	**4,218**	**26,733,213**	**27,923,120**	

36. MEMORANDUM ITEMS

	2016	2015
Pledged assets	–	–
Contingent liabilities	–	–

37. PROPOSED APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes a dividend of SEK 73.90 per share. The Board's proposal for appropriation of profits can be found on page 19.

38. OPERATING LEASES

Operating leases where the bank is the lessee. Expensed payments for operating leases amount to:

	2016	2015
Annual lease payments	10,135	9,820
- of which minimum lease payments	9,637	9,256
- of which variable payments	498	565

Future minimum lease payments for non-cancellable operating leases distributed over time.

	2016	2015
Within 1 year	11,226	10,135
Between 1–3 years	12,046	23,272

Operating leases are mainly attributable to agreements typical for the business, relating to the cost of office space and office equipment.

39. EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date.

40. RELATED PARTIES

The Swedish Volvo dealerships own 50% of the bank via their holding company AB Volverkinvest, while Volvo Car Corporation owns 50%; both companies are classified as other related companies.

The bank has holdings in four companies classified as associates, see Note 21. The Group also includes wholly-owned and dormant subsidiaries: Volvofinans Leasing AB, Autofinans Nordic AB, CarPay Sverige AB and Volvofinans IT AB, see Note 22.

	Group companies		Associates		Other related companies	
Balance sheet	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Assets	6,742	6,742	274,591	16,797	777,582	1,055,039
Liabilities	6,789	6,789	169,818	119,402	157,195	273,069
Income statement						
Interest income	–	–	2,357	116	118	44
Lease income	–	–	–	–	280,382	296,912
Interest expense	–	–	- 494	- 41	- 49	- 392
Dividend received	–	–	2,212	2,062	–	–
Commission income	–	–	–	–	3,575	2,414
Total	**-**	**-**	**4,075**	**2,137**	**284,027**	**298,979**

Information relating to members of the key management personnel in addition to those reported in Note 11. Loans to senior executives as at the balance sheet date amounted to SEK 176 thousand. The amount of interest for these persons in 2016 amounted to SEK 5 thousand. The terms and conditions of loans to senior executives are the same as for the bank's other employees.

Signatures of the Board of Directors

The Board of Directors and the President warrant that the annual report has been prepared in accordance with generally accepted accounting policies in Sweden.

The annual report gives a true and fair view of the bank's financial position and results. The Directors' report gives a true and fair overview of the development of the bank's business, position and results, and describes significant risks and uncertainties faced by the bank.

The annual report has, as stated above, been approved for publication by the Board of Directors in Göteborg on 22 March 2017.

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Vice Chairman of the Board

Anders Gustafsson
Director

Tommy Andersson
Director

Per Avander
Director

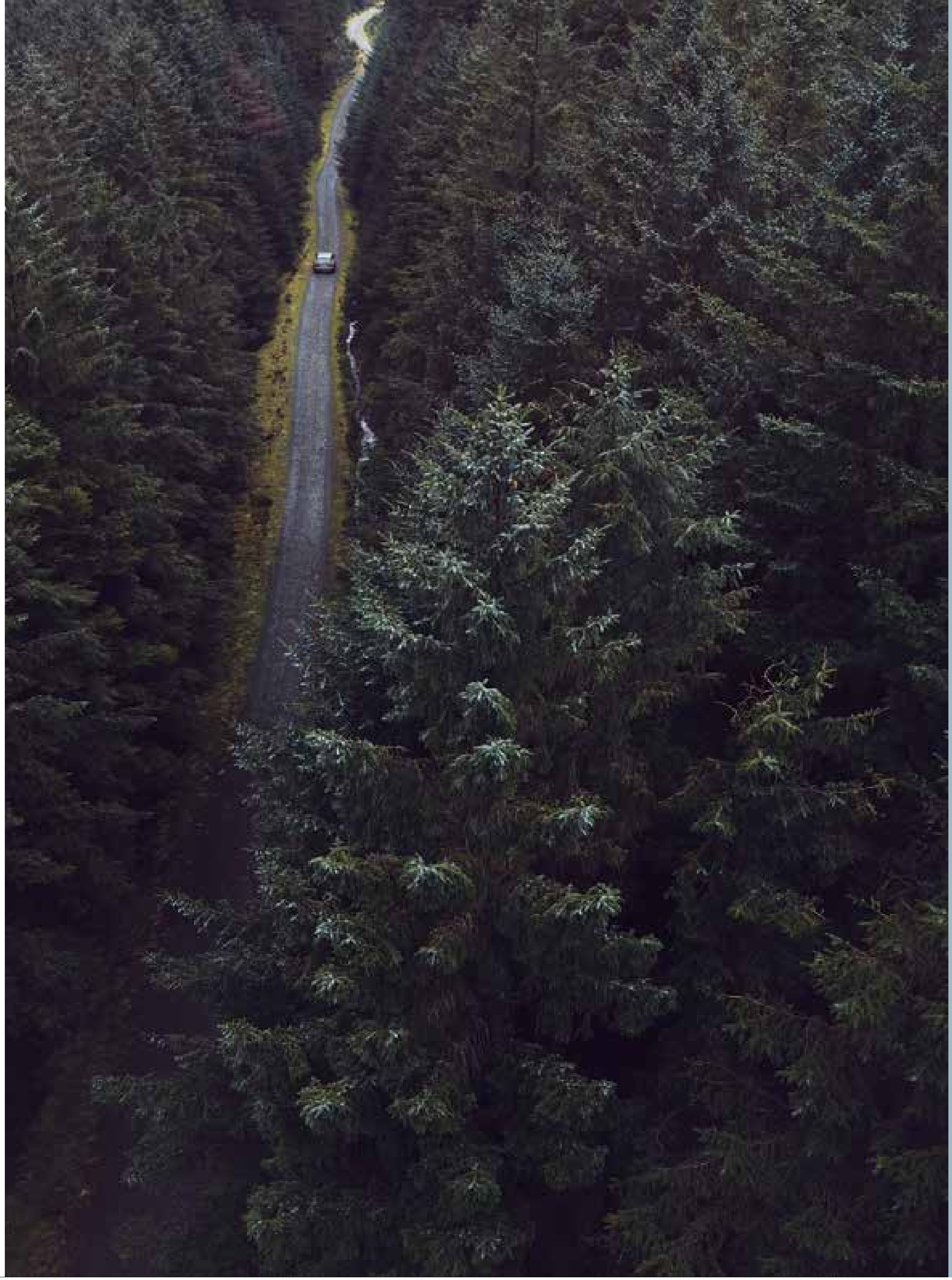
Patrik Tolf
Director

Conny Bergström
President

We submitted our audit report on 22 March 2017

KPMG AB

Mikael Ekberg
Authorised Public Accountant



Auditor's report

To the Annual General Meeting of Volvofinans Bank AB, corp. ID no. 556069-0967

Report on the financial statements

Opinions

We have audited the financial statements of Volvofinans Bank AB for 2016 with the exception of the corporate governance report on pages 14-15. The company's financial statements are included on pages 12–76 of this document.
In our opinion, the financial statements have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Investment Firms and presents fairly, in all material respects, the financial position of Volvofinans Bank AB's as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with the Swedish Annual Accounts Act for Credit Institutions and Investment Firms. Our statements do not include the corporate governance report on pages 14-15. The Directors' Report is consistent with the other parts of the annual report.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under these standards are further described in the section Auditor's responsibilities. We are independent in relation to Volvofinans Bank AB in accordance with good auditing practices in Sweden and have fulfilled our ethical responsibilities in accordance with these requirements.

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

Key audit matters

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

Impairment losses on loans

See Note 19 and the accounting policies on pages 55–57 in the Annual Report for detailed information and description of this key audit matter.

Description of the key audit matter

The company's loan portfolio as at 31 December 2016 stood at SEK 15,225,335,000, corresponding to 42.9% of the company's total assets. The company's impairment for credit losses in the loan portfolio amounted to SEK 20,018,000. Impairment for credit losses in the loan portfolio corresponds to the company management's best estimate of potential credit losses in the loan portfolio as at the balance sheet date. For the retail segment, impairment is calculated for individually incurred credit losses as well as for losses in the group of loans that it is not yet possible to attribute to individual loans using statistical models. Impairment for credit risks for corporate customers is based on a manual review of all receivables.
This is regarded as a key audit matter because the calculation of both pooled and individual impairment losses include significant judgements by the company management.

How our audit addressed the key audit matter

We tested the company's key controls as part of our procedures to identify and determine the loans that are to be written down.

We challenged the company management's assessment of the recovery value of future cash flows for impairment losses made on an individual basis.
For loans that are measured using impairment models on a collective (pooled) basis, we evaluated the methods and assumptions used for the models. We also evaluated whether the assumptions used in the models have been approved at the appropriate level within the company. We also performed random sampling to evaluate inputs to models and the accuracy of calculations.

We also evaluated the completeness and accuracy of the underlying facts and circumstances disclosed in the information in the financial statements and made a judgement on whether the scope of the information is sufficient to obtain an understanding of the company management's assessments.

Impairment of lease assets

See Note 24 and description of residual value risk on page 41 and accounting policies on pages 57–58 in the annual report for detailed information and description of this key audit matter.

Description of the key audit matter

The carrying amount of the company's operating leases (which are directly guaranteed by Volvofinans Bank AB) as at 31 December 2016 stood at SEK 3,123,275,000, which corresponds to 8.8% of the company's total assets. The company recognised impairment losses of SEK 68,508,000. The bank continuously assesses assets used operating leases for impairment. Impairment occurs if the carrying amount is higher than the recoverable amount, which is the higher of the fair value less costs to sell or the value in use. Value in use is determined as the present value of remaining rents and the present value of the expected residual value. Assessment of the expected residual value is obtained from an external supplier.

This is regarded as a key audit matter because the calculation of the residual value includes significant judgements by the company management.

How our audit addressed the key audit matter

We assessed the company's procedures for impairment of assets used under operating leases.

We evaluated the completeness and accuracy of inputs to the model and tested the accuracy of calculations of the residual value. In addition, we challenged the company management's assessment with regard to the assumptions about residual values used in the models, and evaluated whether they have been approved at the appropriate level within the company.

We also evaluated the completeness and accuracy of the underlying facts and circumstances disclosed in the information in the financial statements and made a judgement on whether the scope of the information is sufficient to obtain an understanding of the company management's assessments.

Information other than the financial statements

This document also contains information other than that in the financial statements and which can be found on pages 1–11. The Board of Directors and the CEO are responsible for this other information.

Our opinion on the financial statements does not include this information and we will not express an opinion verifying this other information.

In connection with our audit of the financial statements, it is our responsibility to read the information identified above and identify whether the information is materially inconsistent with the financial statements. In this review we also take into account the knowledge we have obtained in the audit and assess whether the information otherwise appears to contain material misstatements.

If, based on the work carried out with respect to this information, we conclude that there is a material misstatement in the other information, we are required to report this. We have nothing to report in this respect.

The Board of Directors' and Chief Executive Officer's responsibility

The Board of Directors and CEO are responsible for the preparation and fair presentation of the financial statements in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. The Board of Directors and CEO are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In the preparation of the financial statements, the Board of Directors and CEO are responsible for assessment of the company's ability to continue as a going concern. They disclose, where appropriate, information on conditions that may affect the ability to continue as a going concern and to use the going concern basis of accounting. However, the going concern basis of accounting is not used if the Board of Directors and CEO intend to liquidate the company, discontinue operations or do not have a realistic alternative to either of these actions.

The Board's Audit Committee shall, without prejudice to the Board's responsibilities and tasks in other respects, among other things, monitor the company's financial reporting.

Auditor's responsibilities

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

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the part of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the CEO.
- conclude on the appropriateness of the Board of Directors' and CEO's use of the going concern basis of accounting when preparing the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion on the financial statements. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We must inform the Board of, among other matters, the planned scope, nature and timing of the audit. We must also inform the Board of significant audit findings, including any significant deficiencies in internal control that we have identified.

We must also provide the Board with a statement that we have complied with relevant ethical requirements regarding independence and communicate all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Board, we determine those matters that were of most significance in the audit of the financial statements, including the most significant assessed risks of material misstatement and which therefore constitute the key audit matters. We describe these matters in the auditors' report unless law or regulation preclude public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other statutory and regulatory requirements

Opinions

In addition to our audit of the financial statements, we audited the Board of Directors' and Chief Executive Officer's administration of Volvofinans Bank AB for 2016 and the proposed appropriation of the company's profit or loss.
We recommend to the Annual General Meeting that the profit be appropriated as proposed in the Directors' Report and that the members of the Board and the Chief Executive Officer be discharged from liability for the financial year.

Basis for opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in greater detail in the section Auditor's responsibilities. We are independent in relation to Volvofinans Bank AB in accordance with good auditing practices in Sweden and have fulfilled our ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The Board of Directors' and Chief Executive Officer's responsibility

The Board of Directors is responsible for the proposed appropriation of the company's profit or loss. Dividend proposals include an assessment of whether the dividend is justifiable considering the demands that the nature, scope and risks of the company's operations place on the amount of equity and the company's consolidation requirements, liquidity and financial position in general.

The Board is responsible for the organisation of the company and the management of its affairs. Among other things, this includes continuously assessing the company's financial position and ensuring that the company's organisation is designed such that controls of accounting records, asset management and the company's financial circumstances in general are performed in a satisfactory manner.

The CEO must take charge of the day-to-day management in accordance with the Board's guidelines and directives, including taking the necessary measures to ensure that the company's accounting records are complete according to law and that asset management is conducted satisfactorily.

Auditor's responsibilities

Our objective for the management audit, and thereby our statement on discharge from liability, is to obtain audit evidence to enable us to determine with reasonable assurance whether any member of the Board or the CEO has, in any material respect:

- taken any action or been guilty of any negligence that may result in a claim for compensation being brought against the company, or
- in any other way acted in contravention of the Swedish Companies Act, the Swedish Banking and Financing Business Act, the Swedish Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

Our objective for the audit of the proposed appropriation of the company's profit or loss, and thereby our opinion on this matter, is to determine with reasonable assurance whether the proposal is consistent with the Swedish Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions which may result in a claim for compensation being brought against the company, or that a proposal for appropriation of the company's profit or loss is inconsistent with the Swedish Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional scepticism throughout the audit. The review of the management and the proposed appropriation of the company's profit or loss is largely based on the audit of the accounts. Any additional audit procedures performed are based on our professional assessment, with risk and materiality as the starting point. This means that our review focuses on such procedures, matters and conditions that are material to the business and where deviation and infringement would have special significance for the company's situation. We go through and examine decisions taken, documentation supporting decisions, actions taken and other conditions that are relevant to our statement on discharge from liability. As a basis for our opinion on the Board of Directors' proposal for appropriation of the company's profit or loss, we have examined the Board of Directors' reasoned opinion and a selection of evidence for this in order to determine whether the proposal is consistent with the Swedish Companies Act.

Auditor's review of the Corporate Governance Report

The Board of Directors is responsible for the Corporate Governance Report on pages 14-15 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

Our review has been carried out in accordance with FAR's statement RevU 16 Auditors' review of the corporate governance report. This means that our review of the Corporate Governance Report has a different aim and is of significantly smaller scope than the aim and scope of an audit in accordance with the International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides sufficient grounds for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, paragraph 2, items 2-6 of the Swedish Annual Accounts Act and Chapter 7, Section 31, paragraph 2 of the same Act are consistent with the other parts of the annual report and are in compliance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies.

Göteborg, 22 March 2017

KPMG AB

Mikael Ekberg
Authorised Public Accountant

Board of Directors, auditor and senior executives

Board of Directors

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Deputy Chairman of the Board

Tommy Andersson
Chairman of the Volvo Dealers Association, President of MRF, the Swedish retail motor industry federation

Anders Gustafsson
Senior Vice President EMEA, Volvo Car Corporation

Per Avander
CEO, AB Bilia

Patrik Tolf
Deputy CFO & Head of Group Finance, Volvo Car Corporation

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CEO and President, AB Persson Invest

Kristian Elvefors
CEO, Volvo Car Sverige AB

Janola Gustafson
CEO, Aktiebolaget Volverkinvest

Pascal Bellemans
Vice President, Head of Volvo Cars Financial Services

Auditor

Mikael Ekberg
Authorised Public Accountant

Senior executives

Conny Bergström
President

Lennart Jönsson
Head of Marketing/Sales, Volvo Cars

Per Lindahl
Head of Marketing/Sales, Volvo Trucks

Hans Jörgen Möller
Chief Financial Officer

Lars Norland
Treasurer

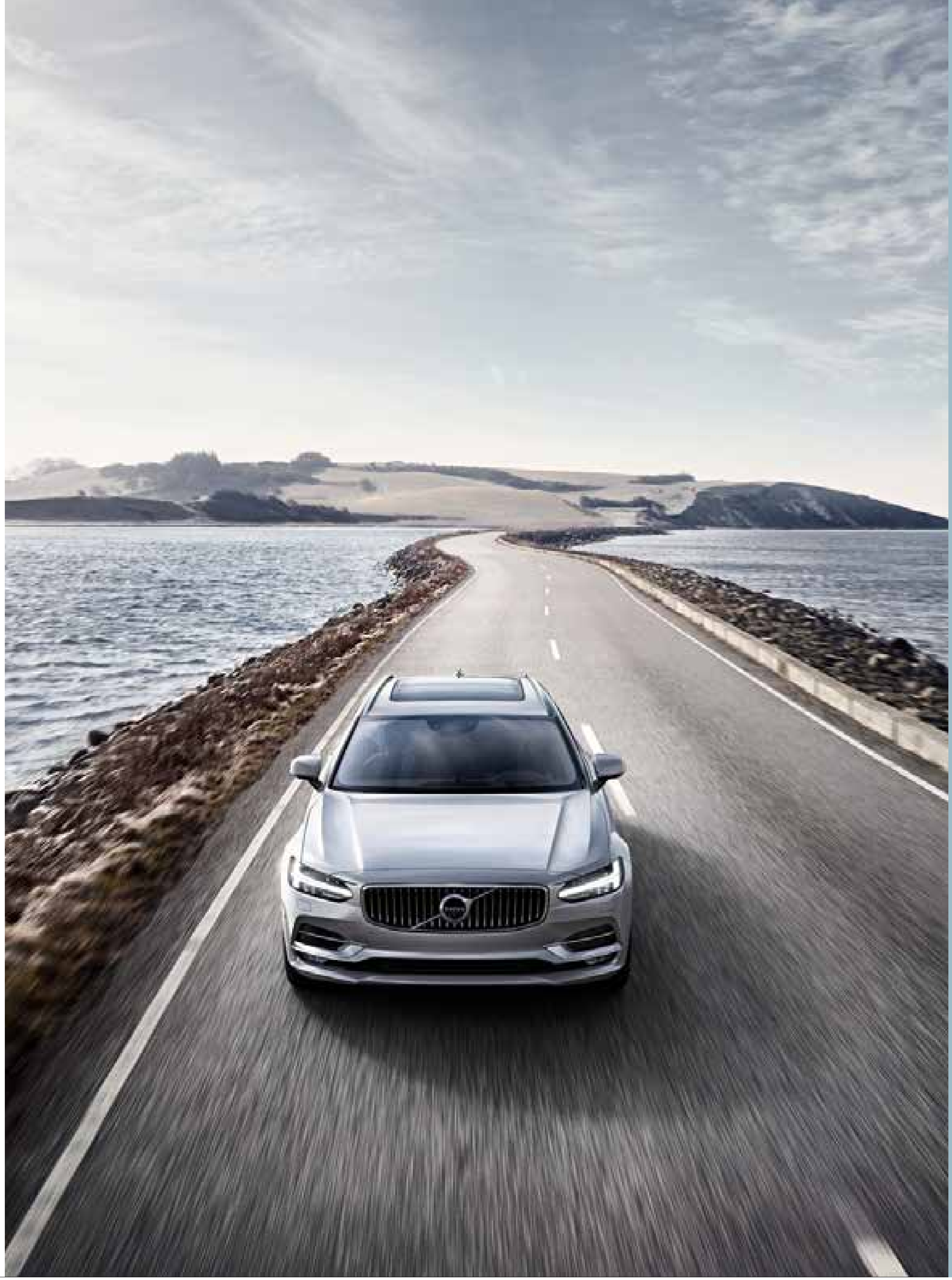
Marianne Moberg
Chief Information Officer

Maria Allgulander
Director of Volvo Card and Administration

Ulrika Wennberg
Director of Customer Service

Margareta Johansson
Director of Human Resources

Christian Torgersson
Chief Risk Officer



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