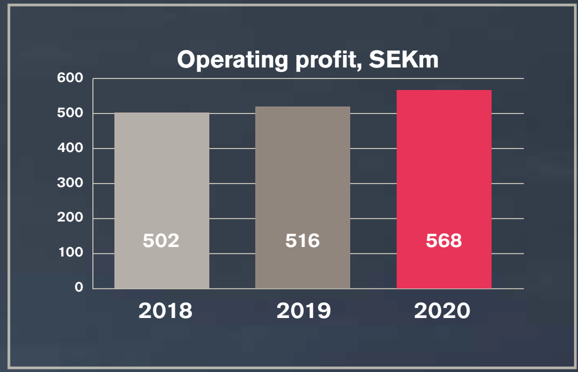
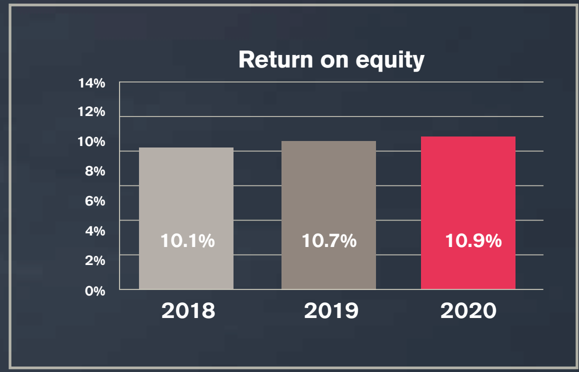
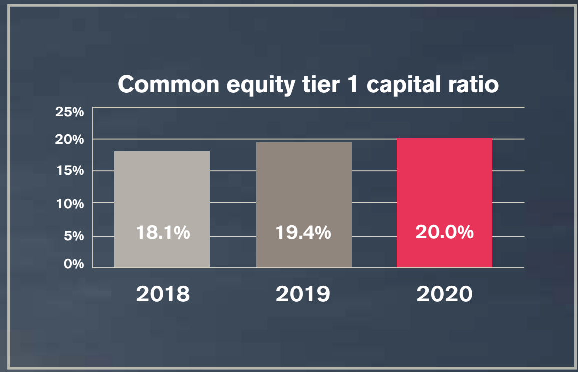
ANNUAL REPORT
2020

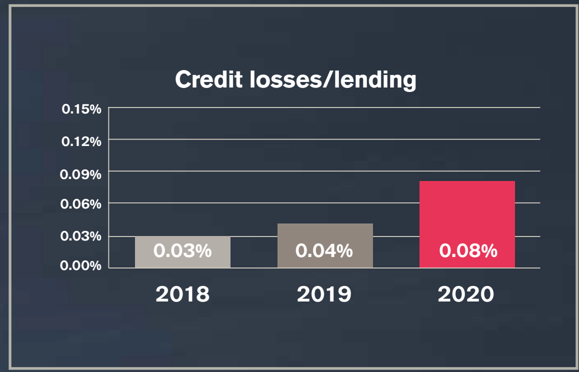
VOLVOFINANS BANK

SUMMARY
JAN–DEC 2020









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

Production: Circus Reklambyrå **Printing:** Alfredssons

Paper: Nautilus Super White. Made from 100% recycled fibres. Environmentally certified according to FSC (standard for sustainable and responsible forestry), ISO 14001 and EU Ecolabel.

VOLVOFINANS BANK

ANNUAL REPORT 2020

Introduction and financial statements

8 **Message from the CEO**
10 **Sweden's Volvo dealerships in 2020**
12 **Directors' Report**
Group structure
Significant events during the financial year
Information on risks and uncertainties
Volumes/lending
13 Performance
Credit risks and credit losses
CAPITAL RAISING
14 Rating
Events after the balance sheet date
Expected future developments
Corporate governance report
22 **Sustainability report**
26 Personnel
Remuneration
27 Appropriation of profits
Capital base
28 Five-year summary
30 **Income statement**
31 **Balance sheet**
32 Changes in equity
33 **Cash flow statement**

Notes

36 Note 1. Information about the bank
Note 2. Risk and capital management
37 Credit risk
39 Future regulations
55 Counterparty risk
56 Encumbered assets
57 Concentration risk
Market risk
60 Currency risk
Residual value risk
Equity risk in other operations
Operational risks
61 Pension risks
Liquidity risk
64 Strategic risks
Reputational risks
65 Capital adequacy analysis
72 Note 3. Accounting policies
82 Note 4. Segment reporting

Income statement
86 Note 5. Netinterest income
Note 6. Lease income and combined net interest income
Note 7. Dividends received
Note 8. Commission income
87 Note 9. Commission expense
Note 10. Net income/expense from financial transactions*
Note 11. Other operating income
Note 12. General administrative expenses
90 Note 13. Depreciation, amortisation and impairment of property, plant and equipment and intangible assets
Note 14. Other operating expenses
Note 15. Net credit losses
91 Note 16. Appropriations
Note 17. Tax on profit for the year

Balance sheet
93 Note 18. Chargeable treasury bills, m m
Note 19. Loans and advances to credit institutions
Note 20. Loans and advances to customers
96 Note 21. Bonds and other interest-bearing securities
97 Note 22. Shares and interests in associates and other companies
98 Note 23. Shares and interests in Group companies
Note 24. Intangible assets
99 Note 25. Property, plant and equipment, fixtures and fittings, and lease assets
102 Note 26. Other assets
107 Note 27. Derivatives – Assets and liabilities
108 Note 28. Prepaid expenses and accrued income
109 Note 29. Liabilities to credit institutions and securities issued
Note 30. Retail deposits and borrowings
Note 31. Other liabilities
Note 32. Accrued expenses and deferred income
110 Note 33. Subordinated debts
Note 34. Untaxed reserves
Note 35. Equity
Note 36. Carrying amount by category of financial instrument and fair value disclosures
113 Note 37. Operating leases
114 Note 38. Subsequent events
Note 39. Related parties
Note 40. Specification to cash flow statement

116 **Signatures of the Board of Directors**
118 **Auditor's report**
122 **Board of Directors, auditor and senior executives**

INTRODUCTION AND FINANCIAL STATEMENTS

COMMENTS FROM THE CEO

2020 was a historic year for Volvofinans Bank in a number of ways. One perspective is the fact that, for the vast majority of our employees, the ongoing pandemic has caused us to run our operations from outside our business offices.

At the same time, we have genuinely had the opportunity to try out in practice our action plans for dealing with acute emergencies. The scenarios we have trained for on numerous occasions in the past have also proven to be successful in practice. In parallel with this, the Government, the National Debt Office and the Riksbank, through rapid financial and monetary policy measures, have launched bailouts and initiatives aimed at mitigating the negative economic consequences of the crisis.

Another perspective is that the combined actions and efforts of all concerned have enabled Volvofinans Bank to achieve record results in historical terms. Operating profit increased by 10% to SEK 568 million, mainly through a combination of higher net interest income, a good used car market, as well as lower costs thanks to a savings programme. For most of the first half of 2020, we enjoyed a favourable interest rate situation, which resulted in lower borrowing costs for the bank. Although we remain highly vigilant about the side-effects of the crisis, especially in certain sectors, we are now returning to our ongoing, very robust investment plan. The aim of this is to secure our ambitious goal of becoming the automotive industry's best payment and financing partner in the field of mobility.

Lending has decreased slightly overall, although the losses recorded in spring have been replaced by good growth in lending during the autumn. Actual credit losses have increased by approximately SEK 3 million and impairment for anticipated future losses has been conducted at SEK 13 million during the year. The bank's strong capital situation has been further reinforced and our Common equity tier 1 capital ratio is now up to 20%.

Of Volvofinans Bank's business areas, Cars and in particular Fleet are contributing better than anticipated results. Trucks is performing at the expected level, despite extremely tough market conditions. All businesses are reducing their costs and improving their net interest income. Fleet represents the most significant improvement in earnings, where the high level of demand for used cars has benefited our car sales.

Our owners and partners have been operating under unique market conditions, with parts of the business having been closed down at times to reduce the risk of infection during the pandemic. For Volvo Cars, a tough first half-year has been replaced by global sales growth during the second half of the year. The Swedish market share fell slightly to 18.0% (18.3). Polestar launched its first volume model, the Polestar 2, on the Swedish market in August, followed by a European launch. Renault, together with Dacia, is also continuing its exciting development plans, even though the company has lost -1.2 percentage points in market share in 2020. The overall Swedish market reported 292,024 registrations, a decrease of 18% or 64,000 cars. The share of rechargeable cars increased to an impressive 32% (11).

In the heavy trucks market (>16 tonnes), registrations decreased by 25% to 4,960. However, in a declining market, Volvo Trucks still managed to increase its market share by 2.6 percentage points to 42.2%. Volvo dealers have maintained a relatively high level of business during the year, particularly when it comes to servicing and workshop services. Following a dramatic decline in April and May, car sales have also recovered during the remainder of the year, especially in terms of used cars. All in all, this also means that the bank's co-owners, our car dealers, are generally reporting very good results.

The sharp increase in new car sales for rechargeable cars is a clear sign of the shift towards electrified cars. However, there is a considerable amount of uncertainty among customers as to which powertrain to choose, particularly when it comes to business customers. As a result, customers are requesting advice in this area, and we are working intensively on this within the framework of our Fleet operation. Of course, access to charging is one very important key to increasing sales of fully electrified cars. Through our payment concept, CarPay, which now has in the region of 600,000 customers, we are now making major investments along with our partners. By creating unique and highly flexible payment options in our successful CarPay app, we are aiming to further support this vital transformation in order to make it easier to choose an electric car.

"The sharp increase in new car sales for rechargeable cars is a clear sign of the shift towards electrified cars."

Furthermore, Volvofinans Bank has benefited from the high demand on the financial markets for so-called green bonds during the autumn, where the proceeds from our issue have refinanced contracts with green cars. In addition to favourable financing costs, this is a way for the Bank to contribute to the green transformation.

The entire automotive industry is experiencing a major, exciting period of transition, which has been further accelerated during 2020 as a result of the pandemic and changing customer behaviour. New opportunities are being created where electrified, connected cars can be shared between different customers. These cars are connected to workshops, which can monitor the state of the car's health. The cars can be ordered directly from the factory by customers in a seamless customer journey, where manufacturers and dealers interact. In this new market situation, it will also be important to offer payments that match the new customer journeys. Volvofinans is therefore continuing to invest heavily in digital capabilities that provide the opportunity to fulfil the bank's customer promise of "Smarter Car Payments". In a situation where mobility is the keyword for all parties, our incredibly committed employees are continuing to work tirelessly to become "The Mobility Bank" in the automotive industry.

Conny Bergström
CEO
Volvofinans Bank AB

JAN–DEC 2020 IN SUMMARY

Operating profit:
SEK 568 million (516)

Return on equity:
10.9% (10.7)

Lending at 31 December:
SEK 37.7 billion (37.9)

Credit losses:
SEK 32.0 million (16.0)

Common equity tier 1 capital ratio:
20.0% (19.4)

SWEDEN'S VOLVO DEALERSHIPS 2020

A COMPREHENSIVE SALES NETWORK

Sweden's Volvo dealers form a nationwide retail network that includes 53 privately owned dealerships and two listed dealerships with around 238 sales outlets and over 252 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, 41, only sell passenger cars, while 17 only sell trucks ("heavy" trucks >16 tonnes).

SWEDEN'S VOLVO DEALERSHIPS IN 2020 IN FIGURES

Net sales in the Volvo dealer network in 2020 amounted to approximately SEK 49 billion, with earnings totalling around SEK 2 billion.

A BROADER BUSINESS

Sweden's Volvo dealers have a broad product range on the vehicle market, covering everything from the sale of passenger cars and delivery vehicles to heavy trucks and buses, with the associated aftersales market. Through the Volvo dealer network, the Bank thus gains access to a large domestic market.

VOLVOFINANS BANK AND THE VOLVO DEALERS

One of the bank's missions 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 58 dealers have the highest possible credit rating.

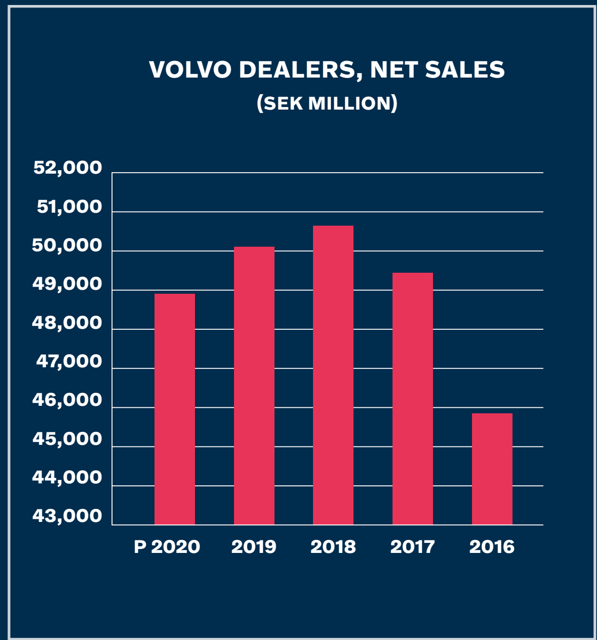
YEAR	AAA	AA	A	B	NEW	NUMBER
2020	71%	22%	5%	2%	–	58
2019	71%	24%	5%	–	–	59
2018	73%	22%	5%	–	–	59
2017	84%	12%	4%	–	–	58
2016	76%	20%	4%	–	–	59

SWEDEN'S VOLVO DEALERSHIPS FIVE-YEAR SUMMARY

(AMOUNTS IN SEK MILLION)

NET SALES AND EARNINGS	Forecast 2020	2019	2018	2017	2016
Net sales Cars	43,854	44,061	44,082	43,402	40,628
Net sales Trucks	5,094	6,178	6,569	6,110	5,233
Profit after net financial items Cars	1,756	1,636	1,300	1,427	1,537
Profit after net financial items Trucks	261	291	302	288	268
Total net sales	**48,948**	**50,239**	**50,650**	**49,511**	**45,860**
Total profit after net financial items	**2,017**	**1,926**	**1,602**	**1,715**	**1,804**
KEY PERFORMANCE INDICATORS					
Equity/assets ratio (%) Cars	34	34	35	33	34
Equity/assets ratio (%) Trucks	42	42	43	41	44
Return on equity (%) Cars	43	36	40	44	53
Return on equity (%) Trucks	35	27	34	38	41

Note: The figures for 2020 are based on forecasts, since final annual reports were not available at the time of publication.



DIRECTORS' REPORT

The Board of Directors and Chief Executive Officer of Volvofinans Bank AB (publ) hereby present their report on operations for 2020. 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 § 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

COVID-19

Covid-19 has had a global impact during the year, both from a humanitarian and an economic perspective. For Volvofinans, the bank's income statement and balance sheet have been affected in respect of expected credit losses (ECL) as well as earnings from the sale of cars at the end of operating leases. Macroeconomic forecast parameters such as unemployment and bankruptcy rates, as well as behavioural variables, have generated impairment for expected credit losses amounting to SEK 13 million. Actual credit losses have not been significantly affected by Covid-19. In April, Bil Sweden revised its forecast for new registrations of passenger cars down from 330,000 to 270,000 cars as a direct result of the deteriorating economic situation due to Covid-19.

Volvo Cars and other car manufacturers closed factories in April, reducing supply and the potential to finance new cars in the short term. From the middle of May, however, all of Volvo's factories have been up and running.

There has been high demand for used cars in 2020, partly because many have chosen to manage the risks of using public transport by acquiring a used car. The increased demand for used cars has resulted in higher prices, which has meant increased earnings for the bank through the sale of cars at the end of operating leases. After a slightly better than anticipated autumn in terms of sales, the total number of newly registered cars in Sweden ended up at 292,000 for the whole of 2020.

The second wave of Covid-19 in autumn 2020 has increased uncertainty in the economy, while the launch of vaccination programmes has reduced this to some extent. Due to the current uncertainty, the bank has increased its impairment of operating lease assets by SEK 38 million in Q4, which subsequently amounts to a total of SEK 80 million.

INFORMATION ON RISKS AND UNCERTAINTIES

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

VOLUMES/LENDING

At year-end, there were 243,919 contracts (253,365) in the bank's loan and lease portfolios, corresponding to a decrease of 3.7% 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, %	2020	2019	2018	2017	2016
New cars	51	51	52	53	54
Used cars	38	38	36	36	36
New trucks	52	54	54	57	54

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

The bank's lending, including leases, stood at SEK 37.7 billion (37.9) at year-end, a decrease of 0.5% 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.

	2020 SEK billion	%	2019 SEK billion	%	Change, SEK billion
Sales finance					
– Cars	32.7	87	32.5	86	0.2
– Trucks and Buses	3.2	8	3.2	8	–
Inventory credits	0.2	1	0.4	1	-0.2
Credit card credits	1.6	4	1.8	5	-0.2
Total	**37.7**	**100**	**37.9**	**100**	**-0.2**

Volvo Car Leasing decreased by SEK 0.6 billion, or 6%, and Volvo Car Loans and Volvo Truck Loans decreased by SEK 0.2 billion, or 2%. The financing of Polestar that has been added in 2020 amounts to SEK 226 million. Collateral assignment, where Volvo dealers have a credit with underlying loan contracts or leasing contracts as collateral, decreased by SEK 300 million or 75%.

The lending volume amounted to SEK 37.7 billion, compared to SEK 37.9 billion in the previous year. Truck's share of this lending amounted to SEK 3.4 billion (3.4), which corresponds to 9% (9) of total lending. Fleet's share of lending was SEK 8.4 billion (7.4) or 22% (19), while Volvo Card's share was 4% (5) or SEK 1.6 billion (1.8). The remainder, SEK 24.3 billion (25.4), related to the financing of passenger cars within Cars, corresponding to 65% (67) of the lending.

The volume of credit card credits was slightly lower compared to the previous year. Net sales through Volvo Card amounted to SEK 13.8 billion (15.1), and there were 28.0 (30.2) million card purchases during the year.

The number of corporate customers for whom CarPay Fleet handles car administration increased during the year, with 47,741 cars (47,588) being administered at year-end.

Net sales through the Volvo Truck Card were down year on year, with goods and services purchased in 2020 using the 14,498 cards (16,433) totalling SEK 270 million (324).

PERFORMANCE

The bank's earnings after credit losses amounted to SEK 568.2 million (516.1), which is 10% higher than the previous year. Net interest income is higher than the previous year, mainly due to lower borrowing costs. The bank's cost programme has reduced the bank's expenses by 12% during the year. Profit for the year has been burdened with increased impairment losses due to anticipated future credit losses of SEK 12.7 million, see section below.

Market prices for used cars have been very volatile during the year, as reflected in the bank's impairment testing of cars used for operating leases.

CREDIT RISKS AND CREDIT LOSSES

Out of the bank's total lending for vehicle finance, 75% (76) 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 vehicle seller 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 2020, the breakdown of loan and lease contracts was as follows. The unencumbered portion of outstanding contracts at year-end was SEK 2.9 billion (2.8).

	Loans	Leases	Total
Number of contracts	122,598	121,321	**243,919**
Average contract, SEK '000	122	197	**159**
Collateral value, SEKm	14,952	23,949	**38,901**
Credit used, SEK million	14,422	21,540	**35,962**
Loan-to-value ratio, %	96	90	**92**

Inventory financing requiring 100% collateral accounts for 0.5% (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 25% (24), of which 21% (19) refers to sales finance and 4% (5) to credit card credits.

Receivables which are more than 90 days overdue amounted to SEK 220.1 million (106.3) and consisted of loans and leases of SEK 214.7 million (93.4), of which SEK 211.5 million (90.2) referred to contracts under which the bank has a right of recourse against Volvo dealers, and credit card receivables of SEK 5.4 million (13.0), accounting for 0.3% (0.7) of total credit card lending.

The value of credit card receivables, SEK 1.6 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 3,880 (3,956).

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 2020 are shown in the table below.

Nominal amounts in SEKm	Limit	Drawn
Nordic commercial paper programme	8,000	300
MTN programme	20,000	11,871
Short-term financing facilities with banks	3,155	–
Long-term financing facilities with banks	2,981	1,231
Retail deposits	–	22,309
Risk capital	–	400
Total	**34,136**	**36,111**

Deposits to the bank's savings account increased by SEK 0.8 billion during 2020 and the total balance of savings accounts thus amounted to SEK 20.8 billion (20.1) as at 31 December. Total deposits, including balances on Volvo Card accounts and deposits from Volvo dealers, amounted to SEK 22.3 billion (21.2) and accounted for 62% (58) 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. Under the programme, bonds worth SEK 3.4 billion have been issued in 2020, and own bonds with a nominal amount of SEK 1.4 billion have been repurchased. Green bonds accounted for SEK 1.5 billion of the issued volume. For short-term borrowing, bank certificates worth SEK 500 million have been issued during the year. Volvofinans Bank's outstanding financing through the bank's market loan programme amounted to a nominal SEK 12.1 billion (13.1) as at 31 December 2020.

In addition to market borrowing and deposits, the bank also finances its operations with bank credits, which amount to SEK 1.2 billion (1.6). The share of financing with remaining terms of more than one year via the market loan programmes and banks amounted to 76% (69). In addition to drawings on the above bank credits, there are contracted cheque and credit facilities with banks of SEK 4.8 billion (4.3). The maturity structure for the bank's total financing at 31 December 2020 is shown in the table below.

	SEKm	%
Within 1 year	3,283	24
1–3 years	8,423	61
4–5 years	1,695	12
Over 5 years	400	3
	13,801	**100**
No term:		
– Retail deposits	22,309	
– Equity (incl. tax portion of untaxed reserves)	5,707	
Total	**41,817**	

RATING

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

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

There have been no changes in the credit rating during the year, and the credit rating A3/P-2 was confirmed on 3 June. At the same time, however, the rating outlook changed from "Stable" to "Negative". A detailed and up-to-date analysis from Moody's is available on our website, under the heading "About us/Investor relations/Rating".

EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date.

OUTLOOK

Despite uncertainty in the market at large, the bank is full of expectations for the future, 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% 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 dealers 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 banking day in November, along with other shareholder information that the company has at that date.

If, during the Nomination Committee's term of office, one or more of the shareholders who appointed members of the Nomination Committee are no longer 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 2021 Annual General Meeting, the Nomination Committee consisted of Björn Brandt, 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 2020 AGM was held on Thursday 11 June. The 2021 AGM will be held on Thursday 10 June at the bank's offices 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 2020 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 goals having considered the bank's long-term financial interests, the risks to which the bank is exposed or could be exposed and the capital required to cover the bank's risks.
- Continuously evaluate the bank's operational management and, if necessary, appoint or dismiss the CEO and approve significant 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 four meetings in 2020. The work included a strategy conference, the setting of the budget for 2021, sustainability strategies, ongoing monitoring of performance and the financial position and management of strategy and development issues. During the first half of the year, parts of the Board have also participated actively in the Control Tower work, which the bank launched at the start of March in view of the Covid-19 pandemic. The aim was for key employees at the bank to gain access to decision-making powers from the Board and to be able to act quickly on the basis of the new conditions that were constantly emerging as the pandemic progressed. All parties have gained valuable experience from this work, and it is something the bank will take with it into the future. These Control Tower meetings initially took place weekly, but as the effects of the pandemic stabilised, it was also possible to reduce the frequency of the meetings, before eliminating them completely during the autumn.

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 2020 evaluation are that the composition of the Board regarding expertise and experience is well balanced in relation to the diversity policy as well as the current and future needs that exist in the business.

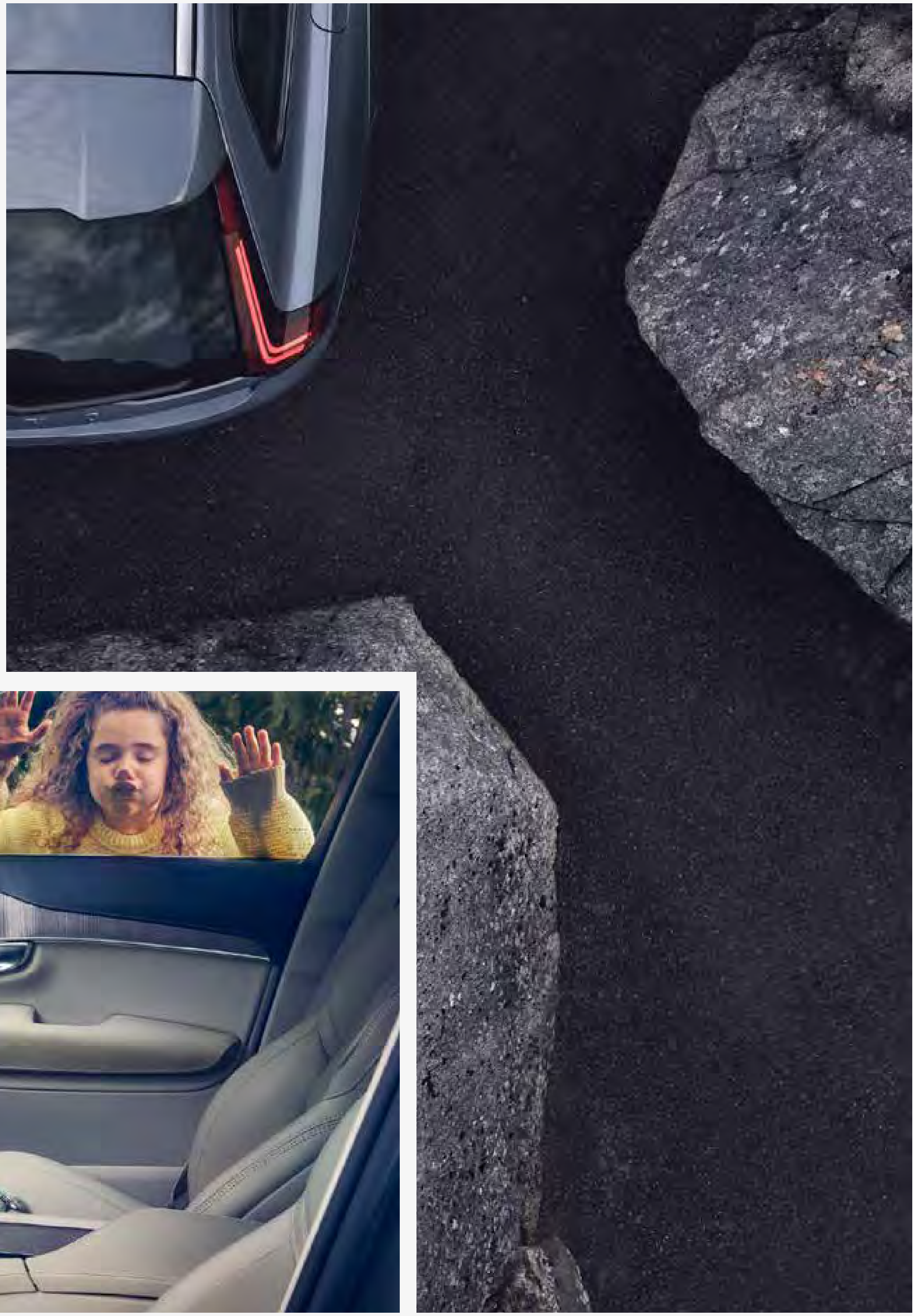
Board committees

The Board of Directors shall appoint at least two members to serve on the Board's credit, audit and risk, remuneration and IT committees. Prior to an ordinary Board meeting and on a regular basis, as needed, the members of each committee meet to discuss and prepare current matters prior to a decision by the Board. The committees report on discussed issued at the next Board meeting. The members of the committees should have open discussions, in which deviating opinions are discussed constructively. 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 for 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 2020 is provided in Note 12.



BOARD





	Urmas Kruusval	**Synnöve Trygg**	**Per Avander**	**Johan Ekdahl**	**Ann Hellenius**
	Chairman	Vice Chairman	Director	Director	Director
Born	1951	1959	1961	1975	1974
Elected	2007	2014	2012	2020	2017
Committee	Credit, Audit and Risk, Remuneration and IT Committees	Credit, Audit and Risk and IT Committees	Credit, Audit and Risk and Remuneration Committees	Credit, Audit and Risk Committees	IT committee
Education	Studies at Gothenburg School of Business, Economics and Law	MBA, Stockholm University	High school economic studies	M.Sc. in Business and Economics, Gothenburg School of Business, Economics and Law	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.	Vice President and Head of Accounting and Group Reporting, Volvo Car Group.	Managing Director Capgemini Invent. Board member of MSAB, Synsam and HSB Business Support.
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 of Din Bil, Gothenburg and Stockholm. Regional Director Bilia Personbilar Stockholm, Deputy CEO Bilia Personbilar AB, Sweden, CEO Bilia Personbilar AB Sweden.	Head of Accounting Governance, Volvo Cars, Chartered Public Accountant (EY).	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	4/4	4/4	3/4	2/4	4/4
Participation at committee meetings	6/6	6/6	4/6	2/4	–
Participation at audit and risk committee meetings	5/5	5/5	3/5	2/5	–
Participation at remuneration committee meetings	4/4	–	3/4	–	–
Participation at IT committee meetings	4/4	4/4	–	–	3/4






	Lex Kerssemakers	**Björn Rentzhog**	**Pascal Bellemans**	**Jonas Estéen**	**Janola Gustafson**	**Anders Gustafsson**
	Director	Director	Deputy	Deputy	Deputy	Deputy
Born	1960	1969	1959	1971	1967	1968
Elected	2020	2016	2016	2019	2016	2011
Committee	Remuneration and IT committees	–	–	–	IT committee	–
Education	Automotive Business Management, IVA Driebergen Marketing Management, University of Eindhoven	M.Sc. in Business and Economics, Mid Sweden University, Östersund	Master's Degree in Economics (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
Other important assignments	Senior Vice President, Commercial Operations Volvo Car Group. Chairman of the Board M.	CEO and President, AB Persson Invest. Chairman of the Board at Bilbolaget Nord AB, Valbo Trä AB, Wist Last & Buss AB, Wist Last & Buss AS, Östersunds Lastbilsservice AB, NHP Sverige AB and at several property companies. Board member of AB Persson Invest, Persson Invest Skog AB, Gällö Timber AB, JP Vind AB, Mullbergs Vindpark AB, Hocksjön 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.	Owner of Finnbäcken Invest AB, CEO and Board member Bilkompaniet Dalarna AB and member of Bilkompaniet Gävleborg AB. Chairman of Vasaloppet, the Mora-Älvdalen branch of Svenska Handelsbanken and Nils Olsson Dalahästar AB.	Board member of Wayke Holding.	Head of Volvo Car, Americas Region
Other prior important positions held	Senior Vice President, EMEA & Commercial Operations, Senior Vice President Americas & CEO & President Volvo Cars North America.	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.	CEO of Svenska Volvohandlarföreningen, Volvohandlarnas Service AB, Volvohandlarföreningen ek. för., AB Volverkinvest and Volvohandlarnas Fordonsförening ek. för. Sales Director at Corporate Sales Renault SAS, CEO Renault Sweden, Head of Sales & Marketing Borgstena Textile. Board member of Tanka i Sverige AB.	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.
Relationship to the company and its management	Independent	Independent	Independent	Independent	Independent	Independent
Relationship to the bank's owners	Not independent	Not independent	Not independent	Not independent	Not independent	Not independent
Shareholding in the Bank	–	–	–	–	–	–
Participation at Board meetings	2/4	4/4	4/4	4/4	4/4	4/4
Participation at committee meetings	–	–	–	–	–	–
Participation at audit and risk committee meetings	–	–	–	–	–	–
Participation at remuneration committee meetings	2/4	–	–	–	–	–
Participation at IT committee meetings	1/4	–	–	–	3/4	–

CEO AND MANAGEMENT

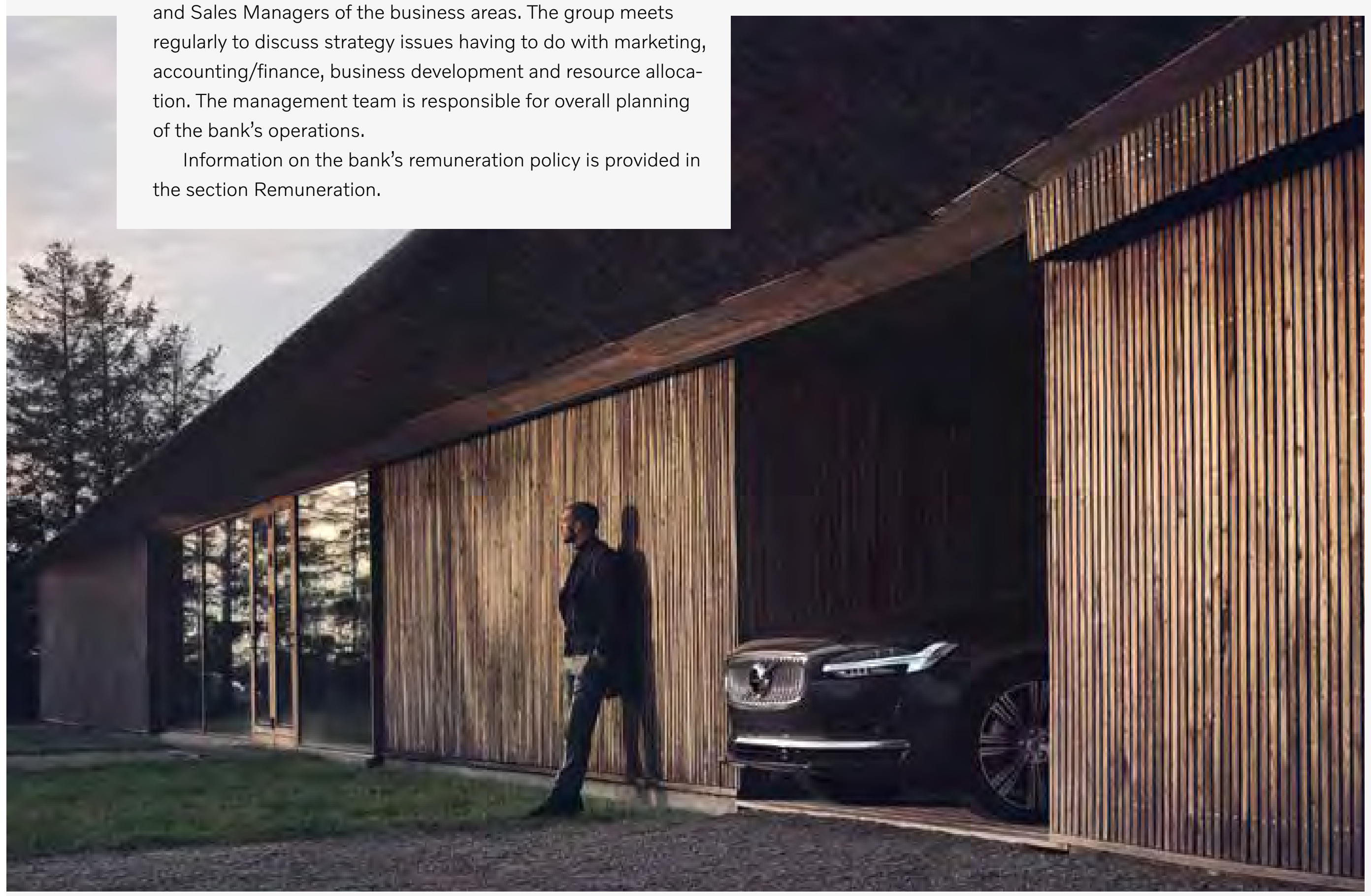
The CEO is responsible for the bank's ongoing management and shall perform this task in accordance with the applicable laws and regulations, the Articles of Association, the Board's rules of procedure, the Board's instructions to the CEO and other important instructions issued by the Board. The Board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

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

The bank's management team consists of eleven people, which, besides the CEO, includes the CSO, COO, Head of Legal, CFO, Risk Manager, CIO, 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, are 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. The function is also responsible for the design and implementation as well as the reliability and following-up of the bank's internal risk classification system. Compliance is a support function which ensures that the bank operates in accordance with applicable laws, regulations and internal rules, as well as 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 2020, the internal audit was carried out by PwC and covered AML, outsourced services, the bank's ICAAP and ILAAP processes as well as the deposit and remuneration system.

Control environment

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

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

Risk assessment

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

Control activities

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

Information and communication

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

Follow-up and monitoring

Responsibility for ongoing follow-up rests with the management team and accounts department. In addition, the Internal Audit, Risk Control and Compliance functions also follow up and monitor operations. Results of evaluation activities are reported to management and the Board.

SUSTAINABILITY REPORT

The bank has a unique business model for the industry, whereby vehicle dealers – following creditworthiness assessment – sell vehicles to the customer and then transfer the contract to Volvofinans with collateral in the item. The dealers 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

Each section below describes the most significant risks that the bank has identified, linked to sustainability in the 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 automotive industry is a sector that is undergoing change. In the same way that it is affecting our climate, there is also a belief in the future regarding the ability to switch to a fossil-free vehicle fleet. Volvofinans Bank wants to be a driving force behind this transition 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, e-billing and e-signing another. 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. The upcoming change to Bonus Malus on 1 April 2021 is predicted to further accelerate this.

Volvo Cars holds a leading position in the Swedish market for hybrid cars. Volvo Cars has launched a pure electric version of its XC40 model and, as mentioned previously, Volvofinans is also financing 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. In the case of business sales, more than 70% of the vehicles sold in 2020 were rechargeable. The bank also has a partnership with E.ON where all Volvo card customers are offered the opportunity to choose Biogas 100 when they fill up at any of E.ON's refuelling stations. When a customer chooses Biogas 100, an equal amount of renewable biogas is produced. The Bank's partners in other transport fuels have a high proportion of HVO biodiesel.

In November, the bank issued green bonds worth SEK 1.5 billion. There was a lot of interest in the issue, and bids worth more than double this amount were received. In 2020, 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 CO2 reduction of 2,500 tonnes. This type of bond is something that is increasingly being demanded in the capital market, especially by investors who prioritise green investments. As the bank's green loan portfolio is increasing significantly, the Bank will have good opportunities to issue additional green bonds in the future.

The bank's sustainability goals still include lowering the direct environmental impact of both electricity and paper consumption. In 2020, paper invoices to customers decreased by five percentage points in comparison with 2019, 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. Bearing in mind the extraordinary circumstances surrounding Covid-19, there are also no representative figures during 2020.

Consumption category	2020	2019	Change
Paper invoices to customers (%)	56	61	-5

INTRODUCTION

Staff and social conditions
2020 has been a challenging year, and Volvofinans Bank has implemented a number of different measures as part of our sustainability strategy to facilitate a healthy year.

The bank was responsible for the Swedish Volvo and Renault dealerships, together with Tanka i Sverige AB, joining forces to encourage people in risk groups to get out into the countryside safely with the aid of their car. Under the motto that it's the thought that counts, a wordplay based on the Swedish words for "thought" and "refuel", selected Tanka stations were staffed with personnel who helped customers to refuel in order to reduce the risk of infection and, at the same time, increase the safety of customers. A total of 115 stations around Sweden took part on selected dates during the summer.

A staff vote resulted in the selection of four aid agencies to which the bank donated money, because they "helped us have a healthy and safe summer". The selected aid organisations were: Bris, Cancerfonden, Stadsmissionen and the Swedish Society for Nature Conservation. The bank also has a partnership with Childhood Foundation. Towards the end of the year, the bank has engaged its staff to move about and at the same time donate money to Stadsmissionen through an "activity Christmas calendar". Between 1–24 December, 24 colleagues at the bank have filmed basic physical exercises, challenging the staff to do these exercises while donating money through #charitytraining. The bank then matches and donates the same amount as the colleagues have jointly donated. The bank's employees are also given the opportunity to take part in the Vasaloppet relay, with an impressive four teams participating in 2020.

The staff are an important part of the bank's profitability, and a good work environment is of great importance as it provides stimulation for good performance and personal development. The bank has identified two risks that stand out 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.

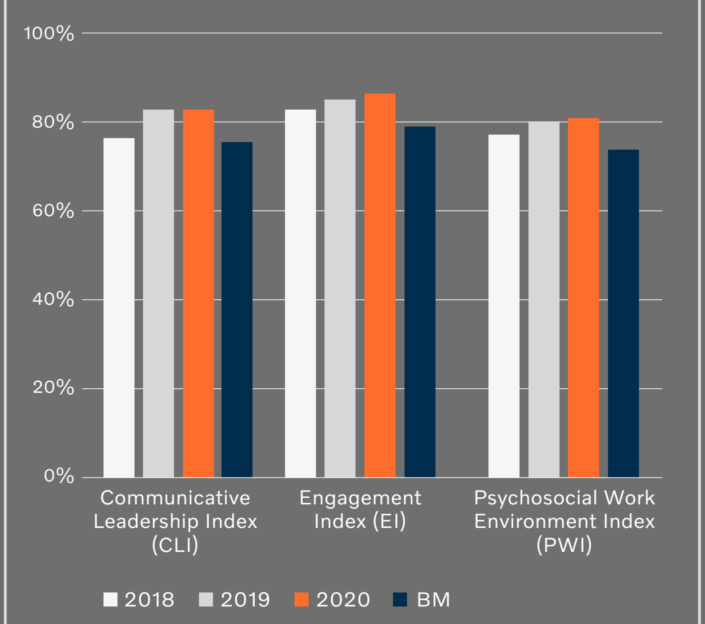
The bank conducts an annual employee survey where employees rate such things as the bank's work environment, how attractive the bank is as an employer and more.

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.

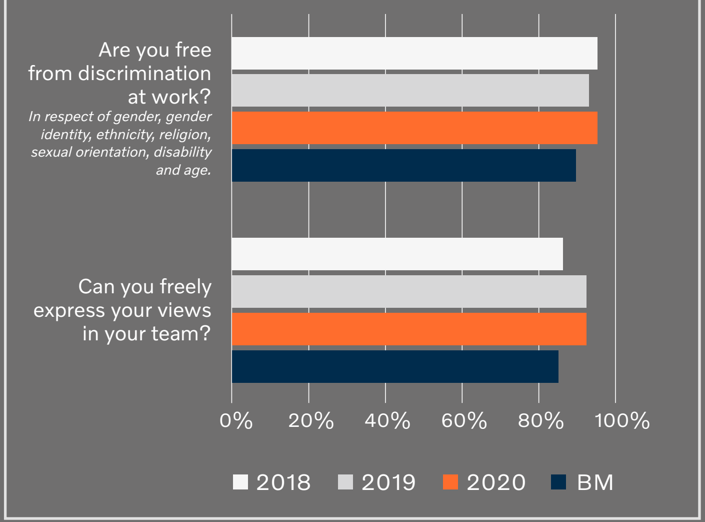
Anti-corruption
The bank has a well-functioning whistleblower function and conducts continuous training in issues relating to security, ethics and money laundering. No whistleblower incidents were reported during 2020.
Significant risks related to anti-corruption:

- 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

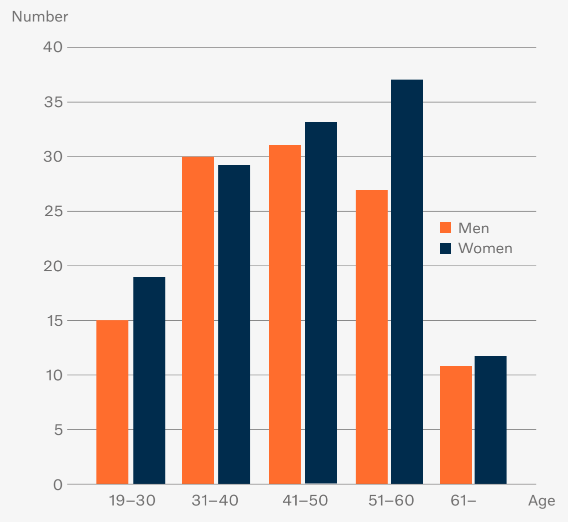
In order to minimise the risk of not complying with banking rules and regulations, the bank's Regulation Compliance Manager performs regular monitoring. The bank also has an obligation to assess and minimise the risk of its operations being used for money laundering or the financing of terrorism. By always verifying the identity, the purpose of the business and the actual principal of business customers, the risk of the bank being used for 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.



BM = Benchmark, which is based on the results from over 600,000 responses from more than 250 organisations (Nordic and international)



AGE DISTRIBUTION 2020



PERSONNEL

At year-end 2020, the bank had 244 (239) employees, of whom 196 (190) were based in Gothenburg and the rest at our office in Stockholm. The average number of employees was 234 (220), 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 has actively continued working on strengthening its corporate culture. Leadership is a priority area and many different training efforts have been conducted during the year. The Management Forum is an important meeting place, which brings together all managers with staff responsibility once a month.

The right skills are an important competitive factor when developments are proceeding rapidly. Employee training and development are strategically important and remain 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 rapid transition to remote working during the Covid-19 pandemic has worked excellently, with the right conditions such as technical aids and good leadership.

The bank conducts an annual employee survey to monitor its employees' views on issues such as commitment, 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 Lex Kerssemakers 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	15.3	–	11	0
Other employees, incl. other employees who can influence the bank's risk level**	113.2	0.5	223	6
Total	**128.5**	**0.5**	**234**	**6**

* 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 129 million was expensed during the financial year. Variable remuneration consists entirely of cash. No remuneration is deferred and no variable remuneration has been promised.

No amounts related to severance pay were expensed during the year. No further promises of severance pay and or of guaranteed variable remuneration in connection with recruitment have been made.

APPROPRIATION OF RETAINED EARNINGS

The bank's Annual General Meeting has at its disposal available profits as per the balance sheet amounting to a total of SEK 228 million. The Board of Directors proposes a dividend of SEK 213 million to the Annual General Meeting, corresponding to 25% of net earnings for 2019 and 2020, which is in line with the recommendations of the Swedish Financial Supervisory Authority.

Amounts in SEK '000

	2020
Opening balance of retained earnings	106,289
Profit for the year	121,658
At the disposal of the AGM	**227,947**
The Board of Directors proposes that the above amount be appropriated as follows: Dividend of SEK 213.07 per share to the shareholders	213,069
Carried forward	14,878
Total	**227,947**

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 4,682 million (4,390) and a minimum capital requirement of SEK 1,709 million (1,649). 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	2020	2019	2018	2017*	2016*
Interest income	557	545	483	438	395
Lease income	5,836	5,660	5,318	4,636	4,019
Interest expense	- 327	- 335	- 257	- 196	- 182
Dividend received	0	0	16	–	–
Commission income	457	439	391	403	353
Commission expense	- 77	- 42	- 44	- 34	- 25
Net income/expense from financial transactions	- 3	1	- 1	- 13	- 1
Other operating income	65	68	52	9	4
Total income	**6,508**	**6,336**	**5,958**	**5,244**	**4,563**
General administrative expenses	- 448	- 480	- 389	- 335	- 312
Other operating expenses**	- 5,470	- 5,324	- 5,055	- 4,483	- 3,859
Net credit losses	- 22	- 16	- 13	- 18	- 13
Total expenses	**- 5,940**	**- 5,820**	**- 5,457**	**- 4,836**	**- 4,184**
Profit before tax	**568**	**516**	**502**	**408**	**379**
Profit for the year	**122**	**13**	**–**	**–**	**–**
Condensed balance sheet					
Chargeable treasury bills, etc.	1,331	1,430	1,246	1,433	1,041
Loans and advances to credit institutions	2,484	1,281	1,622	1,300	786
Loans and advances to customers	16,279	17,278	16,923	16,484	15,205
Bonds and other debt securities	1,826	2,350	2,232	1,883	1,724
Shares and interests in associates and other companies	17	18	31	27	26
Intangible assets	20	15	21	18	11
Property, plant and equipment	21,415	20,661	20,364	18,634	15,978
Other assets	770	1,003	938	870	703
Total assets	**44,142**	**44,036**	**43,377**	**40,649**	**35,474**
Borrowings	35,649	35,902	35,834	33,772	29,158
Other liabilities	2,386	2,562	2,383	2,135	1,907
Subordinated debts	400	400	400	–	–
Untaxed reserves	5,039	4,626	4,128	3,630	3,223
Equity	668	546	632	1,112	1,186
Total liabilities and equity	**44,142**	**44,036**	**43,377**	**40,649**	**35,474**

* The comparative figures for 2016–2017 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.

INTRODUCTION

KEY PERFORMANCE INDICATORS	2020	2019	2018	2017	2016
Return on equity, %	10.94	10.74	10.15	8.77	8.68
Risk capital/total assets, %	13.35	12.43	11.67	11.47	12.22
Deposits/lending, %	59.20	55.94	48.87	45.60	49.43
Earnings/risk-weighted assets, %	2.66	2.50	2.53	2.22	2.30
Return on total assets, %	1.01	0.93	0.94	0.84	0.88
Total capital ratio, %	21.91	21.29	20.08	20.63	21.26
Common equity tier 1 capital ratio, %	20.04	19.35	18.06	20.63	21.26
Net interest income/ø lending, %	1.73	1.59	1.48	1.50	1.44
Credit losses/lending, %	0.08	0.04	0.03	0.05	0.04
Operating expenses/lending, %	1.36	1.42	1.21	1.32	1.24
Cost/income ratio, %	0.48	0.51	0.47	0.52	0.49
C/I ratio excluding residual value reservation	0.45	0.53	0.53	0.44	0.46
Liquidity coverage ratio	237	257	333	280	119
NSFR (net stable funding ratio)	144	143	145	146	144
Leverage ratio	9.8	9.1	8.3	9.4	9.8
Average number of employees	234	220	207	196	189

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**	**2020**	**2019**
Interest income	5	556,789	544,851
of which income calculated using the effective interest method		(556,720)	(544,843)
Lease income	6	5,835,615	5,659,891
Interest expense	5	- 327,147	- 335,319
Net interest income		**6,065,257**	**5,869,423**
Dividends received	7	241	308
Commission income	8	456,933	439,436
Commission expense	9	- 76,853	- 42,169
Net income/expense from financial transactions	10	- 2,972	851
Other operating income	11	65,030	68,202
Total operating income		**6,507,636**	**6,336,051**
Operating expenses			
General administrative expenses	12	- 448,303	- 480,027
Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets	13	- 5,423,123	- 5,248,131
Other operating expenses	14	- 46,253	- 75,821
Total operating expenses		**- 5,917,679**	**- 5,803,979**
Profit before credit losses		**589,957**	**532,072**
Net credit losses	15	- 21,651	- 16,041
Impairment losses/Reversals of financial assets, net	15	- 73	57
Operating profit		**568,233**	**516,088**
Appropriations	16	- 412,589	- 498,268
Tax on profit for the year	17	- 33,986	- 4,661
Profit for the year*		**121,658**	**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 2020**	**31 Dec 2019**
Chargeable treasury bills, etc.	18	1,331,203	1,429,949
Loans and advances to credit institutions	19	2,483,630	1,281,290
Loans and advances to customers	20	16,279,476	17,278,081
Bonds and other debt securities	21	1,825,984	2,349,552
Shares and interests in associates and other companies	22	9,761	11,258
Shares and interests in Group companies	23	6,742	6,742
Intangible assets	24	20,182	15,060
Property, plant and equipment, fixtures and fittings	25	9,547	12,133
Property, plant and equipment, lease assets	25	21,405,350	20,648,640
Other assets	26, 27	708,016	936,042
Prepaid expenses and accrued income	28	62,540	67,246
Total assets		**44,142,431**	**44,035,993**
Liabilities and equity			
Liabilities to credit institutions	29	1,230,952	1,592,857
Retail deposits and borrowings	30	22,308,794	21,216,735
Securities issued	29	12,108,909	13,091,737
Other liabilities	27, 31	1,056,746	1,255,682
Accrued expenses and deferred income	32	1,329,853	1,306,053
Subordinated debts	33	400,000	400,000
Total liabilities		**38,435,254**	**38,863,064**
Untaxed reserves	34	5,039,048	4,626,458
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		20,182	15,060
Non-restricted equity:			
Retained earnings		106,289	98,252
Profit for the year		121,658	13,159
Total equity		**668,129**	**546,471**
Total liabilities and equity		**44,142,431**	**44,035,993**

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 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**
Opening equity, 1 January 2020	**400,000**	**20,000**	**15,060**	**111,411**	**546,471**
Profit for the year	–	–	–	121,658	121,658
Transfer self-generated development costs	–	–	5,122	- 5,122	–
Total change before transactions with shareholders	**400,000**	**20,000**	**20,182**	**227,947**	**668,129**
Dividend	–	–	–	–	–
Closing equity, 31 December 2020	**400,000**	**20,000**	**20,182**	**227,947**	**668,129**

CASH FLOW STATEMENT

Amounts in SEK '000

Operating activities	**2020**	**2019**
Operating profit	568,233	516,088
Adjustment for non-cash items		
Unrealised portion of net income/expense from financial transactions	- 1,698	1,920
Depreciation, amortisation and impairment	5,423,123	5,248,171
Credit losses	20,806	14,600
Paid/refunded (-/+) taxes	- 8,479	- 3,328
Changes in operating assets and liabilities		
Chargeable treasury bills	98,746	- 184,133
Loans and advances to customers	979,879	- 369,907
Bonds and other debt securities	523,569	- 117,586
Retail deposits and borrowings	1,092,059	3,001,369
Liabilities to credit institutions	- 361,905	- 490,476
Other assets	205,145	- 66,763
Securities issued	- 982,828	- 2,440,662
Other liabilities	- 173,437	177,456
Cash flow from operating activities	**7,383,213**	**5,286,751**
Investing activities		
Capitalised development expenditure	- 11,816	- 7,403
Investments in shares and interests	–	- 3,426
Sale/redemption of shares and interests	1,496	12,946
Sale of property, plant and equipment	4,570,000	4,682,274
Acquisition of property, plant and equipment	- 10,740,553	- 10,213,819
Cash flow from investing activities	**- 6,180,873**	**- 5,529,428**
Financing activities		
Dividend paid	–	- 98,604
Cash flow from financing activities	**–**	**- 98,604**
Cash flow for the year		
Cash and cash equivalents at beginning of year	1,281,290	1,622,571
Cash flow from operating activities	7,383,213	5,286,751
Cash flow from investing activities	- 6,180,873	- 5,529,428
Cash flow from financing activities	–	- 98,604
Cash and cash equivalents at end of year, see Note 40	**2,483,630**	**1,281,290**

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 2020 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 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 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 the various 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. The bank's risk strategy is an important part of the business strategy. The bank's position as a mobility bank, split into the different business areas, in the Swedish Volvo system goes hand in hand with the optimum management of credit risk and residual value risk, as these benefit owners, customers and partners as well as defending the bank's position and its role in the system. Similarly, the low risk appetite for other risks is only natural, as these do not contribute to higher target fulfilment but rather risk lower target fulfilment, bearing in mind the role the bank plays in the Swedish Volvo system. As a result, the bank's strategic target for return on equity is being followed as a measure of risk appetite.

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

The bank's risk management should be characterised by 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 overall measures of risk appetite are made up of capital ratios and return on equity. The bank's Common equity tier 1 capital ratio should amount to at least 14.0% and the target for the total capital ratio is 18.5%.

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 card 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

Contracts are sometimes renegotiated with the customer, which may entail being amortisation-free for a limited period, for example. In connection with the renegotiation of an agreement, an assessment is made of the customer's long-term ability to pay. The assessment includes both the customer's financial situation and a valuation of the funded asset. At 31 December 2020, the total amount of principal under renegotiated contracts was SEK 116.8 million (67.9).

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.

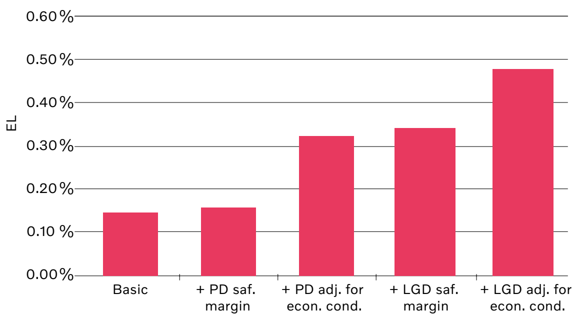
Statistical scoring models have been used for retail exposures (private individuals and small and medium-sized limited companies) since January 2007, and for corporate exposures (companies with sales of over SEK 400 million or exposures with the bank of more than SEK 5 million) an expert-based model 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	10,826,434	17,016,298	2,521,378	14.82
2	6,657,844	8,596,778	2,114,317	24.59
3–4	4,240,859	4,671,365	1,672,619	35.81
5–6	1,040,649	1,087,652	543,170	49.94
7	133,168	136,211	77,906	57.20
In default	134,856	136,546	127,381	93.29
Total	**23,033,811**	**31,644,850**	**7,056,770**	**22.30**

Excluding the effect of credit risk protection, the total for all retail exposure amounts is SEK 33.1 billion rather than SEK 31.6 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	4,675,256	4,738,249	2,112,194	44.58
2	2,316,046	2,359,793	2,162,288	91.63
3–4	1,502,380	1,512,430	1,788,569	118.26
5–6	284,307	284,307	526,069	185.04
7	39,107	39,107	74,979	191.73
In default	83,205	83,205	0	0.00
Total	**8,900,300**	**9,017,091**	**6,664,099**	**73.91**

Excluding the effect of credit risk protection, the total for all corporate exposure amounts is SEK 9.7 billion rather than SEK 9.0 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, %	0.48	1.12	0.37	30	16
Corporate, %	0.84	2.38	0.97	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 2023–2028).

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 EAD.

For Volvofinans, we are seeing an increased capital requirement due to the new LGD floors specifically for financing. The floors in the standardised approach will provide the bank with an additional increased capital requirement when they are phased in. 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 has developed and has now applied to the Swedish FSA to use in 2022. For operational risk and interest rate risk, VFB also expects to see relatively minor increases in capital requirements.

The new default management, which Volvofinans introduced on 1 January 2020, along with the effects of Covid-19, mean that the default has increased at the bank. The new default management involves a significantly 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 during/after 2022; this will, of course, be investigated during coming years. The current long-term forecast is 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 in later years (up to 2028) 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. There will also be changes in the calculation of the leverage ratio. Higher requirements may apply to the system-critical banks. At 31 December 2020, VFB had a leverage ratio of 9.79%.
- A binding requirement will be introduced for NSFR (stable funding) of 100%. VFB's NSFR is 144% as at 31 December 2020. There will be changes in the calculation of NSFR, especially on the asset side, and new templates will be added in the reporting to the Swedish FSA. The change will apply from 30 June 2021.
- For Large exposures, Tier 1 capital will be used instead of eligible capital, which is a broader concept. This will have an impact on VFB, as the limit for unauthorised exposure will be reduced. This restriction will be introduced on 30 June 2021.

Regarding the risks for which VFB holds capital under Pillar 2, there will be some changes, both in terms of calculation and the type of capital that the capital requirement will comprise.

Volvofinans complies with EBA's guidelines (EBA/GL/2018/02) regarding credit spread risk. Volvofinans has used the standard method proposed by the Swedish FSA (FSA ref. no. 19-4434) for the calculation of capital surcharges. Volvofinans considers that the credit spread risk is covered within the bank's reported capital surcharges for interest rate risk. The standardised approach that the FSA is proposing is under consultation at the time of drawing up this report. As a result of this, and balanced against whether credit spread risk, based on the proposal, is relevant to the bank's risk profile and should be addressed under Pillar 2, VFB has elected to manage the risk under the future regulations until further notice.

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.

2020	Exposure amount	Bad debts or receivables in default: < 90 days past due	Bad debts or receivables in default: > 90 days past due	Credit risk adjustments: Specific	Credit risk adjustments: General	Credit risk adjustment costs: Specific	Credit risk adjustment costs: General
Exposures to central banks and institutions							
Exposures to central governments or central banks	46,329	–	2	- 12	–	–	–
Exposures to regional governments or local authorities	1,420,319	20	5	- 863	–	–	–
Exposures to public sector entities	10,321	–	–	- 12	–	–	–
Exposures to institutions	2,623,255	–	–	–	–	–	–
Total exposures to central banks and institutions	**4,100,224**	**20**	**7**	**- 886**	**–**	**–**	**–**
Exposures to customers							
Exposures to corporates	182,480	–	–	–	–	–	–
of which exposure to small and medium-sized entities	104,619	–	–	–	–	–	–
Retail exposures	488,865	–	–	–	–	–	–
of which exposure to small and medium-sized entities	370,389	–	–	–	–	–	–
Exposures in default	2,057	–	–	–	–	–	–
Exposures in the form of covered bonds	1,126,249	–	–	- 229	–	–	–
Equity exposures	16,503	–	–	–	–	–	–
Other items	25,427	–	–	–	–	–	–
Total exposure to customers	**1,841,581**	**–**	**–**	**- 229**	**–**	**–**	**–**
Total, standardised approach	**5,941,805**	**20**	**7**	**- 1,116**	–	–	–
IRB exposure class							
Exposures to corporates	9,703,734	26,465	24,725	- 12,526	–	–	–
Retail exposures	33,143,065	12,407	7,908	- 25,085	–	- 18,648	–
Non-credit obligation asset exposures	4,442,526	–	–	–	–	–	–
Total, IRB approach	**47,289,325**	**38,872**	**32,633**	**- 37,611**	**–**	**- 18,648**	**–**
Total	**53,231,130**	**38,892**	**32,640**	**- 38,727**	**–**	**- 18,648**	**–**

2019	Exposure amount	Bad debts or receivables in default: < 90 days past due	Bad debts or receivables in default: > 90 days past due	Credit risk adjustments: Specific	Credit risk adjustments: General	Credit risk adjustment costs: Specific	Credit risk adjustment costs: 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**	**–**

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 53,231 million (53,040), 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 28,062 million (28,119). The bank also has collateral for loans and receivables in the form of guarantees of SEK 129 million (129), floating charges of SEK 405 million (267), property mortgages of SEK 3 million (5) and pledged loans and leases of SEK 1,790 million (1,892). The bank's total credit risk exposure, including the effect of credit risk protection, is thus SEK 22,842 million (22,628).

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.

	2020	2019
Total assets as stated in the balance sheet	44,142,431	44,035,993
Additional items		
Total impairment	119,058	82,580
Undrawn limits, accounts receivable	10,354,876	10,262,200
Undrawn limits, lending to Volvo dealers	584,782	292,045
Margin for counterparty risk in derivatives	39,226	37,032
Outgoing items		
Non-credit obligation asset exposures*	- 1,989,061	- 1,654,674
Intangible assets	- 20,182	- 15,060
Total	**53,231,130**	**53,040,116**

* 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

2020	Gross exposure amount	Average for the period	Q1	Q2	Q3	Q4
Standardised approach exposure class						
Exposures to central governments or central banks and institutions	46,329	53,178	57,806	45,056	63,520	46,329
Exposures to regional governments or local authorities	1,420,319	1,423,273	1,329,063	1,523,560	1,420,150	1,420,319
Exposures to public sector entities	10,321	8,706	7,979	7,847	8,676	10,321
Exposures to institutions	2,623,255	2,213,963	1,135,466	2,600,128	2,497,002	2,623,255
Exposures to corporates	182,480	266,248	236,501	429,295	216,716	182,480
Retail exposures	488,865	511,627	527,816	515,385	514,442	488,865
Exposures in default	2,057	6,100	2,844	10,347	9,153	2,057
Exposures in the form of covered bonds	1,126,249	1,334,479	1,413,119	1,415,669	1,382,880	1,126,249
Equity exposures	16,503	15,959	18,000	14,667	14,667	16,503
Other items	25,427	58,167	92,395	69,811	45,033	25,427
Total	**5,941,805**	**5,891,700**	**4,820,990**	**6,631,765**	**6,172,239**	**5,941,805**
IRB exposure class						
Exposures to corporates	9,703,734	9,512,778	9,663,129	9,289,747	9,394,505	9,703,734
Retail exposures*	33,143,065	33,433,125	33,755,984	33,423,857	33,409,593	33,143,065
Non-credit obligation asset exposures	4,442,526	4,207,974	4,072,512	4,109,780	4,207,079	4,442,526
Total, IRB approach	**47,289,325**	**47,153,878**	**47,491,624**	**46,823,384**	**47,011,177**	**47,289,325**
Total exposure	**53,231,130**	**53,045,578**	**52,312,614**	**53,455,149**	**53,183,416**	**53,231,130**

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

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".

DISTRIBUTION OF EXPOSURES BY SECTOR AND EXPOSURE CLASS

2020	Retail: repair of motor vehicles	Transport and storage	Legal, financial, etc. activities	Other	Total
Exposures to central governments and central banks	–	–	398	45,931	46,329
Exposures to local authorities and comparable associations as well as agencies	–	–	–	1,420,319	1,420,319
Exposures to administrative bodies, non-commercial undertakings and religious associations	–	–	–	10,321	10,321
Institutional exposures	–	–	–	2,623,255	2,623,255
Corporate exposures, standardised and IRB	3,523,306	1,392,015	2,504,526	2,466,367	9,886,214
Corporate exposures, standardised and IRB	1,311,240	1,948,746	1,522,344	28,849,600	33,631,930
Unsettled items	229	158	190	1,480	2,057
Covered bonds	–	–	–	1,126,249	1,126,249
Equity exposures	–	–	–	16,503	16,503
Other items	–	–	–	25,427	25,427
Non-credit obligation asset exposures, IRB	–	–	–	4,442,526	4,442,526
Total	**4,834,775**	**3,340,919**	**4,027,458**	**41,027,978**	**53,231,130**

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**

NOTES

EXPOSURES, REMAINING TERM TO MATURITY BY EXPOSURE CLASS

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

2020	0–3	3–6	6–9	9–12	12+	Total cash flow	No term
Exposures to central governments or central banks and institutions	18,282	3,382	2,662	2,543	19,460	46,329	–
Exposures to regional governments or local authorities	14,054	17,179	252,168	90,115	1,046,803	1,420,319	–
Exposures to public sector entities	660	560	1,851	682	6,568	10,321	–
Exposures to institutions	7,290	5,037	3,258	3,783	2,603,887	2,623,255	–
Exposures to corporates	1,886,561	943,504	206,757	1,028,961	5,820,431	9,886,214	–
Retail exposures	13,644,012	2,153,317	445,988	1,908,775	15,479,838	33,631,930	–
Exposures in default	2,057	–	–	–	–	2,057	–
Exposures in the form of covered bonds	2,249	192,000	321,000	156,000	455,000	1,126,249	–
Equity exposures	–	–	–	–	–	–	16,503
Other items	–	–	–	–	–	–	25,427
Non-credit obligation asset exposures, IRB	374,088	549,189	485,284	544,159	2,462,046	4,414,767	27,760
Total	**15,949,253**	**3,864,168**	**1,718,968**	**3,735,018**	**27,894,033**	**53,161,440**	**69,690**

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**

CREDIT LENDING BROKEN DOWN BY CREDIT RATING AND VALUE OF COLLATERAL

The table below shows the bank's gross and net credit lending 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 also showing the bank's collateral per financial instrument.

CREDIT LENDING BY CREDIT RATING OF FINANCIAL ASSETS AND LOAN COMMITMENTS

31 Dec 2020	Stage 1	Stage 2	Stage 3 (not purchased or issued, credit-impaired)	Total
Chargeable treasury bills				
AAA to AA	1,331,891	–	–	1,331,891
Loss provision	- 688	–	–	- 688
Total carrying amount	**1,331,203**	**–**	**–**	**1,331,203**
Loans and advances to customers				
Low risk	12,620,833	14,757	3,227	12,638,817
Normal risk	2,723,998	99,869	3,695	2,827,562
Increased risk	170,577	277,597	448	448,622
High risk	74,613	201,754	20,752	297,119
Defaulted	–	–	92,424	92,424
Loss provision	- 12,183	- 10,107	- 2,778	- 25,068
Total carrying amount	**15,577,838**	**583,870**	**117,768**	**16,279,476**
Bonds and other debt securities				
AAA to AA	1,126,250	–	–	1,126,250
A+ to A-	699,963	–	–	699,963
Loss provision	- 229	–	–	- 229
Total carrying amount	**1,825,984**	**–**	**–**	**1,825,984**
Property, plant and equipment, lease assets				
Low risk	15,854,002	62,955	164,462	16,081,419
Normal risk	3,826,668	237,628	16,189	4,080,485
Increased risk	396,778	378,761	2,796	778,335
High risk	125,814	194,152	9,729	329,695
Defaulted	–	–	193,042	193,042
Loss provision	- 3,426	- 198	- 7,005	- 10,629
Total carrying amount	**20,199,836**	**873,298**	**379,213**	**21,452,347**
Other Financial assets				
Low risk	198,887	–	28,243	227,130
Normal risk	41,167	2,384	421	43,972
Increased risk	4,350	70	–	4,420
High risk	1,254	345	–	1,599
Defaulted	–	–	3,230	3,230
Loss provision	- 189	- 11	- 1,913	- 2,113
Total carrying amount	**245,469**	**2,799**	**29,560**	**278,238**
Total gross carrying amount for financial assets valued at amortised cost	**37,370,832**	**1,470,272**	**345,616**	**39,186,720**
Total loss provision	**- 16,715**	**- 10,316**	**- 11,696**	**- 38,727**
Total carrying amount	**37,354,117**	**1,459,956**	**333,920**	**39,147,993**

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**
Property, plant and equipment, lease assets				
Low risk	15,036,982	49,200	258,390	15,344,572
Normal risk	3,750,239	217,654	15,412	3,983,305
Increased risk	429,411	434,815	19,026	883,252
High risk	137,772	273,687	9,322	420,781
Defaulted	–	–	66,052	66,052
Loss provision	- 135	- 38	- 171	- 344
Total carrying amount	**19,354,269**	**975,318**	**368,031**	**20,697,618**
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**	**34,413**	**428,882**
Total gross carrying amount for financial assets valued at amortised cost	**39,984,176**	**1,748,068**	**411,992**	**42,144,236**
Total loss provision	**- 10,479**	**- 8,202**	**- 7,526**	**- 26,207**
Total carrying amount	**39,973,697**	**1,739,866**	**404,466**	**42,118,029**

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

Gross and net credit risk exposure, 31 December 2020	Credit risk exposure (before impairment)	Loss provision	Carrying amount	Value of collateral
Chargeable treasury bills, etc.				
AAA to AA	1,331,891	- 688	1,331,203	–
Total	**1,331,891**	**- 688**	**1,331,203**	**–**
Loans and advances to customers				
Lending against collateral of:				
Other	16,304,544	- 25,068	16,279,476	14,372,129
Total	**16,304,544**	**- 25,068**	**16,279,476**	**14,372,129**
Bonds and other debt securities				
AAA to A-	1,826,212	- 229	1,825,984	–
Total	**1,826,212**	**- 229**	**1,825,984**	**–**
Property, plant and equipment, lease assets				
Lending	21,462,976	- 10,629	21,452,347	15,070,521
Total	**21,462,976**	**- 10,629**	**21,452,347**	**15,070,521**
Other assets				
Receivables	280,351	- 2,113	278,238	–
Total	**280,351**	**- 2,113**	**278,238**	**–**
Issued loan promises	10,939,658	–	–	–
Total credit risk exposure	**52,145,632**	**- 38,727**	**41,167,248**	**29,442,650**

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**	**–**
Property, plant and equipment, lease assets				
Lending	20,697,962	- 344	20,697,618	15,048,317
Total	**20,697,962**	**- 344**	**20,697,618**	**15,048,317**
Other assets				
Receivables	428,913	- 31	428,882	–
Total	**428,913**	**- 31**	**428,882**	**–**
Issued loan promises	10,554,245	–	–	–
Total credit risk exposure	**52,764,533**	**- 26,206**	**42,184,082**	**29,686,745**

The bank's collateral for loans and advances to customers consists of transferred car and truck loans, and when lending lease assets it consists of transferred car and truck leases, where there are recourse agreements with dealers. As at 31 December 2020, 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 2020 Cumulative specific credit adjustments	31 Dec 2019 Cumulative specific credit adjustments
Opening balance	**26,207**	**25,436**
Increases in expected credit losses for new contracts	7,027	2,490
Decrease in expected credit losses on completed contracts	- 6,886	- 6,335
Decrease in expected credit losses during the period	- 1,237	- 653
Increase in expected credit losses during the period	9,366	356
Migrations between stage 1, stage 2 and stage 3	4,249	4,914
Closing balance	**38,727**	**26,207**
Repayment of previous actual credit losses in the income statement	2,119	2,277
Actual credit losses in the income statement	20,766	17,658

FORBEARANCE AND NON-PERFORMING EXPOSURES

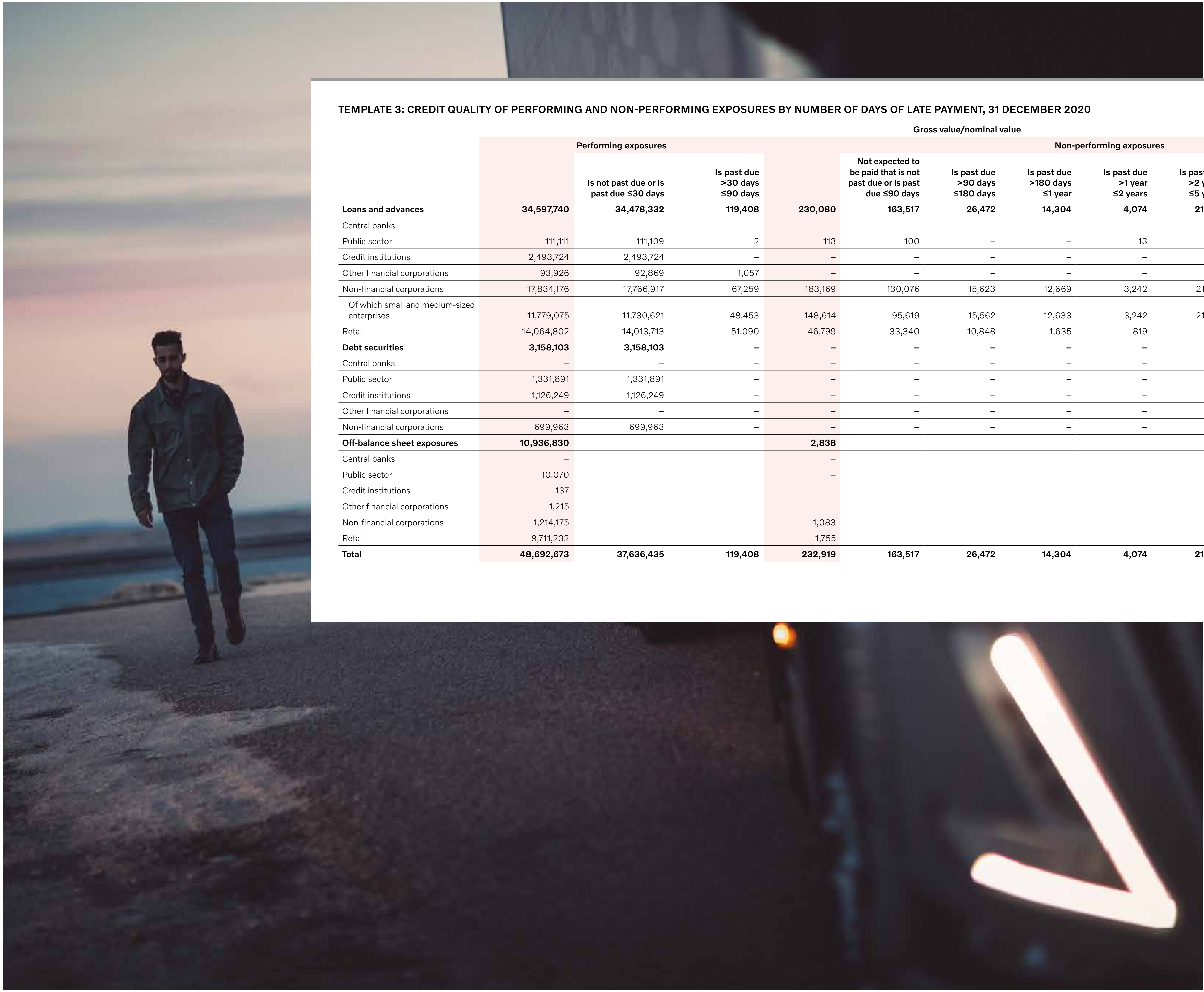
Information about forbearance and non-performing exposures as at 31 December 2020 is published in accordance with EBA's guidelines EBA/GL/2020/10.

Forbearance exposures amount to SEK 116.8 million (67.9) and non-performing exposures amount to SEK 230.1 million (139.4). The increase in forbearance and non-performing exposures from the previous year can be directly attributed to the Covid-19 pandemic.

TEMPLATE 1: CREDIT QUALITY OF FORBEARANCE EXPOSURES, 31 DECEMBER 2020

	Gross value/nominal value of forbearance exposures				Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions		Collateral and financial guarantees received for forbearance exposures	
		Non-performing deferral						
	Performance deferral		Of which failed	Of which uncertain	For performing forbearance exposures	For non-performing forbearance exposures	Total	Of which collateral and financial guarantees received for non-performing exposures with forbearance measures
Loans and advances	**94,793**	**21,987**	**13,697**	**13,697**	**- 3**	**- 14**	**3,487**	**672**
Central banks	–	–	–	–	–	–	–	–
Public sector	–	–	–	–	–	–	–	–
Credit institutions	–	–	–	–	–	–	–	–
Other financial corporations	275	–	–	–	- 0	–	–	–
Non-financial corporations	74,836	19,090	11,736	11,736	- 2	- 12	3,245	269
Retail	19,681	2,896	1,961	1,961	- 1	- 2	242	403
Debt securities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issued loan commitments	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**94,793**	**21,987**	**13,697**	**13,697**	**- 3**	**- 14**	**3,487**	**672**

NOTES



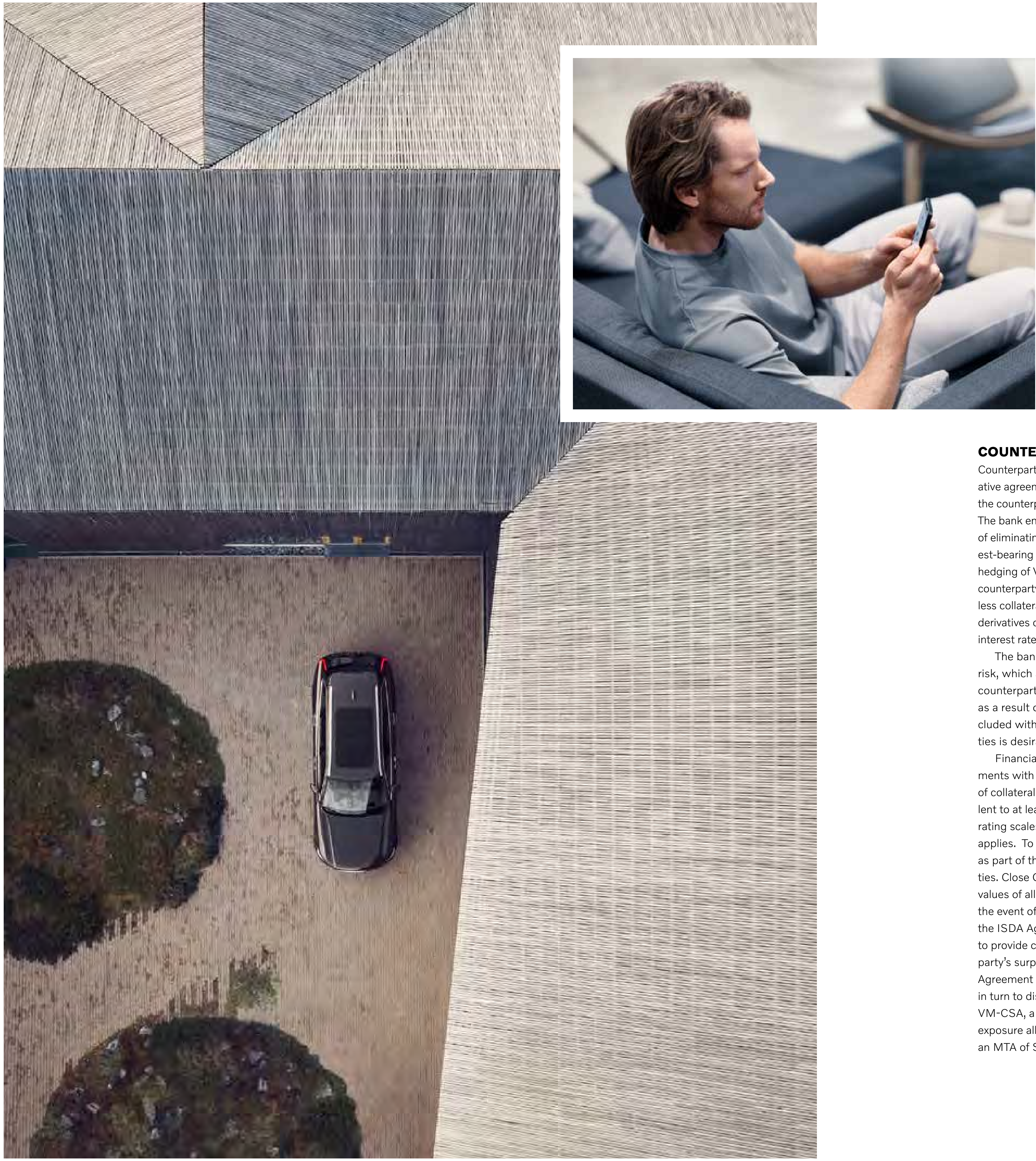
TEMPLATE 3: CREDIT QUALITY OF PERFORMING AND NON-PERFORMING EXPOSURES BY NUMBER OF DAYS OF LATE PAYMENT, 31 DECEMBER 2020

	Gross value/nominal value											
	Performing exposures			Non-performing exposures								
		Is not past due or is past due ≤30 days	Is past due >30 days ≤90 days		Not expected to be paid that is not past due or is past due ≤90 days	Is past due >90 days ≤180 days	Is past due >180 days ≤1 year	Is past due >1 year ≤2 years	Is past due >2 years ≤5 years	Is past due >5 years ≤ 7 years	Is past due >7 years	Of which failed
Loans and advances	**34,597,740**	**34,478,332**	**119,408**	**230,080**	**163,517**	**26,472**	**14,304**	**4,074**	**21,685**	**29**	**–**	**220,118**
Central banks	–	–	–	–	–	–	–	–	–	–	–	-
Public sector	111,111	111,109	2	113	100	–	–	13	–	–	–	113
Credit institutions	2,493,724	2,493,724	–	–	–	–	–	–	–	–	–	-
Other financial corporations	93,926	92,869	1,057	–	–	–	–	–	–	–	–	-
Non-financial corporations	17,834,176	17,766,917	67,259	183,169	130,076	15,623	12,669	3,242	21,558	–	–	174,519
Of which small and medium-sized enterprises	11,779,075	11,730,621	48,453	148,614	95,619	15,562	12,633	3,242	21,558	-	-	141,260
Retail	14,064,802	14,013,713	51,090	46,799	33,340	10,848	1,635	819	127	29	-	45,485
Debt securities	**3,158,103**	**3,158,103**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Central banks	–	–	–	–	–	–	–	–	–	–	–	–
Public sector	1,331,891	1,331,891	–	–	–	–	–	–	–	–	–	–
Credit institutions	1,126,249	1,126,249	–	–	–	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	699,963	699,963	–	–	–	–	–	–	–	–	–	–
Off-balance sheet exposures	**10,936,830**			**2,838**								**2,585**
Central banks	–			–								-
Public sector	10,070			–								-
Credit institutions	137			–								-
Other financial corporations	1,215			–								-
Non-financial corporations	1,214,175			1,083								1,083
Retail	9,711,232			1,755								1,502
Total	**48,692,673**	**37,636,435**	**119,408**	**232,919**	**163,517**	**26,472**	**14,304**	**4,074**	**21,685**	**29**	**-**	**222,703**

NOTES

TEMPLATE 4: PERFORMING AND NON-PERFORMING EXPOSURES AND RELATED PROVISIONS, 31 DECEMBER 2020

	Gross value/nominal value						Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions						Accumulated partial write-off	Collateral and financial guarantees received	
	Performing exposures			Non-performing exposures			Performing exposures – accumulated impairments and provisions			Non-performing exposure – accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions				For performing exposures	For non-performing exposures
		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3		Of which stage 1	Of which stage 2		Of which stage 2	Of which stage 3			
Loans and advances	**34,597,740**	**33,449,640**	**1,148,099**	**230,080**	**4,087**	**220,118**	**- 26,226**	**- 17,012**	**- 9,214**	**- 4,158**	**- 3**	**- 4,076**	**–**	**1,013,724**	**14,548**
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Public sector	111,111	109,148	1,963	113	–	113	- 147	- 74	- 73	- 4	–	- 4	–	–	–
Credit institutions	2,493,724	2,493,724	–	–	–	–	- 7	- 7	–	–	–	–	–	–	–
Other financial corporations	93,926	89,378	4,548	–	–	–	- 121	- 119	- 1	–	–	–	–	591	–
Non-financial corporations	17,834,176	17,358,758	475,418	183,169	3,403	174,519	- 11,444	- 10,952	- 492	- 2,316	- 1	- 2,236	–	952,061	13,038
Of which small and medium-sized enterprises	11,779,075	11,310,775	469,841	148,614	3,403	141,260	- 2,376	- 1,923	- 452	- 493	- 1	- 490	–	593,598	13,038
Retail	14,064,802	13,398,632	666,171	46,799	683	45,485	- 14,509	- 5,860	- 8,649	- 1,838	- 2	- 1,836	–	61,072	1,510
Debt securities	**3,158,103**	**3,158,103**	**–**	**–**	**–**	**–**	**- 917**	**- 917**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Public sector	1,331,891	1,331,891	–	–	–	–	- 688	- 688	–	–	–	–	–	–	–
Credit institutions	1,126,249	1,126,249	–	–	–	–	- 227	- 227	–	–	–	–	–	–	–
Other financial corporations	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-financial corporations	699,963	699,963	–	–	–	–	- 2	- 2	–	–	–	–	–	–	–
Off-balance sheet exposures	**10,936,830**	**10,833,451**	**103,379**	**2,838**	**52**	**2,585**	**- 6,712**	**- 5,613**	**- 1,098**	**- 400**	**- 1**	**- 400**		**–**	**–**
Central banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Public sector	10,070	9,946	124	–	–	–	- 40	- 39	- 1	–	–	–	–	–	–
Credit institutions	137	137	–	–	–	–	- 0	- 0	–	–	–	–	–	–	–
Other financial corporations	1,215	1,215	–	–	–	–	- 1	- 1	–	–	–	–	–	–	–
Non-financial corporations	1,214,175	1,202,321	11,854	1,083	–	1,083	- 969	- 783	- 186	- 121	-	- 121	–	–	–
Retail	9,711,232	9,619,832	91,401	1,755	52	1,502	- 5,701	- 4,790	- 911	- 279	- 1	- 278	–	–	–
Total	**48,692,673**	**47,441,194**	**1,251,478**	**232,919**	**4,139**	**222,703**	**- 33,855**	**- 23,542**	**- 10,313**	**- 4,558**	**- 3**	**- 4,476**	**–**	**1,013,724**	**14,548**



TEMPLATE 9: COLLATERAL OBTAINED THROUGH ENFORCEMENT AND EXECUTION PROCESSES, 31 DECEMBER 2020

	Collateral obtained through enforcement	
	Value at initial recognition	Cumulative negative changes
Property, plant and equipment	–	–
Other than property, plant and equipment	–	–
Residential property	–	–
Commercial property	–	–
Movable property (cars, transport, etc.)	–	–
Equity and debt instruments	–	–
Other	–	–
Total	**–**	**–**

COUNTERPARTY RISK

Counterparty risk arises when the bank has entered into a derivative agreement with a counterparty and refers to the risk that the counterparty will be unable to fulfil its contractual obligations. The bank enters into derivative agreements solely for the purpose of eliminating interest rate risk and foreign exchange risk in interest-bearing loans and borrowings. Counterparty risk arises from hedging of Volvofinans' interest rate risk using derivatives. The counterparty risk that arises is the residual risk of the market value less collateral received for derivatives entered into. The bank's derivatives currently consist of interest rate swap agreements and interest rate and currency swap agreements.

The bank's financial policy specifies limits for counterparty risk, which are monitored continuously. In the event that a counterparty risk exceeds the limit for a specified counterparty as a result of market movements, no new deals may be concluded with the counterparty. A spread of different counterparties is desirable.

Financial derivatives are only entered into under ISDA agreements with associated VM-CSA (agreements on the exchange of collateral in cash form) with banks that have a rating equivalent to at least A3/A- according to Moody's/Standard & Poor's rating scales. In the event of a split rating, the lowest rating applies. To limit counterparty risk, Close Out Netting is applied as part of the 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. The supplementary agreement VM-CSA to the ISDA Agreement means that 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. As an integral part of VM-CSA, a minimum transfer amount (MTA) is agreed, i.e. the exposure allowed without exchanging collateral. Volvofinans has an MTA of SEK 4 million with all counterparties.

As at 31 December 2020, the counterparty risk after the exchange of collateral amounted to net SEK 6.3 million (9.6). As at 31 December 2020, Volvofinans has provided collateral of SEK 76.1 million (18.2) and received collateral of SEK 3.5 million (8.5).

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 (positive market values) for counterparty risk in interest rate and exchange rate swap agreements was SEK 9.8 million (11.0). The margin was calculated at SEK 39.2 million (37.0). The nominal amount of the bank's outstanding derivatives at year-end was SEK 2,024 million (2,715). The following table shows the bank's compensation and the margin for potential changes in the risk by credit rating category on Moody's scale.

Amounts in SEK million		**2020**		**2019**	
Rating (short-term)	**Rating (long-term)**	**Compensation**	**Margin**	**Compensation**	**Margin**
P-1	Aa1	–	–	–	–
P-1	Aa2	0.1	2.0	0.3	1.0
P-1	Aa3	2.9	35.7	1.3	34.5
P-1	A1	–	–	–	–
P-1	A2	–	–	–	–
P-2	A3	6.8	1.5	9.4	1.5
Total		**9.8**	**39.2**	**11.0**	**37.0**

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 pledged assets in the form of bank deposits in accordance with Credit Support Annex for Variation Margin under the ISDA agreements. The liabilities corresponding to pledged assets comprise exposures to counterparties in derivative transactions under standard ISDA terms. Volvofinans Bank has not pledged any collateral received.

2020	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	**–**	**–**	**44,142,431**	**–**	**–**	**–**
Equity instruments	–	–	–	–	–	–
Debt securities	–	–	3,158,103	–	–	–
Other assets	–	–	40,984,327	–	–	–
Other collateral received	–	–	–	–	–	–

2020	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
Certain financial liabilities, carrying amount	78,219	76,050

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
Certain financial liabilities, carrying amount	11,509	18,170

CONCENTRATION RISK

The bank's definition of concentration risk refers to:

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

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

The 30 largest customers account for 9.2% (10.3) 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 9.5% 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

Volvofinans defines the interest rate risk as the current and future risk that net interest income and/or the economic value of the bank's assets and liabilities will deteriorate due to an unfavourable development of market interest rates. Volvofinans is only exposed to interest rate risk within the bank's interest-bearing assets and liabilities in the banking book (i.e. the lending portfolio, the liquidity reserve and for the bank's borrowings), since Volvofinans does not have a trading book. Interest rate risk in the banking book consists primarily of three risk components; gap risk, option risk and basis 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 950 million, or 3%, of total lending at 31 December 2020. 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 1.3% (0.6) 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 2020, the interest rate risk was SEK 67.9 million (75.4), representing 1.6% (1.9) of the capital base. In this calculation no term has been used for equity including untaxed reserves. Furthermore, an assumption is made regarding a reasonable change in interest rates and a parallel shift of the yield curve of 0.25%, where the interest rate risk amounts to SEK 17.0 million (18.8). 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 2020 is SEK 3.5 million (9.6).

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. Volvofinans's variable rate lending and borrowing mainly have 3-month STIBOR as the base rate, and consequently have a very limited basis risk. The debt, which has a nominal amount of SEK 12.1 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 0.3 million that are exposed to the 1-month STIBOR reference rate.

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

31 Dec 2020

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
Chargeable treasury bills			1,331												**1,331**
Loans and advances to credit institutions		2,484													**2,484**
Lending*	46	37,148	47	14	7	12		108	269	28	4	2			**37,685**
Bonds and other debt securities		306	1,520												**1,826**
Shares and interests in associates and other companies														10	**10**
Shares and interests in Group companies														7	**7**
Intangible assets														20	**20**
Property, plant and equipment, fixtures and fittings														9	**9**
Other assets														708	**708**
Prepaid expenses and accrued income														62	**62**
Total assets	**46**	**39,938**	**2,898**	**14**	**7**	**12**		**108**	**269**	**28**	**4**	**2**		**816**	**44,142**

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			- 1,231												**- 1,231**
Retail deposits and borrowings	- 22,309														**- 22,309**
Securities issued		- 4,125	- 7,028					- 402	- 302		- 252				**- 12,109**
Other liabilities														- 1,057	**- 1,057**
Accrued expenses and deferred income														- 1,329	**- 1,329**
Subordinated debts		- 400													**- 400**
Untaxed reserves														- 5,039	**- 5,039**
Equity														- 668	**- 668**
Total liabilities and equity	**- 22,309**	**- 4,525**	**- 8,529**					**- 402**	**- 302**		**- 252**			**- 8,093**	**- 44,142**
Derivative instruments		**80**	**- 680**		**- 15**	**- 9**		**308**	**167**	**- 66**	**141**				**- 75**
Net assets and liabilities	**- 22,263**	**35,493**	**- 6,041**	**14**	**- 8**	**3**		**14**	**134**	**- 38**	**- 107**	**2**		**- 7,277**	
Cumulative exposure	**- 22,263**	**13,230**	**7,188**	**7,202**	**7,194**	**7,198**	**7,198**	**7,211**	**7,345**	**7,307**	**7,200**	**7,202**	**7,202**	**- 75**	

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

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
Chargeable 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

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 2020. 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 2020, the bank had recognised an impairment loss of SEK 80.3 million (56.4) related to residual value risk, which is included in depreciation and impairment of property, plant and equipment. Guaranteed residual values amounted to SEK 6,313 million (5,472), which includes both own and transferred contracts. The carrying amount of operating leases directly guaranteed by the bank was SEK 5,238 million (4,336) at 31 December 2020. The guaranteed residual value of these contracts amounted to SEK 3,686 million (2,896).

EQUITY RISK IN OTHER OPERATIONS

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

	2020	2019
Balance sheet value		
Associates and other companies	9,761	11,258
Group companies	6,742	6,742
Total	**16,503**	**18,000**
Fair value		
Associates and other companies	9,761	11,258
Group companies	6,789	6,789
Total	**16,550**	**18,047**
Unrealised gain or loss		
Associates and other companies	6,430	7,926
Group companies	–	–
Total	**6,430**	**7,926**

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 2020 amounted to KSEK 18,045 (20,091), of which KSEK 10,032 (10,462) refers to Alecta ITP 2 pensions.

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

LIQUIDITY RISK

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

Liquidity risk arises when maturities on lending and borrowing has miss matched maturities. When loans have longer maturities than borrowings multiple rounds of refinancing are required. If the need for refinancing on any individual day becomes significant, or if the capital market becomes illiquid, this could result in a shortfall of liquidity.

Liquidity risk is managed in accordance with the bank's financial policy. The policy describes financial risks, including liquidity risk, and specifies the permissible liquidity risk. 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 in conjunction with 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), as calculated in accordance with Article 415 of the EU's Capital Requirements Regulation (CRR), was 237% at year-end and averaged 249% in 2020. LCR is a short-term liquidity ratio and forms part of the bank's liquidity risk reporting to the regulators. The bank's net stable funding ratio (NSFR) at year-end was 144% and averaged 144% in 2020.

To create flexibility in its borrowing and ensure that it is able to ride out periods of strained refinancing conditions, the bank maintains a liquidity reserve. At year-end this reserve stood at SEK 5.6 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 3.2 billion (56%) while deposits at other banks amounted to SEK 2.5 billion (44%). 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 2020, this ratio was 15% (13).

LIQUIDITY RESERVE

Amounts in SEK million, securities at market value	31 Dec 2020	31 Dec 2019
Deposits with other banks	2,484	1,281
Securities issued by local authorities and other public sector entities	1,331	1,430
Other covered bonds	1,126	1,416
Securities issued by non-financial corporations	700	934
Total	**5,641**	**5,061**

Of the bank's total liquidity reserve of SEK 5,641 million, SEK 4,941 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 4.8 billion (4.3) at year-end. Facilities with an option to demand same-day payment total SEK 1.8 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.

Since 16 April 2020, Volvofinans has been a temporary monetary policy counterparty to the Swedish National Bank. As a monetary policy counterparty, Volvofinans is given the opportunity, against the provision of collateral, to participate in the Swedish National Bank's programme for further lending to non-financial companies.

OTHER LIQUIDITY-CREATING FACILITIES

Undrawn limits, SEKm	31 Dec 2020	31 Dec 2019
Overdraft facilities with credit institutions	155	200
Credit facilities with credit institutions and shareholders	4,750	4,250
Total	**4,905**	**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 2020 it was 76% (69).

In order to reduce the share of market borrowing, and thus also the refinancing risk, Volvofinans Bank is offering deposits via a savings account aimed at private individuals. 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 or have held a savings account for 12 months or more. These customers accounted for 91% (87) of the savings account volume at year-end. 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.

2020 SEKm	Payable on demand	Less than 3 months	More than 3 months and up to 1 year	More than 1 year and up to 3 years	More than 3 years and up to 5 years	More than 5 years	Total
Financial assets							
Chargeable treasury bills	–	3	337	990	–	–	1,330
Loans and advances to credit institutions	2,484	–	–	–	–	–	2,484
Loans and advances to customers	–	4,253	7,516	12,878	3,612	680	28,939
Bonds and other debt securities	–	702	669	455	–	–	1,826
Property, plant and equipment, lease assets	–	909	3,690	5,386	87	3	10,075
Other assets, derivatives	–	3	1	7	–	–	11
Total	**2,484**	**5,870**	**12,213**	**19,716**	**3,699**	**683**	**44,665**
Financial liabilities							
Liabilities to credit institutions	–	43	428	681	96	–	1,248
Retail deposits and borrowings	22,309	–	–	–	–	–	22,309
Securities issued	–	1,100	1,820	7,801	1,615	–	12,336
Other liabilities, derivatives	–	–	- 3	45	- 1	–	41
Subordinated debts	–	1	4	12	12	414	443
Total	**22,309**	**1,144**	**2,249**	**8,539**	**1,722**	**414**	**36,377**
Net cash flow	**- 19,825**	**4,726**	**9,964**	**11,177**	**1,977**	**269**	
Undrawn credit facilities	1,045	4,750	3,250	1,750	-	-	
Liquidity gap	**- 18,420**	**9,476**	**13,214**	**12,927**	**1,977**	**269**	

2019 SEKm	Payable on demand	Less than 3 months	More than 3 months and up to 1 year	More than 1 year and up to 3 years	More than 3 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**	

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 2020	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	- 43	- 428	- 682	- 96	–	- 1,249
Securities issued	- 1,100	- 1,824	- 7,814	- 1,621	–	- 12,359
Other liabilities, derivatives	–	2	- 43	- 1	–	- 42
Other assets, derivatives	3	–	7	–	–	10
Subordinated debts	- 1	- 4	- 12	- 14	- 420	- 451
Total	**- 1,141**	**- 2,254**	**- 8,544**	**- 1,732**	**- 420**	**- 14,091**

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**

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.

All Pillar 3 requirements are met in this 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 the same amount as the bank's higher credit risk provision. 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.

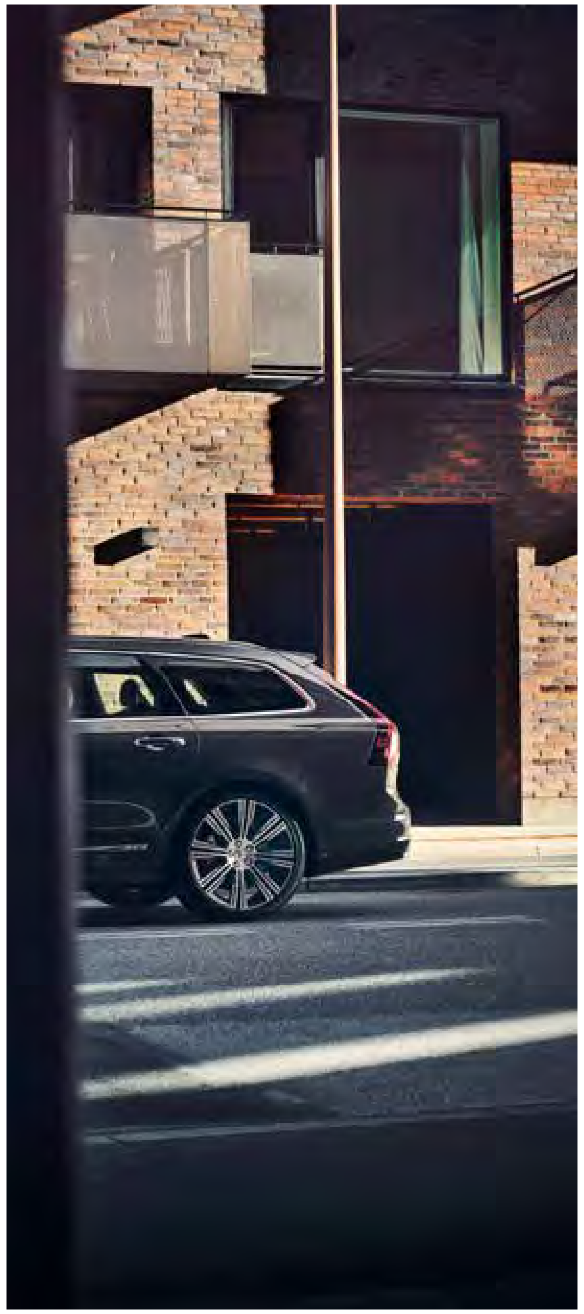
The bank has an adopted plan for the size of its capital base over the next few years (in accordance with ICAAP and ILAAP), which is based on risk profile, identified risks with regard to probability and economic impact, stress tests and scenario analysis, expected expansion of lending and financing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

The countercyclical buffer rate was reduced to 0.0% (2.5) from 16 March 2020 as a preventive measure due to Covid-19.

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 2020	31 Dec 2019
Common equity tier 1 capital: Instruments and reserves		
Capital instruments and related share premium accounts	400,000	400,000
Undistributed earnings	14,878	111,411
Other reserves	4,041,185	3,671,456
Common equity tier 1 capital before regulatory adjustments	**4,456,063**	**4,182,867**
Common equity tier 1 capital: regulatory adjustments		
Intangible assets	- 20,182	- 15,060
Negative amounts due to calculation of expected loss amounts	- 153,511	- 178,017
Gains or losses on liabilities of the institution that are valued at fair value and that result from changes in the own credit standing of the institution	- 86	- 22
Total regulatory adjustments to Common equity tier 1 capital	**- 173,779**	**- 193,099**
Common equity tier 1 capital	**4,282,284**	**3,989,768**
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)	**4,682,284**	**4,389,768**
Total risk-weighted assets	**21,368,095**	**20,617,467**

CAPITAL REQUIREMENT AND RISK-WEIGHTED EXPOSURE AMOUNT

	31 Dec 2020			31 Dec 2019		
Credit risk, standardised approach	**Capital requirement**	**Risk-weighted exposure amount**	**Average risk weight**	**Capital requirement**	**Risk-weighted exposure amount**	**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	762	9,528	100.0%	543	6,793	100.0%
Institutional exposures	41,969	524,608	20.0%	21,784	272,299	20.0%
of which counterparty risk	(785)	(9,815)	(–)	(768)	(9,606)	(–)
Corporate exposures	13,477	168,464	93.1%	18,655	233,185	92.9%
Retail exposures	25,114	313,921	66.3%	28,984	362,294	66.7%
Unsettled items	245	3,069	150.0%	267	3,335	150.0%
Covered bonds	9,008	112,602	10.0%	11,325	141,561	10.0%
Equity exposures	1,320	16,503	100.0%	1,440	18,000	100.0%
Other items	2,034	25,428	100.0%	1,859	23,233	100.0%
Total capital requirements for credit risks using the standardised approach	**93,929**	**1,174,123**	**19.9%**	**84,856**	**1,060,701**	**20.3%**
Credit risk using the IRB approach						
Corporate exposures	533,128	6,664,099	73.9%	535,620	6,695,250	70.4%
Retail exposures	564,542	7,056,770	22.3%	558,213	6,977,663	21.6%
Non-credit obligation asset exposures	355,402	4,442,526	100.0%	322,735	4,034,183	100.0%
Total capital requirements for credit risks using the IRB approach	**1,453,072**	**18,163,395**	**40.3%**	**1,416,568**	**17,707,097**	**38.7%**
Total	**1,547,001**	**19,337,518**	**37.9%**	**1,501,424**	**18,767,798**	**36.8%**
Operational risk using the Basic Indicator Approach	160,693	2,008,657	–	146,522	1,831,531	–
Credit valuation adjustment (CVA)	1,754	21,920	–	1,451	18,138	–
Total minimum capital requirement and risk-weighted exposure amount	**1,709,448**	**21,368,095**	**–**	**1,649,397**	**20,617,467**	**–**

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 2020	31 Dec 2019
Risk-weighted assets (REA)	21,368,095	20,617,467
Available capital as a percentage of REA		
Common equity tier 1 capital ratio, % *	20.04	19.35
Tier 1 ratio, %	21.91	21.29
Total capital ratio, % **	21.91	21.29
Common equity tier 1 capital available to meet buffers	3,320,720	3,061,982

* 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 2020			31 Dec 2019		
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 own funds requirements
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
Total	**7.0**	**8.5**	**10.5**	**9.5**	**11.0**	**13.0**
Amount						
Minimum capital requirement	961,565	1,282,086	1,709,448	927,786	1,237,048	1,649,397
Capital conservation buffer	534,202	534,202	534,202	515,437	515,437	515,437
Countercyclical buffer	–	–	–	515,437	515,437	515,437
Total capital requirement	**1,495,767**	**1,816,288**	**2,243,650**	**1,958,659**	**2,267,921**	**2,680,271**

CAPITAL REQUIREMENTS, CAPITAL BUFFERS AND INTERNALLY ASSESSED CAPITAL NEEDS

31 Dec 2020	Capital requirement	Capital requirement/ Total REA	Of which CET1 requirement/REA
Credit risk	1,547,001	7.2%	4.1%
Operational risk	160,693	0.8%	0.4%
CVA risk	1,754	0.0%	0.0%
Pillar 1 own funds requirements excluding buffer requirements	**1,709,448**	**8.0%**	**4.5%**
Concentration risk	305,968	1.4%	0.9%
Strategic risk	85,472	0.4%	0.3%
Interest rate risk	65,000	0.3%	0.2%
Supplement for internally assessed Pillar 2 capital requirement	**456,440**	**2.1%**	**1.4%**
Capital conservation buffer	534,202	2.5%	2.5%
Countercyclical capital buffer	–	–	–
Buffer requirements	**534,202**	**2.5%**	**2.5%**
Capital requirements	**2,700,090**	**12.6%**	**10.9%**
Capital base	**4,682,284**	**21.9%**	**20.0%**
Capital surplus	**1,982,194**	**9.3%**	**9.1%**

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%
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**	**21.3%**	**19.4%**
Capital surplus	**1,267,230**	**6.2%**	**8.5%**

The internal capital adequacy assessment process has resulted in an internal capital requirement of SEK 2,166 million (2,092) as at 31 December 2020.
If the combined buffer requirement is included, the bank's total capital requirement is SEK 2,700 million (3,123).
The capital surplus, calculated on the basis of the internal capital requirement including buffer requirements, is thus SEK 1,982 million (1,267).

LEVERAGE RATIO

	31 Dec 2020	31 Dec 2019
Tier 1 capital	**4,282,284**	**3,989,768**
Total assets as per published financial statements	42,240,795	42,436,020
Adjustments for financial derivative instruments	49,159	48,054
Adjustment for off-balance sheet items (i.e. conversion to credit equivalents for off-balance sheet exposures)	1,620,270	1,318,266
Other adjustments	- 173,780	- 193,099
Exposure measure	**43,736,444**	**43,609,241**
Leverage ratio, %	**9.79**	**9.15**

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.

NOTES

NOTE 3. ACCOUNTING POLICIES

3.1 Measurement bases for the preparation of the bank's financial statements . . . . page 73
3.2 Functional currency and reporting currency
3.3 Judgements and estimates in the financial statements
3.4 Changes in accounting policies
3.4.1 Application of new IFRS and future regulations
3.5 Operating segment
3.6 Subsidiaries and associates. . . . . page 74
3.7 Foreign currency
3.8 Interest income and expenses and dividend
3.9 Commission and fee income
3.10 Commissions and fees earned when a specific service is performed
3.11 Commissions and fees that are included in the effective interest rate . . . . page 75
3.12 Classification of leases and recognition of lease income
3.13 Commission expense . . . . page 76
3.14 Net income/expense from financial transactions
3.15 General administrative expenses
3.16 Taxes
3.17 Financial instruments
3.17.1 Recognition and derecognition
3.17.2 Classification and measurement . . . . page 77
3.18 Derivatives and hedge accounting
3.19 Credit losses and impairment related to credit risk . . . . page 78
3.19.1 Impairment of financial assets
3.19.1.1 Recognition of expected loan losses – loans and advances to customers and loan commitments issued
3.19.1.2 Recognition of expected loan losses – debt securities . . . . page 80
3.19.1.3 Recognition of expected loan losses – loans and advances to credit institutions
3.19.1.4 Recognition of expected loan losses – lease assets
3.19.1.5 Presentation and recognition of credit losses in the balance sheet and income statement
3.19.1.6 Recognition of actual credit losses
3.20 Property, plant and equipment . . . . page 81
3.20.1 Owned assets
3.20.2 Leased assets for which the bank is a lessor
3.20.3 Subsequent expenditures
3.20.4 Basis of depreciation
3.21 Intangible assets
3.21.1 Development
3.21.2 Licences
3.21.3 Subsequent expenditures
3.21.4 Basis of amortisation
3.22 Impairment of property, plant and equipment and intangible assets and participations in subsidiaries and associated companies
3.22.1 Impairment testing
3.22.2 Reversal of impairment losses . . . . page 82
3.23 Liabilities and equity
3.23.1 Share capital
3.23.1.1 Dividends
3.23.1.2 Fund for development expenditure
3.23.2 Post-employment benefits
3.23.2.1 Retirement benefits through insurance
3.23.2.2 Termination benefits
3.23.2.3 Short-term employee benefits
3.24 Group contributions and Appropriations

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 25 March 2021. The income statement and balance sheet will be submitted for adoption at the Annual General Meeting on 10 June 2021.

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 experiences which are deemed reasonable under current circumstances. The results of these estimates and assumptions are then used to determine carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and judgements. The bank has mainly made the following critical judgements in applying significant accounting policies:

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

Areas where uncertainty about estimates may exist are assumptions about impairment for credit losses, as well as assessments of anticipated residual values of lease assets.

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 2020 had no material impact on the bank's financial statements.

3.4.1 Application of new IFRS and future regulations

THE IBOR REFORM

In August 2020, IASB published phase two in respect of amendments to IAS 39, IFRS 9 and IFRS 7 in response to the ongoing reference rate (IBOR) reforms. The amendments are mandatory and are being applied from 1 January 2021. 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 well as the Market risk section in Note 2. 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. The Bank constantly monitors the work of the Swedish National Bank on developing an alternative reference rate, "Swestr".

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. The most common payment terms are 30 days.

- **Commissions and fees that are included in the effective interest rate**

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

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

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

3.10 COMMISSIONS AND FEES EARNED WHEN A SPECIFIC SERVICE IS PERFORMED
These commissions and fees are generally related to a specific transaction and are recognised as income immediately. These fees and commissions include various types of notice fees, and debit and credit card fees.

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

3.12 CLASSIFICATION OF 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 from finance leases that are accounted for as operating leases" (see also Note 6) 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.

NOTES

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

3.14 NET INCOME/EXPENSE FROM FINANCIAL TRANSACTIONS
The item "Net income/expense from financial transactions" includes realised and unrealised changes in value arising from financial transactions.

Net income/expense from financial transactions comprises:
- Capital gains and losses from sales of financial 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 RELATED TO CREDIT RISK

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 vehicle seller, 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 vehicle seller 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 finance, 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.

The table below shows the risk category migrations that lead to contracts being moved from stage 1 to stage 2.

PD model (retail and SMEs)

Initial risk category	New risk category
1	5
2	5
3	5
4	5
5	6
6	7

In the case of Large Companies, a significant increase in credit risk is determined by manual assessment. When a new customer joins, an initial risk classification is performed, after which an annual risk classification is carried out during which expert monitoring is conducted on the basis of three main sources. The credit department assesses 30 days late and payment management, Upplysningscentralen's information and business intelligence. Based on these sources, the customer is re-scored and the credit department determines which of the existing exposures have gained a significant increase in credit risk. Re-scoring can also be performed at any time during the year if the bank sees signs of a significant increase in credit risk on the part of the customer.

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 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. 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.

For a sensitivity analysis for expected credit losses, see Note 15.

Modifications

When a loan is modified but not removed from the balance sheet, an assessment of significant changes 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 changes in credit risk.

As at 31 December 2020, 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 assets

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 internal source systems are the data source, 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 assets 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

Receivables 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, the receivables 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 amortisation

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

3.21 INTANGIBLE ASSETS

3.21.1 Development

Development expenditure, where results or other knowledge are applied to achieve new or improved products or processes, is capitalised in the balance sheet if the product or process is technically and commercially feasible and the bank has sufficient resources to complete development and to use or sell the intangible asset. The carrying amount includes all directly attributable expenditure, e.g. the cost of materials and services, remuneration of employees, registration of a legal right, amortisation of patents and 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 3.23.1.2 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 less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted using a discount rate which reflects the risk-free rate and the risk associated with the asset.

The bank continuously assesses assets used in operating leases for impairment. Impairment occurs if the carrying amount is higher than the recoverable amount, which is the higher of the fair value less costs to sell or the value in use. Value in use is determined as the present value of remaining rents and the present value of the expected residual value. The basic data for the expected residual value is obtained from an external supplier, which, in combination with the bank's own assessment, forms the basis for impairment testing.

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 primarily sold in Swedish Volvo and Renault 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 is also taking place with Polestar Automotive Sweden AB, which only manufactures electrified cars. A new sales channel was launched during the year via Polestar.se, where consumers and corporate customers can 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, with the aim of creating smooth payments for all needs relating to car usage, as well as everywhere where Visa transactions are accepted. Using their mobile phones, the bank's customers can now pay digitally for car servicing, fuel at Tanka service stations and for other purchases via Samsung, Google and Apple Pay. This makes life a little easier for our customers and partners.

The Swedish new car market has been strong for a number of years and 2019 was the third best year to date with 356,000 new passenger car registrations. New car registrations in 2020 amounted to 292,000 and have thus been heavily affected by Covid-19, resulting in lower volumes. The trend during the year has been a strong increase for rechargeable cars, which are ending 2020 by making up 33% of all new car registrations. The credit risk provision has been adjusted upwards due to Covid-19, as expected credit losses are expected to increase in the wake of the ongoing pandemic. Passenger car registrations have decreased by a total of 18% for the year. A total of 64,426 new Volvo, Renault, Dacia and Polestar car registrations were made, representing a market share of 22.1%, with Volvofinans being responsible for a high proportion of the financing. In the Payments business, the bank is also seeing a market that has been affected by Covid-19, with lower net sales as a result. Our digital service CarPay is continuing to deliver a high inflow, and the app has been downloaded by more than 670,000 unique customers.

Together with Sweden's Volvo and Renault dealers, our car manufacturers and other stakeholders in the ecosystem, Volvofinans Bank is continuously developing new products and launching new services. We are continuing to focus heavily on the digital customer journey for car finance, where the financial services are consumed and continuously developed alongside our digital payment solutions, in order to live up to our customer promise of a smarter car economy.

	2020	2019	Change
Net interest income and net leasing *	569,820	528,815	41,005
Change in impairment of operating leases	- 10,885	–	- 10,885
Dividend received	241	308	- 67
Commission income	247,051	265,516	- 18,465
Commission expense	- 76,053	- 41,199	- 34,854
Net income/expense from financial transactions	- 2,043	600	- 2,643
Other income	5,341	10,442	- 5,101
Operating income	**733,473**	**764,483**	**- 31,010**
Expenses**	- 365,048	- 425,030	59,982
Credit losses	- 17,699	- 14,961	- 2,738
Credit risk provision	- 1,280	- 455	- 825
Operating profit	**349,447**	**324,036**	**25,411**

* Including depreciation 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	2020	2019	Change
Number of contracts	192,489	202,763	- 10,274
Total volume, SEKm	25,649	26,335	- 686
of which transferred, %	93.8	93.6	0.2
of which pledged, %	6.2	6.4	- 0.2
of which loans, %	45.7	45.5	0.2
of which leasing, %	54.3	54.5	- 0.2
Share of total leases that are private leases, %	25.1	25.0	0.1

Product Information, Card	2020	2019	Change
Number of active accounts, Ø	396,745	420,607	- 23,862
Total volume, SEKm	1,590	1,801	- 211
Number of credit customers, Ø	81,180	86,908	- 5,728
Total sales of Volvo Card, SEKm	13,802	15,083	- 1,281
of which fuel, %	34.0	39.6	- 5.6
of which workshop, %	18.3	13.2	5.1
of which stores, %	1.3	1.5	- 0.2
of which carwash, %	1.4	1.2	0.2
of which sales outside of Volvo dealerships, %	36.8	32.6	4.2
of which other (incl. loans and insurance), %	8.2	11.9	- 3.7

CarPay™

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 declined, in part as a consequence of the ongoing Covid-19 pandemic, yet Volvo is maintaining a stable, high level in terms of market share. 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. eControl is an invoice management service and cost monitoring system on the Swedish market that is aimed principally at small and medium-sized haulage companies. Both eControl and the per kilometre financing solution are examples of the development work taking place in the bank – all so that we can offer Volvo customers Smarter Truck Financing that will enhance the hauliers' profitability.

	2020	2019	Change
Net interest income*	48,846	44,306	4,540
Commission income	9,390	10,387	- 997
Commission expense	- 162	- 215	53
Net income/expense from financial transactions	- 303	80	- 383
Other income	49	665	- 616
Operating income	**57,820**	**55,223**	**2,597**
Expenses**	- 28,452	- 35,501	7,049
Credit losses	- 299	- 59	- 240
Credit risk provision	- 33	- 168	135
Operating profit	**29,036**	**19,495**	**9,541**

* 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	2020	2019	Change
Number of contracts	6,419	6,490	- 71
Total volume, SEKm	4,148	4,156	- 8
of which transferred, %	81.2	80.3	0.9
of which pledged, %	18.8	19.7	- 0.9
of which loans, %	77.5	77.3	0.2
of which leasing, %	22.5	22.7	- 0.2
Share of total leases that are operating leases, %	22.9	24.4	- 1.5

NOTES

FLEET

The Fleet segment administers and finances fleets for mainly medium-sized and larger companies, regardless of which car brands customers choose to use. Both operating and finance leases are offered here.

The Fleet business area has held a market-leading position in recent years. As of December 2020, Fleet is still the market leader with 22.7%. The number of agreements has risen by approx. 3% compared with the corresponding period of the previous year. The majority of newly-signed agreements were in the operating lease category. In line with the expectations the Swedish National Bank and the Ministry of Finance in respect of Swedish banks, the Fleet business area has increased its lending by SEK 1 billion to companies during the year of the pandemic. The used car market has been volatile during the current Covid-19 pandemic, which has also been reflected in the bank's impairment of operating leases. After an initial sharp decline in connection with the Covid-19 outbreak, used car prices have recovered and are now at historically high levels. The second wave of Covid-19 during autumn 2020 has increased the level of uncertainty, and the bank has therefore increased the impairment of operating lease assets in the business area by SEK 29 million in Q4.

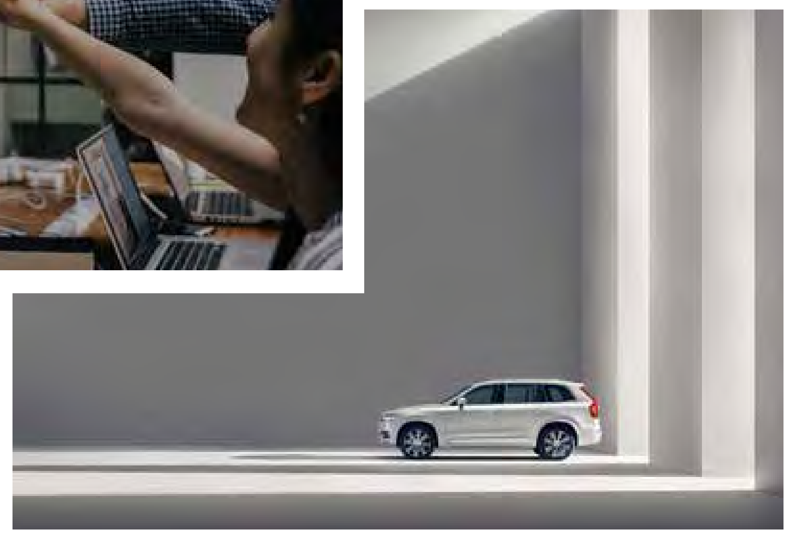
There is ongoing work in respect of product development, as well as the launch of new services to make things simpler for the bank's customers and create smarter car financing in the form of a competitive company car cost for drivers and companies alike.

	2020	2019	Change
Net leasing *	68,320	48,308	20,012
Change in impairment of operating leases	- 13,074	17,551	- 30,625
Commission income	200,491	163,533	36,958
Commission expense	- 638	- 755	117
Net income/expense from financial transactions	- 626	171	- 797
Servicing and repair agreements	58,895	56,572	2,323
Other income	745	523	222
Operating income	**314,114**	**285,903**	**28,211**
Expenses**	- 111,640	- 112,960	1,320
Credit losses	- 650	- 361	- 289
Credit risk provision	- 12,049	- 26	- 12,023
Operating profit	**189,775**	**172,556**	**17,219**

* Including depreciation of lease assets.

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

Product Information	2020	2019	Change
Number of financing agreements	36,392	35,437	955
Number of administered agreements	47,741	47,588	153
Total volume, SEKm	8,408	7,382	1,026
of which operating leases, %	71.7	68.5	3.2
of which finance leases, %	28.3	31.5	- 3.2



INCOME STATEMENT

NOTE 5. NET INTEREST INCOME

Interest income	2020	2019
Loans and advances to credit institutions	301	40
Loans and advances to customers	551,289	544,320
Debt securities	5,199	491
Other interest income	–	–
Total	**556,789**	**544,851**
Of which interest income from assets recognised at amortised cost	556,720	544,843
Interest expense		
Liabilities to credit institutions	- 15,628	- 21,925
Retail deposits and borrowings	- 132,892	- 140,054
Cost for deposit guarantee scheme	- 14,995	- 20,537
Investments in debt securities	- 145	- 2,516
Issued debt securities	- 105,549	- 86,992
Derivatives	- 17,513	- 17,298
Subordinated debts	- 6,404	- 5,601
Other interest expenses	- 34,021	- 40,396
Total	**- 327,147**	**- 335,319**
Of which interest expense from financial assets recognised at amortised cost	- 145	- 2,516
Net interest income	**229,642**	**209,532**

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	2020	2019
Lease income from contracts recognised as operating leases	5,835,615	5,659,891
Scheduled depreciation for contracts recognised as operating leases	- 5,378,296	- 5,247,991
Net lease income from contracts recognised as operating leases	**457,319**	**411,900**

Combined net interest income		
Lease income from finance leases (recognised as operating leases in the balance sheet)	3,175,842	3,267,138
Scheduled depreciation for finance leases (recognised as operating leases in the balance sheet)	- 2,926,961	- 3,029,371
Net lease income from finance leases*	**248,881**	**237,767**
Interest income	556,789	544,851
Interest expense	- 327,147	- 335,319
Combined net interest income**	**478,523**	**447,298**
Total lease and net interest income		
Net lease income from contracts recognised as operating leases	457,319	411,900
Net interest income in accordance with Note 5	229,642	209,532
Total lease and net interest income	**686,961**	**621,432**
Interest margin***, %	1.29	1.24
Average lending rate, %	2.40	2.20
Average deposit rate (incl. cost for deposit guarantee scheme), %	0.72	0.78

* 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

	2020	2019
Shares and interests*	241	308
Total	**241**	**308**

* Cash dividend Visa Sweden association Ek. For.

NOTE 8. COMMISSION INCOME

	2020	2019
Commission income, credit cards	180,187	191,865
Commission income, loans and leases	276,746	247,571
Total	**456,933**	**439,436**

NOTE 9. COMMISSION EXPENSE

	2020	2019
Payment processing commissions	- 4,019	- 4,664
Other commissions	- 72,834	- 37,505
Total	**- 76,853**	**- 42,169**

NOTE 10. NET INCOME/EXPENSE FROM FINANCIAL TRANSACTIONS*

GAIN/LOSS BY MEASUREMENT CATEGORY INCLUDING EXCHANGE RATE CHANGES

	2020	2019
Derivative assets intended for risk management, no hedge accounting	4,656	4,718
Derivative liabilities intended for risk management, no hedge accounting	- 6,409	- 2,980
Financial liabilities at amortised cost**	- 1,274	- 1,069
Change in fair value of derivatives that are hedging instruments in a fair value hedge	2,677	- 932
Change in fair value of hedged item attributable to the hedged risk in a fair value hedge	- 2,622	1,114
Total	**- 2,972**	**851**

* Financial assets valued at amortised cost amounted to 0.

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

NOTE 11. OTHER OPERATING INCOME

	2020	2019
Capital gain on disposal of property, plant and equipment	1,407	808
Servicing and repair agreement income	58,885	56,572
Income from associates	1,836	3,426
Other operating income	2,902	7,396
Total	**65,030**	**68,202**

NOTE 12. GENERAL ADMINISTRATIVE EXPENSES

	2020	2019
Salaries and fees	- 128,989	- 126,561
Social security contributions	- 40,790	- 41,028
Cost for pension premiums*	- 17,965	- 20,050
Payroll tax	- 4,454	- 4,874
Other staff costs	- 2,877	- 5,995
Total staff costs	**- 195,075**	**- 198,508**
Rents and other premises costs	- 15,632	- 15,661
IT costs	- 201,399	- 215,699
Consulting services	- 12,621	- 22,852
Contract staff	- 5,816	- 7,214
Audit	- 1,970	- 1,700
Postage and telephone	- 4,017	- 4,324
Other	- 11,773	- 14,069
Total other general administrative expenses	**- 253,228**	**- 281,519**
Total general administrative expenses	**- 448,303**	**- 480,027**

* Total pension premiums were KSEK 18,045 (20,091), of which KSEK 10,032 (10,462) refer to Alecta ITP 2 pensions. Of the bank's pension costs, KSEK 4,973 (4,747) refer to the bank's senior executives (11 (11) people). The bank has no outstanding pension obligations.

Expected fees in the next reporting period for ITP2 insurance policies with Alecta are KSEK 10,422 (9,521). 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 are 0.02% 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 125–175%. If Alecta's collective funding ratio were to fall below 125% or exceed 175% 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 2020, Alecta's surplus in the form of the collective funding ratio was 148% (148).

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

	2020			2019		
	Senior executives (22 people)	Other employees	Total	Senior executives (22 people)	Other employees	Total
Salaries and other remuneration	- 17,753	- 111,236	- 128,989	- 17,230	- 109,331	- 126,561
of which, variable remuneration	(–)	(- 515)	(- 515)	(–)	(- 558)	(- 558)
Total	**- 17,753**	**- 111,236**	**- 128,989**	**- 17,230**	**- 109,331**	**- 126,561**
Social security contributions	- 10,670	- 52,539	- 63,209	- 10,277	- 55,674	- 65,951
of which, retirement benefit costs	(- 4,917)	(- 17,502)	(- 22,419)	(- 4,747)	(- 20,177)	(- 24,924)

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
2020					
Chairman of the Board	- 775	–	–	–	- 775
Vice Chairman of the Board	- 550	–	–	–	- 550
Directors (9 people)	- 1,100	–	–	–	- 1,100
CEO	- 2,763	–	- 179	- 1,004	- 3,946
Other senior executives (10 people)	- 12,565	–	- 944	- 3,913	- 17,422
Total	**- 17,753**	**–**	**- 1,123**	**- 4,917**	**- 23,793**
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**

REMUNERATION OF THE BOARD OF DIRECTORS

Name	Position (2020/2019)	2020	2019
Urmas Kruusval	Chairman	- 775	- 775
Synnöve Trygg	Vice Chairman	- 550	- 525
Ann Hellenius	Director	- 250	- 250
Anders Gustafsson	Deputy	–	- 50
Per Avander	Director	- 400	- 300
Tommy Andersson	–/Director	–	- 200
Patrik Tolf	–/Director	–	- 225
Janola Gustafson	Deputy	- 150	- 125
Björn Rentzhog	Director	- 200	- 150
Pascal Bellemans	Deputy	–	- 50
Kristian Elvefors	–/Director	–	- 100
Jonas Estéen	Deputy	- 100	- 50
Johan Ekdahl	Director/–	–	–
Lex Kerssemakers	Director/–	–	–
Total		**- 2,425**	**- 2,800**

Loans to senior executives	2020	2019
Senior executives' loans in the company	113	152
Chief Executive Officer and Executive Vice President	–	–
Directors and Deputy Board members	–	–
Total	**113**	**152**

Loans to senior executives amounted to KSEK 113 (152). The amount of interest for these people amounted to KSEK 3 (3). The terms and conditions of loans to senior executives are the same as for the bank's other employees.

EMPLOYEE INFORMATION

	2020			2019		
	Men	Women	Total	Men	Women	Total
Average number of employees	108	126	234	99	121	220
Gender distribution in management						
CEO	1	–	1	1	–	1
Board	9	2	11	8	3	11
Other senior executives	8	2	10	8	2	10
Number	**18**	**4**	**22**	**17**	**5**	**22**

AUDITORS' FEES AND EXPENSES

KPMG	2020	2019
Audit engagement	- 1,750	- 1,700
Audit services in addition to audit engagement	- 270	- 270
Tax advisory services	–	- 13
Other services	- 88	- 19
Total	**- 2,108**	**- 2,002**

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

	2020	2019
Scheduled depreciation and amortisation	- 5,388,879	- 5,256,135
Reversal of impairment losses for the year	32,912	48,577
Impairment	- 67,156	- 40,573
Total	**- 5,423,123**	**- 5,248,131**
Scheduled depreciation and amortisation		
Fixtures and fittings	- 3,889	- 3,755
Lease assets	- 5,378,296	- 5,247,991
Intangible assets	- 6,694	- 4,389
Total	**- 5,388,879**	**- 5,256,135**
Net impairment		
Impairment losses/Reversals, lease assets credit risk*	- 10,285	- 48
Impairment losses/Reversals, lease assets residual value risk**	- 23,959	17,551
Intangible assets	–	- 9,499
Total	**- 34,244**	**8,004**

* During the year, the bank's impairment for expected credit losses has increased as a result of Covid-19. See Note 25 for further information.

** The bank's increased estimated impairment of operating leases is due to future uncertainties, in part in respect of Covid-19.

NOTE 14. OTHER OPERATING EXPENSES

	2020	2019
Fees to central organisations	- 3,367	- 3,701
Insurance costs	- 1,714	- 1,368
Marketing costs	- 27,095	- 53,175
Other operating expenses	- 14,077	- 17,577
Total	**- 46,253**	**- 75,821**

NOTE 15. NET CREDIT LOSSES

Credit losses	31 Dec 2020	31 Dec 2019
Loans at amortised cost (incl undrawn portion of limit)		
Provisions, stage 1	12,372	9,498
Provisions, stage 2	10,118	8,164
Provisions, stage 3	4,375	6,200
Total provision	**26,865**	**23,862**
	2020	**2019**
Loans at amortised cost (incl undrawn portion of limit)		
Change in provisions – stage 1	- 2,874	- 222
Change in provisions – stage 2	- 1,954	200
Change in provisions – stage 3	1,825	- 638
Total change in provision	**- 3,003**	**- 660**
Write-off of actual losses	- 20,023	- 17,297
Recovery of actual previous customer losses	2,026	2,274
Total	**- 17,997**	**- 15,023**
Net credit losses*	**- 21,000**	**- 15,683**

* To be read together with total actual customer losses for lease assets further down the Note, and compared with the income statement and the Credit Losses line.

Credit losses	31 Dec 2020	31 Dec 2019
Lease assets		
Provisions, stage 1	3,426	135
Provisions, stage 2	198	38
Provisions, stage 3	7,005	171
Total provision	**10,629**	**344**
	2020	**2019**
Lease assets		
Change in provisions – stage 1	- 3,292	- 28
Change in provisions – stage 2	- 160	- 14
Change in provisions – stage 3	- 6,833	- 6
Total change in provision**	**- 10,285**	**- 48**
Write-off of actual losses	- 743	- 361
Recovery of actual previous customer losses	92	3
Total***	**- 651**	**- 358**
Net credit losses	**- 10,936**	**- 406**

** See income statement and the line Depreciation and impairment of property, plant and equipment and amortisation and impairment of intangible assets. Note 13 refers to the line Impairment losses/Reversals, lease assets credit risk.

*** To be read together with the line Credit losses, net loans at amortised cost in the note's first table and compared with the income statement and the line Credit losses.

Credit losses	31 Dec 2020	31 Dec 2019
Financial assets		
Provisions, stage 1	917	843
Provisions, stage 2	–	–
Provisions, stage 3	–	–
Total provision	**917**	**843**
	2020	**2019**
Financial assets		
Change in provisions – stage 1	- 73	57
Change in provisions – stage 2	–	–
Change in provisions – stage 3	–	–
Total change in provision	**- 73**	**57**
Net credit losses****	**- 73**	**57**

**** See income statement and the line Impairment losses/reversals of financial assets, net.

Credit losses	31 Dec 2020	31 Dec 2019
Total assets		
Provisions, stage 1	16,715	10,476
Provisions, stage 2	10,316	8,202
Provisions, stage 3	11,380	6,371
Total provision	**38,411**	**25,049**
	2020	**2020**
Total assets		
Change in provisions – stage 1	- 6,239	- 193
Change in provisions – stage 2	- 2,114	186
Change in provisions – stage 3	- 5,008	- 644
Total change in provision	**- 13,361**	**- 651**
Write-off of actual losses	- 20,766	- 17,658
Recovery of actual previous customer losses	2,119	2,277
Total	**- 18,648**	**- 15,381**
Net credit losses	**- 32,009**	**- 16,032**

During the year, the bank's provision for expected credit losses has increased as a result of Covid-19. Macroeconomic forecast parameters in the Bank's ECL model, such as unemployment, bankruptcy rates and disposable income, essentially explain this change.

SENSITIVITY ANALYSIS OF THE BANK'S ECL MODEL

The table below presents how the provision as at 31 December 2020 would be affected in the case of two different events.

	Expected credit loss (percentage difference)
Current provision, SEK million	38.4
Percentage difference in expected credit loss if PD should increase by 20%	13%
Percentage difference in expected credit loss if unemployment should increase by 1 percentage point	14%

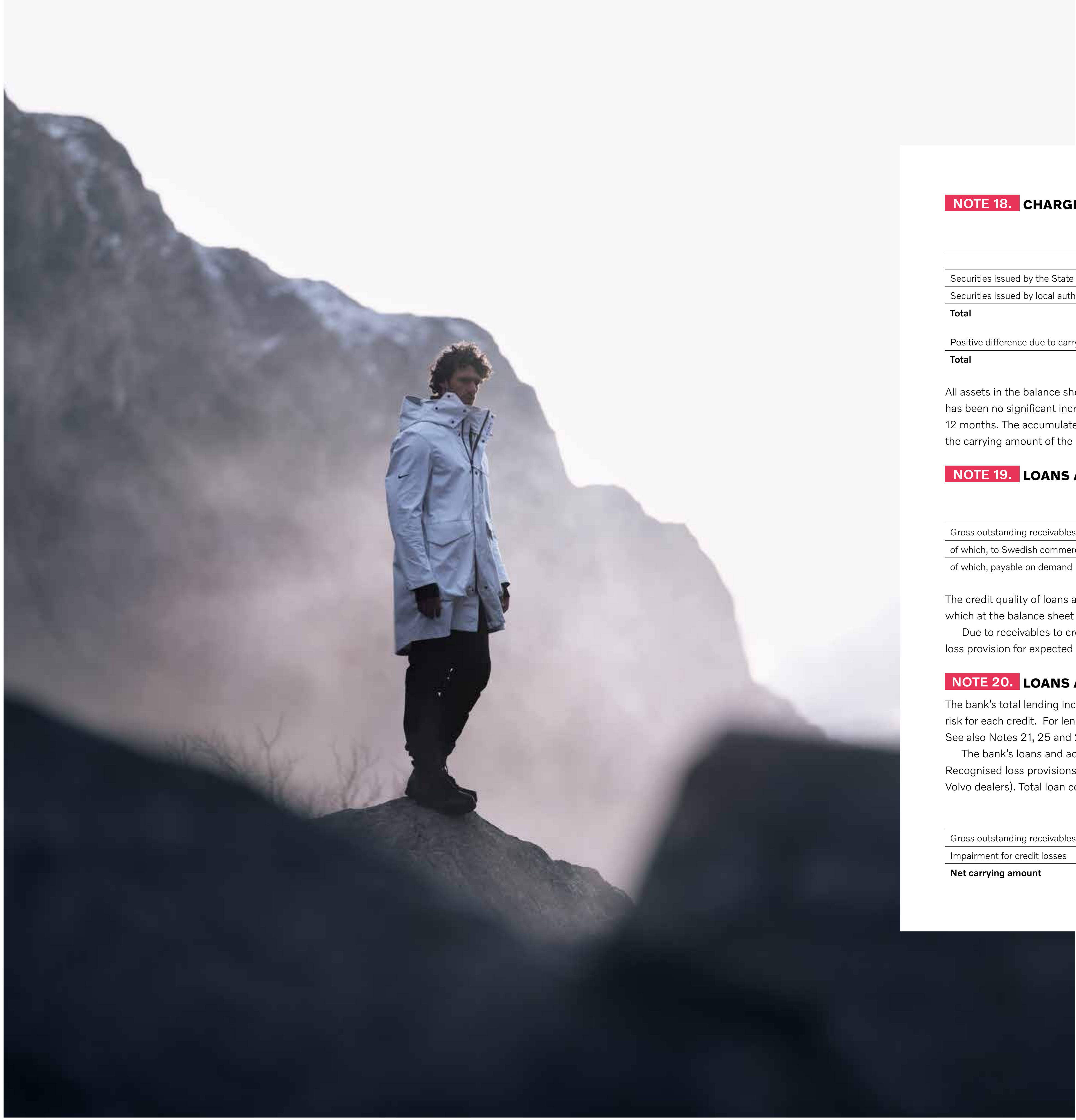
NOTE 16. APPROPRIATIONS

	2020	2019
Accelerated depreciation	- 412,589	- 498,268
Total	**- 412,589**	**- 498,268**

NOTE 17. TAX ON PROFIT FOR THE YEAR

	2020	2019
Tax expense for the year	- 33,986	- 4,661
Total reported tax expense	**- 33,986**	**- 4,661**

Reconciliation of effective tax	**2020**		**2019**	
Profit before tax		155,644		17,820
Tax at applicable tax rate	- 21.4%	- 33,308	- 21.4%	- 3,814
Non-deductible expenses	- 0.4%	- 678	- 4.8%	- 847
Non-taxable income	–	–	–	–
Reported effective tax	**- 21.8%**	**- 33,986**	**- 26.2%**	**- 4,661**



BALANCE SHEET

NOTE 18. CHARGEABLE TREASURY BILLS, ETC.

	Carrying amount 31 Dec 2020	Carrying amount 31 Dec 2019
Securities issued by the State	–	–
Securities issued by local authorities and other public sector entities	1,331,203	1,429,949
Total	**1,331,203**	**1,429,949**
Positive difference due to carrying amounts exceeding nominal values	16,203	11,949
Total	**16,203**	**11,949**

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 688.

NOTE 19. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

	31 Dec 2020	31 Dec 2019
Gross outstanding receivables in Swedish currency	2,483,630	1,281,290
of which, to Swedish commercial banks	2,483,623	1,281,287
of which, payable on demand	2,483,630	1,281,290

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 37.68 billion (37.93). The stated values are reduced by impairment for credit risk for each credit. For lending to customers, the values are KSEK 25,068 (24,987) 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 and undrawn limits when lending to Volvo dealers). Total loan commitments amount to SEK 10,939,658 (10,554,245).

	31 Dec 2020	31 Dec 2019
Gross outstanding receivables in Swedish currency	16,304,544	17,303,068
Impairment for credit losses	- 25,068	- 24,987
Net carrying amount	**16,279,476**	**17,278,081**

CHANGES IN RECOGNISED GROSS VALUE AND LOSS PROVISIONS

	Non-credit-impaired		Credit-impaired	
31 Dec 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as at 1 Jan 2020	**16,457,864**	**769,804**	**75,401**	**17,303,069**
Financial assets, new contracts at end of year*	5,865,173	132,979	11,823	6,009,975
Financial assets, completed contracts at beginning of year**	- 3,120,655	- 141,660	- 51,519	- 3,313,834
*Net changes in stage****				
In stage 1	- 3,506,663			- 3,506,663
In stage 2		- 48,913		- 48,913
In stage 3			- 2,747	- 2,747
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 105,698			- 105,698
From and to stage 2 (to and from stages 1 and 3)		- 118,233		- 118,233
From and to stage 3 (to and from stages 1 and 2)			87,588	87,588
Gross carrying amount as at 31 Dec 2020	**15,590,021**	**593,977**	**120,546**	**16,304,544**
Loss provisions				
Loss provision as per 1 Jan 2020	**- 9,497**	**- 8,164**	**- 7,326**	**- 24,987**
Financial assets for new contracts at end of year	- 2,156	- 894	- 110	- 3,160
Financial assets for completed contracts at beginning of year	365	1,301	4,828	6,494
*Net changes in stage****				
In stage 1	- 655			- 655
In stage 2		- 1,127		- 1,127
In stage 3			- 46	- 46
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 240			- 240
From and to stage 2 (to and from stages 1 and 3)		- 1,223		- 1,223
From and to stage 3 (to and from stages 1 and 2)			- 987	- 987
Change in interest reserves			863	863
Loss provisions as at 31 Dec 2020	**- 12,183**	**- 10,107**	**2,778**	**- 25,068**
Opening balance as at 1 Jan 2020	**16,448,367**	**761,640**	**68,075**	**17,278,082**
Closing balance as at 31 Dec 2020	**15,577,838**	**583,870**	**117,768**	**16,279,476**
Undrawn limits (of balance)				
Undrawn limits as at 1 January 2020	**10,428,134**	**117,242**	**8,869**	**10,554,245**
Financial assets for new contracts at end of year*	764,479	10,292	71	774,842
Financial assets for completed contracts at beginning of year	- 643,087	- 8,091	- 4,632	- 665,810
*Net changes in stage****				
In stage 1	252,886			252,886
In stage 2		2,050		2,050
In stage 3			13	13
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	30,176			30,176
From and to stage 2 (to and from stages 1 and 3)		- 18,872		- 18,872
From and to stage 3 (to and from stages 1 and 2)			128	128
Undrawn limits as at 31 December 2020	**10,832,588**	**102,621**	**4,449**	**10,939,658**

Gross loans and advances to customers decreased by approximately SEK 999 million (+356) during the course of the year. This consists of new contracts worth SEK 6.0 billion (6.3). Contracts paid off or contracts withdrawn for another reason (e.g. actual loss) have resulted in the value falling by SEK 3.3 billion (3.1). For contracts that were in place both at the beginning and the end of the year, the gross value has gone down by SEK 3.7 billion (2.9). The largest decrease in gross value occurred in stage 1. The loss provisions in respect of credit risk have increased by SEK 0.9 million (0.7) during the year, mainly due to changes in forecast parameters in the bank's ECL model such as unemployment, bankruptcy rates and disposable income as a result of Covid-19. The bank's interest reserve has decreased by SEK 0.9 million (-0.1) during the year.

	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**
Undrawn limits (of balance)				
Undrawn limits as at 1 January 2019	**10,559,928**	**117,788**	**10,514**	**10,688,230**
Financial assets for new contracts at end of year*	697,933	10,303	630	708,866
Financial assets for completed contracts at beginning of year	- 465,403	- 7,165	- 6,318	- 478,886
*Net changes in stage****				
In stage 1	- 373,373			- 373,373
In stage 2		4,427		4,427
In stage 3			- 56	- 56
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	9,049			9,049
From and to stage 2 (to and from stages 1 and 3)		- 8,111		- 8,111
From and to stage 3 (to and from stages 1 and 2)			4,099	4,099
Undrawn limits as at 31 December 2019	**10,428,134**	**117,242**	**8,869**	**10,554,245**

* 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.

GROSS CARRYING AMOUNT AND LOSS PROVISION – SECTOR BREAKDOWN

	31 Dec 2020			31 Dec 2019		
	Gross carrying amount	Loss provision	Net carrying amount	Gross carrying amount	Loss provision	Net carrying amount
Loans and advances to customers						
Retail customers	12,491,342	- 22,541	12,468,801	12,863,443	- 22,831	12,840,612
Corporate customers						
Transport	2,381,198	- 900	2,380,298	2,423,028	- 919	2,422,109
Sale and service of motor vehicles	726,272	- 311	725,961	1,214,120	- 177	1,213,943
Construction	296,713	- 397	296,316	302,891	- 377	302,514
Other loans and advances to companies	409,019	- 919	408,100	499,586	- 683	498,903
Total loans and advances to customers	**16,304,544**	**- 25,068**	**16,279,476**	**17,303,068**	**- 24,987**	**17,278,081**

NOTE 21. BONDS AND OTHER DEBT SECURITIES

	Carrying amount	Carrying amount
Issued by Swedish borrowers	**31 Dec 2020**	**31 Dec 2019**
Mortgage lenders	1,126,021	1,415,612
Non-financial corporations	699,963	933,940
Total	**1,825,984**	**2,349,552**
Positive difference due to carrying amounts exceeding nominal values	10,984	15,552
Total	**10,984**	**15,552**

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 229.

NOTE 22. SHARES AND INTERESTS IN ASSOCIATES AND OTHER COMPANIES

	31 Dec 2020	31 Dec 2019
Unlisted securities		
Carrying amount, 1 January	11,258	23,777
Settlement shares limited partnership previous years	- 3,333	- 15,945
Share of profit for the year of limited partnerships	1,836	3,426
Carrying amount, 31 December	**9,761**	**11,258**

	Performance	Equity	Share of equity	Carrying amount
2020				
Visa Inc C	–	–	–	2,331
Volvohandelns PV Försäljnings AB*, corp. ID no. 556430-4748, Gothenburg	1,037	39,988	13,196	1,000
Volvohandelns PV Försäljnings KB, corp. ID no. 916839-7009, Gothenburg	- 39	33,745	2,584	2,584
VCC Tjänstebilar KB, corp. ID no. 969673-1950, Gothenburg	6,310	19,757	2,577	2,577
VCC Försäljnings KB, corp. ID no. 969712-0153, Gothenburg	1,075	149	1,269	1,269
Total	**8,383**	**93,639**	**19,626**	**9,761**
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**

* 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 2020, 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 2020
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	2020	2019
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 2019	88,700	–	88,700
Purchases for the year	7,403	–	7,403
Impairment	- 9,499	–	- 9,499
Closing balance, 31 Dec 2019	**86,605**	**–**	**86,605**
Opening balance, 1 Jan 2020	86,605	–	86,605
Purchases for the year	11,817	–	11,817
Closing balance, 31 Dec 2020	**98,422**	**–**	**98,422**
Accumulated amortisation			
Opening balance, 1 Jan 2019	- 67,155	–	- 67,155
Depreciation for the year	- 4,389	–	- 4,389
Closing balance, 31 Dec 2019	**- 71,545**	**–**	**- 71,545**
Opening balance, 1 Jan 2020	- 71,545	–	- 71,545
Depreciation for the year	- 6,695	–	- 6,695
Closing balance, 31 Dec 2020	**- 78,240**	**–**	**- 78,240**
Carrying amounts			
31 Dec 2019	**15,060**	**–**	**15,060**
31 Dec 2020	**20,182**	**–**	**20,182**

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 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**
Opening balance, 1 Jan 2020	26,848	29,389,940	29,416,788
Purchases	1,303	11,133,529	11,134,832
Sales	–	- 10,015,615	- 10,015,615
Disposals	–	–	–
Closing balance, 31 Dec 2020	**28,151**	**30,507,854**	**30,536,005**
Depreciation			
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**
Opening balance, 1 Jan 2020	- 14,715	- 8,684,582	- 8,699,297
Depreciation for the year	- 3,889	- 5,378,296	- 5,382,185
Sales	–	5,051,335	5,051,335
Disposals	–	–	–
Closing balance, 31 Dec 2020	**- 18,604**	**- 9,011,543**	**- 9,030,147**
Impairment			
Opening balance, 1 Jan 2019	–	- 74,221	- 74,221
Reversal of impairment losses for the year	–	48,577	48,577
Impairment for the year	–	- 31,073	- 31,073
Closing balance, 31 Dec 2019	**–**	**- 56,717**	**- 56,717**
Opening balance, 1 Jan 2020	–	- 56,717	- 56,717
Reversal of impairment losses for the year	–	32,912	32,912
Impairment for the year	–	- 67,156	- 67,156
Closing balance, 31 Dec 2020	**–**	**- 90,961**	**- 90,961**
of which, impairment of residual value risk	(–)	(- 80,332)	(- 80,332)
Carrying amounts			
1 Jan 2019	6,488	20,357,024	20,363,512
31 Dec 2019	**12,133**	**20,648,640**	**20,660,773**
1 Jan 2020	12,133	20,648,640	20,660,773
31 Dec 2020	**9,547**	**21,405,350**	**21,414,897**

CHANGES IN RECOGNISED GROSS VALUE AND LOSS PROVISIONS

	Non-credit-impaired		Credit-impaired	
31 Dec 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as at 1 Jan 2020	**19,354,404**	**975,356**	**368,202**	**20,697,962**
Financial assets, new contracts at end of year*	9,838,543	455,795	97,187	10,391,525
Financial assets, completed contracts at beginning of year**	- 5,949,272	- 220,616	- 154,957	- 6,324,845
*Net changes in stage****				
In stage 1	- 3,003,790			- 3,003,790
In stage 2		- 49,303		- 49,303
In stage 3			- 42,378	- 42,378
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 36,623			- 36,623
From and to stage 2 (to and from stages 1 and 3)		- 287,736		- 287,736
From and to stage 3 (to and from stages 1 and 2)			118,164	118,164
Gross carrying amount as at 31 Dec 2020	**20,203,262**	**873,496**	**386,218**	**21,462,976**
Loss provisions				
Loss provision as per 1 Jan 2020	**- 135**	**- 38**	**- 171**	**- 344**
Financial assets for new contracts at end of year	- 1,750	- 99	- 1,518	- 3,367
Financial assets for completed contracts at beginning of year	30	6	62	98
*Net changes in stage****				
In stage 1	- 1,571			- 1,571
In stage 2		- 26		- 26
In stage 3			- 3,904	- 3,904
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	0			0
From and to stage 2 (to and from stages 1 and 3)		- 41		- 41
From and to stage 3 (to and from stages 1 and 2)			- 1,474	- 1,474
Loss provisions as at 31 Dec 2020	**- 3,426**	**- 198**	**- 7,005**	**- 10,629**
Opening balance as at 1 Jan 2020	**19,354,269**	**975,318**	**368,031**	**20,697,618**
Closing balance as at 31 Dec 2020	**20,199,836**	**873,298**	**379,213**	**21,452,347**

Leases have increased by approximately SEK 765 million (288) during the year. This consists of new contracts worth SEK 10.4 billion (9.6). Contracts paid off or contracts withdrawn for another reason (e.g. actual loss) have resulted in the value falling by SEK 6.3 billion (6.0). For contracts that were in place both at the beginning and the end of the year, the gross value has gone down by SEK 3.3 billion (3.3). The largest decrease in gross value occurred in stage 1. The loss provisions have increased by KSEK 10,285 (48) during the year, principally due to changes in forecast parameters in the bank's ECL model such as unemployment, bankruptcy rates and disposable income as a result of Covid-19.

	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	**19,209,145**	**820,967**	**380,207**	**20,410,319**
Financial assets, new contracts at end of year*	8,974,351	525,382	61,688	9,561,421
Financial assets, completed contracts at beginning of year**	- 5,625,097	- 226,337	- 118,644	- 5,970,078
*Net changes in stage****				
In stage 1	- 3,013,090			- 3,013,090
In stage 2		- 42,753		- 42,753
In stage 3			- 51,572	- 51,572
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 190,905			- 190,905
From and to stage 2 (to and from stages 1 and 3)		- 101,903		- 101,903
From and to stage 3 (to and from stages 1 and 2)			96,523	96,523
Gross carrying amount as at 31 Dec 2019	**19,354,404**	**975,356**	**368,202**	**20,697,962**
Loss provisions				
Loss provision as per 1 Jan 2019	**- 106**	**- 24**	**- 166**	**- 296**
Financial assets for new contracts at end of year	- 87	- 15	- 43	- 145
Financial assets for completed contracts at beginning of year	25	5	53	83
*Net changes in stage****				
In stage 1	29			29
In stage 2		2		2
In stage 3			30	30
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	4			4
From and to stage 2 (to and from stages 1 and 3)		- 6		- 6
From and to stage 3 (to and from stages 1 and 2)			- 45	- 45
Loss provisions as per 31 Dec 2019	**- 135**	**- 38**	**- 171**	**- 344**
Opening balance as at 1 Jan 2019	**19,209,039**	**820,943**	**380,041**	**20,410,023**
Closing balance as at 31 Dec 2019	**19,354,269**	**975,318**	**368,031**	**20,697,618**

* Leases 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.

** Leases taken out before the start of the year and terminated 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 leases, 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". The amounts also include changes in gross carrying amounts that arose during periods before a contract was completed.

**** Transfers between stages include leases that were part of a different stage in the CB than in the OB.

NOTES

GROSS CARRYING AMOUNT AND LOSS PROVISION – SECTOR BREAKDOWN

	31 Dec 2020			31 Dec 2019		
	Gross carrying amount	Loss provision	Net carrying amount	Gross carrying amount	Loss provision	Net carrying amount
Leases						
Retail customers	3,604,624	- 40	3,604,584	3,702,993	- 25	3,702,968
Corporate customers						
Legal, financial, scientific and technological activities	3,848,453	- 3,370	3,845,083	3,553,419	- 84	3,553,335
Retail: repair of motor vehicles	3,326,424	- 1,900	3,324,524	3,297,404	- 44	3,297,360
Manufacture	3,177,587	- 2,110	3,175,477	2,847,818	- 32	2,847,786
Other loans and advances to companies	7,505,888	- 3,209	7,502,679	7,296,328	- 159	7,296,169
Total lending, lease assets	**21,462,976**	**- 10,629**	**21,452,347**	**20,697,962**	**- 344**	**20,697,618**

NOTE 26. OTHER ASSETS

	31 Dec 2020	31 Dec 2019
Positive value of derivatives	9,933	11,022
Current tax asset	24,762	67,252
Trade receivables	500,052	701,270
of which non-cancellable lease income	(466,240)	(479,978)
Other assets	173,269	156,498
Total	**708,016**	**936,042**

Trade receivables are offset against a credit risk provision of KSEK 2,090 (31) and an interest reserve of KSEK 23 (2) and recognised on a net basis in respect of fleet contracts.

**CHANGES IN RECOGNISED GROSS VALUE AND LOSS PROVISIONS –
TRADE RECEIVABLES IN FLEET ADMINISTRATION**

	Non-credit-impaired		Credit-impaired	
31 Dec 2020	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Gross carrying amount as at 1 Jan 2020	**391,563**	**2,908**	**34,442**	**428,913**
Financial assets, new contracts at end of year*	15,055	32	–	15,087
Financial assets, completed contracts at beginning of year**	- 31,476	- 136	- 924	- 32,536
*Net changes in stage****				
In stage 1	- 119,584			- 119,584
In stage 2		- 88		- 88
In stage 3			- 1,217	- 1,217
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 9,900			- 9,900
From and to stage 2 (to and from stages 1 and 3)		83		83
From and to stage 3 (to and from stages 1 and 2)			- 407	- 407
Gross carrying amount as at 31 Dec 2020	**245,658**	**2,799**	**31,894**	**280,351**
Loss provisions				
Loss provision as per 1 Jan 2020	**- 2**	**0**	**- 29**	**- 31**
Financial assets for new contracts at end of year	- 17	0	0	- 17
Financial assets for completed contracts at beginning of year	0	0	1	1
*Net changes in stage****				
In stage 1	- 168			- 168
In stage 2		- 5		- 5
In stage 3			- 1,614	- 1,614
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 2			- 2
From and to stage 2 (to and from stages 1 and 3)		- 6		- 6
From and to stage 3 (to and from stages 1 and 2)			- 249	- 249
Change in interest reserves			- 22	- 22
Loss provisions as at 31 Dec 2020	**- 189**	**- 11**	**- 1,913**	**- 2,113**
Opening balance as at 1 Jan 2020	**391,561**	**2,908**	**34,413**	**428,882**
Closing balance as at 31 Dec 2020	**245,469**	**2,788**	**29,981**	**278,238**

During the year, gross lending for trade receivables within Fleet administration has decreased by approximately SEK 149 million (43). This consists of new contracts worth SEK 15.1 million (21.3). Contracts paid off or contracts withdrawn for another reason (e.g. actual loss) have resulted in the value falling by SEK 32.5 million (29.8). For contracts that were in place both at the beginning and the end of the year, the gross value has gone down by SEK 131.1 million (34.6). The largest decrease in gross value has occurred in stage 1. The loss provisions have increased by KSEK 2,080 (-13.7) during the year, principally due to changes in forecast parameters in the bank's ECL model such as unemployment, bankruptcy rates and disposable income as a result of Covid-19.

	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	**440,276**	**1,132**	**30,545**	**471,953**
Financial assets, new contracts at end of year*	19,288	1,933	103	21,324
Financial assets, completed contracts at beginning of year**	- 29,070	- 267	- 457	- 29,794
*Net changes in stage****				
In stage 1	- 32,063			- 32,063
In stage 2		- 196		- 196
In stage 3			- 3,451	- 3,451
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	- 6,868			- 6,868
From and to stage 2 (to and from stages 1 and 3)		306		306
From and to stage 3 (to and from stages 1 and 2)			7,702	7,702
Gross carrying amount as at 31 Dec 2019	**391,563**	**2,908**	**34,442**	**428,913**
Loss provisions				
Loss provision as per 1 Jan 2019	**- 2**	**0**	**- 45**	**- 47**
Financial assets for new contracts at end of year	0	0	0	0
Financial assets for completed contracts at beginning of year	0	0	0	0
*Net changes in stage****				
In stage 1	0			0
In stage 2		0		0
In stage 3			6	6
*Transfers between stages*****				
From and to stage 1 (to and from stages 2 and 3)	0			0
From and to stage 2 (to and from stages 1 and 3)		0		0
From and to stage 3 (to and from stages 1 and 2)			- 7	- 7
Change in interest reserves			17	17
Loss provisions as per 31 Dec 2019	**- 2**	**0**	**- 29**	**- 31**
Opening balance as at 1 Jan 2019	**440,274**	**1,132**	**30,500**	**471,906**
Closing balance as at 31 Dec 2019	**391,561**	**2,908**	**34,413**	**428,882**

* Trade receivables within Fleet administration 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.

** Trade receivables within Fleet administration taken out before the start of the year and terminated 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 trade receivables within Fleet administration, 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". 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 are covered.

**** Transfers between stages include trade receivables within Fleet administration that were part of a different stage in the CB than in the OB.

GROSS CARRYING AMOUNT AND LOSS PROVISION – SECTOR BREAKDOWN

	31 Dec 2020			31 Dec 2019		
	Gross carrying amount	Loss provision	Net carrying amount	Gross carrying amount	Loss provision	Net carrying amount
Other assets						
Retail customers	–	–	–	–	–	–
Corporate customers						
Legal, financial, scientific and technological activities	101,796	- 97	101,699	119,185	- 6	119,179
Manufacture	52,284	- 983	51,301	148,802	- 9	148,793
Sale and service of motor vehicles	36,811	- 140	36,671	42,082	- 3	42,079
Other loans and advances to companies	89,460	- 893	88,567	118,845	- 14	118,831
Total lending other assets	**280,351**	**- 2,113**	**278,238**	**428,913**	**- 31**	**428,882**

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 9.9 million (11.0) and the value of derivative liabilities including accrued interest is SEK 76.4 million (11.1).

2020 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	24,839	400,125	–	424,964	99	- 530
Currency-related contracts						
Swaps (NOK)	–	649,500	–	649,500	–	- 75,249
Total	**24,839**	**1,049,625**	**–**	**1,074,464**	**99**	**- 75,779**
Derivatives for which hedge accounting is applied (fair value hedge)						
Interest rate-related contracts						
Swaps	–	950,000	–	950,000	9,834	- 625
Currency-related contracts						
Swaps (NOK)	–	–	–	–	–	–
Total	**–**	**950,000**	**–**	**950,000**	**9,834**	**- 625**
Total	**24,839**	**1,999,625**	**–**	**2,024,464**	**9,933**	**- 76,404**
Breakdown of market value by currency						
SEK	24,839	1,350,125	–	1,374,964	9,933	- 1,155
NOK	–	649,500	–	649,500	–	- 75,249
Total	**24,839**	**1,999,625**	**–**	**2,024,464**	**9,933**	**- 76,404**

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**

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	700,000	9,834		Other assets	2,727
Derivatives, negative values	250,000		625	Other liabilities	- 667
Total	**950,000**	**9,834**	**625**		**2,060**

Ineffectiveness amounts to KSEK -14 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	955,931	5,931	- 2,074	–

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

HEDGE INEFFECTIVENESS RECOGNISED IN 2020 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	- 2,074	Net income/expense from financial transactions
Hedging instruments		
Interest rate swaps	2,060	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. For derivatives to which hedge accounting is applied, there is only exposure to STIBOR. 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 2020	31 Dec 2019
Prepaid expenses	40,253	38,038
Accrued interest income	3,938	5,137
Other accrued income	18,349	24,071
Total	**62,540**	**67,246**

NOTE 29. LIABILITIES TO CREDIT INSTITUTIONS AND SECURITIES ISSUED

BREAKDOWN BY CURRENCY

2020	**SEK**	**NOK**	**Total**
Liabilities to credit institutions	1,230,952	–	1,230,952
Securities issued	11,534,029	574,880	12,108,909
Total	**12,764,981**	**574,880**	**13,339,861**

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**

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 2020	31 Dec 2019
Public sector	76	65
Corporate sector	4,142	3,636
Retail sector	21,288,720	20,519,353
of which, individual business owners	(4,174,376)	(4,111,464)
Other	70	87
Total deposits	**21,293,008**	**20,523,141**

RETAIL BORROWINGS

Borrowings by customer category	31 Dec 2020	31 Dec 2019
Corporate sector	1,015,786	693,594
Other	–	–
Total borrowing	**1,015,786**	**693,594**
of which, Group companies	(6,789)	(6,789)
of which, associates	(86,902)	(257,718)
Total retail deposits and borrowings	**22,308,794**	**21,216,735**

NOTE 31. OTHER LIABILITIES

	31 Dec 2020	31 Dec 2019
Negative value of derivatives	76,404	11,070
Trade payables	546,173	694,241
Liability to customer	92,494	109,067
Other liabilities	341,675	441,304
Total	**1,056,746**	**1,255,682**

NOTE 32. ACCRUED EXPENSES AND DEFERRED INCOME

	31 Dec 2020	31 Dec 2019
Accrued interest expense	16,732	19,838
Other accrued expenses	136,239	113,536
Deferred income	1,176,882	1,172,679
Total	**1,329,853**	**1,306,053**

NOTE 33. SUBORDINATED DEBTS

	Currency	Nominal	Interest rate	Maturity date	Carrying amount 2020	Carrying amount 2019
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 2020	31 Dec 2019
Accumulated accelerated depreciation		
Opening balance, 1 January	4,626,458	4,128,190
Change for the year	412,590	498,268
Closing balance, 31 December	**5,039,048**	**4,626,458**

NOTE 35. EQUITY

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

DIVIDEND

No dividend has been reported in 2020. The proposed dividend relates to the 2019 and 2020 financial years, and amounts to KSEK 213,069, corresponding to SEK 213.07 per share. The dividend corresponds to 25% of net earnings for 2019 and 2020, which is in line with the recommendations of the Swedish Financial Supervisory Authority.

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 3) in order to determine the fair value in accordance with IFRS 13.

Securities issued and subordinated debts have been calculated based on current lending spreads (Level 2) in order to determine the fair value in accordance with IFRS 13. Liabilities to credit institutions have been calculated on the basis of estimated lending spreads (Level 3).

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

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

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

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

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

Assets 2020	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Chargeable treasury bills, etc.	1,331,306	–	–	1,331,306	1,331,203
Loans and advances to credit institutions	–	–	2,483,630	2,483,630	2,483,630
Loans and advances to customers	–	–	16,804,095	16,804,095	16,279,476
Bonds and other debt securities	1,126,856	699,963	–	1,826,819	1,825,984
Other assets*	–	9,933	698,083	708,016	708,016
Prepaid expenses and accrued income	–	–	62,540	62,540	62,540
Total	**2,458,162**	**709,896**	**20,048,348**	**23,216,406**	**22,690,849**

Liabilities 2020	Level 1	Level 2	Level 3	Total Fair value	Total Carrying amount
Liabilities to credit institutions	–	–	1,238,703	1,238,703	1,230,952
Retail deposits and borrowings	–	–	22,308,794	22,308,794	22,308,794
Securities issued	–	12,206,083	–	12,206,083	12,108,909
Other liabilities*	–	76,404	980,342	1,056,746	1,056,746
Accrued expenses and deferred income	–	–	1,329,853	1,329,853	1,329,853
Subordinated debts	–	406,395	–	406,395	400,000
Total	**–**	**12,688,882**	**25,857,692**	**38,546,574**	**38,435,254**

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**	**944,962**	**19,560,036**	**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	**–**	**13,617,149**	**25,378,786**	**38,995,935**	**38,863,064**

* 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 9,9 million and the liabilities to SEK 76.4 million. At 31 December 2020, the bank had received collateral of SEK 3.5 million and provided collateral of SEK 76.1 million.

FINANCIAL ASSETS AND LIABILITIES THAT ARE NETTED OR SUBJECT TO NETTING AGREEMENTS

	2020				2019			
	Gross amount	Framework agreement on netting	Collateral received (-) / provided (+)	Net amount	Gross amount	Framework agreement on netting	Collateral received (-) / provided (+)	Net amount
Assets								
Derivatives	9,933	- 3,010	- 3,450	3,473	11,022	- 1,355	- 8,480	1,187
Liabilities								
Derivatives	- 76,404	3,010	76,050	2,656	- 11,070	1,355	18,170	8,455
Total	**- 66,471**	**–**	**72,600**	**6,129**	**- 48**	**–**	**9,690**	**9,642**

CARRYING AMOUNTS BY CATEGORY

Assets 31 Dec 2020	Financial assets recognised at amortised cost	Derivatives in hedge accounting	Other assets*	Total	Fair value
Chargeable treasury bills, etc.	1,331,203	–	–	1,331,203	1,331,306
Loans and advances to credit institutions	2,483,630	–	–	2,483,630	2,483,630
Loans and advances to customers	16,279,476	–	–	16,279,476	16,804,095
Bonds and other debt securities	1,825,984	–	–	1,825,984	1,826,820
Shares and interests in associ-ates and other companies	–	–	9,761	9,761	–
Shares and interests in Group companies	–	–	6,742	6,742	–
Intangible assets	–	–	20,182	20,182	–
Property, plant and equipment, fixtures and fittings	–	–	9,547	9,547	–
Property, plant and equipment, lease assets	–	–	21,405,350	21,405,350	–
Other assets*	500,052	9,834	198,130	708,016	708,016
Prepaid expenses and accrued income	62,540	–	–	62,540	62,540
Total assets	**22,482,885**	**9,834**	**21,649,712**	**44,142,431**	

Liabilities 31 Dec 2020	Non-financial liabilities	Derivatives in hedge accounting	Other financial liabilities**	Total	Fair value
Liabilities to credit institutions	–	–	1,230,952	1,230,952	1,238,703
Retail deposits and borrowings	–	–	22,308,794	22,308,794	22,308,794
Securities issued	–	–	12,108,909	12,108,909	12,206,083
Other liabilities **	341,675	625	714,446	1,056,746	1,056,746
Accrued expenses and de-ferred income	1,313,121	–	16,732	1,329,853	1,329,853
Subordinated debts	–	–	400,000	400,000	406,395
Total liabilities	**1,654,796**	**625**	**36,779,833**	**38,435,254**	

* Derivatives not designated as hedging instruments are included in the line Other assets, and mandatory fair value is measured through the income statement at KSEK 99.

** Derivatives not designated as hedging instruments are included in the line Other liabilities, and mandatory fair value is measured through the income statement at KSEK 75,779.

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 associ-ates 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 line Other assets, and mandatory fair value is measured through the income statement at KSEK 292.

** Derivatives not designated as hedging instruments are included in the line Other liabilities, and mandatory fair value is measured through the income statement at KSEK 9,757.

NOTE 37. OPERATING LEASES

OPERATING LEASES WHERE THE BANK IS THE LESSEE

Expensed payments for operating leases amount to:

	2020	2019
Annual lease payments	**16,131**	**14,634**
– Of which minimum lease payments	15,412	14,008
– Of which variable payments	719	626

The future non-cancellable lease payments are as follows:

	2020	2019
Within 1 year	19,018	14,624
Between 1–3 years	39,185	29,201

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

NOTE 38. SUBSEQUENT EVENTS

No significant events have occurred after year end.

NOTE 39. 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	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Assets	6,742	6,742	44,410	22,763	1,414,308	1,227,996
Liabilities	6,789	6,789	91,227	262,102	274,072	118,207
Income statement	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest income	–	–	1,047	815	–	6
Lease income	–	–	–	–	139,049	342,630
Interest expense	–	–	- 112	- 52	- 126	- 20
Commission income	–	–	–	–	668	1,776
Other operating income	–	–	1,836	3,426	–	–
Total	**–**	**–**	**2,770**	**4,189**	**139,591**	**344,932**

NOTE 40. SPECIFICATION TO CASH FLOW STATEMENT

	2020	2019
The following components are included in cash equivalents:		
Loans and advances to credit institutions	2,483,630	1,281,290
Total	**2,483,630**	**1,281,290**

	31 Dec 2020	31 Dec 2019
Interest paid and dividends received included in cash flow from operating activities:		
Dividend received	241	308
Interest received	552,851	539,714
Interest paid	310,415	315,481

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 Bank's risk management is appropriate and satisfactory.

The annual report has, as stated above, been approved for publication by the Board of Directors.

Gothenburg, 25 March 2021

Urmas Kruusval
Chairman of the Board

Synnöve Trygg
Vice Chairman of the Board

Per Avander
Director

Johan Ekdahl
Director

Ann Hellenius
Director

Lex Kerssemakers
Director

Björn Rentzhog
Director

Conny Bergström
CEO

We submitted our audit report on 25 March 2021

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 2020 with the exception of the Corporate Governance Report on pages 14–21 and the Sustainability Report on pages 22–25. The company's financial statements are included on pages 12–116 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 2020, 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 22–25. 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 16,279 million as at 31 December 2020, which corresponds to approx. 37% of the bank's total assets.
The bank's provision for expected credit losses amounts to SEK 25.1 million (previous year SEK 25 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.

Impairment of 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 2020 stood at SEK 5,238 million, which corresponds to approx. 11.9% of the company's total assets. The company recognised impairment losses of SEK 80.3 million (previous year SEK 56.4 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. An assessment of the expected residual value is also obtained from an external supplier, which is then analysed against the bank's own assessment of the expected residual value.

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 14–25. The Board of Directors and the CEO are responsible for this other information.

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

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

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

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

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

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

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

Auditor's responsibilities

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

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

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the part of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the CEO.

- conclude on the appropriateness of the Board of Directors' and CEO's use of the going concern basis of accounting when preparing the financial statements. We also 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, measures taken to eliminate threats or countermeasures that have been taken.

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 2020 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 RevR 16 Auditors' review of the corporate governance report. This means that our review of the Corporate Governance Report has a different aim and is of significantly smaller scope than the aim and scope of an audit in accordance with the International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that this review provides sufficient grounds for our opinions.

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

Auditor's opinion on the statutory sustainability report

The Board of Directors is responsible for the Sustainability Report on pages 22–25 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 11 June 2020. KPMG AB or auditors working at KPMG AB have been the company's auditor since 1983.

Gothenburg, 25 March 2021
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

Johan Ekdahl
Vice President and Head of Accounting and Group Reporting,
Volvo Car Group

Ann Hellenius
Managing Director Capgemini Invent

Lex Kerssemakers
Senior Vice President,
Commercial Operations Volvo Car Group

Björn Rentzhog
CEO and President, AB Persson Invest

DEPUTY BOARD MEMBERS

Pascal Bellemans
Vice President, Head of Volvo Car Financial Services

Jonas Estéen
Owner Finnbäcken Invest AB,
CEO Bilkompaniet Dalarna AB

Janola Gustafson
Board member of Wayke

Anders Gustafsson
Head of Volvo Car, Americas Region

AUDITOR

Mikael Ekberg
Authorised Public Accountant

SENIOR EXECUTIVES

Conny Bergström
CEO

Hans Jörgen Möller
CSO, Chief Strategy Officer

Christian Torgersson
CFO, Chief Financial Officer

Marianne Moberg
CIO, Chief Information Officer

Gunnar Ekeroth
Chief Risk Officer

Andreas Bondesson
COO, Chief Operation Officer

Björn Stenport
Head of Legal

Joel Graffman
Marketing & Sales Director, Cars

Johan Linder
Marketing & Sales Director, Fleet

Per Lindahl
Marketing & Sales Director, Trucks

Margareta Johansson
Director of Human Resources

circusreklam.se

VOLVOFINANS BANK

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