

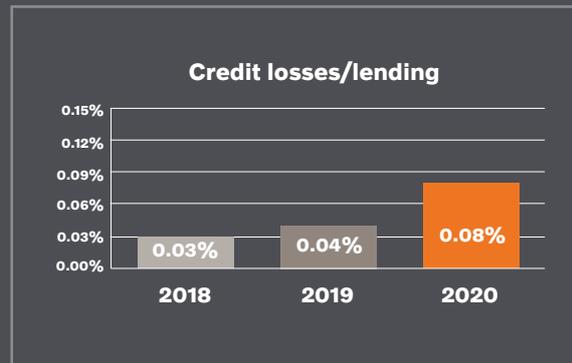
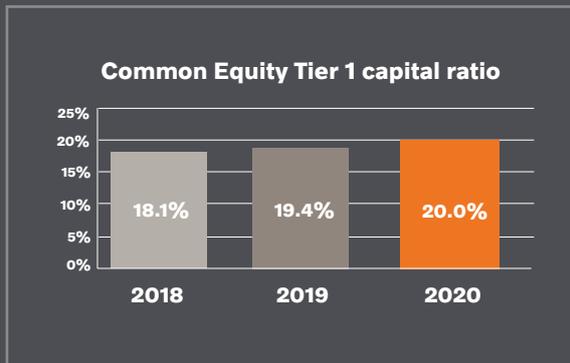
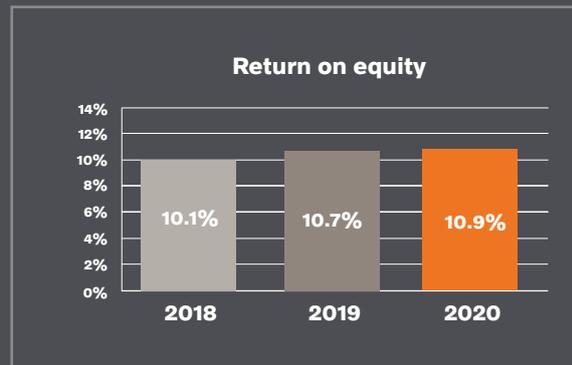
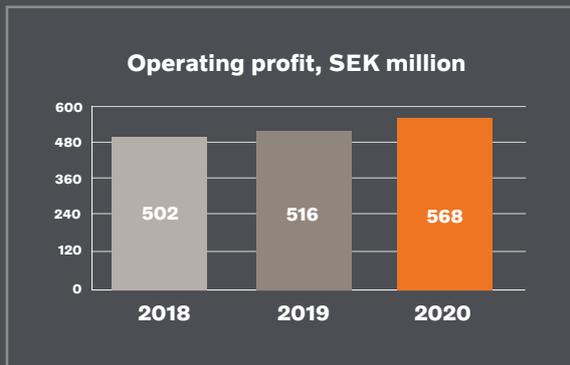
YEAR-END REPORT  
**2020**



**VOLVOFINANS BANK**

# SUMMARY

## 2020



# INTRODUCTION AND FINANCIAL STATEMENTS



## JAN-DEC 2020 IN SUMMARY

Operating profit:  
**SEK 568 million (516)**

Return on equity:  
**10.9% (10.7)**

Lending as of 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)**

Looking back, 2020 was a historic year for Volvofinans Bank. In one respect, the ongoing pandemic has made the vast majority of our employees run operations away from our business offices. At the same time, we were given a real opportunity to put our contingency plans for dealing with emergencies to the test. All the training and drills from the past have shown themselves to work in practice. Meanwhile, the government, National Debt Office and the Swedish Central Bank took rapid financial and monetary policy measures, and launched rescue operations and initiatives to mitigate the negative financial consequences of the crisis.

In another respect, all of the actions taken and efforts made enabled Volvofinans Bank to deliver a historically high record profit. Operating profit increased by 10% to SEK 568 million, mainly through a combination of higher net interest income, a good used-vehicle market and lower costs due to a cost-cutting program. For most of the first half of 2020, we enjoyed favourable interest rates, which meant lower borrowing costs for the bank. Although we remain very vigilant about the side effects of the crisis, especially in certain sectors, we are resuming our still very tough investment plan aimed at safeguarding our ambitious goal of becoming the automotive industry's best payment and financing partner in the mobility segment.

Overall lending declined slightly, but we made up for the ground we lost in the spring through good growth in lending in the autumn. Verified credit losses increased by around SEK 3 million, and impairments for expected future losses in the amount of SEK 13 million were made during the year. The bank's strong capital situation was further strengthened and our Common Equity Tier 1 capital ratio has now reached 20%.

Cars, and in particular Fleet, were the Volvofinans Bank business areas that contributed better-than-expected profits. Trucks produced a profit at the level expected despite very tough market conditions. All of the business areas reduced their costs and improved their net interest income. Fleet accounts for the greatest improvement in earnings, where burgeoning demand in the used-vehicle segment benefited vehicle disposals.

Our owners and partners have operated under unique market conditions, with parts of the operation shut down at times to reduce the risk of infection during the pandemic. For Volvo Cars, a tough first half-year was replaced by a global sales increase during the second half. Swedish market share fell slightly to 18% (18.3). Polestar launched Polestar 2, its first volume model, on the Swedish market in August, followed by its European launch. Together with Dacia, Renault also continued its exciting development plans, even though the company lost 1.2 percentage points of its market share in 2020. Overall, the Swedish market closed the year with 292,024 registrations, down 18%, or 64,000 cars. The proportion of rechargeable cars increased by no less than 32% (11).

Registrations in the heavy goods vehicle market (>16 tons), decreased by 25% to 4,960. However, Volvo Trucks succeeded in increasing its market share by 2.6 percentage points to 42.2%, despite the declining market. Volvo dealers maintained a relatively high level of business during the year, especially in service and workshop services. After a dramatic decline in April-May, car sales also recovered over the remainder of the year, especially used cars. These factors also mean that our car dealers, one of the bank's 50 percent owners, also report very good results in general.

The sharp increase in the sales of new rechargeable cars is a clear sign of the shift toward electric cars. However, there is a great deal of uncertainty among customers as to which drivetrain they should choose, among corporate customers

in particular. Consequently, our customers demand advice in this area, and we are working intently on this within the framework of our Fleet business. The availability of charging facilities is of course a very important key to increasing sales of purely electric cars. Together with our partners, we are currently making major investments through our CarPay payment concept, which is now approaching 600,000 customers. By creating unique, highly flexible payment options in our successful CarPay app, we aim to provide additional support for this important transition and make choosing an electric car easier.

Furthermore, Volvofinans Bank has this autumn taken advantage of the high demand for so-called green bonds in the financial market, where our issue proceeds refinanced contracts with green cars. In addition to beneficial financing costs, it is a way for the bank to contribute to the green transition.

The entire automotive industry has reached a very exciting stage in a process of change. Things picked up speed in 2020 and were further accelerated by a pandemic that has changed customer behaviour. New opportunities are created when electric cars, linked via the internet, can be shared between different customers. These vehicles are linked to workshops

that can monitor vehicle health. The cars can be ordered directly from the factory by customers in a seamless customer journey, in which manufacturers and dealers interact. Because it will also be important in this new market situation to offer payment modes that match the new customer journeys, Volvofinans Bank will continue to invest heavily in digital capabilities that help it fulfil its customer promise, Smarter Car payments. In a context where mobility is the key word for every market player, our fantastic, committed employees work relentlessly to achieve renown as 'The Mobility Bank' of the automotive industry.

**Conny Bergström**  
CEO  
Volvofinans Bank AB

Volvofinans Bank AB (publ), Co. Reg. 556069-0967, is obliged to publish this information under the Swedish Securities Market Act (SFS 2007:528). This report was submitted for publication on 05 February 2021.



**"Volvofinans Bank  
delivers a historically high record  
profit"**

# Financial statements

## Ownership/Operations

The company was established in 1959 with 50% owned by the Swedish Volvo dealers through their holding company AB Volverkinvest, and 50% by Volvo Personvagnar AB.

The primary task of Volvofinans Bank is to actively support sales of products marketed by Volvo dealers in the Swedish market by providing product and sales financing with good profitability.

Volvofinans Bank AB is the parent company in a group with dormant subsidiaries. Under chapter 7, section 6a of the Swedish Annual Accounts Act for Credit Institutions and Securities Companies, Volvofinans Bank does not prepare consolidated accounts as activities in subsidiaries are negligible.

## Trends in volume/lending

Lending volume totalled SEK 37.7 billion compared to 37.9 billion in the previous year. Trucks accounted for SEK 3.4 billion (3.4) of lending, equivalent to 9% (9) of the total. Fleet accounted for SEK 8.4 billion (7.4) of lending or 22% (19) and Volvo Card for 4% (5) or SEK 1.6 billion (1.8). The remainder, SEK 24.3 billion (25.4), is attributable to passenger car financing in Cars, which corresponds to 65% (67) of lending.

Operating income, operating profit, the number of contracts and lending volumes for Volvofinans Bank's business areas are presented in Note 3.

## Trends in profit and financial position

### Profit

The bank's profit after credit losses was SEK 568.2 million (516.1), which is 9% higher than last year. Net interest income is higher than the previous year, mainly due to lower borrowing costs. The bank's cost-cutting programme reduced its expenses by 12% during the year. Profit for the year was charged with increased impairments due to expected future credit losses of SEK 12.7 million; see section below. During the year, market prices for used cars were very volatile, and this is reflected in the bank's impairment tests of cars used in operational leases; see below.

### Credit risk and credit losses

Because the major part of credit risk is borne by individual Volvo dealers through recourse agreements, the credit risk for Volvofinans Bank is very low.

Defaulted receivables are defined as receivables more than 90 days overdue or defaulted on for other reasons. Volvofinans Bank's defaulted credit card receivables totalled SEK 5.4 million (13.0) and for loans and leasing SEK 214.7 million (93.4), of which SEK 211.5 million (90.2) is covered by recourse. Loans subject to deferral totalled SEK 116.8 million (67.9).

Verified credit losses of SEK 18.6 million (15.4) relate mainly to the credit card business. Expected credit losses are calculated based on a prospective impairment model, where the calculation takes account of macroeconomic data, demographic variables and behavioural variables. During the year, these forecast variables generated impairments for expected credit losses of SEK 13.4 million. Thus the provision for expected credit losses totals SEK 38.4 million. The increase in deferrals and credit losses from the previous year is directly attributable to the Covid-19 pandemic.

### Residual value risk

Residual value risk is part of the risk in operational leases and corresponds to the risk that the present value of the remaining rents plus the present value of the expected residual value is lower than the book value and that the bank thereby sustains a loss. As of 31/12/2020, the bank reported an impairment loss of SEK 80.3 million (56.4) due to the residual value risk, under

'Depreciations, amortisation and impairments of tangible assets'. During the year, market prices for used cars were very volatile, and this is reflected in the bank's impairment tests of cars used in operational leases. During the first quarter, the Bank made impairment charges of SEK 12.6 million as a result of lower expected residual values for used cars due to the Covid-19 outbreak. Market prices for used vehicles have since recovered and are now at historically high levels. Just as the second Covid-19 wave during the autumn of 2020 increased uncertainty in the economy, the start of vaccination programs has begun to reduce it to some degree. Given the prevailing uncertainty, the bank increased impairment charges for operating lease assets by SEK 38.1 million during Q4. Accumulated impairments during the year totalled SEK 23.9 million (-17.6).

## Funding and liquidity

Deposits in the bank's savings account increased by SEK 0.8 billion in 2020, reaching a total balance of SEK 20.8 billion (20.1) at year-end. Total deposits including the credit balance for the Volvo Card and deposits from Volvo dealerships totalled SEK 22.3 billion (21.2) and accounted for 62% (58) of the bank's financing.

The bank's MTN program enables issuance of bonds in the currencies SEK, NOK and EUR; so-called green bonds may also be issued. Under the program, bonds were issued in 2020 to a value of SEK 3.4 billion and own bonds with a nominal value of SEK 1.4 billion were repurchased. Green bonds accounted for SEK 1.5 billion of issued volume. Regarding short-term borrowing Commercial paper were issued in the amount of SEK 500 million during the year. Volvofinans Bank AB's outstanding financing through its market loan programmes totalled a nominal SEK 12.1 billion (13.1) as of 31/12/2020.

In addition to market borrowing and deposits, the bank also finances its activities through bank credits, which total SEK 1.2 billion (1.6). The proportion of financing from market loans programmes and the banking sector with remaining terms of more than one year was 76% (69).

Borrowing with a remaining period of less than one year together with a proportion of deposits, must be covered at all times by the liquidity reserve and unutilised credit facilities. The total liquidity reserve was SEK 5.6 billion (5.1). The securities holding accounted for SEK 3.2 billion (56%) and non-fixed deposits at other banks totalled SEK 2.5 billion (44%). Volvofinans Bank's liquidity reserve must always be at least 10% in relation to the lending volume. As of 31/12/2020, total lending amounted to SEK 37.7 billion, which means the liquidity reserve corresponded to 15% (13). In addition to the liquidity reserve, available and unutilised loan facilities totalled SEK 4.8 billion (4.3).

At the end of the fourth quarter, Volvofinans Bank's liquidity coverage ratio (LCR) under article 415 of the EU Capital Requirements Regulation (CRR), totalled 237% (257). According to Volvofinans Bank's interpretation of the Basel Committee's recommendation (BCBS295), the Net Stable Funding Ratio (NSFR) was 144% (142).

## Capital adequacy

Volvofinans Bank calculates most of the credit risk on the basis of its internal ratings-based approach (IRB), while the remainder is calculated according to the standard method. Common Equity Tier 1 capital ratio amounted to 20.0% (19.4) as of 31/12/2020 and the capital requirement was assessed internally to 12.5% (15.1) calculated on the basis of the methods and models used to calculate capital requirement within the framework of Pillar 1. In addition to this, there are capital requirements for a countercyclical capital buffer and a capital conservation buffer. The capital conservation buffer of 2.5% of REA

totalled SEK 534 million (515). The countercyclical buffer was reduced to 0.0% (2.5) as of 16/03/2020 for preventive purposes due to Covid-19. The leverage ratio was 9.8% (9.1) as of 31/12/2020.

Disclosures are provided in compliance with Swedish Financial Supervisory Authority publication requirements FFFS 2014:12, FFFS 2010:7 and FFFS 2014:21.

## Other significant information

### Significant risks and uncertainty factors

The bank's operations are continually exposed to a number of financial risks.

Liquidity risk is the risk that Volvofinans Bank's payment obligations cannot be met on maturity without significant increased costs in terms of the means of payment or, in the worst-case, cannot be met at all. To manage liquidity stress, Volvofinans Bank not only maintains a liquidity reserve, but also agreed credit facilities that can be utilised at short notice.

Interest rate risk is the current and future risk that net interest income will decline as a result of unfavourable changes in the interest rate. The major part of the bank's lending and all borrowing follows the short-term market interest rate, which entails a limited interest rate risk.

Currency risk is the risk of unfavourable changes in exchange rates. All of Volvofinans Bank's lending is in Swedish kronor. Any borrowing in foreign currency is hedged, which means the bank is not exposed to exchange rate fluctuations.

### Covid-19

During the year, Covid-19 had a global impact in both human and economic terms. Volvo Finance Bank's income statement and balance sheet were affected with regard to expected credit losses (ECL) and the profit from the disposal of cars at the end of operational leases. Macroeconomic forecast parameters such as unemployment, the bankruptcy rate and behavioural variables generated impairment charges for expected credit losses of SEK 13 million. In April, BilSweden revised its forecast for new passenger car registrations from 330,000 down to 270,000 cars as a direct result of deteriorating short-term economic prospects due to Covid-19. Volvo Cars and other car manufacturers closed factories in April, which reduced supply and the possibility of financing new cars in the short term. However, from the middle of May all Volvo factories were in operation. The demand for used cars was high in 2020, partly due to the fact that many people chose to address the risks of public transport journeys by purchasing a used car. The increased demand for used cars resulted in higher prices, leading to higher profit for the bank for the disposal of cars at the end of operational leases. Following slightly better autumn sales than expected, the total number of new cars registered in Sweden reached 292,000 for the whole of 2020. Just as the second Covid-19 wave during the autumn of 2020 increased uncertainty in the economy, the start of vaccination programs has begun to reduce this to some degree. Given the prevailing uncertainty, the bank increased its impairment charges for operating lease assets by SEK 38 million during Q4, bringing the total to SEK 80 million.

### Rating

Volvofinans Bank's international credit ratings from Moody's Investors Service are as follows:

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

There have been no changes to the credit rating during the year, and on 3 June the A3/P-2 credit rating was confirmed, but at the same time the rating outlook was changed from 'Stable' to 'Negative'. A detailed, up-to-date analysis from Moody's can be found on our website, under 'About us/Investor relations/ rating'.

### Calendar:

Week 12, 2021	Annual Report
7 May 2021	Interim Report Jan-Mar
10 June 2021	Annual General Meeting
27 August 2021	Interim Report Jan-Jun
5 November 2021	Interim Report Jan-Sep

### Certificate

The year-end report provides a true and fair view of the bank's operations, position and financial performance, and describes the material risks and uncertainties relating to the bank.

Gothenburg, 5 February 2021

Conny Bergström  
CEO

The report will be available on our website [volvofinans.se](http://volvofinans.se), under About us/ Investor relations/Financial reports.

Should you have any questions, please call CEO Conny Bergström, +46 31-83 88 00.

### Review

The report has not been subject to a separate review by the bank's auditors.

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



## Key ratios

	31/12/2020	31/12/2019
Return on equity, %	10.94	10.74
Risk capital / Balance sheet total, %	13.35	12.43
Deposits / Lending, %	59.20	55.94
Profit / Risk-weighted assets, %	2.66	2.50
Total capital ratio, %	21.91	21.29
Common Equity Tier 1 capital ratio, %	20.04	19.35
Cost/Income ratio	0.48	0.51
Cost/Income ratio excl. residual value provision	0.45	0.53
Credit losses / Lending, %	0.08	0.04
Liquidity coverage ratio (LCR), %	237	257
NSFR (Net Stable Funding Ratio), %	144	143
Leverage ratio, %	9.8	9.1

Definitions for alternative key ratios and key ratios defined in accordance with the Swedish rules on capital adequacy can be found under:  
<https://www.volvofinans.se/om-oss/investerarrelationer/finansiala-rapporter/definition-av-nyckeltal/>

## Income statement, overview

	Amounts in SEK thousand				
	2020 Q4	2020 Q3	2019 Q4	2020 Jan–Dec	2019 Jan–Dec
Interest income	126,217	138,297	138,433	556,789	544,851
Lease income	1,478,584	1,464,653	1,429,152	5,835,615	5,659,891
Interest expenses	-70,045	-85,400	-80,634	-327,147	-335,319
<b>Net interest income, Note 5</b>	<b>1,534,756</b>	<b>1,517,550</b>	<b>1,486,952</b>	<b>6,065,257</b>	<b>5,869,423</b>
Dividend received, Note 6	14	171	15	241	308
Commission income	121,174	120,940	112,854	456,933	439,436
Commission expenses	-25,921	-28,595	-11,686	-76,853	-42,169
Net result from financial transactions	-635	213	1,636	-2,972	851
Other operating income, Note 7	16,984	15,827	17,333	65,030	68,202
<b>Total operating income</b>	<b>1,646,370</b>	<b>1,626,105</b>	<b>1,607,102</b>	<b>6,507,636</b>	<b>6,336,051</b>
General administration expenses	-115,615	-95,452	-144,664	-448,303	-480,027
Depreciation and impairment of tangible and intangible non-current assets, Note 5	-1,407,459	-1,338,781	-1,331,098	-5,423,123	-5,248,131
Other operating expenses	-15,828	-10,981	-24,986	-46,253	-75,821
<b>Total operating expenses</b>	<b>-1,538,902</b>	<b>-1,445,214</b>	<b>-1,500,748</b>	<b>-5,917,679</b>	<b>-5,803,979</b>
<b>Profit before credit losses</b>	<b>107,469</b>	<b>180,891</b>	<b>106,354</b>	<b>589,957</b>	<b>532,072</b>
Credit losses, net, Note 8	-1,883	-928	-3,838	-21,651	-16,041
Impairments/Reversals of financial fixed assets, net	54	17	126	-73	57
<b>Operating profit</b>	<b>105,639</b>	<b>179,979</b>	<b>102,642</b>	<b>568,233</b>	<b>516,088</b>
Appropriations	-412,589	-	-498,268	-412,589	-498,268
Tax	65,009	-38,516	83,817	-33,986	-4,661
<b>Profit</b>	<b>-241,941</b>	<b>141,464</b>	<b>-311,809</b>	<b>121,658</b>	<b>13,159</b>

## Balance sheet highlights

	Amounts in SEK thousand	
	31/12/2020	31/12/2019
Treasury bills eligible as collateral etc.	1,331,203	1,429,949
Lending to credit institutions	2,483,630	1,281,290
Lending to the public	16,279,476	17,278,081
Bonds and other interest-bearing securities	1,825,984	2,349,552
Shares and participations in associates and other companies	9,761	11,258
Shares and participations in Group companies	6,742	6,742
Intangible non-current assets	20,182	15,060
Tangible assets: inventory	9,547	12,133
Tangible assets: lease items	21,405,350	20,648,640
Other assets*	708,016	936,042
Prepaid expenses and accrued income	62,540	67,246
<b>Total assets, Note 11</b>	<b>44,142,431</b>	<b>44,035,993</b>
Liabilities to credit institutions	1,230,952	1,592,857
Deposits and borrowing from the public	22,308,794	21,216,735
Securities issued	12,108,909	13,091,737
Other liabilities*	1,056,746	1,255,682
Accrued expenses and deferred income	1,329,853	1,306,053
Subordinated liabilities	400,000	400,000
<b>Total liabilities, Note 11</b>	<b>38,435,254</b>	<b>38,863,064</b>
Untaxed reserves	5,039,048	4,626,458
<b>Equity</b>	<b>668,129</b>	<b>546,471</b>
<b>Total liabilities and equity</b>	<b>44,142,431</b>	<b>44,035,993</b>
* Of which derivative instruments with positive and negative market values		
Derivative instruments with positive market value	9,933	11,022
Derivative instruments with negative market value	-76,404	-11,070

## Change in equity

	Amounts in SEK thousand				
	Share capital	Restricted equity		Non-restricted equity	Total equity
		Statutory reserve	Development fund	Retained earnings	
<b>Opening equity, 1 January 2019</b>	<b>400,000</b>	<b>20,000</b>	<b>21,222</b>	<b>190,694</b>	<b>631,916</b>
Profit for the year	-	-	-	13,159	13,159
Transfer, internally generated development costs	-	-	-6,162	6,162	-
<b>Total before transactions with shareholders</b>	<b>400,000</b>	<b>20,000</b>	<b>15,060</b>	<b>210,015</b>	<b>645,075</b>
Dividend	-	-	-	-98,604	-98,604
<b>Closing equity, 31 December 2019</b>	<b>400,000</b>	<b>20,000</b>	<b>15,060</b>	<b>111,411</b>	<b>546,471</b>
	Share capital	Statutory reserve	Development fund	Retained earnings	Total equity
<b>Opening equity, 1 January 2020</b>	<b>400,000</b>	<b>20,000</b>	<b>15,060</b>	<b>111,411</b>	<b>546,471</b>
Profit for the year	-	-	-	121,658	121,658
Transfer, internally generated development costs	-	-	5,122	-5,122	-
<b>Total before transactions with shareholders</b>	<b>400,000</b>	<b>20,000</b>	<b>20,182</b>	<b>227,947</b>	<b>668,129</b>
Dividend	-	-	-	-	-
<b>Closing equity, 31 December 2020</b>	<b>400,000</b>	<b>20,000</b>	<b>20,182</b>	<b>227,947</b>	<b>668,129</b>

## Cash flow statement

	Amounts in SEK thousand	
	2020 Jan–Dec	2019 Jan–Dec
<b>Operating activities</b>		
Operating profit	568,233	516,088
<b>Adjustment of items not included in cash flow</b>		
Unrealised portion of net result from financial transactions	-1,698	1,920
Depreciations, amortisation, impairments	5,423,123	5,248,171
Credit losses	20,806	14,600
Paid/refunded (-/+ ) tax	-8,479	-3,328
<b>Changes to assets and liabilities in operating activities</b>		
Treasury bills eligible as collateral etc.	98,746	-184,133
Lending to the public	979,879	-369,907
Bonds and other interest-bearing securities	523,569	-117,586
Deposits and borrowing from the public	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
<b>Cash flow from operating activities</b>	<b>7,383,213</b>	<b>5,286,751</b>
<b>Investing activities</b>		
Capitalised development expenditures	-11,816	-7,403
Investments in shares and participations	-	-3,426
Disposal/redemption of shares and participations	1,496	12,946
Disposal of tangible assets	4,570,000	4,682,274
Acquisition of tangible assets	-10,740,553	-10,213,819
<b>Cash flow from investing activities</b>	<b>-6,180,873</b>	<b>-5,529,428</b>
<b>Financing activities</b>		
Dividends paid	-	-98,604
<b>Cash flow from financing activities</b>	<b>-</b>	<b>-98,604</b>
<b>Cash flow for the period</b>		
Cash and cash equivalents at beginning of period	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
<b>Cash and cash equivalents at end of period</b>	<b>2,483,630</b>	<b>1,281,290</b>



# NOTES



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**NOTE 1. ACCOUNTING POLICIES**

This interim report was prepared in accordance with IAS 34 Interim Financial Reporting. Volvofinans Bank applies legally restricted IFRS, which means the interim report has been prepared in compliance with IFRS with the additions and exceptions set out in the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities; the stipulations and general recommendations of the Swedish Financial Supervisory Authority on annual reporting by credit institutions and securities companies (FFFS 2008:25) in compliance with the change regulations in FFS 2009:11 and the Swedish Annual Accounts Act for Credit Institutions and Securities Companies. No changes in the bank's accounting policies as described in the Annual Report 2019 have taken place.

**The IBOR reform**

In September 2019, the IASB published changes to IAS 39, IFRS 9 and IFRS 7 resulting from ongoing reforms to the current reference interest rates (IBOR). The amendments are obligatory and will apply from 1 January 2020. The changes are mainly due to the requirements for hedge accounting and provide relief in order to maintain hedging conditions despite potential uncertainty factors arising from the IBOR reform. The reform also entails additional information requirements on hedging conditions that are affected by uncertainties in the ongoing reference interest rates reforms:

- Significant exposure to reference interest rates and their extent
- How the bank handles the transition to the new alternative reference interest rates
- Significant assumptions and assessments used by the bank when applying the changes
- The nominal amount on hedge relationships to which relief is applied

The bank has exposure to Stibor and Nibor for derivatives where hedge accounting is not applied. For derivatives where hedge accounting is applied and for other financial instruments, there is only exposure to Stibor. Because the bank does not apply cash flow hedges, no effects should arise in the accounts except possibly when IBOR reforms are fully implemented and have an impact on the bank's derivative agreements and other financial instruments linked to reference interest rates.

**FUTURE REGULATORY CHANGES****Other changes in IFRSs**

None of the other changes in accounting policies issued for application are considered to have any material impact on Volvofinans' financial reports, capital adequacy or major exposures, or any other applicable operating regulations.

## NOTE 2. ASSESSMENTS AND ESTIMATIONS IN THE FINANCIAL STATEMENTS

Preparation of the financial statements in compliance with IFRS requires the bank's management to make assessments, estimations, and assumptions that affect the application of the accounting policies and the carrying amounts of assets, liabilities, revenues, and expenses. These estimations and assumptions are based on historical experience and a number of other factors deemed reasonable under current circumstances. The outcomes of these estimates and assumptions are then used to assess the carrying amounts of assets and liabilities not otherwise clearly provided by other sources. Actual outcomes may deviate from these estimations and assumptions. Primarily, the bank made the following critical assessments when applying significant accounting policies:

- Whether the bank has assumed significant risks and benefits from the seller on acquisition of receivables and agreements
- Impairment testing of lease items at risk of expected lower residual values
- Choice of method for calculating expected credit losses
- Assessment of the bank's business model for the holding of securities in the liquidity portfolio

Areas in which uncertainty about estimates may exist are assumptions about credit loss impairment and assessments of the expected residual value of lease items.

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

## NOTE 3. OPERATING SEGMENTS

The bank's operations are divided into operating segments based on the business areas that the bank's chief operating decision maker monitors. Operations are organised such that management monitors profit, returns and cash flows generated by the various services. Internal reporting is structured to allow management to monitor the performance of all services. It is on the basis of this reporting that the bank has identified the segments Cars, Trucks and Fleet.

All operating income derives from external customers and all of the bank's operations take place in Sweden.



## CARS

Business area Cars comprises two businesses; Sales Finance and Cards/Payments, both aimed at consumers and small companies. Sales Finance finances cars mainly sold by Swedish Volvo and Renault dealers through loans or leasing, often in package solutions that include insurance, a credit card and a service agreement. There is also a collaboration with Polestar Automotive Sweden AB, which only makes electric cars. A new sales channel was launched during the year via Polestar.se where consumers and business customers can order their cars and sign financing agreements with Volvofinans digitally on the internet. The Card/Payments business offers card payments and digital payment solutions via CarPay aimed at creating ease of payment for all vehicle usage requirements anywhere VISA is accepted. Using their mobile phones, the bank's customers can pay for their workshop visits, fuel stops at Tanka and other purchases using Samsung Pay and Apple Pay. This makes life easier for our customers and partners.

The new car market in Sweden has remained strong for many years and 2019 was the third best year ever with 356,000 registered new passenger cars. New car registrations for 2020 totalled 292,000 and as such were severely affected by Covid-19, resulting in lower volumes. The trend for the year was a sharp upturn for rechargeable cars, which finished 2020 by accounting for 33% of new car registrations. The credit risk provision was adjusted up due to Covid-19, as expected credit losses are anticipated to increase in the wake of the ongoing pandemic. For the year as a whole, passenger car registrations fell by a total of 18%. New Volvo, Renault, Dacia and Polestar registrations reached 64,426 cars, equivalent to a market share of 22.1%, where Volvofinans provides a high proportion of the financing. The bank also notes that the Payments business market has been affected by Covid-19, resulting in lower sales. Nevertheless, our digital CarPay service continues to provide high inflows and the app has been downloaded by more than 670,000 unique customers.

Product development work is constantly in progress, as are launches of new digital services together with Volvo and Renault dealers, our vehicle manufacturers and other interested parties in the business ecosystem. The digital customer journey during which the financial services are consumed is under constant development, and as with our digital payment solutions, we focus intensely on living up to our customer promise of a smarter car economy.

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

\* Including depreciation of lease items.

\*\* Including depreciations of tangible and intangible non-current assets excluding depreciation and impairment of lease items.

Product information, loans and leasing	31/12/2020	31/12/2019	Change
Number of contracts	192,489	202,763	-10,274
Total volume, SEK million	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 leases, %	54.3	54.5	-0.2
Private leasing as a proportion of total leases, %	25.1	25.0	0.1

Product information, cards	31/12/2020	31/12/2019	Change
Average number of active accounts	396,745	420,607	-23,862
Total volume, SEK million	1,590	1,801	-211
Average number of credit customers	81,180	86,908	-5,728
Total sales Volvo Card, SEK million	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 retail store, %	1.3	1.5	-0.2
of which car wash, %	1.4	1.2	0.2
of which sales outside Volvo dealers, %	36.8	32.6	4.2
of which other (incl. car loans and insurance), %	8.2	11.9	-3.7

## TRUCKS

In business area Trucks, the bank offers loans and lease financing for new and used trucks including trailers, superstructures and other equipment. Volvo Truck Card is also included in Trucks.

Demand for trucks has slowed partly as a result of the ongoing Covid-19 pandemic, but in terms of market share, Volvo is maintaining a stable, high level. The bank's financing share of new trucks is stable and more than every other truck is financed via truck loans, financial leases or operational leases. Financing volumes for used vehicles and trailers are at a high level.

Work is constantly in progress with product development and the marketing of financial offers together with Volvo Trucks and Volvo Dealers. The development of future services and financial solutions in Fleet Management and flexible payment methods in general are examples of areas where the bank, together with Volvo Trucks, is creating future conditions for enhanced customer value. eControl is an invoice management service and cost monitoring system for the Swedish marketplace and mainly marketed to small and medium-size hauliers. eControl and a financing solution based on driven kilometres are examples of the development in progress at the bank aimed at offering Volvo customers smarter trucking economy to boost haulier profitability.

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

\* Including depreciation and impairment of lease items.

\*\* Including depreciations of tangible and intangible non-current assets excluding depreciation and impairment of lease items.

Product information, loans and leasing	31/12/2020	31/12/2019	Change
Number of contracts	6,419	6,490	-71
Total volume, SEK million	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 leases, %	22.5	22.7	-0.2
Operational leasing as a proportion of total leases, %	22.9	24.4	-1.5



## FLEET

In the Fleet segment, the bank provides vehicle-fleet administration and financing mainly to mid-size and large companies, regardless of the car brands customers choose to use. Here we offer both operational and financial leasing.

In recent years, business area Fleet has enjoyed a market-leading position. As of June 2020, Fleet remains the market leader with 22.7%. The number of agreements has risen by around 3% compared to the same period last year. The majority of the new contracts were in the operational leasing category. In line with the expectations the Swedish Central Bank and the Ministry of Finance have in respect of Swedish banks, Business Area Fleet increased its lending by SEK 1 billion to companies during the pandemic year. The used vehicle market has been volatile during the Covid-19 pandemic, which was also reflected in the bank's impairment of operational leases. After an initial sharp decline in conjunction with the Covid-19 outbreak, prices for used cars have recovered and are now at historically high levels. Because the second Covid-19 wave during the autumn of 2020 has increased uncertainty, the bank increased impairment of operational leases assets in the business area by SEK 29 million during Q4.

Product development is constantly in progress, and we are launching new services to make life simpler for the bank's customers by creating a smarter vehicle economy in the form of competitive company car expenditures for both drivers and companies.

	Amounts in SEK thousand		
	2020	2019	
	Jan–Dec	Jan–Dec	Change
Leasing, net*	68,320	48,308	20,012
Change in impairment of operational leases	-13,074	17,551	-30,625
Commission income	200,491	163,533	36,958
Commission expenses	-638	-755	117
Net result from financial transactions	-626	171	-797
Service and repair contracts	58,895	56,572	2,323
Other income	745	523	222
<b>Operating income</b>	<b>314,114</b>	<b>285,903</b>	<b>28,211</b>
Overhead expenses**	-111,640	-112,960	1,320
Credit losses	-650	-361	-289
Credit risk provision	-12,049	-26	-12,023
<b>Operating profit</b>	<b>189,775</b>	<b>172,556</b>	<b>17,219</b>

\* Including depreciation of lease items.

\*\*Including depreciations of tangible and intangible non-current assets excluding depreciation and impairment of lease items.

Product Information	31/12/2020	31/12/2019	Change
Number of financing contracts	36,392	35,437	955
Number of administered contracts	47,741	47,588	153
Total volume, SEK million	8,408	7,382	1,026
of which operational leases, %	71.7	68.5	3.2
of which financial leases, %	28.3	31.5	-3.2

## NOTE 4. DISCLOSURES, LOANS AND LEASES

31/12/2020	Loans	Leasing	Total
Number of contracts	122,598	121,321	243,919
Average contract, SEK thousand	122	197	159
Collateral value, SEK million	14,952	23,949	38,901
Credit utilised, SEK million	14,422	21,540	35,962
Loan-to-value ratio	96	90	92

31/12/2019	Loans	Leasing	Total
Number of contracts	127,387	125,978	253,365
Average contract, SEK thousand	119	186	152
Collateral value, SEK million	15,214	23,415	38,628
Credit utilised, SEK million	14,834	20,956	35,790
Loan-to-value ratio	98	89	93

## NOTE 5. LEASE INCOME AND ACCUMULATED NET INTEREST INCOME

	Amounts in SEK thousand				
	2020 Q4	2020 Q3	2019 Q4	2020 Jan–Dec	2019 Jan–Dec
Lease income from operational and financial leases	1,478,584	1,464,653	1,429,152	5,835,615	5,659,891
Depreciations, leased items	-1,368,844	-1,350,469	-1,323,966	-5,378,296	-5,247,991
Impairment charges / Reversals; lease item credit risk	2,171	603	-44	-10,285	-48
Impairment charges / Reversals; lease item residual value risk	-38,138	13,725	4,341	-23,958	17,551
<b>Leasing, net</b>	<b>73,772</b>	<b>128,512</b>	<b>109,485</b>	<b>423,076</b>	<b>429,403</b>
Interest income	126,217	138,297	138,433	556,789	544,851
Interest expenses	-70,045	-85,400	-80,634	-327,147	-335,319
<b>Net interest income</b>	<b>56,172</b>	<b>52,897</b>	<b>57,800</b>	<b>229,642</b>	<b>209,531</b>
<b>Accumulated net interest income</b>	<b>129,945</b>	<b>181,409</b>	<b>167,284</b>	<b>652,718</b>	<b>638,935</b>

## NOTE 6. DIVIDENDS RECEIVED

	Amounts in SEK thousand	
	2020 Jan–Dec	2019 Jan–Dec
Cash dividend Visa Sweden association	241	308
<b>Total</b>	<b>241</b>	<b>308</b>

## NOTE 7. OTHER OPERATING INCOME

	Amounts in SEK thousand	
	2020 Jan–Dec	2019 Jan–Dec
Capital gains on the sale of tangible assets	1,407	808
Revenues, service and repair contracts	58,885	56,572
Income from associated companies	1,836	3,426
Other operating income	2,902	7,396
<b>Total</b>	<b>65,030</b>	<b>68,202</b>

## NOTE 8. CREDIT LOSSES, NET

Credit losses	Amounts in SEK thousand	
	31/12/2020	31/12/2019
<b>Loans at amortised cost (incl. unused part of limit)</b>		
Provisions – stage 1	12,372	9,498
Provisions – stage 2	10,118	8,164
Provisions – stage 3	4,375	6,200
<b>Total reserve</b>	<b>26,865</b>	<b>23,862</b>
	<b>2020</b>	<b>2019</b>
	<b>Jan–Dec</b>	<b>Jan–Dec</b>
<b>Loans at amortised cost (incl. unused part of limit)</b>		
Change in provisions – stage 1	-2,874	-222
Change in provisions – stage 2	-1,954	200
Change in provisions – stage 3	1,825	-638
<b>Total change in provisions</b>	<b>-3,003</b>	<b>-660</b>
Write-off, confirmed credit losses	-20,023	-17,297
Recoveries of previously confirmed credit losses	2,026	2,274
<b>Total</b>	<b>-17,997</b>	<b>-15,023</b>
<b>Credit losses, net*</b>	<b>-21,000</b>	<b>-15,683</b>

\* Should be read together with the line item 'Total verified bad debt losses, lease assets' later in the note for comparison with the income statement overview and the line item 'Credit losses', Note 8.

Credit losses	Amounts in SEK thousand	
	31/12/2020	31/12/2019
<b>Lease assets at accrued cost</b>		
Provisions – stage 1	3,427	134
Provisions – stage 2	198	38
Provisions – stage 3	7,005	171
<b>Total reserve</b>	<b>10,630</b>	<b>343</b>
	<b>2020</b>	<b>2019</b>
	<b>Jan–Dec</b>	<b>Jan–Dec</b>
<b>Lease assets at accrued cost</b>		
Change in provisions – stage 1	-3,292	-28
Change in provisions – stage 2	-160	-14
Change in provisions – stage 3	-6,833	-6
<b>Total change in provisions**</b>	<b>-10,285</b>	<b>-48</b>
Write-off, confirmed credit losses	-743	-361
Recoveries of previously confirmed credit losses	93	3
<b>Total***</b>	<b>-650</b>	<b>-358</b>
<b>Credit losses, net</b>	<b>-10,935</b>	<b>-406</b>

\*\* Refer to the Income statement overview and the line item 'Depreciation and impairment of tangible and intangible non-current assets', Note 5. Note 5 refers to the line item 'Impairment charges / Reversals; lease item credit risk'

\*\*\* Should be read together with the line item 'Credit losses loans at amortized cost' in the note's first table for comparison with the income statement overview and the line item 'Credit losses', Note 8.

Credit losses	Amounts in SEK thousand	
	31/12/2020	31/12/2019
<b>Financial fixed assets</b>		
Provisions – stage 1	917	843
Provisions – stage 2	-	-
Provisions – stage 3	-	-
<b>Total reserve</b>	<b>917</b>	<b>843</b>
	<b>2020</b>	<b>2019</b>
	<b>Jan–Dec</b>	<b>Jan–Dec</b>
<b>Financial fixed assets</b>		
Change in provisions – stage 1	-73	57
Change in provisions – stage 2	-	-
Change in provisions – stage 3	-	-
<b>Total change in provisions</b>	<b>-73</b>	<b>57</b>
<b>Credit losses, net****</b>	<b>-73</b>	<b>57</b>

\*\*\*\* See 'Income statement, overview' and the line item 'Impairments/Reversals of financial fixed assets, net'

Credit losses	Amounts in SEK thousand	
	31/12/2020	31/12/2019
<b>Total assets</b>		
Provisions – stage 1	16,715	10,475
Provisions – stage 2	10,316	8,203
Provisions – stage 3	11,380	6,371
<b>Total reserve</b>	<b>38,411</b>	<b>25,049</b>
	2020	2019
	Jan–Dec	Jan–Dec
<b>Total assets</b>		
Change in provisions – stage 1	-6,240	-193
Change in provisions – stage 2	-2,113	185
Change in provisions – stage 3	-5,009	-643
<b>Total change in provisions</b>	<b>-13,362</b>	<b>-651</b>
Write-off, confirmed credit losses	-20,766	-17,658
Recoveries of previously confirmed credit losses	2,118	2,277
<b>Total</b>	<b>-18,647</b>	<b>-15,381</b>
<b>Credit losses, net</b>	<b>-32,009</b>	<b>-16,032</b>

During the year, the bank's provision for expected credit losses increased as a result of Covid-19. Macro-economic forecasting parameters in the bank's ECL model such as unemployment, bankruptcy rate and disposable income account for the change in all material respects.

## NOTE 9. LEVERAGE RATIO

	Amounts in SEK thousand	
	31/12/2020	31/12/2019
Tier 1 capital	4,282,284	3,989,768
Exposure measurement	43,736,444	43,609,241
<b>Leverage ratio, %</b>	<b>9.79</b>	<b>9.15</b>



## NOTE 10. CAPITAL ADEQUACY ANALYSIS

### CAPITAL BASE

	Amounts in SEK thousand	
	31/12/2020	31/12/2019
<b>Common Equity Tier 1 capital: instruments and reserves</b>		
Capital instruments and the related share premium accounts	400,000	400,000
Retained earnings	14,878	111,411
Accumulated other comprehensive income (and other reserves)	4,041,185	3,671,456
<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>4,456,063</b>	<b>4,182,867</b>
<b>Common Equity Tier 1 capital: regulatory adjustments</b>		
Intangible assets	-20,182	-15,060
Negative amounts resulting from the calculation of expected loss amount	-153,511	-178,017
Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-86	-22
<b>Total regulatory adjustments to Common Equity Tier 1</b>	<b>-173,779</b>	<b>-193,099</b>
<b>Common Equity Tier 1 capital</b>	<b>4,282,284</b>	<b>3,989,768</b>
<b>Tier 2 capital: instruments and provisions</b>		
Capital instruments and the related share premium accounts	400,000	400,000
<b>Tier 2 capital</b>	<b>400,000</b>	<b>400,000</b>
<b>Total capital (Common Equity Tier 1 capital + Tier 2 capital)</b>	<b>4,682,284</b>	<b>4,389,768</b>
<b>Total risk-weighted assets</b>	<b>21,368,095</b>	<b>20,617,467</b>

### CAPITAL RATIOS AND BUFFERS

	Amounts in SEK thousand	
	31/12/2020	31/12/2019
Risk-weighted assets	21,368,095	20,617,467
Common Equity Tier 1 capital ratio, %	20.04	19.35
Tier 1 capital, %	21.91	21.29
Total capital ratio, %	21.91	21.29
Institution-specific Common Equity Tier 1 capital requirements including buffer requirements, %	7.00	9.50
of which requirement for capital conservation buffer, %	2.50	2.50
of which requirement for countercyclical buffer, %	-	2.50
Total capital requirement, %	12.64	15.15
Common Equity Tier 1 capital ratio available for use as a buffer, %	15.54	14.85
Common Equity Tier 1 capital ratio available for use as a buffer	3,320,720	3,061,982

## INTERNALLY ASSESSED CAPITAL REQUIREMENT

	Amounts in SEK thousand					
	31/12/2020			31/12/2019		
	Capital requirement	Capital requirement / Total REA	Of which CET1 requirement / REA	Capital requirement	Capital requirement / Total REA	Of which CET1 requirement / REA
Credit risk	1,547,001	7.2%	4.1%	1,501,424	7.3%	4.1%
Operational risk	160,693	0.8%	0.4%	146,522	0.7%	0.4%
CVA risk	1,754	0.0%	0.0%	1,451	0.0%	0.0%
<b>Pillar 1 capital requirement</b>	<b>1,709,448</b>	<b>8.0%</b>	<b>4.5%</b>	<b>1,649,397</b>	<b>8.0%</b>	<b>4.5%</b>
Concentration risk	305,968	1.4%	1.0%	294,797	1.4%	1.0%
Strategic risk	85,472	0.4%	0.3%	82,470	0.4%	0.3%
Interest rate risk	65,000	0.3%	0.2%	65,000	0.3%	0.2%
<b>Pillar 2 capital requirement</b>	<b>456,440</b>	<b>2.1%</b>	<b>1.4%</b>	<b>442,267</b>	<b>2.1%</b>	<b>1.4%</b>
Capital conservation buffer	534,202	2.5%	2.5%	515,437	2.5%	2.5%
Countercyclical capital buffer	-	-	-	515,437	2.5%	2.5%
<b>Combined buffer requirements</b>	<b>534,202</b>	<b>2.5%</b>	<b>2.5%</b>	<b>1,030,874</b>	<b>5.0%</b>	<b>5.0%</b>
<b>Capital requirements</b>	<b>2,700,090</b>	<b>12.6%</b>	<b>8.4%</b>	<b>3,122,538</b>	<b>15.1%</b>	<b>10.9%</b>
<b>Capital base</b>	<b>4,682,284</b>	-	-	<b>4,389,768</b>	-	-
<b>Capital surplus</b>	<b>1,982,194</b>	-	-	<b>1,267,230</b>	-	-

The bank has a permit from the Swedish Financial Supervisory Authority to count interim profit as Common Equity Tier 1 capital.

## CAPITAL REQUIREMENT AND RISK-WEIGHTED EXPOSURE AMOUNT

	Amounts in SEK thousand					
	31/12/2020			31/12/2019		
	Capital requirement	Risk-weighted exposure amount	Average risk weighting	Capital requirement	Risk-weighted exposure amount	Average risk weighting
<b>Credit risk IRB</b>						
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 assets exposure	355,402	4,442,526	100.0%	322,735	4,034,183	100.0%
<b>Total IRB</b>	<b>1,453,072</b>	<b>18,163,395</b>	<b>40.3%</b>	<b>1,416,568</b>	<b>17,707,097</b>	<b>38.7%</b>
<b>Credit risk STD</b>						
Exposures to central governments or central banks	-	-	-	-	-	-
Exposures to provincial or regional government bodies or local authorities	-	-	-	-	-	-
Exposures to public sector	762	9,528	100.0%	543	6,793	100.0%
Exposures to institutions	41,969	524,608	20.0%	21,784	272,299	20.0%
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%
Exposures in default	245	3,069	150.0%	267	3,335	150.0%
Covered bonds	9,008	112,602	10.0%	11,325	141,561	10.0%
Share 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%
<b>Total STD</b>	<b>93,929</b>	<b>1,174,123</b>	<b>19.9%</b>	<b>84,856</b>	<b>1,060,701</b>	<b>20.3%</b>
<b>Total</b>	<b>1,547,001</b>	<b>19,337,518</b>	<b>37.9%</b>	<b>1,501,424</b>	<b>18,767,798</b>	<b>36.8%</b>
Operational risk	160,693	2,008,657	-	146,522	1,831,531	-
Credit value adjustment (CVA)	1,754	21,920	-	1,451	18,138	-
<b>Total minimum capital requirement and risk-weighted exposure amount</b>	<b>1,709,448</b>	<b>21,368,095</b>	-	<b>1,649,397</b>	<b>20,617,467</b>	-

## NOTE 11. CARRYING AMOUNT BY CATEGORY OF FINANCIAL INSTRUMENTS AND

### DISCLOSURES ABOUT FAIR VALUE

#### Methods for determining fair value

Derivatives are reported under other assets or other liabilities. Because the derivative instruments have no quoted price on an active market (Level 1), the Bank uses a discounted cash flow analysis to determine the fair value of the instruments in accordance with IFRS 13. When discounting, only observable market data is used (Level 2).

Under IFRS 13 Fair value measurement, treasury bills eligible as collateral, other eligible securities, bonds and other interest-bearing securities are measured at fair value with prices quoted on an active market (Level 1) and also at market value using observable market data (Level 2).

Lending to the public has been calculated by discounting the contractual cash flows using a discount rate based on a current lending spread (Level 3) to determine fair value according to IFRS 13.

Issued securities and subordinated liabilities have been calculated based on current lending spreads (Level 2) to determine fair value according to IFRS 13. Liabilities to credit institutions have been calculated on the basis of estimated borrowing spreads (Level 3).

Other categories belong to Level 3. The carrying amounts of these assets and liabilities provide a good approximation of fair value due to their short remaining maturity. Following a study and analysis of views, the bank has changed its opinion regarding the categories lending to the general public, liabilities to credit institutions and deposits and borrowing from the public, and the table below has been amended accordingly.

Fair values are categorised into levels in a fair value hierarchy based on the use of input data in the following measurement techniques:

Level 1 – according to quoted price on an active market for identical instruments.

Level 2 – from directly or indirectly observable market data not included in Level 1. This category includes instruments whose value is based on quoted prices on active markets for similar instruments; quoted prices for identical or similar instruments traded on non-active markets, or other valuation techniques where all material input data is directly and indirectly observable on the market.

Level 3 – from input data not observable on the market. This category includes all instruments where the valuation technique comprises inputs that are not based on observable data and where such data has a material impact on valuation.

	Amounts in SEK thousand				
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
<b>Assets, Jan - Dec 2020</b>					
Treasury bills eligible as collateral etc.	1,331,306	-	-	1,331,306	1,331,203
Lending to credit institutions	-	-	2,483,630	2,483,630	2,483,630
Lending to the public	-	-	16,804,095	16,804,095	16,279,476
Bonds and other interest-bearing 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
<b>Total</b>	<b>2,458,162</b>	<b>709,896</b>	<b>20,048,348</b>	<b>23,216,406</b>	<b>22,690,849</b>
<b>Liabilities, Jan - Dec 2020</b>					
Liabilities to credit institutions	-	-	1,238,703	1,238,703	1,230,952
Deposits and borrowing from the public	-	-	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 liabilities	-	406,395	-	406,395	400,000
<b>Total</b>	<b>-</b>	<b>12,688,882</b>	<b>25,857,692</b>	<b>38,546,574</b>	<b>38,435,254</b>
<b>Assets, Jan - Dec 2019</b>					
Treasury bills eligible as collateral etc.	1,428,339	-	-	1,428,339	1,429,949
Lending to credit institutions	-	-	1,281,290	1,281,290	1,281,290
Lending to the public	-	-	17,286,480	17,286,480	17,278,081
Bonds and other interest-bearing 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
<b>Total</b>	<b>2,843,159</b>	<b>944,962</b>	<b>19,560,036</b>	<b>23,348,157</b>	<b>23,342,160</b>
<b>Liabilities, Jan - Dec 2019</b>					
Liabilities to credit institutions	-	-	1,611,386	1,611,386	1,592,857
Deposits and borrowing from the public	-	-	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 liabilities	-	403,205	-	403,205	400,000
<b>Total</b>	<b>-</b>	<b>13,617,149</b>	<b>25,378,786</b>	<b>38,995,935</b>	<b>38,863,064</b>

\* The financial instruments measured at fair value in the balance sheet by the bank are derivative instruments.

**Financial instruments that are offset in the balance sheet or covered by netting agreements**

Volvofinans Bank concludes derivative contracts under the International Swaps and Derivatives Association (ISDA) master agreement. No amounts have been offset. In the case of derivative agreements concluded after 1 March 2017, Volvofinans Bank receives and provides collateral in the form of deposits in accordance with the standard conditions of the ISDA Credit Support Annex. Assets for derivative agreements amount to SEK 9.9 million and liabilities to SEK 76.4 million. Securities in the amount of SEK 3.5 million were received and assets of SEK 76.1 million were pledged as of 31 December 2020.



## Fair value assets and liabilities per category

Amounts in SEK thousand					
Assets	Financial assets measured at amortised cost	Derivatives in hedge accounting	Other assets*	Total	Fair value
31/12/2020					
Treasury bills eligible as collateral etc.	1,331,203	-	-	1,331,203	1,331,306
Lending to credit institutions	2,483,630	-	-	2,483,630	2,483,630
Lending to the public	16,279,476	-	-	16,279,476	16,804,095
Bonds and other interest-bearing securities	1,825,984	-	-	1,825,984	1,826,820
Shares and participations in associates and other companies	-	-	9,761	9,761	-
Shares and participations in Group companies	-	-	6,742	6,742	-
Intangible non-current assets	-	-	20,182	20,182	-
Tangible assets: inventory	-	-	9,547	9,547	-
Tangible assets: lease items	-	-	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
<b>Total assets</b>	<b>22,482,885</b>	<b>9,834</b>	<b>21,649,712</b>	<b>44,142,431</b>	
Liabilities	Non-financial liabilities	Derivatives in hedge accounting	Other financial liabilities**	Total	Fair value
31/12/2020					
Liabilities to credit institutions	-	-	1,230,952	1,230,952	1,238,703
Deposits and borrowing from the public	-	-	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 deferred income	1,313,121	-	16,732	1,329,853	1,329,853
Subordinated liabilities	-	-	400,000	400,000	406,395
<b>Total liabilities</b>	<b>1,654,796</b>	<b>625</b>	<b>36,779,833</b>	<b>38,435,254</b>	

\* Non-hedged derivatives amounting to 99 are included in the item other assets.

\*\* Non-hedged derivatives amounting to 75,779 are included in the item other liabilities.

Amounts in SEK thousand					
Assets	Financial assets measured at amortised cost	Derivatives in hedge accounting	Other assets*	Total	Fair value
31/12/2019					
Treasury bills eligible as collateral etc.	1,429,949	-	-	1,429,949	1,428,339
Lending to credit institutions	1,281,290	-	-	1,281,290	1,281,290
Lending to the public	17,278,081	-	-	17,278,081	17,286,480
Bonds and other interest-bearing securities	2,349,552	-	-	2,349,552	2,348,760
Shares and participations in associates and other companies	-	-	11,258	11,258	-
Shares and participations in Group companies	-	-	6,742	6,742	-
Intangible non-current assets	-	-	15,060	15,060	-
Tangible assets: inventory	-	-	12,133	12,133	-
Tangible assets: lease items	-	-	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
<b>Total assets</b>	<b>23,107,388</b>	<b>10,730</b>	<b>20,917,875</b>	<b>44,035,993</b>	
Liabilities	Non-financial liabilities	Derivatives in hedge accounting	Other financial liabilities**	Total	Fair value
31/12/2019					
Liabilities to credit institutions	-	-	1,592,857	1,592,857	1,611,386
Deposits and borrowing from the public	-	-	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 liabilities	-	-	400,000	400,000	403,205
<b>Total liabilities</b>	<b>1,727,519</b>	<b>1,313</b>	<b>37,134,232</b>	<b>38,863,064</b>	

\* Non-hedged derivatives amounting to 292 are included in the item other assets.

\*\* Non-hedged derivatives amounting to 9,757 are included in the item other liabilities.

## NOTE 12. RELATED PARTIES

The bank is owned 50% by Volvo Personvagnar AB and 50% by Swedish Volvo dealers, through their trust company AB Volverkinvest. Both companies are classified as other related companies.

The bank has participations in four companies classified as associates: Volvohandelns PV Försäljnings AB, Volvohandelns PV Försäljnings KB, VCC Tjänstebilar KB and VCC Försäljnings KB. The Group also includes wholly-owned and dormant subsidiaries: Volvofinans Leasing AB, Autofinans Nordic AB, CarPay Sverige AB and Volvofinans IT AB.

	Group companies		Associates		Other related companies	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
<b>Balance sheet</b>						
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
<b>Income statement</b>						
Interest income	-	-	1,047	815	-	6
Lease income	-	-	-	-	139,049	342,630
Interest expenses	-	-	-112	-52	-126	-20
Commission income	-	-	-	-	668	1,776
Other operating income	-	-	1,836	3,426	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>2,770</b>	<b>4,189</b>	<b>139,591</b>	<b>344,392</b>

## NOTE 13. EVENTS AFTER THE END OF THE PERIOD

No significant events have occurred since the end of the period.



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