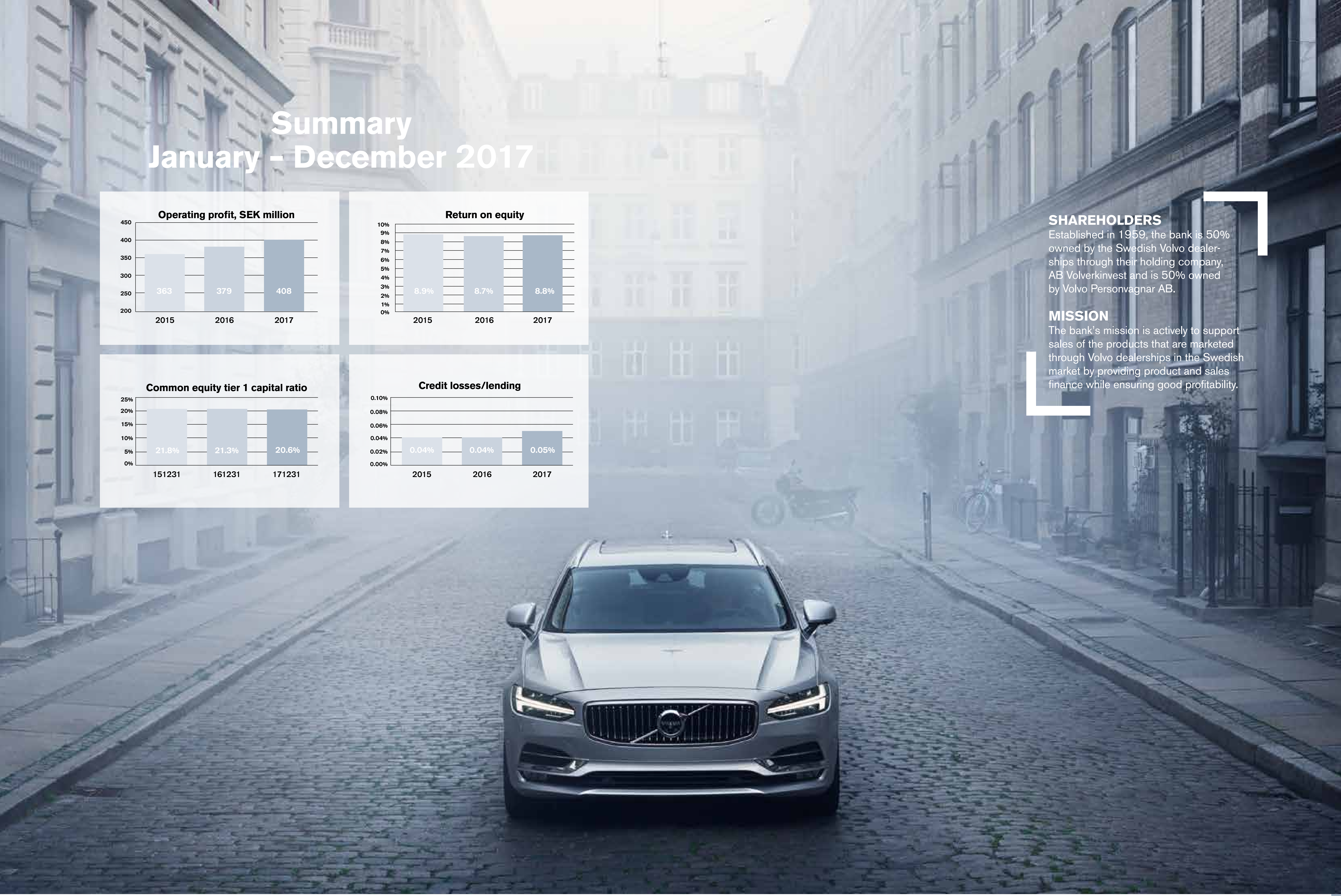
2017

ANNUAL REPORT // VOLVOFINANS BANK AB

VOLVOFINANS BANK

Summary
January - December 2017

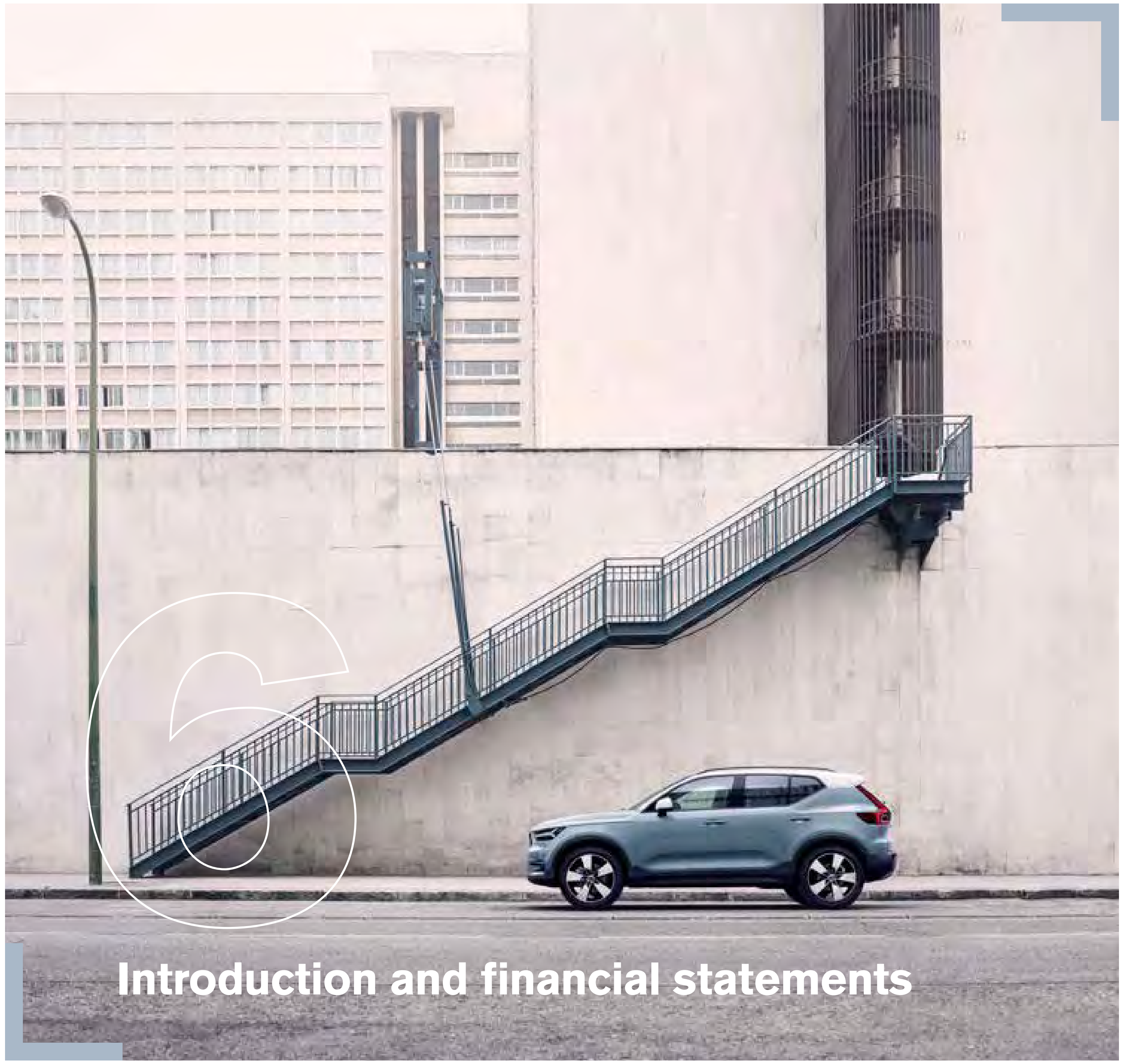


SHAREHOLDERS

Established in 1959, the bank is 50% owned by the Swedish Volvo dealerships through their holding company, AB Volverkinvest and is 50% owned by Volvo Personvagnar AB.

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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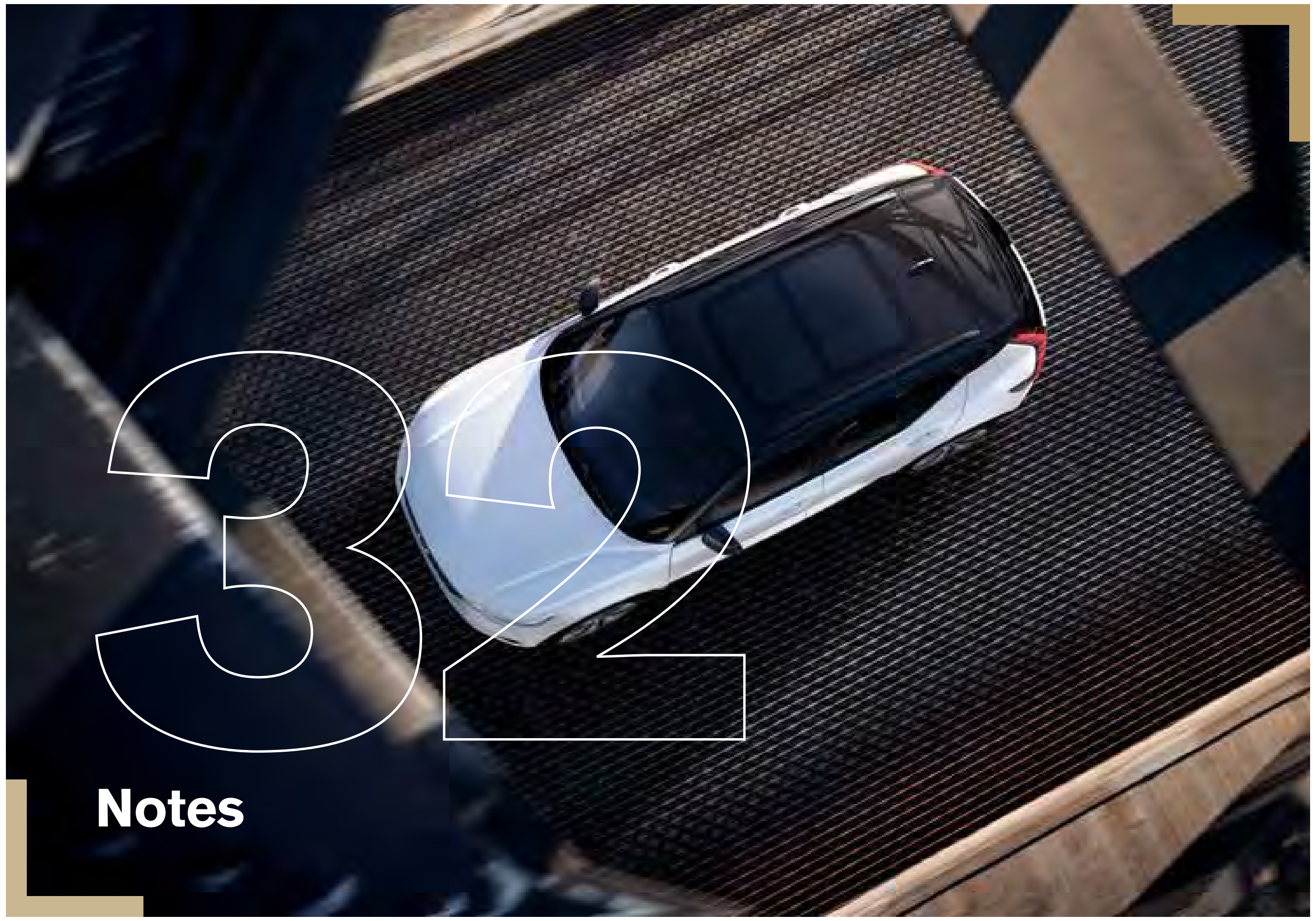
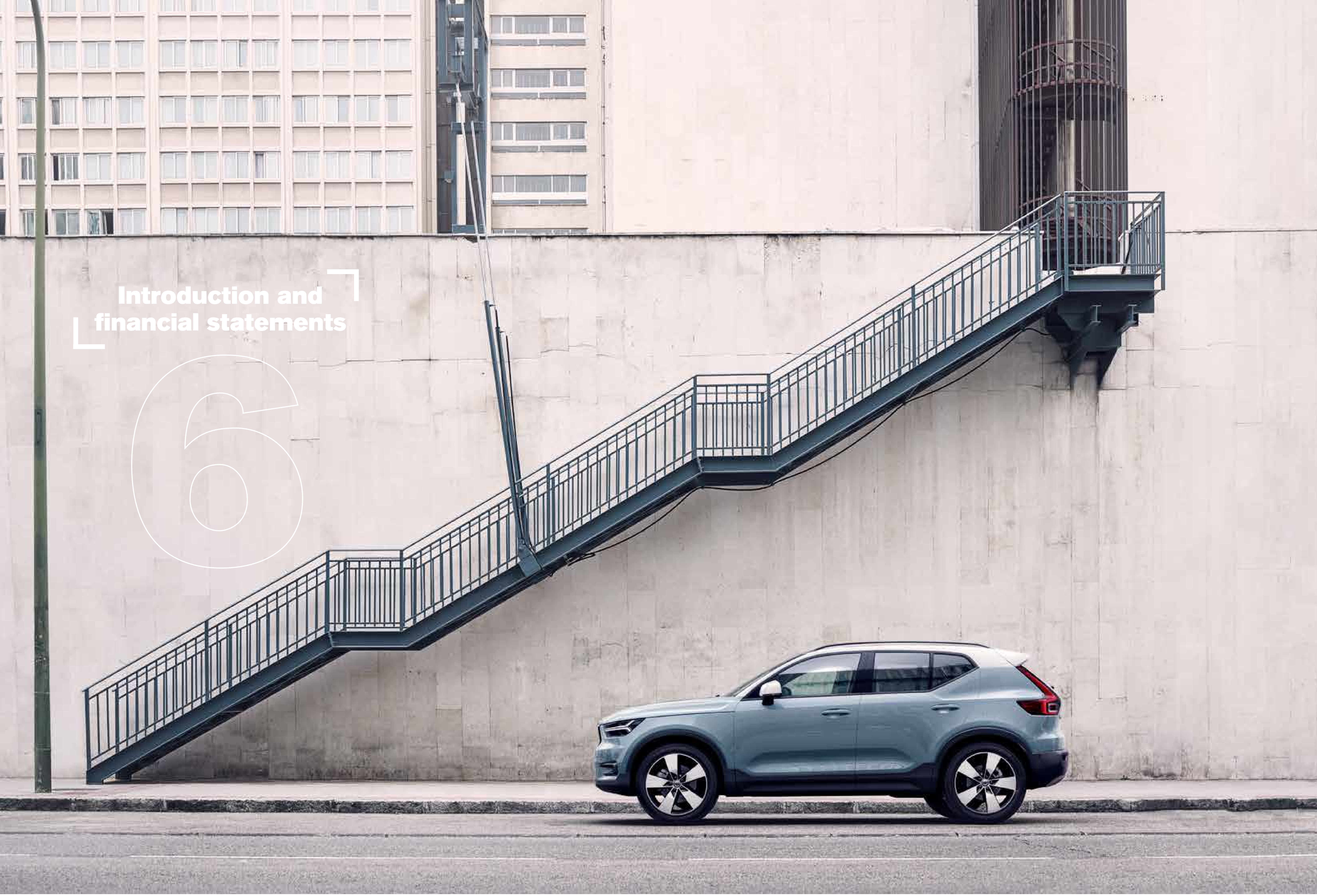


32 Notes

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

VOLVOFINANS BANK // ANNUAL REPORT 2017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Record earnings in a record market

► Volvofinans Bank's earnings for the year 2017 amounts to SEK 408 million which exceeds the 2016 record earnings by approx. SEK 29 million. Lending has increased by over 10% during the year and now exceeds SEK 35 billion. The bank's ROE improved to 8.8% (8.7) and the bank's total capital ratio remains above 20%, despite the expansion of lending.

Of course, the record-breaking automotive market contributes to the bank's good performance and growth in lending, where new car registrations increased to 379 000, which is an increase of 1.9%. There were also record sales of light commercial vehicles, where registrations for the year reached just over 55,000, which corresponds to an increase of more than 7% compared to 2016.

The Sales Finance Cars business area is what has primarily fuelled earnings. Low interest rates combined with attractive packaged offers creates a foundation for robust sales of financial services. Volvo Personvagnar sold more than 75,000 cars in the Swedish market during 2017, Volvo's passenger car sales increased by 6% and a 20% market share was achieved. During the year, several successful car launches were made, with the new Volvo XC60 being the most important.

The CarPay app already has 300,000 users.

Volvo has thus gained market shares in a growing market, in parallel with the increase in average prices of cars, due to higher prices for new attractive car models, which increases the bank's lending volumes.

As regards the bank's other contractual collaborations, Renault passenger cars have performed well during the year, while Dacia has performed slightly less successful compared to last year and in total these brands ended the year with a market share of about 5%.

The Volvo Card business area, to which the CarPay app belongs, is also making a stable contribution to overall earnings. This is particularly impressive, given that the business area is burdened by heavy digital IT investments in order to create unique digital tools in the vehicle finance niche. These major, necessary investments that are being made will also benefit the other business areas as the bank, to a much greater extent, communicates total monthly costs with customers. The CarPay app, which was launched about 1.5 years ago already has over 300,000 users. New features like checkout, i.e. payment, after service or repair visits, which customers, for example, can make from home using their mobile phone, have already been launched. New exciting checkout features will be launched at the beginning of 2018.

The Sales Finance Trucks business area is also significantly increasing its lending and its contribution to the bank's total earnings is rising, albeit from a relatively low level.

Once again in 2017, Volvo Trucks beat Scania and sold the most of heavy trucks (>16 tonnes), meaning a market share just over 41%.

The market for the bank's Fleet Finance business area, which covers financing and administration of the company's entire fleet of vehicles, remained strong during the year. In this business area, customers, most of whom are large companies, can choose all brands of cars for both passenger cars and light commercial vehicles. During the year, 150 new customers were signed in the business area, which, over time, is expected to generate around 4,400 new finance and operating lease agreements.

The robust flow of new customers over the last few years in this business area also means that higher provisions will be required at the rate that new cars are taken out. In 2017, we see this impact in overall earnings, which are at a lower level than last year.

Overall, we are very satisfied with the bank's earnings and growth, where the profit for the first time exceeds SEK 400 million and the balance sheet total is just over SEK 40 billion.

We have a strong belief that the strategic efforts we initiated in 2014, with more focus on Car Bank and a much more ambitious digital development plan, is absolutely right for the future. During the year, we ramped up our development efforts, with a focus on "new car financing" which, for example, includes subscription opportunities. We will also continue developing our niche position in Car Bank to "The Mobility Bank". In our strategy, we talk about "Zero Friction", which is a guiding star in our efforts to streamline the organisation and make things easier for our customers. Our promise to customers is "A Smarter Car Economy". It means that the bank strives to save both time and money for its customers by offering innovative, sustainable and attractive digital solutions.

We expect that the vehicle market will remain strong in 2018, for passenger cars, light commercial vehicles and trucks. In all likelihood, sales will be particularly strong during the first half of the year for passenger cars and light commercial vehicles before the new vehicle taxation rules based on the Bonus-Malus system enter into force on 1 July 2018. The bank also expects that environmental alternatives will be a growing trend in the car market going forward. Electric hybrids and PHEVs are becoming increasingly popular, but this major breakthrough also requires a higher investment in the national infrastructure.

In summary, we have in recent years created a solid earnings base with healthy financing volumes and strong financial results. This has occurred in parallel with the growth in the Swedish car fleet to record size. Of course, there are many competitors who want to take advantage of opportunities offered in this attractive market, but we also see opportunities for taking bigger steps, not least in light of our major digital initiatives in areas where we have a competitive advantage – i.e. development of all types of niched financial car services.

Conny Bergström
CEO
Volvofinans Bank AB

JAN – DEC 2017 IN SUMMARY

Profit before tax
SEK 407.6 million (379.0)

Return on equity:
8.8% (8.7)

Lending at 31 December:
SEK 35.1 billion (31.2)

Net credit losses:
SEK 18.0 million (13.5)

Common equity tier 1 capital ratio:
20.6% (21.3)

Sweden’s Volvo dealerships in 2017

A COMPREHENSIVE SALES NETWORK

Sweden’s Volvo dealers form a nationwide retail network that includes 54 privately owned dealerships and two listed dealerships with around 240 sales outlets and over 284 workshops. In addition, the general agent, Volvo Car Sverige AB, also has shares 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, respectively.

The dealer network comprises 31 different owners and groups of owners. The operations of the network are divided into passenger car and truck operations. The majority of the companies, 42, only sell cars while 16 only sell trucks (“heavy” trucks >7 tonnes). One sells both cars and trucks.

VOLVO DEALERS 2017 IN FIGURES

Net sales in the Volvo dealer network in 2017 amounted to approximately SEK 52 billion, with earnings totalling around SEK 1,800 million.

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, Jaguar 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 VOLVO DEALERS’ BANK

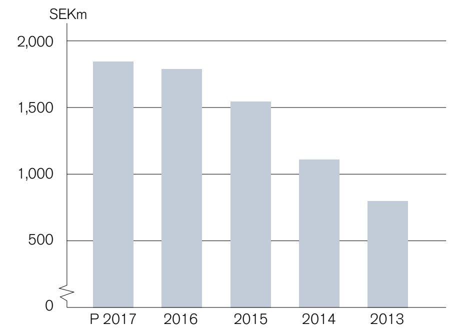
The bank’s mission is to raise money for financing the dealers’ loan and lease contracts; in other words, to support their business operations. Working in close collaboration with Volvofinans Bank, Sweden’s Volvo dealers are market leaders in terms of vehicle-related services like financing and payment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

Volvo dealerships 2017–2013
(amounts in SEK million)

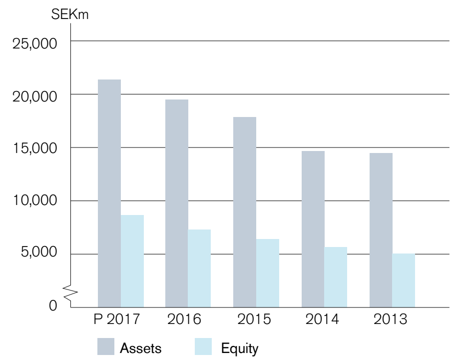
Condensed balance sheet	Forecast 2017	2016	2015	2014	2013
Property, plant and equipment	3,100	2,934	3,329	2,684	2,670
Lease vehicles	2,300	2,235	1,450	1,616	2,359
Contract receivables	1,200	1,161	1,181	1,189	793
Inventories	7,000	6,574	5,845	4,785	4,920
Other	7,100	6,266	5,870	4,506	3,748
Total assets	**20,700**	**19,170**	**17,675**	**14,780**	**14,490**
Equity and untaxed reserves	8,400	7,481	6,589	5,406	5,032
Non-current liabilities	2,000	1,962	2,364	1,795	3,021
Current liabilities	10,300	9,726	8,722	7,579	6,437
Total liabilities and equity	**20,700**	**19,170**	**17,675**	**14,780**	**14,490**
Loans and leases in Volvofinans Bank's balance sheet	25,100	22,427	17,595	18,734	17,782
Adjusted balance	45,800	41,597	35,270	35,514	32,272
Net sales and earnings					
Net sales	51,772	49,582	46,732	42,474	38,965
Performance	**1,810**	**1,802**	**1,581**	**1,111**	**800**
Key performance indicators					
Return on equity, %	22	24	24	22	17
Return on total equity, %	10	10	10	9	8
Equity/assets ratio, %	41	39	37	37	35

Note: The figures for 2017 are based partly on forecasts, since final annual reports for all dealerships were not available at the time of publication.

Volvo dealerships, earnings



Volvo dealerships, assets and equity



Directors' Report

► The Board of Directors and Chief Executive Officer of Volvofinans Bank AB (publ) hereby present their report on operations for 2017. Hereinafter referred to as the bank.

GROUP STRUCTURE

The bank has its registered office in Göteborg.

Volvofinans Leasing AB, Autofinans Nordic AB, CarPay Sverige AB and Volvofinans IT AB are wholly owned, dormant subsidiaries.

As permitted under Ch. 7 § 6a of the Swedish Annual Accounts for Credit Institutions and Investment Firms Act (1995:1559), the bank does not prepare consolidated financial statements, as the activities of the subsidiaries are of minor importance.

Together with Volvo PV Fordonspark AB, Volvohandlar-föreningen 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.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

No significant events occurred during the year.

VOLUMES/LENDING

At year-end, there were 246,969 contracts (229,473) in the bank's loan and lease portfolios, corresponding to an increase of 7.6% 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 Sweden's 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, %	2017	2016	2015	2014	2013
New cars	53	54	49	49	49
Used cars	36	36	35	36	37
New trucks	57	54	50	49	47

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 35.1 billion (31.2) at year-end, an increase of 12.6% on the previous year. Lending consists mainly of leases, loans, contract credits, dealer inventory credits and card credits.

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

	2017 SEKbn	%	2016 SEKbn	%	Change SEKbn
Sales finance					
– Cars	30.1	86	27.3	87	2.8
– Trucks and Buses	3.0	8	2.1	7	0.9
Inventory credits	0.3	1	0.2	1	0.1
Credit card credits	1.7	5	1.6	5	0.1
Total	35.1	100	31.2	100	3.9

Volvo Car Leasing increased by SEK 1.5 billion, or 14%, and Volvo Car Loans and Volvo Truck Loans grew by 1.1 billion, or 9%. Collateral assignment, where Volvo dealers have a credit with underlying loan contracts or leasing contracts as collateral, increased by SEK 225.6 million or 87%.

The volume of card credits was largely flat year-on-year. Net sales through Volvo Card amounted to SEK 13.0 billion (12.1), and during the year there were 28.1 (26.4) million card purchases.

The number of corporate customers for whom Svensk Vagn-parksfinans handles car administration increased during the year, with 42,407 cars (36,635) being administered at year-end.

Net sales through Volvo Truck Card were down year on year, with goods and services purchased in 2017 using the 17,229 cards (17,992) totalling SEK 386 million (401).

PERFORMANCE

Profit before credit losses was SEK 425.6 million (392.4), corresponding to an increase of 8.5% 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 18.0 billion (13.5), see Note 14.

Profit for the year before appropriations and tax amounted to SEK 407.6 million (379.0), corresponding to an increase of 7.6%. The increase in earnings is primarily accounted for by increased borrowing volumes. The return on equity was 8.77% (8.68).

CREDIT RISKS AND CREDIT LOSSES

Out of the bank's total lending for vehicle finance, 78% (79) 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 2017, the breakdown of loan and lease contracts was as follows. The unencumbered portion of outstanding contracts at year-end was SEK 2.9 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 22% (21), of which 18% (16) 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 84.1 million (96.6) and consisted of loans and leases of SEK 74.8 million (84.9), of which SEK 69.3 million (76.3) referred to contracts under which the bank has a right of recourse against Volvo dealers, and credit card receivables of SEK 9.2 million (11.6), accounting for 0.6% (0.8) of total credit card lending.

The value of credit card receivables, SEK 1.7 billion (1.6), is stated after impairment for problem loans. The provision represents 1.0% (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 3 577 (3,334).

	Number of contracts	Average contract, SEKt	Collateral value, SEKm	Credit used, SEKm	Loan-to-value ratio, %	Market value, SEKm	Surplus value, SEKm	Surplus, %
Loans	127,013	115	14,606	14,174	97	19,799	5,625	40
Leases	119,956	173	20,719	18,271	88	18,815	544	3
Total	246,969	143	35,325	32,445	92	38,614	6,169	19

CAPITAL RAISING

The bank's principal objectives for raising capital, 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 2017 are shown in the table below.

Nominal amounts in SEKm	Limit	Drawn
Nordic commercial paper programme	8,000	850
European commercial paper programme	4,925	–
MTN programme	20,000	14,746
Short-term financing facilities with banks	2,700	–
Long-term financing facilities with banks	3,900	2,150
Retail deposits	–	16,014
Total	39,525	33,760

The volume of deposits in savings accounts continues to grow. During 2017, deposits increased by SEK 0.9 billion to SEK 14.9 billion (14.0) on 31 December. Total deposits, including balances on Volvo Card accounts and deposits from Volvo dealers, amounted to SEK 16.0 billion (15.4) and accounted for 47% (53) of the bank's financing.

Bonds with a value of SEK 5.5 billion have been issued during the year, of which SEK 700 million consisted of the bank's first green bond issued in May. The maturities of issued bonds ranged from just over two years up to five and a half years. Certificates of deposit are issued at regular intervals in the market; utilisation was SEK 0.9 billion at year-end. Driven by the growth in lending, the bank's outstanding market borrowings increased to SEK 15.6 billion (12.4) in nominal terms.

In addition to deposits and market borrowings, the bank funded its operations through bank credits, which totalled SEK 2.2 billion (1.4). The share of financing with the remaining maturities of more than one year from the market loan programme and banking sector amounted to 76% (75). In addition to drawings on the above bank credits, there are contracted cheque and credit facilities with banks of SEK 4.3 billion (3.0).

The maturity structure for the bank's total financing at 31 December 2017 is shown in the table below.

	SEKm	%
Within 1 year	4,213	24
1-3 years	7,052	40
4–5 years	5,774	32
Over 5 years	707	4
	17,746	100
No term:		
– Retail deposits	16,014	
- Equity (incl. tax portion of untaxed reserves)	4,742	
Total	38,502	

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

There have been no changes in the credit rating during the period. A detailed and up-to-date analysis from Moody's is available on the Bank's home page, under the heading "About Volvofinans Bank/ Investor Relations".

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, Volvofinans 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. Combined with the broadening of our financial services to our many customers, both private and corporate, this creates a significant potential for development.

CORPORATE GOVERNANCE REPORT

The bank's primary mission is to actively 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. Good corporate governance is about, on behalf of shareholders, ensuring that the company is managed sustainably, responsibly and as efficiently as possible. As of 2017, the bank has chosen to voluntarily adhere to the Swedish Code of Corporate Governance (the Code) and, based on the prevailing circumstances, decided to choose a different solution than is advocated in the Code for the following situations:

Area	Deviation	Reasons
Nomination committee	The nomination committee consists not only by independent parties but have others serving as well.. The Chairman of the nomination committee is a member of the Board. The bank does not provide information on the website about how shareholders can submit proposals to the nomination committee.	There are no minority shareholders, but there are two owners with 50% ownership each, both of whom want this solution.
Deputy members of the Board	The Articles of Association allow up to four deputies on the Board.	In view of the bank's focus, complexity and ownership, it has been concluded that it would be beneficial to increase the Board of Directors with two deputies to represent each owner.
General meeting of shareholders	The bank has not set a deadline on when a request to address an issue needs to be submitted. The keeper of the minutes and examiner of the minutes are, at presents, participants of the general meeting of shareholders.	There are no minority owners. However, there are two owners with a 50% holding each, both of whom have stated that they do not want to have such a deadline and that the keeper and examiner of the minutes should be elected via a majority vote at the general meeting, without restrictions.

Shareholders

Established in 1959, the bank is 50% owned by the Swedish Volvo dealerships through their holding company, AB Volverkinvest and is 50% owned by Volvo Personvagnar AB. The share capital amounts to SEK 400 million divided into 1,000,000 shares with a quotient value of SEK 400. The Board of Directors currently has no authorisation from the AGM to approve the issue of new shares or buy back shares of the company.

Nomination committee

The bank shall have a nomination committee comprising at least three members. Members shall consist of representatives of each of the largest shareholders who wish to appoint one. The members of the nomination committee shall be independent in relation to the company and its management. At least one of the members of the nomination committee shall be independent in relation to the largest shareholder or group of shareholders in the company who are involved in the company's management. The nomination committee's term of office extends until a new nomination committee is appointed by the general meeting of shareholders. If a member wishes to terminate his/her assignment during the term of office, the shareholder represented by that person may appoint a new member to the nomination committee, who is approved by the general meeting of shareholders. The Chairman of the nomination committee is appointed by members of the nomination committee. Board members may serve on the nomination committee.

The composition of nomination committee shall be based on shareholder statistics as of the last banking day in November, along with other shareholder information that the company has at that date.

If, during the nomination committee's term of office, one or more of the shareholders who appointed members of the nomination committee no longer are largest shareholders in terms of voting rights, members appointed by those shareholders shall make their seats available. The shareholder(s) who have become the largest shareholders shall then appoint their representatives. Unless there are special reasons, no changes shall be made to the composition of the nomination committee if only marginal changes in votes have taken place or if the change occurs later than three months prior to the AGM. Shareholders who are among the largest shareholders as a result of a more substantial change in the number of votes later than three months before the AGM shall, however, be entitled to appoint a representative who is co-opted to the nomination committee. Shareholders who have appointed a representative to the nomination committee shall be entitled to dismiss such a member and appoint a new representative to the nomination committee. Changes in the composition of the nomination committee shall be published as soon as they are made.

The nomination committee shall prepare proposals on the following items that are presented to the AGM for a decision:

a) proposal of a Chairman for the AGM,
b) proposal of Directors and Deputy Directors to serve on the Board,
c) proposal of Chairman and Deputy Chairman of the Board,
d) proposal on the fees and other remuneration for Board work done by each Director along with remuneration for committee work.
e) where applicable, proposals for remuneration to the auditor and election of the auditor,
f) forward information to the company so that it can fulfil its obligation to provide information,
g) to the extent deemed necessary, proposals for amendments to this instruction for the nomination committee.

The nomination committee is responsible for testing the appropriateness of the proposed Board members so that they meet all regulations, both internal and external. The nomination committee shall, when assessing the Board's evaluation and in its proposal of Board members, pay particular attention to the requirement for versatility and breadth of the Board and strive for gender balance. At the AGM, when the Board and auditor are elected, the nomination committee shall present and motivate its proposals with consideration given to the composition of the Board.

The nomination must meet all of the obligations required of a nomination committee. If necessary, the bank will cover reasonable costs of external consultants to assist the nomination committee in performing its duties.

Composition of the nomination committee was decided at the EGM on 22 December 2017, and it consists of Tommy Andersson representing AB Volverkinvest, Patrik Tolf representing Volvo Personvagnar AB and Urmas Kruusval who is an independent member.

Annual General Meeting

The general meeting of shareholders is the bank's highest decision-making body. The annual general meeting shall be held within six months of the end of the financial year and shall decide on adoption of the income statement and balance sheet, along with appropriation of the company's profit or loss. The AGM also decides on the composition of the Board of Directors, remuneration to the Board and auditors and the election of the external auditor.

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 issued 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 2017 AGM was held in Göteborg on Tuesday 27 June 2017. The 2018 AGM will be held on Tuesday 26 June 2018 at the bank's offices in Göteborg.

Auditor

The AGM appoints the bank's auditor as an independent auditor of the bank's financial statements and the administration of the Board of Directors and the CEO. KPMG AB was re-elected as the company's auditor at the 2017 AGM with authorized public accountant Mikael Ekberg as the head auditor. The auditors have participated in a Board meeting without the presence of the CEO or other senior executives.

Reporting to the owners takes place at the AGM when the auditors present their audit report.

Board of Directors

The Board has the overall responsibility to manage the bank's affairs in the interest of both the bank and its shareholders.
The Board's responsibilities also include:

- Discussing and making decisions on issues of significant importance and of an overall nature.
- Establishing and monitoring strategies and overall goal having considered the bank's long-term financial interests, the risks to which the bank is exposed or could be exposed to and the capital required to cover the bank's risks.
- Continuously evaluate the bank's operational management and, if necessary, set up or dismiss the CEO and approve important assignments that the CEO has outside the company.
- Keep informed of the bank's development in order to assess the company's financial situation and financial position.
- Promote sustainability aspects relevant to the business.
- Ensure that ethical guidelines are established for the conduct of the company and that the external information is characterised by transparency, objectivity and high relevance for the target audiences of such information.
- Annually review and approve policies and guidelines relating to the bank's liquidity risk management.

According to the Articles of Association, the Board of Directors shall consist of a minimum of five and a maximum of seven elected members with no more than four deputies. Deputies may state an opinion on all matters and have the right to vote when the ordinary Board member is not present. The Board members shall have sufficient insight and experience to participate in the management of the company and, on the whole, be suitable for the task. The current Board consists of seven ordinary members and four deputies.

If the Chairman terminates his or her assignment during the term of office, he or she shall be replaced by the Vice-Chairman. If that option is not available, the Board shall itself elect a Chairman for the period until the end of the next general meeting.

Diversity policy

The bank aims to ensure that the Board of Directors has a composition that is appropriate with regard to the company's operations, stage of development and other circumstances, and that is marked by diversity and breadth in terms of the AGM-elected Directors' skills, experience and background.

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.

Board work

The Chairman oversees work done by the Board and it is governed by the rules of procedure established in accordance with 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 has appointed four committees to deal with issues in their respective fields. The work carried out in the committees is reported regularly to the Board. The purpose of such work is to streamline and engage in more in-depth studies of specific areas. It is not intended as a substitute for the Board's overall responsibilities. For other work done by the Board, there has been no specific allocation of responsibilities within the Board, other than the specific tasks that have been allocated to the Chairman. Deputy Board members are expected to be present and participate in Board work.

Board work at Volvofinans Bank is carried out in accordance with a structure, where four ordinary meetings are held each year and which are preceded by meetings of the committees. Otherwise, the Board meets as necessary when summoned by the Chairman. A strategy meeting is held each year, at which time there is more in-depth discussion on initiatives to further develop the bank. The Board held six meetings in 2017. The work has included the establishment of a new Chief Risk Officer, the company's approach to meet new external regulations such as GDPR, establishment of the 2018 budget, ongoing monitoring of earnings and position as well as management of strategy and development issues. In addition, the Board met three times for risk training led by the company's Chief Risk Officer.

Evaluation of the Board

With the aim of developing the Board's work methods and efficiency, an evaluation of the Board's work is carried out annually. The members of the Board may respond to a questionnaire regarding, among other things, the composition of the Board, the contents and scope of the Board, presentations at meetings along with the content and quality of the Board meetings. Particular attention is given to the work done by the CEO and Chairman of the Board. The report is prepared for and presented to the Board. In the future, it will be dealt with bey the newly formed nomination committee. The conclusions of the 2017 evaluation are that the composition of the Board regarding expertise and experience is well balanced as regards the diversitypolicy as well as the current and future needs that exist in the business.

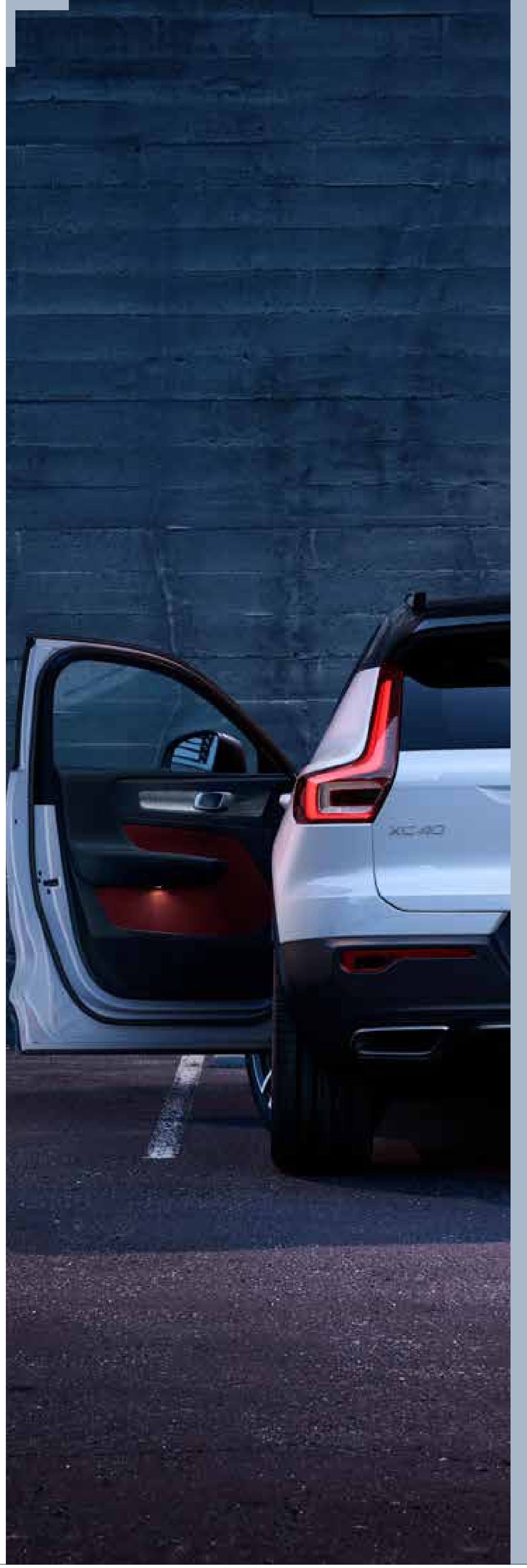
Board committees

The Board of Directors shall appoint at least two members to serve on the Board's credit, audit, remuneration and IT committees. Prior to an ordinary Board meeting and on a regular basis, as needed, the members of each committee must meet to discuss, decide and prepare current matters prior to a decision by the Board. The tasks of the various committees are:

- Credit Committee – takes credit decisions according to the Board's established credit policy. The Credit Committee is responsible for preparing matters and making recommendations to the Board of Directors for decisions regarding all essential elements of the rating system (IRB system).
- The Audit Committee – is a processing body that monitors financial reporting, internal control, internal audit and the risk management system. The Audit Committee shall keep itself informed of the audit, review and monitor the auditor's independence and impartiality and shall assist the nomination committee in preparing proposals for the election of the auditors. In addition, the Audit Committee shall recommend to the Board which other services it should request of its auditors.
- Remuneration Committee – responsible for preparing significant decisions on remuneration and deciding on measures to follow up the application of the bank's remuneration policy.
- IT Committee – is a processing body that will monitor IT security having considered security requirements in the IT area and is responsible for making recommendations to the Board on security issues.

Remuneration of the Board of Directors

The remuneration of the Board and committees is proposed by the nomination committee and is adopted by the general meeting of shareholders. Information on fees for 2017 is provided in Note 11.



Board





	Urmas Kruusval	Synnöve Trygg	Tommy Andersson	Anders Gustafsson	Per Avander
	Chairman	Deputy Chairman	Director	Director	Director
Born	1951	1959	1948	1968	1961
Elected	2007	2014	2008	2011	2012
Committee	Credit, audit, remuneration and IT committees	Audit and IT committee	Credit, audit and remuneration committees	–	–
Education	Studies at Göteborg School of Business, Economics and Law	MBA, Stockholm University	Business training	Executive Business Management US, EU & CN	High school economic studies
Other important assignments	Board member of Borås Bil LV AB, Borås Bil PV AB and Borås Bil Förvaltning AB.	Board member of Landshypotek Bank AB, Intrum Justitia AB, Synnöve Trygg Consulting AB, Nordax Bank AB, Valitor HF, Precise Biometrics AB and Wrapp AB.	Chairman of the Board at Svenska Volvohandlarföreningen, Nybergs Bil AB and Liljas Bil AB.	CEO Volvo Cars, Americas Region Board Member of Volvobil, Chairman of Hertz Rent a Car AB, Vice Chairman of Hertz Rent a Car Norway, BoardMember of First Rent a Car AB, Board Member First Rent a Car AB Finland, Chairman of First Rent a Car.	CEO, AB Bilia Chairman of the Board at Bilia Personbilar AB, Bilia Personvogner AS, Bilia Personbil AS, Bilia Group Göteborg AB, Bilia Group Stockholm AB, Bilia Center Syd AB, Autohaus Bilia Tyskland, Bilia Emond Holding in Luxemburg and Belgium, Bilia Center Bergslagen and Bilia Center Stockholm. Board Member at AB Volverkinvest and Volvohandlarföreningen Ek. För.
Other prior important positions held	CEO AB Volvofinans, 1990–1999.	Board Member of Trygg Hansa AB, MasterCard Europé and Diners Club International. CEO at SEB Bank AB, Eurocard AB and Diners Club Nordic AB.	CEO at Bilforum (now Din Bil) Göteborg VW and Audi, CEO Scania Sverige AB, CEO Bilia Personbilar Stockholm, CEO Bilia Personbilar AB Sverige and Chairman of Bilia Personbilar AB Norway and Danmark.	CEO Volvo Personbilar Sverige AB, CEO Hertz Sweden and COO Hertz Nordic.	Banker at Svenska Handelsbanken, Head of Sales at Scania-Bilar and Head of Sales and Marketing Bilforum, Göteborg and Värmlands Bil. CEO at Din Bil, Göteborg and Din Bil, Stockholm. Regional Director Bilia Personbilar Stockholm, Deputy CEO Bilia Personbilar AB, Sverige, CEO Bilia Personbilar AB Sweden.
Relationship to the company and its management	Independent	Independent	Independent	Independent	Independent
Relationship to the bank's owners	Independent	Independent	Not independent	Not independent	Not independent
Shareholding in the Bank	–	–	–	–	–
Participation at Board meetings	6/6	6/6	6/6	5/6	6/6
Participation at committee meetings	4/4	–	4/4	–	–
Participation at audit committee meetings	5/5	5/5	5/5	–	–
Participation at remuneration committee meetings	6/6	–	6/6	–	–
Participation at IT committee meetings	4/4	4/4	–	–	–






	Patrik Tolf	Ann Hellenius	Björn Rentzhog	Kristian Elvefors	Pascal Bellemans	Janola Gustafson
	Director	Director	Deputy	Deputy	Deputy	Deputy
Born	1970	1974	1969	1974	1959	1967
Elected	2014	2017	2016	2016	2016	2016
Committee	Credit, audit, remuneration and IT committees	IT committee	–	–	–	–
Education	MSc in Business and Economics, Linköping University.	MSc in Business and Economics, Linköping University, University of Bath	MSc in Business and Economics, Mid Sweden University	Reserve Officer and MSc in Business and Economics	Master's Degree in Cconomics (MSc)	Degree in Logistics, Jönköping University
Other important assignments	Deputy CFO & Head of Group Finance, Volvo Car Corporation. Board Member of The Seventh AP Fund, Chairman of VCG Investment Management AB, Volvo Car Financial Services US LLC, Volvo Car Försäkrings AB and Volvo Car Technology Fund AB.	CIO Bankgirot. Board member of Lantmäteriet. is part of the Swedish Government's digital transformation advisory council and collaboration programme for smart cities.	CEO and President, AB Persson Invest Chairman of the Board at Bilbolaget Nord AB, Eriksson Bil i Norr AB, Valbo Trä AB, Wist Last & Buss AB, Wist Last & Buss Syd AB, Wist Last & Buss AS, Wist Last & Buss i Sigtuna AB, Östersunds Lastbilsservice AB, NHP Sverige AB and atseveral property companies. Board member of AB Persson Invest, Persson Invest Skog AB, Gällö Timber AB, Sjöbodarna 1 i Östersund AB, Sjöbodarna 3 i Östersund AB, JP Vind AB.	VD Volvo Car Sverige AB. Chairman of the Board at Sunfleet Carsharing AB and Volvo Car Retail Solutions AB. Board member of First Rent a Car AB and Deputy Board Member of Volvo Bil AB.	Deputy CEO and Head of Volvo Car Financial Services (VCFS), Volvo Car Corporation. Board member of VCFS US llc., VCFS Germany GmbH and VCIS Germany GmbH.	CEO of Svenska Volvohandlarföreningen, Volvohandlarnas Service AB, Volvohandlarföreningen Ek. För., AB Volverkinvest and Volvohandlarnas Fordonsförening Ek. För. Chairman of the Board at Wayke AB, Board member of Tanka i Sverige AB och Deputy Board Member of Volvohandelns PV Försäljnings Aktiebolag.
Other prior important positions held	VP Head of Group Treasury & Risk Management Saab AB and other positions within the Saab Group.	CIO for City of Stockholm, Head of Development Department City of Stockholm, CIO Education Administration, CEO and founder of Solvitur AB, Manager at Ernst & Young Management Consulting, Strategy Consultant at Cambridge Strategic Management Group.	CEO and Controller at Wist Last & Buss AB, CFO at Samhall Midland AB and Auditor at Deloitte AB.	Sales Director at Volvo Car Sverige AB, CEO at Sunfleet Carsharing AB, Head of Business Development at First Rent a Car AB, Head of Sales at Volvo Car Sverige AB, Management Consultant at Cap Gemini Ernst & Young.	CEO Volvo Car France, Deputy CEO at Global Sales Operations in Göteborg, CEO at Volvo Auto Italia/Southern Region, CEO Premier Automotive Group Asia in Kuala Lumpur, CEO Volvo Car East-Asia in Kuala Lumpur, CFO Volvo AB in East Asia and Kuala Lumpur, CEO Volvo Car Thailand in Bangkok, CFO Volvo Cars Europe Marketing in Brussels, CFO Volvo Cars Belgium in Brussels.	Sales Director at Corporate Sales Renault SAS, CEO Renault Sweden, Head of Sales & Marketing Borgstena Textile.
Relationship to the company and its management	Independent	Independent	Independent	Independent	Independent	Independent
Relationship to the bank's owners	Not independent	Independent	Not independent	Not independent	Not independent	Not independent
Shareholding in the Bank	–	–	–	–	–	–
Participation at Board meetings	6/6	5/6	6/6	6/6	5/6	4/6
Participation at committee meetings	3/4	–	–	–	–	–
Participation at audit committee meetings	4/5	–	–	–	–	–
Participation at remuneration committee meetings	5/6	–	–	–	–	–
Participation at IT committee meetings	3/4	4/4	–	–	–	–

CEO and management

The CEO is responsible for the bank's ongoing management and shall perform this task in accordance with the applicable laws and regulations, the Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO and other important instructions issued by the Board. The Board shall, at least once a year, carry out a special evaluation of the work done by the CEO. No senior executives may participate in this evaluation.

The CEO is responsible for issuing notice of Board meetings. An agenda describing the nature and scope of each item is enclosed with the notice of the meeting. 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. In this way, the Board members are forewarned of the items to be covered and their scope. It also gives them the opportunity to prepare and set aside time for reading the background information. At each meeting minutes are taken, which contain a brief description of discussions, measures and resolutions. In addition, the CEO shall provide the Board with current and relevant information about the bank's operations and development so that the Board can make informed decisions.

The bank's management team consists of a small group, including the CEO, CIO and CFO and a larger group of executives where an additional 11 individuals participate. The groups meet regularly to discuss strategy issues having to do with marketing, accounting/finance, business development and resource allocation. The management team is responsible for overall planning of the bank's operations.

Information on the bank's remuneration policy is provided in the section Remuneration.

	Conny Bergström
	CEO of Volvofinans Bank AB since 2013
Born	1959
Education	MSc in Business and Economics, Göteborg School of Business, Economics and Law
Other important assignments	Board member of Tanka i Sverige AB
Other prior important positions held	Regional Director at Bilia Personbilar AB, Bilia Region West and Bilia Region East. Previously CEO of Volvofinans Konto AB.
Shareholding in the Bank	–

Internal control over financial reporting

In managing its customers', suppliers' and business partners' money, the bank has specific responsibilities. 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 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 CEO.
- 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.

To ensure that the bank has effective risk management and good internal governance and controls, the bank is working on a model with three lines of defence. The first line of defence is comprised of activities within each area which, in addition to being responsible for its operations, is responsible for carrying out risk workshops, reporting and managing risks and violations of regulations, and writing and implementing policies, instructions and guidelines adapted to the bank's operations. The first line of defence is also responsible for developing and following up control measures designed to ensure that operations are managed in accordance with current guidelines.

The second line of defence consists of the Risk Control and Compliance functions. 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 practices and standards. The second line of defence also carries out supporting tasks such as training, workshops and information. It also provides advice to other departments.

The third line of defence is Internal audit, which carries out an annual independent review and supervision of the work of both the first and second lines of defence. Internal audit shall conduct its efforts in accordance with the Swedish Financial Supervisory Authority's regulations and requirements. 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. Internal audit shall, when errors and shortcomings have been identified, propose improvements and evaluate the efficiency and security of the business processes along with helping the organisation meet its goals. The function reports directly to the Board of Directors. In 2017, the internal audit has been carried out by PWC and the review has included deposit systems and the credit process.

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 processes 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 designed such that the individual performing an activity is prohibited from verifying that 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 operations. Results of evaluation activities are reported to management and the Board.

SUSTAINABILITY REPORTING

The bank strives to establish sustainability as a natural part of its business activities. The goal is to develop products with a focus on sustainability. Sustainability now forms an integral part of all new products since it is a requirement of the bank's approval process.

Policy

The bank's sustainability policy provides guidance for all of our sustainability efforts. The policy is divided into three areas: economy, ecology and social sustainability. It is supplemented with the company's other policies that address anti-money laundering, credit, bribery and anti-corruption, as well as diversity.

Guidelines

The Bank's sustainability policy is based on the UN Global Compact. The bank has conducted a GAP analysis against ISO 26000 in order to identify strengths and weaknesses. The bank has also implemented a stakeholder analysis. These have provided the basis for establishing priorities for sustainability efforts.

Risks

In each section below, the most significant risks that the bank has identified are described. The risks are of a strategic or operational nature. The risks have also been measured and included in capital adequacy, which is required of a bank.

Environment

During the year, collaboration with E.ON was expanded such that all Volvo card customers are now offered the choice of Biogas 100 when they purchase fuel at E.ON stations. When a customer chooses Biogas 100, an equal amount of renewable biogas is produced.

The Bank contributes with the financing of electric and hybrid cars manufactured by Volvo Cars and Renault, as well as electric and hybrid buses manufactured by AB Volvo.

In May 2017, the bank issued a green bond in the amount of SEK 700 million with a 5-year maturity. Proceeds from the issue are linked to the bank's portfolio of green cars that can be run wholly/partly on fossil-free fuel. The bank thus became the second issuer in Europe of green bond linked to cars (according to GlobalCapital). This type of bond is something that is increasingly being demanded in the capital market, especially by investors who prioritise green investments.

The bank's sustainability goals include lowering the direct environmental impact of both electricity and paper consumption. Compared to 2016, electricity consumption in 2017 decreased by approximately 5,600 kWh and paper invoices decreased by 3 percentage points.

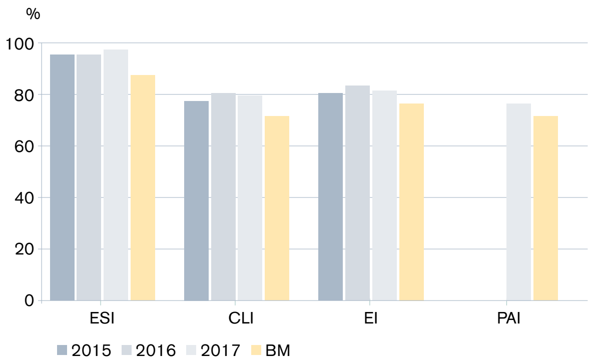
Consumption category	2017	2016	Change
Electricity consumption (kWh)	313,504	319,115	- 5,611
Paper invoices to customers, %	66	69	- 3

Significant risks related to the environment:

- Risk that the bank's revenue from fuel sales will decrease with the transition to fossil-free fuels.
- Risk of reduced lending volumes due to new regulations in the automotive sector aimed at lowering environmental impact.

Personnel and social conditions

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 fitness activities, massage and a personal trainer that is available to all employees. The bank conducts an annual employee survey where employees rate such things as the bank's work environment, how attractive the bank is as an employer and more. The table below presents the results of these employee surveys.



ESI = Work Environment Index
CLI = Communicative Leadership Index
EI = Engagement Index
PAI = Psychosocial Work Environment Index

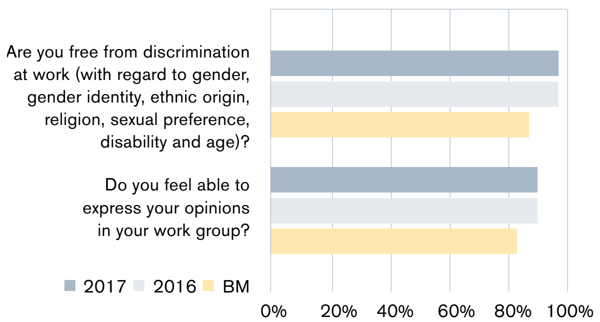
BM = Benchmark, which is based on the results of just over 500,000 responses from over 200 organisations (Nordic and International)

Significant risks linked to human and social conditions:

- Risk of the bank becoming dependent on key employees
- Risk of wrong recruitment

Significant risks linked to respect for human rights:

The bank has not identified any significant risks in this area. The bank only operates in Sweden, where it complies with laws and its own diversity policy.



Anti-corruption

The bank has a well-functioning whistleblower function and conducts continuous training in issues relating to security, ethics and money laundering. During 2017, no whistleblower incidents were reported.

Significant risks related to anti-corruption:

- Risk that the bank does not comply with the banking rules and regulations governing the bank's operations
- Risk that we do not fully comply with the money laundering regulations
- Risk of internal irregularities

PERSONNEL

At year-end 2017, the bank had 208 (202) employees, of whom 170 (168) were based in Göteborg and others in our Stockholm premises. The average number of employees was 196 (189). Overall, women outnumber men in the workforce. There are 14 senior executives, of which 4 are women.

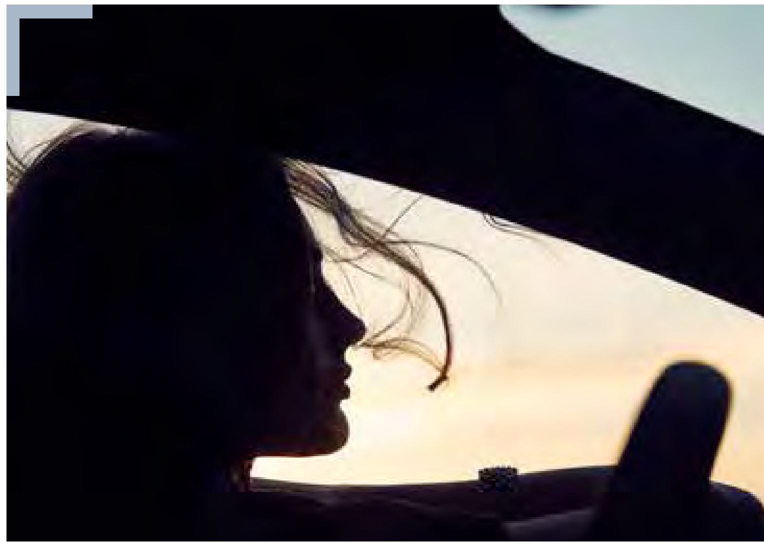
The right skills are an important competitive factor. Employee development and training are strategically important and an important investment for the bank. Appraisal and performance discussions are important components of development efforts. The bank has an internal development programme that is aimed at helping talented employees to develop their skills. Leadership remains a priority area and many trainings have been held during the year.

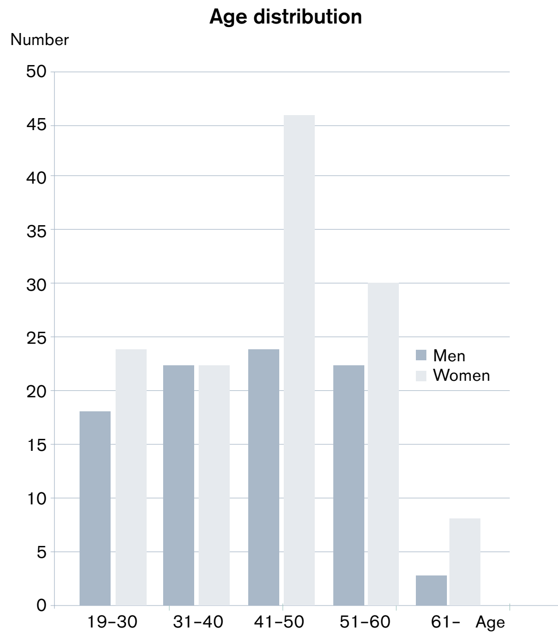
A good work environment is of great importance for the bank's profitability, as it stimulates strong performances and personal development. The bank is therefore keen to ensure that it continues to provide a good physical and psychosocial work environment. A good balance between work and free time is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

A strong company culture is a success factor. During the year the bank has worked 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 is high and the results of the year remain at a high level and above the benchmark. The bank was finalist for the 2017 Netsurvey Award in the category "biggest changes".

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





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 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 into account such 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 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 particularly 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 and car trading functions. Variable remuneration is capped at 20% of 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 that could have a material impact 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 expensed during the financial year by employee category are presented in the table below.

Employee category*	Fixed remuneration, SEKm	Variable remuneration, SEKm	No. of people receiving fixed remuneration	No. of people receiving variable remuneration
Executive management	16.8	–	14	–
Other employees, incl. other employees who can influence the bank's risk level**	82.9	1.0	182	19
Total	**99.7**	**1.0**	**196**	**19**

* The "Executive management" category consists of the CEO and other members of the management team who report directly to the Board or CEO. 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 Chief Risk Officer is included as a co-opted member of the executive management team.

** 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.

Remuneration of SEK 100.7 million was expensed during 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 and 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 676 million.

	Amounts in SEKt 2017
Opening balance of retained earnings	676,424
Profit for the year	–
At the disposal of the AGM	**676,424**
The Board of Directors proposes that the above amount be appropriated as follows:	
Dividend of SEK 79.48 per share to the shareholders	79,484
Carried forward	**596,940**

The Board of Directors has decided that the size of the proposed dividend, a total of SEK 79,484 million (73,899), is justifiable considering the nature, scope, consolidation requirements, risks, liquidity, and general financial position of the business.

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 3,781 million (3,497) and a minimum capital requirement of SEK 1,466 million (1,316). A specification of the items is presented in the section Risk and capital management.

The introduction of IFRS 9 will only a have marginal impact on the bank's capital adequacy. The IRB deficit is impacted by a corresponding amount as the bank's higher credit risk provision, in accordance with the section on changes in accounting policies. The bank has decided that it will not opt for Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9. The reason for this is that the impact on the bank's capital adequacy is marginal.

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

Amounts in SEKm

Condensed balance sheet	2017	2016	2015	2014	2013
Chargeable treasury bills, etc.	1,433	1,041	1,081	1,171	1,292
Loans and advances to credit institutions	1,300	786	1,999	1,785	2,585
Loans and advances to customers	16,484	15,205	13,690	12,651	12,479
Bonds and other debt securities	1,883	1,724	836	837	1,272
Shares and interests in associates and other companies	27	26	24	21	19
Intangible assets	18	11	7	6	9
Property, plant and equipment	18,634	15,978	13,693	12,196	11,488
Other assets	870	703	671	632	719
Total assets	**40,649**	**35,474**	**32,001**	**29,299**	**29,863**
Borrowings	33,772	29,158	26,185	23,602	24,130
Other liabilities	2,135	1,907	1,738	1,724	1,591
Untaxed reserves	3,630	3,223	2,844	2,482	3,443
Equity	1,112	1,186	1,234	1,491	699
Total liabilities and equity	**40,649**	**35,474**	**32,001**	**29,299**	**29,863**

Condensed income statement					
Interest income	438	395	402	516	594
Lease income	4,636	4,019	3,619	3,517	3,477
Interest expense	- 196	-182	- 252	- 470	- 646
Commission income	403	353	359	345	333
Commission expense	- 34	- 25	- 22	- 24	- 21
Net income/expense from financial transactions	- 13	- 1	- 6	- 4	- 15
Other operating income	9	4	4	3	2
Total income	**5,244**	**4,563**	**4,104**	**3,883**	**3,724**
General administrative expenses	- 335	- 312	- 280	- 265	- 268
Other operating expenses*	- 4,483	- 3,859	- 3,449	- 3,275	- 3,152
Net credit losses	- 18	- 13	- 12	- 12	- 28
Total expenses	**- 4,836**	**- 4,184**	**- 3,741**	**- 3,552**	**- 3,448**
Profit before tax	**408**	**379**	**363**	**331**	**276**
Profit for the year	**-**	**-**	**-**	**1,007**	**215**

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

Key performance indicators	2017	2016	2015	2014	2013
Return on equity, %	8.77	8.68	8.93	8.14	6.80
Risk capital/total assets, %	11.47	12.22	12.60	12.68	13.15
Deposits/lending, %	45.60	49.43	52.33	55.44	59.52
Earnings/risk-weighted assets, %	2.22	2.30	2.42	2.40	1.73
Return on total assets, %	0.84	0.88	0.92	3.40	0.73
Total capital ratio, %	20.63	21.26	21.79	21.93	19.70
Core tier 1 capital ratio, %	20.63	21.26	21.79	21.93	19.70
Net interest income/ø lending, %	1.50	1.44	1.38	1.33	1.12
Credit losses/lending, %	0.05	0.04	0.04	0.04	0.11
Operating expenses/lending, %	1.32	1.24	1.23	1.26	1.10
Cost/income ratio, %	0.54	0.51	0.50	0.51	0.54
Cost/income ratio excl. credit losses, %	0.52	0.49	0.48	0.49	0.49
Cost/income ratio excl. net interest income and credit losses, %	1.24	1.15	1.03	1.04	0.97
Average number of employees	196	189	184	183	182

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

INCOME STATEMENT

1 January–31 December

		Amounts in SEKt
Operating income	**2017**	**2016**
Interest income, Note 5	438,440	394,899
Lease income, Note 6	4,635,582	4,018,985
Interest expense, Note 5	- 196,228	- 182,166
Net interest income	**4,877,794**	**4,231,718**
Commission income, Note 7	403,395	353,193
Commission expense, Note 8	- 33,704	- 24,645
Net income/expense from financial transactions, Note 9	- 13,053	- 1,325
Other operating income, Note 10	9,290	3,958
Total operating income	**5,243,722**	**4,562,899**
Operating expenses		
General administrative expenses, Note 11	- 334,544	- 311,738
Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets, Note 12	- 4,436,389	- 3,816,622
Other operating expenses, Note 13	- 47,190	- 42,121
Total operating expenses	**- 4,818,123**	**- 4,170,481**
Profit before credit losses	**425,599**	**392,418**
Net credit losses, Note 14	- 17,991	- 13,450
Operating profit	**407,608**	**378,968**
Appropriations, Note 15	- 406,989	- 378,497
Tax on profit for the year, Note 16	- 619	- 471
Profit for the year*	**–**	**–**

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

BALANCE SHEET

		Amounts in SEKt
Assets	**31 Dec 2017**	**31 Dec 2016**
Chargeable treasury bills, etc., Note 17	1,432,848	1,040,542
Loans and advances to credit institutions, Note 18	1,300,672	786,666
Loans and advances to customers, Note 19	16,483,785	15 205 317
Bonds and other debt securities, Note 20	1,882,661	1,723,526
Shares and interests in associates and other companies, Note 21	20,417	19,009
Shares and interests in Group companies, Note 22	6,742	6,742
Intangible assets, Note 23	18,158	11,123
Property, plant and equipment, inventory, Note 24	2,300	1,632
Property, plant and equipment, lease assets, Note 24	18,631,323	15,976,197
Other assets, Notes 25, 26	827,398	670,588
Prepaid expenses and accrued income, Note 27	43,157	32,811
Total assets	**40,649,461**	**35,474,153**
Liabilities and equity		
Liabilities to credit institutions, Note 28	2,150,000	1,350,000
Retail deposits and borrowings, Note 29	16,013,905	15,412,413
Securities issued, Note 28	15,607,882	12,395,088
Other liabilities, Notes 26, 30	906,739	787,421
Accrued expenses and deferred income, Note 31	1,228,711	1,120,097
Total liabilities	**35,907,237**	**31,065,019**
Untaxed reserves, Note 32	3,629,711	3,222,722
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	16,089	5,973
Non-restricted equity:		
Retained earnings	676,424	760,439
Profit for the year	–	–
Total equity	**1,112,513**	**1,186,412**
Total liabilities and equity	**40,649,461**	**35,474,153**

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 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**
Opening equity					
1 January 2017	400,000	20,000	5,973	760,439	1,186,412
Profit for the year	–	–	–	–	–
Transfer self-generated development costs	–	–	10,116	- 10,116	–
Total change before transactions with shareholders	**400,000**	**20,000**	**16,089**	**750,323**	**1,186,412**
Dividend	–	–	–	- 73,899	- 73,899
Closing equity, 31 December 2017	**400,000**	**20,000**	**16,089**	**676,424**	**1,112,513**

CASH FLOW STATEMENT

Operating activities	**2017**	**Amounts in SEKt 2016**
Operating profit	407,608	378,968
Adjustment for non-cash items		
Unrealised portion of net income/expense from financial transactions	- 2,740	1,062
Depreciation, amortisation and impairment	4,438,140	3,816,622
Credit losses	17,264	15,975
Paid/refunded (-/+) taxes	13,171	47,722
Changes in operating assets and liabilities		
Chargeable treasury bills	- 392,306	39,973
Loans and advances to customers	- 1,296,828	- 1,530,012
Bonds and other debt securities	- 159,135	- 888,026
Other assets	- 179,848	- 81,298
Liabilities to credit institutions	800,000	350,000
Retail borrowings	601,492	1,083,351
Securities issued	3,212,794	1,538,598
Other liabilities	230,671	168,888
Cash flow from operating activities	**7,690,283**	**4,941,822**
Investing activities		
Capitalised development expenditure	- 11,664	- 6,248
Investments in shares and interests	- 1,408	- 2,212
Acquisition of property, plant and equipment	- 10,173,269	- 9,576,364
Sale of property, plant and equipment	3,083,963	3,478,188
Cash flow from investing activities	**- 7,102,378**	**- 6,106,636**
Financing activities		
Dividend paid	- 73,899	- 47,500
Cash flow from financing activities	**- 73,899**	**- 47,500**
Cash flow for the year		
Cash and cash equivalents at beginning of year	786,666	1,998,980
Cash flow from operating activities	7,690,283	4,941,822
Cash flow from investing activities	- 7,102,378	- 6,106,636
Cash flow from financing activities	- 73,899	- 47,500
Cash and cash equivalents at end of year, see Note 41	**1,300,672**	**786,666**

 VOLVOFINANS BANK // ANNUAL REPORT 2017

Notes

Notes to the income statement and balance sheet.

Unless otherwise specified, amounts are stated in SEKt.

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 and 50% owned by Volvo Personvagnar AB. The bank conducts sales finance and credit card operations and has its registered office in Göteborg. The address is Bohusgatan 15, PO Box 198, 401 23, SE-401 23 Göteborg, Sweden.

As permitted under Ch. 7 § 6a of the Swedish Annual Accounts for Credit Institutions and Investment Firms Act (1995:1559), the bank does not prepare consolidated financial statements, 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 FSA 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 State, the National Bank and local authorities as well as for the exposure classes sovereign and institutional exposures and portfolios which are insignificant in size.

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 CEO. The risk control function is tasked with analysing changes in the bank's 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 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 risks 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 emphasize preventive measures that are designed to prevent or limit risks and any damage. In the products and services offered by the bank, the associated risks 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 consider the potential consequences from a risk and capital perspective.

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 14.0%.

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.

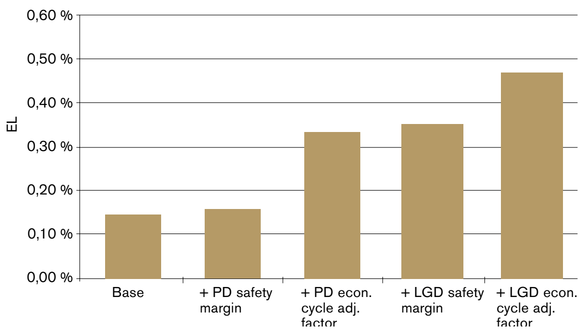
Statistical scoring models have been used for retail exposures (private individuals and small and medium-sized limited companies) since January 2007 and for corporate exposures (companies with sales of over SEK 400 million or exposures with the bank of more than SEK 5 million) an expert-based model was 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 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	10,490,206	16,311,050	2,266,053	13.89
2	6,847,291	8,937,234	2,128,880	23.82
3–4	4,290,998	4,749,098	1,665,349	35.07
5–6	1,053,660	1,105,637	551,110	49.85
7	172,394	175,690	88,952	50.63
In default	75,686	81,460	75,773	93.02
Total	**22,930,235**	**31,360,168**	**6,776,119**	**21.61**

Excluding the effect of credit risk protection, the total for all retail exposure amounts is SEK 32.8 billion compared with SEK 31.4 billion as in the above 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	4,521,976	4,559,851	2,027,645	44.47
2	1,885,974	1,914,154	1,734,185	90.60
3 – 4	1,502,541	1,502,541	1,797,525	119.63
5 – 6	280,453	280,453	505,995	180.42
7	1,288	1,288	2,170	168.42
In default	2,057	2,057	–	0.00
Total	**8,194,289**	**8,260,343**	**6,067,521**	**73.45**

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 8.7 billion, compared with SEK 8.3 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.

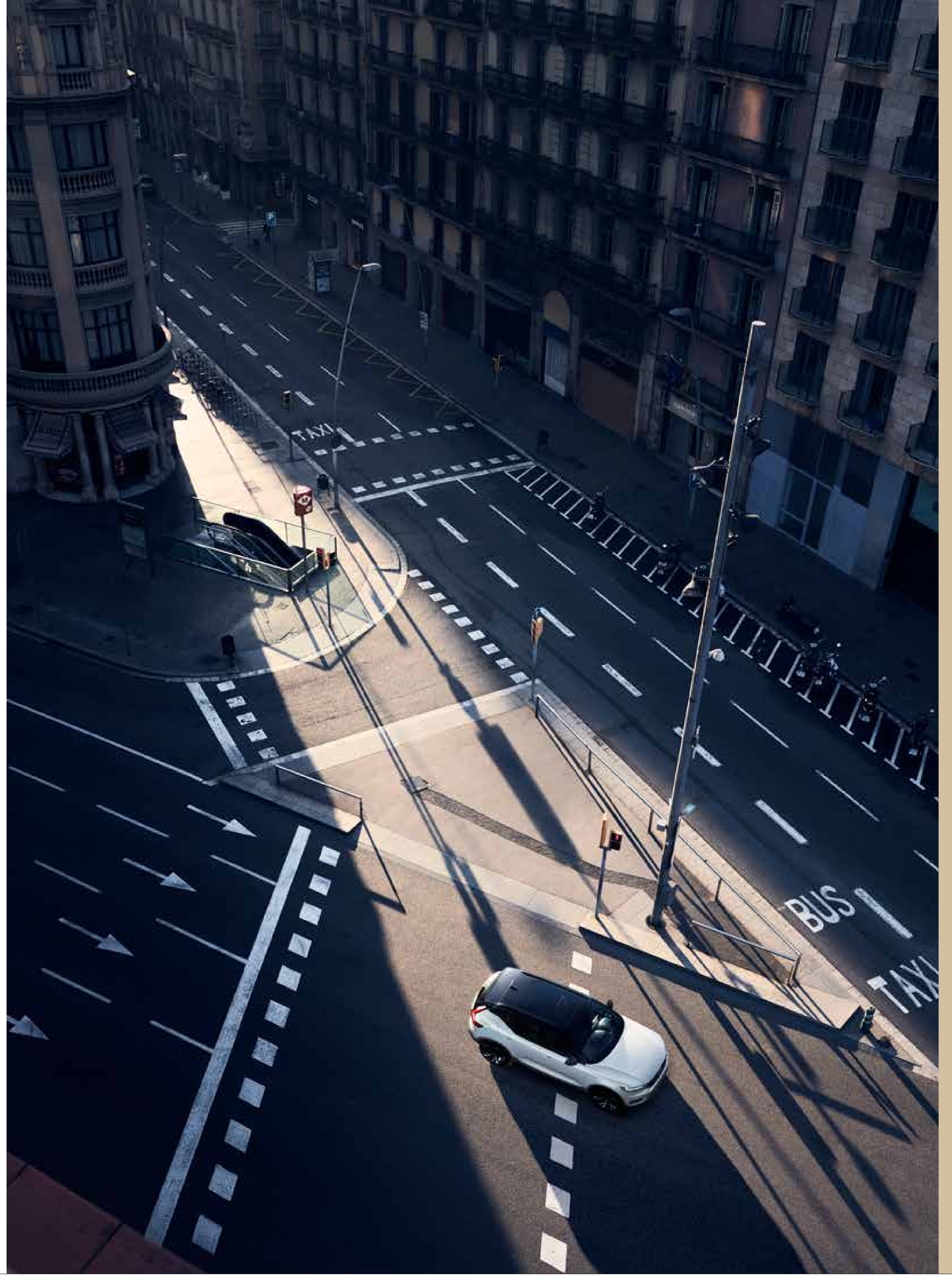
The table below shows predictions and outcomes (EL and LGD are exposure-weighted averages while PD is quantity-weighted). The significant difference between predictions and outcomes is due to the conservative assumptions used by the bank in developing the model.

Predictions and outcomes for IRB exposures	EL	PD	PD	LGD	LGD
Exposure class	Prediction	Prediction	Outcome	Prediction	Outcome
Retail, other, %	0.47	1.12	0.44	30	14
Corporate, %	0.75	1.45	0.82	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

The package of proposed reforms for the global regulatory framework of our industry, which is frequently referred to as Basel IV, has been decided. There will be a long implementation phase and it will enter into force on 1 January 2021.

Basel IV includes:

- Credit risk (new standardised approach, revised IRB requirements, capital floor, interest rate risk in the banking book)
- Market risk (new rules for capital requirement)
- Operational risk (new method for capital requirement)
- Other (counterparty risk, CVA risk, etc.)

The new proposals for changed rules for IRB are aimed, among other things, at reducing complexity, improving comparability and managing differences in capital requirements (between institutions and between countries). The Basel Committee has, among other things, decided to remove the IRB approach for bank exposures, large companies and equity exposures. It also wants to limit the use of IRB for exposures and certain counterparty risk and introduce flooring for PD, LGD and EAD.

The bank anticipates a higher capital requirement due to the new rules on capital floors. The new floor was set at 72.5% and implementation will begin in 2022, when the floor will be set at 50%, then gradually increased to the new level in 2027. For the largest exposures, the bank will no longer be able to use internal models. The changes in default management will increase default frequency and the degree of difficulty. It will require a more active credit process in terms of monitoring and preventive measures. At present, it is difficult to assess the exact situation we face after 2021. However, we will start analysing this in 2018. The bank will review its internal models and risk estimates. Preliminary calculations indicate that the bank's new capital requirements will be approximately 16%. The Board is informed that strategic capital decisions should be taken with caution before the impact of the new rules and regulations are fully clarified and understood.

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	2017	2016
Exposures to central governments and central banks	102,805	125,778
Exposures to local authorities and comparable associations as well as agencies	1,549,924	1,160,329
Exposures to administrative bodies, non-commercial undertakings and religious associations	6,179	5,294
Institutional exposures*	1,340,036	822,169
Corporate exposures	212,946	748,814
Retail exposures	509,068	479,814
Unsettled items	1,720	15,963
Covered bonds	1,207,411	1,123,419
Equity exposures	27,159	25,751
Other items	16,450	12,010
Total, standardised approach	**4,973,698**	**4,519,341**
Credit risk using the IRB approach		
Corporate exposures	8,734,541	7,187,322
Retail exposures	32,843,374	30,816,966
Non-credit obligation asset exposures	3,093,710	2,310,597
Total, IRB approach	**44,671,625**	**40,314,885**
Total credit risk	**49,645,323**	**44,834,226**

* Of which, add-on of SEK 11.8 million (6.3).

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 49,645 million (44,834) 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 25,794 million (23,106). The bank also has collateral for loans and receivables in the form of guarantees of SEK 129 million (129), floating charges of SEK 271 million (266), property mortgages of SEK 2 million (2) and pledged loans and leases of SEK 2,086 million (1,993). The bank's total credit risk exposure, including the effect of credit risk protection, is thus SEK 21,363 million (19,338).

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.

	2017	2016
Total assets as stated in the balance sheet	40,649,461	35,474,153
Additional items		
Total impairment	157,759	92,597
Undrawn limits, accounts receivable	10,162,214	10,137,964
Undrawn limits, lending to Volvo dealers	330,804	424,153
Margin for counterparty risk in derivatives	11,767	6,284
Outgoing items		
Non-credit obligation asset exposures*	- 1,648,524	- 1,289,802
Intangible assets	- 18,158	- 11,123
Total	**49,645,323**	**44,834,226**

* 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	2017	2016
Exposures to central governments and central banks	99,817	105,673
Exposures to local authorities and comparable associations as well as agencies	1,306,041	1,026,371
Exposures to administrative bodies, non-commercial undertakings and religious associations	5,310	5,246
Institutional exposures	1,428,458	1,248,932
Corporate exposures	476,124	873,258
Retail exposures	487,712	464,936
Unsettled items	13,066	10,599
Covered bonds	1,161,802	895,362
Equity exposures	26,103	24,092
Other items	40,632	27,339
Total, standardised approach	**5,045,065**	**4,681,808**
Credit risk using the IRB approach		
Corporate exposures	7,925,876	6,522,712
Retail exposures*	32,217,286	29,754,827
Non-credit obligation asset exposures	2,766,668	2,660,265
Total, IRB approach	**42,909,830**	**38,937,804**
Total	**47,954,895**	**43,619,612**

* "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

2017	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	471	102,334	102,805
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,549,924	1,549,924
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	6,179	6,179
Institutional exposures	–	–	–	1,340,036	1,340,036
Corporate exposures, standardised and IRB	2,304,676	1,900,464	1,403,867	3,338,480	8,947,487
Corporate exposures, standardised and IRB	1,301,464	1,980,746	1,325,809	28,744,423	33,352,442
Unsettled items	315	492	753	160	1,720
Covered bonds	–	–	–	1,207,411	1,207,411
Equity exposures	–	–	–	27,159	27,159
Other items	–	–	–	16,450	16,450
Non-credit obligation asset exposures, IRB	–	–	–	3,093,710	3,093,710
Total	**3,606,455**	**3,881,702**	**2,730,900**	**39,426,266**	**49,645,323**

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
Corporate 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**

Exposures, remaining term to maturity by exposure class

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

2017	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	79,915	5,570	17,320	–	102,805	–
Exposures to local authorities and comparable associations as well as agencies	21,529	268,330	1,259,938	127	1,549,924	–
Exposures to administrative bodies, non-commercial undertakings and religious associations	443	1,573	4,163	–	6,179	–
Institutional exposures	1,307,217	8,883	23,936	–	1,340,036	–
Corporate exposures, standardised and IRB	2,102,353	2,359,198	4,448,069	37,867	8,947,487	–
Corporate exposures, standardised and IRB	13,401,250	5,340,220	14,456,132	154,840	33,352,442	–
Unsettled items	1,720	–	–	–	1,720	–
Covered bonds	107,411	327,000	773,000	–	1,207,411	–
Equity exposures	–	–	–	–	–	27,159
Other items	–	–	–	–	–	16,450
Non-credit obligation asset exposures, IRB	238,628	1,008,679	1,829,162	2,503	3,078,972	14,738
Total	**17,260,466**	**9,319,453**	**22,811,720**	**195,337**	**49,586,976**	**58,347**

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	–
Corporate 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**

Impairment

Problem loans (receivables which are more than 90 days past due) were KSEK 84,068 (96,552). 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 Jan 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 Dec 2016	**- 84,354**	**- 8,242**	**- 92,596**
Of which, impairment of interest receivables	–	–	1,064
Opening balance, 1 Jan 2017	- 84,354	- 8,242	- 92,596
OB includes provisions for receivables which were recognised as actual credit losses in 2016	17,527	–	17,527
Reversal of credit losses on principal receivables for the year	22,619	4,161	26,780
Impairment for credit losses on principal receivables for the year	- 85,878	- 6,265	- 92,143
Reversal of credit losses on interest receivables for the year	259	–	259
Impairment for credit losses on interest receivables for the year	- 59	–	-59
Write-off of actual credit losses for the year	- 19,241	–	-19,241
Recovery of actual credit losses from previous years	1,714	–	1,714
Closing balance, 31 Dec 2017	**- 147,413**	**- 10,346**	**- 157,759**
Of which, impairment of interest receivables	–	–	864

Impairment by asset item

Impairment	**2017**	**2016**
Loans and advances to customers, specific impairment	5,391	8,632
Loans and advances to customers, collective impairment	13,795	11,386
Loans and advances to customers, total	**19,186**	**20,018**
Property, plant and equipment, total impairment	137,030	72,131
Property, plant and equipment, total	**137,030**	**72,131**
Other assets, individual impairment	1,543	447
Other assets, total	**1,543**	**447**
Total impairment	**157,759**	**92,596**
Effect on earnings		
Property, plant and equipment, reversal	15,767	19,366
Property, plant and equipment, impairment	- 80,666	- 43,430
Impairment of property, plant and equipment, Note 12	**- 64,899**	**- 24,064**
Changes in impairment of principal receivables in accordance with the above	- 11,477	- 9,613
Change in reversal of principal receivables in accordance with the above	11,013	10,959
Net actual credit losses for the year	- 19,241	- 16,049
Recovery of actual credit losses from previous years	1,714	1,253
Net credit losses, in accordance with Note 14	**- 17,991**	**- 13,450**

Individually impaired exposures* by key sector

2017	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Private individuals	28,414	- 5,541	22,873	18,030
Sale and service of motor vehicles	5,465	- 98	5,367	4,888
Transport	18,686	- 507	18,179	17,466
Legal, financial, scientific and technological activities	6,052	- 85	5,967	5,825
Other sectors	25 451	- 573	24,878	23,045
Total	**84,068**	**-6,804**	**77,264**	**69,254**

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	33,872	- 740	33,132	29,757
Total	**96,521**	**- 8,270**	**88,251**	**76,326**

* 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

2017	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Retail*	79,688	- 6,804	72,884	64,995
Corporate	4,380	–	4,380	4,259
Total	**84,068**	**- 6,804**	**77,264**	**69,254**

2016	Receivable before impairment	Individual impairment	Carrying amount	Fair value of collateral
Retail*	69,519	- 7,967	61,552	51,945
Corporate	27,002	- 303	26,699	24,381
Total	**96,521**	**- 8,270**	**88,251**	**76,326**

* 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

2017	Carrying amount excl. collective provision	Fair value of collateral
Private individuals	84,334	71,072
Sale and service of motor vehicles	14,580	10,079
Transport	83,633	75,952
Legal, financial, scientific and technological activities	82,365	9,147
Other sectors	162,896	103,015
Total	**427,808**	**269,265**

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**

Past-due exposures not individually evaluated for impairment by segment

2017	Carrying amount excl. collective provision	Fair value of collateral
Retail*	181,327	163,647
Central, regional and local government	1,786	1,759
Religious associations	9	0
Corporate	244,686	103,859
Total	**427,808**	**269,265**

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**

* 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 2017	31 Dec 2016
61-89 days past due	53,962	21,162
31-60 days past due	201,775	222,522
1-30 days past due	172,071	107,812
Total	**427,808**	**351,496**

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 2017 the total amount of principal under renegotiated contracts was SEK 7.3 million (6.9).

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% (88) of retail receivables, the risk is very low and the corresponding figure for corporate receivables is 93% (93). For more information on risk category and risk category estimates, see the Credit risk section.

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 major Swedish banks, which at the balance sheet date had ratings of Aa2–A1 on Moody's scale.

COUNTERPARTY RISK

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. The bank enters into derivatives solely for the purpose of eliminating interest rate risk and foreign exchange risk in interest-bearing loans and borrowings. Derivative contracts currently consist only of interest rate swaps.

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 counterparty 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. Financial derivative contracts have been entered into with all of the bank's counterparties through the international swap, ISDA agreement. To limit counterparty risk, Close Out Netting is applied to all ISDA agreements with all derivative counterparties. Close Out Netting means that the positive and negative values of all derivatives with the same counterparty are netted in the event of default. New margin requirements for non-cleared OTC derivatives entered into force on 1 March 2017 for financial counterparties. The new regulation, which applies only to contracts already in place after the entry into force, requires derivative counterparties to calculate and exchange Variation Margin on a daily basis. The requirement to exchange variation margin results in lower counterparty risk and capital requirements.

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. 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 instrument 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 14,030 (18,440). The margin was calculated at SEK 11,767 (6,284). The nominal amount of the bank's outstanding derivatives at year-end was SEK 1,956 million (1,266).

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. See also Note 35.

Amounts in SEKm		2017		2016	
Rating (short-term)	Rating (long-term)	Compensation	Additional amount	Compensation	Additional amount
P-1	Aa1	–	–	–	–
P-1	Aa2	–	0.1	–	–
P-1	Aa3	0.0	3.9	0.0	2.0
P-1	A1	14.0	7.8	18.4	4.3
P-1	A2	–	–	–	–
P-2	A3	–	–	–	–
Total		14.0	11.8	18.4	6.3

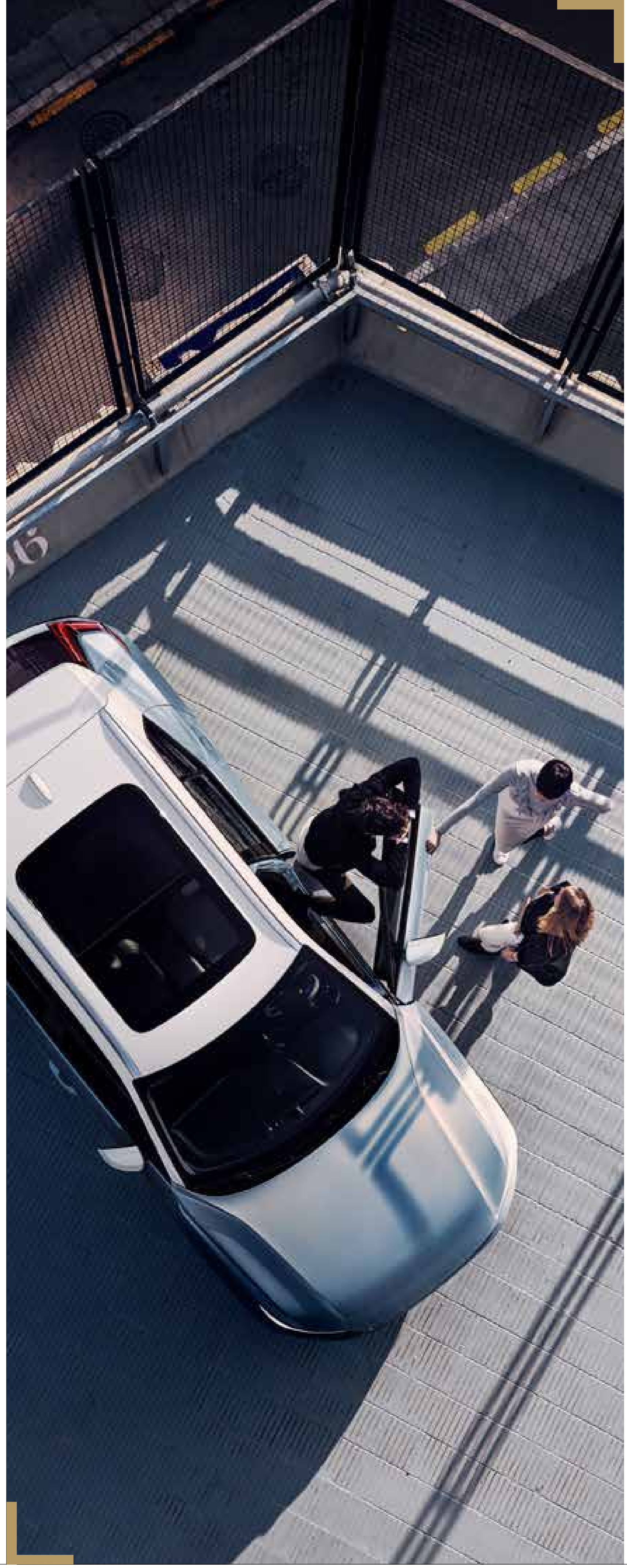
CONCENTRATION RISK

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 9.7% (10.0) of total lending. The sector accounting for the single largest share of the bank's lending is Transport, with 8,7% of total lending. 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 (interest rate risk in the banking book). The bank endeavours to minimise interest rate risk, which only consists of interest rate risk in the banking book, 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 financial policy stipulates the allowable level of interest rate risk. It is updated as necessary and decided 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 2017, the interest rate risk was SEK 74.6 million (64.6), representing 2.1% (2.0) of the capital base. In this calculation no term has been used for equity including untaxed 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 18.6 million (16.1) as at 31 December 2017. 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 percentage point interest rate shock, this impact would be SEK 17.5 million (11.2) as at 31 December 2017. Fixed-rate loans accounted for only 0.3% (0.4) of total lending at 31 December 2017. 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 2017	Up to 1 month	> 1 month, up to 3 months	> 3 month, 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	37,443	2,287	4	14	88	23	0	–	39,859
Interest-bearing liabilities	- 20,441	- 10,758	- 387	- 300	- 950	- 400	- 300	–	- 33,536
Equity	–	–	–	–	–	–	–	- 3,864	- 3,864
Derivatives (nominal amount)	- 500	- 1,245	–	- 10	888	- 41	700	–	- 208
Total	**16,502**	**- 9,716**	**- 383**	**- 296**	**26**	**- 418**	**400**	**- 3,864**	**2,251**
Cumulative exposure	**16,502**	**6,786**	**6,403**	**6,107**	**6,133**	**5,715**	**6,115**	**2,251**	
2016									
Interest-bearing assets	32,750	1,696	2	24	70	19	1	–	34,562
Interest-bearing liabilities	- 19,262	- 8,118	- 324	–	- 500	- 650	–	–	- 28,854
Equity	–	–	–	–	–	–	–	- 3,702	- 3,702
Derivatives (nominal amount)	- 492	- 542	–	-10	419	624	–	–	- 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**	

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 2017 the bank had recognised an impairment loss of SEK 132.7 million (68.5) related to residual value risk, which is included in depreciation and impairment of property, plant and equipment. Guaranteed residual values amounted to SEK 4,726 million (3,585), which includes both own and transferred contracts. The carrying amount of operating leases directly guaranteed by the bank was SEK 4,082 million (3,123) at 31 December 2017. The guaranteed residual value of these contracts amounted to SEK 2,563 million (1,983).

EQUITY RISK IN OTHER OPERATIONS

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

Balance sheet value	2017	2016
Associates and other companies	20,417	19,009
Group companies	6,742	6,742
Total	**27,159**	**25,751**
Fair value		
Associates and other companies	20,417	19,009
Group companies	6,789	6,789
Total	**27,206**	**25,798**
Unrealised gain or loss		
Associates and other companies	16,369	14,961
Group companies	–	–
Total	**16,369**	**14,961**

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 CEO, 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 2017 amounted to KSEK 14,664 (13,513), of which KSEK 7,668 (6,985) refers to Alecta ITP 2 pensions.

In the traffic light method used by the Swedish FSA 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 FSA.

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 CEO 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 accounting 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 280% and averaged 253% in 2017. 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 146% and averaged 144% in 2017.

	2017	2016
Total HQLA	2,345,361	1,698,195
Total Outflows	3,344,714	3,518,100
Inflows with 75% Cap	2,508,535	2,092,598
Liquidity Coverage Ratio, %	280.49	119.13

The bank maintains a liquidity reserve to ride out periods of strained refinancing conditions. At year-end this reserve stood at SEK 4.6 billion (3.6). The reserve, whose composition is regulated in the financial policy, should consist of demand deposits with banks and high-quality liquid debt securities in SEK. The securities portion had a nominal amount of SEK 3.3 billion (72%) while deposits at other banks amounted to SEK 1.3 billion (28%). The size of the liquidity reserve should 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 3 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 2017 this ratio was 13% (11).

Liquidity reserve

Amounts in SEK million, securities at market value	31 Dec 2017	31 Dec 2016
Deposits with other banks	1,301	787
Securities issued by local authorities and other public sector entities	1,433	1,041
Other covered bonds	1,207	1,124
Securities issued by non-financial companies	675	600
Total	**4,616**	**3,552**

Of the bank's total liquidity reserve of SEK 4 616 million, SEK 3 950 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 4.3 billion (3.0) at year-end. Up to SEK 1.3 billion can be drawn on the same day for a period of 1–7 days; in other cases, 2–3 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, SEK million	31 Dec 2017	31 Dec 2016
Overdraft facilities with credit institutions	200	200
Credit facilities with credit institutions and shareholders	4,250	3,000
Total	**4,450**	**3,200**

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 proportion of long-term borrowing in the form of market borrowings and bank credits must be at least 60%. On 31 December 2017 it was 76% (75).

In order to reduce the share of market borrowing, and thus also the refinancing risk, the bank launched an online savings account in 2010. It is intended for private individuals and deposits account for nearly 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. At year-end, 89% (85) of deposits from private individuals who, according to the bank's government reporting, were classified customers with which the bank has an existing relationship. Although the savings account has no minimum investment horizon, this deposit volume has been very stable over time, as it is spread across a large number of depositors. The 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.

2017 — Amounts in SEK million

Financial assets	Payable on demand	Less than 3 months	More than 3 months and up to 1 year	More than 1 years and up to 3 years	More than 3 years and up to 5 years	More than 5 years	Total
Chargeable treasury bills	–	–	226	1,198	–	–	1,424
Loans and advances to credit institutions	1,301	–	–	–	–	–	1,301
Loans and advances to customers	–	2,108	6,916	12,456	3,691	790	25,961
Bonds and other debt securities	–	776	327	773	–	–	1,876
Property, plant and equipment, lease assets	–	643	2,483	4,485	145	7	7,763
Other assets, derivatives	–	5	4	7	- 4	2	14
Total	**1,301**	**3,532**	**9,956**	**18,919**	**3,832**	**799**	**38,339**
Financial liabilities							
Liabilities to credit institutions	–	20	259	1,365	366	167	2,177
Retail deposits and borrowings	15,977	–	37	–	–	–	16,014
Securities issued	–	1,254	2,749	5,793	5,489	504	15,789
Other liabilities, derivatives	–	5	5	20	7	4	41
Subordinated debts	–	–	–	–	–	–	0
Total	**15,977**	**1,279**	**3,050**	**7,178**	**5,862**	**675**	**34,021**
Net cash flow	**- 14,676**	**2,253**	**6,906**	**11,741**	**- 2,030**	**124**	
Undrawn credit facilities	1,450	4,250	3,750	1,750	–	–	
Liquidity gap	**- 13,226**	**6,503**	**10,656**	**13,491**	**- 2,030**	**124**	

2016 — Amounts in SEK million

Financial assets	Payable on demand	Less than 3 months	More than 3 months and up to 1 year	More than 1 years and up to 3 years	More than 3 years and up to 5 years	More than 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**	

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.

Amounts in SEK million

2017	Less than 3 months	More than 3 months and up to 1 year	More than 1 years and up to 3 years	More than 3 years and up to 5 years	More than 5 years	Total
Liabilities to credit institutions	- 20	- 260	- 1,379	- 339	- 212	- 2,210
Securities issued	- 1,254	- 2,765	- 5,913	- 5,574	- 507	- 16,013
Other liabilities, derivatives	0	4	0	- 6	–	- 2
Other assets, derivatives	5	4	7	- 4	2	14
Total	**- 1,269**	**- 3,017**	**- 7,285**	**- 5,923**	**- 717**	**- 18,211**

Amounts in SEK million

2016	Less than 3 months	More than 3 months and up to 1 year	More than 1 years and up to 3 years	More than 3 years and up to 5 years	More than 5 years	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**

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.

The introduction of IFRS 9 will only a have marginal impact on the bank's capital adequacy. The IRB deficit is impacted by a corresponding amount as the bank's higher credit risk provision, in accordance with the section on changes in accounting policies. The bank has decided that it will not opt for Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December 2017 amending Regulation (EU) No 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9. The reason for this is that the impact on the bank's capital adequacy is marginal.

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 2017	31 Dec 2016
Credit risk	1,351,554	1,209,134
Operational risk	112,951	105,638
CVA risk	1,507	1,218
Pillar 1 capital requirements	**1,466,012**	**1,315,990**
Concentration risk	274,247	245,198
Strategic risk	73,301	65,800
Interest rate risk	65,000	50,000
Pillar 2 capital requirements	**412,548**	**360,998**
Capital conservation buffer	458,129	411,247
Countercyclical capital buffer	366,503	246,748
Combined buffer requirements	**824,632**	**657,995**
Capital requirements	**2,703,192**	**2,334,983**
Capital base	**3,781,226**	**3,497,209**
Capital surplus	**1,078,034**	**1,162,226**

Leverage ratio

	31 Dec 2017	31 Dec 2016
Core capital	3,781,226	3,497,209
Exposure measure	40,412,184	35,576,384
Leverage ratio, %	**9.36**	**9.83**

Capital base

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

Common equity tier 1 capital	31 Dec 2017	31 Dec 2016
Equity	1,033,030	1,112,513
Untaxed reserves 78.0% (78.0)	2,831,174	2,515,723
Less: Intangible assets	- 18,158	- 11,123
Less: Additional value adjustments	- 2,657	- 2,184
Less: Deficit, IRB provisions	- 62,163	- 115,720
Total common equity tier 1 capital	**3,781,226**	**3,497,209**
Total capital base	**3,781,226**	**3,497,209**
Capital base in accordance with Basel I	**3,843,389**	**3,612,929**

Capital requirement and risk-weighted exposure amount

Credit risk, standardised approach	31 Dec 2017 Capital requirement	31 Dec 2017 Risk-weighted exposure amount	31 Dec 2016 Capital requirement	31 Dec 2016 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	427	5,343	356	4,447
Institutional exposures	21,436	267,956	13,150	164,381
Corporate exposures	15,615	195,188	53,214	665,180
Retail exposures	25,747	321,832	23,557	294,460
Unsettled items	202	2,528	1,739	21,737
Covered bonds	9,650	120,620	8,978	112,230
Equity exposures	2,173	27,159	2,060	25,751
Other items	1,316	16,450	961	12,009
Total capital requirements for credit risks using the standardised approach	**76,566**	**957,076**	**104,016**	**1,300,195**
Credit risk using the IRB approach				
Corporate exposures	485,402	6,067,521	407,237	5,090,466
Retail exposures	542,089	6,776,119	513,033	6,412,918
Non-credit obligation asset exposures	247,497	3,093,710	184,848	2,310,597
Total capital requirements for credit risks using the IRB approach	**1,274,988**	**15,937,349**	**1,105,118**	**13,813,981**
Operational risk using the Basic Indicator Approach	112,951	1,411,890	105,638	1,320,477
Credit valuation adjustment (CVA)	1,507	18,840	1,218	15,225
Total minimum capital requirement and risk-weighted exposure amount	**1,466,012**	**18,325,156**	**1,315,990**	**16,449,878**
Total requirement using transitional rules	2,315,391	28,942,382	2,041,168	25,514,599

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	31 Dec 2017	31 Dec 2016
Risk-weighted assets	18,325,156	16,449,878
Common equity tier 1 capital ratio, % *	20.63	21.26
Total capital ratio, % **	20.63	21.26
With transitional rules		
Risk-weighted assets	28,942,382	25,514,599
Common equity tier 1 capital ratio, % *	13.28	14.16
Total capital ratio, % **	13.28	14.16

* 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	31 Dec 2017 Common equity tier 1 capital requirement	31 Dec 2017 Tier 1 capital requirement	31 Dec 2017 Total capital base requirement	31 Dec 2016 Common equity tier 1 capital requirement	31 Dec 2016 Tier 1 capital requirement	31 Dec 2016 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	2.0	2.0	2.0	1.5	1.5	1.5
Total	**9.0**	**10.5**	**12.5**	**8.5**	**10.0**	**12.0**
Amount						
Minimum capital requirement	824,632	1,099,509	1,466,012	740,245	986,993	1,315,990
Capital conservation buffer	458,129	458,129	458,129	411,247	411,247	411,247
Countercyclical buffer	366,503	366,503	366,503	246,748	246,748	246,748
Total capital requirement	**1,649,264**	**1,924,141**	**2,290,644**	**1,398,240**	**1,644,988**	**1,973,985**
Total capital requirement, Pillar 1			**2,290,644**			**1,973,985**

The internal capital adequacy assessment process has resulted in an internal capital requirement of SEK 1,879 million (1,677) as at 31 December 2017. If the combined buffer requirement is included, the bank's total capital requirement is SEK 2,703 million (2,335). The capital surplus, calculated on the basis of the internal capital requirement including buffer requirements, is thus SEK 1,078 million (1,162).

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 CEO 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. The Board of Directors and Management consider that the Bank's risk management is satisfactory and that the Bank's risk management system is appropriate and consistent with its existing strategies.

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 as far as possible within the framework for 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 2018. The income statement and balance sheet will be submitted for adoption at the Annual General Meeting on 26 June 2018.

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

3.1 Valuation basis 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 taken over 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 2017.

3.4.1 New IFRS and interpretations that have not yet been applied

IFRS 9

The bank has decided not to apply IFRS 9 in advance. The bank is in favour of a specific model. Parallel execution of all months for evaluation has been carried out. The bank has identified the need to increase provisions.

Impairment of financial assets

The introduction of IFRS 9 means that the bank implements a model based on expected future credit losses (expected credit loss model). The new impairment model is applied to financial assets valued at amortised cost excluding investments in equity instruments (shares and participations). The following are examples of how the bank's method of impairment according to the new rules differs from the previous one:

- The exposures subject to impairment are not only loans to the general public but also other exposures valued at amortised cost as well as issued loan commitments and granted but not yet used credit limits on credit cards.
- A loss reserve is reported at initial recognition at an amount corresponding to the expected credit loss over the next 12 months (stage 1 = low risk).
- A higher loss reserve is reported for the exposure when there has been a significant increase in credit risk (stage 2 = increased risk or Stage 3 = defaulted claims), in which case a loss reserve is calculated at an amount equal to the expected losses during the entire remaining maturity of the exposure.
- In calculating expected credit losses, the expected changes in macro factors that have a significant impact on the loss reserve are taken into account.

As a result of the new rules on accounting for expected credit losses, the bank will report an increase in the current credit risk provision of SEK 2.6 million resulting in a total of SEK 26.8 million. The increase pertains to SEK 1.4 million for loans and advance to customers and SEK 1.2 million for securities in the liquidity reserve. As a result, retained earnings will decrease by SEK 2.6 million in the opening balance for the 2018 financial year.

Classification and measurement of financial assets and financial liabilities

According to the classification and measurement requirements in IFRS 9, financial assets are classified and measured at amortised cost, fair value through profit or loss or fair value through other comprehensive income. Classification of a financial instrument is based on the business model for the portfolio that the instrument belongs to and whether the contractual cash flows solely represent payments of principal and interest. The bank's assessment is that securities in the liquidity portfolio fall within the scope of a business model for which the goal is to hold financial assets for the purpose of collecting contractual cash flows and that these cash flows are solely payments of principal and interest on the outstanding principal. Therefore, based on the provisions of IFRS 9, these investments, which were previously valued at fair value through profit or loss, are reported at amortised cost. The new measurement requirements will be reflected in the opening balances of the 2018 financial year by increasing the carrying amount of Chargeable treasury bills etc. and Bonds and other debt securities by SEK 1.5 million, and by increasing retained earnings by SEK 1.5 millon. Otherwise, the new classification and measurement requirements stipulated in IFRS 9 for financial assets and liabilities do not have any impact on the bank's accounting policies.

IFRS 15 Revenue from contracts with customers

The standard enters 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

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

Other future reporting

As of Q1 2018, additional monitoring metrics (AMM) for liquidity reporting and new information will be added to the standard report.

3.5 Operating segment

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.

3.6 Subsidiaries and associates

The bank accounts for interests in subsidiaries and associates using the cost method. Profit or loss from associated companies is reported under other operating income.

3.7 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.

3.8 Interest income and expenses

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

Negative interest income is reported as interest expense and positive interest expense is reported as interest income.

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 9.

3.9 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.

3.10 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.

3.11 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.

3.12 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.

3.13 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.

For all of the bank's lease agreements with customers, the customer has a contractual right to early settlement. If the contractual rate of interest is higher than the current interest rate, the customer must then pay an amount to cover the difference. Because of this, the agreements are cancellable. Monthly or quarterly interest that has already been charged, however, is not cancellable. See Note 31.

3.14 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.

3.15 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.

3.16 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.

3.17 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.

3.17.1 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.

3.17.2 Classification and valuation

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:

I – Loans and receivables

This category comprises loans, accounts receivables and certain other assets.

II – Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of derivatives with positive closing prices that are not included in hedge accounting, as well as other chargeable securities and bonds and other debt securities if these were classified on acquisition as financial assets 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.

III – Financial liabilities at fair value through profit or loss

Consists of derivatives with negative closing prices.

IV – 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.

V – Non-financial liabilities

Consists of discounts, negotiated commissions and other liabilities.

VI – 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 accounts 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.

3.17.3 Measurement of financial instruments at fair value

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

3.18 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.

3.19 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 portion of its lending. The derivatives are not separated, however, as the risks are closely associated with the host contract.

3.20 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.

3.21 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 Volvo 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.

3.22 Impairment for credit losses

3.22.1 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.

3.22.2 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.

3.22.3 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.

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.

3.22.4 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.

3.23 Property, plant and equipment

3.23.1 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.

3.23.2 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.

3.23.3 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.

3.23.4 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 useful lives of assets are reviewed at each year-end. The residual value of assets is reviewed each month.

3.24 Intangible assets

3.24.1 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. See also section 3.26.1.2 Fund for development expenditure.

3.24.2 Licenses

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

3.24.3 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.

3.24.4 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

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

3.25.1 Impairment testing
The carrying amounts of the bank's assets are tested for impairment at each closing date to assess whether there is any indication of impairment. 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 tests assets used in 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.

3.25.2 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.

3.26 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.

3.26.1 Share capital

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

3.26.1.2 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.

3.26.2 Post-employment benefits

3.26.2.1 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 expensed in the income statement as earned through the employees' performance of services for the bank over a period.

3.26.2.2 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.

3.26.2.3 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.

3.27 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 the segments Sales Finance Cars, Sales Finance Trucks and Truck Card, Fleet Finance and Volvo Card.

All operating income comes from external customers and all of the bank's operations are conducted in Sweden.

Sales Finance Cars

In the Sales Finance Cars segment, the bank primarily works with financing of new and used cars. The bank also administers leasing agreements that are transferred by Volvo dealers, which includes both operating and finance leases. Operating leases includes private leasing.

2017 was a record year for sales of new passenger cars. Registrations increased by 1.9% to 379,393 and thus exceeded last year's record when 372,318 cars were registered. Sales of light commercial vehicles also set a new record in 2017, with registration of 55,390 vehicles. In a record-breaking Swedish passenger car market, Volvo retains its first-place position with an annual volume of 75,506 new passenger cars. Market share reached 20%. Volvo XC60 and Volvo S/V90 are the favourite choices among Swedes. Renault Sweden achieved a market share of 5% with the Clio and Captur models as top sellers. With assistance from Volvo and Renault dealers, the bank has increased lending by SEK 2.3 billion. A total of 74,527 new contracts were signed on the back of the strong new car market coupled with competitive finance products. Together with Volvia and Renault Försäkring, Renault Sweden and Volvo Cars Sweden, the bank achieved great success during the year with its packaged private leasing offer. In 2017, there was also a higher level of financing for used cars. Here as well, packaged car ownership is the key to success. The bank will continue developing its financing products in 2018.

	2017	2016	Operations
Net interest income*	314,565	257,111	57,454
Commission income	76,633	60,766	15,867
Commission expense	- 8,398	- 7,684	- 714
Net income/expense from financial transactions	- 8,893	- 878	- 8,015
Other income	2,860	2,416	444
Operating income	**376,767**	**311,730**	**65,037**
Expenses**	- 93,484	- 85,676	- 7,808
Credit losses	- 91	35	- 126
Operating profit	**283,192**	**226,089**	**57,103**

* 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 of leased assets.

	2017	2016	Operations
Number of contracts	209,891	197,234	12,657
Total volume, SEKm	24,758	22,442	2,316
of which transferred, %	92.1	91.6	0.5
of which pledged, %	7.9	8.4	- 0.5
of which loans, %	47.0	48.5	- 1.5
of which leasing, %	53.0	51.5	1.5
Share of total leasing that is private leasing, %	28.8	26.5	2.3

Sales Finance Trucks

In the Sales Finance Trucks segment, the bank works with both financing and leasing of trucks over 16 tonnes and trailers. Volvo Truck Card also belongs to the Sales Finance Trucks segment.

Sales of new trucks over 16 tonnes were very robust in 2017, with a total volume of 6,198. Volvo is once again the market leader with a market share of 41% which corresponds to 2,556 units. Demand remains good and economic activity is also expected to be strong during 2018. Together with the Sweden's Volvo dealerships, the Bank has financed 57% of the new sales volume, which is about 3% higher than the previous year. Despite fierce competition in the market, the interest of customers for both loan and lease financing has increased. Turnkey solutions and operating leases are currently very much in demand, since the requirements in the haulage industry are changing, which, in turn requires more predictability and flexible financial solutions.

Product development and marketing of financial offers, in cooperation with Volvo Trucks and Volvo dealers, partly explains the increase in credit volumes and the higher level of financing. Future services and financial solutions are also continually being developed in such areas as Fleet Management, along with easier payment solutions via Volva Truck Card.

The Volvo Truck Card, which is associated with service market services and other software, such as DynaFleet and FuelAdvice, also facilitates customers' truck ownership. There are also insurance solutions via Volvia Lastbilförsäkring and diesel via Volvo dealers' collaboration with Shell TruckDiesel that arel linked to the Volvo Truck Card. All of this falls within the scope of offering customers "Smarter Truck Financing".

	2017	2016	Operations
Net interest income*	35,105	24,679	10,426
Commission income	9,812	9,835	- 23
Commission expense	- 331	- 273	- 58
Net income/expense from financial transactions	- 1,185	- 111	- 1,074
Other income	393	34	359
Operating income	**43,793**	**34,164**	**9,629**
Expenses**	- 21,895	- 19,551	- 2,344
Credit losses	- 796	- 110	- 686
Operating profit	**21,102**	**14,503**	**6,599**

* Including depreciation and impairment of leased assets.
** Including depreciation of property, plant and equipment and amortisation of intangible assets, excluding depreciation and impairment of lease assets.

	2017	2016	Operations
Number of contracts	6,446	5,879	567
Total volume, SEKm	3,794	3,280	514
of which transferred, %	79.5	78.4	1.1
of which pledged, %	20.6	21.6	- 1.0
of which loans, %	77.8	78.8	- 1.0
of which leasing, %	22.3	21.2	1.1
Share of total leasing that is operating leases, %	24.6	17.1	7.5
Number of active accounts Volvo Truck Card, Ø	1,678	1,803	- 125
Total sales of Volvo Truck Card, SEKm	386	401	- 15
of which workshop, %	56.3	58.2	- 1.9
of which stores, %	13.8	13.7	0.1
of which carwash, %	5.4	5.6	- 0.2
of which other (incl. loans and insurance), %	6.8	6.9	- 0.1
of which fuel, %	17.7	15.7	2.0
Volume of diesel via Volvo Truck Card, (million litres)	5.3	5.3	0.0

Fleet Finance

The Fleet Finance segment, with sales and marketing under the name Svensk Vagnparksfinans, administers and finances operating and finance leases via framework agreements on car fleets consisting of five or more vehicles, regardless of which car brands customers choose to use. Service and repair agreements are also administered here, along with tyre warranties. The business concept is to make it easy for customers, and our ambition is to be at the forefront when it comes to Web-based functionality that simplifies car ownership for both drivers and companies.

Svensk Vagnparksfinans has, over the last few years, been striving to achieve a market-leading position. In 2017, 150 new framework agreements were signed with customers with a combined fleet of 4,400 vehicles, which is the highest number of agreements concluded in any single year to date. The majority of these were in the operating lease category. The combination of volume growth, the bank's model for making a provision for residual value risk in operating lease agreements, and a slight decline in market prices for second-hand cars have resulted in higher impairment losses and thus a lower operating profit during the year.

	2017	2016	Operations
Net leasing *	29,998	34,812	- 4,814
Impairment of residual value	- 64,204	- 25,100	- 39,104
Commission income	140,543	115,429	25,114
Commission expense	- 665	- 553	- 112
Net income/expense from financial transactions	- 2,252	- 257	- 1,995
Other income	266	387	- 121
Operating income	**103,686**	**124,718**	**- 21,032**
Expenses**	- 74,129	- 69,575	- 4,554
Credit losses	- 2,651	320	- 2,971
Operating profit	**26,906**	**55,463**	**- 28,557**

* Including depreciation and impairment of leased assets.
** Including depreciation of property, plant and equipment and amortisation of intangible assets, excluding depreciation and impairment of lease assets.

	2017	2016	Operations
Number of financing agreements	30,632	26,360	4,272
Number of administered agreements	42,407	36,635	5,772
Total volume, SEKm	6,150	5,044	1,106
of which operating leases, %	67.3	63.9	3.4
of which finance leases, %	32.7	36.1	- 3.4

Svensk Vagnparksfinans has, over the last few years, been striving to achieve a market-leading position.

Volvo Card

The Volvo Card segment has two parts: a debit card solution and a credit card solution offered to private and corporate customers, excluding Volvo Truck Card, which belongs to the Sales Finance Trucks segment.

At year-end 2017, more than 300,000 customers had discovered and downloaded the CarPay app. The rate of development during the year has been high, with many new functions being added for customers. One of CarPays main features is to offer smooth payments and in 2017, the bank launched a digital payment solution where customers can select and pay for their workshop purchases using a mobile phone. It's an important first step and in 2018, the bank will continue its efforts to add even more digital payment options, easier onboarding and additional functions and services for smarter vehicle financing. During 2017, the bank implemented a number of new features to further improve CarPay as a communication channel, which will make it possible to launch new relevant offers with the right timing aimed at increasing customer satisfaction and sales results. The bank can already see positive sales effects with CarPay users. In particular, there is much higher consumption in Fuelling and Carwash activities, along with the Visa network outside Volvo and Renault dealers.

In 2017, the bank's total Volvo Card volume for fuel is 1% lower compared to 2016, which is considered to be good in the context of an overall decline in the market of 2%. Together with Tanka, the bank has been working regularly with successful concepts for fuel and carwashing. The bank entered into 2018 with a focus on campaigns, new features and services to customers.

	2017	2016	Operations
Net interest income	131,469	127,407	4,062
Commission income	176,407	167,163	9,244
Commission expense	- 24,310	- 16,135	- 8,175
Net income/expense from financial transactions	- 723	- 79	- 644
Other income	5,771	313	5,458
Operating income	**288,615**	**278,670**	**9,945**
Expenses	- 197,754	- 182,062	- 15,692
Credit losses	- 14,453	- 13,695	- 758
Operating profit	**76,408**	**82,913**	**- 6,505**

	2017	2016	Operations
Number of active accounts, Ø	427,059	427,900	- 841
Total volume Ø, SEKm	1,631	1,559	72
Number of credit customers, Ø	87,520	89,206	- 1,686
Share of cards to consumers, %	90.5	90.4	0.1
Total sales of Volvo Card, SEKm	12,968	11,910	1,058
of which fuel, %	42.3	43.4	- 1.1
of which workshop, %	11.0	14.6	3.6
of which stores, %	2.1	2.3	- 0.2
of which carwash, %	1.3	1.3	0.0
of which sales outside of Volvo dealerships, %	26.9	23.0	3.9
of which other (incl. loans and insurance), %	16.5	15.4	1.1
Volume of fuel via Volvo Card, millions of litres	401	407	- 6

Income statement

5. INTEREST INCOME AND EXPENSES

Interest income	2017	2016
Loans and advances to customers	434,658	392,580
Debt securities	3,745	1,964
Other interest income	37	355
Total	**438,440**	**394,899**
Of which, interest income from financial items not measured at fair value	435,814	393,136
Interest expense		
Liabilities to credit institutions	- 15,858	- 11,791
Retail deposits and borrowings	- 89,379	- 89,879
Cost for deposit guarantee scheme	- 11,121	- 13,806
Debt securities	- 47,657	- 39,707
Other interest expenses	- 32,213	- 26,983
Total	**- 196,228**	**- 182,166**
Of which, interest expense from financial items not measured at fair value	192,381	176,527
Net interest income	**242,212**	**212,733**

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

	2017	2016
Lease income from contracts recognised as operating leases	4,635,582	4,018,985
Scheduled depreciation for contracts recognised as operating leases	- 4,365,962	- 3,788,745
Net lease income from contracts recognised as operating leases	**269,620**	**230,239**

Combined net interest income

	2017	2016
Lease income from finance leases (recognised as operating leases in the balance sheet)	2,575,090	2,451,186
Scheduled depreciation for finance leases (recognised as operating leases in the balance sheet)	- 2,425,319	- 2,310,768
Net lease income from finance leases*	**149,771**	**140,418**
Interest income	438,440	394,899
Interest expense	- 196,228	- 182,166
Combined net interest income**	**391,983**	**353,151**

Total lease and net interest income		
Net lease income from contracts recognised as operating leases	269,620	230,239
Net interest income in accordance with Note 5	- 242,212	212,733
Total lease and net interest income	**511,832**	**442,972**
Interest margin, %***	1.26	1.23
Average lending rate, %	1.95	1.97
Average deposit rate (incl. cost for deposit guarantee scheme), %	0.69	0.72

* 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. COMMISSION INCOME

	2017	2016
Commission income, credit cards	182,741	174,078
Commission income, Loans and Leases*	220,654	179,115
Total	**403,395**	**353,193**

* The amount for 2017 includes service agreement income of 151,103 and service agreement expenses of -135 993.

8. COMMISSION EXPENSE

	2017	2016
Commissions, payment processing	- 3,759	- 3,858
Other commissions	- 29,945	- 20,787
Total	**- 33,704**	**- 24,645**

9. NET INCOME/EXPENSE FROM FINANCIAL TRANSACTIONS

	2017	2016
Debt securities	- 13,053	- 1,325
Total	**- 13,053**	**- 1,325**

Gain/loss by category of valuation including exchange rate changes

	2017	2016
Derivative assets* intended for risk management, no hedge accounting	249	365
Financial assets at fair value through profit or loss	- 11,902	- 1,928
Derivative liabilities* intended for risk management, no hedge accounting	- 48	- 68
Financial liabilities at amortised cost**	- 892	–
Change in fair value of derivatives that are hedging instruments in a fair value hedge	- 7,240	8,321
Change in fair value of hedged item attributable to the hedged risk in a fair value hedge	6,781	- 8,015
Total	**- 13,053**	**- 1,325**

* Derivative assets/liabilities are financial assets/liabilities that are held for trading.

** Also include realised premium or discount on repurchase of debt.

10. OTHER OPERATING INCOME

	2017	2016
Income from associates	1,408	2,213
Capital gain on disposal of property, plant and equipment	567	648
Other operating income	7,315	1,097
Total	**9,290**	**3,958**

11. GENERAL ADMINISTRATIVE EXPENSES

	2017	2016
Salaries and fees	- 104,217	- 102,645
Social security contributions	- 33,647	- 32,226
Cost for pension premiums*	- 14,229	- 13,298
Payroll tax	- 3,558	- 3,140
Other staff costs	- 4,532	- 3,367
Total staff costs	**- 160,183**	**- 154,676**
Postage and telephone	- 4,832	- 4,135
IT costs	- 128,133	- 118,813
Consulting services	- 11,902	- 6,454
Contract staff	- 2,988	- 3,568
Rents and other premises costs	- 12,746	- 10,555
Other	- 13,760	- 13,537
Total other general administrative expenses	**- 174,361**	**- 157,062**
Total general administrative expenses	**- 334,544**	**- 311,738**

* Total pension premiums were 14,664 (13,513), of which 7,668 (6,985) refer to Alecta ITP 2 pensions.

Expected fees in the next reporting period for ITP2 insurance policies with Alecta are 6,959 (6,332). 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 to 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 2017, Alecta's surplus in the form of the collective funding ratio was 154% (149).

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

	2017			2016		
	Senior executives (25 people)	Other employees	Total	Senior executives (20 people)	Other employees	Total
Salaries and other remuneration	- 20,352	- 83,865	- 104,217	-14,632	- 88,013	- 102,645
of which, variable remuneration	(–)	(- 969)	(- 969)	(–)	(- 1,687)	(- 1,687)
Total	**- 20,352**	**- 83,865**	**- 104,217**	**- 14,632**	**- 88,013**	**- 102,645**
Social security contributions	- 11,625	- 39,809	- 51,434	- 8,516	- 40,148	- 48,664
of which, retirement benefit costs	(- 4,669)	(- 13,118)	(- 17,787)	(- 3,504)	(- 12,934)	(- 16,438)

Salaries and remuneration of senior executives

2017	Basic salary/fee	Variable remuneration	Other benefits	Retirement benefit cost	Total
Chairman of the Board	- 775	–	–	–	- 775
Deputy Chairman of the Board	- 741	–	–	–	- 741
Directors (9 people)	- 2,065	–	–	–	- 2,065
CEO	- 2,592	–	- 173	- 791	- 3,556
Other senior executives (13 people)	- 14,179	–	- 1,024	- 3,878	- 19,081
Total	**- 20,352**	**–**	**- 1,197**	**- 4,669**	**- 26,218**
2016					
Chairman of the Board	- 750	–	–	–	- 750
Deputy Chairman of the Board	- 701	–	–	–	- 701
Directors (6 people)	- 1,621	–	–	–	- 1,621
CEO	- 2,463	–	- 168	- 751	- 3,382
Other senior executives (11 people)	- 9,097	–	- 631	- 2,753	- 12,481
Total	**- 14,632**	**–**	**- 799**	**- 3,504**	**- 18,935**

The members of the Board receive Directors' fees in accordance with the resolution of the AGM. The remuneration payable to the CEO 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 CEO's employment contract by the bank, the CEO is entitled to severance pay for 12 months plus a period of up to an additional 12 months if new employment is not found. The Remuneration Committee consists of the Chairman of the Board and two 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 (2017/2016)	2017	2016
Urmas Kruusval	Chairman	- 775	- 750
Synnöve Trygg	Vice Chairman	- 741	- 701
Anders Gustafsson	Director	- 214	- 214
Bob Persson	–/Director	–	- 124
Per Avander	Director/Deputy	-200	- 150
Tommy Andersson	Director	- 425	- 425
Patrik Tolf	Director	- 480	- 294
Janola Gustafson	Deputy/Coopted	- 100	- 50
Vidar Andersch	–/Deputy	–	- 63
Margareta Alestig Johnson	–/Director	–	- 125
Björn Rentzhog	Deputy	- 140	- 70
Pascal Bellemans	Deputy	- 107	- 53
Kristian Elvefors	Deputy	- 107	- 53
Ann Hellenius	Director/–	- 292	–
Total		**- 3,581**	**- 3,072**

Employee information

	2017			2016		
	Men	Women	Total	Men	Women	Total
Average number of employees	82	114	196	80	109	189
Gender distribution in management						
CEO	1	–	1	1	–	1
Board	9	2	11	9	1	10
Other senior executives	9	4	13	5	4	9
Number	**19**	**6**	**25**	**15**	**5**	**20**

Auditors' fees and expenses

KPMG	2017	2016
Audit engagement	- 2,254	- 1,350
Audit services in addition to audit engagement	- 362	- 215
Tax advisory services	- 70	- 55
Other services	- 100	- 350
Total	**- 2,786**	**- 1,970**

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

	2017	2016
Scheduled depreciation and amortisation	- 4,371,490	- 3,792,558
Reversal of impairment losses for the year	15,767	19,366
Impairment	- 80,666	- 43,430
Total	**- 4,436,389**	**- 3,816,622**

Scheduled depreciation and amortisation		
Inventory	- 899	- 814
Lease assets	- 4,365,962	- 3,788,745
Intangible assets	- 4,629	- 2,999
Total	**- 4,371,490**	**- 3,792,558**

Net impairment		
Lease assets	- 64,899	- 24,064
Total	**- 64,899**	**- 24,064**

13. OTHER OPERATING EXPENSES

	2017	2016
Fees to central organisations	- 2,446	- 2,431
Insurance costs	- 1,224	- 942
Marketing costs	- 42,244	- 37,453
Other operating expenses	- 1,276	- 1,295
Total	**- 47,190**	**- 42,121**

14. NET CREDIT LOSSES

Specific provision for collectively valued loans*	2017	2016
Write-off of actual credit losses for the year	- 19,241	- 16,049
Impairment for the year	- 5,212	- 6,202
Recovery of actual credit losses from previous years	1,714	1,253
Reversal of no-longer-required provisions for expected credit losses	6,852	6,775
Net expense for the year for specific provisions for collectively valued loans	**- 15,887**	**- 14,223**
Collective provision for losses incurred but not yet reported**		
Impairment for the year	- 6,265	- 3,411
Reversal of no-longer-required provisions for expected credit losses	4,161	4,184
Net expense for the year for collective provisions	**- 2,104**	**773**
Total net expense	**- 17,991**	**- 13,450**

* 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.

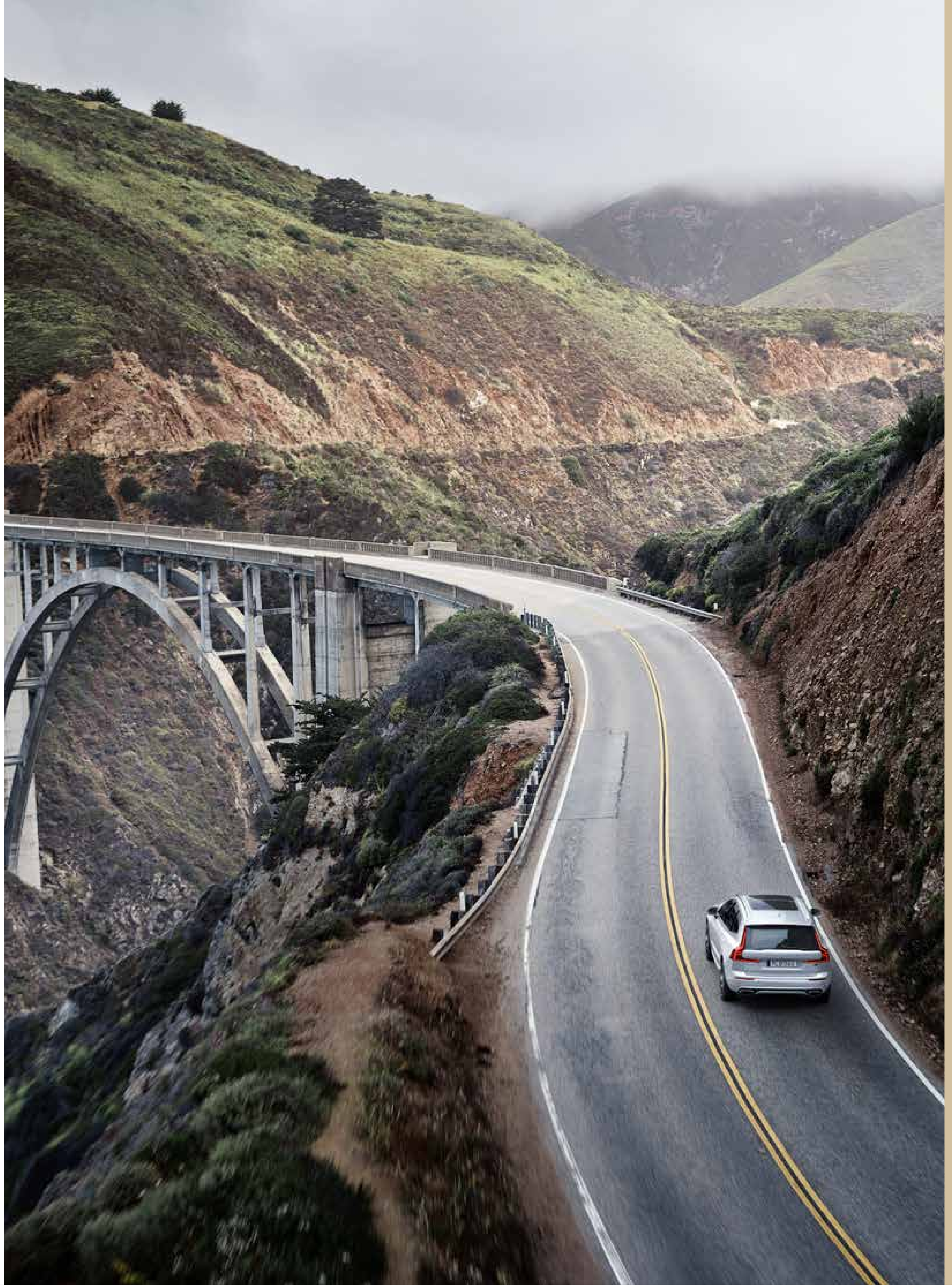
15. APPROPRIATIONS

	2017	2016
Accelerated depreciation	406,989	378,497
Total	**406,989**	**378,497**

16. TAX ON PROFIT FOR THE YEAR

	2017	2016
Tax expense for the year	- 619	- 471
Total reported tax expense	**- 619**	**- 471**

Reconciliation of effective tax	2017	2017	2016	2016
Profit before tax		619		471
Tax at applicable tax rate	- 22.0%	- 136	- 22.0%	- 104
Non-deductible expenses	- 79.2%	- 491	- 95.7%	- 451
Non-taxable income	- 1.2%	8	- 17.7%	84
Reported effective tax	**- 100.0%**	**- 619**	**- 100.0%**	**- 471**



Balance sheet

17. CHARGEABLE TREASURY BILLS, ETC.

	Nominal value 31 Dec 2017	Carrying amount 31 Dec 2017	Nominal value 31 Dec 2016	Carrying amount 31 Dec 2016
Securities issued by the State	–	–	–	–
Securities issued by local authorities and other public sector entities	1,422,000	1,432,848	1,037,000	1,040,542
Total	**1,422,000**	**1,432,848**	**1,037,000**	**1,040,542**

18. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	31 Dec 2017	31 Dec 2016
Gross outstanding receivables in Swedish currency	1,300,672	786,666
of which, to Swedish commercial banks	1,300,668	786,663
of which, payable on demand	1,300,672	786,666

19. LOANS AND ADVANCES TO CUSTOMERS

The bank's total lending including lease assets is SEK 35.12 billion (31.18). The stated values are reduced by impairment for credit risk for each credit. The values are 19,186 (20,018) lower than the gross values of the receivables. (See also Note 24 and the table Impairment by asset item.)

	31 Dec 2017	31 Dec 2016
Gross outstanding receivables in Swedish currency	16,502,971	15,225,335
Impairment for credit losses	- 19,186	- 20,018
Net carrying amount	**16,483,785**	**15 205 317**
Impairment		
Opening balance, 1 January	- 20,018	- 20,335
Impairment for the year	- 10,028	- 9,736
Reversal of no-longer-required provisions for expected credit losses	10,860	10,054
Closing balance, 31 December	**- 19,186**	**- 20,018**

20. BONDS AND OTHER DEBT SECURITIES

	Nominal value 31 Dec 2017	Carrying amount 31 Dec 2017	Nominal value 31 Dec 2016	Carrying amount 31 Dec 2016
Securities issued by non-financial corporations	1,195,000	1,207,411	1,115,000	1,123,419
Non-financial corporations	675,000	675,250	600,000	600,107
Total	**1,870,000**	**1,882,661**	**1,715,000**	**1,723,526**

21. SHARES AND INTERESTS IN ASSOCIATES AND OTHER COMPANIES

Unlisted securities	31 Dec 2017	31 Dec 2016
Carrying amount, 1 January	19,009	16,797
Share of profit for the year of limited partnerships	1,408	2,212
Carrying amount, 31 December	**20,417**	**19,009**

2017	Performance	Equity	Share of equity	Carrying amount
Visa Inc C	–	48	–	48
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Göteborg	1,232	35,830	11,824	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Göteborg	5,949	81,362	17,294	17,294
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Göteborg	2,864	13,535	2,398	2,398
VCC Försäljnings KB, corp. ID no. 969712-0153, Göteborg	- 3,129	- 4,715	- 323	- 323
Total	**6,916**	**26,060**	**31,193**	**20,417**

2016	Performance	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**

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

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.

At the AGM each person entitled to vote has the right to vote the full number of shares represented by him or her.

22. SHARES AND INTERESTS IN GROUP COMPANIES

Autofinans Nordic AB, CarPay Sverige AB, Volvofinans Leasing AB and Volvofinans IT AB are 100% owned, dormant subsidiaries.

Unlisted securities	Corp. ID no.	Regd office	Performance in 2017
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, 2017	Carrying amount, 2016
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 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**
Opening balance, 1 Jan 2017	122,633	5,759	128,392
Purchases for the year	11,664	–	11,664
Disposals	–	–	–
Closing balance 31 Dec 2017	**134,297**	**5,759**	**140,056**
Accumulated amortisation			
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**
Opening balance, 1 Jan 2017	- 111,510	- 5,759	- 117,269
Depreciation for the year	- 4,629	–	- 4,629
Closing balance 31 Dec 2017	**- 116,139**	**–**	**- 121,898**
Carrying amounts			
31 Dec 2016	11,123	–	11,123
31 Dec 2017	**18,158**	**–**	**18,158**

24. PROPERTY, PLANT AND EQUIPMENT, INVENTORIES AND LEASE ASSETS

Cost	Fixtures and fittings	Lease assets	Total
Opening balance, 1 Jan 2016	27,286	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	**21,088**	**22,012,649**	**22,033,736**
Opening balance, 1 Jan 2017	21,088	22,012,649	22,033,736
Purchases	1,648	10,171,621	10,173,269
Sales	–	- 6,364,451	- 6,364,451
Disposals	- 1,751	–	- 1,751
Closing balance, 31 Dec 2017	**20,985**	**25,819,819**	**25,840,803**
Depreciation			
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**
Opening balance, 1 Jan 2017	- 19,456	- 5,964,321	- 5,983,777
Depreciation for the year	- 899	- 3,788,745	- 3,789,644
Sales	–	2,701,600	2,701,600
Disposals	1,670	–	1,670
Closing balance, 31 Dec 2017	**- 18,685**	**- 7,051,466**	**- 7,070,151**
Impairment			
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**
Opening balance, 1 Jan 2017	–	- 72,131	- 72,131
Reversal of impairment losses for the year	–	15,767	15,767
Impairment for the year	–	- 80,666	- 80,666
Closing balance, 31 Dec 2017	**–**	**- 137,030**	**- 137,030**
of which impairment of residual value risk	(–)	(- 132,712)	(- 132,712)
Carrying amounts			
1 Jan 2016	1,535	13,691,740	13,693,275
31 Dec 2016	**1,632**	**15,976,197**	**15,977,829**
1 Jan 2017	1,632	15,976,197	15,977,829
31 Dec 2017	**2,300**	**18,631,323**	**18,633,623**

25. OTHER ASSETS

	31 Dec 2017	31 Dec 2016
Positive value of derivatives	14,030	18,440
Tax asset	82,305	109,693
Trade receivables	623,654	458,824
of which non-cancellable leasing income	(535,376)	(447,331)
Other assets	107,409	83,631
Total	**827,398**	**670,588**

Trade receivables are offset against a risk provision of 1,543 (447) and recognised on a net basis in respect of Svensk Vagnparksfinans'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 14.0 million (18.4) and the value of derivative liabilities including accrued interest is SEK 2.7 million (1.8).

2017

Derivatives for which hedge accounting is not applied	Up to 1 year	1–5 year	> 5 years	Total	Assets (positive market values)	Liabilities (negative market values)
Interest rate-related contracts						
Options	–	–	–	–	–	–
Swaps	2,625	103,417	–	106,042	19	- 61
Currency-related contracts						
Swaps (EUR)	–	–	–	–	–	–
Total	**2,625**	**103,417**	**–**	**106,042**	**19**	**- 61**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	200,000	1,350,000	300,000	1,850,000	14,011	- 2,699
Currency-related contracts						
Swaps (EUR)	–	–	–	–	–	–
Total	**200,000**	**1,350,000**	**300,000**	**1,850,000**	**14,011**	**- 2,699**
Total	**202,625**	**1,453,417**	**300,000**	**1,956,042**	**14,030**	**- 2,760**
Breakdown of market value by currency						
SEK	202,625	1,453,417	300,000	1,956,042	14,030	- 2,760
EUR	–	–	–	–	–	–
Total	**202,625**	**1,453,417**	**300,000**	**1,956,042**	**14,030**	**- 2,760**

2016

Derivatives for which hedge accounting is not applied	Up to 1 year	1–5 year	> 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 (EUR)	–	–	–	–	–	–
Total	**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)	–	–	–	–	–	–
Total	**–**	**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	–	–	–	–	–	–
Total	**9,167**	**1,256,750**	**–**	**1,265,917**	**18,440**	**- 1,777**

27. PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2017	31 Dec 2016
Prepaid expenses	21,133	14,887
Accrued interest income	3,910	3,413
Other accrued income	18,114	14,511
Total	**43,157**	**32,811**

28. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

Breakdown by currency

2017	SEK	EUR	Total
Liabilities to credit institutions	2,150,000	–	2,150,000
Securities issued	15,607,882	–	15,607,882
Total	**17,757,882**	**-**	**17,757,882**

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**

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 2017	31 Dec 2016
Public sector	68	36
Corporate sector	23,666	25,868
Retail sector	15,404,255	14,808,068
of which, individual business owners	(3,020,788)	(2,802,981)
Other	104	104
Total deposits	**15,428,093**	**14,834,076**

Retail borrowings

Borrowings by customer category	31 Dec 2017	31 Dec 2016
Corporate sector	582,617	576,018
Other	3,195	2,319
Total borrowing	**585,812**	**578,337**
of which, Group companies	(6,789)	(6,789)
of which, associates	(157,845)	(165,135)
Total retail deposits and borrowings	**16,013,905**	**15,412,413**

30. OTHER LIABILITIES

	31 Dec 2017	31 Dec 2016
Negative value of derivatives	2,760	1,777
Accounts payables	482,735	426,124
Liability to customer	100,886	89,002
Other liabilities	320,358	270,518
Total	**906,739**	**787,421**

31. ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2017	31 Dec 2016
Accrued interest expense	11,278	10,037
Other accrued expenses	76,216	90,211
Deferred income	1,141,217	1,019,849
Total	**1,228,711**	**1,120,097**

32. UNTAXED RESERVES

Accumulated accelerated depreciation	31 Dec 2017	31 Dec 2016
Opening balance, 1 January	3,222,722	2,844,225
Change for the year	406,989	378,497
Closing balance, 31 December	**3,629,711**	**3,222,722**

33. EQUITY

Dividend

The dividend recognised during the year was 73,899, which equates to SEK 73.90 per share. The proposed dividend is 79,484 and equates to SEK 79.48 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 ISDAs in place 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	14,030	- 2,760	11,270

* 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, and 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.

2017 Assets	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Chargeable treasury bills, etc.	1,432,848	–	–	1,432,848	1,432,848
Loans and advances to credit institutions	–	1,300,672	–	1,300,672	1,300,672
Loans and advances to customers	–	16,458,107	–	16,458,107	16,483,785
Bonds and other debt securities	1,207,411	675,250	–	1,882,661	1,882,661
Other assets	–	–	827,398	827,398	827,398
Prepaid expenses and accrued income	–	–	43,157	43,157	43,157
Total	**2,640,259**	**18,434,029**	**870,555**	**21,944,843**	**21,970,521**

2017 Liabilities	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Liabilities to credit institutions	–	2,132,876	–	2,132,876	2,150,000
Retail deposits and borrowings	–	16,013,870	–	16,013,870	16,013,905
Securities issued	15,730,114	–	–	15,730,114	15,607,882
Other liabilities	–	906,739	–	906,739	906,739
Accrued expenses and deferred income	–	–	1,228,711	1,228,711	1,228,711
Total	**15,730,114**	**19,053,485**	**1,228,711**	**36,012,310**	**35,907,237**

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**

Assets at 31 Dec 2017	Loan and trade receivables	FVO*	Held-to-maturity investments	Derivatives used for hedging	Other assets	Total	Fair value
Chargeable treasury bills, etc.	–	1,432,848	–	–	–	1,432,848	1,432,848
Loans and advances to credit institutions	1,300,672	–	–	–	–	1,300,672	1,300,672
Loans and advances to customers	16,483,785	–	–	–	–	16,483,785	16,458,107
Bonds and other debt securities	–	1,207,411	675,250	–	–	1,882,661	1,882,661
Shares and interests in associates and other companies	–	–	–	–	20,417	20,417	–
Shares and interests in Group companies	–	–	–	–	6,742	6,742	–
Intangible assets	–	–	–	–	18,158	18,158	–
Property, plant and equipment, inventory	–	–	–	–	2,300	2,300	–
Property, plant and equipment, lease assets	–	–	–	–	18,631,323	18,631,323	–
Other assets	623,655	19	–	14,011	189,713	827,398	827,398
Prepaid expenses and accrued income	43,157	–	–	–	–	43,157	43,157
Total assets	**18,451,269**	**2,640,278**	**675,250**	**14,011**	**18,868,653**	**40,649,461**	

Liabilities at 31 Dec 2017	FVO**	Non-financial liabilities	Derivatives used for hedging	Other financial liabilities	Total	Fair value
Liabilities to credit institutions	–	–	–	2,150,000	2,150,000	2,132,876
Retail deposits and borrowings	–	–	–	16,013,905	16,013,905	16,013,870
Securities issued	–	–	–	15,607,882	15,607,882	15,730,114
Other liabilities	61	320,359	2,699	583,620	906,739	906,739
Accrued expenses and deferred income	–	1,217,432	–	11,279	1,228,711	1,228,711
Total liabilities	**61**	**1,537,791**	**2,699**	**34,366,686**	**35,907,237**	

* Financial assets at fair value through profit or loss.
** Financial liabilities at fair value through profit or loss.

Assets, 31 Dec 2016	Loan and trade receivables	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, inventory	–	–	–	–	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	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**	

* Financial assets at fair value through profit or loss.
** Financial liabilities at fair value through profit or loss.

36. PLEDGED ASSETS AND CONTINGENT LIABILITIES

	2017	2016
Pledged assets	–	–
Contingent liabilities	37,164	–

On 21 December 2017, the Swedish Tax Agency, after having implemented changes to VAT reporting for the 2015 financial year, submitted a proposal for a decision to lower the bank's deduction for input VAT by SEK 14.2 million and impose tax surcharges of SEK 2.1 million. As of 13 February 2018, the bank had received a tax adjustment notice finalising the prior decision proposal. The bank will likely appeal this decision. If the bank loses its appeal, the Swedish Tax Agency's decision will result in a corresponding annual reduction of input VAT as of year 2016 onwards. The aforementioned amount, reported in contingent liabilities, includes that estimated effect as of 2015 through the balance sheet date.

37. PROPOSED APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes a dividend of SEK 79.48 per share, see the Board's proposed appropriation of earnings in the Directors' Report.

38. OPERATING LEASES

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

	2017	2016
Annual lease payments	10,553	10,135
– of which minimum lease payments	9,763	9,637
– of which variable payments	790	498

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

	2017	2016
Within 1 year	12,136	11,226
Between 1–3 years	27,246	12,046

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

39. SUBSEQUENT EVENTS

No significant events have occurred after year end.

40. RELATED PARTIES

The bank is 50% owned by the Swedish Volvo dealerships through their holding company, AB Volverkinvest. Volvo Personvagnar AB has a 50% ownership and is 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	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Assets	6,742	6,742	65,187	274,591	932,512	777,582
Liabilities	6,789	6,789	162,739	169,818	125,374	157,195
Income statement						
Interest income	–	–	2,492	2,357	73	118
Lease income	–	–	–	–	268,098	280,382
Interest expense	–	–	- 27	- 494	- 14	- 49
Dividend received	–	–	1,408	2,212	–	–
Commission income	–	–	–	–	1,925	3,575
Total	**-**	**-**	**3,872**	**4,075**	**270,082**	**284,027**

Information relating to members of the key management personnel in addition to those reported in Note 11. Loans to senior executives amounted to 144. The amount of interest for these persons amounted to 4. The terms and conditions of loans to senior executives are the same as for the bank's other employees.

41. SPECIFICATION TO CASH FLOW STATEMENT

The following components are included in cash equivalents:	2017	2016
Loans and advances to credit institutions	1,300,672	786,666
Total	**1,300,672**	**786,666**

Interest paid and dividends received included in cash flow from operating activities:	2017	2016
Interest received	434,531	391,486
Interest paid	184,950	172,128

Cash and cash equivalents included in the cash flow statement are defined in accordance with IAS 7 and they do not coincide with what the bank regards as liquidity.

Signatures of the Board of Directors

The Board of Directors and CEO 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.

Göteborg, 22 March 2018

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Deputy Chairman of the Board

Anders Gustafsson
Director

Tommy Andersson
Director

Per Avander
Director

Patrik Tolf
Director

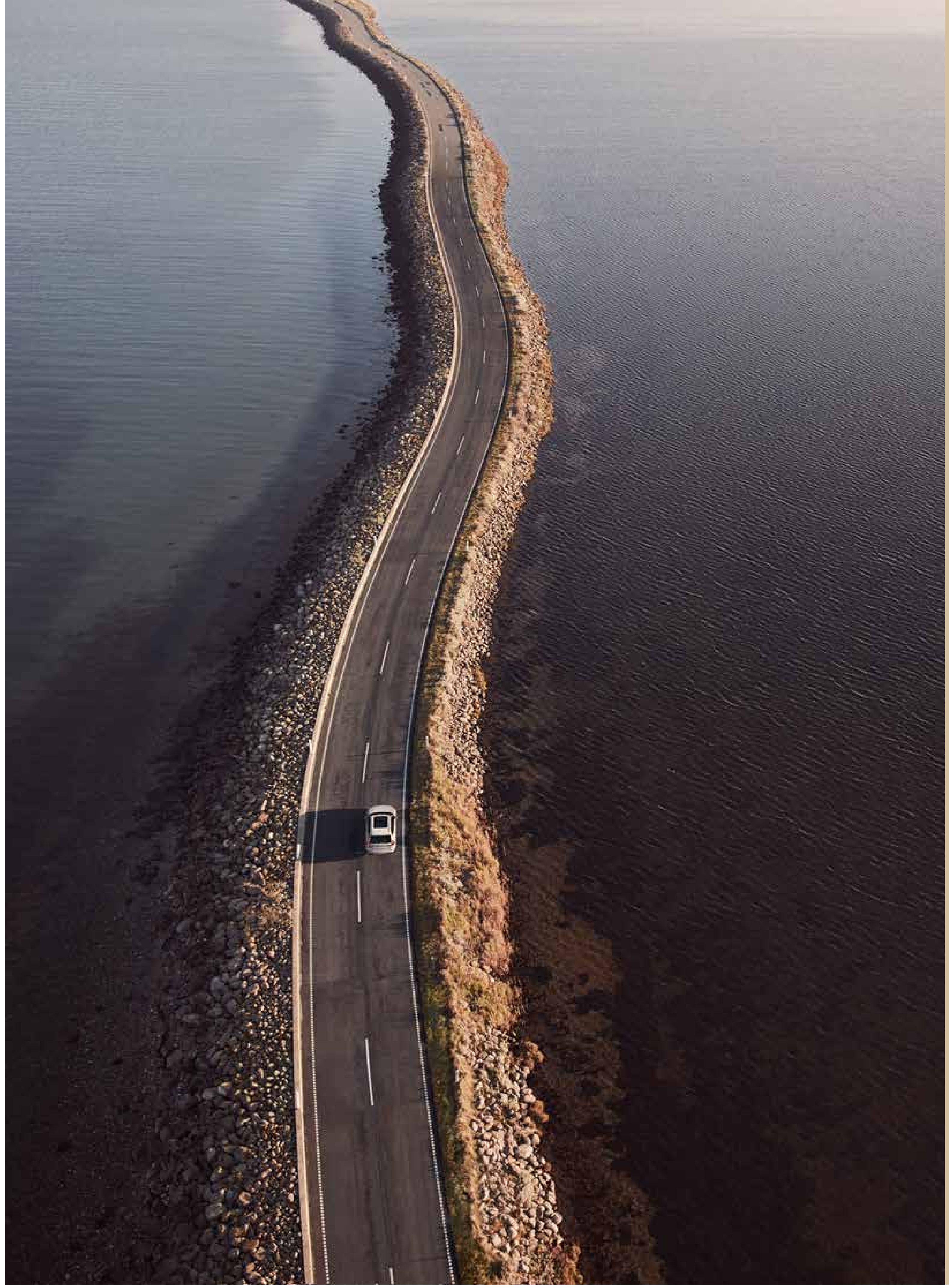
Ann Hellenius
Director

Conny Bergström
CEO

We submitted our audit report on 22 March 2018

KPMG AB

Mikael Ekberg
Authorised Public Accountant



Auditor's report

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

Report on the financial statements

Opinions

We have audited the financial statements of Volvofinans Bank AB for 2017 with the exception of the corporate governance report on pages 14-21 and the sustainability report on pages 22-23.

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 (publ) as at 31 December 2017, 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 14-21 or the sustainability report on pages 22-23. 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.

Our opinions on these financial statements are consistent with the content in the supplementary report that has been submitted to the audit committee in accordance with Article 11 of Regulation (EU) No 537/2014.

The company's financial statements are included on pages 12–88 of this document.

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 (publ) in accordance with good auditing practices in Sweden and have fulfilled our ethical responsibilities in accordance with these requirements. This means that, based on our best knowledge and beliefs, no prohibited services as defined in Article 5.1 of Regulation (EU) No 537/2014 have been provided to the audited company, its parent or its controlling companies within the EU.

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.

Provision for credit losses

See Accounting Principles in Note 3 and other related disclosures on residual value risk in Note 2 as well as Note 14 and Note 19 for detailed information and a description of the area.

Description of the key audit matter

The bank's loans and advances to customers amount to SEK 16,502,971,000 as of 31 December 2017, which corresponds to 40.6% of the bank's total assets. The banks provision for credit losses amount to 19,186,000.

For the retail segment, provisions are 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. Provisions for credit risks for corporate customers is based on a manual review of all receivables.

Provision for credit losses corresponds to the management's best estimate of potential losses incurred as of the balance sheet date. This is regarded as a key audit matter because it includes significant judgements by the company management. Judgements that are made during the credit provision process include categorisation of the outstanding receivables and determining the risk weight for each category.

How our audit addressed the key audit matter

We have tested the bank's key controls in the process of categorising receivables and determining the risk weights.

For loans that are valued using collective provision models, we have challenged the assumptions used in the models. We also performed random sampling to evaluate inputs to models and the accuracy of calculations.

Using random sampling, we also challenged the company management's assessment of the recovery value of future cash flows for impairment losses made on an individual basis.

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.

No significant observations have been noted.

Impairment of lease assets

See Accounting Principles in Note 3 and other related disclosures on residual value risk in Note 2 and Note 24 for detailed information and a description of the area.

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 2017 stood at SEK 4,143,654,000, which corresponds to 10.2 per cent of the company's total assets. The company recognised impairment losses of SEK 132,712,000. 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

The Board of Directors and the CEO are responsible for this other information. The other information consists of pages 1-11 and pages 22-23.

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 make a conclusion 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 areas in the audit report unless laws or regulations prevent disclosure of the issue.

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 (publ) for 2017 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 (publ) 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 14-21 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.

Auditor's opinion on the statutory sustainability report

The Board of Directors is responsible for the Sustainability Report on pages 22-23 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

We conducted our audit in accordance with FAR's auditing standard RevR. 12 The auditor´s opinion regarding the statutory sustainability report. This means that our review of the Sustainability 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 opinion.

A sustainability report has been prepared.

KPMG AB, Box 11908, 404 39, Göteborg, was appointed as the auditor for Volvofinans Bank AB (publ) at the general meeting of shareholders on 26 June 2017. KPMG AB or auditors working at KPMG AB have been the company's auditor since 1983.

Göteborg, 22 March 2018

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 Board at Svenska Volvohandlarföreningen, Nybergs Bil AB and Liljas Bil AB

Anders Gustafsson
CEO Volvo Personbilar AB, Region Americas

Per Avander
CEO, AB Bilia

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

Ann Hellenius
CIO Bankgirot

Deputy Board members

Björn Rentzhog
CEO and President, AB Persson Invest

Kristian Elvefors
CEO, Volvo Car Sverige AB

Janola Gustafson
Chairman of the Volvo Dealers Association

Pascal Bellemans
Vice President, Head of Volvo Car Financial Services

Auditor

Mikael Ekberg
Authorised Public Accountant

Senior executives

Conny Bergström
CEO

Joel Graffman
Head of Marketing/Sales, Volvo Cars

Per Lindahl
Head of Marketing/Sales, Volvo Trucks

Hans Jörgen Möller
CFO

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
Finance Manager

Johan Linder
Marketing Director Svensk Vagnparksfinans

Roderik Jönsson
Head of Business Development

Viktor Olsbo
Head of BICC

Gunnar Ekeroth
Chief Risk Officer (coopted)

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