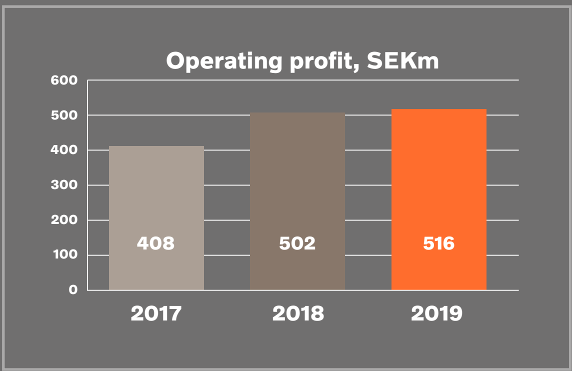
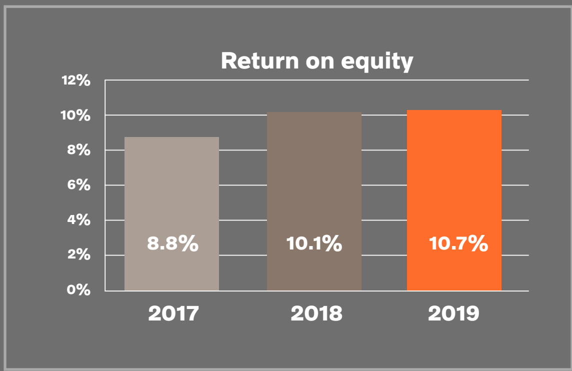
ANNUAL REPORT 2019

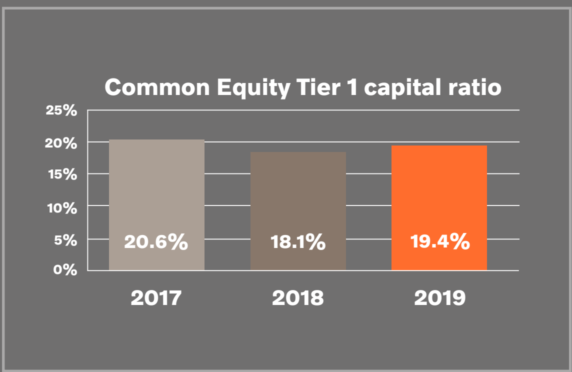
VOLVOFINANS BANK

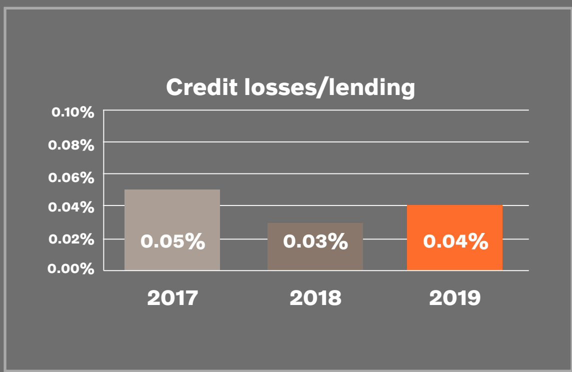
In the event of conflict in interpretation or differences between this annual report and the Swedish version, the latter will prevail.

SUMMARY
JAN–DEC 2019







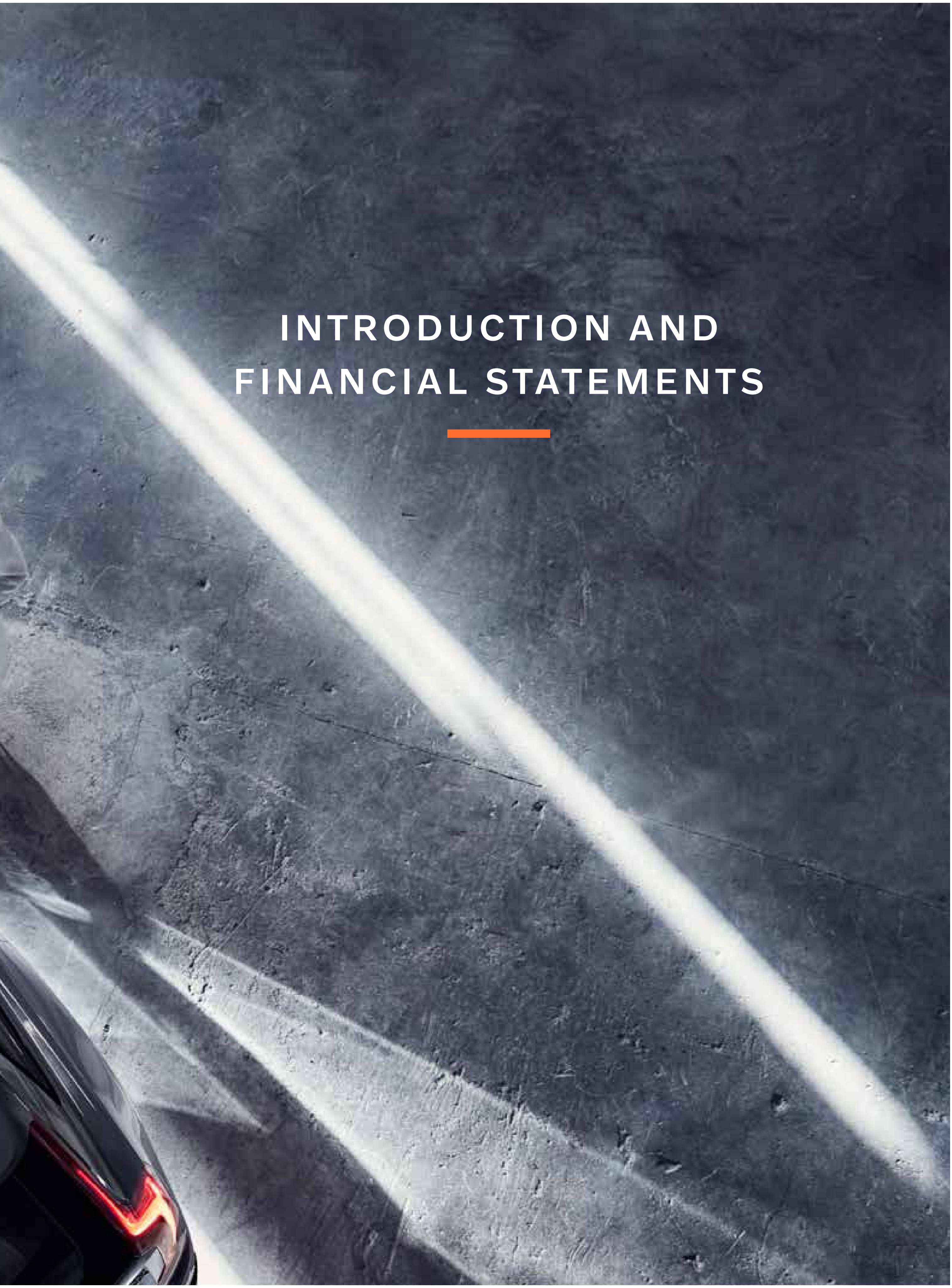


ANNUAL REPORT
2019

INTRODUCTION AND FINANCIAL STATEMENTS

NOTES

INTRODUCTION AND FINANCIAL STATEMENTS



COMMENTS FROM THE CEO

Volvofinans Bank's operating profit increased by SEK 14 million in 2019, to SEK 516 million. The return on equity also increased, to 10.7%. This is another record profit for the bank, achieved against a backdrop of slowing growth in the Swedish economy, which has not yet had a notable impact on our earnings.

We experienced another year of strong sales in the car market, with 356,000 car registrations – the third highest number to date. The bank's lending expanded by SEK 0.6 billion to SEK 37.9 billion as Volvo Cars sold 65,000 cars in Sweden, down slightly from 70,000 in 2018 due to longer delivery times. Instead, the main driver behind our increased earnings is the very strong used car market, which also has a positive impact on earnings from our car sales business and resulted in reversals of previous impairment losses. As I have noted previously, there are several reasons behind the strong demand for used cars. They are exempt from the higher tax on new cars and are a smaller investment if the customer is uncertain about the choice of fuel, and they are also seeing growing demand from foreign buyers, which is pushing up prices.

It is in our Fleet business area that these effects arise, which explains why our large-customer unit was able to post record earnings of SEK 172.5 million. The segment is growing by over 5% both in terms of loan volume and contract numbers and is thereby consolidating its market-leading position. By far the bank's largest business area, Cars, reports earnings of SEK 324 million, which is in line with last year (2018 adjusted for extraordinary income). This segment includes our card business and the CarPay app, which had a negative impact on earnings after continued investments in product development and the launch of new digital services. A mobile payment service for filling up at Tanka service stations is one of the digital services that were launched during the year. Finally, I should add that our Trucks business also had a successful year. Earnings came in at SEK 19.5 million, which is an increase of as much as 48%. Volvo Trucks had a very successful 2019, maintaining its sales volume in Sweden with 2,636 heavy trucks sold.

Looking at our earnings for the year, it is also clear that the bank has benefited from the rise in market interest rates, which in December re-entered positive territory after the Riksbank's rate hike, after nearly five years of remaining below zero.

"From the bank's perspective, it is clear that electrification is really taking off on a broad front"

Volvofinans continues to make significant investments in preventive measures in cyber security and to ensure compliance with the provisions of the PSD2 Directive and Basel IV. In terms of efficiency, it is primarily in the area of robotic process automation (RPA) that we have been running concrete initiatives. We are automating monotonous, time-consuming processes, thus freeing up time and resources that our employees can devote to other tasks. In 2019, Volvofinans Bank introduced a number of robots in our administration. In addition to monitoring what is happening in fintech, as a niche bank for car users, or mobility – which is where things are going – we also need to monitor what is happening on the technological front in the automotive industry. From the bank's perspective, it is clear that electrification is really taking off on a broad front. In 2019, just over 40,000 rechargeable cars were sold, accounting for 11% of the total market. For 2020, BIL Sweden expects the figures to increase to 100,000 and 30%.

The year 2020 looks set to become the first of several years of transition, from fossil fuel-powered vehicles to fully electric or hybrid vehicles. Yet we mustn't forget that Sweden has nearly 5 million passenger cars in use, which means that fossil fuels will remain the dominant fuel in use on our roads. Whatever the situation, Volvofinans Bank looks forward to financing a growing share of electric vehicles, and later this year we will see the first financing contracts for Volvo XC40 Recharge and Polestar 2.

The outlook for our new services is bright, but while making progress in terms of the bank's mobility we – and the rest of the world – also face a challenge in managing the difficult COVID-19 pandemic. We are confident, however, that our development structure and our drive will enable us to remain one step ahead even in a recessionary environment. I would really like to take this opportunity to thank all our wonderful employees at the bank for their tremendous efforts in 2019.

Conny Bergström
CEO
Volvofinans Bank AB

JAN–DEC 2019 KEY FINANCIALS

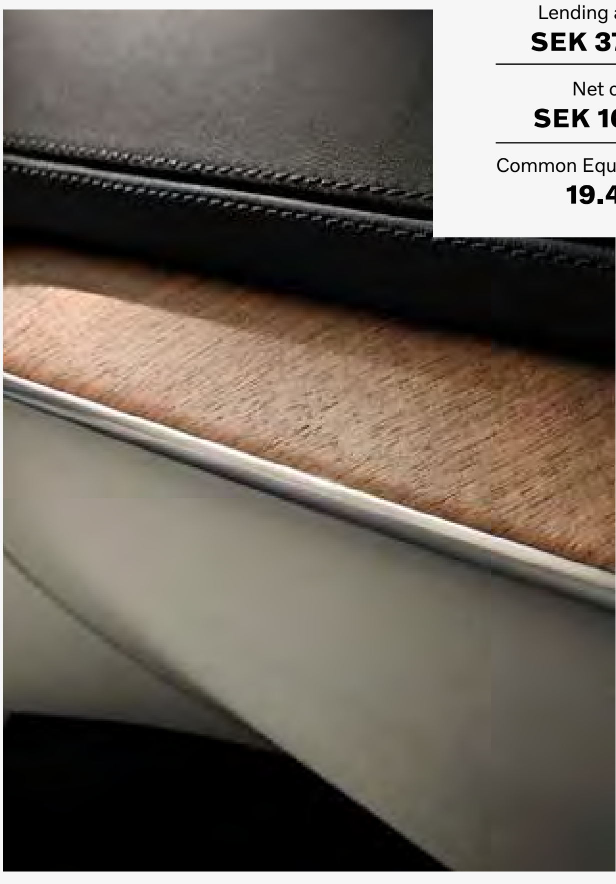
Operating profit:
SEK 516m (502)

Return on equity:
10.7% (10.1)

Lending at 31 December:
SEK 37.9bn (37.3)

Net credit losses:
SEK 16.0m (13.2)

Common Equity Tier 1 capital ratio:
19.4% (18.1)



SWEDEN'S VOLVO DEALERSHIPS IN 2019

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 239 sales outlets and over 266 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.

SWEDEN'S VOLVO DEALERSHIPS IN 2019 IN FIGURES

Net sales in the Volvo dealer network in 2019 amounted to approximately SEK 52 billion, with earnings totalling around SEK 1,800 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 AND THE VOLVO DEALERS

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 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
2019	71%	24%	5%	–	–	59
2018	73%	22%	5%	–	–	59
2017	84%	12%	4%	–	–	58
2016	76%	20%	4%	–	–	59
2015	63%	30%	7%	–	–	60

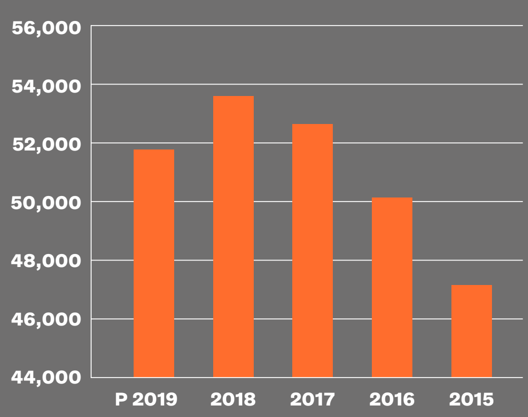
SWEDEN'S VOLVO DEALERSHIPS FIVE-YEAR SUMMARY

(AMOUNTS IN SEK MILLION)

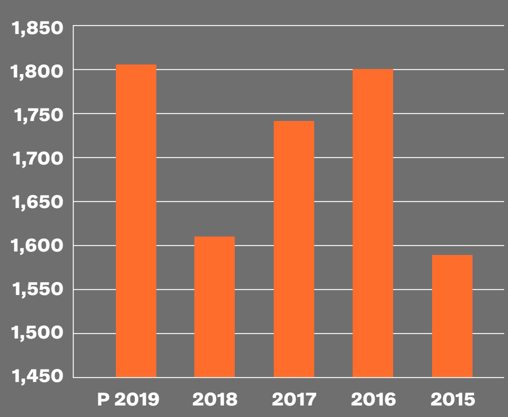
NET SALES AND EARNINGS	Forecast 2019	2018	2017	2016	2015
Net sales Cars	45,478	46,752	46,243	43,901	41,877
Net sales Trucks	6,291	6,901	6,445	6,346	5,382
Profit after net financial items Cars	1,564	1,306	1,448	1,504	1,342
Profit after net financial items Trucks	243	310	292	301	247
Total net sales	**51,770**	**53,653**	**52,688**	**50,247**	**47,259**
Total profit after net financial items	**1,807**	**1,616**	**1,740**	**1,805**	**1,589**
KEY PERFORMANCE INDICATORS					
Equity/assets ratio (%) Cars	35	34	34	37	33
Equity/assets ratio (%) Trucks	39	42	38	44	34
Return on equity (%) Cars	23	15	23	31	23
Return on equity (%) Trucks	29	36	26	35	18

Note: The figures for 2019 are based on forecasts, since final annual reports were not available at the time of publication.

VOLVO DEALERS, NET SALES
(SEK MILLION)



VOLVO DEALERSHIPS, EARNINGS
(SEK MILLION)



DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Volvofinans Bank AB (publ) hereby present their report on operations for 2019. 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 which sells on commission through the Swedish Volvo dealer network while the other two provide rental services to companies in Volvo Car Corporation.

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 253,365 contracts (255,715) in the bank's loan and lease portfolios, corresponding to a decrease of 0.9% 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) and sales of used vehicles through the Volvo dealerships.

Penetration, %	2019	2018	2017	2016	2015
New cars	51	52	53	54	49
Used cars	38	36	36	36	35
New trucks	54	54	57	54	50

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 37.9 billion (37.3) at year-end, an increase of 1.6% 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.

	2019 SEK billion	%	2018 SEK billion	%	Change, SEK billion
Sales finance					
– Cars	32.5	86	32.0	86	0.5
– Trucks and Buses	3.2	8	3.3	9	- 0.1
Inventory credits	0.4	1	0.2	1	0.2
Credit card credits	1.8	5	1.8	4	0
Total	**37.9**	**100**	**37.3**	**100**	**0.6**

Volvo Car Leasing decreased by SEK 0.2 billion, or 2%, while Volvo Car Loans and Volvo Truck Loans increased marginally. Collateral assignment, where Volvo dealers have a credit with underlying loans or leases as collateral, increased by SEK 99.4 million or 33%.

The volume of credit card credits was somewhat higher compared to the previous year. Net sales through Volvo Card amounted to SEK 15.1 billion (14.3), and during the year there were 30.2 (29.2) million card purchases.

The number of corporate customers for whom CarPay Fleet handles car administration increased during the year, with 47,588 cars (45,860) being administered at year-end.

Net sales through the Volvo Truck Card were down year on year, with goods and services purchased in 2019 using the 16,443 cards (17,016) totalling SEK 324 million (364).

PERFORMANCE

Profit before credit losses was SEK 532.1 million (514.7), corresponding to an increase of 3.4% 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 16.0 billion (13.2), see Note 15.

Earnings after credit losses were SEK 516.1 million (501.8), an increase of 3%. The difference compared with the previous year was mainly due to lower borrowing costs as well as increased from income from surpluses on termination of operating leases.

The return on equity was 10.74% (10.15).

CREDIT RISKS AND CREDIT LOSSES

Out of the bank's total lending for vehicle finance, 76% (77) 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 2019, the breakdown of loan and lease contracts was as follows. The unencumbered portion of outstanding contracts at year-end was SEK 2.8 billion (2.5).

	Loans	Leases	Total
Number of contracts	127,387	125,978	**253,365**
Average contract, SEK ‘000	119	186	**152**
Collateral value, SEKm	15,214	23,415	**38,628**
Credit used, SEK million	14,834	20,956	**35,790**
Loan-to-value ratio, %	98	89	**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 24% (23), of which 19% (18) refers to sales finance and 5% (5) to credit card credits.

Receivables which are more than 90 days overdue amounted to SEK 106.3 million (217.3) and consisted of loans and leases of SEK 93.4 million (205.6), of which SEK 90.2 million (198.3) referred to contracts under which the bank has a right of recourse against Volvo dealers, and credit card receivables of SEK 13.0 million (11.7), accounting for 0.7% (0.7) of total credit card lending.

The value of credit card receivables, SEK 1.8 billion (1.8), is stated after impairment. The provision represents 1.3% (1.3) 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 3,956 (3,828).

CAPITAL RAISING

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 2019 are shown in the table below.

Nominal amounts in SEKm	Limit	Drawn
Nordic commercial paper programme	8,000	300
MTN programme	20,000	12,791
Short-term financing facilities with banks	2,450	–
Long-term financing facilities with banks	3,593	1,593
Deposits from the public	–	21,217
Risk capital	–	400
Total	**34,043**	**36,301**

Deposits from the bank's savings account increased by SEK 3.4 billion during 2019 and the total balance of savings accounts thus amounted to SEK 20.1 billion (16.7) as of December 31. Total deposits, including balances on Volvo Card accounts and deposits from Volvo dealers, amounted to SEK 21.2 billion (18.2) and accounted for 58% (50) of the bank’s financing.

The bank’s bond programme provides the option to issue in the currencies SEK, NOK and EUR. So-called green bonds can also be issued. However, due to the strong inflow into the bank’s savings account in the first half of the year, no bonds were issued in 2019. Instead, the bank repurchased bonds worth a nominal SEK 657 million. Commercial papers to a value of SEK 300 million were issued during the year. Outstanding financing through the bank’s market loan programme amounted to a nominal SEK 13.1 billion (15.6) as at 31 December 2019.

In addition to market borrowing and deposits, the bank also finances its operations with bank credits, which amount to SEK 1.6 billion (2.1). The share of financing with remaining terms of more than one year via the market loan programme and banking sectors amounted to 69% (81). 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 2019 is shown in the table below.

	SEKm	%
Within 1 year	4,604	30
1-3 years	7,225	48
4–5 years	2,857	19
Over 5 years	400	3
	15,086	**100**
No term:		
– Deposits from the public	21,217	
– Equity (incl. tax portion of untaxed reserves)	5,173	
Total	**41,476**	

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

While the recent outbreak of the novel coronavirus (COVID-19) makes it difficult to assess the outlook for the Swedish economy, the outbreak had not had a material impact on the bank's financial position, earnings or cash flow at the time of publication of this annual report. The Board of Directors proposes that the dividend proposed to the AGM 2020, as previously communicated in the year-end report, not be paid. This has had an impact on the bank's capital base, which has increased. The key ratios capital ratio, Common Equity Tier 1 capital ratio and leverage ratio have thereby also increased.

OUTLOOK

Despite uncertainty in the market at large, the bank is full of expectations for the future, what its digital capabilities can lead to and what the bank can 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 Chairman of the Board is the Chairman of the Nomination Committee and the bank does not provide information on the website about how shareholders can submit proposals to the Nomination Committee.	There are no minority shareholders, but there are two owners with 50% ownership each, both of whom want this solution.
Deputy members of the Board	The Articles of Association allow up to four deputies on the Board.	In view of the bank's focus, complexity and ownership, it has been concluded that it would be beneficial to increase the Board of Directors with two deputies to represent each owner.
General meeting of shareholders	The bank has not set a deadline on when a request to address an issue needs to be submitted. Directors or employees of the company can act as secretary or co-sign the minutes at shareholders' meetings.	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. 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 business 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.

Prior to the Annual General Meeting 2020, the Nomination Committee consisted of Stefan Nordström, representing AB Volverkinvest, Maria Hemberg, representing Volvo Personvagnar AB, and the independent committee member Urmas Kruusval.

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 2019 AGM was held in the bank's office in Gothenburg on Wednesday 12 June. The 2020 AGM will be held on Thursday 11 June 2020 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 2019 AGM with authorised public accountant Mikael Ekberg as the head auditor. The auditor has participated in a Board meeting without the presence of the CEO or other senior executives.

Reporting to the owners takes place at a Board meeting in March, where the auditor presents his 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 bank.
- Keep informed of the bank's development in order to assess the its financial situation and financial position.
- Promote sustainability aspects relevant to the business.
- Ensure that ethical guidelines are established for the conduct of the bank 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 bank 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 2019. The work included a strategy conference, the setting of the budget for 2020, sustainability strategies, 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 2019 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. In the evaluation report for the previous year it was suggested that the regular reporting between Board meetings be expanded in view of the accelerating pace of change in the market in which the bank operates. The 2019 evaluation report states that the Board members' request has been met and that the frequency of regular reporting between meetings is satisfactory.

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* is a preparatory body which drafts matters for consideration and submits recommendations on credit decisions to the Board of Directors.
- *The Audit and Risk Committee* is a processing body that monitors financial reporting, internal control, auditing 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 2019 is provided in Note 12.

BOARD OF DIRECTORS

					
	Urmas Kruusval	**Synnöve Trygg**	**Per Avander**	**Kristian Elvefors**	**Ann Hellenius**
	Chairman	Vice Chairman	Director	Director	Director
Born	1951	1959	1961	1974	1974
Elected	2007	2014	2012	2016	2017
Committee	Credit, Audit and Risk, Remuneration and IT Committees	Credit, Audit and Risk and IT Committees	Credit, Audit and Risk and Remuneration Committees	Remuneration Committee	IT Committee
Education	Studies at Gothenburg School of Business, Economics and Law	MBA, Stockholm University	High school economic studies	Reserve Officer and M.Sc. in Business and Economics	M.Sc. in Business and Economics, Linköping University, University of Bath
Other important assignments	Board member of Borås Bil LV AB, Borås Bil PV AB and Borås Bil Förvaltning AB.	Board member of SBAB Bank AB, Synnöve Trygg Consulting AB, Valitor HF and Precise Biometrics AB.	CEO, AB Bilia Chairman of Bilia Personbilar AB, Bilia Personvogner AS, Bilia Personbil AS, Autohaus Bilia Germany, Bilia Emond Holding in Luxembourg and Belgium. Also Chairman of the Board at AB Volverkinvest, Volvohandlarföreningen Ek För. and Verstraeten, Belgium. Board member of Netbil Begagnat.	CEO of Volvo Car UK.	Board member of HiQ, MSAB and Synsam.
Other prior important positions held	CEO AB Volvofinans, 1990–1999.	Board member of Landshypotek Bank AB, Intrum Justitia AB, 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.	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.	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.
Relationship to the company and its management	Independent	Independent	Independent	Independent	Independent
Relationship to the bank's owners	Independent	Independent	Not independent	Not independent	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	1/4	2/4	–	–
Participation at Audit and Risk Committee meetings	4/4	4/4	2/4	–	–
Participation at Remuneration Committee meetings	4/4	–	3/4	3/4	–
Participation at IT Committee meetings	4/4	4/4	–	–	4/4

Elisabeth Mosséen	**Björn Rentzhog**	**Pascal Bellemans**	**Jonas Estéen**	**Janola Gustafson**	**Anders Gustafsson**
Director	Director	Deputy	Deputy	Deputy	Deputy
1965	1969	1959	1971	1967	1968
2019	2016	2016	2019	2016	2011
Credit, Audit and Risk and IT Committees	–	–	–	IT committee	–
M.Sc. in Economics and Business, Gothenburg School of Business, Economics and Law	M.Sc. in Business and Economics, Mid Sweden University, Östersund	Master's Degree in Cconomics (M.Sc.)	M.Sc. in Business and Economics, Mid Sweden University, Östersund. PhD student, Research Training Programme, Jönköping International Business School	Degree in Logistics, Jönköping University	Executive Business Management US, EU & CN
Group Treasurer Volvo Cars. Chairman of Volvo Car Försäkrings AB and Volvo Car Financial Services US LLC. Board member of Volvo Cars Pension Fund, VCFS Germany GmbH, VCIS Germany GmbH and the Swedish Association of Corporate Treasurers.	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.	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 and owner of Bilkompaniet Mora Leksand Malung AB. Chairman of Vasaloppet, the Mora-Älvdalen branch of Svenska Handelsbanken and Nils Olsson Dalahästar AB. Board member of Mora Hotell AB and Wikmans Bil i Gävle AB.	CEO of Svenska Volvohandlarföreningen, Volvohandlarnas Service AB, Volvohandlarföreningen ek. för., AB Volverkinvest and Volvohandlarnas Fordonsförening ek. för. Board member of Wayke Holding, Tanka i Sverige AB and Deputy Director of Volvohandelns PV Försäljnings Aktiebolag.	Head of Volvo Car, Americas Region
Treasurer Saab Automobile, CFO Familjebostäder, Funding Manager AB Volvo Treasury.	CEO and Controller at Wist Last & Buss AB, CFO at Samhall Midland AB and Auditor at Deloitte AB.	CEO Volvo Car France, Deputy 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.	Chairman of Siljans Chark AB, Board member of AB Volverkinvest, Igrene AB (publ) and other small and medium-sized companies in Dalarna.	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.
Independent	Independent	Independent	Independent	Independent	Independent
Not independent	Not independent	Not independent	Not independent	Not independent	Not independent
–	–	–	–	–	–
3/5	5/5	3/5	3/5	5/5	3/5
2/4	–	–	–	–	–
2/4	–	–	–	–	–
–	–	–	–	–	–
2/4	–	–	–	1/4	–

CEO AND MANAGEMENT

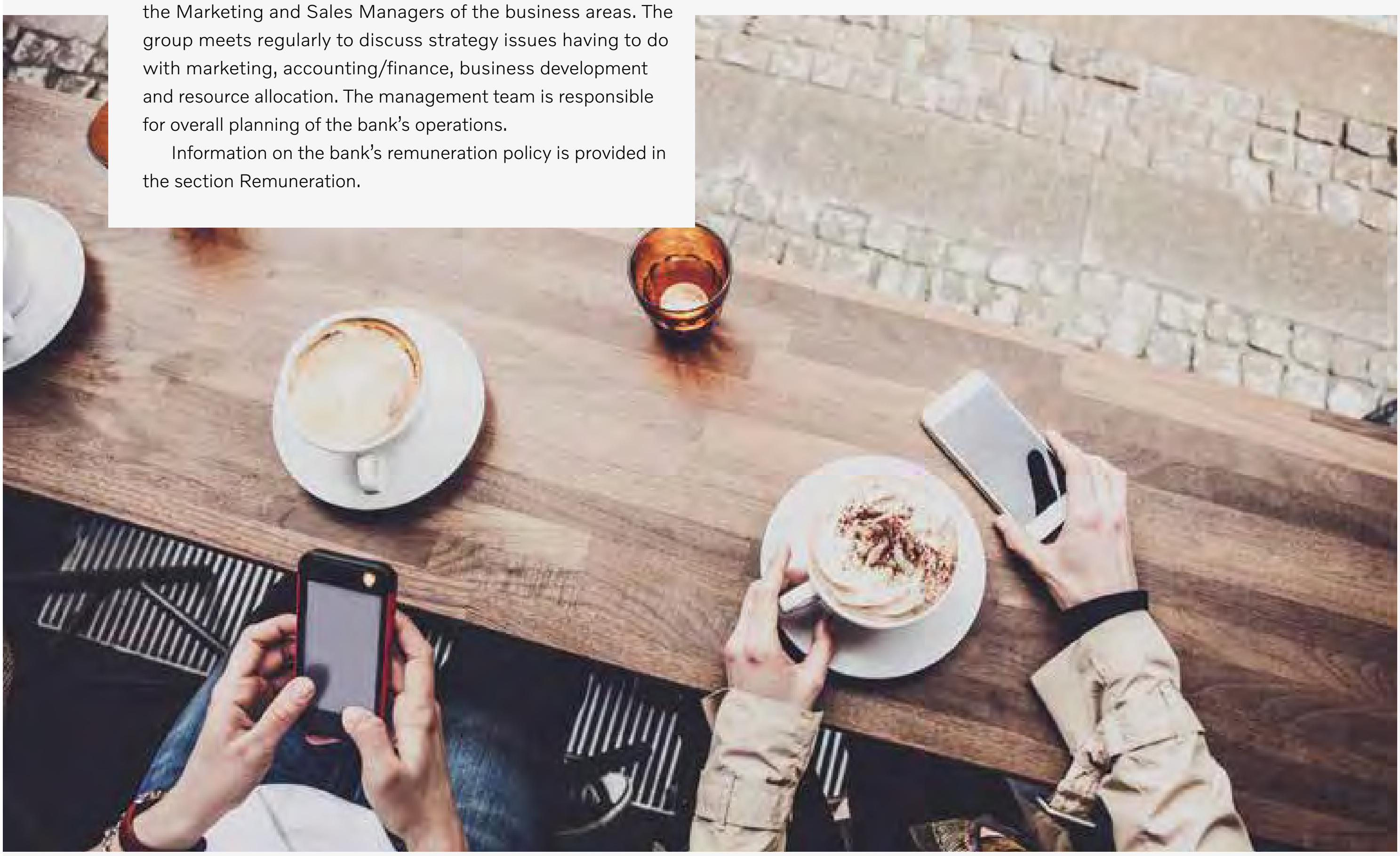
The CEO is responsible for the bank's ongoing management and shall perform this task in accordance with the applicable laws and regulations, the Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO and other important instructions issued by the Board. The Board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

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

The bank's management team consists of eleven people, which, besides the CEO, includes the COO, CFO, CIO, Risk Manager, Credit Manager, General Counsel, HR Manager and the Marketing and Sales Managers of the business areas. 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	M.Sc. 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.

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, which are tasked with carrying out independent risk and compliance reviews and supervising the first line of defence. 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. The remit of the internal audit function, which operates independently of the operations and on behalf of the Board, is to assist the Board and management in objectively evaluating the bank's control systems, compliance with internal and external rules, and the efficacy of internal control. Internal audit shall, when errors and shortcomings have been identified, propose improvements and evaluate the efficiency and security of the business processes along with helping the organisation meet its goals. The function reports directly to the Board of Directors. In 2019, the internal audit was carried out by PwC and covered AML, outsourced services, liquidity risk management and the deposit 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 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 bear the credit risk, while Volvofinans borrows on the market, thus providing the dealers with access to the financial markets. The bank finances the dealers' loans and leases.

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 has adopted the UN Sustainable Development Goals (UN SDGs) and has strategically opted to focus on Good Health and Well-being (3), Gender Equality (5), Sustainable Cities and Communities (11), Responsible Consumption and Production (12) and Climate Action (13). The Bank's sustainability policy is also 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.

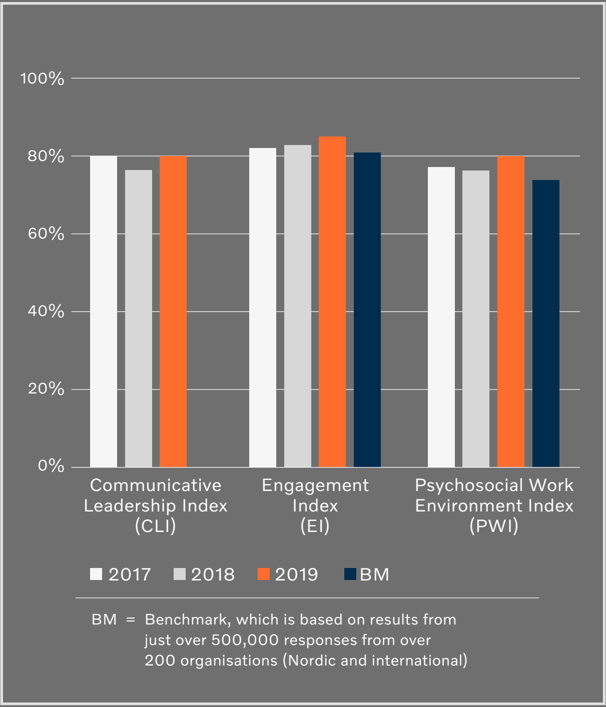
Environment

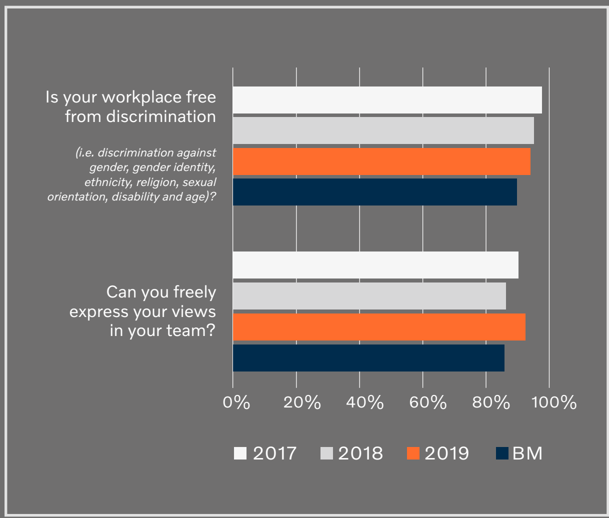
The car industry currently has a major impact on our climate, but it is also an industry that is undergoing change. Volvofinans Bank wants to be a driving force behind this change by helping its partners, customers and employees to make better, smarter choices for the future with regard to mobility and living a life on the move. Developing digital solutions such as CarPay is one part of this. Technological solutions are also a driver of change in the car industry and are an important factor reduced dependence on fossil fuels. The risk in the area of the environment thus arises 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 connection therewith 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. Electric cars are rapidly gaining in popularity – both fully electric vehicles with no combustion engine and hybrids which have a combustion engine but which can only run only on electricity. These cars are charged in a grid which in Sweden transmits electricity from sources generating relatively minor CO_2 emissions. Emissions in Sweden are thus decreasing for every car that is replaced by an electric vehicle. The bank is working closely with Volvo Cars, Polestar, Renault and AB Volvo to drive sales and financing of electric cars and electric and hybrid buses. Going forward, the bank expects to see an increase in financing of both hybrids and pure electric cars, not least due to the changed bonus-malus thresholds that were introduced on 1 January 2020.

In 2020, Volvo Cars will be launching a pure electric version of its XC40 model and, as mentioned, Volvofinans also finances Polestar in the Swedish market. The bank's CarPay Fleet business area is working to develop new solutions with a sustainability focus and help its customers make smart, long-term choices for their businesses. The bank also has a partnership with E.ON where all Volvo card customers are offered the opportunity to choose Biogas100 when they fill up at any of E.ON's refuelling stations. When a customer chooses Biogas100, an equal amount of renewable biogas is produced. The Bank's partners in other transport fuels have a high proportion of HVO biodiesel.

In 2019, 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 2,700 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 2019, paper invoices to customers decreased by three percent-





age points in comparison with 2018, and Volvofinans uses only renewable electricity bearing the "Good environmental choice" label. Electricity use in 2019 is not representative, as one office underwent a major renovation.

Consumption category	2019	2018	Change
Paper invoices to customers (%)	61	64	- 3

Personnel and social conditions

The bank is one of the main sponsors behind Number 10, a football scholarship established by the Swedish Football Association and Volvo Car Sweden that is handed over by Swedish footballer Zlatan Ibrahimović. In just three years, the prize, which is aimed at promoting and developing Swedish football, has received considerable attention by highlighting issues like locker room talk (2017) and everyone's right to play football (Grunden Bois 2018). This year's winner, Gatans Lag (Street Team), was established in Gothenburg in 2008 to provide an alcohol- and drug-free environment for its members. Today, Gatans Lag has both men's and women's teams in Stockholm and Gothenburg and thousands of players have been part of and played for the team over the years. Many have never played football before and have used the sport and the dedication of Gatans Lag to break free from destructive patterns and re-enter society. The bank also has a partnership with Childhood Foundation.

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 sport and fitness fees and massage for 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.

Respect for human rights and fighting against corruption

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

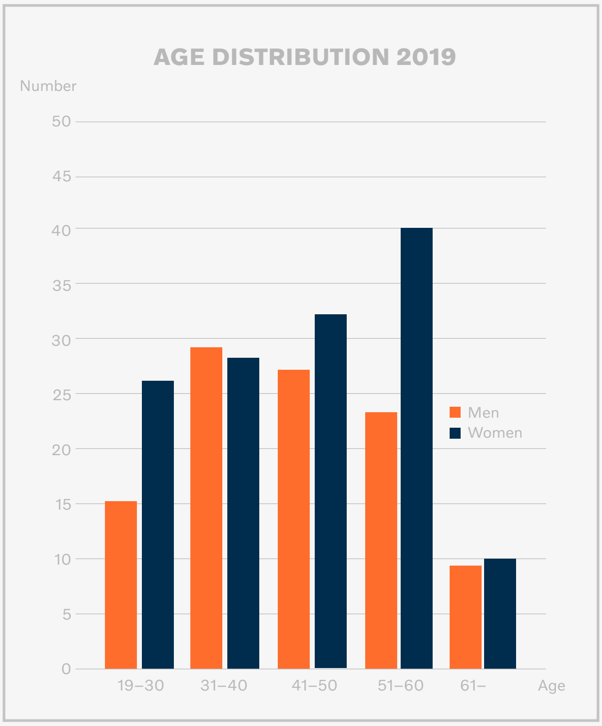
Anti-corruption

The bank has a well-functioning whistleblower function and conducts continuous training in issues relating to security, ethics and money laundering. During 2019, 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.



PERSONNEL

At year-end 2019, the bank had 239 (223) employees, of whom 190 (181) were based in Gothenburg and the rest at our office in Stockholm. The average number of employees was 220 (207), with women outnumbering men in the workforce. There are 11 senior executives, of whom 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. An important meeting place is the Management Forum, which brings together all managers with staff responsibility once a month.

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 important tools in dialogues about objectives and development efforts. The bank also has internal development programmes that are aimed at helping talented employees 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.

A modern workplace is part of being an attractive employer. During the year, the company's offices in Gothenburg were completed, which will enable the bank to operate in a modern way.

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 of the Board Urmas Kruusval, Per Avander and Kristian Elvefors as members of the Remuneration Committee.

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

Risk analysis

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

Remuneration model

Remuneration and other terms of employment should be competitive to ensure that the bank is able to attract and retain skilled employees with the ability to help increase the long-term value of the company. The remuneration paid by the bank should promote effective risk management and discourage excessive risk-taking. The bulk 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 function. Variable remuneration is capped at two months' 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 variable remuneration, 50% of the variable remuneration should be withheld until three years after the performance period if the remuneration exceeds SEK 100,000.

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

Expensed amounts
The total amounts of remuneration expensed during the financial year by employee category are presented in the table below.

Employee category*	Fixed remuneration, SEK million	Variable remuneration, SEKm	No. of people receiving fixed remuneration	No. of people receiving variable remuneration
Executive management	17.2	–	11	–
Other employees, incl. other employees who can influence the bank's risk level**	108.8	0.6	209	5
Total	**126.0**	**0.6**	**220**	**5**

* 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.

** 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 126.6 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 RETAINED EARNINGS
The bank's Annual General Meeting has at its disposal available profits as per the balance sheet of a total of SEK 111 million.

Amounts in SEK '000

	2019
Opening balance of retained earnings	98,252
Profit for the year	13,159
At the disposal of the AGM	**111,411**
The Board of Directors proposes that the above amount be appropriated as follows:	
Carried forward	**111,411**

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 4,390 million (3,979) and a minimum capital requirement of SEK 1,649 million (1,585). A specification of the items is presented in the section Risk and capital management.

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

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

FIVE-YEAR SUMMARY

Amounts in SEK million

Condensed income statement	2019	2018	2017*	2016*	2015*
Interest income	545	483	438	395	402
Lease income	5,660	5,318	4,636	4,019	3,619
Interest expense	- 335	- 257	- 196	- 182	- 252
Dividend received	0	16	–	–	–
Commission income	439	391	403	353	359
Commission expense	- 42	- 44	- 34	- 25	- 22
Net income/expense from financial transactions	1	- 1	- 13	- 1	- 6
Other operating income	68	52	9	4	4
Total income	**6,336**	**5,958**	**5,244**	**4,563**	**4,104**
General administrative expenses	- 480	- 389	- 335	- 312	- 280
Other operating expenses**	- 5,324	-5,055	- 4,483	- 3,859	- 3,449
Net credit losses	- 16	- 13	- 18	- 13	- 12
Total expenses	**- 5,820**	**- 5,457**	**- 4,836**	**- 4,184**	**- 3,741**
Profit before tax	**516**	**502**	**408**	**379**	**363**
Profit for the year	**13**	**–**	**–**	**–**	**–**
Condensed balance sheet					
Chargeable treasury bills, etc.	1,430	1,246	1,433	1,041	1,081
Loans and advances to credit institutions	1,281	1,622	1,300	786	1,999
Loans and advances to customers	17,278	16,923	16,484	15,205	13,690
Bonds and other debt securities	2,350	2,232	1,883	1,724	836
Shares and interests in associates and other companies	18	31	27	26	24
Intangible assets	15	21	18	11	7
Property, plant and equipment	20,661	20,364	18,634	15,978	13,693
Other assets	1,003	938	870	703	671
Total assets	**44,036**	**43,377**	**40,649**	**35,474**	**32,001**
Borrowings	35,902	35,834	33,772	29,158	26,185
Other liabilities	2,562	2,383	2,135	1,907	1,738
Subordinated debts	400	400	–	–	–
Untaxed reserves	4,626	4,128	3,630	3,223	2,844
Equity	546	632	1,112	1,186	1,234
Total liabilities and equity	**44,036**	**43,377**	**40,649**	**35,474**	**32,001**

* The comparative figures for 2015–2017 have not been restated retrospectively as a result of the introduction of IFRS 9 in 2018.
** Including depreciation of property, plant and equipment and amortisation of intangible assets.

KEY PERFORMANCE INDICATORS	2019	2018	2017	2016	2015
Return on equity, %	10.74	10.15	8.77	8.68	8.93
Risk capital/total assets, %	12.43	11.67	11.47	12.22	12.60
Deposits/lending, %	55.94	48.87	45.60	49.43	52.33
Earnings/risk-weighted assets, %	2.50	2.53	2.22	2.30	2.42
Return on total assets, %	0.93	0.94	0.84	0.88	0.92
Total capital ratio, %	21.29	20.08	20.63	21.26	21.79
Common Equity Tier 1 capital ratio, %	19.35	18.06	20.63	21.26	21.79
Net interest income/ø lending, %	1.59	1.48	1.50	1.44	1.38
Credit losses/lending, %	0.04	0.03	0.05	0.04	0.04
Operating expenses/lending, %	1.42	1.21	1.32	1.24	1.23
Cost/income ratio, %	0.51	0.47	0.52	0.49	0.48
C/I ratio excluding residual value reservation	0.53	0.53	0.44	0.46	0.46
Liquidity coverage ratio	257	333	280	119	205
NSFR (net stable funding ratio)	143	145	146	144	143
Leverage ratio	9.1	8.3	9.4	9.8	10.1
Average number of employees	220	207	196	189	184

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

INCOME STATEMENT

Amounts in SEK '000
1 January–31 December

Operating income	**Note**	**2019**	**2018**
Interest income	5	544,851	482,494
of which income calculated using the effective interest method		(544,843)	(482,494)
Lease income	6	5,659,891	5,318,171
Interest expense	5	- 335,319	- 256,698
Net interest income		**5,869,423**	**- 5,543,967**
Dividends received	7	308	16,352
Commission income	8	439,436	390,839
Commission expense	9	- 42,169	- 43,915
Net income/expense from financial transactions	10	851	- 563
Other operating income	11	68,202	51,724
Total operating income		**6,336,051**	**5,958,404**
Operating expenses			
General administrative expenses	12	- 480,027	- 389,147
Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets	13	- 5,248,131	- 4,941,822
Other operating expenses	14	- 75,821	- 112,727
Total operating expenses		**- 5,803,979**	**- 5,443,696**
Profit before credit losses		**532,072**	**514,708**
Net credit losses	15	- 16,041	- 13,185
Impairment losses/Reversals of financial assets, net		57	276
Operating profit		**516,088**	**501,799**
Appropriations	16	- 498,268	- 498,479
Tax on profit for the year	17	- 4,661	- 3,320
Profit for the year*		**13,159**	**–**

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

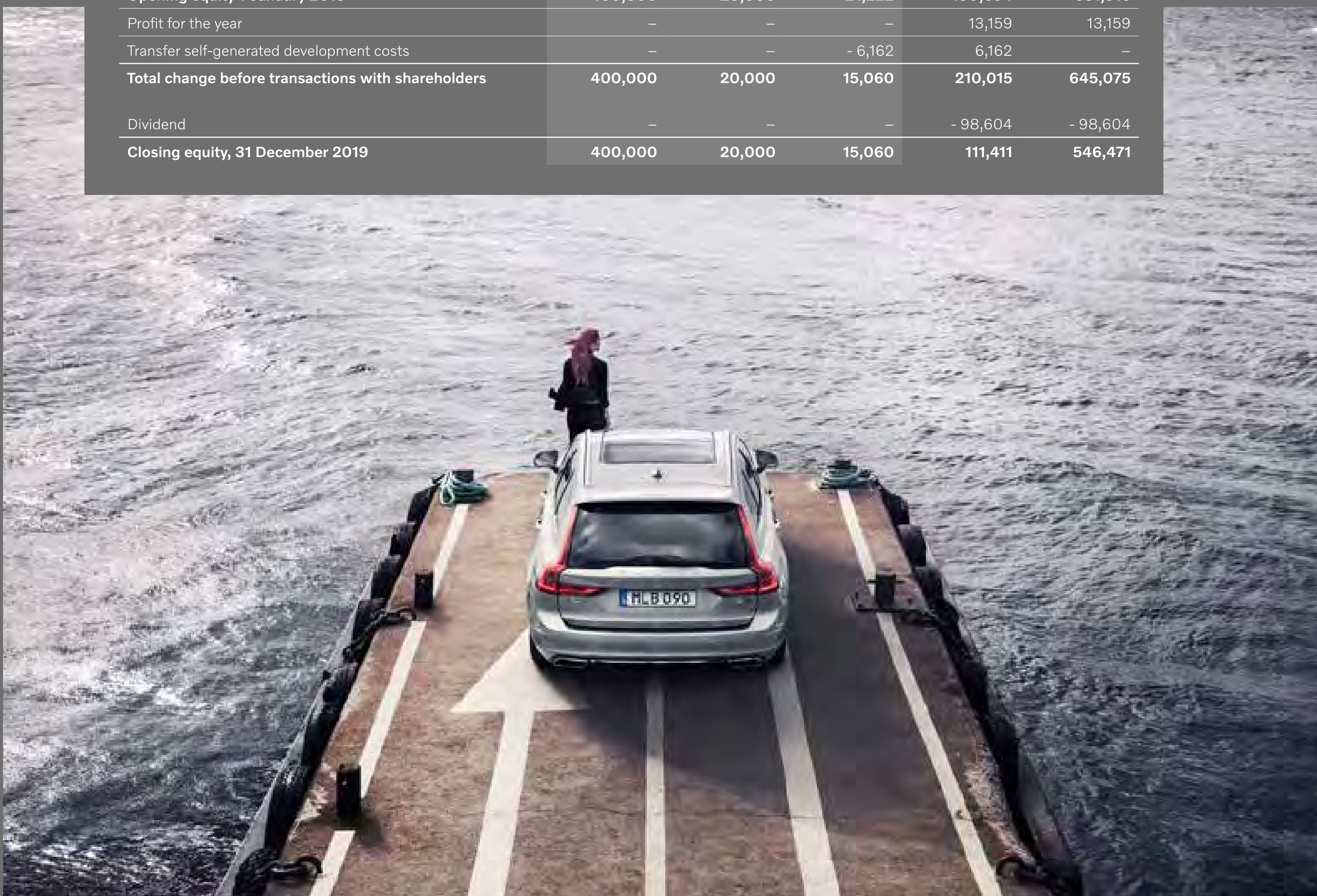
BALANCE SHEET

Amounts in SEK '000

Assets	**Note**	**31 Dec 2019**	**31 Dec 2018**
Chargeable treasury bills, etc.	18	1,429,949	1,245,816
Loans and advances to credit institutions	19	1,281,290	1,622,571
Loans and advances to customers	20	17,278,081	16,922,760
Bonds and other debt securities	21	2,349,552	2,231,967
Shares and interests in associates and other companies	22	11,258	23,777
Shares and interests in Group companies	23	6,742	6,742
Intangible assets	24	15,060	21,545
Property, plant and equipment, fixtures and fittings	25	12,133	6,488
Property, plant and equipment, lease assets	25	20,648,640	20,357,024
Other assets	26, 27	936,042	887,128
Prepaid expenses and accrued income	28	67,246	50,743
Total assets		**44,035,993**	**43,376,561**
Liabilities and equity			
Liabilities to credit institutions	29	1,592,857	2,083,333
Retail deposits and borrowings	30	21,216,735	18,218,366
Securities issued	29	13,091,737	15,532,399
Other liabilities	27, 31	1,255,682	1,079,373
Accrued expenses and deferred income	32	1,306,053	1,302,984
Subordinated debts	33	400,000	400,000
Total liabilities		**38,863,064**	**38,616,455**
Untaxed reserves	34	4,626,458	4,128,190
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		15,060	21,222
Non-restricted equity:			
Retained earnings		98,252	190,694
Profit for the year		13,159	–
Total equity		**546,471**	**631,916**
Total liabilities and equity		**44,035,993**	**43,376,561**

STATEMENT OF CHANGES IN EQUITY

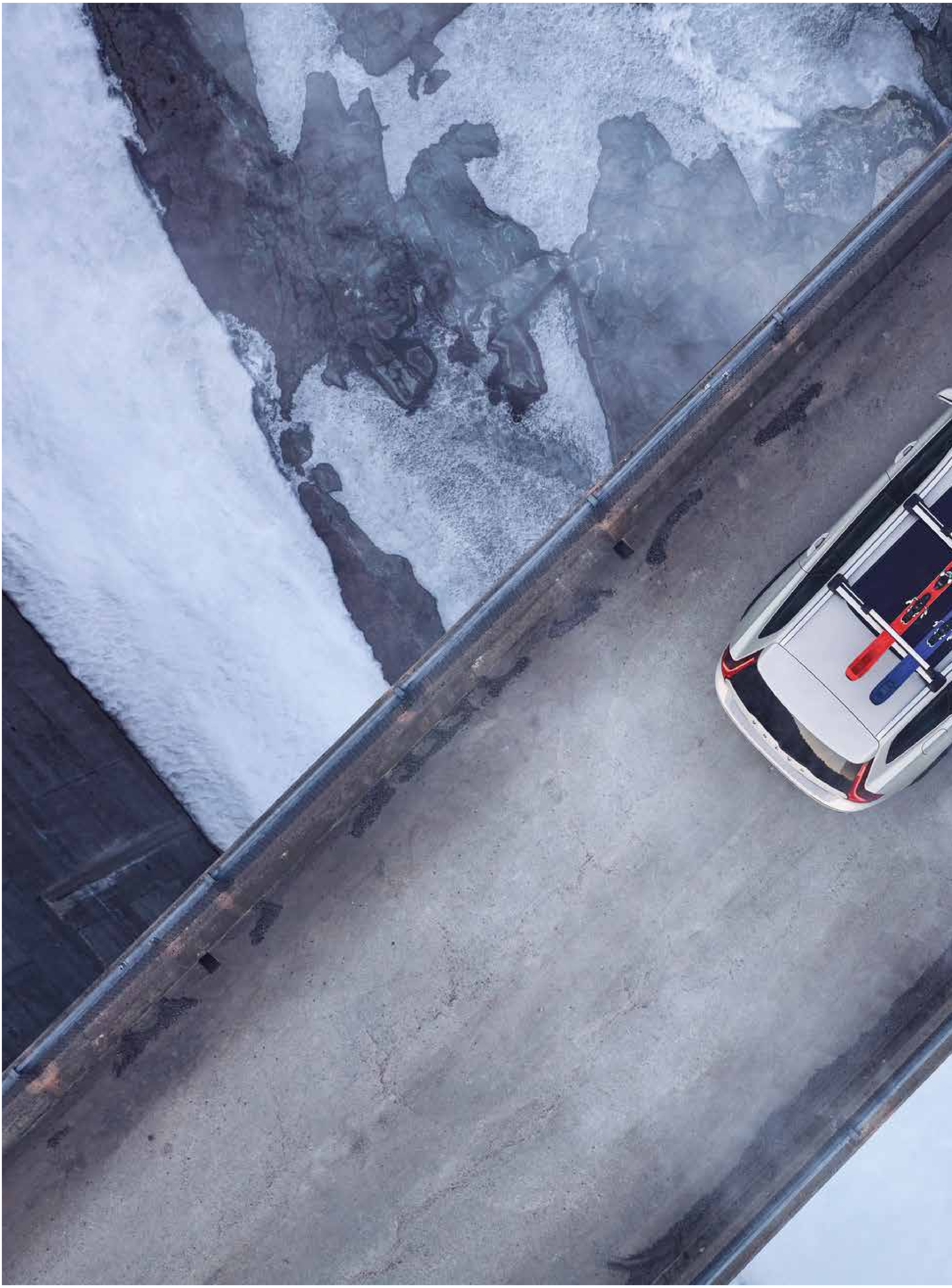
Amounts in SEK '000	Restricted equity			Non-restricted equity	
	Share capital	Statutory reserve	Development fund	Retained earnings incl. profit for the year	Total equity
Opening equity 1 January 2018	**400,000**	**20,000**	**16,089**	**676,424**	**1,112,513**
IFRS 9, reclassification of securities	–	–	–	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**
Opening equity 1 January 2019	**400,000**	**20,000**	**21,222**	**190,694**	**631,916**
Profit for the year	–	–	–	13,159	13,159
Transfer self-generated development costs	–	–	- 6,162	6,162	–
Total change before transactions with shareholders	**400,000**	**20,000**	**15,060**	**210,015**	**645,075**
Dividend	–	–	–	- 98,604	- 98,604
Closing equity, 31 December 2019	**400,000**	**20,000**	**15,060**	**111,411**	**546,471**

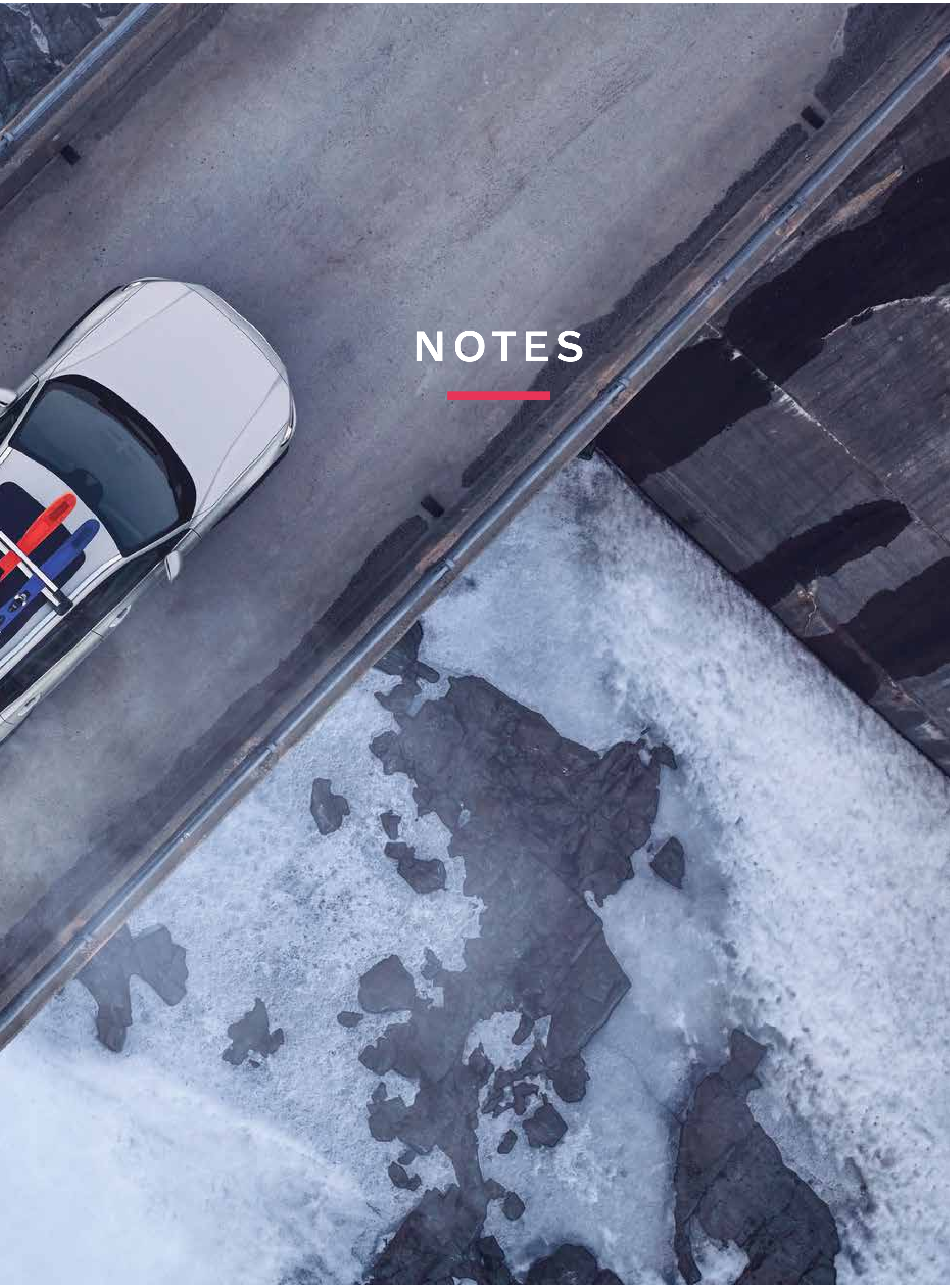


CASH FLOW STATEMENT

Amounts in SEK '000

Operating activities	**2019**	**2018**
Operating profit	516,088	501,799
Adjustment for non-cash items		
Unrealised portion of net income/expense from financial transactions	1,920	- 563
Depreciation, amortisation and impairment	5,248,171	4,947,844
Credit losses	14,600	11,884
Paid/refunded (-/+) taxes	- 3,328	- 1,236
Changes in operating assets and liabilities		
Chargeable treasury bills	- 184,133	187,032
Loans and advances to customers	- 369,907	- 449,362
Bonds and other debt securities	- 117,586	- 349,306
Retail deposits and borrowings	3,001,369	2,204,461
Liabilities to credit institutions	- 490,476	- 66,667
Other assets	- 66,763	- 70,897
Securities issued	- 2,440,662	- 75,484
Other liabilities	- 177,456	247,470
Cash flow from operating activities	**5,286,751**	**7,086,977**
Investing activities		
Capitalised development expenditure	- 7,403	- 22,044
Investments in shares and interests	- 3,426	- 3,361
Sale/redemption of shares and interests	12,946	–
Sale of property, plant and equipment	4,682,274	3,899,084
Acquisition of property, plant and equipment	- 10,213,819	- 10,559,274
Cash flow from investing activities	**- 5,529,428**	**- 6,685,594**
Financing activities		
Subordinated debts	–	400,000
Dividend paid	- 98,604	- 479,484
Cash flow from financing activities	**- 98,604**	**- 79,484**
Cash flow for the year		
Cash and cash equivalents at beginning of year	1,622,571	1,300,672
Cash flow from operating activities	5,286,751	7,086,977
Cash flow from investing activities	- 5,529,428	- 6,685,594
Cash flow from financing activities	- 98,604	- 79,484
Cash and cash equivalents at end of year, see Note 41	**1,281,290**	**1,622,571**





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 2019 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.

In spring 2011 the FSA approved the bank's IRB application for permission to use the internal ratings-based (IRB) approach for calculating capital requirements for credit risk for retail exposures and non-credit obligation asset exposures. Three years later, in spring 2014, the Swedish Financial Supervisory Authority approved the bank's application for permission to apply internal models also for the bank's corporate exposures. The bank has been granted a permanent exemption to use the standardised approach for exposures to the Swedish State, the Swedish National Bank and Swedish local authorities as well as for the exposure classes sovereign and institutional exposures and portfolios which are insignificant in size.

RISK MANAGEMENT

Various types of risk arise from the bank's operations, such as credit risks, interest rate 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 can contribute to higher returns or the achievement of objectives
- risks that the bank seeks to minimise, as they cannot be expected to contribute to higher returns or the achievement of objectives

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

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

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

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

RISK APPETITE

The bank's measure of overall risk appetite is the total capital ratio, which must not fall below 18.5%. The bank also seeks to maintain a Common Equity Tier 1 capital ratio of at least 14.0%.

CREDIT RISK

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

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

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

Loans 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 2019 the total amount of principal under renegotiated contracts was SEK 14.3 million (18.9).

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.

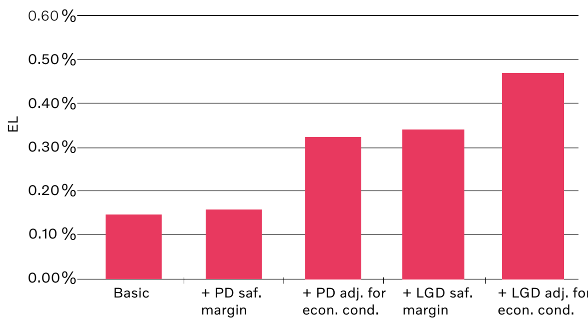
Statistical scoring models have been used for retail exposures (private individuals and small and medium-sized limited companies) since January 2007 and for corporate exposures (companies with sales of over SEK 400 million or exposures with the bank of more than SEK 5 million) an expert-based model was 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% 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	Indicative rating from Standard & Poor's
1	AAA to A-
2	BBB+ to BBB-
3–4	BB+ to B+
5–6	B to B-
7	CCC/C
Default	D

AVERAGE RISK WEIGHT 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	10,901,830	16,793,548	2,319,079	13.81
2	6,937,619	8,998,774	2,133,947	23.71
3–4	4,448,710	4,906,059	1,736,747	35.40
5–6	1,201,154	1,255,751	608,013	48.42
7	191,551	195,288	95,242	48.77
In default	85,640	89,568	84,635	94.49
Total	**23,766,504**	**32,238,988**	**6,977,663**	**21.64**

Excluding the effect of credit risk protection, the total for all retail exposure amounts is SEK 33.7 billion rather than SEK 32.2 billion, as shown in the table. In calculating the higher amount, CF has been set at 100% while the lower amount is based on a CF of 87.0% for private customers and 84.5% 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	5,677,253	5,719,538	2,519,090	44.04
2	1,923,278	1,939,297	1,710,965	88.23
3–4	1,367,557	1,367,557	1,597,818	116.84
5–6	357,132	357,132	650,751	182.22
7	110,543	110,543	216,626	195.97
In default	18,425	18,425	0	0.00
Total	**9,454,188**	**9,512,492**	**6,695,250**	**70.38**

Excluding the effect of credit risk protection, the total for all corporate exposure amounts is SEK 10.0 billion rather than SEK 9.5 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	1.14	0.49	30	13
Corporate, %	0.68	2.30	0.85	45	N/A*

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

OTHER AREAS OF APPLICATION FOR THE RISK CLASSIFICATION SYSTEM

The risk classification system is an integral part of the bank's governance, credit, risk management and internal capital allocation processes. The bank also uses the system for impairment and risk-adjusted pricing.

FUTURE REGULATIONS

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 2022; the capital floor of 72.5% will be phased in over a five-year period (from 2022-2027).

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 IRB rules are aimed, among other things, at reducing complexity, improving comparability and managing differences in capital requirements.

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 capital floor rules. This is based on preliminary calculations using the new standardised approach as well as further calculations based on new PD and LGD models that the bank is currently developing. For operational risk and interest rate risk, VFB also expects to see relatively minor increases in capital requirements.

The new default management applied from 1 January 2020 will increase default frequency and severity. It will require a more active credit and demand process in terms of monitoring and preventive measures.

Overall, it is difficult to envisage in advance the exact capital ratio in and after 2022, which will be investigated during coming years. The current assessments are thus somewhat uncertain, although the bank has a very comfortable margin with regard to capital requirements and the impact is expected to be relatively marginal. A more significant impact is expected later in the year as the capital floor is phased in.

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. At 31 December 2019, VFB had a leverage ratio of 9.15%.
- A binding requirement will be introduced for NSFR (stable funding) of 100%. VFB's NSFR is 143%.
- 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.

CREDIT EXPOSURE

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

DISTRIBUTION OF EXPOSURES BY TYPE OF COUNTERPARTY

All exposures are to Sweden.

2019	Exposure amount	Bad debts or receivables in default < 90 days past due	> 90 days past due	Credit risk adjustments Specific	General	Credit risk adjustment costs Specific	General
Exposures to central banks and institutions							
Exposures to central governments or central banks	87,816	990	267	- 4	–	–	–
Exposures to regional governments or local authorities	1,531,925	2,786	6	- 607	–	–	–
Exposures to public sector entities	7,613	265	0	- 4	–	–	–
Exposures to institutions	1,361,639	–	–	–	–	–	–
Total exposures to central banks and institutions	**2,988,993**	**4,041**	**274**	**- 615**	**–**	**–**	**–**
Exposures to customers							
Exposures to corporates	252,235	–	–	–	–	–	–
of which exposure to small and medium-sized entities	148,592	–	–	–	–	–	–
Retail exposures	561,506	–	–	–	–	–	–
of which exposure to small and medium-sized entities	403,733	–	–	–	–	–	–
Exposures in default	2,321	–	–	–	–	–	–
Exposures in the form of covered bonds	1,415,921	–	–	- 309	–	–	–
Equity exposures	18,000	–	–	–	–	–	–
Other items	23,233	–	–	–	–	–	–
Total exposure to customers	**2,273,216**	**–**	**–**	**–**	**–**	**–**	**–**
Total, standardised approach	**5,262,209**	**4,041**	**274**	**- 309**	–	–	–
IRB exposure class							
Exposures to corporates	9,964,399	85,516	266,263	- 299	–	–	–
Retail exposures	33,779,325	338,651	3,131	- 24,983	–	- 15,381	–
Non-credit obligation asset exposures	4,034,183	–	–	–	–	–	–
Total, IRB approach	**47,777,907**	**424,167**	**269,394**	**- 25,282**	**–**	**- 15,381**	**–**
Total	**53,040,116**	**428,208**	**269,668**	**- 26,207**	**–**	**- 15,381**	**–**

2018	Exposure amount	Bad debts or receivables in default < 90 days past due	> 90 days past due	Credit risk adjustments Specific	General	Credit risk adjustment costs Specific	General
Exposures to central banks and institutions							
Exposures to central governments or central banks	22,476	–	5	- 10	–	–	–
Exposures to regional governments or local authorities	1,355,237	1,401	138	- 642	–	–	–
Exposures to public sector entities	6,126	–	12	- 1	–	–	–
Exposures to institutions	1,723,281	–	–	–	–	–	–
Total exposures to central banks and institutions	**3,107,120**	**1,401**	**155**	**- 653**	**–**	**–**	**–**
Exposures to customers							
Exposures to corporates	245,354	–	–	–	–	–	–
of which exposure to small and medium-sized entities	109,379	–	–	–	–	–	–
Retail exposures	555,408	–	–	–	–	–	–
of which exposure to small and medium-sized entities	409,299	–	–	–	–	–	–
Exposures in default	8,545	–	–	–	–	–	–
Exposures in the form of covered bonds	1,432,023	–	–	- 312	–	–	–
Equity exposures	30,520	–	–	–	–	–	–
Other items	16,133	–	–	–	–	–	–
Total exposure to customers	**2,287,983**	**–**	**–**	**–**	**–**	**–**	**–**
Total, standardised approach	**5,395,103**	**1,401**	**155**	**- 312**	**–**	**–**	**–**
IRB exposure class							
Exposures to corporates	9,193,389	62,162	253,171	- 295	–	–	–
Retail exposures	34,030,373	276,042	2,163	- 24,176	–	- 15,392	–
Non-credit obligation asset exposures	3,921,608	–	–	–	–	–	–
Total, IRB approach	**47,145,370**	**338,204**	**255,334**	**- 24,471**	**–**	**- 15,392**	**–**
Total	**52,540,473**	**- 339,605**	**255,489**	**- 25,436**	**–**	**- 15,392**	**–**

TOTAL AMOUNT OF ALL EXPOSURES INCLUDING THE EFFECT OF CREDIT RISK PROTECTION

As shown in the table above, the bank has a total credit risk exposure of SEK 53,040 million (52,540), 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 28,119 million (27,490). The bank also has collateral for loans and receivables in the form of guarantees of SEK 129 million (129), floating charges of SEK 267 million (276), property mortgages of SEK 5 million (2) and pledged loans and leases of SEK 1,892 million (2,009). The bank's total credit risk exposure, including the effect of credit risk protection, is thus SEK 22,628 million (22,634).

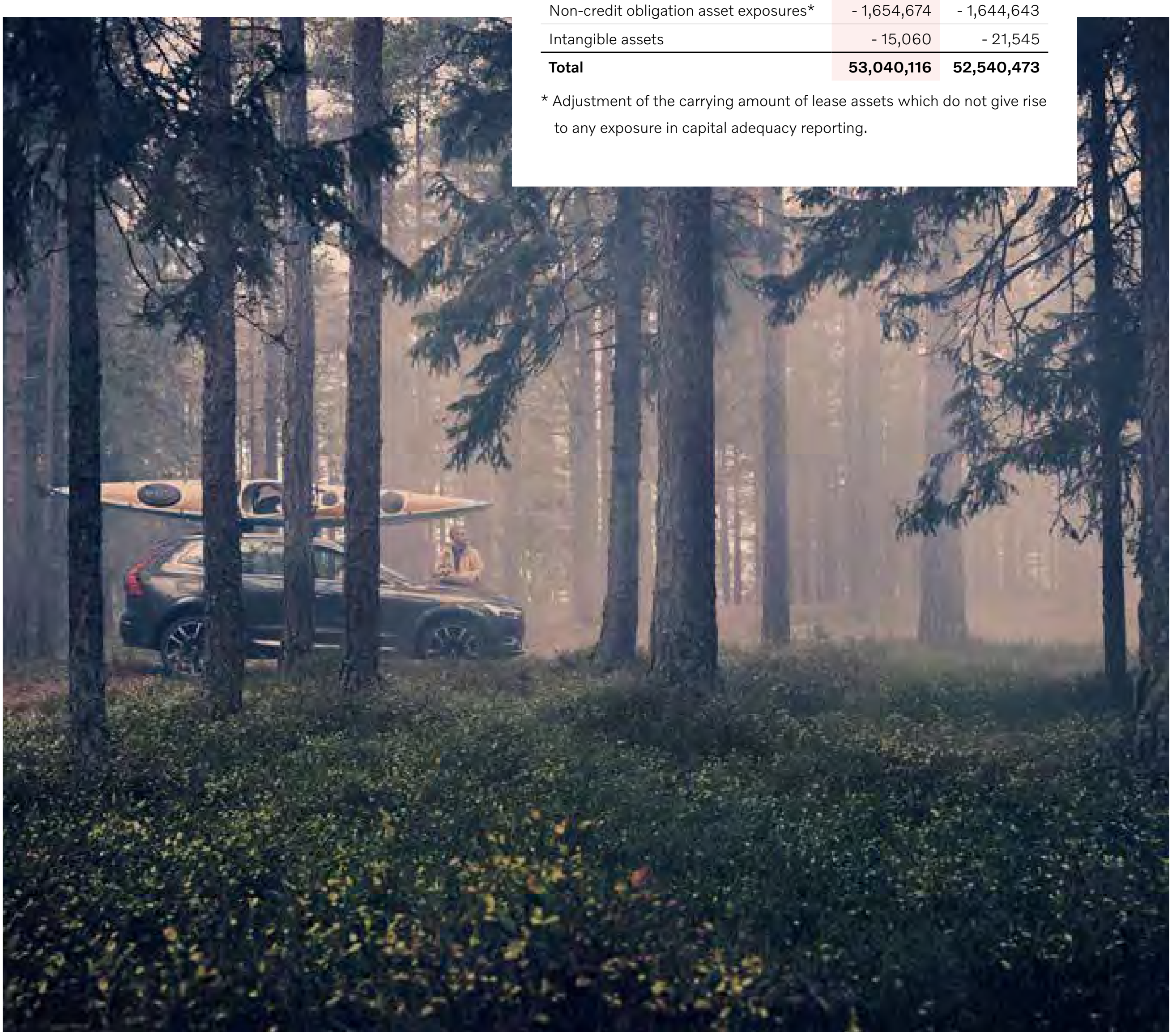
The bank does not use credit risk protection to reduce its capital requirement.

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.

	2019	2018
Total assets as per balance sheet	44,035,993	43,376,561
Additional items		
Total impairment	82,580	99,361
Undrawn limits, accounts receivable	10,262,200	10,138,183
Undrawn limits, lending to Volvo dealers	292,045	550,047
Margin for counterparty risk in derivatives	37,032	42,510
Outgoing items		
Non-credit obligation asset exposures*	- 1,654,674	- 1,644,643
Intangible assets	- 15,060	- 21,545
Total	**53,040,116**	**52,540,473**

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



TOTAL EXPOSURE BY EXPOSURE CLASS FOR CREDIT RISK

2019	Gross exposure amount	Average for the period	Q1	Q2	Q3	Q4
Standardised approach exposure class						
Exposures to central governments or central banks and institutions	87,816	41,983	25,865	27,360	26,892	87,816
Exposures to regional governments or local authorities	1,531,925	1,456,932	1,419,297	1,346,085	1,530,422	1,531,925
Exposures to public sector entities	7,613	6,581	6,190	6,345	6,175	7,613
Exposures to institutions	1,361,639	2,569,149	3,432,892	2,777,525	2,704,540	1,361,639
Exposures to corporates	252,235	256,755	248,469	255,899	270,415	252,235
Retail exposures	561,506	580,391	584,533	586,844	588,681	561,506
Exposures in default	2,321	1,556	1,676	1,503	727	2,321
Exposures in the form of covered bonds	1,415,921	1,540,961	1,691,666	1,639,032	1,417,226	1,415,921
Equity exposures	18,000	27,390	30,520	30,520	30,520	18,000
Other items	23,233	50,918	83,912	56,402	40,124	23,233
Total	**5,262,209**	**6,532,616**	**7,525,019**	**6,727,513**	**6,615,722**	**5,262,209**
IRB exposure class						
Exposures to corporates	9,964,399	9,367,168	9,080,389	9,362,374	9,061,511	9,964,399
Retail exposures*	33,779,325	33,796,144	33,901,921	33,855,790	33,647,540	33,779,325
Non-credit obligation asset exposures	4,034,183	4,029,485	3,980,708	4,084,452	4,018,597	4,034,183
Total, IRB approach	**47,777,907**	**47,192,798**	**46,963,018**	**47,302,616**	**46,727,649**	**47,777,907**
Total exposure	**53,040,116**	**53,725,414**	**54,488,038**	**54,030,129**	**53,343,370**	**53,040,116**

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

2018	Gross exposure amount	Average for the period	Q1	Q2	Q3	Q4
Standardised approach exposure class						
Exposures to central governments or central banks and institutions	22,476	71,069	98,502	120,561	42,736	22,476
Exposures to regional governments or local authorities	1,355,237	1,465,981	1,554,186	1,492,578	1,461,923	1,355,237
Exposures to public sector entities	6,126	5,852	6,097	5,768	5,418	6,126
Exposures to institutions	1,723,281	1,705,140	2,073,563	1,754,285	1,269,432	1,723,281
Exposures to corporates	245,354	228,639	214 102	220,105	234,993	245,354
Retail exposures	555,408	555,538	524,982	553,580	588,181	555,408
Exposures in default	8,545	11,122	10,268	15,015	10,660	8,545
Exposures in the form of covered bonds	1,432,023	1,408,490	1,105,690	1,466,400	1,629,846	1,432,023
Equity exposures	30,520	29,141	27,159	29,442	29,442	30,520
Other items	16,133	44,795	73,911	56,270	32,867	16,133
Total	**5,395,103**	**5,525,766**	**5,688,460**	**5,714,004**	**5,305,498**	**5,395,103**
IRB exposure class						
Exposures to corporates	9,193,389	9,222,807	8,850,121	9,539,844	9,307,873	9,193,389
Retail exposures*	34,030,373	33,854,013	33,191,718	34,056,813	34,137,148	34,030,373
Non-credit obligation asset exposures	3,921,608	3,657,987	3,348,037	3,625,292	3,737,009	3,921,608
Total, IRB approach	**47,145,370**	**46,734,806**	**45,389,877**	**47,221,949**	**47,182,030**	**47,145,370**
Total exposure	**52,540,473**	**52,260,572**	**51,103,881**	**52,527,447**	**52,577,133**	**52,540,473**

* “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

2019	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	258	87,558	87,816
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,531,925	1,531,925
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	7,613	7,613
Institutional exposures	–	–	–	1,361,639	1,361,639
Corporate exposures, standardised and IRB	3,717,414	1,269,738	2,254,550	2,974,932	10,216,634
Corporate exposures, standardised and IRB	1,333,627	2,151,255	1,512,816	29,343,133	34,340,831
Unsettled items	263	178	196	1,683	2,321
Covered bonds	–	–	–	1,415,921	1,415,921
Equity exposures	–	–	–	18,000	18,000
Other items	–	–	–	23,233	23,233
Non-credit obligation asset exposures, IRB	–	–	–	4,034,183	4,034,183
Total	**5,051,304**	**3,421,171**	**3,767,820**	**40,799,821**	**53,040,116**

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**

EXPOSURES, REMAINING TERM TO MATURITY BY EXPOSURE CLASS

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

2019	0–3	3–6	6–9	9–12	12+	Total cash flow	No term
Exposures to central governments or central banks and institutions	61,395	6,707	1,938	2,676	15,099	87,816	–
Exposures to regional governments or local authorities	413,244	216,230	247,241	11,421	643,789	1,531,925	–
Exposures to public sector entities	617	931	1,680	440	3,946	7,613	–
Exposures to institutions	8,629	3,416	3,654	3,836	1,342,103	1,361,639	–
Exposures to corporates	2,350,933	951,585	529,421	956,172	5,428,523	10,216,634	–
Retail exposures	13,823,175	2,105,852	597,100	2,015,470	15,799,234	34,340,831	–
Exposures in default	2,321	–	–	–	–	2,321	–
Exposures in the form of covered bonds	1,921	232,000	50,000	403,000	729,000	1,415,921	–
Equity exposures	–	–	–	–	–	–	18,000
Other items	–	–	–	–	–	–	23,233
Non-credit obligation asset exposures, IRB	341,373	499,629	434,400	504,215	2,232,794	4,012,411	21,772
Total	**17,003,608**	**4,016,350**	**1,865,434**	**3,897,230**	**26,194,488**	**52,977,111**	**63,005**

2018	0–3	3–6	6–9	9–12	12+	Total cash flow	No term
Exposures to central governments or central banks and institutions	15,162	2,869	1,821	2,335	289	22,476	–
Exposures to regional governments or local authorities	164,521	167,242	104,401	11,562	907,511	1,355,237	–
Exposures to public sector entities	574	320	1,360	570	3,302	6,126	–
Exposures to institutions	10,850	3,330	3,978	3,864	1,701,260	1,723,281	–
Exposures to corporates	1,831,088	876,280	723,458	808,770	5,199,147	9,438,743	–
Retail exposures	13,729,082	2,054,563	567,529	2,123,035	16,111,571	34,585,781	–
Exposures in default	8,545	–	–	–	–	8,545	–
Exposures in the form of covered bonds	6,023	101,000	272,000	102,000	951,000	1,432,023	–
Equity exposures	–	–	–	–	–	–	30,520
Other items	–	–	–	–	–	–	16,133
Non-credit obligation asset exposures, IRB	318,922	474,431	395,337	489,643	2,225,782	3,904,115	17,493
Total	**16,084,767**	**3,680,034**	**2,069,885**	**3,541,779**	**27,099,862**	**52,476,327**	**64,146**

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 2019	Stage 1	Stage 2	Stage 3 (not purchased or issued, credit-impaired)	Total
Chargeable treasury bills				
AAA to AA	1,430,484	–	–	1,430,484
Loss provision	- 535	–	–	- 535
Total carrying amount	**1,429,949**	**–**	**–**	**1,429,949**
Loans and advances to customers				
Low risk	13,414,836	12,866	3,416	13,431,118
Normal risk	2,731,820	98,808	5,374	2,836,002
Increased risk	204,949	339,994	7,155	552,098
High risk	106,259	318,136	10,569	434,964
Defaulted	–	–	48,886	48,886
Loss provision	- 9,497	- 8,164	- 7,326	- 24,987
Total carrying amount	**16,448,367**	**761,640**	**68,074**	**17,278,081**
Bonds and other debt securities				
AAA to AA	1,415,921	–	–	1,415,921
A+ to A-	933,940	–	–	933,940
Loss provision	- 309	–	–	- 309
Total carrying amount	**2,349,552**	**–**	**–**	**2,349,552**
Other financial assets				
Low risk	333,155	–	30,188	363,343
Normal risk	49,698	218	450	50,366
Increased risk	7,884	2,084	876	10,844
High risk	826	606	–	1,432
Defaulted	–	–	2,928	2,928
Loss provision	- 2	- 0	- 29	- 31
Total carrying amount	**391,561**	**2,908**	**33,087**	**428,882**
Total gross carrying amount for financial assets valued at amortised cost	**20,629,772**	**772,712**	**109,843**	**21,512,327**
Total loss provision	**- 10,343**	**- 8,164**	**- 7,356**	**- 25,863**
Total carrying amount	**20,619,429**	**764,548**	**102,487**	**21,486,464**

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	169,277	349,075	867	519,219
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**	**733,418**	**144,212**	**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	53	–	42,573
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**	**1,133**	**30,499**	**471,906**
Total gross carrying amount for financial assets valued at amortised cost	**19,973,364**	**742,915**	**181,310**	**20,897,589**
Total loss provision	**- 10,177**	**- 8,364**	**- 6,599**	**- 25,140**
Total carrying amount	**19,963,187**	**734,551**	**174,711**	**20,872,449**

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 2019	Credit risk exposure (before impairment)	Loss provision	Carrying amount	Value of collateral
Chargeable treasury bills, etc.				
AAA to AA	1,430,484	- 535	1,429,949	–
Total	**1,430,484**	**- 535**	**1,429,949**	**–**
Loans and advances to customers				
Lending against collateral of:				
Other	17,303,068	- 24,987	17,278,081	14,638,428
Total	**17,303,068**	**- 24,987**	**17,278,081**	**14,638,428**
Bonds and other debt securities				
AAA to A-	2,349,861	- 309	2,349,552	–
Total	**2,349,861**	**- 309**	**2,349,552**	**–**
Other assets				
Receivables	428,913	- 31	428,882	–
Total	**428,913**	**- 31**	**428,882**	**–**
Issued loan promises	10,554,245	–	–	–
Total credit risk exposure	**32,066,571**	**- 25,863**	**21,486,464**	**14,638,428**

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**

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 2019, 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.

PORTFOLIO CHANGES IN RESPECT OF SPECIFIC CREDIT ADJUSTMENTS

The following table presents the bank's changes in respect of credit risk adjustments from the beginning of the year until the end of the year.

Amounts in SEK million	31 Dec 2019 Cumulative specific credit adjustments	31 Dec 2018 Cumulative specific credit adjustments
Opening balance	**25,436**	**27,660**
Increases in expected credit losses for new contracts	2,490	2,359
Decrease in expected credit losses on completed contracts	- 6,335	- 6,602
Decrease in expected credit losses during the period	- 653	- 3,180
Increase in expected credit losses during the period	356	544
Migrations between stage 1, stage 2 and stage 3	4,914	4,655
Closing balance	**26,207**	**25,436**
Repayment of previous actual credit losses in the income statement	2,277	2,175
Actual credit losses in the income statement	17,658	17,567

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. Counterparty risk arises from hedging of Volvofinans' interest rate risk using derivatives. The bank's derivatives currently consist of interest rate swap agreements and interest rate and currency swap agreements.

The bank only uses counterparties with which it has entered into 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 international swap agreements, ISDA agreements.

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. Credit Support Annex (CSA) is an annex to the ISDA agreement that establishes a system for transfer of collateral between the parties to limit the counterparty risk arising from derivatives transactions. Under the European Markets Infrastructure Regulation (EMIR), the bank is required to exchange variation margin with counterparties for non-cleared OTC derivatives. The bank has therefore entered into a supplementary agreement, CSA 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 swap agreements 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 interest rate and exchange rate swaps was SEK 11,022 (12,999). The margin was calculated at SEK 37,032 (42,510). The nominal amount of the bank's outstanding derivatives at year-end was SEK 2,715 million (2,973). 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.

Amounts in SEK million		2019		2018	
Rating (short-term)	**Rating (long-term)**	**Compen-sation**	**Margin**	**Compen-sation**	**Margin**
P-1	Aa1	–	–	–	–
P-1	Aa2	0.3	1.0	0.1	0.7
P-1	Aa3	1.3	34.5	0.7	37.0
P-1	A1	–	–	–	–
P-1	A2	–	–	12.2	4.8
P-2	A3	9.4	1.5	–	–
Total		**11.0**	**37.0**	**13.0**	**42.5**

ENCUMBERED ASSETS

The tables below present the required disclosures on encumbered and unencumbered assets in accordance with the EBA guidelines. In addition to debt securities, the bank's unencumbered assets mainly comprise hire purchase agreements and contract credits, credit card credits, card credits, property, plant and equipment such as lease assets, intangible assets (projects in progress), shares, equipment and trade receivables. The bank estimates the share of these items not considered to be available for encumbrance in the ordinary course of business at around 90%. The bank's encumbered assets comprise collateral received in the form of bank deposits in accordance with CSA for variation margin under the ISDA agreements. The liabilities corresponding to the collateral received comprise exposures to counterparties in derivatives transactions under standard ISDA terms. Volvofinans Bank has not pledged any collateral received.

2019	Encumbered assets, carrying amount	Encumbered assets, fair value	Unencumbered assets, carrying amount	Unencumbered assets, fair value	Encumbered collateral received or own debt securities, fair value	Collateral received or own issued debt securities available for encumbrance, fair value
Assets	**–**	**–**	**44,035,993**	**–**	**–**	**–**
Equity instruments	–	–	–	–	–	–
Debt securities	–	–	3,780,345	–	–	–
Other assets	–	–	40,255,648	–	–	–
Other collateral received	–	–	–	–	–	–

2019	Matching liabilities, contingent liabilities or securities on loan	Encumbered assets, collateral received and own debt securities issued with the exception of covered bonds and asset-backed securities
Assets	5,069	8,480

2018	Encumbered assets, carrying amount	Encumbered assets, fair value	Unencumbered assets, carrying amount	Unencumbered assets, fair value	Encumbered collateral received or own debt securities, fair value	Collateral received or own issued debt securities available for encumbrance, fair value
Assets	**–**	**–**	**43,376,561**	**–**	**–**	**–**
Equity instruments	–	–	–	–	–	–
Debt securities	–	–	3,478,683	–	–	–
Other assets	–	–	39,897,878	–	–	–
Other collateral received	–	–	–	–	–	–

2018	Matching liabilities, contingent liabilities or securities on loan	Encumbered assets, collateral received and own debt securities issued with the exception of covered bonds and asset-backed securities
Assets	4,511	4,350

CONCENTRATION RISK

The bank's definition of concentration risk refers to:

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

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

The 30 largest customers account for 10.3% (9.4) 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 10.42% 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

The bank defines interest rate risk as the present and future risk of a decline in net interest income due to unfavourable changes in interest rates owing to the differing fixed-rate terms of loans and deposits. All interest rate risk managed by Volvofinans is interest rate risk in the banking book, and there is thus no trading book. Interest rate risk is divided into its various components: gap risk, basis risk and option risk. The bank endeavours to minimise interest rate risk by matching fixed-rate terms of borrowings with those of loans. 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 SEK 1.9 billion, or 5%, of total funding at 31 December 2019. Swap agreements are also used in cases where loans are issued at fixed rates, which occurs to a very limited extent, with such loans accounting for just 0.6% (0.4) of total lending at year-end. The bank's lending and borrowing mainly have short fixed-rate terms not exceeding 3 months. The bank's 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.

The bank's interest rate risk management follows the EBA guidelines on management of interest rate risk outside the trading book. The bank stress-tests the interest rate risk in its assets, liabilities and cash flows from derivative instruments on a monthly basis. A gap analysis shows the impact on net interest income over a 12-month period from an interest rate shock resulting in an immediate parallel shift in the yield curve of 1 percentage point. 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. The time periods are divided into 19 time pockets with intervals ranging from 1 day up to 5 years. In this calculation no term has been used for equity including untaxed reserves. At 31 December 2019, the interest rate risk was SEK 75.4 million (89.9), representing 1.9% (2.4) of the capital base. An assumption is also made of a reasonable change in interest rates and a 0.25 percentage point parallel shift in the yield curve, which would have an estimated impact on net interest income over a 12-month period of SEK 18.8 million (22.5). The bank considers these stress tests to be proportionally reliable for measuring Volvofinans' net interest rate risk. Interest rate risk is also measured as the impact on the economic value of equity. To identify the parallel and non-parallel gap risk for the economic value, six interest rate shock scenarios are used. The interest rate shock scenarios applied are parallel shock up and down, steepener shock (short rates down and long rates up), flattener shock (short rates up and long rates down) and short rates shock up and down. Assuming a 2 percentage point parallel shock, the impact on the economic value at 31 December 2019 is SEK 9.6 million (17.3).

In cases where customers wish to redeem fixed-rate loans early, and where the bank is unable to charge early redemption fees, this creates an interest rate risk exposure, or "option risk". The bank monitors such lending exposure on a monthly basis and makes ongoing provisions to hedge the risk. It is assumed that 20% of the average credit volume for the year will be redeemed, when 12 months of the original average maturity of the portfolio has passed, in case of a 1.5 percentage point decline in interest rates.

Basis risk in the banking book arises from an interest rate risk perspective when positions with similar interest rate fixing dates are reset against different interest rate indices on the asset and liability sides. Interest rate indices include IBOR rates (STIBOR, NIBOR, etc.) with different maturities. The bank's variable rate lending and borrowing mainly have 3-month STIBOR as the base rate, which means that the basis risk is negligible. The debt, which has a nominal amount of SEK 13.4 billion, consists of market borrowings and liabilities to credit institutions. The asset side consists of loans and advances to customers and derivatives of SEK 31 billion and securities assets of SEK 2.4 billion. The bank also has loan assets of SEK 0.6 million that are exposed to the 1-month STIBOR reference rate.

FIXED-RATE TERMS FOR THE GROUP'S INTEREST-BEARING ASSETS AND LIABILITIES

31 Dec 2019

SEKm **Assets**	**O/N**	**O/N≤1M**	**1M ≤ 3M**	**3M ≤ 6M**	**6M ≤ 9M**	**9 ≤ 1Y**	**1Y ≤ 1.5Y**	**1.5Y≤2Y**	**2Y ≤ 3Y**	**3Y ≤ 4Y**	**4Y ≤ 5Y**	**5Y ≤ 6Y**	**> 6Y**	**Non-interest-bearing**	**Total**
Payable treasury bills			1,430												**1,430**
Loans and advances to credit institutions		1,281													**1,281**
Lending*		37,610	84	4	8	7	25	21	97	30	23	18			**37,927**
Bonds and other debt securities		563	1,787												**2,350**
Shares and interests in associates and other companies														11	**11**
Shares and interests in Group companies														7	**7**
Intangible assets														15	**15**
Property, plant and equipment, fixtures and fittings														12	**12**
Other assets														936	**936**
Prepaid expenses and accrued income														67	**67**
Total assets		**39,454**	**3,301**	**4**	**8**	**7**	**25**	**21**	**97**	**30**	**23**	**18**		**1,048**	**44,036**

SEKm **Liabilities and equity**	**O/N**	**O/N≤1M**	**1M ≤ 3M**	**3M ≤ 6M**	**6M ≤ 9M**	**9 ≤ 1Y**	**1Y ≤ 1.5Y**	**1.5Y ≤ 2Y**	**2Y ≤ 3Y**	**3Y ≤ 4Y**	**4Y ≤ 5Y**	**5Y ≤ 6Y**	**> 6Y**	**Non-interest-bearing**	**Total**
Liabilities to credit institutions			- 1,593												**- 1,593**
Retail deposits and borrowings	- 21,217														**- 21,217**
Securities issued		- 4,297	- 6,992	- 300		- 799			- 401	- 303					**- 13,092**
Other liabilities														- 1,256	**- 1,256**
Accrued expenses and deferred income														- 1,306	**- 1,306**
Subordinated debts		- 400													**- 400**
Untaxed reserves														- 4,626	**- 4,626**
Equity														- 546	**- 546**
Total liabilities and equity	**- 21,217**	**- 4,697**	**- 8,585**	**- 300**		**- 799**			**- 401**	**- 303**				**- 7,734**	**- 44,036**
Derivative instruments		**- 477**	**- 818**	**- 4**		**800**	**- 5**	**- 53**	**290**	**256**					**- 11**
Net assets and liabilities	**- 21,217**	**34,280**	**- 6,102**	**- 300**	**8**	**8**	**20**	**- 32**	**- 14**	**- 17**	**23**	**18**	**0**	**- 6,686**	
Cumulative exposure	**- 21,217**	**13,063**	**6,961**	**6,661**	**6,669**	**6,677**	**6,697**	**6,665**	**6,651**	**6,634**	**6,657**	**6,675**	**6,675**	**- 11**	

* Consists of Loans and advances to customers and Property, plant and equipment, lease assets

31 Dec 2018

SEKm **Assets**	**O/N**	**O/N≤1M**	**1M ≤ 3M**	**3M ≤ 6M**	**6M ≤ 9M**	**9 ≤ 1Y**	**1Y ≤ 1.5Y**	**1.5Y ≤ 2Y**	**2Y ≤ 3Y**	**3Y ≤ 4Y**	**4Y ≤ 5Y**	**5Y ≤ 6Y**	**> 6Y**	**Non-interest-bearing**	**Total**
Payable treasury bills		77	1,169												**1,246**
Loans and advances to credit institutions		1,623													**1,623**
Lending*		37,028	90	4	8	15	23	20	56	18	3	15			**37,280**
Bonds and other debt securities		403	1,829												**2,232**
Shares and interests in associates and other companies														24	**24**
Shares and interests in Group companies														7	**7**
Intangible assets														22	**22**
Property, plant and equipment, fixtures and fittings														6	**6**
Other assets														887	**887**
Prepaid expenses and accrued income														51	**51**
Total assets		**39,131**	**3,088**	**4**	**8**	**15**	**23**	**20**	**56**	**18**	**3**	**15**		**997**	**43,377**

SEKm **Liabilities and equity**	**O/N**	**O/N≤1M**	**1M ≤ 3M**	**3M ≤ 6M**	**6M ≤ 9M**	**9 ≤ 1Y**	**1Y ≤ 1.5Y**	**1.5Y ≤ 2Y**	**2Y ≤ 3Y**	**3Y ≤ 4Y**	**4Y ≤ 5Y**	**5Y ≤ 6Y**	**> 6Y**	**Non-interest-bearing**	**Total**
Liabilities to credit institutions			- 2,083												**- 2,083**
Retail deposits and borrowings	- 18,218														**- 18,218**
Securities issued		- 4,758	- 8,520	- 100		- 299	- 352	- 801		- 400	- 302				**- 15,532**
Other liabilities														- 1,079	**- 1,079**
Accrued expenses and deferred income														- 1,303	**- 1,303**
Subordinated debts		- 400													**- 400**
Untaxed reserves														- 4,128	**- 4,128**
Equity														- 632	**- 632**
Total liabilities and equity	**- 18,218**	**- 5,158**	**- 10,603**	**- 100**		**- 299**	**- 352**	**- 801**		**- 400**	**- 302**			**- 7,142**	**- 43,377**
Derivative instruments		**- 765**	**- 1,248**	**- 2**		**288**	**339**	**800**	**- 90**	**400**	**245**				**- 33**
Net assets and liabilities	**- 18,218**	**33,208**	**- 8,763**	**- 98**	**8**	**4**	**10**	**19**	**- 34**	**18**	**- 54**	**15**	**0**	**- 6,145**	
Cumulative exposure	**- 18,218**	**14,990**	**6,227**	**6,129**	**6,137**	**6,141**	**6,151**	**6,170**	**6,136**	**6,154**	**6,100**	**6,115**	**6,115**	**- 30**	

* Consists of Loans and advances to customers and Property, plant and equipment, lease assets

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 interest rate and exchange rate swap agreements with a nominal value of SEK 650 million (650) as at 31 December 2019. 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 2019 the bank had recognised an impairment loss of SEK 56.4 million (73.9) related to residual value risk, which is included in depreciation and impairment of property, plant and equipment. Guaranteed residual values amounted to SEK 5,472 million (4,983), which includes both own and transferred contracts. The carrying amount of operating leases directly guaranteed by the bank was SEK 4,336 million (4,052) at 31 December 2019. The guaranteed residual value of these contracts amounted to SEK 2,896 million (2,525).

EQUITY RISK IN OTHER OPERATIONS

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

	2019	2018
Balance sheet value		
Associates and other companies	12,258	23,777
Group companies	6,742	6,742
Total	**19,000**	**30,519**
Fair value		
Associates and other companies	12,258	23,777
Group companies	6,789	6,789
Total	**19,047**	**30,566**
Unrealised gain or loss		
Associates and other companies	7,926	17,446
Group companies	–	–
Total	**7,926**	**17,446**

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 2019 amounted to 20,091 (18,340), of which 10,462 (9,741) 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 are required. If the need for refinancing on any individual day becomes significant, or if capital markets 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 the bank's accounts department in close collaboration with the Treasury 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 257% and averaged 292% in 2019. 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 143% and averaged 145% in 2019.

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 (5.1). 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 3.8 billion (75%) while deposits at other banks amounted to SEK 1.3 billion (25%). The size of the liquidity reserve should be such as to ensure that the company is able to continue operating without hindrance in case of serious liquidity strains, with no injection of new external funding, for a period of at least three months by using only the funds available in the reserve. Furthermore, the bank's liquidity reserve must always be at least 10% in relation to lending; at 31 December 2019, this ratio was 13% (14).

LIQUIDITY RESERVE

Amounts in SEK million, securities at market value	31 Dec 2019	31 Dec 2018
Deposits with other banks	1,281	1,623
Securities issued by local authorities and other public sector entities	1,430	1,246
Other covered bonds	1,416	1,432
Securities issued by non-financial corporations	934	800
Total	**5,061**	**5,101**

Of the bank's total liquidity reserve of SEK 5,061 million, SEK 4,127 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 the bank's core banks. The back-up facilities are not normally used and stood at SEK 4.3 billion (4.3) at year-end. Facilities with an option to demand same-day payment total SEK 1.3 billion; otherwise payment is made 2–3 business days after the demand. 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 2019	31 Dec 2018
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 2019 it was 69% (81).

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 held a savings account for 12 months or more was 87% (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.

2019 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	–	402	448	580	–	–	1,430
Loans and advances to credit institutions	1,281	–	–	–	–	–	1,281
Loans and advances to customers	–	4,986	7,614	13,247	3,764	715	30,326
Bonds and other debt securities	–	937	690	725	–	–	2,352
Property, plant and equipment, lease assets	–	851	3,412	4,682	112	4	9,061
Other assets, derivatives	–	5	2	5	3	–	15
Total	**1,281**	**7,181**	**12,166**	**19,239**	**3,879**	**719**	**44,465**
Financial liabilities							
Liabilities to credit institutions	–	344	330	735	209	–	1,618
Retail deposits and borrowings	21,217	–	–	–	–	–	21,217
Securities issued	–	1,127	2,935	6,638	2,619	–	13,319
Other liabilities, derivatives	–	- 2	- 8	- 21	44	–	13
Subordinated debts	–	1	5	13	13	424	456
Total	**21,217**	**1,470**	**3,262**	**7,365**	**2,885**	**424**	**36,623**
Net cash flow	**19,936**	**5,711**	**8,904**	**11,874**	**994**	**295**	
Undrawn credit facilities	1,450	4,250	3,750	2,000	–	–	
Liquidity gap	**18,486**	**9,961**	**12,654**	**13,872**	**994**	**295**	

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**	

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 2019	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	- 344	- 331	- 737	- 210	–	- 1,662
Securities issued	- 1,127	- 2,949	- 6,660	- 2,623	–	- 13,359
Other liabilities, derivatives	2	6	20	- 45	–	- 17
Other assets, derivatives	5	1	2	3	–	11
Subordinated debts	- 1	- 5	- 14	- 16	- 433	- 469
Total	**- 1,465**	**- 3,278**	**- 7,389**	**- 2,891**	**- 433**	**- 15,456**

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**

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. From 2019, the bank does not prepare a separate external risk and capital management report (Pillar 3 report); instead, the disclosures are presented in the annual report.

The introduction of IFRS 9 has had only a 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.

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 following sections.

CAPITAL BASE

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

	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital: Instruments and reserves		
Capital instruments and related share premium accounts	400,000	400,000
Undistributed earnings	111,411	92,090
Other reserves	3,671,456	3,285,979
Common Equity Tier 1 capital before regulatory adjustments	**4,182,867**	**3,778,069**
Common Equity Tier 1 capital: regulatory adjustments		
Intangible assets	- 15,060	- 21,545
Negative amounts due to calculation of expected loss amounts	- 178,017	- 177,315
Gains or losses on liabilities of the institution that are valued at fair value that result from changes in the own credit standing of the institution	- 22	- 50
Total regulatory adjustments to Common Equity Tier 1 capital	**- 193,099**	**- 198,910**
Common Equity Tier 1 capital	**3,989,768**	**3,579,159**
Tier 2 capital: instruments and provisions		
Capital instruments and related share premium accounts	400,000	400,000
Supplementary capital	**400,000**	**400,000**
Total capital (Common Equity Tier 1 capital + Tier 2 capital)	**4,389,768**	**3,979,159**
Total risk-weighted assets	**20,617,467**	**19,816,517**

CAPITAL REQUIREMENT AND RISK-WEIGHTED EXPOSURE AMOUNT

Credit risk, standardised approach	31 Dec 2019 Capital requirement	31 Dec 2019 Risk-weighted exposure amount	31 Dec 2019 Average risk weight	31 Dec 2018 Capital requirement	31 Dec 2018 Risk-weighted exposure amount	31 Dec 2018 Average risk weight
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	543	6,793	100.0%	424	5,300	100.0%
Institutional exposures	21,784	272,299	20.0%	27,569	344,613	20.0%
of which counterparty risk	(768)	(9,606)	(–)	(887)	(11,092)	(–)
Corporate exposures	18,655	233,185	92.9%	15,550	194,375	94.2%
Retail exposures	28,984	362,294	66.7%	28,472	355,895	66.5%
Unsettled items	267	3,335	150.0%	1,011	12,633	150.0%
Covered bonds	11,325	141,561	10.0%	11,454	143,171	10.0%
Equity exposures	1,440	18,000	100.0%	2,442	30,520	100.0%
Other items	1,859	23,233	100.0%	1,291	16,133	100.0%
Total capital requirements for credit risks using the standardised approach	**84,856**	**1,060,701**	**20.3%**	**88,211**	**1,102,641**	**20.7%**
Credit risk using the IRB approach						
Corporate exposures	535,620	6,695,250	70.4%	495,965	6,199,557	71.6%
Retail exposures	558,213	6,977,663	21.6%	556,739	6,959,233	21.4%
Non-credit obligation asset exposures	322,735	4,034,183	100.0%	313,729	3,921,608	100.0%
Total capital requirements for credit risks using the IRB approach	**1,416,568**	**17,707,097**	**38.7%**	**1,366,432**	**17,080,398**	**37.9%**
Total	**1,501,424**	**18,767,798**	**36.8%**	**1,454,643**	**18,183,039**	**36.1%**
Operational risk using the Basic Indicator Approach	146,522	1,831,531	–	128,654	1,608,170	–
Credit valuation adjustment (CVA)	1,451	18,138	–	2,025	25,308	–
Total minimum capital requirement and risk-weighted exposure amount	**1,649,397**	**20,617,467**	**–**	**1,585,322**	**19,816,517**	**–**

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 licence to provide financing services).

CAPITAL ADEQUACY

	31 Dec 2019	31 Dec 2018
Risk-weighted assets (REA)	20,617,467	19,816,517
Available capital as a percentage of REA		
Common Equity Tier 1 capital ratio, % *	19.35	18.06
Tier 1 ratio, %	21.29	20.08
Total capital ratio, % **	21.29	20.08
Common Equity Tier 1 capital available to meet buffers	2,960,571	2,687,416

* 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 2019			31 Dec 2018		
Per cent	**Common Equity Tier 1 capital requirement**	**Tier 1 capital requirement**	**Total own funds requirements**	**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	2.5	2.5	2.5	2.0	2.0	2.0
Total	**9.5**	**11.0**	**13.0**	**9.0**	**10.5**	**12.5**
Amount						
Minimum capital requirement	927,786	1,237,048	1,649,397	891,743	1,188,991	1,585,322
Capital conservation buffer	515,437	515,437	515,437	495,413	495,413	495,413
Countercyclical buffer	515,437	515,437	515,437	396,330	396,330	396,330
Total capital requirement	**1,958,659**	**2,267,921**	**2,680,271**	**1,783,486**	**2,080,734**	**2,477,066**

31 Dec 2019	Capital requirement	Capital requirement/ Total REA	Of which CET1 requirement/REA
Credit risk	1,501,424	7.3%	4.1%
Operational risk	146,522	0.7%	0.4%
CVA risk	1,451	0.0%	0.0%
Pillar 1 own funds requirements excluding buffer requirements	**1,649,397**	**8.0%**	**4.5%**
Concentration risk	294,797	1.4%	0.9%
Strategic risk	82,470	0.4%	0.3%
Interest rate risk	65,000	0.3%	0.2%
Supplement for internally assessed Pillar 2 capital requirement	**442,267**	**2.1%**	**1.4%**
Capital conservation buffer	515,437	2.5%	2.5%
Institution-specific countercyclical capital buffer	515,437	2.5%	2.5%
Buffer requirements	**1,030,874**	**5.0%**	**5.0%**
Capital requirements	**3,122,538**	**15.1%**	**10.9%**
Capital base	**4,389,768**	**20.8%**	**18.9%**
Capital surplus	**1,267,230**	**5.7%**	**8.0%**

31 Dec 2018	Capital requirement	Capital requirement/ Total REA	Of which CET1 requirement/REA
Credit risk	1,454,643	7.0%	3.9%
Operational risk	128,654	1.0%	0.6%
CVA risk	2,025	0.0%	0.0%
Pillar 1 own funds requirements excluding buffer requirements	**1,585,322**	**8.0%**	**4.5%**
Concentration risk	289,104	1.5%	1.0%
Strategic risk	79,266	0.4%	0.3%
Interest rate risk	65,000	0.3%	0.2%
Supplement for internally assessed Pillar 2 capital requirement	**433,370**	**2.2%**	**1.5%**
Capital conservation buffer	495,413	2.5%	2.5%
Institution-specific countercyclical capital buffer	396,330	2.0%	2.0%
Buffer requirements	**891,743**	**4.5%**	**4.5%**
Capital requirements	**- 2,910,435**	**14.7%**	**10.5%**
Capital base	**3,979,159**	**20.1%**	**18.1%**
Capital surplus	**1,068,724**	**5.4%**	**7.6%**

The internal capital adequacy assessment process has resulted in an internal capital requirement of SEK 2,092 million (2,019) as at 31 December 2019.

If the combined buffer requirement is included, the bank's total capital requirement is SEK 3,123 million (2,910).

The capital surplus, calculated on the basis of the internal capital requirement including buffer requirements, is thus SEK 1,267 million (1,069).

LEVERAGE RATIO

	31 Dec 2019	31 Dec 2018
Tier 1 capital	**3,989,768**	**3,579,159**
Total assets as per published financial statements	42,436,020	41,794,753
Adjustments for financial derivative instruments	48,054	55,509
Adjustment for off-balance sheet items (i.e. conversion to credit equivalents for off-balance sheet exposures)	1,318,266	1,563,865
Other adjustments	- 193,099	- 198,911
Exposure measure	**43,609,241**	**43,215,215**
Leverage ratio, %	**9.15**	**8.28**

KEY COMPONENTS OF CAPITAL INSTRUMENTS

Issuer	Volvofinans Bank AB	Volvofinans Bank AB
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	SE0011062744
Governing law(s) of the instruments	Swedish law	Swedish law
Legal treatment		
Transitional rules of the Capital Requirements Regulation	Common Equity Tier 1 capital	Supplementary capital
Post-transitional rules of the Capital Requirements Regulation	Common Equity Tier 1 capital	Supplementary capital
Eligible at solo/consolidated (sub-consolidated level)/solo and consolidated (sub-consolidated) level	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Share capital	Debentures
Amount recognised in regulatory capital as of most recent reporting date	400,000	400,000
Nominal amount of instrument	400,000	400,000
Issue price	N/A	100%
Redemption price	N/A	100%
Accounting classification	Equity	Subordinated debt
Original date of issuance	1959	28 Mar 2018
Perpetual or dated	Perpetual	Dated
Original maturity date	N/A	11 Apr 2028
Issuer call subject to prior supervisory approval	**N/A**	**Yes**
Optional call date, contingent call dates and redemption amount	N/A	Optional call date, whole amount
Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends		
Fixed or floating dividend/coupon	N/A	Floating coupon
Coupon rate or any related index	N/A	3-month STIBOR + 1.45
Existence of dividend stopper	N/A	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A	Mandatory
Existence of step up or other incentive to redeem	N/A	No
Non-cumulative or cumulative	**Non-cumulative**	**Non-cumulative**
Convertible or non-convertible	Non-convertible	Non-convertible
Write-down features	No	No
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Common Equity Tier 1 capital	Subordinated
Non-compliant transitioned features	No	No

CAPITAL MANAGEMENT

The bank's strategies and methods for assessing and maintaining its own funds requirements 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 29 March 2020. The income statement and balance sheet will be submitted for adoption at the Annual General Meeting on 11 June 2020.

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

3.1 MEASUREMENT BASES FOR THE PREPARATION OF THE BANK'S FINANCIAL STATEMENTS

Assets and liabilities are stated at historical cost. Financial assets and liabilities are recognised at amortised cost, with the exception of certain financial assets and liabilities that are measured at fair value (see Note 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 that residual values will decline
- 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 2019 had no material impact on the bank's financial statements.

3.4.1 Application of new IFRS and future regulations

IFRS 16 LEASES

IFRS 16 is a new standard for financial reporting of leases that entered into force on 1 January 2019. IFRS 16 introduces a uniform lease accounting model for lessees. A lessee reports a right of use asset, which represents an entitlement to use the underlying asset, and a lease liability, which represents an obligation to make lease payments. The reporting for lessors is similar to the previous standard, i.e. lessors continue to classify leases as finance or operating leases. The standard primarily has the greatest impact on lessees and their reporting of lease assets. As the lessor, the bank continues to report the lease 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 has not had a significant effect on the bank's financial position, performance or cash flow.

THE IBOR REFORM

In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 in response to the ongoing reference rate (IBOR) reforms. The amendments are mandatory and must be applied from 1 January 2020. The amendments relate mainly to hedge accounting requirements and provide relief for maintaining hedging relationships despite potential uncertainties resulting from the IBOR reform. The reform also introduces further disclosure requirements for hedging relationships affected by the uncertainty of the ongoing reference rate reforms:

- Significant exposure to reference rates and its scope
- How the bank manages the transition to the new alternative reference rates.
- Significant assumptions or judgments used by the bank in applying the amendments
- Nominal amount of hedging relationships to which relief provisions are applied

For derivatives to which hedge accounting is not applied, the bank has exposure to STIBOR and NIBOR. For derivatives to which hedge accounting is applied and for all other financial instruments, the bank only has exposure to STIBOR. For further information on the derivatives, see Note 27. As the bank does not use cash flow hedges, no effects should arise in the accounts until possibly after the IBOR reforms have been fully implemented and have had an impact on the bank's derivatives contracts and other financial instruments linked to reference rates.

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.

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

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

Dividends from shares and interests 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 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 LEASES AND RECOGNITION OF LEASE INCOME

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

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

For all of the bank's lease agreements with customers, the customer has a contractual right to early settlement. If the contractual rate of interest is higher than the current interest rate, the customer must then pay an amount to cover the difference. Because of this, the agreements are cancellable. Monthly or quarterly interest that has already been charged, however, is not cancellable. See Note 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 Upplysnings-centralen, 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 assets and liabilities at amortised cost.
- Realised and unrealised changes in the value of derivatives that are financial hedging instruments, but where hedge accounting is not applied.
- Unrealised changes in fair value of hedged item attributable to the hedged risk in a fair value hedge.
- Unrealised changes in fair value of derivatives for which fair value hedge accounting is applied.
- Unrealised changes in fair value of hedged item attributable to the hedged risk in a fair value hedge.
- 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 classified as financial assets or liabilities at fair value, which are recognised at fair value less 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, 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.

Measurement of financial instruments at amortised cost

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 measured at amortised cost. It is considered that 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 provisions 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. Provisions for expected credit losses are made for assets in this measurement category.

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.

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 portfolio consists mainly of vehicle finance. Total lending in respect of vehicle finance mainly comprises loans and leases that have been transferred or pledged to the bank by the Volvo dealer, with collateral in the form of vehicles through right of repossession or ownership rights. Under a recourse 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.

3.19.1 Impairment of financial assets

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 off-balance sheet commitments, 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 2019, 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). A deterioration in the external rating is considered to take place when the initial rating is changed from investment grade to non-investment grade. 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 – lease receivables

The bank also recognises impairments for lease assets, which in the balance sheet are recognised as property, plant and equipment. The bank's basic methodology for calculating loss provisions for lease assets 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 card credits and vehicle financing. In the same way as for card 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 lease receivables that are recognised under operating expenses and impairments on lease assets.

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.

The bank has no financial assets that were written off during the reporting period and are subject to compliance measures.

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 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 depreciation

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 licences. 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 licences 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
- Licences 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.

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

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

Impairment losses 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.

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

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.

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, returns and cash flows generated by the various services. The internal reporting is arranged so that management is able to monitor the results of all services. 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 leases, often as packaged solutions that also include insurance, a credit card and servicing agreements. A partnership has been initiated with Polestar Performance AB, a new car make owned by Volvo Cars and Geely, where customers in early 2020 will be able to order their car and obtain financing from Volvofinans entirely digitally, directly on the Internet. 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 Swedish new car market has been strong for a number of years and 2019 was the third best year to date with 356,036 new passenger car registrations, 0.7% more than in 2018. A total of 81,675 new Volvo, Renault and Dacia car registrations were made, representing a market share of 22.9%, with a continued high percentage of vehicle financing through Volvofinans. On a cumulative basis, the portfolio of loans and leases decreased slightly over the year, with 4,962 loans and leases. At 31 December 2019, the portfolio comprised 202,763 contracts. In the Payments business, the bank is seeing a positive trend both in terms of the volume of card purchases and interest-bearing loans. Together with Sweden's Volvo dealers and other stakeholders in the ecosystem, Volvofinans Bank is continuously developing new products and launching new digital services. To add value for the customers, the bank has developed the CarPay service, which has now been downloaded by nearly 500,000 customers. Digital payments and services are also examples of innovation to meet demand from our customers and build a foundation for the future in the ecosystem. Using their mobile phones, the bank's customers can now pay digitally for car servicing and fuel at Tanka service stations and for other purchases via Samsung Pay, which are areas where the bank is seeing strong growth in demand and has several other development initiatives. In the first quarter of 2020, customers will, for example, also be able to pay for their purchases via Apple Pay. This makes life a little easier for our customers and partners – a smarter way to manage your car payments.

	2019	2018	Change
Net interest income*	528,796	484,284	44,512
Dividend received	308	16,352	- 16,044
Commission income	265,516	263,662	1,854
Commission expense	- 41,199	- 43,034	1,835
Net income/expense from financial transactions	600	- 415	1,015
Other income	10,442	8,135	2,307
Operating income	**764,464**	**728,984**	**35,480**
Expenses**	- 425,030	- 378,044	- 46,986
Credit losses	- 14,961	- 15,161	200
Credit risk provision	- 436	2,101	- 2,537
Operating profit	**324,036**	**337,881**	**- 13,845**

* Including depreciation and impairment of lease 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	**2019**	**2018**	**Change**
Number of contracts	202,763	207,725	- 4,962
Total volume, SEKm	- 26,335	26,560	- 225
of which transferred, %	93.6	93.1	0.5
of which pledged, %	6.4	6.9	- 0.5
of which loans, %	45.5	45.3	0.2
of which leases, %	54.5	54.7	- 0.2
Share of total leases that are private leases, %	25.02	27.0	- 2.0

Product Information, Card	**2019**	**2018**	**Change**
Number of active accounts, Ø	420,607	423,909	- 3,302
Total volume, SEKm	1,801	1,779	22
Number of credit customers, Ø	86,908	88,304	- 1,396
Total sales Volvo Card, SEKm	15,083	14,292	791
of which fuel, %	39.6	41.5	- 1.9
of which workshop, %	13.2	13.1	0.1
of which stores, %	1.5	1.7	- 0.2
of which carwash, %	1.2	1.3	- 0.1
of which sales outside of Volvo dealerships, %	32.6	29.6	3.0
of which other (incl. loans and insurance), %	11.9	12.8	- 0.9

TRUCKS

In the Trucks business area, the bank offers both loan and lease 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 has remained strong and 2019 was the best year to date, with 6,652 new vehicle registrations, although Volvo Trucks' market share was slightly lower than in the last few years. The bank's share of financing for new trucks has remained stable, and more than one in two trucks are financed via truck loans, finance leases or operating leases. The financing volume of used cars trailers is 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 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.

	2019	2018	Change
Net interest income*	44,313	39,751	4,562
Commission income	10,387	10,081	306
Commission expense	- 215	- 195	- 20
Net income/expense from financial transactions	80	- 47	127
Other income	665	990	- 325
Operating income	**55,230**	**50,579**	**4,651**
Expenses**	- 35,501	- 37,424	1,923
Credit losses	- 59	- 321	262
Credit risk provision	- 175	338	- 513
Operating profit	**- 19,495**	**13,172**	**6,323**

* 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	2019	2018	Change
Number of contracts	6,490	6,793	- 303
Total volume, SEKm	4,156	4,221	- 65
of which transferred, %	80.3	77.7	2.6
of which pledged, %	19.4	22.3	- 2.9
of which loans, %	77.3	76.8	0.5
of which leasing, %	22.7	23.2	- 0.5
Share of total leases that are operating leases, %	24.4	28.2	- 3.8

Product Information, Card	2019	2018	Change
Number of active accounts Volvo Truck Card, Ø	1,441	1,529	- 88
Total Sales Volvo Truck Card, SEKm	324	364	- 40
of which workshop, %	56.6	56.8	- 0.2
of which stores, %	12.5	12.4	0.1
of which carwash, %	6.1	5.3	0.8
of which other (incl. loans and insurance), %	8.8	7.2	1.6
of which fuel, %	16.1	18.3	- 2.2

FLEET

The Fleet segment 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. The Fleet business area's ambition is to use its market-leading position to achieve economies of scale in administration and purchasing. In 2019, Fleet strengthened its market-leading position with 22.4% of the market in December. The number of agreements has continued to increase at a good pace and has risen by approx. 4% 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 17.6 million (58.8) of a previously made impairment due to residual value risk. Most of last year's reversal, SEK 45.8 million, was due to a new agreement with a buyer of cars in the Fleet business.

	2019	2018	Change
Net leasing *	48,273	32,835	15,438
Change in impairment of residual value	17,551	58,787	- 41,236
Commission income	163,533	117,096	- 46,437
Commission expense	- 755	- 686	- 69
Net income/expense from financial transactions	171	- 101	272
Servicing and repair agreements	56,572	42,289	14,283
Other income	523	310	213
Operating income	**285,868**	**250,530**	**35,338**
Expenses**	- 112,960	- 99,918	- 13,042
Credit losses	- 361	90	- 451
Credit risk provision	9	45	- 36
Operating profit	**172,556**	**150,746**	**21,810**

* 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	2019	2018	Change
Number of financing agreements	35,437	33,713	1,724
Number of administered agreements	- 47,588	45,860	1,728
Total volume, SEKm	- 7,382	7,020	362
of which operating leases, %	68.5	68.4	0.1
of which finance leases, %	31.5	31.6	- 0.1

BALANCE SHEET

NOTE 5. NET INTEREST INCOME

Interest income	2019	2018
Loans and advances to credit institutions	40	13
Loans and advances to customers	544,320	480,944
Debt securities	491	1,525
Other interest income	–	12
Total	**544,851**	**482,494**
Of which interest income from assets recognised at amortised cost	544,843	482,494
Interest expense		
Liabilities to credit institutions	- 21,925	- 22,234
Retail deposits and borrowings	- 140,054	- 102,471
Cost for deposit guarantee scheme	- 20,537	- 7,877
Investments in debt securities	- 2,516	- 10,727
Issued debt securities	- 86,992	- 54,289
Derivatives	- 17,298	- 7,820
Subordinated debts	- 5,601	- 3,231
Other interest expenses	- 40,396	- 48,049
Total	**- 335,319**	**- 256,698**
Of which interest expense from financial assets recognised at amortised cost	- 2,516	- 10,727
Net interest income	**209,532**	**225,796**

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	2019	2018
Lease income from contracts recognised as operating leases	5,659,891	5,318,171
Scheduled depreciation for contracts recognised as operating leases	- 5,247,991	- 4,987,011
Lease income from contracts recognised as operating leases, net	**411,900**	**331,160**

Combined net interest income		
Lease income from finance leases (recognised as operating leases in the balance sheet)	3,267,138	3,004,639
Scheduled depreciation for finance leases (recognised as operating leases in the balance sheet)	- 3,029,371	- 2,817,543
Net lease income from finance leases*	**237,767**	**187,096**
Interest income	544,851	482,494
Interest expense	- 335,319	- 256,698
Combined net interest income**	**447,298**	**412,892**
Total lease and net interest income		
Net lease income from contracts recognised as operating leases	411,900	331,160
Net interest income in accordance with Note 5	209,532	225,796
Total lease and net interest income	**621,432**	**556,956**
Interest margin***, %	1.24	1.21
Average lending rate, %	2.20	1.94
Average deposit rate (incl. cost for deposit guarantee scheme), %	0.78	0.67

* 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

	2019	2018
Shares and interests	308	16,352
Total	**308**	**16,352**

The dividend in 2018 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 consisted of SEK 14 million cash, of which SEK 1 million was a guaranteed future dividend in 2019. The dividend consisted of Series C Convertible Participating Preferred Stock in Visa Inc., and as there were no liquid quoted prices for the instrument its market value was to some extent determined using the bank's own internal assumptions.

NOTE 8. COMMISSION INCOME

	2019	2018
Commission income, credit cards	191,865	189,413
Commission income, loans and leases	247,571	201,426
Total	**439,436**	**390,839**

NOTE 9. COMMISSION EXPENSE

	2019	2018
Payment processing commissions	- 4,664	- 4,340
Other commissions	- 37,505	- 39,575
Total	**- 42,169**	**- 43,915**

NOTE 10. NET INCOME/EXPENSE FROM FINANCIAL TRANSACTIONS*

GAIN/LOSS BY MEASUREMENT CATEGORY INCLUDING EXCHANGE RATE CHANGES

	2019	2018
Derivative assets intended for risk management, no hedge accounting	4,718	19,021
Derivative liabilities intended for risk management, no hedge accounting	- 2,980	- 20, 161
Financial liabilities at amortised cost**	- 1,069	–
Change in fair value of derivatives that are hedging instruments in a fair value hedge	- 932	- 1,423
Change in fair value of hedged item attributable to the hedged risk in a fair value hedge	1,114	2,000
Total	**851**	**- 563**

* Financial assets valued at amortised cost amounted to 0.

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

NOTE 11. OTHER OPERATING INCOME

	2019	2018
Capital gain on disposal of property, plant and equipment	808	630
Servicing and repair agreement income	56,572	42,289
Income from associates	3,426	1,077
Other operating income	7,396	7,728
Total	**68,202**	**51,724**

NOTE 12. GENERAL ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and fees	- 126,561	- 112,160
Social security contributions	- 41,028	- 36,895
Cost for pension premiums*	- 20,050	- 18,108
Payroll tax	- 4,874	- 4,449
Other staff costs	- 5,995	- 4,782
Total staff costs	**- 198,508**	**- 176,394**
Rents and other premises costs	- 15,661	- 12,812
IT costs	- 215,699	- 165,542
Consulting services	- 22,852	- 10,278
Contract staff	- 7,214	- 4,476
Audit	- 1,700	- 1,700
Postage and telephone	- 4,324	- 4,807
Other	- 14,069	- 13,138
Total other general administrative expenses	**- 281,519**	**- 212,753**
Total general administrative expenses	**- 480,027**	**- 389,147**

* Total pension premiums were KSEK 20,091 (18,340), of which KSEK 10,462 (9,741) refer to Alecta ITP 2 pensions. Of the bank's retirement benefit costs, KSEK 4,747 (4,578) refer to the bank's senior executives (11 (10) people). The bank has no outstanding pension obligations.

Expected fees in the next reporting period for ITP2 insurance policies with Alecta are KSEK 9,521 (8,122). 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% and 0.03% respectively. The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policyholders calculated using Alecta's actuarial methods and assumptions, which do not comply with IAS 19. The collective funding ratio should normally be permitted to vary within a range of 125–155%. If Alecta's collective funding ratio were to fall below 125% or exceed 155% it would be necessary to take measures that will enable the ratio return to the normal range. In case of a low collective funding ratio one measure that can be taken is to raise the agreed price for new subscriptions and expansion of the existing benefits. A high collective funding ratio can be addressed by reducing premiums. At year-end 2019, Alecta's surplus in the form of the collective funding ratio was 148% (142).

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

	2019			2018		
	Senior executives (22 people)	Other employees	Total	Senior executives (21 people)	Other employees	Total
Salaries and other remuneration	- 17,230	- 109,331	- 126,561	- 16,355	- 95,805	- 112,160
of which, variable remuneration	(–)	(- 558)	(- 558)	(–)	(- 654)	(- 654)
Total	**- 17,230**	**- 109,331**	**- 126,561**	**- 16,355**	**- 95,805**	**- 112,160**
Social security contributions	- 10,277	- 55,674	- 65,951	- 9,049	- 50,403	- 59,452
of which, retirement benefit costs	(- 4,747)	(- 20,177)	(- 24,924)	(- 4,578)	(- 17,979)	(- 22,557)

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 ten 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
2019					
Chairman of the Board	- 775	–	–	–	- 775
Vice Chairman of the Board	- 525	–	–	–	- 525
Directors (9 people)	- 1,500	–	–	–	- 1,500
CEO	- 2,783	–	- 177	- 1,060	- 4,020
Other senior executives (10 people)	- 11,647	–	- 892	- 3,687	- 16,226
Total	**- 17,230**	**–**	**- 1,069**	**- 4,747**	**- 23,046**
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	- 1,007	- 3,855
Other senior executives (9 people)	- 10,521	–	- 903	- 3,501	- 14,925
Total	**- 16,355**	**–**	**- 1,092**	**- 4,508**	**- 21,955**

REMUNERATION OF THE BOARD OF DIRECTORS

Name	Position (2019/2018)	2019	2018
Urmas Kruusval	Chairman	- 775	- 775
Synnöve Trygg	Vice Chairman	- 525	- 500
Ann Hellenius	Director	- 250	- 250
Anders Gustafsson	Deputy/Director	- 50	- 150
Per Avander	Director	- 300	- 200
Tommy Andersson	Director	- 200	- 400
Patrik Tolf	Director	- 225	- 450
Janola Gustafson	Deputy	- 125	- 100
Björn Rentzhog	Board Member/Deputy member	- 150	- 100
Pascal Bellemans	Deputy	- 50	- 100
Kristian Elvefors	Board Member/Deputy member	- 100	- 150
Jonas Estéen	Deputy	- 50	–
Elisabeth Mosséen	Director	–	–
Total		**- 2,800**	**- 3,175**

Loans to senior executives	2019	2018
Senior executives' loans in the company	152	347
Chief Executive Officer and Executive Vice President	–	–
Directors and Deputy Board members	–	112
Total	**152**	**459**

Loans to senior executives amounted to KSEK 152 (459). The amount of interest for these people amounted to KSEK 3 (8). The terms and conditions of loans to senior executives are the same as for the bank's other employees.

EMPLOYEE INFORMATION

	2019			2018		
	Men	Women	Total	Men	Women	Total
Average number of employees	99	121	220	88	119	207
Gender distribution in management						
CEO	1	–	1	1	–	1
Board	8	3	11	9	2	11
Other senior executives	8	2	10	7	2	9
Number	**17**	**5**	**22**	**17**	**4**	**21**

AUDITORS' FEES AND EXPENSES

KPMG	2019	2018
Audit engagement	- 1,700	- 1,700
Audit services in addition to audit engagement	- 270	- 220
Tax advisory services	- 13	- 25
Other services	- 19	- 97
Total	**- 2,002**	**- 2,042**

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

	2019	2018
Scheduled depreciation and amortisation	- 5,256,135	- 4,993,387
Reversal of impairment losses for the year	17,700	58,862
Impairment	- 9,696	- 7,297
Total	**- 5,248,131**	**- 4,941,822**
Scheduled depreciation and amortisation		
Fixtures and fittings	- 3,755	- 1,991
Lease assets	- 5,247,991	- 4,987,011
Intangible assets	- 4,389	- 4,385
Total	**- 5,256,135**	**- 4,993,387**
Net impairment		
Lease assets	17,503	58,701
Intangible assets	- 9,499	- 7,136
Total	**8,004**	**51,565**

NOTE 14. OTHER OPERATING EXPENSES

	2019	2018
Fees to central organisations	- 3,701	- 3,030
Insurance costs	- 1,368	- 1,259
Marketing costs	- 53,175	- 52,339
Other operating expenses	- 17,577	- 56,099
Total	**- 75,821**	**- 112,727**

NOTE 15. NET CREDIT LOSSES

Loans at amortised cost (incl undrawn portion of limit)	**2019**	**2018**
Change in credit loss provision stage 1	- 222	2,121
Change in credit loss provision stage 2	200	- 466
Net credit losses, non-credit-impaired lending	**- 22**	**1,655**
Change in credit loss provision stage 3	- 638	552
Write-off of actual losses for the period	- 17,658	- 17,567
Recovery of actual credit losses	2,277	2,175
Net credit losses, credit-impaired lending	**- 16,019**	**- 14,840**
Total net credit losses	**- 16,041**	**- 13,185**

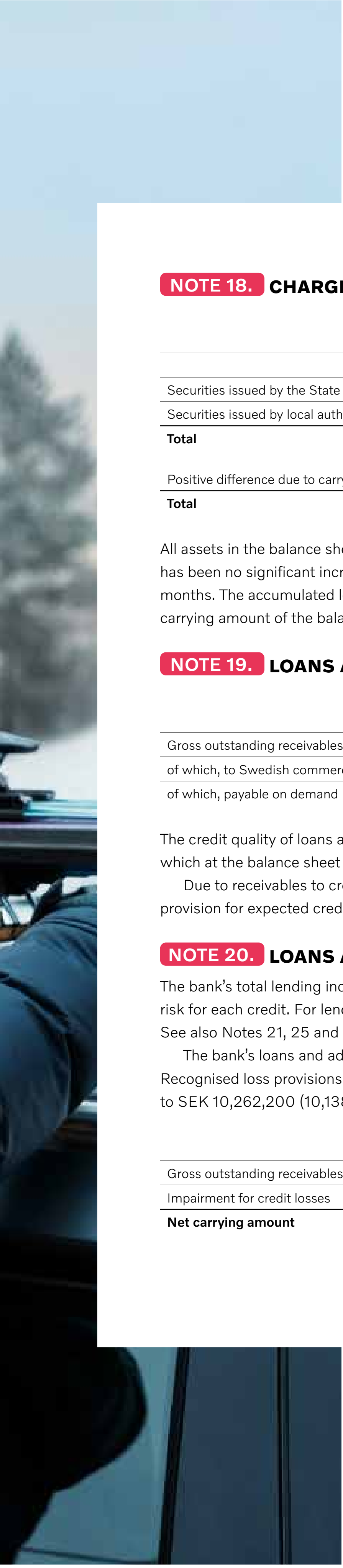
NOTE 16. APPROPRIATIONS

	2019	2018
Accelerated depreciation	- 498,268	- 498,479
Total	**- 498,268**	**- 498,479**

NOTE 17. TAX ON PROFIT FOR THE YEAR

	2019	2018
Tax expense for the year	- 4,661	- 3,320
Total reported tax expense	**- 4,661**	**- 3,320**

Reconciliation of effective tax	**2019**		**2018**	
Profit before tax		- 17,820		3,320
Tax at applicable tax rate	- 21,4%	- 3,814	- 22.0.2%	- 730
Non-deductible expenses	- 4,8%	- 847	- 78.1%	- 2,592
Non-taxable income	–	–	0.1%	2
Reported effective tax	**- 26.2%**	**- 4,661**	**- 100.0%**	**- 3,320**



BALANCE SHEET

NOTE 18. CHARGEABLE TREASURY BILLS, ETC.

	Carrying amount 31 Dec 2019	Carrying amount 31 Dec 2018
Securities issued by the State	–	–
Securities issued by local authorities and other public sector entities	1,429,949	1,245,816
Total	**1,429,949**	**1,245,816**
Positive difference due to carrying amounts exceeding nominal values	- 11,949	5,816
Total	**- 11,949**	**5,816**

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 535.

NOTE 19. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	31 Dec 2019	31 Dec 2018
Gross outstanding receivables in Swedish currency	1,281,290	1,622,571
of which, to Swedish commercial banks	- 1,281,287	1,622,567
of which, payable on demand	1,281,290	1,622,571

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–A3 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 37.93 billion (37.28). The stated values are reduced by impairment for credit risk for each credit. For lending to customers, the values are KSEK 24,987 (24,193) 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 10,262,200 (10,138,183).

	31 Dec 2019	31 Dec 2018
Gross outstanding receivables in Swedish currency	17,303,068	16,946,953
Impairment for credit losses	- 24,987	- 24,193
Net carrying amount	**17,278,081**	**16,922,760**

CHANGES IN RECOGNISED GROSS VALUE AND LOSS PROVISIONS

	Non-credit-impaired		Credit-impaired	
31 Dec 2019	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as at 1 Jan 2019	**16,054,405**	**741,782**	**150,766**	**16,946,953**
Financial assets, new contracts at end of year*	6,144,710	158,894	20,801	6,324,406
Financial assets, completed contracts at beginning of year**	- 2,913,767	- 155,592	- 47,186	- 3,116,546
*Net changes in stage****				
In stage 1	- 2,646,859			- 2,646,859
In stage 2		- 67,366		- 67,366
In stage 3			- 4,057	- 4,057
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 180,625			- 180,625
From and to stage 2 (to and from stages 1 and 3)		92,086		92,086
From and to stage 3 (to and from stages 1 and 2)			- 44,924	- 44,924
Gross carrying amount as at 31 Dec 2019	**16,457,864**	**769,804**	**75,400**	**17,303,068**
Loss provisions				
Loss provision as per 1 Jan 2019	**- 9,275**	**- 8,364**	**- 6,554**	**- 24,193**
Financial assets for new contracts at end of year	- 994	- 348	- 545	- 1,887
Financial assets for completed contracts at beginning of year	377	1,267	4,454	6,097
*Net changes in stage****				
In stage 1	368			368
In stage 2		- 357		- 357
In stage 3			- 18	- 18
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	27			27
From and to stage 2 (to and from stages 1 and 3)		- 362		- 362
From and to stage 3 (to and from stages 1 and 2)			- 4,525	- 4,525
Change in interest reserves			- 138	- 138
Loss provisions as per 31 Dec 2019	**- 9,497**	**- 8,164**	**- 7,326**	**- 24,987**
Opening balance as at 1 Jan 2019	**16,045,130**	**733,418**	**144,212**	**16,922,760**
Closing balance as at 31 Dec 2019	**16,448,367**	**761,640**	**68,074**	**17,278,081**

Gross loans and advances to customers increased by approximately SEK 356 million (444) during the course of the year. This consists of new contracts worth SEK 6.3 billion (6.3). Contracts paid off or contracts withdrawn for another reason (e.g. actual loss) have resulted in the value falling by SEK 3.1 billion (3.0). For contracts that were in place both at the beginning and the end of the year, the gross value has gone down by SEK 2.9 billion (2.8). The largest increase in gross value occurred in stage 1. The increased lending resulted in an increase in provisions for losses of around SEK 1.9 million (2.0), of which the two largest changes refer to assets that were terminated during the year, which resulted in eliminations of SEK 4.5 million (4.8) for assets in stage 3, and to a change in loss provisions for assets transferred to stage 3 during the year of SEK 4.5 million (3.9). For assets with no movement to another stage the net loss provisions remained unchanged (SEK 1.7 million). In 2018, the change in CF for the card limits resulted in a reversal of SEK 4.1 million for the loss provisions. No changes to the risk variables occurred in 2019. The total loss provision for the year was SEK 0.8 million (-2.1), from an opening value of SEK 24.2 million (26.3) to a closing value of SEK 25.0 million (24.2).

31 Dec 2018	Non-credit-impaired Stage 1	 Stage 2	Credit-impaired 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**	**741,782**	**150,766**	**16,946,953**
Loss provisions				
Loss provision as per 1 Jan 2018	**- 11,378**	**- 7,898**	**- 6,976**	**- 26,252**
Financial assets for new contracts at end of year	- 989	- 429	- 596	- 2,014
Financial assets for 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**	**56,833**	**16,476,719**
Closing balance as at 31 Dec 2018	**16,045,130**	**733,418**	**144,212**	**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 in 2018.

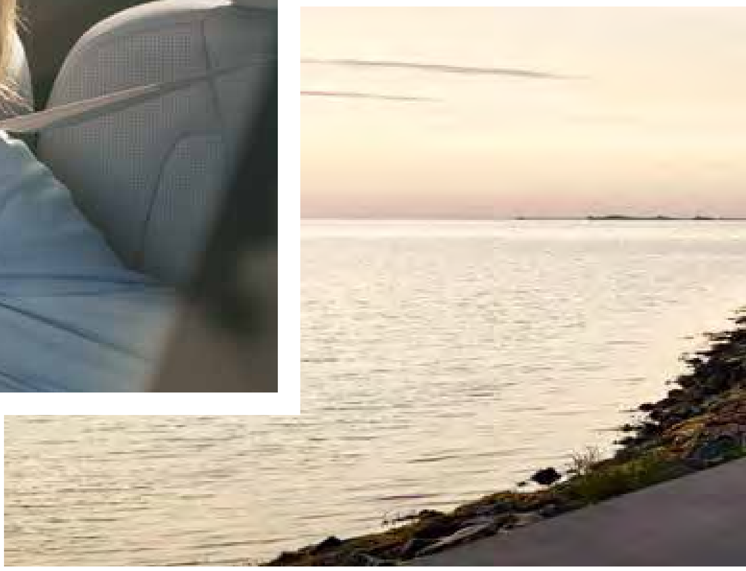
GROSS CARRYING AMOUNT AND LOSS PROVISION – SECTOR BREAKDOWN

	31 December 2019			31 December 2018		
	Gross carrying amount	Loss provision	Net carrying amount	Gross carrying amount	Loss provision	Net carrying amount
Loans and advances to customers						
Retail customers	12,863,443	- 22,831	12,840,612	12,984,330	- 22,386	12,961,943
Corporate customers						
Transport	- 2,423,028	- 919	- 2,422,109	2,338,508	- 751	2,337,758
Sale and service of motor vehicles	- 1,214,120	- 177	1,213,943	875,014	- 174	874,841
Construction	302,891	- 377	302,514	290,060	- 402	289,658
Other loans and advances to companies	499,586	- 683	498,903	459,041	- 481	458,560
Total loans and advances to customers	**17,303,068**	**- 24,987**	**17,278,081**	**16,946,953**	**- 24,193**	**16,922,760**

NOTE 21. BONDS AND OTHER DEBT SECURITIES

	Carrying amount	Carrying amount
Issued by Swedish borrowers	**31 Dec 2019**	**31 Dec 2018**
Mortgage lenders	1,415,612	1,431,707
Non-financial corporations	933,940	800,260
Total	**2,349,552**	**2,231,967**
Positive difference due to carrying amounts exceeding nominal values	15,552	17,967
Total	**15,552**	**17,967**

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 309.



NOTE 22. SHARES AND INTERESTS IN ASSOCIATES AND OTHER COMPANIES

	31 Dec 2019	31 Dec 2018
Unlisted securities		
Carrying amount, 1 January	23,777	20,417
Settlement shares limited partnership previous years	- 15,945	–
Dividend for the year from Visa	0	2,283
Share of profit for the year of limited partnerships	3,426	1,077
Carrying amount, 31 December	**11,258**	**23,777**

	Profit/loss	Equity	Share of equity	Carrying amount
2019				
Visa Inc C	–	–	–	2,331
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Gothenburg	2,351	38,951	12,854	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Gothenburg	374	37,785	2,595	2,595
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Gothenburg	11,942	22,404	3,985	3,985
VCC Försäljnings KB, corp. ID no. 969712-0153, Gothenburg	1,389	116	1,347	1,347
Total	**16,056**	**99,256**	**20,781**	**11,258**
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**

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

The bank owns 33% of Volvohandelns PV Försäljnings AB, 25% of Volvohandelns PV Försäljnings KB, 25% of VCC Tjänstebilar KB and 25% of VCC Försäljnings KB. At the AGM each person entitled to vote has the right to vote the full number of shares represented by him or her.

In 2019, profits of the limited partnerships were settled with the partners.

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	Earnings in 2019
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	–

Shares in wholly owned Group companies	Number of shares	Nom. value	2019	2018
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 2018	134,297	5,759	140,056
Purchases for the year	14,908	–	14,908
Impairment	- 7,136	–	- 7,136
Disposals	- 53,368	- 5,759	- 59,127
Closing balance, 31 Dec 2018	**88,700**	**–**	**88,700**
Opening balance, 1 Jan 2019	88,700	–	88,700
Purchases for the year	7,403	–	7,403
Impairment	- 9,499	–	- 9,499
Disposals	–	–	–
Closing balance, 31 Dec 2019	**86,605**	**–**	**86,605**
Accumulated amortisation			
Opening balance, 1 Jan 2018	- 116,139	- 5,759	- 121,898
Amortisation for the year	- 4,385	–	- 4,385
Disposals	53,368	5,759	59,127
Closing balance, 31 Dec 2018	**- 67,155**	**–**	**- 67,155**
Opening balance, 1 Jan 2019	- 67,155	–	- 67,155
Amortisation for the year	- 4,389	–	- 4,389
Disposals	–	–	–
Closing balance, 31 Dec 2019	**- 71,545**	**–**	**- 71,545**
Carrying amounts			
31 Dec 2018	21,545	–	21,545
31 Dec 2019	**15,060**	**–**	**15,060**

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 2018	20,985	25,819,819	25,840,804
Purchases	6,174	10,553,099	10,559,273
Sales	–	- 7,886,961	- 7,886,961
Disposals	- 2,480	–	- 2,480
Closing balance, 31 Dec 2018	**24,679**	**28,485,957**	**28,510,636**
Opening balance, 1 Jan 2019	24,679	28,485,957	28,510,636
Purchases	9,441	10,204,378	10,213,819
Sales	–	- 9,300,395	- 9,300,395
Disposals	- 7,272	–	- 7,272
Closing balance, 31 Dec 2019	**- 26,848**	**29,389,940**	**29,416,788**
Depreciation			
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**	**- 8,072,903**
Opening balance, 1 Jan 2019	- 18,191	- 8,054,712	- 8,072,903
Depreciation for the year	- 3,755	- 5,247,991	- 5,251,746
Sales	–	- 4,618,121	- 4,618,121
Disposals	7,231	–	7,231
Closing balance, 31 Dec 2019	**- 14,715**	**- 8,684,582**	**- 8,699,297**
Impairment			
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**
Opening balance, 1 Jan 2019	–	- 74,221	- 74,221
Reversal of impairment losses for the year	–	17,700	17,700
Impairment for the year	–	- 196	- 196
Closing balance, 31 Dec 2019	**–**	**- 56,717**	**- 56,717**
of which, impairment of residual value risk	(–)	(- 56,373)	(- 56,373)
Carrying amounts			
1 Jan 2018*	2,300	18,635,450	18,637,750
31 Dec 2018	**6,488**	**20,357,024**	**20,363,512**
1 Jan 2019	6,488	20,357,024	20, 363, 512
31 Dec 2019	**12,133**	**20,648,640**	**20,660,773**

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

NOTE 26. OTHER ASSETS

	31 Dec 2019	31 Dec 2018
Positive value of derivatives	11,022	12,999
Current tax asset	67,252	692
Trade receivables	701,270	735,720
of which non-cancellable lease income	(674,615)	(611,281)
Other assets	156,498	137,717
Total	**936,042**	**887,128**

Trade receivables are offset against a credit risk provision of KSEK 31 (28) and an interest reserve of KSEK 2 (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 11.0 million (13.0) and the value of derivative liabilities including accrued interest is SEK 11.1 million (37.2).

2019 **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	3,750	211,411	–	215,161	292	–
Currency-related contracts						
Swaps (NOK)	–	649,500	–	649,500	–	- 9,757
Total	**3,750**	**860,911**	**–**	**864,661**	**292**	**- 9,757**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	1,150,000	700,000	–	1,850,000	10,730	- 1,313
Currency-related contracts						
Swaps (NOK)	–	–	–	–	–	–
Total	**1,150,000**	**700,000**	**–**	**1,850,000**	**10,730**	**- 1,313**
Total	**1,153,750**	**1,560,911**	**–**	**2,714,661**	**11,022**	**- 11,070**
Breakdown of market value by currency						
SEK	1,153,750	911,411	–	2,065,161	11,022	- 1,313
NOK	–	649,500	–	649,500	–	- 9,757
Total	**1,153,750**	**1,560,911**	**–**	**2,714,661**	**11,022**	**- 11,070**

2018 **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	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**

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	10,730		Other assets	- 1,731
Derivatives, negative values	500,000		1,313	Other liabilities	- 184
Total	**1,850,000**	**10,730**	**1,313**		**- 1,915**

Ineffectiveness amounts to KSEK - 87 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	1,853,309	3,309	1,828	–

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

HEDGE INEFFECTIVENESS RECOGNISED IN 2019 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	1,828	Net income/expense from financial transactions
Hedging instruments		
Interest rate swaps	- 1,915	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 effectiveness 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 2019	31 Dec 2018
Prepaid expenses	38,038	23,868
Accrued interest income	5,137	5,211
Other accrued income	24,071	21,664
Total	**67,246**	**50,743**

NOTE 29. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

BREAKDOWN BY CURRENCY

2019	SEK	NOK	Total
Liabilities to credit institutions	1,592,857	–	1,592,857
Securities issued	12,453,012	638,725	13,091,737
Total	**14,045,869**	**638,725**	**14,684,594**

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**

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 2019	31 Dec 2018
Public sector	65	60
Corporate sector	3,636	16,359
Retail sector	20,519,353	17,135,362
of which, individual business owners	(4,111,464)	(3,356,536)
Other	87	132
Total deposits	**20,523,141**	**17,151,913**

RETAIL BORROWINGS

Borrowings by customer category	31 Dec 2019	31 Dec 2018
Corporate sector	693,594	1,066,453
Other	–	–
Total borrowing	**693,594**	**1,066,453**
of which, Group companies	(6,789)	(6,789)
of which, associates	(257,718)	(210,261)
Total retail deposits and borrowings	**21,216,735**	**18,218,366**

NOTE 31. OTHER LIABILITIES

	31 Dec 2019	31 Dec 2018
Negative value of derivatives	11,070	37,196
Trade payables	694,241	520,307
Liability to customer	109,067	113,007
Other liabilities	441,304	408,863
Total	**1,255,682**	**1,079,373**

NOTE 32. ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2019	31 Dec 2018
Accrued interest expense	19,838	15,914
Other accrued expenses	113,536	100,662
Deferred income	1,172,679	1,186,408
Total	**1,306,053**	**1,302,984**

NOTE 33. SUBORDINATED DEBTS

	Currency	Nominal	Interest rate	Maturity date	Carrying amount 2019	Carrying amount 2018
Debentures	SEK	400,000	STIBOR 90 + 1.45%	11 Apr 2028	400,000	400,000
Total	**–**	**–**	**–**	**–**	**400,000**	**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 2019	31 Dec 2018
Accumulated accelerated depreciation		
Opening balance, 1 January	4,128,190	3,629,711
Change for the year	498,268	498,479
Closing balance, 31 December	**4,626,458**	**4,128,190**

NOTE 35. EQUITY

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

DIVIDEND

The dividend recognised during the year was KSEK 98,604 and equates to SEK 98.60 per share. The Board of Directors proposes to the Annual General Meeting 2020 that no dividend be paid.

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.

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.

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 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair value**	**Total Carrying amount**
Chargeable treasury bills, etc.	1,428,339	–	–	**1,428,339**	**1,429,949**
Loans and advances to credit institutions	–	–	1,281,290	**1,281,290**	**1,281,290**
Loans and advances to customers	–	17,286,480	–	**17,286,480**	**17,278,081**
Bonds and other debt securities	1,414,820	933,940	–	**2,348,760**	**2,349,552**
Other assets*	–	11,022	925,020	**936,042**	**936,042**
Prepaid expenses and accrued income	–	–	67,246	**67,246**	**67,246**
Total	**2,843,159**	**18,231,442**	**2,273,556**	**23,348,157**	**23,342,160**

Liabilities 2019	**Level 1**	**Level 2**	**Level 3**	**Total Fair value**	**Total Carrying amount**
Liabilities to credit institutions	–	1,611,386	–	**1,611,386**	**1,592,857**
Retail deposits and borrowings	–	21,216,735	–	**21,216,735**	**21,216,735**
Securities issued	–	13,202,874	–	**13,202,874**	**13,091,737**
Other liabilities*	–	11,070	1,244,612	**1,255,682**	**1,255,682**
Accrued expenses and deferred income	–	–	1,306,053	**1,306,053**	**1,306,053**
Subordinated debts	–	403,205	–	**403,205**	**400,000**
Total	**–**	**36,445,270**	**2,550,665**	**38,995,935**	**38,860,064**

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.

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 11 million and the liabilities to SEK 11.1 million. At 31 December 2019, the bank had received collateral of SEK 8.5 million and provided collateral of SEK 18.2 million.

CARRYING AMOUNTS BY CATEGORY

Assets 31 Dec 2019	Financial assets recognised at amortised cost	Derivatives in hedge accounting	Other assets*	Total	Fair value
Chargeable treasury bills, etc.	1,429,949	–	–	1,429,949	1,428,339
Loans and advances to credit institutions	1,281,290	–	–	1,281,290	1,281,290
Loans and advances to customers	17,278,081	–	–	17,278,081	17,286,480
Bonds and other debt securities	2,349,552	–	–	2,349,552	2,348,760
Shares and interests in associates and other companies	–	–	11,258	11,258	–
Shares and interests in Group companies	–	–	6,742	6,742	–
Intangible assets	–	–	15,060	15,060	–
Property, plant and equipment, fixtures and fittings	–	–	12,133	12,133	–
Property, plant and equipment, lease assets	–	–	20,648,640	20,648,640	–
Other assets	701,270	10,730	224,042	936,042	936,042
Prepaid expenses and accrued income	67,246	–	–	67,246	67,246
Total assets	**23,107,388**	**10,730**	**20,917,875**	**44,035,993**	

Liabilities 31 Dec 2019	Non-financial liabilities	Derivatives in hedge accounting	Other financial liabilities**	Total	Fair value
Liabilities to credit institutions	–	–	1,592,857	1,592,857	1,611,386
Retail deposits and borrowings	–	–	21,216,735	21,216,735	21,216,735
Securities issued	–	–	13,091,737	13,091,737	13,202,874
Other liabilities	441,304	1,313	813,065	1,255,682	1,255,682
Accrued expenses and deferred income	1,286,215	–	19,838	1,306,053	1,306,053
Subordinated debts	–	–	400,000	400,000	403,205
Total liabilities	**1,727,519**	**1,313**	**37,134,232**	**38,863,064**	

* Derivatives not designated as hedging instruments are included in the row other assets and total KSEK 293.

** Derivatives not designated as hedging instruments are included in the row other liabilities and total KSEK 9,757.

Assets 31 Dec 2018	Financial assets recognised at amortised cost	Derivatives	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**	

* Derivatives not designated as hedging instruments are included in the row other assets and total KSEK 100.

** Derivatives not designated as hedging instruments are included in the row other liabilities and total KSEK 35,788.

NOTE 37. PLEDGED ASSETS AND CONTINGENT LIABILITIES

	2019	2018
Pledged assets	–	–
Contingent liabilities	–	–

In 2018, Volvofinans Bank AB charged SEK 45.4 million to the income statement in 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. In December 2019, the Administrative Court rejected the bank's appeal.

In January 2020, the ruling was appealed to Administrative Court of Appeal.

NOTE 38. OPERATING LEASES

OPERATING LEASES WHERE THE BANK IS THE LESSEE

Expensed payments for operating leases amount to:

	2019	2018
Annual lease payments	14,634	11,333
– Of which minimum lease payments	14,008	10,694
– Of which variable payments	626	639

The future non-cancellable lease payments are as follows:

	2019	2018
Within 1 year	14,624	12,979
Between 1–3 years	29,201	27,030

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

While the recent outbreak of the novel coronavirus (COVID-19) makes it difficult to assess the outlook for the Swedish economy, the outbreak had not had a material impact on the bank's financial position, earnings or cash flow at the time of publication of this annual report. The Board of Directors proposes that the dividend proposed to the AGM 2020, as previously communicated in the year-end report, not be paid. This has had an impact on the bank's capital base, which has increased. The key ratios capital ratio, Common Equity Tier 1 capital ratio and leverage ratio have thereby also increased.

NOTE 40. RELATED PARTIES

The Swedish Volvo dealerships own 50% of the bank via their holding company AB Volverkinvest, while Volvo Personvagnar AB owns 50% 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	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Assets	6,742	6,742	22,763	24,689	1,227,996	1,260,708
Liabilities	6,789	6,789	262,102	214 948	118,207	295,532
Income statement	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Interest income	–	–	815	478	6	23
Lease income	–	–	–	–	342,630	343,707
Interest expense	–	–	- 52	- 27	- 20	- 38
Commission income	–	–	–	–	1,776	1,938
Other operating income	–	–	3,426	1,077	–	–
Total	**–**	**–**	**4,189**	**1,528**	**344,392**	**345,630**

NOTE 41. SPECIFICATION TO CASH FLOW STATEMENT

	2019	2018
The following components are included in cash equivalents:		
Loans and advances to credit institutions	1,281,290	1,622,571
Total	**1,281,290**	**1,622,571**

	31 Dec 2019	31 Dec 2018
Interest paid and dividends received included in cash flow from operating activities:		
Dividend received	308	16,352
Interest received	539,714	477,283
Interest paid	315,481	240,784

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, 29 March 2020

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Vice Chairman of the Board

Per Avander
Director

Kristian Elvefors
Director

Ann Hellenius
Director

Elisabeth Mosséen
Director

Björn Rentzhog
Director

Conny Bergström
CEO

We submitted our audit report on 29 March 2020

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 2019 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 12–102 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 2019, 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 accounting policies in Note 3.19 and Note 20 for detailed disclosures and a 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 17,278 million as at 31 December 2019, which corresponds to approx. 39% of the bank's total assets. The bank's provision for expected credit losses amounts to SEK 25 million (previous year SEK 24.2 million).

The model for provision for expected credit losses is based on the financial reporting standard IFRS 9. The model is based on a collective assessment basis in which the credits are divided into three stages based on assessed credit risk.

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.

KPMG

Impairment of operating lease assets
See Accounting policies in Note 3.22 and other related disclosures on impairment in Note 25 for detailed disclosures and a description of the area.

Description of the key audit matter

The carrying amount of the company's operating leases, which are directly guaranteed by Volvofinans Bank AB (publ), as at 31 December 2019 stood at SEK 4,336 million, which corresponds to approx. 9.8% of the company's total assets. The company recognised impairment losses of SEK 56.4 million (previous year SEK 73.9 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 14–23.

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 2019 and the proposed appropriation of the company's profit or loss.

We recommend to the Annual General Meeting that the profit be appropriated as proposed in the Directors' Report and that the members of the Board and the Chief Executive Officer be discharged from liability for the financial year.

Basis for opinion

We have conducted our audit in accordance with generally accepted auditing standards in Sweden. Our responsibility in accordance with this is described in greater detail in the section Auditor's responsibilities. We are independent in relation to Volvofinans Bank AB (publ) in accordance with good auditing practices in Sweden and have fulfilled our ethical responsibilities in accordance with these requirements.

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

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

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

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

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

Auditor’s responsibilities

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

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

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

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

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

Auditor’s review of the Corporate Governance Report

The Board of Directors is responsible for the Corporate Governance Report on pages 14-21 and for ensuring that it has been prepared in accordance with the Swedish Annual Accounts Act.

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

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, paragraph 2, items 2-6 of the Swedish Annual Accounts Act and Chapter 7, Section 31(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.

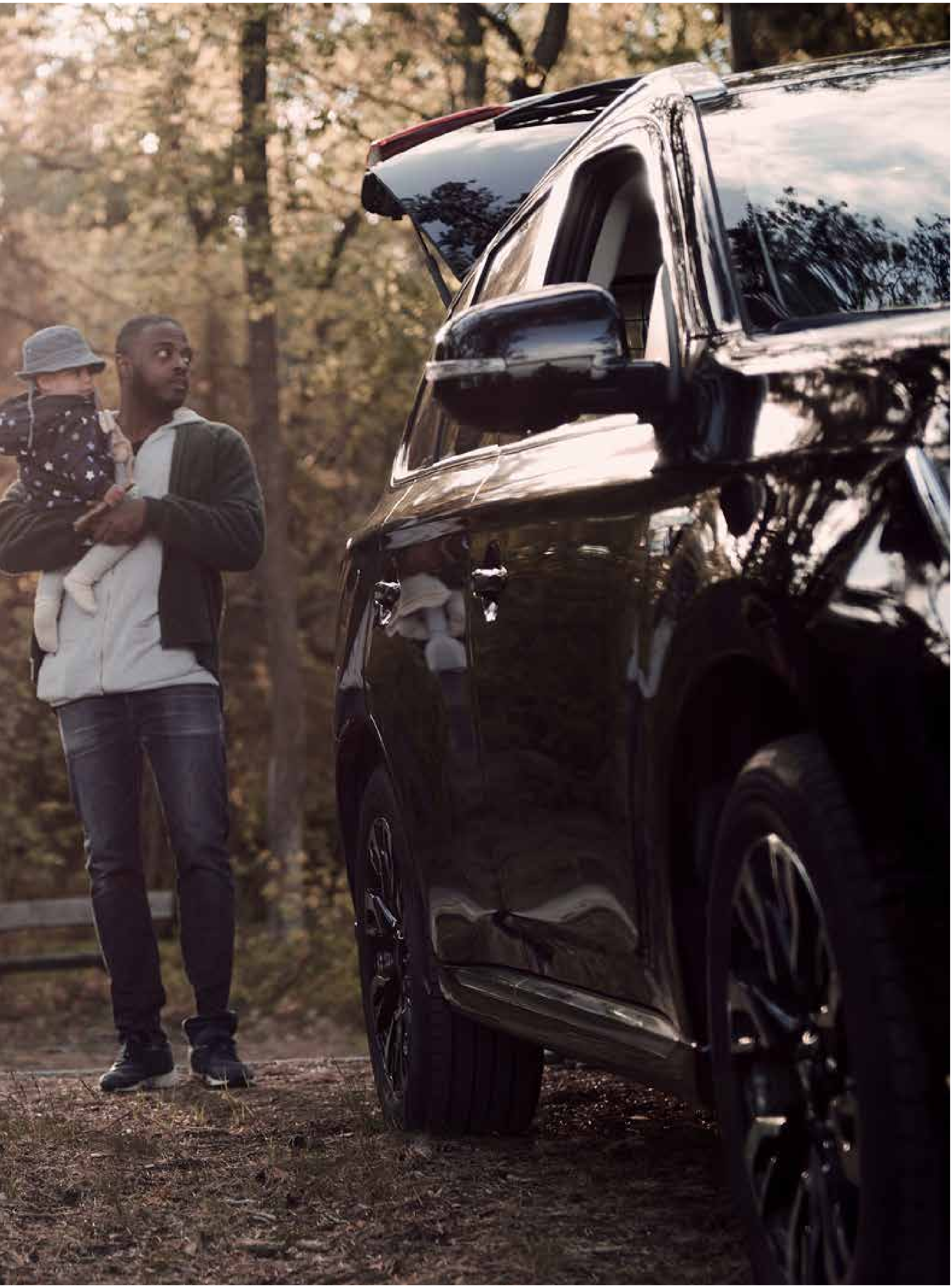
We conducted our audit in accordance with FAR's auditing standard RevR. 12 The auditor´s opinion regarding the statutory sustainability report. This means that our review of the Sustainability Report has a different aim and is of significantly smaller scope than the aim and scope of an audit in accordance 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 12 June 2019.
KPMG AB or auditors working at KPMG AB have been the company’s auditor since 1983.

Gothenburg, 29 March 2020
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

Per Avander
CEO, AB Bilia

Kristian Elvefors
CEO of Volvo Car UK

Ann Hellenius
Director

Elisabeth Mossén
Group Treasurer Volvo Cars

Björn Rentzhog
CEO and President, AB Persson Invest

DEPUTY BOARD MEMBERS

Pascal Bellemans
Vice President, Head of Volvo Car Financial Services

Jonas Estéen
CEO and owner of Bilkompaniet Mora Leksand Malung AB

Janola Gustafson
Chairman of the Volvo Dealers Association

Anders Gustafsson
Head of Volvo Car Americas Region

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

Andreas Bondesson
Chief Credit Officer

Björn Stenport
General Counsel

Joel Graffman
Marketing & Sales Director, Cars

Johan Linder
Marketing & Sales Director, Fleet

Per Lindahl
Marketing & Sales Director, Trucks

Margareta Johansson
Director of Human Resources

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