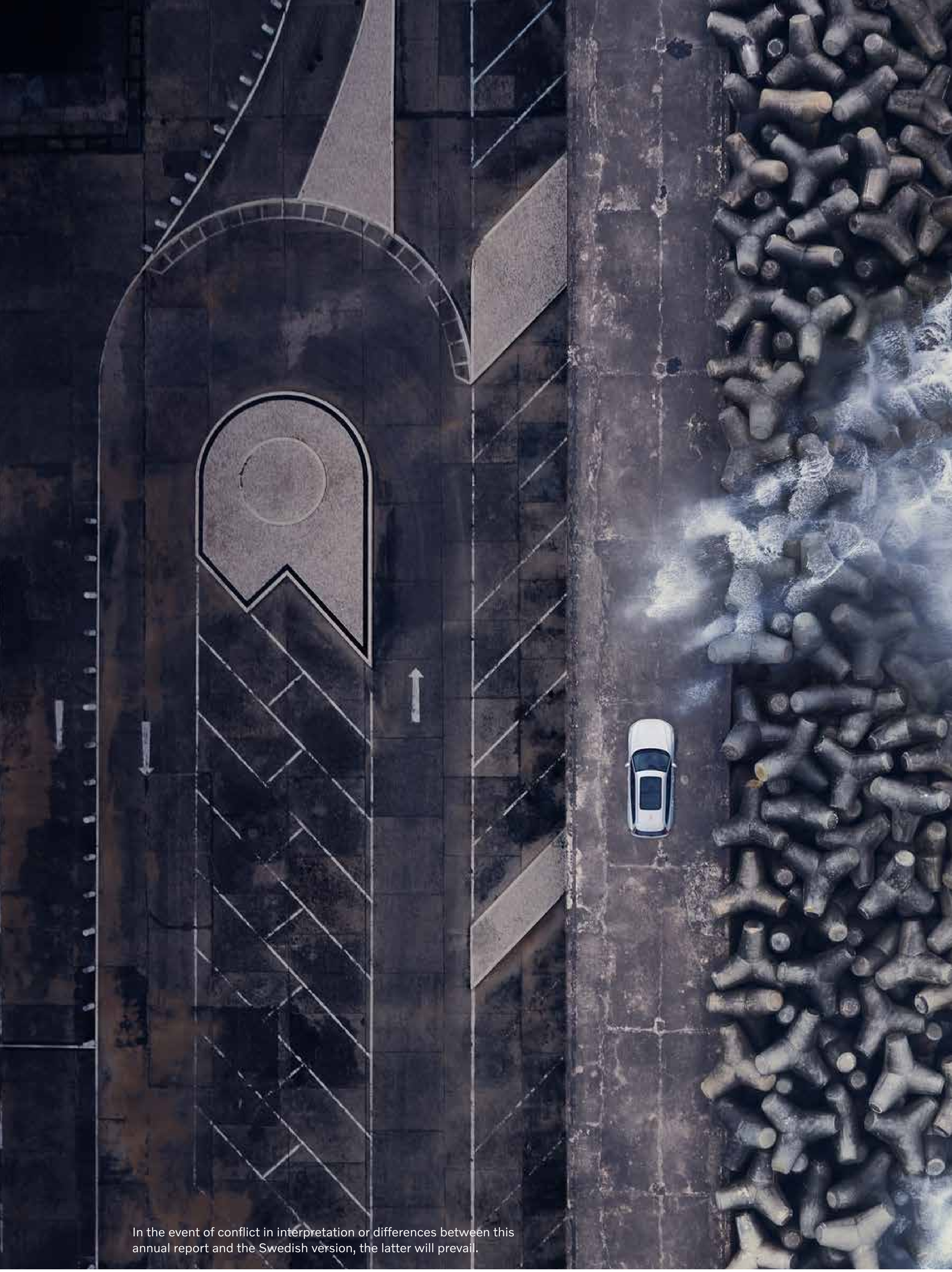
ANNUAL REPORT 2018

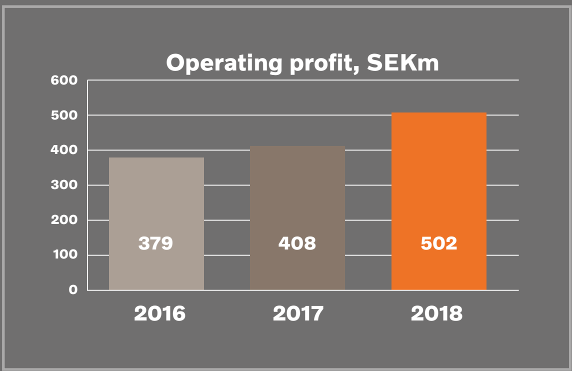
VOLVOFINANS BANK

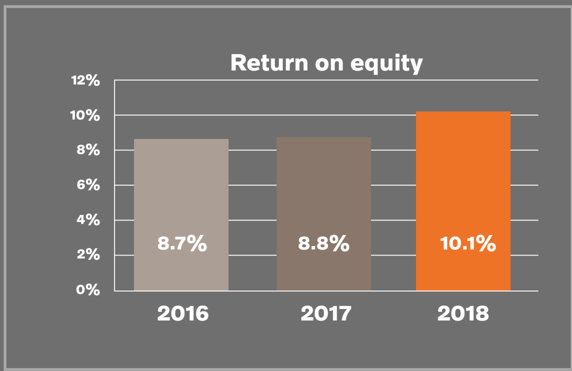


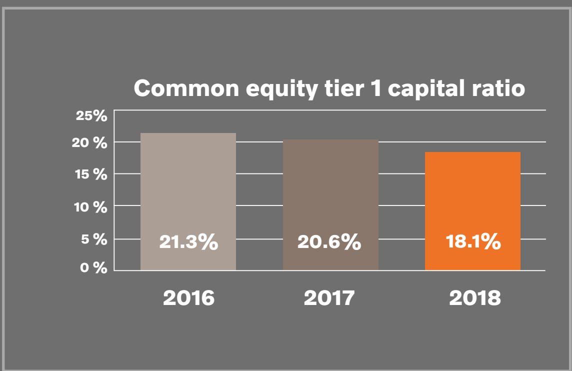
In the event of conflict in interpretation or differences between this annual report and the Swedish version, the latter will prevail.

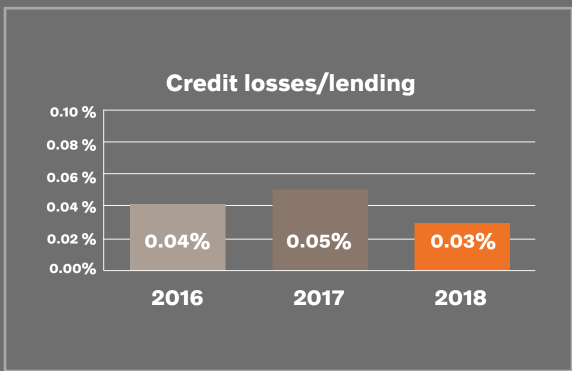
SUMMARY

JAN–DEC 2018









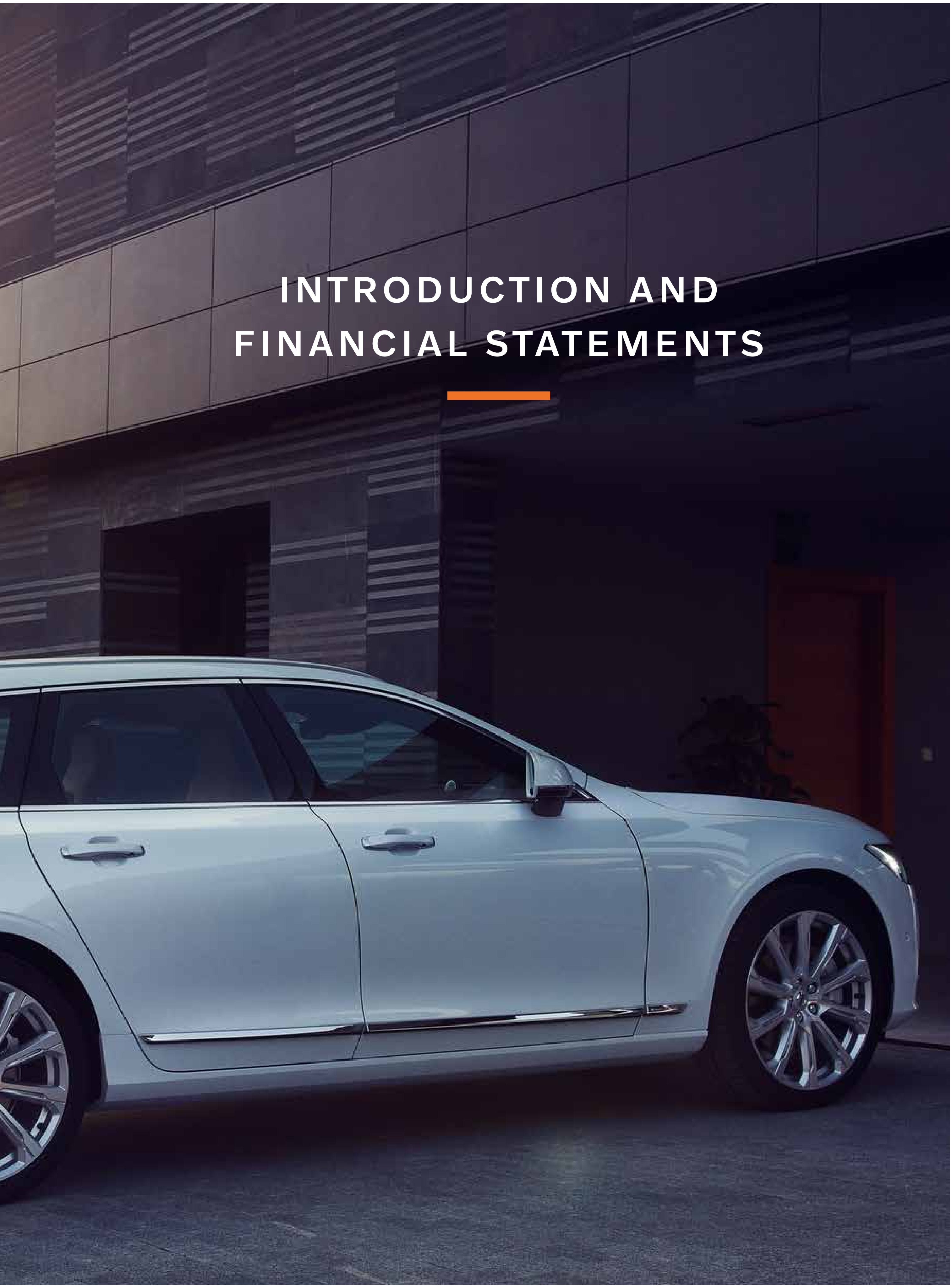
ANNUAL REPORT
2018

INTRODUCTION AND FINANCIAL STATEMENTS

NOTES


MLB 090

INTRODUCTION AND FINANCIAL STATEMENTS



COMMENTS FROM THE CEO

For the first time, operating profit for Volvofinans Bank exceeded SEK 0.5 billion. Profit, at SEK 502 million, exceeded that of last year by SEK 94 million, an improvement of 23%. Although profit has been strengthened by extraordinary income, the record level has been achieved as an effect of several years' lending growth, rising net interest income and continued low credit losses.

During the years 2015–2018, the bank's lending has grown by almost SEK 10 billion or 36%, including by SEK 2.2 billion last year. The growth is a result of several years of a record-strong automotive market and, through the market leader Volvo Cars, the bank has renewed its entire model programme and seriously established itself as a premium brand, with higher funding amounts accordingly. In addition, private leasing with its structural simplicity has established itself as a financing option for consumers, where leasing means a higher loan-to-value ratio for the bank. The bank's market borrowing has also been expanded, with our first bond in Norwegian kroner being issued in June, and in total we have issued SEK 3.7 billion in new bonds after an intense first six months.

The Swedish automotive market was characterised in 2018 by a highly divided pattern of new car sales, mainly caused by a change in vehicle tax on passenger cars called "bonus malus", which was introduced in mid-year. A total of 64% of new registrations were added in the first half of 2018; for Volvo Cars, the corresponding proportion was 70%. However, business volumes in the second half of the year were strengthened by an increase in net used car sales.

The bank's business areas – Cars, Fleet and Trucks – delivered different but essentially good performances. However, Fleet excelled that little bit more and, from the turn of the year, was the market leader in the segment. Trucks increased sales by a full 16% in a strong market, but the profit was weighed down by development costs. A total of 6,205 heavy trucks over 16 tonnes were registered in Sweden, with Volvo Trucks increasing its market share to 42.4%. The number of loan and leasing contracts in the bank as a whole increased by nearly 9,000 to 255,714 contracts.

As I have previously touched on in my CEO's comments, Volvofinans Bank has been on an interesting development trip for several years now. The bank is, of course, affected by regulatory changes and digitisation in the financial sector, as well as by the relatively rapid technology reorientation in the automotive industry. As a bank, we act in accordance with new rules for payment services, a regulation called PSD2.

"It is a case of being prepared and following developments, even if implementation will take place at different rates."

The change invites increased competition and we see new players on the payments market. Of course, this also opens up the opportunity for Volvofinans Bank to increase customer value and strengthen loyalty from new and old customers. PSD2 entails both threats and opportunities, and we are preparing to fend off and utilise these, respectively. We also have a rapid technological development in the payments field, centred around the use of mobile phones as tools for payments without card reading. Since 2016, we have been specifically involved in this development in the form of the bank's automobile app CarPay, which is continuously being developed and provided with new functionality.

The technology reorientation in the automotive industry, with increasing elements of electrification and autonomous driving, continues at a relatively rapid pace. It is a case of being prepared and following developments, even if implementation will take place at different rates. Timing will therefore be of great importance to meet the customers' needs.

It is in the above operating environment that Volvofinans Bank needs to navigate, while intensive work is underway to prepare the bank for change. Investments in business development and IT increased, according to plan, by approximately SEK 40 million in 2018. It is planned for the current year to be even more intensive on investment, with us further accelerating our digital ventures. Overall, we believe in a continued good development for the bank in 2019, but with a lower profitability than in the record past year. Volvofinans Bank's goal is to support our owners' sales with good profitability, by delivering smart vehicle financing that facilitates and makes life with a car simpler for our private consumers and business customers. In the automotive world, the word mobility is often used, and in our niche position we continue striving to become "the Mobility Bank".

Conny Bergström
CEO
Volvofinans Bank AB

JAN–DEC 2018 IN SUMMARY

Operating profit:
SEK 502 million (408)

Return on equity:
10.1% (8.8)

Lending at 31 December:
SEK 37.3 billion (35.1)

Net credit losses:
SEK 13.2 million (18.0)

Common equity tier 1 capital ratio:
18.1% (20.6)

SWEDEN'S VOLVO DEALERSHIPS IN 2018

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 271 workshops. In addition, the general agent, Volvo Car Sverige AB, also has stakes in three sales companies. Stock exchange-listed Bilia AB owns the largest passenger car company, while AB Volvo owns the largest truck company. These listed companies account for nearly 40% of Volvo and Renault sales in Sweden's car and truck markets, 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 >16 tonnes). One sells both cars and trucks.

VOLVO DEALERS 2018 IN FIGURES

Net sales in the Volvo dealer network in 2018 amounted to approximately SEK 55 billion, with earnings totalling around SEK 1,700 million.

A BROADER BUSINESS

The Volvo dealers' product range is the broadest among Swedish auto dealers, covering everything from the sale of passenger cars and delivery vehicles (Volvo, Renault and Ford) to heavy trucks and buses (Volvo). The bank's 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 the Bank thus gains 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 such as financing and payment solutions.

VOLVO DEALERS' CREDIT RATING

Each dealer's credit rating is one of the indicators that the bank follows in order to assess the payment capability from a longer perspective. The Volvo dealers' creditworthiness is assessed by Bisnode and is done for each individual legal entity. A significant majority of Volvo's 59 dealers have the highest possible credit rating.

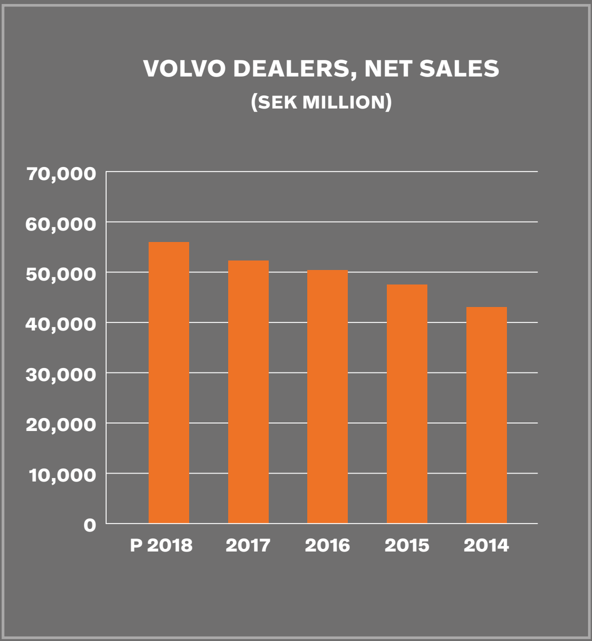
YEAR	AAA	AA	A	B	NEW	NUMBER
2018	73%	22%	5%	–	–	59
2017	84%	12%	4%	–	–	58
2016	76%	20%	4%	–	–	59
2015	63%	30%	7%	–	–	60
2014	48%	45%	5%	2%	–	60

VOLVO DEALERS, 2018–2014

(AMOUNTS IN SEK MILLION)

NET SALES AND EARNINGS	Forecast 2018	2017	2016	2015	2014
Net sales Cars	48,036	46,243	43,901	41,877	37 547
Net sales Trucks	7,315	6,445	6,346	5,382	5,322
Profit after net financial items Cars	1,330	1,448	1,504	1,342	832
Profit after net financial items Trucks	369	292	301	247	252
Total net sales	**55,351**	**52,688**	**50,247**	**47,259**	**42,869**
Total profit after net financial items	**1,698**	**1,740**	**1,805**	**1,589**	**1,084**
KEY PERFORMANCE INDICATORS					
Equity/assets ratio (%) Cars	43.92	34.45	37.45	33.26	34.74
Equity/assets ratio (%) Trucks	45.35	37.85	43.53	33.58	41.54
Return on equity (%) Cars	35.36	23.17	31.41	23.08	17.07
Return on equity (%) Trucks	45.15	26.09	34.81	17.97	23.45

Note: The figures for 2018 are based on forecasts, since final annual reports were not available at the time of publication.



DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Volvofinans Bank AB (publ) hereby present their report on operations for 2018. Hereinafter referred to as the bank.

GROUP STRUCTURE

The bank has its registered office in Gothenburg.

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

As permitted under Ch. 7 Section 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, Volvohandlarföreningen Ek för and Volvohandelns PV Försäljnings AB, which is also a general partner, the bank owns three limited partnerships. One of these sells on commission through the Swedish Volvo dealer network, another provides rental services to companies in Volvo Car Corporation and the third provides rental services to companies within both Volvo Car Corporation and AB Volvo.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

No significant events occurred during the year.

INFORMATION ON RISKS AND UNCERTAINTIES

Information on risks and uncertainties can be found in Note 2.

VOLUMES/LENDING

At year-end, there were 255,714 contracts (246,969) in the bank's loan and lease portfolios, corresponding to an increase of 3.5% 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, %	2018	2017	2016	2015	2014
New cars	52	53	54	49	49
Used cars	36	36	36	35	36
New trucks	54	57	54	50	49

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 37.3 billion (35.1) at year-end, an increase of 6.3% on the previous year. Lending consists mainly of leases, loans, contract credits, dealer inventory credits and credit card credits.

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

	2018 SEK billion	%	2017 SEK billion	%	Change, SEK billion
Sales finance					
– Cars	32.0	86	30.1	86	1.9
– Trucks and Buses	3.3	9	3.0	8	0.3
Inventory credits	0.2	1	0.3	1	- 0.1
Credit card credits	1.8	4	1.7	5	0.1
Total	**37.3**	**100**	**35.1**	**100**	**2.2**

Volvo Car Leasing increased by SEK 0.8 billion, or 7%, and Volvo Car Loans and Volvo Truck Loans grew by SEK 0.7 billion, or 5%. Collateral assignment, where Volvo dealers have a credit with underlying loan contracts or leasing contracts as collateral, increased by SEK 184.8 million or 16%.

The volume of credit card credits was somewhat higher compared to the previous year. Net sales through Volvo Card amounted to SEK 14.3 billion (13.0), and during the year there were 29.2 (28.1) million card purchases.

The number of corporate customers for whom Svensk Vagnparksfinans handles car administration increased during the year, with 45,860 cars (42,407) being administered at year-end.

Net sales through the Volvo Truck Card were down year on year, with goods and services purchased in 2018 using the 17,016 cards (17,229) totalling SEK 364 million (387).

PERFORMANCE

Profit before credit losses was SEK 514.7 million (425.6), corresponding to an increase of 20.9% on the previous year. Depreciation of property, plant and equipment refers mainly to lease assets. The depreciation charge was affected by lease volumes and the rate of depreciation, based on contractual residual values at the end of the lease term.

Net credit losses totalled SEK 13.2 billion (18.0); see Note 15.

Profit after loan losses amounted to SEK 501.8 million (407.6), an increase of 23%, driven by higher lending volumes. The increase in profit is also explained by the reversal of previously conducted impairment of residual value. For more information, refer to the section on Residual Value Risk.

The bank also received dividends in cash and shares as Visa Sweden Association ek. för. had done on the occasion of the sale of Visa Europe shares to Visa Inc. During 2018, the bank carried a disputable VAT recoverable of SEK 45.4 million from the Swedish Tax Agency as an expense, which was recognised under Other operating expenses. See also Note 14.

The return on equity was 10.15% (8.77).

CREDIT RISKS AND CREDIT LOSSES

Out of the bank's total lending for vehicle finance, 77% (78) 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 2018, the breakdown of loan and lease contracts was as follows. The unencumbered portion of outstanding contracts at year-end was SEK 2.5 billion (2.9).

	Loans	Leases	Total
Number of contracts	129,366	126,348	**255,714**
Average contract, SEK '000	118	176	**147**
Collateral value, SEKm	15,297	22,286	**37,582**
Credit used, SEK million	14,774	20,270	**35,044**
Loan-to-value ratio, %	97	91	**93**

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 23% (22), of which 18% (18) refers to sales finance and 5% (5) to credit card credits.

Receivables which are more than 90 days overdue amounted to SEK 217.3 million (84.1) and consisted of loans and leases of SEK 205.6 million (74.8), of which SEK 198.3 million (69.3) referred to contracts under which the bank has a right of recourse against Volvo dealers, and credit card receivables of SEK 11.7 million (9.2), accounting for 0.7% (0.6) of total credit card lending.

The value of credit card receivables, SEK 1.8 billion (1.7), is stated after impairment. The provision represents 1.3% (1.0) 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 3,828 (3,577).

CAPITAL PROCUREMENT

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

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

The bank's financing facilities and borrowing arrangements and drawn portions at 31 December 2018 are shown in the table below.

Nominal amounts in SEKm	Limit	Drawn
Nordic commercial paper programme	8,000	200
European commercial paper programme	5,075	–
MTN programme	20,000	15,350
Short-term financing facilities with banks	3,500	–
Long-term financing facilities with banks	2,833	2,083
Retail deposits	–	18,218
Risk capital	–	400
Total	**37,325**	**36,251**

Deposits from the bank's savings account increased by SEK 1.8 billion during 2018 and the total balance of savings accounts thus amounted to SEK 16.7 billion (14.9) as of December 31. Total deposits, including balances on Volvo Card accounts and deposits from Volvo dealers, amounted to SEK 18.2 billion (16.0) and accounted for 51% (47) of the bank's financing.

The bank´s MTN programme provides the option to issuie in the currencies SEK, NOK and EUR. Green bonds can also be issued under the programme. Bonds to a value of SEK 3.7 billion were issued during the year, of which SEK 650 million consisted of the bank's first bond in Norwegian kroner (NOK 600 million). Commercial papers to a value of SEK 800 million were issued during the year. The bank´s outstanding market borrowings amounted to a nominal SEK 15.6 billion (15.6) as at 31 December 2018.

The bank also issued capital instruments in 2018, in the form of a ten-year subordinated loan of SEK 400 million that was raised in the first quarter.

In addition to market borrowing and deposits, the bank funded its operations through bank credits, which totalled to SEK 2.1 billion (2.2). The share of long-term financing (≥12 months) from the financial markets and banking sector was 81% (76). In addition to drawings on the above bank credits, there are contracted cheque and credit facilities with banks of SEK 4.3 billion (4.3). The maturity structure for the bank's total financing at 31 December 2018 is shown in the table below.

	SEKm	%
Within 1 year	3,290	18
1–3 years	7,975	44
4–5 years	6,273	35
Over 5 years	495	3
	18,033	**100**
No term:		
– Retail deposits	18,218	
– Equity (incl. tax portion of untaxed reserves)	4,760	
Total	**41,011**	

RATING

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

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

A detailed and up-to-date analysis from Moody's is available on our website, 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 uncertainty in the market at large, the bank is full of expectations for the future and what its digital capabilities can lead to and contribute in the area of mobility. The bank is working consistently to digitalise the services for all of its customers, an opportunity provided by the continued stable ownership of the bank and consistently strong capital base.

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 has others serving on it besides independent. The Chairman of the nomination committee is a member of the Board. The bank does not provide information on the website about how share-holders can submit proposals to the nomination committee.	There are no minority share-holders, 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 share-holders	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 per cent holding each, both of whom have stated that they do not wish 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 the 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 justify 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.

The 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 2018 AGM was held in the bank's office in Gothenburg on Tuesday 26 June. The 2019 AGM will be held on Wednesday 12 June 2019 in Gothenburg.

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 2018 AGM with authorised 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 five meetings in 2018. The work included a strategy conference, the setting of the budget for 2019, ongoing monitoring of performance and the financial position and management of strategy and development issues.

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, and dealt with by the nomination committee. The conclusions of the 2018 evaluation are that the composition of the Board regarding expertise and experience is well balanced as regards the diversity policy as well as the current and future needs that exist in the business. Given the accelerating changes in the world of banking, the Board has expressed a desire to expand the scope of ongoing reporting between Board meetings.

Board committees

The Board of Directors shall appoint at least two members to serve on the Board's credit, audit and risk, 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:

- *The 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 and Risk Committee* is a processing body that monitors financial reporting, internal control, internal audit and the risk management system. The Audit and Risk 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 committee shall recommend to the Board which other services it should request of its auditors.
- *The Remuneration Committee* is responsible for preparing significant decisions on remuneration and deciding on measures to follow up the application of the bank's remuneration policy.
- *The 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 2018 is provided in Note 12.

BOARD





	Urmas Kruusval	Synnöve Trygg	Tommy Andersson	Per Avander	Kristian Elvefors
	Chairman	Vice Chairman	Director	Director	Director
Born	1951	1959	1948	1961	1974
Elected	2007	2014	2008	2012	2016
Committee	Credit, audit and risk, remuneration and IT committees	Audit and risk and IT committee	Credit, audit and risk and remuneration committee	–	–
Education	Studies at Gothenburg School of Business, Economics and Law	MBA, Stockholm University	Business training	High school economic studies	Reserve Officer and MSc in Business and Economics
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, Valitor HF and Precise Biometrics AB.	Chairman of the Board at Nybergs Bil AB and Liljas Bil AB.	CEO, AB Bilia Chairman of the Board at Bilia Personbilar AB, Bilia Personvogner AS, Bilia Personbil AS, Bilia Center Syd AB, Autohaus Bilia Germany, Bilia Emond Holding in Luxemburg and Belgium. Also Chairman of the Board at AB Volverkinvest, Volvohandlarföreningen Ek För. and Verstraeten, Belgium. Board member of Netbil Begagnat.	VD Volvo Car Sverige AB. Chairman of the Board at First Rent a Car AB and Volvo Car Retail Solutions AB. Deputy Board member at Volvo Bil AB.
Other prior important positions held	CEO AB Volvofinans, 1990–1999.	Board Member at Trygg Hansa AB, MasterCard Europé, Diners Club International, Nordax Bank AB and Wrapp AB. 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 Sweden and Chairman of Bilia Personbilar AB Norway and Denmark, as well as Chairman of the Board at Svenska Volvohandlarföreningen.	Banker at Svenska Handelsbanken, Head of Sales at Scaniabilar and Head of Sales and Marketing Bilforum, Gothenburg and Värmlands Bil. CEO at Din Bil, Gothenburg and Din Bil, Stockholm. Regional Director Bilia Personbilar Stockholm, Deputy CEO Bilia Personbilar AB, Sweden, CEO Bilia Personbilar AB Sweden.	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.
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	5/5	5/5	5/5	5/5	5/5
Participation at committee meetings	4/4	–	4/4	–	–
Participation at audit and risk committee meetings	4/4	4/4	4/4	–	–
Participation at remuneration committee meetings	4/4	–	4/4	–	–
Participation at IT committee meetings	4/4	4/4	–	–	–

Ann Hellenius	**Patrik Tolf**	**Pascal Bellemans**	**Janola Gustafson**	**Anders Gustafsson**	**Björn Rentzhog**
Director	Director	Deputy	Deputy	Deputy	Deputy
1974	1970	1959	1967	1968	1969
2017	2014	2016	2016	2011	2016
IT committee	Credit, audit and risk, remuneration and IT committees	–	–	–	–
MSc in Business and Economics, Linköping University, University of Bath	MSc in Business and Economics, Linköping University.	Master's Degree in Economics (MSc)	Degree in Logistics, Jönköping University	Executive Business Management US, EU & CN	MSc in Business and Economics, Mid Sweden University, Östersund
CIO/CDO Scandic Hotels. Board member in H&H Group, Lantmäteriet and the Swedish Agency for Economic and Regional Growth. Is part of the Swedish Government's digitisation council.	Deputy CFO & Head of Group Finance, Volvo Car Corporation. Board Member of The Seventh AP Fund, Chairman of Volvo Car Financial Services US LLC, Volvo Car Försäkrings AB and Volvo Car Technology Fund 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.	CEO Volvo Cars, Americas Region	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 at several 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.
CIO Bankgirot, CIO City of Stockholm, CEO and founder of Solvitur AB, Manager at Ernst & Young Management Consulting, Strategy Consultant at Cambridge Strategic Management Group.	VP Head of Group Treasury & Risk Management Saab AB and other positions within the Saab Group.	CEO Volvo Car France, CEO at Global Sales Operations in Gothenburg, 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.	CEO Volvo Personbilar Sweden, CEO Volvo Personbilar EMEA region, CEO Hertz Sweden and COO Hertz Nordic. Chairman Hertz Rent a Car AB and Hertz First Rent a Car. Vice-Chairman Hertz Rent a Car Norway. Board member Volvobil, First Rent a Car AB and Hertz First Rent a Car AB Finland.	CEO and Controller at Wist Last & Buss AB, CFO at Samhall Midland AB and Auditor at Deloitte AB.
Independent	Independent	Independent	Independent	Independent	Independent
Independent	Not independent	Not independent	Not independent	Not independent	Not independent
–	–	–	–	–	–
3/5	5/5	3/5	4/5	3/5	5/5
–	4/4	–	–	–	–
–	3/4	–	–	–	–
–	3/4	–	–	–	–
4/4	3/4	–	–	–	–

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.

Since 1 February 2018, the bank's management group has been a team of ten people, which, besides the CEO, has included the COO, CIO, CFO, Risk Manager, Credit Manager, HR Manager and the marketing and sales manager for each business area. The group meets 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, Gothenburg 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	–

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 comprises 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. In 2018, the internal audit has been carried out by PWC and the review has included deposit systems and the remuneration system.

Control environment

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

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

Risk assessment

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

Control activities

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

Information and communication

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

Follow-up and monitoring

Responsibility for ongoing follow-up rests with the management team and accounts department. In addition, the internal audit, risk control and compliance functions also follow up and monitor operations. Results of evaluation activities are reported to management and the Board.

SUSTAINABILITY REPORT

The bank has a unique business model for the industry, whereby vehicle dealers – following creditworthiness assessment – sell vehicles to the customer and then transfer the contract to Volvofinans with collateral in the item. The dealers stand the credit risk, while Volvofinans borrows on the market, thus providing the dealers with access to the financial markets. The bank finances the dealers' loan and leasing contracts. In addition to car financing, the bank's business model also includes card operations aimed at both private and corporate customers. 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 forms an integral part of all new products since it is a requirement of the bank's approval process. For further information on Volvofinans' business model and segments, see the Directors' Report and Note 4.

POLICY

The bank's Sustainability Policy guides the work on sustainability, and for the bank sustainability means a responsibility towards customers, partners, employees, society and the environment. The basic strategy is to combine business value with being a healthy player on a healthy market. 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 and has conducted an analysis of stakeholders. These have together 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, linked to sustainability in the company's operations. The risks are of both a strategic and operational nature; as a bank, we provide capital adequacy for all risks, including strategic and operational ones.

Environment

The risk in the area of the environment derives mainly from the fact that the bank's business is to finance vehicles, which largely run on less environmentally friendly fuels, such as petrol and diesel. In order to address and mitigate this environmental risk, the bank has a partnership with E.ON where all Volvo card customers are offered the opportunity to choose Biogas 100 when they fill up at any of E.ON's refuelling stations. When a customer chooses Biogas 100, an equal amount of renewable biogas is produced. The Bank's partners in other transport fuels have a high proportion of HVO biodiesel.

The bank also sees a risk of reduced lending volumes as a result of further regulations in the automotive sector, such as Bonus Malus, which came into force on 1 July 2018 and which seeks to reduce the environmental impact. However, 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 2018, the bank published an investors' report for the green bond, which was issued in 2017. According to the report, the green loan portfolio contributes to an annual CO_2 reduction of 3,700 tonnes. This type of bond is something that is increasingly being demanded in the capital market, especially by investors who prioritise green investments, which the bank can see through the increase in the loan portfolio of green cars.

The bank's sustainability goals still include lowering the direct environmental impact of both electricity and paper consumption. In 2018, paper invoices to customers decreased by two percentage points in comparison with 2017, and Volvofinans uses only renewable electricity bearing the "Good environmental choice" label. Electricity consumption in 2018 is not representative, as one office has moved and the other office is undergoing renovation.

Consumption category	2018	2017	Change
Paper invoices to customers (%)	64	66	- 2

Staff and social conditions
It is the staff who drive the bank's profitability, and a good work environment is of great importance as it provides stimulation for good performances and personal development. The bank has identified two risks that emerge particularly clearly in this area:

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

In order to preserve the right skills, the bank is 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.

Working conditions, including both the physical and psychosocial work environment, must be suitable for both women and men. In line with staff policy, the bank shall facilitate combining work and parenthood for all employees. Through education, skills development and other active measures, the bank continues to work to promote a gender balance in various positions and working groups. It is also important to the bank that the same principles for setting pay rates apply to both women and men, irrespective of age and ethnic origin.

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 and diagram below present the results of these employee surveys.

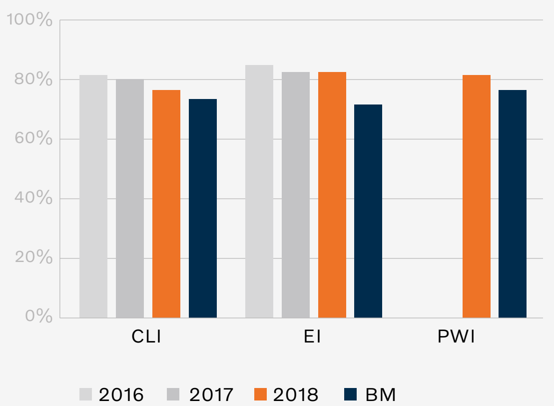
Respect for human rights and fighting against corruption
The bank has not identified any significant risks within this area. The bank only exists and operates in Sweden, where it complies with laws and its own diversity policy.

Anti-corruption
The bank has a well-functioning whistleblower function and conducts continuous training in issues relating to security, ethics and money laundering. During 2018, no whistleblower incidents were reported.

Significant risks related to anti-corruption:

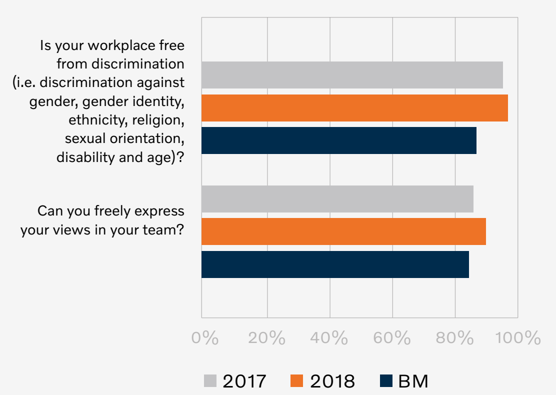
- Risk that the bank does not comply with the banking rules and regulations governing the bank's operations
- Risk that the bank does not fully comply with the money laundering regulations
- Risk of internal irregularities

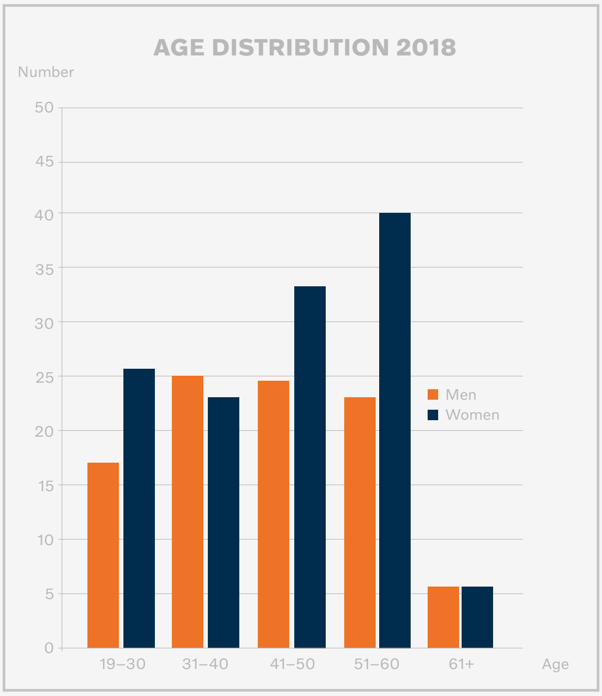
In order to minimise the risk of not complying with banking rules and regulations, the bank's Regulation Compliance Manager performs regular monitoring. The bank also has an obligation to assess and minimise the risk of its operations being used for money laundering or the financing of terrorism. By always verifying the identity, the purpose of the business and the actual principal of business customers, the risk of the bank being used to the financing of terrorism and money laundering is prevented. As the bank only operates in Sweden and offers products on this market, the bank considers that the risk of money laundering and the financing of terrorism is reduced.



CLI = Communicative Leadership Index
EI = Engagement Index
PWI = Psychosocial Work Environment Index

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





PERSONNEL

At year-end 2018, the bank had 223 (208) employees, of whom 181 (170) were based in Gothenburg and the rest at our office in Stockholm. The average number of employees was 207 (196), with women outnumbering men in the workforce. There are ten senior executives, of which two are women.

A strong corporate culture is a success factor, and during the year the bank continued actively working on its corporate culture, in which all employees were involved. Leadership remains a priority area and many training efforts have been made during the year. Coaching leadership is a prerequisite for successfully and effectively leading employees in change. An important meeting place is the Management Forum, which each month brings together all managers with staff responsibility.

The right skills are an important competitive factor when developments are proceeding fast. Employee training and development are strategically important and an important investment for the bank. Appraisal and performance discussions are therefore important tools in dialogues about objectives and development efforts. The bank has an internal development programme that is aimed at helping talented employees to develop their skills.

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

A modern workplace is part of being an attractive employer. During the year, the Stockholm office moved to new premises, while extensive renovation work is taking place in Gothenburg, which will provide the bank with the right conditions for a more modern way of working.

The bank conducts an annual employee survey to monitor its employees' views on issues such as commitment, team effectiveness, leadership and the psychosocial work environment. Participation is high and the results of the year remain at a high level.

Information on salary payments and remuneration is provided in Note 12.

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 risks associated with the bank's remuneration policy and remuneration system that could have an adverse impact on the bank's future performance 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 annual salary. No variable remuneration is paid to members of the bank's management team. Nor is it paid to employees who make decisions on credits/limits or in internal control functions that deal with compliance, risk control and internal auditing.

Deferred remuneration

For employees working in positions in which they exercise a not insignificant influence on the bank's risk level and who are eligible for bonuses, 50 per cent 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, SEK million	Variable remuneration, SEKm	No. of people receiving fixed remuneration	No. of people receiving variable remuneration
Executive management	16.3	–	10	–
Other employees, incl. other employees who can influence the bank's risk level**	95.2	0.7	197	19
Total	**111.4**	**0.7**	**207**	**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 risk manager is included as co-opted member of the executive management.

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

Remuneration of SEK 112.1 million was charged to expense for the financial year. Variable remuneration consists entirely of cash. No remuneration is deferred and no variable remuneration has been promised.

No amounts related to severance pay were expensed during the year. No further promises of severance pay 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 191 million.

Amounts in SEK '000

	2018
Opening balance of retained earnings	190,694
Profit for the year	–
At the disposal of the AGM	**190,694**
The Board of Directors proposes that the above amount be appropriated as follows:	
Dividend of SEK 98.60 per share to the shareholders	98,604
Carried forward	**92,090**

The Board's proposal for this year's dividend, totalling SEK 98,604, which represents 16% of the company's equity, has been done while taking into account the rules on buffer capital, risk limitation and scrutiny according to the Swedish Banking and Financing Business Act and the precautionary rule in Chapter 17, Section 3, of the Swedish Companies Act.

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 3,979 million (3,781) and a minimum capital requirement of SEK 1,585 million (1,466). 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 SEK million

Condensed income statement	2018	2017	2016	2015	2014
Interest income	483	438	395	402	516
Lease income	5,318	4,636	4,019	3,619	3,517
Interest expense	- 257	- 196	- 182	- 252	- 470
Dividend received	16	–	–	–	–
Commission income	391	403	353	359	345
Commission expense	- 44	- 34	- 25	- 22	- 24
Net income/expense from financial transactions	- 1	- 13	- 1	- 6	- 4
Other operating income	52	9	4	4	3
Total income	**5,958**	**5,244**	**4,563**	**4,104**	**3,883**
General administrative expenses	- 389	- 335	- 312	- 280	- 265
Other operating expenses*	- 5,055	- 4,483	- 3,859	- 3,449	- 3,275
Net credit losses	- 13	- 18	- 13	- 12	- 12
Total expenses	**- 5,457**	**- 4,836**	**- 4,184**	**- 3,741**	**- 3,552**
Profit before tax	**502**	**408**	**379**	**363**	**331**
Profit for the year	**–**	**–**	**–**	**–**	**1,007**
Condensed balance sheet					
Chargeable treasury bills, etc.	1,246	1,433	1,041	1,081	1,171
Loans and advances to credit institutions	1,622	1,300	786	1,999	1,785
Loans and advances to customers	16,923	16,484	15,205	13,690	12,651
Bonds and other debt securities	2,232	1,883	1,724	836	837
Shares and interests in associates and other companies	31	27	26	24	21
Intangible assets	21	18	11	7	6
Property, plant and equipment	20,364	18,634	15,978	13,693	12,196
Other assets	938	870	703	671	632
Total assets	**43,377**	**40,649**	**35,474**	**32,001**	**29,299**
Borrowings	35,834	33,772	29,158	26,185	23,602
Other liabilities	2,383	2,135	1,907	1,738	1,724
Subordinated debts	400	–	–	–	–
Untaxed reserves	4,128	3,630	3,223	2,844	2,482
Equity	632	1,112	1,186	1,234	1,491
Total liabilities and equity	**43,377**	**40,649**	**35,474**	**32,001**	**29,299**

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

KEY PERFORMANCE INDICATORS	2018	2017	2016	2015	2014
Return on equity, %	10.15	8.77	8.68	8.93	8.14
Risk capital/total assets, %	11.67	11.47	12.22	12.60	12.68
Deposits/lending, %	48.87	45.60	49.43	52.33	55.44
Earnings/risk-weighted assets, %	2.53	2.22	2.30	2.42	2.40
Return on total assets, %	0.94	0.84	0.88	0.92	3.40
Total capital ratio, %	20.08	20.63	21.26	21.79	21.93
Common equity tier 1 capital ratio, %	18.06	20.63	21.26	21.79	21.93
Net interest income/ø lending, %	1.48	1.50	1.44	1.38	1.33
Credit losses/lending, %	0.03	0.05	0.04	0.04	0.04
Operating expenses/lending, %	1.21	1.32	1.24	1.23	1.26
Cost/income ratio, %	0.47	0.52	0.49	0.48	0.49
C/I ratio excluding residual value reservation	0.53	0.44	0.46	0.46	0.48
Liquidity coverage ratio	333	280	119	205	201
NSFR (Net stable funding ratio)	145	146	144	143	139
Leverage ratio	8.3	9.4	9.8	10.1	10.2
Average number of employees	207	196	189	184	183

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-oss/investerarrelationer/finansiella-rapporter/

INCOME STATEMENT

Amounts in SEK '000
1 January–31 December

Operating income	**Note**	**2018**	**2017**
Interest income	5	482,494	438,440
of which income calculated using the effective interest method		(482,494)	(435,814)
Lease income	6	5,318,171	4,635,582
Interest expense	5	- 256,698	- 196,228
Net interest income		**- 5,543,967**	**4,877,794**
Dividends received	7	16,352	–
Commission income	8	390,839	366,370
Commission expense	9	- 43,915	- 33,704
Net income/expense from financial transactions	10	- 563	- 13,053
Other operating income	11	51,724	46,315
Total operating income		**5,958,404**	**5,243,722**
Operating expenses			
General administrative expenses	12	- 389,147	- 334,544
Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets	13	- 4,941,822	- 4,436,389
Other operating expenses	14	- 112,727	- 47,190
Total operating expenses		**- 5,443,696**	**- 4,818,123**
Profit before credit losses		**514,708**	**425,599**
Net credit losses	15	- 13,185	- 17,991
Impairment losses/Reversals of financial assets, net		276	–
Operating profit		**501,799**	**407,608**
Appropriations	16	- 498,479	- 406,989
Tax on profit for the year	17	- 3,320	- 619
Profit for the year*		**–**	**–**

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

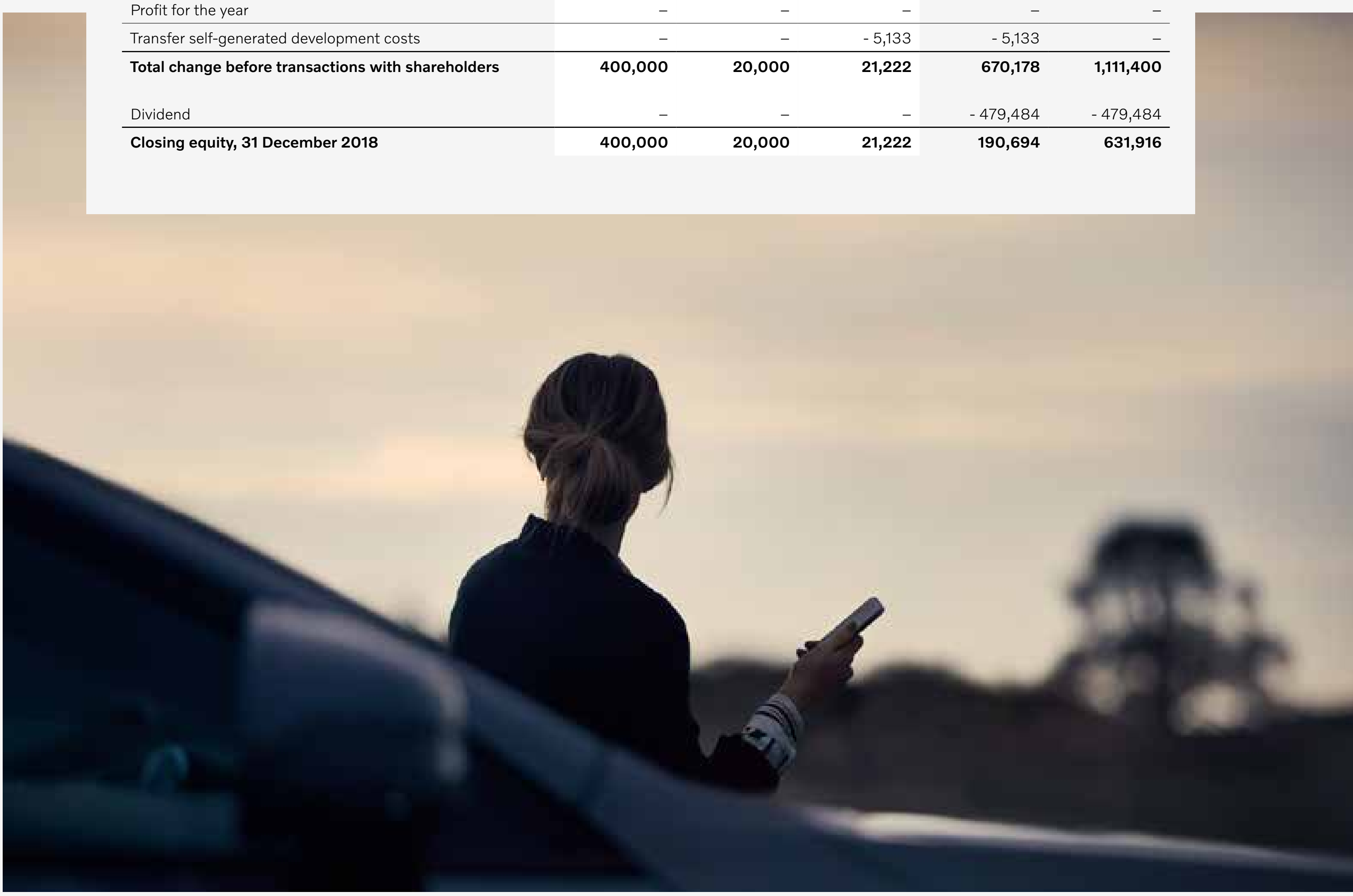
BALANCE SHEET

Amounts in SEK '000

Assets	Note	31 Dec 2018	31 Dec 2017
Chargeable treasury bills, etc.	18	1,245,816	1,432,848
Loans and advances to credit institutions	19	1,622,571	1,300,672
Loans and advances to customers	20	16,922,760	16,483,785
Bonds and other debt securities	21	2,231,967	1,882,661
Shares and interests in associates and other companies	22	23,777	20,417
Shares and interests in Group companies	23	6,742	6,742
Intangible assets	24	21,545	18,158
Property, plant and equipment, fixtures and fittings	25	6,488	2,300
Property, plant and equipment, lease assets	25	20,357,024	18,631,323
Other assets	26, 27	887,128	827,398
Prepaid expenses and accrued income	28	50,743	43,157
Total assets		**43,376,561**	**40,649,461**
Liabilities and equity			
Liabilities to credit institutions	29	2,083,333	2,150,000
Retail deposits and borrowings	30	18,218,366	16,013,905
Securities issued	29	15,532,399	15,607,882
Other liabilities	27, 31	1,079,373	906,739
Accrued expenses and deferred income	32	1,302,984	1,228,711
Subordinated debts	33	400,000	–
Total liabilities		**38,616,455**	**35,907,237**
Untaxed reserves	34	4,128,190	3,629,711
Equity	35		
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		21,222	16,089
Non-restricted equity:			
Retained earnings		190,694	676,424
Profit for the year		–	–
Total equity		**631,916**	**1,112,513**
Total liabilities and equity		**43,376,561**	**40,649,461**

STATEMENT OF CHANGES IN EQUITY

Amounts in SEK '000	Restricted equity			Non-restricted equity	
Opening equity	**Share capital**	**Statutory reserve**	**Development fund**	**Retained earnings incl. profit for the year**	**Total 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**
Opening equity 1 January 2018	**400,000**	**20,000**	**16,089**	**676,424**	**1,112,513**
IFRS 9, reclassification of securities	–	–	–	1,500	1,500
IFRS 9, reclassification of credit risk provision	–	–	–	- 2,613	- 2,613
Adjusted opening balance, 1 January 2018	400,000	20,000	16,089	675,311	1,111,400
Profit for the year	–	–	–	–	–
Transfer self-generated development costs	–	–	- 5,133	- 5,133	–
Total change before transactions with shareholders	**400,000**	**20,000**	**21,222**	**670,178**	**1,111,400**
Dividend	–	–	–	- 479,484	- 479,484
Closing equity, 31 December 2018	**400,000**	**20,000**	**21,222**	**190,694**	**631,916**



CASH FLOW STATEMENT

Amounts in SEK '000

Operating activities	2018	2017
Operating profit	501,799	407,608
Adjustment for non-cash items		
Unrealised portion of net income/expense from financial transactions	- 563	- 8,423
Depreciation, amortisation and impairment	4,947,844	4,436,469
Credit losses	11,884	17,264
Paid/refunded (-/+) taxes	- 1,236	11,933
Changes in operating assets and liabilities		
Chargeable treasury bills	187,032	- 392,306
Loans and advances to customers	- 449,362	- 1,296,828
Bonds and other debt securities	- 349,306	- 159,135
Retail deposits and borrowings	2,204,461	601,492
Liabilities to credit institutions	- 66,667	800,000
Other assets	- 70,897	- 178,610
Securities issued	- 75,484	3,212,794
Other liabilities	247,470	236,355
Cash flow from operating activities	**7,086,977**	**7,688,613**
Investing activities		
Capitalised development expenditure	- 22,044	- 11,664
Investments in shares and interests	- 3,361	- 1,408
Sale of property, plant and equipment	3,899,084	3,085,633
Acquisition of property, plant and equipment	- 10,559,274	- 10,173,269
Cash flow from investing activities	**- 6,685,594**	**- 7,100,708**
Financing activities		
Subordinated debts	400,000	–
Dividend paid	- 479,484	- 73,899
Cash flow from financing activities	**- 79,484**	**- 73,899**
Cash flow for the year		
Cash and cash equivalents at beginning of year	1,300,672	786,666
Cash flow from operating activities	7,086,977	7,688,613
Cash flow from investing activities	- 6,685,594	- 7,100,708
Cash flow from financing activities	- 79,484	- 73,899
Cash and cash equivalents at end of year, see Note 41	**1,622,571**	**1,300,672**

NOTES

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

Unless otherwise specified, amounts are stated in SEK '000.

Volvofinans Bank AB, hereinafter "the bank", operates in the Swedish market.

NOTE 1. INFORMATION ABOUT THE BANK

The Annual Report was released on 31 December 2018 and refers to Volvofinans Bank AB ("the bank"), which is a Swedish-registered credit institution based in Gothenburg. The address of the head office is Bohusgatan 15, Box 198, SE-401 23 Gothenburg.

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.

As permitted under Ch. 7 Section 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.

NOTE 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. Information on capital adequacy and risk management is provided in a Pillar 3 report on the bank's website, www.volvofinans.se.

In spring 2011 the Swedish Financial Supervisory Authority (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 Swedish State, the Swedish National Bank and Swedish local authorities as well as for the exposure classes sovereign and institutional exposures and portfolios which are insignificant in size.

RISK MANAGEMENT

Various types of risk arise from the bank's operations, such as credit risks, interest risks, liquidity risks and operational risks. For the purpose of limiting and controlling risk-taking in the business, the company's Board, which is ultimately responsible for internal controls in the company, has established policies and instructions for the granting of credit and other operations. Overall responsibility the company's risk-taking lies with the bank's Board. In a specific instruction within certain frameworks, the Board has delegated responsibility to various other functions, which in turn regularly report to the Board. The bank's risk management is aimed at identifying and assessing risks in the activities of the bank, and determining an appropriate risk appetite (limits) for these and ensuring 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 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.

RISK STRATEGY

The bank's risk strategy and risk appetite should:

- serve as policy instruments for achieving the company's strategic objectives
- take account of VFB's unique business model in the Swedish Volvo system
- take account of VFB's desire to be viewed as "the Mobility Bank"
- be adapted to the various business areas in VFB, i.e. Cars, Fleet and Trucks
- 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 may contribute to a higher return/target fulfilment
- risks that the bank is trying to minimise, as they cannot be expected to contribute to a higher return/target fulfilment

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 from Volvo dealers are made following a credit risk assessment using the credit assessment tool provided by Volvofinans, VF Score. VF Score is a proprietary internal risk classification tool where externally provided financial information, along with internal credit information about the customer, is processed through proprietary scorecards and regulatory frameworks to eventually culminate in a risk classification of the customer. Based on the score and rules, the tool generates a credit recommendation that is either: 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. The same approach is used for Volvofinans' internally administered credit granting services.

The granting of credit by Volvofinans in the form of loans and leases, which are not guaranteed by the Volvo dealers, 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 low level. The quality requirement must never be set aside in an effort to achieve a high credit volume. Credit granting in which Volvofinans assumes a direct counterparty risk mainly comprises fleet finance, through finance or operating leases, for Swedish enterprises. With a strong focus on credit quality, the bank concludes contracts only with financially stable companies, subject to a thorough credit assessment. Volvofinans has an internally developed scorecard and rules in VF Score for expert-based assessment of large companies. All fleet customers are assessed in accordance with an expert-based model.

The granting of credit in the car business must be risk assessed such that any expected increase in credit losses, resulting from any decisions involving increased risk-taking in terms of unsecured credit, must always be justified by an expected increase – all other things being equal – in Volvofinans' financial return on equity.

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.

CREDITS WITH DEFERMENTS OR RENEGOTIATED CONDITIONS

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 2018 the total amount of principal under renegotiated contracts was SEK 18.9 million (7.3).

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

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.

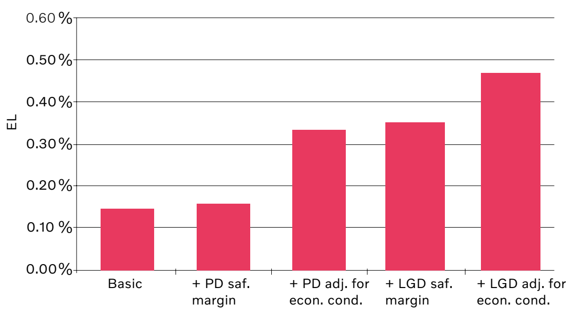
Statistical scoring models have been used for retail exposures (private individuals and small and medium-sized limited companies) since January 2007 and for corporate exposures (companies with sales of over SEK 400 million or exposures with the bank of more than SEK 5 million) an expert-based model was 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 per cent 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	10,893,411	16,697,765	2,237,638	13.40
2	7,061,451	9,186,742	2,144,474	23.34
3–4	4,626,042	5,098,856	1,763,270	34.58
5–6	1,206,138	1,263,699	613,987	48.59
7	165,943	169,539	90,523	53.39
In default	109,165	115,773	109,341	94.44
Total	**24,062,151**	**32,532,374**	**6,959,233**	**21.39**

Excluding the effect of credit risk protection, the total for all retail exposure amounts is SEK 34.0 billion rather than SEK 32.5 billion, as shown in the table. In calculating the higher amount, CF has been set at 100 per cent while the lower amount is based on a CF of 87 per cent for private customers and 84 per cent 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	4,558,911	4,609,433	2,054,241	44.57
2	2,284,841	2,329,386	2,113,622	90.74
3–4	1,360,897	1,366,319	1,571,355	115.01
5–6	240,006	240,006	440,250	183.43
7	11,389	11,389	20,089	176.39
In default	99,724	99,724	0	0.00
Total	**8,555,768**	**8,656,257**	**6,199,557**	**71.62**

Excluding the effect of credit risk protection, the total for all corporate exposure amounts is SEK 9.2 billion rather than SEK 8.7 billion, as shown in the 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 for retail exposures and counterparty weighted for corporate exposures). 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		LGD	
Exposure class	Prediction	Prediction	Outcome	Prediction	Outcome
Retail, other, %	0.47	1.12	0.49	30	15
Corporate, %	0.70	2.30	0.92	45	N/A*

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

ADDITIONAL USES 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

Basel IV: It has been decided that the regulations will be implemented at different times. The new IRB rules will come into force on 1 January 2021; the capital floor of 72.5% will be phased in over a five-year period (from 2022).

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 limits, among other things, 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 CCF.

Volvofinans anticipates a higher capital requirement due to the new rules on capital floors. According to very provisional calculations built on gross assumptions, the bank's new requirements will end up just over 16%. At the same time, LGD will decrease as a lower discount rate will be applied. PD will increase for active cards (which will probably require its own model). PD will also decline as the term will be taken into account (the closer the end of the agreement, the less PD). 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. Overall, it is difficult to envisage in advance the exact capital ratio after 2021; this will, of course, be investigated during coming years. The Board has also been informed that it should wait before making any strategic capital decisions until the Basel regulations have been determined and their impact examined.

In parallel with Basel IV, a review is taking place of CRR, CRD4 and BRRD. Some parts of this will affect Volvofinans. The primary effects on Volvofinans are listed below:

- For non-system-critical banks, a minimum requirement of a leverage ratio of 3% is being introduced. Higher requirements may apply to system-critical ones.
- A binding requirement will be introduced for NSFR (Stable financing) of 100%.
- For Large exposures, it is planned to limit this to the use of Tier 1 capital instead of eligible capital, which is a broader concept. This will have an impact on Volvofinans as the limit on unauthorised exposure will be reduced.
- Volvo finance will publish a Pillar 3 report for 2018.

IFRS 16 Leases is a new standard for financial reporting of leases and becomes effective on 1 January 2019. The introduction is not expected to have any significant impact on the bank's financial position, performance or cash flow. As a lessor, Volvo finance will not be affected; rather, our own leasing (rent etc.) has only marginal impact.

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 per cent of undrawn dealer limits. There are no other loan commitments. For derivative instruments, an additional amount is calculated based on the term to 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 WITHOUT REGARD TO CREDIT RISK PROTECTION

All exposures refer to Sweden.

Credit risk, standardised approach	2018	2017
Exposures to central governments and central banks	22,476	102,805
Exposures to local authorities and comparable associations as well as agencies	1,355,237	1,549,924
Exposures to administrative bodies, non-commercial undertakings and religious associations	6,126	6,179
Institutional exposures*	1,723,281	1,340,036
Corporate exposures	245,354	212,946
Retail exposures	555,408	509,068
Unsettled items	8,545	1,720
Covered bonds	1,432,023	1,207,411
Equity exposures	30,520	27,159
Other items	16,133	16,450
Total, standardised approach	**5,395,103**	**4,973,698**
Credit risk using the IRB approach		
Corporate exposures	9,193,389	8,734,541
Retail exposures	34,030,373	32,843,374
Non-credit obligation asset exposures	3,921,608	3,093,710
Total, IRB approach	**47,145,370**	**44,671,625**
Total credit risk	**52 540 473**	**49,645,323**

* Of which, add-on of SEK 42.5 million (11.8).

TOTAL AMOUNT OF ALL EXPOSURES WITH REGARD TO CREDIT RISK PROTECTION

As shown in the table above, the bank has a total credit risk exposure of SEK 52,540 million (49,645), 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 27,490 million (25,794). The bank also has collateral for loans and receivables in the form of guarantees of SEK 129 million (129), floating charges of SEK 276 million (271), property mortgages of SEK 2 million (2) and pledged loans and leases of SEK 2,009 million (2,086). The bank's total credit risk exposure, including the effect of credit risk protection, is thus SEK 22,634 million (21,363).

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.

	2018	2017
Total assets as stated in the balance sheet	43,376,561	40,649,461
Additional items		
Total impairment	99,361	157,759
Undrawn limits, accounts receivable	10,138,183	10,162,214
Undrawn limits, lending to Volvo dealers	550,047	330,804
Margin for counterparty risk in derivatives	42,510	11,767
Outgoing items		
Non-credit obligation asset exposures*	- 1,644,643	- 1,648,524
Intangible assets	- 21,545	- 18,158
Total	**52,540,473**	**49,645,323**

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

AVERAGE EXPOSURE FOR THE PERIOD

Credit risk, standardised approach	2018	2017
Exposures to central governments and central banks	71,069	99,817
Exposures to local authorities and comparable associations as well as agencies	1,465,981	1,306,041
Exposures to administrative bodies, non-commercial undertakings and religious associations	5,852	5,310
Institutional exposures	1,705,140	1,428,458
Corporate exposures	228,638	476,124
Retail exposures	555,538	487,712
Unsettled items	11,122	13,066
Covered bonds	1,408,490	1,161,802
Equity exposures	29,141	26,103
Other items	44,795	40,632
Total, standardised approach	**5,525,766**	**5,045,065**
Credit risk using the IRB approach		
Corporate exposures	9,222,807	7,925,876
Retail exposures*	33,854,013	32,217,286
Non-credit obligation asset exposures	3,657,987	2,766,668
Total, IRB approach	**46,734,807**	**42,909,830**
Total	**52,260,573**	**47,954,895**

* "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

2018	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	310	22,166	22,476
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,355,237	1,355,237
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	6,126	6,126
Institutional exposures	–	–	–	1,723,281	1,723,281
Corporate exposures, standardised and IRB	3,388,283	1,044,794	2,034,057	2,971,609	9,438,743
Corporate exposures, standardised and IRB	1,371,290	2,225,149	1,482,557	29,506,785	34,585,781
Unsettled items	924	635	683	6,303	8,545
Covered bonds	–	–	–	1,432,023	1,432,023
Equity exposures	–	–	–	30,520	30,520
Other items	–	–	–	16,133	16,133
Non-credit obligation asset exposures, IRB	–	–	–	3,921,608	3,921,608
Total	**4,760,497**	**3,270,577**	**3,517,607**	**40,991,792**	**52,540,473**

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**

EXPOSURES, REMAINING TERM TO MATURITY BY EXPOSURE CLASS

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

2018	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	15,162	7,026	288	–	22,476	–
Exposures to local authorities and comparable associations as well as agencies	164,521	291,995	898,721	–	1,355,237	–
Exposures to administrative bodies, non-commercial undertakings and religious associations	574	1,230	4,322	–	6,126	–
Institutional exposures	10,850	11,172	1,701,259	–	1,723,281	–
Corporate exposures, standardised and IRB	1,831,088	2,346,744	5,224,291	36,620	9,438,743	–
Corporate exposures, standardised and IRB	13,729,082	6,051,539	14,670,324	134,836	34,585,781	–
Unsettled items	8,545	–	–	–	8,545	–
Covered bonds	6,023	475,000	951,000	–	1,432,023	–
Equity exposures	–	–	–	–	–	30,520
Other items	–	–	–	–	–	16,133
Non-credit obligation asset exposures, IRB	318,922	1,359,411	2,222,146	3,636	3,904,115	17,493
Total	**16,084,767**	**10,544,117**	**25,672,351**	**175,092**	**52,476,327**	**64,146**

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**

CREDIT RISK EXPOSURE BROKEN DOWN BY CREDIT RATING AND VALUE OF COLLATERAL

The table below shows the bank's gross and net credit risk exposure by credit rating in order to create an understanding of the bank's credit risk concentrations. This information is then followed by a further table showing the bank's collateral per financial instrument.

CREDIT RISK EXPOSURE BY CREDIT RATING OF FINANCIAL ASSETS AND LOAN COMMITMENTS

31 Dec 2018	Stage 1	Stage 2	Stage 3 (not purchased or issued, credit-impaired)	Total
Chargeable treasury bills				
AAA to AA	1,246,400	–	–	1,246,400
Loss provision	- 584	–	–	- 584
Total carrying amount	**1,245,816**	**–**	**–**	**1,245,816**
Loans and advances to customers				
Low risk	12,863,971	18,959	113	12,883,044
Normal risk	2,937,819	98,933	7,354	3,044,106
Increased risk	169,276	349,075	867	519,218
High risk	83,338	274,815	12,239	370,392
Defaulted	–	–	130,193	130,193
Loss provision	- 9,275	- 8,364	- 6,554	- 24,193
Total carrying amount	**16,045,130**	**733,419**	**144,211**	**16,922,760**
Bonds and other debt securities				
AAA to AA	1,432,023	–	–	1,432,023
A+ to A-	800,260	–	–	800,260
Loss provision	- 316	–	–	- 316
Total carrying amount	**2,231,967**	**–**	**–**	**2,231,967**
Other Financial assets				
Low risk	393,766	27	29,381	423,174
Normal risk	42,520	51	–	42,572
Increased risk	3,356	130	–	3,486
High risk	634	923	–	1,557
Defaulted	–	–	1,163	1,163
Loss provision	- 2	0	- 45	- 47
Total carrying amount	**440,274**	**1,132**	**30,500**	**471,906**
Total gross carrying amount for financial assets valued at amortised cost	**17,741,081**	**742,914**	**181,310**	**18,665,306**
Total loss provision	**- 10,177**	**- 8,364**	**- 6,599**	**- 25,140**
Total carrying amount	**17,730,904**	**734,550**	**174,711**	**18,640,166**

MAXIMUM EXPOSURE TO CREDIT RISK AND VALUE OF COLLATERAL FOR FINANCIAL ASSETS THAT ARE SUBJECT TO LOSS PROVISIONS IN ACCORDANCE WITH IFRS 9.

Gross and net credit risk exposure, 31 December 2018	Credit risk exposure (before impairment)	Loss provision	Carrying amount	Value of collateral
Chargeable treasury bills, etc.				
AAA to AA	1,246,400	- 584	1,245,816	–
Total	**1,246,400**	**- 584**	**1,245,816**	**–**
Loans and advances to customers				
Lending against collateral of:				
Other	16,946,953	- 24,193	16,922,760	14,609,701
Total	**16,946,953**	**- 24,193**	**16,922,760**	**14,609,701**
Bonds and other debt securities				
-AAA to A-	2,232,283	- 316	2,231,967	–
Total	**2,232,283**	**- 316**	**2,231,967**	**–**
Other assets				
Receivables	471,952	- 47	471,906	–
Total	**471,952**	**- 47**	**471,906**	**–**
Issued loan promises	10,688,229	–	–	–
Total credit risk exposure	**31,585,817**	**- 25,140**	**20,872,449**	**14,609,701**

Gross and net credit risk exposure, 31 December 2017	Credit risk exposure (before impairment)	Loss provision	Carrying amount	Value of collateral
Loans and advances to customers				
Lending against collateral of:				
Other	16,502,971	- 19,186	16,483,785	11,154,110
Total	**16,502,971**	**- 19,186**	**16,483,785**	**11,154,110**
Other assets				
Receivables	382,764	- 1,543	381,221	–
Total	**382,764**	**- 1,543**	**381,221**	**–**
Issued loan promises	10,493,018	–	–	–
Total credit risk exposure	**27,378,754**	**- 20,729**	**16,865,007**	**11,154,110**

The bank's collateral for loans and advances to customers consist of transferred car and truck loans where there are recourse agreements with dealers.
As at 31 December 2018, the bank had no financial instruments for which the loss provision had been reported as zero due to collateral received.
For maximum exposure to credit risk for financial assets that are not subject to loss provision, including derivatives and related collateral, see Note 36.

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 lending and borrowing. The bank's derivatives currently consist of interest rate swaps and currency interest-rate swaps.

Volvofinans' counterparties may only be banks 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 the bank's counterparties through the international swap agreement, the 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. On 1 March 2017, new margin requirements for non-cleared OTC derivatives under European Markets Infrastructure Regulation (EMIR) entered into force for the counterpart category to which the bank belongs. As an affected party, there is a requirement on the bank to exchange the Variation Margin with counterparties for non-cleared OTC derivatives. The bank has therefore entered into a supplementary agreement, Credit Support Annex for Variation Margin to ISDA Agreement, whereby the parties mutually undertake to provide collateral in the form of liquid funds for the counterparty's surplus value in outstanding derivative instruments. The Agreement also gives the party that receives collateral the right in turn to dispose of collateral received.

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 bank's compensation for counterparty risk in derivatives was SEK 12,999 (14,029). The margin was calculated at SEK 42,510 (11,767). The nominal amount of the bank's outstanding derivatives at year-end was SEK 2,973 million (1,956). 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 36.

Amounts in SEK million		**2018**		**2017**	
Rating (short-term)	**Rating (long-term)**	**Compen-sation**	**Margin**	**Compen-sation**	**Margin**
P-1	Aa1	–	–	–	–
P-1	Aa2	0.1	0.7	–	0.1
P-1	Aa3	0.7	37.0	0.0	3.9
P-1	A1	–	–	14.0	7.8
P-1	A2	12.2	4.8	–	–
P-2	A3	–	–	–	–
Total		**13.0**	**42.5**	**14.0**	**11.8**

CONCENTRATION RISK

The bank's definition of concentration risk refers to:

- Large exposures to customers or groups of connected customers.
- Larger exposures to groups of counterparties where the probability of default is related to factors such as industry, geographical 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 9.4% (9.7) of total lending. The sector in which the bank has the single largest amount of lending is Trade/Repair of motor vehicles, which makes up 11.2% 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 THE BANKING BOOK

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 lending 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 borrowing with those of lending. If the bank conducts borrowings with long fixed-rate terms, interest rate swaps are used to manage the resulting interest rate risk. Fixed-rate loans accounted for 6% of total lending at 31 December 2018. 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 100 basis points. 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 2018, the interest rate risk was SEK 89.9 million (74.6), representing 2.4% (2.1) 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 22.5 million (18.6) as at 31 December 2018. 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 200 basis point interest rate shock, this impact would be SEK 17.3 million (17.5) as at 31 December 2018. Fixed-rate loans accounted for only 0.4% (0.3) of total lending at 31 December 2018. 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 term 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

2018

Fixed-rate terms for the Group's interest-bearing assets and liabilities (nominal amounts)

Nominal amounts in SEKm	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	39,806	2,747	324	23	99	22	15	–	43,036
Interest-bearing liabilities	- 21,743	- 10,600	- 340	- 300	- 1,150	- 700	–	–	- 34,833
Equity	–	–	–	–	–	–	–	- 3,852	- 3,852
Derivative instruments	- 765	- 1,248	- 2	288	1,049	645	–	–	- 33
Total	**17,298**	**- 9,101**	**- 18**	**11**	**- 2**	**- 33**	**15**	**- 3,852**	**4,318**
Cumulative exposure	**17,298**	**8,197**	**8,179**	**8,190**	**8,188**	**8,155**	**8,170**	**4,318**	

2017

Fixed-rate terms for the Group's interest-bearing assets and liabilities (nominal amounts)

Nominal amounts in SEKm	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	–	–	39,859
Interest-bearing liabilities	- 20,441	- 10,758	- 387	- 300	- 950	- 400	- 300	–	- 33,536
Equity	–	–	–	–	–	–	–	- 3,864	- 3,864
Derivative instruments (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**	

CURRENCY RISK

Foreign exchange risk arises in cases where the bank chooses to borrow or lend 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 an impact on earnings during the term due to differences in the valuation methods used for the hedged item and hedging derivative. Volvofinans has entered into a currency interest-rate swap agreement to a nominal value of SEK 650 million (0) as at 31 December 2018. There is no lending in foreign currency. The bank's currency exposure amount at year-end was 0 (0). For carrying amounts of assets and liabilities in foreign currency, see Notes 27 (Derivatives – Assets and Liabilities) and 29 (Liabilities to credit institutions and securities issued).

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 higher than the actual market value, and that the bank will thus incur a loss. At 31 December 2018 the bank had recognised an impairment loss of SEK 73.9 million (132.7) related to residual value risk, which is included in depreciation and impairment of property, plant and equipment. Guaranteed residual values amounted to SEK 5,544 million (4,726), which includes both own and transferred contracts. The carrying amount of operating leases directly guaranteed by the bank was SEK 4,749 million (4,082) at 31 December 2018. The guaranteed residual value of these contracts amounted to SEK 3,086 million (2,563).

EQUITY RISK IN OTHER OPERATIONS

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

	2018	2017
Balance sheet value		
Associates and other companies	23,777	20,417
Group companies	6,742	6,742
Total	**30,519**	**27,159**
Fair value		
Associates and other companies	23,777	20,417
Group companies	6,789	6,789
Total	**30,566**	**27,206**
Unrealised gain or loss		
Associates and other companies	17,446	16,369
Group companies	–	–
Total	**17,446**	**16,369**

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 for managing operational risks. 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 in accordance with the process below.

Volvofinans' Board of Directors and management have overall responsibility for operational risk and for creating a high level of risk awareness at Volvofinans. The departments are primarily responsible for managing operational risks in their own areas of activity. All employees also have a duty to protect the assets managed by the bank from damage, abuse or loss.

Incidents are reported in an incident management system. The risk control unit is responsible for collating all reported incidents and for monitoring and controlling operational risks. Risk control is also responsible for compiling information on operational risks and reporting to the CEO and Board of Directors (using incident reports, KRIs and risk reports), and for following up risk limitation measures from the self-assessments and monitoring changes in the operations that may lead to a change in 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 2018 amounted to 18,340 (14,664), of which 9,741 (7,668) 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 lending and borrowing has miss-matched maturities. When lending has longer maturity than borrowing 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 Treasurer is responsible for ensuring that the document is updated. The financial policy and governing document are fundamental to the activities of the Treasury, 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 Treasury, 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 accounting department in close collaboration with the Treasury 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 333% and averaged 300% in 2018. 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 145% and averaged 146% in 2018.

The bank maintains a liquidity reserve to ride out periods of strained refinancing conditions. At year-end this reserve stood at SEK 5.1 billion (4.6). The reserve, whose composition is regulated in the financial policy, should consist of high-quality liquid debt securities and demand deposits with banks in Swedish kronor. The securities portion had a nominal amount of SEK 3.5 billion (68%), while deposits at other banks amounted to SEK 1.6 billion (32%). The size of the liquidity reserve should be such as to ensure that the company is able to continue operating without hindrance in case of serious liquidity strains, with no new external funding, for a period of at least three months by using only the funds available in the reserve. Furthermore, the bank's liquidity reserve must always be at least 10% in relation to lending; at 31 December 2018, this ratio was 14% (13).

LIQUIDITY RESERVE

Amounts in SEK million, securities at market value	31 Dec 2018	31 Dec 2017
Deposits with other banks	1,623	1,301
Securities issued by local authorities and other public sector entities	1,246	1,433
Other covered bonds	1,432	1,207
Securities issued by non-financial companies	800	675
Total	**5,101**	**4,616**

Of the bank's total liquidity reserve of SEK 5,101 million, SEK 4,301 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 facilities have mostly been agreed with Volvofinans Bank's core banks. The back-up facilities are not normally used and stood at SEK 4.3 billion (4.3) at year-end. The option to draw on the same day should be up to SEK 1.3 billion for a term 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-CREATING FACILITIES

Undrawn limits, SEKm	31 Dec 2018	31 Dec 2017
Overdraft facilities with credit institutions	200	200
Credit facilities with credit institutions and shareholders	4,250	4,250
Total	**4,450**	**4,450**

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 2018 it was 81 % (76).

In order to reduce the share of market borrowing, and thus also the refinancing risk, Volvofinans Bank has an online savings account. 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 Volvofinans Bank's other services. At year-end, the proportion of relational customers who had a savings account for 12 months or more was 89% (89) of savings account volume. Although the savings account has no term, this deposit volume has been very stable over time, as it is spread across a large number of depositors. The bank's savings account is covered by the government's deposit guarantee scheme.

LIQUIDITY EXPOSURE – CONTRACTUAL REMAINING TERM (NOMINAL AMOUNTS)

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

2018 SEKm	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
Financial assets							
Chargeable treasury bills	–	148	251	844	–	–	1,243
Loans and advances to credit institutions	1,623	–	–	–	–	–	1,623
Loans and advances to customers	–	2,235	7,290	13,260	3,867	764	27,416
Bonds and other debt securities	–	801	475	951	–	–	2,227
Property, plant and equipment, lease assets	–	806	3,286	4,595	144	6	8,837
Other assets, derivatives	–	6	4	16	9	–	35
Total	**1,623**	**3,996**	**11,306**	**19,666**	**4,020**	**770**	**41,381**
Financial liabilities							
Liabilities to credit institutions	–	121	584	1,034	276	95	2,110
Retail deposits and borrowings	17,979	–	240	–	–	–	18,219
Securities issued	–	627	2,067	7,088	6,001	–	15,783
Other liabilities, derivatives	–	2	10	22	- 35	–	- 1
Subordinated debts	–	1	3	8	8	418	438
Total	**17,979**	**751**	**2,904**	**8,152**	**6,250**	**513**	**36,549**
Net cash flow	**- 16,356**	**3,245**	**8,402**	**11,514**	**- 2,230**	**257**	
Undrawn credit facilities	1,450	4,250	1,750	750	–	–	
Liquidity gap	**- 14,906**	**7,495**	**10,152**	**12,264**	**- 2,230**	**257**	

2017 SEKm	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
Financial assets							
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**	

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.

SEKm 2018	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	- 121	- 586	- 1,042	- 282	- 97	- 2,128
Securities issued	- 627	- 2,095	- 7,187	- 6,050	–	- 15,959
Other liabilities, derivatives	2	5	12	- 45	–	- 26
Other assets, derivatives	6	1	6	–	–	13
Subordinated debts	- 1	- 4	- 14	- 19	- 457	- 495
Total	**- 741**	**- 2,679**	**- 8,225**	**- 6,396**	**- 554**	**- 18,595**

SEKm 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	–	4	–	- 6	–	- 2
Other assets, derivatives	5	4	7	- 4	2	14
Total	**- 1,269**	**- 3,017**	**- 7,285**	**- 5,923**	**- 717**	**- 18,211**

STRATEGIC RISKS

Volvofinans' definition of strategic risk is 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 definition of strategic risk includes earnings, customer and competitor behaviour, changes to laws and regulations 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 disclosure of information, and Volvofinans strives to be seen as highly transparent by all stakeholders. Volvofinans has a department with responsibility for the bank's PR and communication. The department is tasked with ensuring the communication plans are in place for identified reputation scenarios. Only the CEO may speak to the press.

Volvofinans must maintain a high level of IT, system and card security.

Volvofinans has internal procedures for the handling of complaints, such as complaints officers and 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.

Other information on capital adequacy is provided in a Pillar 3 report on the bank's website, www.volvofinans.se.

There are no ongoing or anticipated material or legal impediments to the rapid transfer of funds from the capital base or repayment of liabilities between the parent company and subsidiaries.

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

INTERNALLY ASSESSED CAPITAL REQUIREMENT

	31 Dec 2018	31 Dec 2017
Credit risk	1,454,643	1,351,554
Operational risk	128,654	112,951
CVA risk	2,025	1,507
Pillar 1 capital requirements	**1,585,322**	**1,466,012**
Concentration risk	289,104	274,247
Strategic risk	79,266	73,301
Interest rate risk	65,000	65,000
Pillar 2 capital requirements	**433,370**	**412,548**
Capital conservation buffer	495,410	458,129
Countercyclical capital buffer	396,328	366,503
Combined buffer requirements	**891,738**	**824,632**
Capital requirements	**2,910,430**	**2,703,192**
Capital base	**3,979,159**	**3,781,226**
Capital surplus	**1,068,729**	**1,078,034**

LEVERAGE RATIO

	31 Dec 2018	31 Dec 2017
Tier 1 capital	3,579,159	3,781,226
Exposure measure	43,215,215	40,412,184
Leverage ratio, %	**8.28**	**9.36**

CAPITAL BASE

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

	31 Dec 2018	31 Dec 2017
Common equity tier 1 capital		
Equity	533,312	1,033,030
Untaxed reserves 78.6% (78.0%)	3,244,757	2,831,174
Less: Intangible assets	- 21,545	- 18,158
Less: Additional value adjustments	- 50	- 2,657
Less: Deficit, IRB provisions	- 177,315	- 62,163
Total Common equity tier 1 capital	**3,579,159**	**3,781,226**
Supplementary capital		
Term debentures	400,000	–
Supplementary capital	**400,000**	**–**
Total capital base	**3,979,159**	**3,781,226**

CAPITAL REQUIREMENT AND RISK-WEIGHTED EXPOSURE AMOUNT

	31 Dec 2018		31 Dec 2017	
Credit risk, standardised approach	**Capital requirement**	**Risk-weighted exposure amount**	**Capital requirement**	**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	424	5,300	427	5,343
Institutional exposures	27,569	344,613	21,436	267,956
of which counterparty risk	(4,441)	(55,509)	(2,064)	(25,796)
Corporate exposures	15,550	194,375	15,615	195,188
Retail exposures	28,472	355,895	25,747	321,832
Unsettled items	1,011	12,633	202	2,528
Covered bonds	11,454	143,171	9,650	120,620
Equity exposures	2,442	30,520	2,173	27,159
Other items	1,291	16,133	1,316	16,450
Total capital requirements for credit risks using the standardised approach	**88,211**	**1,102,641**	**76,566**	**957,076**
Credit risk using the IRB approach				
Corporate exposures	495,965	6,199,557	485,402	6,067,521
Retail exposures	556,739	6,959,233	542,089	6,776,119
Non-credit obligation asset exposures	313,729	3,921,608	247,497	3,093,710
Total capital requirements for credit risks using the IRB approach	**1,366,432**	**17,080,398**	**1,274,988**	**15,937,349**
Operational risk using the Basic Indicator Approach	128,654	1,608,170	112,951	1,411,890
Credit valuation adjustment (CVA)	2,025	25,308	1,507	18,840
Total minimum capital requirement and risk-weighted exposure amount	**1,585,322**	**19,816,517**	**1,466,012**	**18,325,156**

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

	31 Dec 2018	31 Dec 2017
Risk-weighted assets	19,816,517	18,325,156
Common equity tier 1 capital ratio, % *	18.06	20.63
Total capital ratio, % **	20.08	20.63

* Common equity tier 1 Capital in relation to risk-weighted exposure amount.
** Capital base in relation to risk-weighted exposure amount.

CAPITAL AND BUFFER REQUIREMENTS

	31 Dec 2018			31 Dec 2017		
Per cent	**Common equity tier 1 capital requirement**	**Tier 1 capital requirement**	**Total capital base requirement**	**Common equity tier 1 capital requirement**	**Tier 1 capital requirement**	**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	2.0	2.0	2.0
Total	**9.0**	**10.5**	**12.5**	**9.0**	**10.5**	**12.5**
Amount						
Minimum capital requirement	891,738	1,188,984	1,585,322	824,632	1,099,509	1,466,012
Capital conservation buffer	495,410	495,410	495,410	458,129	458,129	458,129
Countercyclical buffer	396,328	396,328	396,328	366,503	366,503	366,503
Total capital requirement	**1,783,476**	**2,080,722**	**2,477,059**	**1,649,264**	**1,924,141**	**2,290,644**

The internal capital adequacy assessment process has resulted in an internal capital requirement of SEK 2,019 million (1,879) as at 31 December 2018. If the combined buffer requirement is included, the bank's total capital requirement is SEK 2,910 million (2,703). The capital surplus, calculated on the basis of the internal capital requirement including buffer requirements, is thus SEK 1,069 million (1,078).

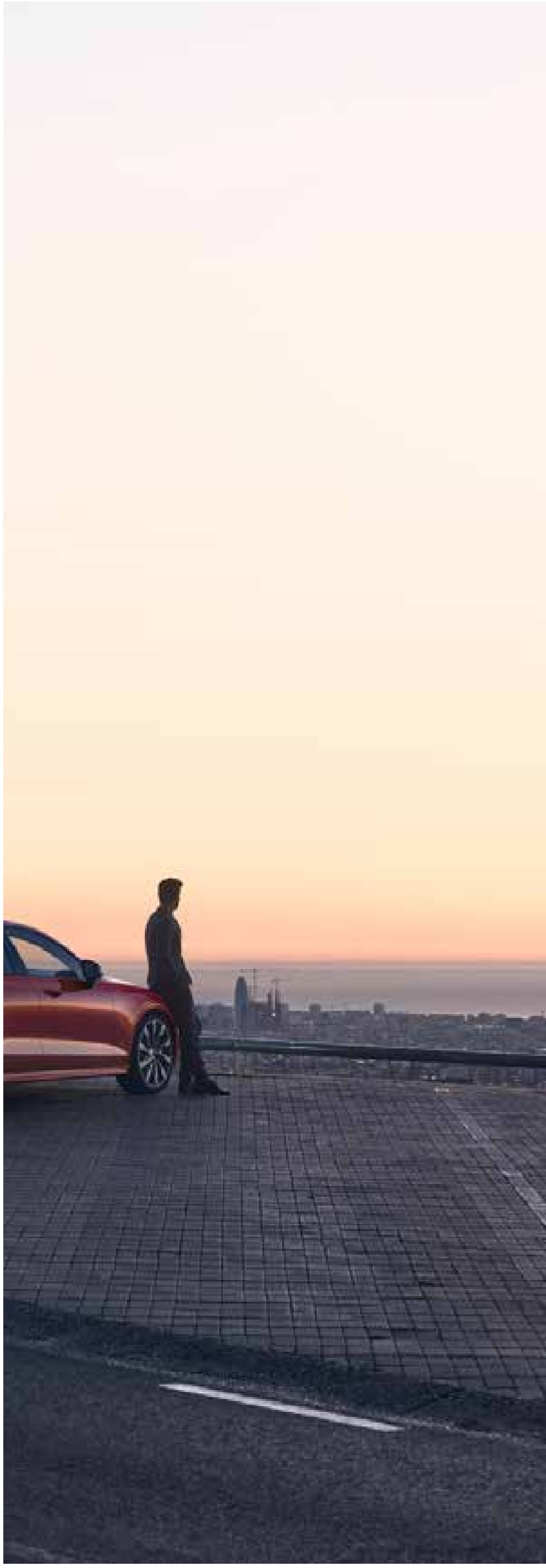
CAPITAL MANAGEMENT

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.

NOTE 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 so-called IFRS with certain limitations contained in Swedish statutes, which refers to the standards that have been adopted for application subject to the limitations contained in RFR 2 and FFFS 2008:25. This means that all IFRS and interpretations adopted by the EU have been applied insofar as this is possible subject to the Swedish Annual Accounts Act and with regard to the relationship between accounting and taxation. The annual report was approved for publication by the Board of Directors on 27 March 2019. The income statement and balance sheet will be submitted for adoption at the Annual General Meeting on 12 June 2019.

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

3.1 BASES WHEN ESTABLISHING 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 36) 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:

- Choice of method for calculating expected loan losses
- Whether the bank has assumed significant risks and benefits from the seller on acquisition of receivables and agreements
- Impairment testing of lease assets where there is a risk of a decline in residual values
- Assessment of the bank's business model for the holding of securities in the liquidity portfolio

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

Amendments to IFRS during 2018 had no material impact on the bank's financial statements.

3.4.1 Application of new IFRS and future regulations

IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 has started to apply from 1 January 2018. The bank did not apply IFRS 9 during previous periods. The application of IFRS 9 has resulted in changes to accounting policies for the recognition, classification and measurement of financial assets and debts and to loss provision of financial assets. With the introduction of IFRS 9, the bank has identified an increase in the need for provisions. Provisions for credit losses in the financial statements are increasing as provisions are now based on expected losses rather than occurred losses. However, the effect on the capital base is marginal as the bank applies an internal risk classification method (the IRB method) to the majority of its credit portfolio.

As permitted under the transitional regulations of IFRS 9, the bank has chosen not to recalculate comparative figures. Adjustments to book values of financial assets and liabilities at the transition to IFRS 9 have been recognised in the opening balance of retained earnings for the period. The bank has chosen to continue applying the hedge accounting rules in IAS 39 when applying IFRS 9.

INFORMATION

IFRS 9 has led to consequential changes to the disclosure requirements in IFRS 7 Financial instruments with regard to information that must be submitted in the annual report. The changes have led to a number of previous items of information no longer needing to be submitted, and to some new items of information – primarily on expected credit losses – needing to be submitted. Information on hedge accounting has also been affected, even though the bank continues to apply hedge accounting in accordance with the provisions of IAS 39. The consequential changes in IFRS 7 regarding information in notes have only been applied to the current financial year, while comparative figures for the previous periods are simply a repetition of previous years' disclosures.

In the section "Quantitative transitional effects from the application of IFRS 9" below, information is reported relating to the impact of the application of IFRS 9 on the bank's opening balance in 2018.

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, have been reported at amortised cost. The new measurement requirements have been reflected in the opening balance 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 million. Otherwise, the new classification and measurement requirements stipulated in IFRS 9 for financial assets and liabilities have not had any impact on the bank's accounting policies.

The effects of reclassification from IAS 39 to IFRS 9 are reported below.

RECLASSIFICATION IN BALANCE SHEET 1-JAN-2018 AT TRANSITION TO IFRS 9

	Financial assets at fair value through profit or loss		Financial assets at amortised cost	Total
	Mandatory	Initially identified at fair value		
Financial assets with modified measurement requirements				
Chargeable treasury bills etc.				
Closing balance, 31 December 2017		1,432,848		1,432,848
Reclassification fair value via income statement at amortised cost		- 1,432,848	1,432,719	- 129
Revaluation (regardless of deferred tax)			- 911	- 911
Opening balance, 1 January 2018			**1,431,808**	**1,431,808**
Bonds and other debt securities				
Closing balance, 31 December 2017		1,882,661		1,882,661
Reclassification fair value via income statement at amortised cost		- 1,882,661	1,884,290	1,629
Revaluation (regardless of deferred tax)			- 266	- 266
Opening balance, 1 January 2018			**1,884,024**	**1,884,024**
Financial assets with retained measurement requirements				
Closing balance, 31 December 2017	14,030		18,478,427	18,492,456
Revaluation (regardless of deferred tax)			- 5,564	- 5,564
Opening balance, 1 January 2018	**14,030**		**18,472,862**	**18,486,892**
Total opening balance, 1 January 2018	**14,030**		**21,788,694**	**21,802,724**

IMPAIRMENT

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 as well as issued loan promises 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 and advances to customers 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 provision 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 provision is reported for the exposure when there has been a significant increase in credit risk (stage 2 = increased risk or stage 3 = credit-impaired receivables), in which case a loss provision is calculated at an amount equal to the expected losses during the entire remaining term of the exposure.
- In calculating expected credit losses, the expected changes in macro factors that have a significant impact on the loss provision are taken into account.

For a more detailed description of the new principles, see the section “Credit losses and impairment of financial instruments” further on.

QUANTITATIVE TRANSITION EFFECTS FROM THE APPLICATION OF IFRS 9

The transition to IFRS 9 has been implemented in the opening balance to the financial year 2018. Comparative figures have not been recalculated. As a result of the new regulations on the reporting of expected credit losses, the bank has reported an increased credit risk provision of SEK 2.6 million as at 1 January 2018. The increase relates to loans and advances of SEK 7.1 million to customers and SEK 1.2 million in securities in the liquidity reserve, while at the same time there has been a decrease for other assets of SEK 1.5 million and a decrease for property, plant and equipment of SEK 4.1 million. Property, plant and equipment is made up of financial leasing agreements, which are reported in accordance with the rules that apply to operating leases. As a result, retained earnings have decreased the opening balance of the 2018 financial year by SEK 2.6 million. The quantitative impact of the new accounting principles at the time of transition is shown in the following tables.

RECALCULATION OF BALANCE SHEET 1 JANUARY 2018 ON TRANSITION FROM IAS 39 TO IFRS 9

	IAS 39 carrying amount, 31 December 2017	Revaluation		IFRS 9 carrying amount 1 January 2018
		Classification	Expected credit losses	
Assets				
Chargeable treasury bills etc.	1,432,848	- 129	- 911	1,431,808
Loans and advances to credit institutions	1,300,672	–	–	1,300,672
Loans and advances to customers	16,483,785	–	- 7,066	16,476,719
Bonds and other debt securities	1,882,661	1,629	- 266	1,884,024
Shares and participations	27,159	–	–	27,159
Derivatives	14,030	–	–	14,030
Prepaid expenses and accrued income	43,157	–	–	43,157
Other financial assets	623,654	–	1,502	625,156
Non-financial assets	189,714	–	–	189,714
Intangible assets	18,158	–	–	18,158
Property, plant and equipment	18,633,623	–	4,127	18,637,751
Total assets	**40,649,461**	**1,500**	**- 2,613**	**40,648,347**

RECONCILIATION LOSS PROVISION IAS 39 AGAINST LOSS PROVISION IN ACCORDANCE WITH IFRS 9 AT TRANSITION TO IFRS 9

	Loss provision IAS 39 as at 31 December 2017	Revaluation	Loss provision according to IFRS 9 as per 1 January 2018
Loss provision for:			
Chargeable treasury bills etc.	–	- 911	- 911
Loans and advances to credit institutions	–	–	–
Loans and advances to customers	- 19,186	- 7,066	- 26,252
Bonds and other debt securities	–	- 266	- 266
Other assets	- 1,543	1,502	- 41
Property, plant and equipment	- 4,318	4,127	- 190
Total	**- 25,047**	**- 2,613**	**- 27,660**

THE RECLASSIFICATIONS AT AMORTISED COST AS A RESULT OF THE TRANSITION TO IFRS 9

Chargeable treasury bills, etc.	2018
From fair value via income statement at amortised cost	
Fair value as at 31 December 2018	1,243,806
The loss that would have been reported in the income statement if the assets had not been reclassified during the reporting period	- 6,783

Bonds and other debt securities	2018
From fair value via income statement at amortised cost	
Fair value as at 31 December 2018	2,230,916
The loss that would have been reported in the income statement if the assets had not been reclassified during the reporting period	- 9,358

RECLASSIFICATIONS FROM FAIR VALUE DUE TO THE TRANSITION TO IFRS 9

Chargeable treasury bills, etc.	2018
From fair value via income statement at amortised cost	
Effective interest rate fixed on the first day of application	- 0.36%
Interest expense during the reporting period	4,852

Bonds and other debt securities	2018
From fair value via income statement at amortised cost	
Effective interest rate fixed on the first day of application	- 0.32%
Interest expense during the reporting period	- 5,875

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

The bank applies IFRS 15 from the date of entry into force at 1 January 2018. IFRS 15 is a comprehensive standard for determining the amount of revenue to be accounted for and when this revenue is to be accounted for. The introduction has not had 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. IFRS 16 introduces a uniform leasing accounting model for lessees. A lessee reports a right of use asset, which represents an entitlement to use the underlying asset, and a leasing liability, which represents an obligation to pay leasing fees. The reporting for lessors is similar to the current standard, i.e. lessors continue to classify leasing agreements as financial or operating leases.

The standard primarily has the greatest impact on lessees and their reporting of leasing assets. As the lessor, the bank continues to report the leasing assets as operating leases, and the assets are included in the balance sheet. The bank applies the exemption rule in RFR 2 and thus recognises all leases as operating leases, even in cases where the bank is the lessee. Refer also to Notes 6, 13 and 38. The introduction is not considered to have a significant effect on the bank's financial position, performance or cash flow.

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 AND DIVIDEND

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 from financial assets valued at amortised cost are recognised on an "of which" line.

Interest income is recognised on the basis of the net recognised value of the assets in stage 3 and the gross recognised value (i.e. excluding loss provisions) for assets in stages 1–2.

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

- Interest on financial assets and liabilities measured at amortised cost in accordance with the effective interest method.
- Interest from derivatives for which hedge accounting has not been applied are measured at fair value via the income statement.
- Paid and accrued interest on derivatives that are hedging instruments are for which hedge accounting has been 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.

Dividends from shares and participations are reported in the item "Dividends Received" when the right to receive payment is determined.

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 value of derivatives are recognised in the item "Net income/expense from financial transactions", see Note 10.

3.9 COMMISSION AND FEE INCOME

The bank does not provide any combined services in which the period for meeting performance commitments differs.

- **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 asset, which is allocated to accounting periods using the effective interest method and is thus accounted for as interest income and not as commission income. These commissions and fees comprise mainly 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.

- **Commissions and fees accrued as performance commitments are met**

Commissions and fees relating to financial services performed on an ongoing basis, and where the services (performance commitments) are achieved gradually, are reported and allocated as income over the period during which the service is provided and the performance commitment met. These services and fees relate primarily to fees for credit facilities or other types of loan promise where it is not likely that the facility will be used, as well as to fees and commissions for the provision of financial guarantees.

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 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.

3.12 CLASSIFICATION OF LEASING CONTRACTS AND REPORTING 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 32.

3.13 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.

3.14 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 value of derivative instruments that are financial hedging instruments, but where hedge accounting is not applied.
- Capital gains and losses from sales of financial assets measured at fair value via income statement.
- Realised changes in fair value of hedged items with respect to hedged risks in fair value hedging.
- Unrealised changes in fair value of derivatives where hedge accounting at fair value applied.
- Unrealised changes in fair value of hedged items with respect to hedged risks in fair value hedging.
- Unrealised changes in fair value of assets measured at fair value via income statement.
- Exchange rate changes.

3.15 GENERAL ADMINISTRATIVE EXPENSES

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

3.16 TAXES

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

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

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

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

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

3.17 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. 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 measurement

Financial instruments are recognised initially at the fair value of the instrument plus transaction costs, except for derivatives and those instruments which are classified as financial assets at fair value through profit or loss, which are recognised at fair value excluding transaction costs.

All derivatives are valued initially and continuously at fair value in the balance sheet. If hedge accounting is not applied, the changes in value are recognised in the income statement and derivatives are categorised as valued at fair value via the income statement, even in cases where they financially hedge risk but where hedge accounting is not applied. If hedge accounting is applied, the value changes are reported on the derivative and the hedged item in a manner described in the "Derivatives and Hedge accounting" section.

Applied accounting principles from 1 January 2018

The bank's principles for the classification and measurement of financial assets are based on an assessment of both the bank's business model for the management of financial assets and the characteristics of the contractual cash flows from the financial asset.

Apart from derivatives, all financial assets are valued at amortised cost because the assets are held in the context of a business model whose objective is to hold financial assets for the purpose of collecting contractual cash flows and that the contractual terms of those assets give rise, at certain times, to cash flows that are only payments of principal and interest on the amount of the outstanding principal. The amortised cost is determined on the basis of the effective interest calculated at the time of acquisition.

Apart from derivatives, all financial liabilities are valued at amortised cost. The categories to which the company's financial assets and liabilities have been classified are described in Note 36.

Applied accounting principles before 1 January 2018

The comparative figures for financial instruments from the 2017 financial year have been reported in accordance with IAS 39 and have not been recalculated. The following is a description of the accounting policies for the classification and measurement of financial assets in accordance with IAS 39.

- Loans and receivables include the bank's loans, trade receivables and certain other assets.
- 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.
- Financial liabilities at fair value through profit or loss consist of derivatives with negative closing prices.
- Held-to-maturity investments consist of other chargeable securities, and bonds and other debt securities if these were classified on acquisition as held-to-maturity investments.
- Non-financial liabilities consist of discounts, negotiated commissions and other liabilities.
- Other financial liabilities consist of the bank's borrowings, partly through credit institutions and partly through issued securities, as well as certain other liabilities, such as trade payables.

Loans and receivables, as well as other financial liabilities, are continuously measured at amortised cost.

3.17.3 Measurement of financial instruments at fair value

Fair values for financial assets and liabilities traded on an active market are based on quoted prices. The company uses other measurement techniques for other financial instruments. The bank uses observable data as far as possible. Financial instruments where trade is not frequent and fair value is therefore less objective to a varying extent require the bank to make assessments depending on liquidity, concentrations, uncertainties regarding market factors, price assumptions and other risks affecting a specific instrument. For a description of the methods applied in fair value measurement of financial instruments, see Note 36.

3.18 DERIVATIVES AND HEDGE ACCOUNTING

Derivatives are used to hedge the risks of financial interest and foreign exchange risks to which the bank is exposed. The derivatives used by the bank are interest rate swaps to manage interest rates and interest exchange rate swaps to hedge the bank's exposure to currency fluctuations. See the sections Currency risk and Market risk.

The bank has chosen to continue applying the hedge accounting rules in IAS 39. Hedging instruments consist of interest rate swaps for hedging interest rate risk. The hedged items consist of fixed-rate borrowing, and the hedged risk is the risk of change in the fair value as a result of interest rate fluctuations. 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.

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.

The bank has a non-dynamic hedging strategy.

When a hedging instrument is used to hedge a fair value, the derivative is recognised at fair value in the balance sheet and the hedged asset/liability is also recognised at fair value in respect of the hedged risk. The change in value of the derivative is recognised in the income statement together with the change in value of the hedged item in the income statement under the item Net income/expense from financial items at fair value. Unrealised changes in value of the hedging instruments are recorded in the Net income/expense of financial transactions and interest coupons (both accrued and paid) among interest income. The source of inefficiencies is any difference in the discount curves between the hedging instrument and the hedged item. See Note 27.

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 CREDIT LOSSES AND IMPAIRMENT OF FINANCIAL INSTRUMENTS

The bank's credit stock consists mainly of vehicle financing. 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.

A loss is 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.

In addition to vehicle financing, the bank's lending consists of loans and advances to customers in the form of card credits and other loans. Loans and advances to credit institutions with bank deposits and investments in debt securities in the form of housing and municipal bonds and commercial papers. On each reporting occasion, the bank considers whether the objective evidence indicating a receivable requires an impairment. The bank will follow IFRS 9 when assessing the need for impairment from 1 January 2018. On reporting occasions prior to 1 January 2018, the bank followed IAS 39 when assessing the need for impairment.

3.19.1 Impairment of financial assets from 1 January 2018

The accounting policies mean that expected credit losses are reported for loans and advances to customers and other items on the balance sheet that are recorded at amortised cost. In addition, loss provisions on off-balance sheet exposures submitted loan commitments are also recognised, e.g. unused card credits. In the initial accounts, a loss provision is reported based on what can be statistically expected for the next 12 months (stage 1). Where a significant increase in credit risk has occurred, the loss provision is instead calculated for the entire remaining expected term (stage 2 or, if the exposure is considered as a credit impairment, stage 3).

The provision for credit losses is measured according to a model of expected credit losses and reflects a probability-weighted amount determined by evaluating a range of possible outcomes, while taking into account reasonable and verifiable information accessible on the reporting date. Credit loss provisions are measured on the basis of whether or not a significant increase has occurred in credit risk compared with the initial recognition of an instrument.

- Stage 1 covers financial instruments where no significant increase in credit risk has occurred since the initial recognition and the counterparty is covered by the bank's policy for low credit risk at the time of reporting.
- Stage 2 covers financial instruments where a significant increase in credit risk has occurred since the initial recognition but where, at the time of reporting, there is no objective evidence that the receivable is doubtful.
- Stage 3 covers financial instruments where objective evidence has been identified that the receivable is doubtful.

For financial instruments under stage 1, the provision corresponds to the credit loss expected to be incurred within 12 months, while for the financial instruments in stage 2, where a significant increase in credit risk has been identified, as well as doubtful receivables in stage 3, the provision corresponds to the expected credit losses for the remaining term of the financial instrument. The expected credit losses for the remaining term of the financial instrument represent losses from all default incidents possible during the remaining term of the financial instrument. The expected credit losses anticipated to occur within 12 months represent the part of the expected credit losses for the remaining term of the financial instruments that are due to default incidents within 12 months of the reporting date.

3.19.1.1 Recognition of expected credit losses – loans and advances to customers and loan commitments issued

The bank's loans and advances to customers consist mainly of card credits and vehicle loans reported at amortised cost.

Determination of a significant increase in credit risk

A credit that has been the subject of a significant increase in credit risk is no longer included in stage 1 but rather in stage 2 (provided that it is not credit-impaired). The bank considers whether a significant increase has occurred in credit risk by using a combination of individual and collective information, and will reflect the increasing credit risk at individual instrument level. The quantitative method used to assess increased credit risk consists of a forward-looking estimate of each individual risk of exposure to default. The method is based on the bank's system for classifying credit risk. The scale of rating classes goes from 1 (indicating the best risk class) to 8 (indicating the worst risk class). Depending on the initial rating of the loan, a certain number of stages on this rating scale are required in the direction of a poorer rating in order for the credit risk to be considered to have increased significantly.

The worse the initial rating, the fewer stages the rating needs to deteriorate before a significant increase in credit risk is considered to have arisen. When the borrower has overdue unpaid amounts older than 30 days, these exposures are always considered exposures with a significant increase in credit risk. If, at a later stage, the internal rating has improved to a sufficient extent, such that a significant increase in credit risk is no longer considered to apply when compared with the initial recognition, the credit will be reverted from stage 2 to stage 1.

Credit-impaired loans

As in accordance with previous principles, loss provisions will be recognised for the remaining term of credit-impaired exposures (previously termed doubtful loans) once one or more events that have a negative impact on estimated future cash flow for the financial asset have occurred (stage 3). A loan is considered to be credit-impaired using the same criteria as those used under previous principles for the definition of a doubtful loan, i.e. where payments are more than 90 days late or there is other evidence in the form of observable information of the following 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 impaired.

If a previous loan that has been deemed credit-impaired no longer is deemed so, a transfer will be made either to stage 2 (if there is a significant increase in credit risk compared with the time at which the loan was granted) or to stage 1.

Measurement of expected credit losses

Expected credit losses are calculated for each individual credit exposure as the discounted product of the probability of default (PD), credit exposure in the event of default (EAD) and loss in the event of default (LGD).

The bank's definition of default is close to the regulatory definition of default as it is used in the event of credit risk management. This means that an exposure to a specified counterparty should be regarded as defaulted if any of the following criteria are met:

1. Volvofinans considers it likely that the counterparty will not be able to meet its obligations to the institution unless the institution realises possible collateral or takes similar measures.
2. The counterparty is more than 90 days late with a payment of anything other than a trivial amount.

PD corresponds to the probability of a borrower defaulting at a given point during the remaining term of the financial asset. To help in assessing the probability of default, the bank has created a number of different PD models based on the fact that the bank's portfolio contains a number of different business areas, different types of counterparties, different products, etc. For commitments within the balance sheet, the EAD is, in principle, the gross value of the exposure without regard to provisions. For commitments off the balance sheet, the EAD is calculated by multiplying the unused amount that the counterparty, under the terms of the contract, is able to use by a conversion factor (CF). The CF is the measure of the proportion of the unused limit expected to be used in the event of default. The EAD thus becomes the sum of the current commitment and expected utilisation of the remaining limit. The LGD corresponds to the expected credit loss on a defaulted credit exposure, taking into account the characteristics of the counterparty and the product type. Expected credit losses are determined by calculating the PD, LGD and EAD for each future month up to the end of the expected term of a credit exposure. These three parameters are multiplied and adjusted by the probability of survival or the likelihood that the credit exposure has not been prepaid or defaulted for a previous month. In this way, the monthly expected credit losses are calculated, which are then discounted back to the reporting date with the original effective interest rate and summed up. A summary of the monthly expected credit losses up to the end of the expected term gives the expected credit losses for the remaining term of the asset, and the sum of the credit losses expected to occur within 12 months gives the expected credit losses for the next 12 months.

When calculating the expected credit losses, the bank takes into account at least three scenarios (a base scenario, a positive scenario and a negative scenario) with relevant macroeconomic variables such as the National Institute of Economic Research forecasts of the repo rate. The risk parameters used to calculate expected credit losses incorporate the effects of macroeconomic forecasts. Each macroeconomic scenario is assigned a probability and the expected credit losses are obtained as a probability-weighted average of the expected credit losses for each scenario. Where the impact of relevant factors is not captured by risk models, the bank uses expert adjustments.

The term of an instrument is relevant both to the assessment of a significantly increased credit risk, which takes into account changes in the probability of default for the remaining term, and the measurement of expected credit losses for the remaining term of the asset. Generally, the expected term is limited to the maximum contractual period during which the bank is exposed to a credit risk. All contractual terms are taken into account when determining the expected term, including repayment, extension and transfer options that are binding on the bank. The only exception to this general principle applies to certain revolving credits, such as credit cards, where the expected term is estimated based on the period in which the bank is exposed to credit risk and where credit losses cannot be mitigated by risk management measures. This so-called behavioural term is determined using the specific historical data and extends up to 2 years.

The bank assesses and calculates loss provisions for significant doubtful credit exposures individually, without using input data from models. Provisions for credit losses for these credit exposures are determined by discounting expected cash flows and taking into account at least two possible outcomes that take into account both macroeconomic and non-macroeconomic (borrower-specific) scenarios.

Modifications

When a loan is modified but not removed from the balance sheet, an assessment of significant increases in credit risk shall be made in relation to the initial credit risk for impairment purposes. Modifications do not automatically result in a reduction in credit risk and all qualitative and quantitative indicators will continue to be assessed. Furthermore, a modification gain or loss is recognised in the income statement on the credit loss line and refers to the difference in the present value of the contractual cash flows discounted by the original effective interest rate. When a loan is modified and removed from the balance sheet, the date on which the modification was made is deemed to be the initial recognition of the new loan in order to assess the impairment requirement, including the assessment of significant increases in credit risk.

As at 31 December 2018, the bank had no loans with a significant modification. Hence, the bank reports no impairments due to modifications in the note Loans and advances to customers.

3.19.1.2 Recognition of expected credit losses – debt securities

The bank also recognises loss provisions on debt securities that are recognised at amortised cost. The bank's basic methodology for calculating loss provisions for debt securities is the same as for loans and advances to customers. However, the sources of information on the parameters used (PD, LGD and EAD) differ. In the case of PD, it is derived from the external rating of the securities and the externally available information from rating agencies Moody's and Standard and Poor's about the risk of default that this rating is associated with. The bank has chosen to determine the LGD factor based on statistics from Moody's, where the factor is the average of the last five years' reported loss rates. In the initial accounts, the statistically expected loss is reported over the next 12 months (stage 1). A significant increase in credit risk is subsequently considered to have taken place when there has been a deterioration in the external rating and credit losses are then recognised for the remaining term (stage 2). If, at a later stage, the external rating has improved to a sufficient extent, such that a significant increase in credit risk is no longer considered to apply when compared with the initial recognition, the security will be reverted to stage 1. The bank considers that financial assets on instruments with counterparties that are States and financial institutions and that have a low credit risk on the reporting date (with investment grade rating or better) are not considered to have been subject to a significantly increased credit risk. The bank uses the same criteria to assess whether a debt security is credit-impaired as that used for loans and advances to customers.

3.19.1.3 Recognition of expected credit losses – loans and advances to credit institutions

The bank's loans and advances to credit institutions are also within the scope of accounting for expected credit losses. Since all lending to credit institutions is refundable on demand, the bank has assessed that the assets have a very low risk of default; there is therefore no impairment for expected credit losses for loans and advances to credit institutions.

3.19.1.4 Recognition of expected loan losses – leasing receivables

The bank also recognises impairments for leasing items, which in the balance sheet are recognised as property, plant and equipment. The bank's basic methodology for calculating loss provisions for leasing items is the same as for loans and advances to customers. For the PD parameter, the data source is the internal source systems, where the variables included in the calculation differ between cardcredits and vehicle financing. In the same way as forcard credits, the LGD factor is based on the bank's internal historical data.

3.19.1.5 Presentation and recognition of credit losses in the balance sheet and income statement

For financial assets valued at amortised cost, provisions for credit losses are presented in the balance sheet as a decrease in the gross carrying amount of the asset. Loan commitments are an off-balance sheet component. In cases where a financial instrument consists of two components, one loan and one loan commitment, such as a revolving overdraft facility, the bank reports the credit loss provision for the loan and loan commitment combined.

Changes in loss provisions are recognised in the income statement on the Net credit losses line, except the leasing receivables that are recognised under operating expenses and impairments on leasing items.

A write-off reduces the gross carrying amount of the financial asset. Credit losses and write-offs are presented in the income statement as credit losses. Write-offs are made when the amount of the loss is considered finally determined and are reported under credit losses; they represent the amount prior to the assumption of the previously made provision. Repayments of write-offs as well as recoveries of provisions recognised in credit losses.

3.19.1.6 Recognition of actual credit losses

Loans receivable which have been classified as credit-impaired 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.

3.19.2 Impairment testing for financial assets before 1 January 2018

3.19.2.1 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 15.

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.

3.19.2.2 Credit losses and impairment of financial instruments

Vehicle finance

The bank's credit stock consist mainly of vehicle financing. 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.

3.19.2.3 Impairment for credit losses

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.

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.

3.19.2.4 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.

3.19.2.5 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.

3.20 PROPERTY, PLANT AND EQUIPMENT

3.20.1 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.

3.20.2 Leased 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.

3.20.3 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 the 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.

3.20.4 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.

3.21 INTANGIBLE ASSETS

3.21.1 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 3.25.1.2 Fund for development expenditure.

3.21.2 LICENCES

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

3.21.3 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.

3.21.4 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

3.22 IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AND INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

3.22.1 Impairment testing

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

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

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

The recoverable amount is the higher of fair value minus 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.

3.22.2 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.

3.23 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.

3.23.1 Share capital

3.23.1.1 Dividends

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

3.23.1.2 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.

3.23.2 Post-employment benefits

3.23.2.1 Retirement benefits through insurance

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

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

3.23.2.2 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.

3.23.2.3 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.

3.24 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.

NOTE 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 and returns generated by the various services. The internal reporting is arranged so that management is able to monitor the results of all services. On the basis of this reporting, the bank has identified the segments Cars, Trucks and Fleet.

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

CARS

The Cars segment consists of two businesses – Sales Finance and the Cards/Payments business – which are both aimed at consumers and smaller companies.

Vehicles sold in Swedish Volvo dealerships are financed within Sales Finance through loans or leasing, often as packaged solutions that also include insurance, a credit card and servicing agreements. The Cards/Payments business offers both card payments and digital payment solutions in CarPay. The bank provides smooth payments for all needs relating to car usage, as well as everywhere where Visa transactions are accepted, which generate bonus cheques in a loyalty programme.

The new car market in Sweden was strong in 2018, which became the third-best year ever with 353,729 registered private cars, most of which were registered during the first half of the year as a result of the new Bonus Malus tax system. The cumulative total of new Volvo, Renault and Dacia registrations this year amounted to 87,393 cars, which constitutes 24.7% in terms of the market share, with the share of vehicle financing via Volvofinans remaining stable. Cumulatively over the year, we saw an increased stock volume with 4,291 loans and leases. In the Payments business, commission income is increasing, and we observe a positive trend in net sales from card purchases, which increased by 12%, while at the same time lending on the card increased by SEK 53 million compared with the previous year. Fuel sales on the card fell by 2.5% in 2018, but one customer group that is increasing its fuel purchases is the one using CarPay. Both the use of CarPay and the number of logins per customer are increasing. During the fourth quarter, some of the bank's existing fuel customers have test-piloted a new function where payment for refuelling is done directly in the CarPay app. The increased costs to the business area can be explained by an increase in IT Investments and a retroactive VAT expense.

CarPay™

	2018	2017	Operations
Net interest income*	484,284	446,075	38,209
Dividend received	16,352	–	16,352
Commission income	263,662	253,039	10,623
Commission expense	- 43,034	- 32,707	- 10,327
Net income/expense from financial transactions	- 415	- 9,537	- 9,122
Other income	8,135	8,631	- 496
Operating income	**728,984**	**665,501**	**63,483**
Expenses**	- 378,044	- 291,246	- 86,798
Credit losses	- 15,161	- 15,380	219
Credit risk provision	2,101	836	1,265
Operating profit	**337,881**	**359,711**	**- 21,830**

* 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.

Product information, loans and leasing	**2018**	**2017**	**Operations**
Number of contracts	207,725	203,434	4,291
Total volume, SEKm	26,560	25,651	909
of which transferred, %	93.1	91.9	1.2
of which pledged, %	6.9	8.1	- 1.2
of which loans, %	45.3	45.4	- 0.1
of which leasing, %	54.7	54.6	0.1
Share of total leasing that is private leasing, %	27.0	27.6	- 0.6

Product Information, Card	**2018**	**2017**	**Operations**
Number of active accounts, Ø	423,909	427,059	- 3,150
Total volume, SEKm	1,779	1,693	86
Number of credit customers, Ø	88,304	87,520	784
Total sales of Volvo Card, SEKm	14,292	12,970	1,322
of which fuel, %	41.5	42.3	- 0.8
of which workshop, %	15.8	16.0	- 0.2
of which stores, %	1.7	2.1	- 0.4
of which carwash, %	1.3	1.3	0.0
of which sales outside of Volvo dealerships, %	29.6	26.9	2.7
of which other (incl. loans and insurance), %	10.1	11.5	- 1.4

TRUCKS

In the Trucks business area, the bank offers both loan and leasing financing on new and used trucks, including trailers, add-ons and other equipment. The Volvo Truck Card is also part of Trucks.

Demand for trucks remains high, and Volvo Trucks' market share continues to be at very satisfactory level. The bank's share of financing for new trucks continues to increase, and more than one in two trucks are financed via truck loans, financial leases or operating leases. The financing volume of used cars trailers is also at a high level. Work is continuously being carried out in product development and marketing of financial offers along with Volvo Trucks and the Volvo dealers.

The development of future services and financial solutions in Fleet Management and smoother payment solutions are further examples of areas in which the bank, alongside Volvo Trucks, is creating the right conditions for increased customer value in future. Within this area, the eControl service – unique within this sector – has been launched. This is an invoice management service and cost monitoring system, and is aimed principally at small and medium-sized haulage companies. The per kilometre financing solution and eControl are examples of the development work taking place in the bank – all so that we can offer Volvo customers Smarter Truck Financing that will enhance the hauliers' profitability.

	2018	2017	Operations
Net interest income*	39,751	35,072	4,678
Commission income	10,081	9,812	268
Commission expense	- 195	- 332	137
Net income/expense from financial transactions	- 47	- 1,202	1,155
Other income	990	393	597
Operating income	**50,579**	**43,744**	**6,835**
Expenses**	- 37,424	- 21,893	- 15,531
Credit losses	- 321	- 592	271
Credit risk provision	338	- 204	542
Operating profit	**13,172**	**21,055**	**- 7,883**

* 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.

Product Information loans and leases	2018	2017	Operations
Number of contracts	6,793	6,446	347
Total volume, SEKm	4,221	3,794	427
of which transferred, %	77.7	79.5	- 1.8
of which pledged, %	22.3	20.5	1.8
of which loans, %	76.8	77.8	- 1.0
of which leasing, %	23.2	22.2	1.0
Share of total leasing that is operating leases, %	28.2	24.6	3.6

Product Information, Card	2018	2017	Operations
Number of active accounts Volvo Truck Card, Ø	1,529	1,678	- 149
Total sales of Volvo Truck Card, SEKm	364	387	- 23
of which workshop, %	56.8	56.3	0.5
of which stores, %	12.4	13.7	- 1.3
of which carwash, %	5.3	5.5	- 0.2
of which other (incl. loans and insurance), %	7.2	6.8	0.3
of which fuel, %	18.3	17.7	0.6

FLEET

The Fleet segment, with sales and marketing under the name Svensk Vagnparksfinans, administers and finances fleets for mainly medium-sized and larger companies, regardless of which car brands customers choose to use.

Servicing and repair agreements are also offered here, along with tyre warranties. The business concept is to make things simpler for the bank's customers by creating smarter car financing in the form of a competitive company car cost for drivers and companies alike. In recent years, the Fleet business area's ambition has been to achieve a leading position on the market in order to obtain economies of scale in administration and purchasing. As of December 2018, this ambition has been achieved and the Fleet business area became the market leader in Sweden within the segment, with 22.5% of the market. The portfolio has continued to increase at a good pace and has risen by approx. 8% compared with the corresponding period of the previous year. The majority of newly-signed agreements were in the operating lease category.

During the year, the bank made a reversal of SEK 58.8 million of a previously made impairment due to residual value risk. Most of this reversal – SEK 45.8 million – was due to the signing of a new agreement with a vehicle purchaser where the bank is no longer liable for the residual value risk.

	2018	2017	Operations
Net leasing *	32,835	29,990	2,845
Change in impairment of residual value	58,787	- 64,204	122,991
Commission income	117,096	103,518	13,578
Commission expense	- 686	- 665	- 21
Net income/expense from financial transactions	- 101	2,313	2,212
Servicing and repair agreements**	42,289	37,025	5,264
Other income**	310	266	44
Operating income	**250,530**	**103,617**	**146,913**
Expenses**	- 99,918	- 74,124	- 25,794
Credit losses	90	- 1,555	1,645
Credit risk provision	45	- 1,096	1,141
Operating profit	**150,746**	**26,842**	**123,904**

* Including depreciation and impairment of leased assets.

** See Note 11 Other operating income. Servicing and repair agreements were reported during 2017 under commission income.

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

Product Information	2018	2017	Operations
Number of financing agreements	33,713	30,632	3,081
Number of administered agreements	45,860	42,407	3,453
Total volume, SEKm	7,020	6,155	864
of which operating leases, %	68.4	67.4	1.0
of which finance leases, %	31.6	32.6	- 1.0

INCOME STATEMENT

NOTE 5. NET INTEREST INCOME

Interest income	2018	2017
Loans and advances to credit institutions	13	–
Loans and advances to customers	480,944	434,658
Debt securities	1,525	3,745
Other interest income	12	37
Total	**482,494**	**438,440**
Of which interest income from assets recognised at amortised cost	482,494	435,814
Interest expense		
Liabilities to credit institutions	- 22,234	- 15,858
Retail deposits and borrowings	- 102,471	- 89,379
Cost for deposit guarantee scheme	- 7,877	- 11,121
Investments in debt securities	- 10,727	–
Issued debt securities	- 54,289	- 44,224
Derivatives	- 7,820	- 3,433
Subordinated debts	- 3,231	–
Other interest expenses	- 48,049	- 32,213
Total	**- 256,698**	**- 196,228**
Of which interest expense from financial assets recognised at amortised cost	- 10,727	–
Net interest income	**225,796**	**- 242,212**

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.

NOTE 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	2018	2017
Lease income from contracts recognised as operating leases	5,318,171	4,635,582
Scheduled depreciation for contracts recognised as operating leases	- 4,987,011	- 4,365,962
Lease income from contracts recognised as operating leases, net	**331,160**	**269,620**

Combined net interest income		
Lease income from finance leases (recognised as operating leases in the balance sheet)	3,004,639	2,575,090
Scheduled depreciation for finance leases (recognised as operating leases in the balance sheet)	- 2,817,543	- 2,425,319
Net lease income from finance leases*	**187,096**	**149,771**
Interest income	482,494	438,440
Interest expense	- 256,698	- 196,228
Combined net interest income**	**412,892**	**391,983**
Total lease and net interest income		
Net lease income from contracts recognised as operating leases	331,160	269,620
Net interest income in accordance with Note 5	225,796	- 242,212
Total lease and net interest income	**556,956**	**511,832**
Interest margin***, %	1.21	1.26
Average lending rate, %	1.94	1.95
Average deposit rate (incl. cost for deposit guarantee scheme), %	0.67	0.69

* 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.

NOTE 7. DIVIDENDS RECEIVED

	2018	2017
Shares and participations	16,352	–
Total	**16,352**	**–**

The dividend during the year is partly derived from Visa Sweden's sale of its share in Visa Europe Ltd to Visa Inc., where the total payment consisted of a combination of cash and shares distributed to the various members of Visa Sweden. The bank's share of this dividend consists of SEK 14 million cash, of which SEK 1 million is a guaranteed future dividend in 2019. The dividend also consists of shares in Visa Inc. "Series C Convertible participating Preferred Stock". In the absence of any cash equivalent notes for the instrument, its market value has been established using elements of our own internal assumptions.

NOTE 8. COMMISSION INCOME

	2018	2017
Commission income, credit cards	189,413	182,741
Commission income, loans and leases	201,426	183,629
Total	**390,839**	**366,370**

NOTE 9. COMMISSION EXPENSE

	2018	2017
Payment processing commissions	- 4,340	- 3,759
Other commissions	- 39,575	- 29,945
Total	**- 43,915**	**- 33,704**

NOTE 10. NET INCOME/EXPENSE FROM FINANCIAL TRANSACTIONS*

GAIN/LOSS BY MEASUREMENT CATEGORY INCLUDING EXCHANGE RATE CHANGES

	2018	2017
Derivative assets intended for risk management, no hedge accounting	19,021	249
Financial assets at fair value through profit or loss	–	- 11,902
Derivative liabilities intended for risk management, no hedge accounting	- 20, 161	- 48
Financial liabilities at amortised cost**	–	- 892
Change in fair value of derivatives that are hedging instruments in a fair value hedge	- 1,423	- 7,240
Change in fair value of hedged item attributable to the hedged risk in a fair value hedge	2,000	6,781
Total	**- 563**	**- 13,053**

* Financial assets valued at amortised cost amounted to 0.

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

NOTE 11. OTHER OPERATING INCOME

	2018	2017
Capital gain on disposal of property, plant and equipment	630	567
Servicing and repair agreement income	42,289	37,025
Income from associates	1,077	1,408
Other operating income	7,728	7,315
Total	**51,724**	**46,315**

NOTE 12. GENERAL ADMINISTRATIVE EXPENSES

	2018	2017
Salaries and fees	- 112,160	- 104,217
Social security contributions	- 36,895	- 33,647
Cost for pension premiums*	- 18,108	- 14,229
Payroll tax	- 4,449	- 3,558
Other staff costs	- 4,782	- 4,532
Total staff costs	**- 176,394**	**- 160,183**
Rents and other premises costs	- 12,812	- 12,746
IT costs	- 165,542	- 128,133
Consulting services	- 10,278	- 11,902
Contract staff	- 4,476	- 2,988
Audit	- 1,700	- 2,254
Postage and telephone	- 4,807	- 4,832
Other	- 13,138	- 11,506
Total other general administrative expenses	**- 212,753**	**- 174,361**
Total general administrative expenses	**- 389,147**	**- 334,544**

* Total pension premiums were KSEK 18,340 (14,664), of which KSEK 9,741 (7,668) refer to Alecta ITP 2 pensions. Of the bank's pension costs, KSEK 4,578 (4,669) refer to the bank's senior executives (10 (14) people). The bank has no outstanding pension obligations.

Expected fees in the next reporting period for ITP2 insurance policies with Alecta are KSEK 8,122 (6,959). 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 0.04 per cent and 0.03 per cent 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 per cent. If Alecta's collective funding ratio were to fall below 125 per cent or exceed 155 per cent it would be necessary to take measures that will enable the ratio return to the normal range. In case of a low collective funding ratio one measure that can be taken is to raise the agreed price for new subscriptions and expansion of the existing benefits. A high collective funding ratio can be addressed by reducing premiums. At year-end 2018, Alecta's surplus in the form of the collective funding ratio was 142 per cent (154).

BREAKDOWN OF SALARIES AND OTHER REMUNERATION BY SENIOR EXECUTIVES AND OTHER EMPLOYEES, AND SOCIAL SECURITY CONTRIBUTIONS

	2018			2017		
	Senior executives (21 people)	Other employees	Total	Senior executives (25 people)	Other employees	Total
Salaries and other remuneration	- 16,355	- 95,805	- 112,160	- 20,352	- 83,865	- 104,217
of which, variable remuneration	(–)	(- 654)	(- 654)	(–)	(- 969)	(- 969)
Total	**- 16,355**	**- 95,805**	**- 112,160**	**- 20,352**	**- 83,865**	**- 104,217**
Social security contributions	- 9,049	- 50,403	- 59,452	- 11,625	- 39,809	- 51,434
of which, retirement benefit costs	(- 4,578)	(- 17,979)	(- 22,557)	(- 4,669)	(- 13,118)	(- 17,787)

SALARIES AND FEES

The members of the Board receive fixed 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 remuneration payable to other senior executives is decided by the CEO. The remuneration to the CEO and other senior executives consists of basic salary, other benefits and pension. The term "other senior executives" refers to the nine people who, together with the CEO, constitute the management team.

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.

SALARIES AND REMUNERATION OF SENIOR EXECUTIVES

	Basic salary/fee	**Variable remuneration**	**Other benefits**	**Retirement benefit cost**	**Total**
2018					
Chairman of the Board	- 775	–	–	–	- 775
Vice Chairman of the Board	- 500	–	–	–	- 500
Directors (9 people)	- 1,900	–	–	–	- 1,900
CEO	- 2,659	–	- 189	- 2,007	- 4,855
Other senior executives (9 people)	- 10,521	–	- 903	- 3,501	- 14,925
Total	**- 16,355**	**–**	**- 1,092**	**- 5,508**	**- 22,955**
2017					
Chairman of the Board	- 775	–	–	–	- 775
Vice Chairman of the Board	- 741	–	–	–	- 741
Directors (6 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**

REMUNERATION OF THE BOARD OF DIRECTORS

Name	Position (2018/2017)	2018	2017
Urmas Kruusval	Chairman	- 775	- 775
Synnöve Trygg	Vice Chairman	- 500	- 741
Ann Hellenius	Director	- 250	- 292
Anders Gustafsson	Deputy/Director	- 150	- 214
Per Avander	Director	- 200	- 200
Tommy Andersson	Director	- 400	- 425
Patrik Tolf	Director	- 450	- 480
Janola Gustafson	Deputy	- 100	- 100
Björn Rentzhog	Deputy	- 100	- 140
Pascal Bellemans	Deputy	- 100	- 107
Kristian Elvefors	Board Member/Deputy member	- 150	- 107
Total		**- 3,175**	**- 3,581**

Loans to senior executives	2018	2017
Senior executives' loans in the company	347	460
Chief Executive Officer and Executive Vice President	–	–
Directors and Deputy Board members	112	144
Total	**459**	**604**

Loans to senior executives amounted to KSEK 459 (604). The amount of interest for these people amounted to KSEK 8 (8). The terms and conditions of loans to senior executives are the same as for the bank's other employees.

EMPLOYEE INFORMATION

	2018			2017		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Average number of employees	88	119	207	82	114	196
Gender distribution in management						
CEO	1	–	1	1	–	1
Board	9	2	11	9	2	11
Other senior executives	7	2	9	9	4	13
Number	**17**	**4**	**21**	**19**	**6**	**25**

AUDITORS' FEES AND EXPENSES

KPMG	2018	2017
Audit engagement	- 1,700	- 2,254
Audit services in addition to audit engagement	- 220	- 362
Tax advisory services	- 25	- 70
Other services	- 97	- 100
Total	**- 2,042**	**- 2,786**

NOTE 13. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	2018	2017
Scheduled depreciation and amortisation	- 5,000,523	- 4,371,490
Reversal of impairment losses for the year	58,862	15,767
Impairment	- 161	- 80,666
Total	**- 4,941,822**	**- 4,436,389**
Scheduled depreciation and amortisation		
Fixtures and fittings	- 1,991	- 899
Lease assets	- 4,987,011	- 4,365,962
Intangible assets	- 11,521	- 4,629
Total	**- 5,000,523**	**- 4,371,490**
Net impairment		
Lease assets	58,701	- 64,899
Total	**58,701**	**- 64,899**

NOTE 14. OTHER OPERATING EXPENSES

	2018	2017
Fees to central organisations	- 3,030	- 2,446
Insurance costs	- 1,259	- 1,224
Marketing costs	- 52,339	- 42,244
Other operating expenses	- 56,099	- 1,276
Total	**- 112,727**	**- 47,190**

NOTE 15. NET CREDIT LOSSES

Loans at amortised cost	2018	2017
Change in credit loss provision stage 1	2,121	–
Change in credit loss provision stage 2	- 466	–
Collective provisions as per IAS 39	–	- 2,104
Net credit losses, non-credit-impaired lending	**1,655**	**- 2,104**
Change in credit loss provision stage 3	552	–
Write-off of actual losses for the period	- 17,567	- 19,241
Recovery of actual credit losses	2,175	1,714
Specific provisions as per IAS 39	–	1,640
Net credit losses, credit-impaired lending	**- 14,840**	**- 15,887**
Total net credit losses*	**- 13,185**	**- 17,991**

* The recognised net result of credit losses for 2018 refers to credit losses on loans which have been identified as doubtful and where the provisions have been determined on the basis of expected credit losses, as per IFRS 9. The recognised net result of credit losses for 2017 refers to credit losses on loans which where the provisions have been determined on the basis of a previous model, as per IFRS 39. The comparative figures have not been recalculated and thus are not directly comparable.

NOTE 16. APPROPRIATIONS

	2018	2017
Accelerated depreciation	- 498,479	- 406,989
Total	**- 498,479**	**- 406,989**

NOTE 17. TAX ON PROFIT FOR THE YEAR

	2018	2017
Tax expense for the year	- 3,320	- 619
Total reported tax expense	**- 3,320**	**- 619**

Reconciliation of effective tax	2018		2017	
Profit before tax		3,320		619
Tax at applicable tax rate	- 22.0.2%	- 730	- 22.0%	- 136
Non-deductible expenses	- 78.1%	- 2,592	- 79.2%	- 491
Non-taxable income	0.1%	2	1.2%	8
Reported effective tax	**- 100.0%**	**- 3,320**	**- 100.0%**	**- 619**


T8

BALANCE SHEET

NOTE 18. CHARGEABLE TREASURY BILLS ETC.

	Carrying amount 31 Dec 2018	Carrying amount 31 Dec 2017
Securities issued by the State	–	–
Securities issued by local authorities and other public sector entities	1,245,816	1,432,848
Total	**1,245,816**	**1,432,848**
Positive difference due to carrying amounts exceeding nominal values	5,816	10,848
Total	**5,816**	**10,848**

All assets in the balance sheet item are included in stage 1 in the calculation of expected credit losses, which means that there has been no significant increase in credit risk and that the loss reserve is calculated on the basis of expected losses for the next 12 months. The accumulated loss provision for expected credit losses recognised in the income statement and which decreases the carrying amount of the balance sheet item amounts to KSEK 584.

NOTE 19. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	31 Dec 2018	31 Dec 2017
Gross outstanding receivables in Swedish currency	1,622,571	1,300,672
of which, to Swedish commercial banks	1,622,567	1,300,668
of which, payable on demand	1,622,571	1,300,672

The credit quality of loans and advances to credit institutions is very high. The item consists of deposits with major Nordic banks, which at the balance sheet date had ratings of Aa2–A2 on Moody's scale.

Due to receivables to credit institutions being payable on demand, the expected credit losses are negligible, which is why any loss provision for expected credit losses is not recognised.

NOTE 20. LOANS AND ADVANCES TO CUSTOMERS

The bank's total lending including lease assets is SEK 37.28 billion (35.12). The stated values are reduced by impairment for credit risk for each credit. For lending to customers, the values are KSEK 24,193 (19,186) lower than the gross values of the receivables. See also Notes 21, 25 and 26.

The bank's loans and advances to customers consist of card credits, car loans, hire purchase agreements and inventory credits. Recognised loss provisions include loss provisions for loan commitments (undrawn card limits). Total loan commitments amounted to SEK 10,138,183 (10,162,214).

	31 Dec 2018	31 Dec 2017
Gross outstanding receivables in Swedish currency	16,946,953	16,502,971
Impairment for credit losses	- 24,193	- 19,186*
Net carrying amount	**16,922,760**	**16,483,785**

* Refers to CB, 31 Dec 2017 and is recognised in accordance with IAS 39. OB, 1 Jan 2018 has been recalculated in accordance with IFRS 9 and amounts to KSEK 26,252 according to the following table.

CHANGES IN RECOGNISED GROSS VALUE AND LOSS PROVISIONS

	Non-credit-impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Gross carrying amount as at 1 Jan 2018	**15,770,374**	**668,788**	**63,809**	**16,502,971**
Financial assets, new contracts at end of year*	6,035,888	187,296	46,563	6,269,747
Financial assets, completed contracts at beginning of year**	- 2,815,317	- 139,024	- 41,784	- 2,996,125
*Net changes in stage****				
In stage 1	- 2,643,922			- 2,643,922
In stage 2		- 42,244		- 42,244
In stage 3			- 1,130	- 1,130
Transfers between stages				
From and to stage 1 (to and from stages 2 and 3)	- 292,618			- 292,618
From and to stage 2 (to and from stages 1 and 3)		66,966		66,966
From and to stage 3 (to and from stages 1 and 2)			83,308	83,308
Gross carrying amount as at 31 Dec 2018	**16,054,405**	**741,783**	**150,766**	**16,946,953**
Loss provisions				
Loss provision as per 1 Jan 2018	**- 11,378**	**- 7,898**	**- 6,976**	**- 26,252**
Financial assets, new contracts at end of year	- 990	- 428	- 596	- 2,014
Financial assets, completed contracts at beginning of year	453	1,225	4,725	6,403
*Net changes in stage****				
In stage 1	1,227			1,227
In stage 2		- 1,624		- 1,624
In stage 3			- 1,288	- 1,288
Change in risk variables*****	1,238	1,261	1,594	4,093
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	174			174
From and to stage 2 (to and from stages 1 and 3)		- 899		- 899
From and to stage 3 (to and from stages 1 and 2)			- 3,859	- 3,859
Change in interest reserves			- 154	- 154
Loss provisions as per 31 Dec 2018	**- 9,275**	**- 8,364**	**- 6,554**	**- 24,193**
Opening balance as at 1 Jan 2018	**15,758,996**	**660,890**	**56,834**	**16,476,719**
Closing balance as at 31 Dec 2018	**16,045,130**	**733,419**	**144,211**	**16,922,760**

* Car loans, card credits, hire purchase agreements and inventory credits taken out during the year. The gross amount shown in the table is the gross carrying amount at the end of the first month of the contract.

** Car loans, card credits, hire purchase agreements and inventory credits taken out before the start of the year and completed during the year. The gross carrying amount shown in the table is for the month that the contract was completed. The amounts refer to final paid contracts or contracts that have ended due to an actual bad debt.

*** Net changes in the stage include the following types of changes: for car loans, this heading will cover changes in the loss provision due to a change in credit risk during the year but which have not led to a change in the stage covered in the section "Transfers between stages below". For card credits, the same type of change as for car loans is covered in this section. In addition, changes in expected credit loss due to an increase or decrease in utilised credit limit are also covered for such card credits (contracts) that were taken out at the beginning of the year. The amounts also include changes in gross carrying amounts that arose during periods before a contract was completed. As with card credits, changes due to a change in credit risk and change in the undrawn limit are covered.

**** Transfers between stages include car loans, card credits, hire purchase agreements and inventory credits that were part of a different stage in the CB than in the OB. As regards the change in the loss provision, this also includes changes in the loss provision for undrawn limits.

***** Changes in risk variables refer in their entirety to the change made to the credit conversion factor (CF) variable for the undrawn card limits.

During the year, a change in the conversion factor (CF) for the card limits was made on the basis that it was previously estimated using one method (the moment method) but was implemented by another method (the basic method), which led to a certain systematic skew in the provision. Now the CF is both estimated and implemented according to the basic method.

Gross loans and advances to customers increased by approximately SEK 444 million during the course of the year. This consists of new contracts worth SEK 6.3 billion. Contracts paid off or contracts withdrawn for another reason (e.g. actual loss) have resulted in the value falling by SEK 3.0 billion. For contracts that were in place both at the beginning and the end of the year, the gross value has gone down by SEK 2.8 billion. The largest increase in gross value occurred in stage 1. The increased lending in combination with changes in credit risk has resulted in an increase of approx. SEK 2 million in the loss provisions, of which the largest change related to assets that were completed during the year with a reversal of SEK 4.8 million for assets in stage 3. There was also an increase in the loss provisions for assets that migrated to stage 3 (SEK 3.9 million) during the year. Even for assets with no movement to another stage the loss provisions increased by approx. SEK 1.7 million. The change in CF for the card limits resulted in a reversal of SEK 4.1 million for the loss provisions. For the year as a whole, there was a total reversal of loss provisions of SEK 2.1 million from an opening value of SEK 26.3 million to an outgoing value of SEK 24.2 million.

GROSS CARRYING AMOUNT AND LOSS PROVISION – SECTOR BREAKDOWN

	31 December 2018		
	Gross carrying amount	Loss provision	Net carrying amount
Loans and advances to customers			
Retail customers	12,984,330	- 22,386	12,961,943
Corporate customers			
Transport	2,338,508	- 751	2,337,758
Sale and service of motor vehicles	875,014	- 174	874,841
Construction	290,060	- 402	289,658
Other loans and advances to companies	459,041	- 481	458,560
Total loans and advances to customers	**16,946,953**	**- 24,193**	**16,922,760**

GROSS CARRYING AMOUNT AND LOSS PROVISION PER STAGE – COMPARISON WITH OPENING BALANCE

	31 December 2018	1 January 2018
Loans and advances to customers, retail customers		
Stage 1		
Gross carrying amount	12,428,795	11,977,102
Loss provisions	- 8,500	- 10,346
Carrying amount	12,420,295	11,966,756
Stage 2		
Gross carrying amount	514,965	478,146
Loss provisions	- 7,892	- 7,301
Carrying amount	507,073	470,845
Stage 3		
Gross carrying amount	40,570	25,987
Loss provisions	- 5,994	- 6,195
Carrying amount	34,575	19,792
Total carrying amount, loans and advances to retail customers	**12,961,943**	**12,457,393**
Loans and advances to customers, corporate customers		
Stage 1		
Gross carrying amount	3,625,610	3,793,272
Loss provisions	- 775	- 1,033
Carrying amount	3,624,835	3,792,239
Stage 2		
Gross carrying amount	226,817	190,642
Loss provisions	- 472	- 597
Carrying amount	226,345	190,045
Stage 3		
Gross carrying amount	110,196	37,822
Loss provisions	- 560	- 780
Carrying amount	109,636	37,042
Total carrying amount, loans and advances to corporate customers	**3,960,817**	**4,019,326**

	31 December 2018	1 January 2018
Total		
Gross carrying amount stage 1	16,054,405	15,770,374
Gross carrying amount stage 2	741,783	668,788
Gross carrying amount stage 3	150,766	63,809
Total gross carrying amount	**16,946,953**	**16,502,971**
Loss provisions stage 1	- 9,275	- 11,379
Loss provisions stage 2	- 8,364	- 7,898
Loss provisions stage 3	- 6,554	- 6,975
Total loss provisions	**- 24,193**	**- 26,252**
Total carrying amount, loans and advances to customers	**16,922,760**	**16,476,719**
Gross share of stage 3 loans, %	0.89	0.39
Net share of stage 3 loans, %	0.85	0.34
Loss provisions quotient stage 1 loans	0.38	0.43
Loss provisions quotient stage 2 loans	0.35	0.30

LOSS PROVISIONS IN LINE WITH IFRS 9 AS AT 2018 COMPARED TO IAS 39 FOR 2017

	31 Dec 2018	31 Dec 2017
Impairment – non-credit-impaired		
Collective provisions	–	- 13,795
12-month loss provision (stage 1)	- 9,275	–
Loss provision remaining term (stage 2)	- 8,364	–
Impairment – credit-impaired exposures		
Specific provisions	–	- 5,391
Impairment – credit-impaired exposures (stage 3)	- 6,554	–
Total impairment	**- 24,193**	**- 19,186**

NOTE 21. BONDS AND OTHER DEBT SECURITIES

	Carrying amount	Carrying amount
Issued by Swedish borrowers	**31 Dec 2018**	**31 Dec 2017**
Mortgage lenders	1,431,707	1,207,411
Non-financial corporations	800,260	675,250
Total	**2,231,967**	**1,882,661**
Positive difference due to carrying amounts exceeding nominal values	17,967	12,661
Total	**17,967**	**12,661**

All assets in the balance sheet item are included in stage 1 in the calculation of expected credit losses, which means that there has been no significant increase in credit risk and that the loss reserve is calculated on the basis of expected losses for the next 12 months. The accumulated loss provision for expected credit losses recognised in the income statement and which decreases the carrying amount of the balance sheet item amounts to KSEK 316.

NOTE 22. SHARES AND INTERESTS IN ASSOCIATES AND OTHER COMPANIES

	31 Dec 2018	31 Dec 2017
Unlisted securities		
Carrying amount, 1 January	20,417	19,009
Dividend for the year from Visa	2,283	–
Share of profit for the year of limited partnerships	1,077	1,408
Carrying amount, 31 December	**23,777**	**20,417**

	Performance	Equity	Share of equity	Carrying amount
2018				
Visa Inc C	–	–	–	2,331
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Gothenburg	770	36,600	12,078	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Gothenburg	1,715	83,077	17,723	17,723
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Gothenburg	4,700	18,182	3,573	3,573
VCC Försäljnings KB, corp. ID no. 969712-0153, Gothenburg	- 2,106	- 6,821	- 849	- 849
Total	**5,079**	**131,038**	**35,525**	**23,777**
2017				
Visa Inc C	–	–	–	48
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Gothenburg	1,232	35,830	11,824	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Gothenburg	5,949	81,362	17,294	17,294
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Gothenburg	2,864	13,535	2,398	2,398
VCC Försäljnings KB, corp. ID no. 969712-0153, Gothenburg	- 3,129	- 4,715	- 323	- 323
Total	**6,916**	**126,012**	**31,193**	**20,417**

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

The bank owns 33 per cent of Volvohandelns PV Försäljnings AB, 25 per cent of Volvohandelns PV Försäljnings KB, 25 per cent of VCC Tjänstebilar KB and 25 per cent 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.

NOTE 23. SHARES AND INTERESTS IN GROUP COMPANIES

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

	Corp. ID no.	Regd office	Performance 2018
Unlisted securities			
CarPay Sverige AB	556268-7052	Gothenburg	–
Volvofinans IT AB	556004-3621	Gothenburg	–
Volvofinans Leasing AB	556037-5734	Gothenburg	–
Autofinans Nordic AB	556094-7284	Gothenburg	–

			Carrying amount	
Shares in wholly owned Group companies	**Number of shares**	**Nom. value**	**2018**	**2017**
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**

NOTE 24. INTANGIBLE ASSETS

	Development expenditure	Licenses	Total
Accumulated cost			
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**
Opening balance, 1 Jan 2018	134,297	5,759	140,056
Purchases for the year	14,908	–	14,908
Disposals	- 60,505	- 5,759	- 66,264
Closing balance, 31 Dec 2018	**88,700**	**0**	**88,700**
Accumulated amortisation			
Opening balance, 1 Jan 2017	- 111,510	- 5,759	- 117,269
Depreciation for the year	- 4,629	–	- 4,629
Disposals	–	–	–
Closing balance, 31 Dec 2017	**- 116,139**	**- 5,759**	**- 121,898**
Opening balance, 1 Jan 2018	- 116,139	- 5,759	- 121,898
Depreciation for the year	- 4,385	–	- 4,385
Disposals	53,368	5,759	59,127
Closing balance, 31 Dec 2018	**- 67,155**	**0**	**- 67,155**
Carrying amounts			
31 Dec 2017	18,158	–	18,158
31 Dec 2018	**21,545**	**–**	**21,545**

All intangible assets are developed internally and have a useful life of three or five years.
Assets are amortised on a straight-line basis over their useful life.

NOTE 25. PROPERTY, PLANT AND EQUIPMENT, FIXTURES AND FITTINGS, AND LEASE ASSETS

	Fixtures and fittings	Lease assets	Total
Cost			
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**
Opening balance, 1 Jan 2018	20,985	25,819,819	25,840,803
Purchases	6,174	10,553,099	10,559,273
Sales	–	- 7,886,961	- 7,886,961
Disposals	- 2,480	–	–
Closing balance, 31 Dec 2018	**24,679**	**28,485,957**	**28,510,636**
Depreciation			
Opening balance, 1 Jan 2017	- 19,456	- 5,964,321	- 5,983,777
Depreciation for the year	- 899	- 4,365,962	- 4,366,861
Sales	–	3,278,817	3,278,817
Disposals	1,670	–	1,670
Closing balance, 31 Dec 2017	**- 18,685**	**- 7,051,466**	**- 7,070,151**
Opening balance, 1 Jan 2018	- 18,685	- 7,051,466	- 7,070,151
Depreciation for the year	- 1,991	- 4,987,011	- 4,989,002
Sales	5	3,983,765	3,983,770
Disposals	2,480	–	2,480
Closing balance, 31 Dec 2018	**- 18,191**	**- 8,054,712**	**- 8,072,904**
Impairment			
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**
Opening balance, 1 Jan 2018*	–	- 132,903	- 132,903
Reversal of impairment losses for the year	–	58,862	58,862
Impairment for the year	–	- 161	- 161
Adjustment between loans and leases	–	- 20	- 20
Closing balance, 31 Dec 2018	**–**	**- 74,221**	**- 74,221**
of which, impairment of residual value risk	(–)	(- 73,925)	(- 73,925)
Carrying amounts			
1 Jan 2017	1,632	15,976,197	15,977,829
31 Dec 2017	**2,300**	**18,631,323**	**18,633,623**
01 Jan 2018*	2,300	18,635,450	18,637,750
31 Dec 2018	**6,488**	**20,357,024**	**20, 363, 512**

* OB 2018 has been adjusted by KSEK 4,127 in relation to the transition to IFRS 9.

NOTE 26. OTHER ASSETS

	31 Dec 2018	31 Dec 2017
Positive value of derivatives	12,999	14,030
Tax asset	692	82,305
Trade receivables	735,720	623,654
of which non-cancellable leasing income	(611,281)	(535,376)
Other assets	137,717	107,409
Total	**887,128**	**827,398**

Trade receivables are offset against a credit risk provision of KSEK 28 (1,543) and an interest reserve of KSEK 19 (–) and recognised on a net basis in respect of fleet contracts.

NOTE 27. 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 13.0 million (14.0) and the value of derivative liabilities including accrued interest is SEK 37.2 million (2.7).

2018 **Derivatives for which hedge accounting is not applied**	**Up to 1 year**	**1–5 years**	**> 5 years**	**Total**	**Assets (positive market values)**	**Liabilities (negative market values)**
Interest rate-related contracts						
Swaps	16,458	156,946	–	173,405	101	- 7
Currency-related contracts						
Swaps (NOK)	–	649,500	–	649,500	–	- 35,781
Total	**16,458**	**806,446**	**–**	**822,905**	**101**	**- 35,788**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	300,000	1,850,000	–	2,150,000	12,898	- 1,408
Currency-related contracts						
Swaps (NOK)	–	–	–	–	–	–
Total	**300,000**	**1,850,000**	**–**	**2,150,000**	**12,898**	**- 1,408**
Total	**316,458**	**2,656,446**	**–**	**2,972,905**	**12,999**	**- 37,196**
Breakdown of market value by currency						
SEK	316,458	2,006,946	–	2,323,405	12,999	- 1,414
NOK	–	649,500	–	649,500	–	- 35,781
Total	**316,458**	**2,656,466**	**–**	**2,972,905**	**12,999**	**- 37,196**

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						
Swaps	2,625	103,417	–	106,042	19	- 61
Currency-related contracts						
Swaps (NOK)	–	–	–	–	–	–
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 (NOK)	–	–	–	–	–	–
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
NOK	–	–	–	–	–	–
Total	**202,625**	**1,453,417**	**300,000**	**1,956,042**	**14,030**	**- 2,760**

HEDGING INSTRUMENTS IN HEDGE ACCOUNTING, NOMINAL AMOUNTS AND CARRYING AMOUNTS

Hedging instruments and effectiveness of hedging	Nominal amount	Carrying amount		Line on balance sheet where the hedging instrument is included	Changes in fair value used to measure the hedge ineffectiveness for the period
		Assets	Liabilities		
Interest rate-related contracts					
Derivatives, positive values	1,350,000	12,898		Other assets	1,519
Derivatives, negative values	800,000		1,408	Other liabilities	- 924
Total	**2,150,000**	**12,898**	**1,408**		**595**

Ineffectiveness amounts to KSEK 580 in the income statement item “Net income/expense from financial transactions”.

UNDERLYING RISK EXPOSURES HEDGED, CARRYING AMOUNT AND FAIR VALUE ADJUSTMENT AMOUNTS

Hedged items	Carrying amount Liabilities	Accumulated adjustment amount of fair value hedging for the hedged item Liabilities	Change in value used to measure the ineffectiveness of hedging instruments for the period	Accumulated adjustment amount of fair value hedging where hedge accounting is no longer applied
Securities issued	2,154,423	4,423	- 15	–

The bank has no discontinued hedging relationships where the hedged item is still recognised in the balance sheet.

HEDGE INEFFECTIVENESS RECOGNISED IN 2018 INCOME STATEMENT, FAIR VALUE HEDGING OF INTEREST RATE RISK

Fair value hedging	Hedge ineffectiveness recognised in income statement	Line in income statement containing recognised hedge ineffectiveness
Interest rate risk		
Securities issued	- 15	Net income/expense from financial transactions
Hedging instruments		
Interest rate swaps	595	Net income/expense from financial transactions

Hedging instruments consist of interest rate swaps for hedging interest rate risk. The hedged items consist of fixed-rate borrowing, and the hedged risk is the risk of change in the fair value as a result of changes in the swap rate. The hedging ratio is 1:1 because the hedged risk and the characteristics of the hedging instrument are identical. Hedging effectively protects the intended risk in the hedged items at transaction level, with an efficiency within the range 80–125%. The bank evaluates effectiveness using the so-called dollar offset method based on accumulated changes in fair value. See also Note 3. Derivatives and hedge accounting, as well as the Market risk section in Note 2.

NOTE 28. PREPAID EXPENSES AND ACCRUED INCOME

	31 Dec 2018	31 Dec 2017
Prepaid expenses	23,868	21,133
Accrued interest income	5,211	3,910
Other accrued income	21,664	18,114
Total	**50,743**	**43,157**

NOTE 29. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

BREAKDOWN BY CURRENCY

2018	SEK	NOK	Total
Liabilities to credit institutions	2,083,333	–	2,083,333
Securities issued	14,917,977	614,422	15,532,399
Total	**17,001,310**	**614,422**	**17,615,732**

2017	SEK	NOK	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**

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

NOTE 30. RETAIL DEPOSITS AND BORROWINGS

All deposits and borrowings are in SEK.

RETAIL DEPOSITS

Deposits by customer category	31 Dec 2018	31 Dec 2017
Public sector	60	68
Corporate sector	16,359	23,666
Retail sector	17,135,362	15,404,255
of which, individual business owners	(3,356,536)	(3,020,788)
Other	132	104
Total deposits	**17,151,913**	**15,428,093**

RETAIL BORROWINGS

Borrowings by customer category	31 Dec 2018	31 Dec 2017
Corporate sector	1,066,453	582,617
Other	–	3,195
Total borrowing	**1,066,453**	**585,812**
of which, Group companies	(6,789)	(6,789)
of which, associates	(210,261)	(157,845)
Total retail deposits and borrowings	**18,218,366**	**16,013,905**

NOTE 31. OTHER LIABILITIES

	31 Dec 2018	31 Dec 2017
Negative value of derivatives	37,196	2,760
Trade payables	520,307	482,735
Liability to customer	113,007	100,886
Other liabilities	408,863	320,358
Total	**1,079,373**	**906,739**

NOTE 32. ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2018	31 Dec 2017
Accrued interest expense	15,914	11,278
Other accrued expenses	100,662	76,216
Deferred income	1,186,408	1,141,217
Total	**1,302,984**	**1,228,711**

NOTE 33. SUBORDINATED DEBTS

	Currency	Nominal	Interest rate	Maturity date	Carrying amount 2018	Carrying amount 2017
Debentures	SEK	400,000	STIBOR 90 + 1.45%	11 Apr 2028	400,000	–
Total	**–**	**–**	**–**	**–**	**400,000**	**–**
Of which, associates	–	–	–	–	–	–
Of which, Group companies	–	–	–	–	–	–

Debentures are subordinate to the bank's other liabilities, which means that they confer entitlement to payment only after the other creditors have been repaid.

NOTE 34. UNTAXED RESERVES

	31 Dec 2018	31 Dec 2017
Accumulated accelerated depreciation		
Opening balance, 1 January	3,629,711	3,222,722
Change for the year	498,479	406,989
Closing balance, 31 December	**4,128,190**	**3,629,711**

NOTE 35. EQUITY

For specification of changes in equity, see statement of changes in equity.

DIVIDEND

The dividend recognised during the year was KSEK 479,484 and equates to SEK 479.48 per share. The proposed dividend is KSEK 98,604 and equates to SEK 98.60 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.

NOTE 36. CARRYING AMOUNT BY CATEGORY OF FINANCIAL INSTRUMENT AND FAIR VALUE DISCLOSURES

METHODS FOR DETERMINING FAIR VALUE

Derivatives are recognised under other assets or other liabilities. 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 in accordance with IFRS 13. Only observable market data is used for discounting (Level 2).

Chargeable treasury bills etc. as well as bonds and other debt securities have been measured at fair value in accordance with IFRS 13 by being marked to market both using quoted prices in an active market (Level 1) and using observable market data (Level 2).

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 (Level 2) in order to determine the fair value in accordance with IFRS 13.

Liabilities to credit institutions, retail deposits and borrowing, securities issued and subordinated debts have been calculated based on estimated current lending spreads (Level 2) in order to determine the fair value in accordance with IFRS 13. After review and analysis of this approach, the bank has changed its opinion regarding the category of issued securities for 2017, which is why the table below is adjusted.

Other categories belong to Level 3. For these assets and liabilities the carrying amount is a good approximation of fair value due to the short remaining maturity. After review and analysis of this approach, the bank has changed its opinion regarding the category of loans and advances to credit institutions for 2017, which is why the table below is adjusted.

Fair values are categorised at different levels in a fair value hierarchy based on inputs used in the valuation technique as follows:

Level 1: according to prices quoted on an active market for identical instruments.

Level 2: based on directly or indirectly observable market data that is not included in Level 1. This category includes instruments that are valued based on quoted prices on active markets for similar instruments, quoted prices for identical or similar instruments traded on markets that are not active, or other valuation techniques where all significant inputs are directly and indirectly observable on the market.

Level 3: based on inputs that are not observable on the market. This category includes all instruments where the valuation technique covers inputs not based on observable data and where it has a material impact on the valuation.

Assets 2018	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Chargeable treasury bills, etc.	1,243,806	–	–	**1,243,806**	**1,245,816**
Loans and advances to credit institutions	–	–	1,622,571	**1,622,571**	**1,622,571**
Loans and advances to customers	–	16,907,161	–	**16,907,161**	**16,922,760**
Bonds and other debt securities	1,430,656	800,260	–	**2,230,916**	**2,231,967**
Other assets*	–	12,999	874,129	**887,128**	**887,128**
Prepaid expenses and accrued income	–	–	50,743	**50,743**	**50,743**
Total	**2,674,462**	**17,720,420**	**2,547,443**	**22,942,325**	**22,960,985**

Liabilities 2018	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Liabilities to credit institutions	–	2,070,608	–	**2,070,608**	**2,083,333**
Retail deposits and borrowings	–	18,218,341	–	**18,218,341**	**18,218,366**
Securities issued	–	15,581,404	–	**15,581,404**	**15,532,399**
Other liabilities*	–	37,196	1,042,178	**1,079,373**	**1,079,373**
Accrued expenses and deferred income	–	–	1,302,984	**1,302,984**	**1,302,984**
Subordinated debts	–	391,703	–	**391,703**	**400,000**
Total	**–**	**36,299,252**	**2,345,162**	**38,644,413**	**38,616,455**

* The financial instruments which the bank measures at fair value in the balance sheet are derivatives.

Assets 2017	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	–	14,030	813,368	**827,398**	**827,398**
Prepaid expenses and accrued income	–	–	43,157	**43,157**	**43,157**
Total	**2,640,259**	**17,147,387**	**2,157,197**	**21,944,843**	**21,970,521**

Liabilities 2017	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	–	2,760	903,979	**906,739**	**906,739**
Accrued expenses and deferred income	–	–	1,228,711	**1,228,711**	**1,228,711**
Total	**–**	**33,879,620**	**2,132,690**	**36,012,310**	**35,907,237**

FINANCIAL INSTRUMENTS THAT ARE NETTED IN THE BALANCE SHEET OR ARE SUBJECT TO NETTING AGREEMENTS

Volvofinans Bank enters into derivates under International Swaps and Derivatives Association (ISDA) master agreements. No amounts have been netted in the balance sheet. For derivatives entered into after 1 March 2017, Volvofinans Bank receives and provides collateral in the form of bank deposits in accordance with the standard terms of the ISDA Credit Support Annex. The assets for derivatives amount to SEK 13.0 million and the liabilities to SEK 37.2 million. Collateral equivalent to SEK 27.2 million and SEK 4.4 million has been submitted and received respectively as at 31 December 2018.

CARRYING AMOUNTS BY CATEGORY OF FINANCIAL ASSETS AND LIABILITIES

Assets 31 Dec 2018	Financial assets recognised at amortised cost	Derivatives in hedge accounting	Other assets	Total	Fair value
Chargeable treasury bills, etc.	1,245,816	–	–	1,245,816	1,243,806
Loans and advances to credit institutions	1,622,571	–	–	1,622,571	1,622,571
Loans and advances to customers	16,922,760	–	–	16,922,760	16,907,161
Bonds and other debt securities	2,231,967	–	–	2,231,967	2,230,916
Shares and interests in associates and other companies	–	–	23,777	23,777	–
Shares and interests in Group companies	–	–	6,742	6,742	–
Intangible assets	–	–	21,545	21,545	–
Property, plant and equipment, fixtures and fittings	–	–	6,488	6,488	–
Property, plant and equipment, lease assets	–	–	20,357,024	20,357,024	–
Other assets	735,720	12,898	138,510	887,128	887,128
Prepaid expenses and accrued income	50,743	–	–	50,743	50,743
Total assets	**22,809,577**	**12,898**	**20,554,086**	**43,376,561**	

Liabilities 31 Dec 2018	Non-financial liabilities	Derivatives in hedge accounting	Other financial liabilities	Total	Fair value
Liabilities to credit institutions	–	–	2,083,333	2,083,333	2,070,608
Retail deposits and borrowings	–	–	18,218,366	18,218,366	18,218,341
Securities issued	–	–	15,532,399	15,532,399	15,581,404
Other liabilities	398,824	1,408	679,141	1,079,373	1,079,373
Accrued expenses and deferred income	1,287,069	–	15,915	1,302,984	1,302,984
Subordinated debts	–	–	400,000	400,000	391,703
Total liabilities	**1,685,893**	**1,408**	**36,929,154**	**38,616,455**	

Assets 31 Dec 2017	Loans receivable and trade receivables	FVO*	Held-to-maturity investments	Derivatives in hedge accounting	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, fixtures and fittings	–	–	–	–	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 31 Dec 2017	FVO**	Non-financial liabilities	Derivatives in hedge accounting	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.

NOTE 37. PLEDGED ASSETS AND CONTINGENT LIABILITIES

	2018	2017
Pledged assets	–	–
Contingent liabilities	–	37,164

Previously recognised contingent liability refers to an estimated disputed claim from the Swedish Tax Agency regarding non-deductible VAT from 2015 onwards. In 2018 Volvo Finans Bank AB charged SEK 45.4 million to the income statement under the "Other operating expenses item". This figure corresponds to the difference between the Swedish Tax Agency's adjusted revenue-based method and the bank's time-based calculation method applied in previous years. Volvo Finans Bank AB is still contesting the Swedish Tax Agency's decision to reject the deductions for input VAT and appealed to the Administrative Court in autumn 2018.

NOTE 38. OPERATING LEASES

OPERATING LEASES WHERE THE BANK IS THE LESSEE.

Expensed payments for operating leases amount to:

	2018	2017
Annual lease payments	11,333	10,553
– Of which minimum lease payments	10,694	9,763
– Of which variable payments	639	790

The future non-cancellable lease payments are as follows:

	2018	2017
Within 1 year	12,979	12,136
Between 1–3 years	27,030	27,246

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

NOTE 39. SUBSEQUENT EVENTS

No significant events have occurred after year end.

NOTE 40. RELATED PARTIES

The Swedish Volvo dealerships own 50 per cent of the bank via their holding company AB Volverkinvest, while Volvo Personvagnar AB owns 50 per cent with both owners classified as other related companies.

The bank has holdings in four companies classified as associates, see Note 22. The Group also includes wholly-owned and dormant subsidiaries: Volvofinans Leasing AB, Autofinans Nordic AB, CarPay Sverige AB and Volvofinans IT AB, see Note 23.

	Group companies		Associates		Other related companies	
Balance sheet	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Assets	6,742	6,742	24,689	65,139	1,260,708	932,512
Liabilities	6,789	6,789	214 948	162,739	295,532	125,374
Income statement	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Interest income	–	–	478	2,492	23	73
Lease income	–	–	–	–	343,707	255,308
Interest expense	–	–	- 27	- 27	- 38	- 14
Commission income	–	–	–	–	1,938	1,833
Other operating income	–	–	1,077	1,408	–	–
Total	**–**	**–**	**1,528**	**3,873**	**345,630**	**257 200**

NOTE 41. SPECIFICATION TO CASH FLOW STATEMENT

	2018	2017
The following components are included in cash equivalents:		
Loans and advances to credit institutions	1,622,571	1,300,672
Total	**1,622,571**	**1,300,672**

	31 Dec 2018	31 Dec 2017
Interest paid and dividends received included in cash flow from operating activities:		
Dividend received	16,352	–
Interest received	477,283	434,531
Interest paid	240,784	184,950

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.

Gothenburg, 27 March 2019

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Vice Chairman of the Board

Kristian Elvefors
Director

Tommy Andersson
Director

Per Avander
Director

Patrik Tolf
Director

Ann Hellenius
Director

Conny Bergström
CEO

We submitted our audit report on 27 March 2019

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 (publ) for 2018 with the exception of the Corporate Governance Report on pages 14–21 and the Sustainability Report on pages 22–23. The company's financial statements are included on pages 13–96 of this document.

In our opinion, the financial statements have been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies and presents fairly, in all material respects, the financial position of Volvofinans Bank AB (publ) as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover 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.

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 expected credit losses
See Note 3.19 of the accounting policies and Note 20 to the financial statements for detailed information and description of this key audit matter.

Description of the key audit matter
The bank's loans and advances to customers mainly consist of card credits and car loans, with the item amounting to SEK 16,923 million as at 31 December 2018, which corresponds to approx. 39 per cent of the bank's total assets. The bank's provision for expected credit losses amounts to SEK 24.2 million (previous year SEK 19.1 million).

The model for provision of expected credit losses is based on the financial reporting standard IFRS 9, which is new for 2018. The model is based on a collective assessment basis in which the credits are divided into three stages based on assessed credit risk. Credits in stage three cover financial instruments where objective evidence has been identified that the receivable is doubtful.

This is regarded as a key audit matter because it involves complex calculations and significant judgements in order to establish the size of the provision for expected credit losses.

Complex calculations and significant judgements include the interpretation of the requirements reflected in the bank's model for calculating expected credit losses, the establishment of a significant increase in credit risk, the establishment of credit-impaired loans, and the valuation of expected credit losses, which occurs through a complex calculation for each individual credit exposure where the bank also takes into account macroeconomic variables.

How our audit addressed the key audit matter
We evaluated that the bank's key controls have been appropriate and effective in the process to monitor the inputs, calculation and follow-up of the outcome from the credit provisions.

Supported by our specialists in credit risk modelling, we evaluated the validation that the bank has implemented for expected credit losses relating to account credits in the household segment.

We also performed random sampling to evaluate inputs to credit provision models and the accuracy of calculations.

We also evaluated the completeness and accuracy of the underlying facts disclosed in the information attributable to the provision for expected credit losses in the annual statements in order to judge compliance with the IFRS disclosure requirements.

Impairment of operating lease assets

See Note 3.22 of the accounting policies and Note 25 to the financial statements for detailed information and description of this key audit matter.

Description of the key audit matter

The carrying amount of the company's operating leases, which are directly guaranteed by Volvofinans Bank AB (publ), as at 31 December 2018 stood at SEK 4,749 million, which corresponds to approx. 11 per cent of the company's total assets. The company recognised impairment losses of SEK 73.9 million (previous year SEK 132.7 million).

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 of the expected residual value for each operating lease.

How our audit addressed the key audit matter

We assessed the appropriateness of 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.

Furthermore, we assessed the reasonableness of the data on residual values obtained from an external supplier and verified that the risk level in the residual value risk has been approved and reported to the Board in accordance with the bank's internal instructions.

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 judge compliance with the IFRS disclosure requirements.

Information other than the financial statements

This document also contains information other than that in the financial statements and which can be found on pages 1–11 and 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 2018 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(2), items 2–6 of the Swedish Annual Accounts Act and Chapter 7, Section 31(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, PO Box 11908, SE-404 39, Gothenburg, was appointed as the auditor for Volvofinans Bank AB (publ) at the Annual General Meeting on 26 June 2018.
KPMG AB or auditors working at KPMG AB have been the company's auditor since 1983.

Gothenburg, 27 March 2019
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 Nybergs Bil AB and Liljas Bil AB

Per Avander
CEO, AB Bilia

Kristian Elvefors
CEO, Volvo Car Sverige AB

Ann Hellenius
CIO/CDO Scandic Hotels

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

DEPUTY BOARD MEMBERS

Pascal Bellemans
Vice President, Head of Volvo Car Financial Services

Janola Gustafson
Chairman of the Volvo Dealers Association

Anders Gustafsson
VD Volvo Personbilar AB, Region Americas

Björn Rentzhog
CEO and President, AB Persson Invest

AUDITOR

Mikael Ekberg

Authorised Public Accountant

SENIOR EXECUTIVES

Conny Bergström
CEO

Hans Jörgen Möller
COO

Christian Torgersson
CFO

Marianne Moberg
CIO

Gunnar Ekeroth
Chief Risk Officer

Björn Stenport
Chief Credit Officer

Joel Graffman
Marketing & Sales Director, Cars

Johan Linder
Marketing & Sales Director, Fleet

Per Lindahl
Marketing & Sales Director, Trucks

Margareta Johansson
Director of Human Resources


MLB 060

VOLVOFINANS BANK

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