

**CREDIT OPINION**

19 October 2024

Update



**RATINGS**

**Ziklo Bank AB**

Domicile	Gothenburg, Sweden
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	A3
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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**Ziklo Bank AB**

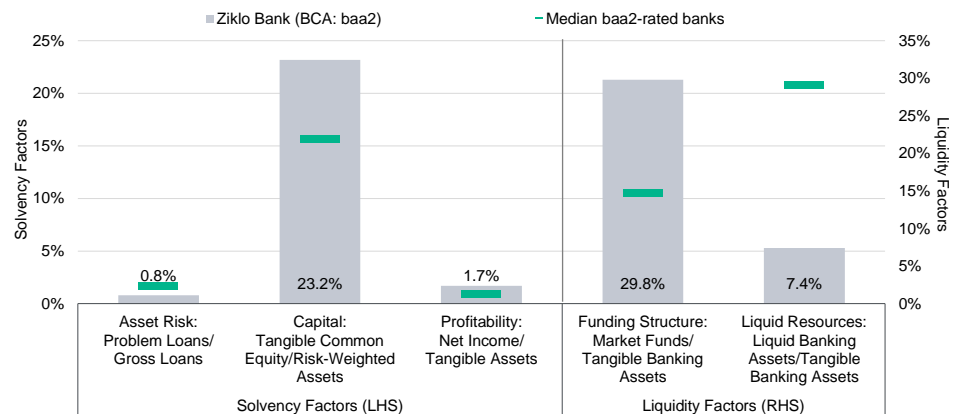
Update to credit analysis

**Summary**

Ziklo Bank AB's A3 long-term deposit and issuer ratings reflect the bank's baa2 Baseline Credit Assessment (BCA) and the results of our Advanced Loss Given Failure (LGF) analysis, which factors in the severity of loss faced by the different liability classes in resolution, leading to two notches of uplift to its deposit ratings.

Ziklo Banks' baa2 BCA reflects its strong solvency, including its consistently strong asset quality, very strong capitalisation, and stable recurring profitability. This is balanced against a reliance on market funding and tightly managed liquidity.

Exhibit 1  
**Rating Scorecard - Key financial ratios**



These represent our [Banks](#) methodology scorecard ratios, whereby asset risk and profitability reflect the weaker of either the latest reported or the average of the last three year-end and latest reported ratios. Capital is the latest reported figure. Funding structure and liquid resources ratios reflect the latest year-end figures.

Source: Moody's Ratings

**Credit strengths**

- » Established market presence in Sweden, financing Volvo and multiple other auto brands
- » Stable asset quality and a low level of loan losses, supported by a recourse agreement with Volvo dealers
- » High regulatory capital ratios and stable recurring profitability

This report was republished on 22 October 2024 with the addition of exhibit 1 and a correction to the affiliate constraint in exhibit 9.

## Credit challenges

- » Highly concentrated loan book in the automotive sector and interlinkages with lower rated Volvo Car AB
- » High reliance on market funding
- » Tightly managed liquidity without permanent access to central bank liquidity

## Outlook

The stable outlook on the long-term deposit and issuer ratings reflects our expectation that Ziklo Bank will continue to maintain a strong solvency, including a solid capitalisation, over the next 12 to 18 months despite macro related challenges such as high interest rates and low economic activity.

## Factors that could lead to an upgrade

Ziklo Bank's ratings could be upgraded due to an upgrade in the BCA. The BCA could be upgraded if liquidity buffers increased together with permanent central bank liquidity access, and a move to become a more brand-agnostic lender within the automotive sector, lowering the dependency on Volvo Car AB ([Volvo, Corporate Family Rating Ba1](#)), owning 50% of the bank.

## Factors that could lead to a downgrade

The ratings could be downgraded if the BCA is downgraded, or if there is a substantial reduction in its volume of deposits compared with its tangible banking assets, resulting in higher loss severity for deposits in the event of the bank's failure. The BCA could be downgraded following a significant deterioration in profitability and asset quality, or a lack of access to market funding resulting in pressure on liquidity.

Furthermore, notwithstanding the fact that Ziklo Bank is more effectively ring-fenced from its industrial parent than certain peers, a downgrade of Volvo's ratings could cause a downgrade of Ziklo Banks' ratings. In particular, if we believe that a deterioration in Volvo's creditworthiness would likely have a spillover effect on the bank's financing volumes, profitability or ability to fund itself in wholesale markets.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 2

### Ziklo Bank AB (Unconsolidated Financials) [1]

	06-24 <sup>2</sup>	12-23 <sup>2</sup>	12-22 <sup>2</sup>	12-21 <sup>2</sup>	12-20 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (SEK Million)	52,175.7	49,791.8	46,920.1	45,112.0	44,142.4	4.9 <sup>4</sup>
Total Assets (USD Million)	4,926.8	4,940.7	4,503.1	4,986.4	5,375.0	(2.5) <sup>4</sup>
Tangible Common Equity (SEK Million)	6,636.8	6,388.4	5,778.7	5,251.9	4,608.6	11.0 <sup>4</sup>
Tangible Common Equity (USD Million)	626.7	633.9	554.6	580.5	561.2	3.2 <sup>4</sup>
Problem Loans / Gross Loans (%)	0.8	0.8	0.6	0.6	0.8	0.7 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	23.2	23.3	23.8	23.7	21.6	23.1 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	5.2	5.1	4.0	4.1	6.2	4.9 <sup>5</sup>
Net Interest Margin (%)	2.4	2.5	1.9	1.6	1.6	2.0 <sup>5</sup>
PPI / Average RWA (%)	4.3	4.4	3.8	3.2	3.0	3.7 <sup>6</sup>
Net Income / Tangible Assets (%)	1.7	1.6	2.8	1.8	1.0	1.8 <sup>5</sup>
Cost / Income Ratio (%)	39.6	38.1	39.3	41.4	44.8	40.6 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	31.7	29.8	29.5	31.5	30.4	30.6 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	7.7	7.4	6.9	8.5	8.6	7.8 <sup>5</sup>
Gross Loans / Due to Customers (%)	182.1	174.3	173.1	177.5	169.0	175.2 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

## Profile

Ziklo Bank AB (previously - Volvofinans Bank AB), established in 1959, offers financial services to private and corporate customers who purchase or lease vehicles, mainly through the Volvo dealers in Sweden. In recent years, Ziklo Bank has expanded its offerings by collaborating with more partners and brands within the automotive and mobility industry. To allow for a more brand agnostic approach, the bank in March 2024 changed its name to Ziklo Bank while retaining Volvofinans as product name and brand for the continued expansion together with Volvo. The payment service CarPay also retains its name.

In addition to car and truck financing (53% and 14% of lending, respectively, as of end-June 2024), the bank provides fleet financing solutions (29%) and credit card services (4%). The bank's automotive-oriented franchise is underpinned by its widely recognised brand name and a leading market share in the car financing segment in Sweden.

## Detailed credit considerations

### Established market presence and franchise in Sweden

Ziklo Banks' business model is built on its relationship with Volvo dealers, which act as a distribution network for the bank. The Swedish network of Volvo dealers comprised of 217 sales outlets by year end 2023. Despite the association with the Volvo name and brand, the bank generates a significant proportion of its earnings from the sale of non-Volvo cars. In the first half of 2024, the number of new Volvo and Polestar car registrations in Sweden was 26,531 vehicles, corresponding to 20% market share. The total amount of new car registrations fell 6% in the first half of 2024 compared to the same period last year, when it also declined 2.5% compared to H1 2022.

Ziklo Bank is 50:50 jointly owned by the Swedish Volvo dealers (through their holding company AB Volverkinvest) and the car manufacturer Volvo Personvagnar AB, following the sale of Sixth AP Fund's shares back to Volvo in August 2016. Because of the joint ownership structure by Volvo and Volvo dealers, and the dealers' operations with other automotive manufacturers, Ziklo Bank benefits from a degree of strategic, operational and financial independence, which makes its credit profile less correlated with its automotive-manufacturer parent than is typically observed with captive automotive financing banks. Therefore, Ziklo Banks' BCA of baa2 is positioned two notches above Volvo's Ba1 CFR, where auto captives BCAs are typically constrained to one notch above its parent's ratings.

We view potential long-term challenges to Ziklo Bank business model where customers could seek to purchase vehicles via online sales channels versus through the Volvo dealers. This could lead to an increased focus on the used car market for Ziklo Bank, however, we

do note that Ziklo Bank's services are used to finance online sales by the electric carmaker Polestar Automotive Sweden AB, of which Volvo Cars owns slightly less than 49.5%.<sup>1</sup>

### Stable asset quality and low level of loan losses

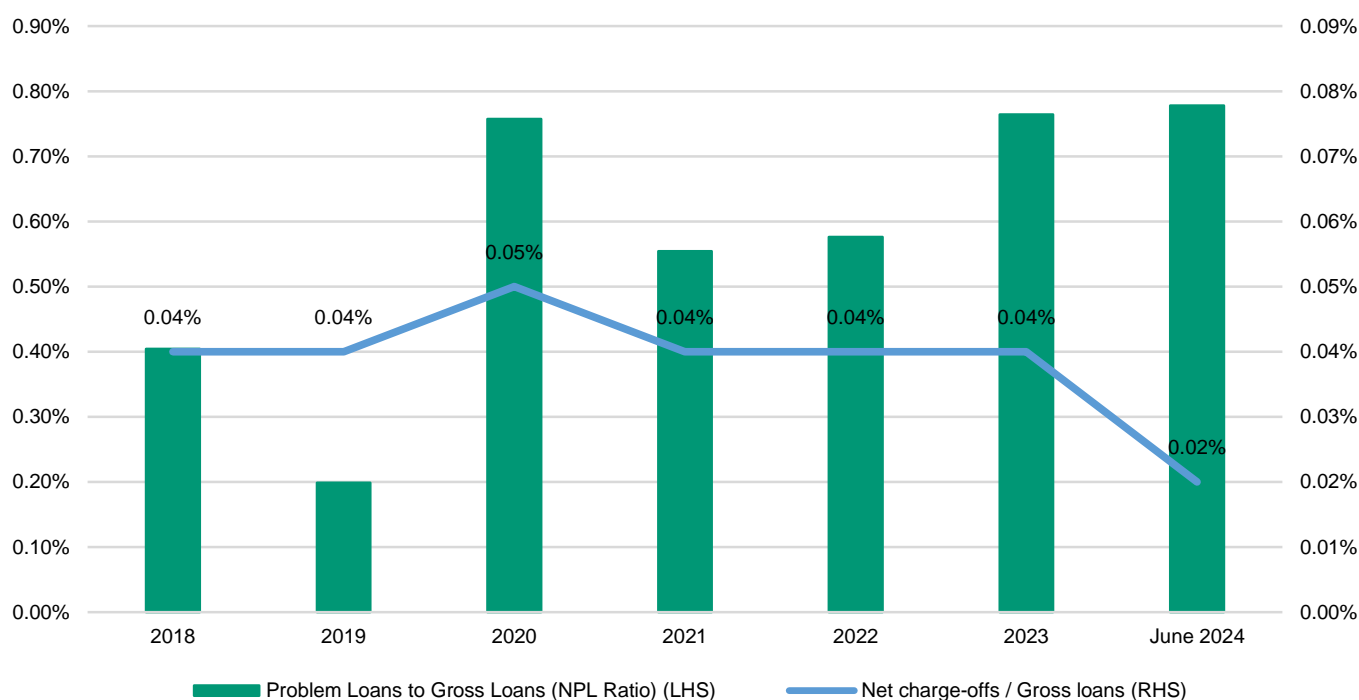
The bank's asset quality has remained resilient despite the challenging operating environment underpinned by high inflation, fuel and commodity costs and higher interest rates. Problem loans have remained low in the last five years (Exhibit 3).

We expect a further moderate increase over the next 12 months, but credit losses will remain minimal with a large portion of the bank's exposures protected through recourse agreements with its Volvo dealers. The Swedish Volvo dealers have an obligation to cover the loan losses arising from the loans they have originated. In addition, Volvo dealers are obliged to buy back problem loans from the bank.

Exhibit 3

#### Low levels of NPLs

Problem loans / Gross loans and leases (LHS) Net charge-offs / Gross Loans (RHS), Problem loans / Gross loans and leases (RHS)



Source: Moody's Ratings

These recourse agreements with its Swedish Volvo dealers cover two-thirds of the bank's lending book (sales finance cars and sales finance trucks), which require dealers to cover losses arising from the loans they have originated. In addition, Volvo dealers are obliged to buy back problem loans from the bank. Consequently, the bank will recognise a loan loss only if the end-customer suspends payments; the dealership is unable to service the missed customer payments; and the market value of the vehicle is less than the residual value of the loan. As a result, Ziklo Banks' loan losses are very low and well below its peers, equivalent to only 6 basis points of gross outstanding loans as of end of June 2024. Likewise, of the SEK322 million in loan and leasing receivables more than 90 days overdue or defaulted, SEK319 million are protected by recourse agreements. The bank also has SEK22 million of credit cards related impaired receivables as of end of June 2024.

Given its business model, Ziklo Banks' concentration in automotive financing is very high compared with the industry concentrations of other Swedish banks and can be sensitive to shifts in residual values. In addition, the bank's distribution network consists of a relatively small number of dealers. Hence, the bank's financial performance is more correlated with the performance of the Swedish automotive

industry than that of many other Swedish banks. Although the bank's credit card business adds some diversification, card lending volumes remained low at around 4% of total lending as of the end of June 2024 and they're higher risk, forming the bank's main source of loan losses.

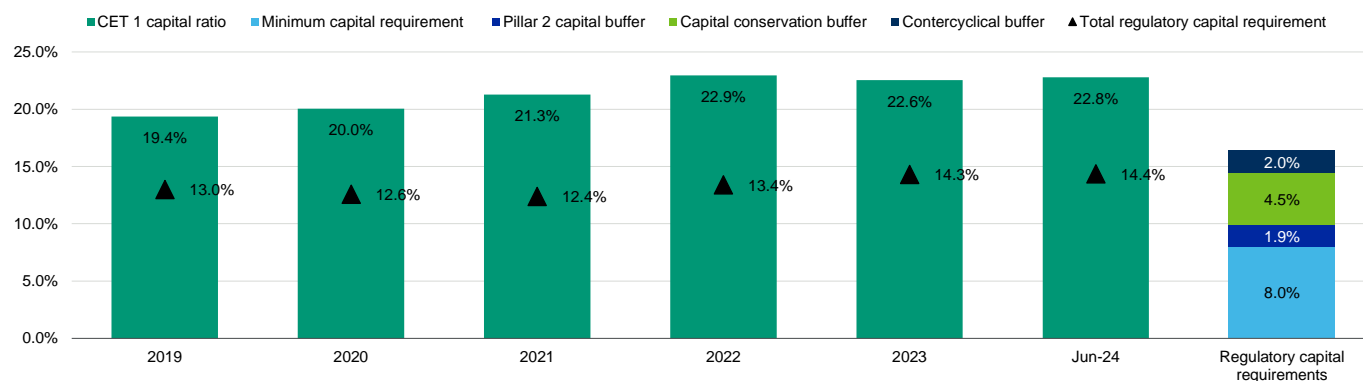
The bank's concentrated exposure to automotive financing, which we consider significantly riskier than, for example, residential mortgage lending, is reflected in the assigned a2 Asset Risk score; this is three notches below the aa2 Macro Adjusted score.

### High regulatory capital ratios

The bank maintains a conservative capital management policy underpinned by very high capital levels, solid recurring profitability and a modest dividend payout policy. As of June 2024, Ziklo Bank reported a 22.8% Common Equity Tier 1 (CET1) capital ratio and a 22.8% total capital ratio, largely unchanged from year-end 2022 and well-above its regulatory requirements. Ziklo Bank has a strong leverage ratio, with tangible common equity to total assets of 12.9% as of end-June 2024 which reflects its exposure to automotive financing which carries higher risk-weights.

Exhibit 4

#### Capitalisation and minimum regulatory capital requirements



Source: Company reports

The bank's regulatory capital is comprised entirely of CET1, with the bulk of this equity located in an untaxed reserve on the balance sheet. This balance sheet entry increases as a result of accelerated depreciation, which, in turn, reduces the bank's tax bill. Untaxed reserves essentially consist of profit that has not yet been taxed. To calculate Ziklo Bank's Moody's-adjusted capital, we deduct taxes from the untaxed reserves and treat the net balance as equity.

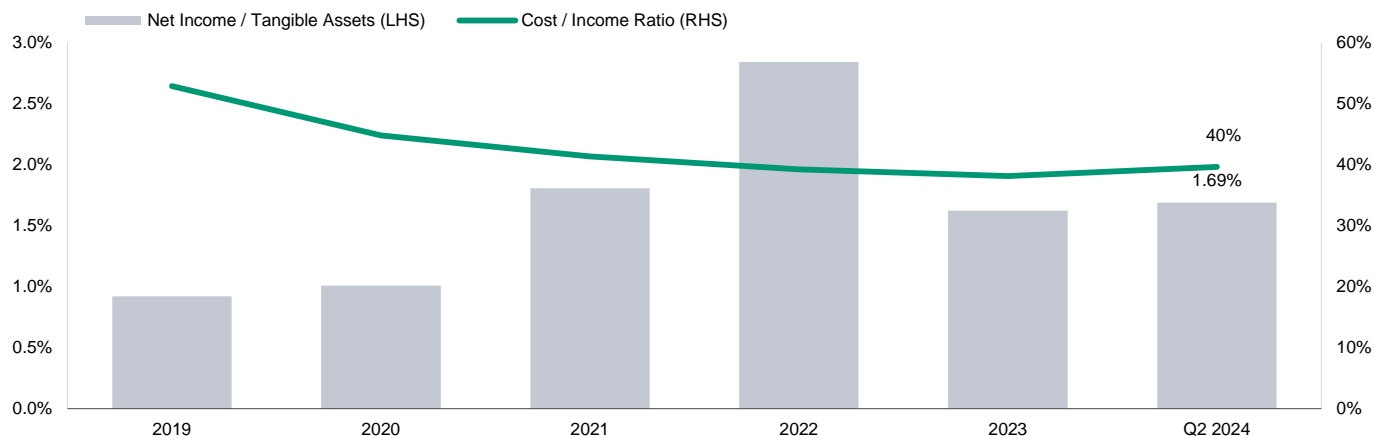
Ziklo Bank is privately owned by the Volvo dealers and Volvo Personvagnar AB, and therefore does not have the same type of access to capital as a publicly traded bank. The bank's limited access to capital against its very strong capitalisation results in a one-notch negative adjustment to the aa2 assigned Capital score.

### Stable recurring profitability underpinned by modest margins and operational efficiency

The bank's high recurring profitability is supported by sound margins and good operational efficiency with a modest cost-to-income ratio. Its track record of stable financial performance reflects the leading market presence of Volvo cars in Sweden as well as its strategy to diversify the automotive brands that it finances.

Ziklo Bank's second-half earnings remained high, with a net income to tangible assets ratio of 1.7% due to elevated net interest margins (NIM), and as solid origination volumes from corporate customers offset waning private customers originations. Looking ahead, we expect a moderation in the bank's NIM, lower new car registrations and weak used car prices to lead to a moderation in its profitability.

Exhibit 5  
**Ziklo Bank's ROA has moderated from a record high in 2022 yet remains strong**



Moody's adjusted figures  
 Source: Moody's Ratings

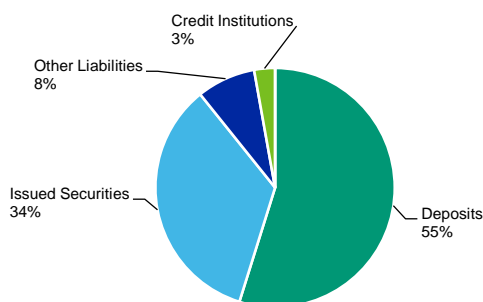
Ziklo Banks' earnings structure benefits from very low credit losses, with its loan loss provisions to pre-provision income being one of the lowest among the Swedish banks that we rate, supported by its loan recourse agreements with Volvo dealers. For 2023, loan loss provisions amounted to SEK 12.4 million, compared to SEK 23.1 million in 2022.

The Profitability score of a2 reflects the bank's high profitability and good efficiency ratios. The assigned score is one notch below the Macro Adjusted score to reflect our expectations that the bank's profitability will marginally reduce.

**High reliance on market funding and tightly managed liquidity**

Ziklo Bank is primarily deposit funded and accounts for 55% of its reported total liabilities (non-equity funding) as of end-June 2024. While this is considerably higher than other automotive financing banks, it remains reliant on wholesale funding with a sizable volume of senior unsecured funding. To date, deposits have been a relatively cheap and stable source of funding for the bank. However, the bank does not provide current accounts, which may affect the stickiness of the deposits.

Exhibit 6  
**Ziklo Bank remains dependent on wholesale funding**  
 Non-equity funding sources as a percentage of total liabilities (as of 30 June 2024)



Source: Company reports

As a small Swedish bank, Ziklo Bank has a debt investor base that is more limited than that of larger Swedish banks that issue debt in multiple currencies and geographies and to a diversified investor base. The lack of such a deep and diversified investor pool places Ziklo Bank at a disadvantage to those banks if markets were to shrink.

The Market Funding score of ba1, which is two notches below the Macro Adjusted score, reflects the bank's moderate reliance on this market funding, but also the bank's lack of current account offering and the lower wholesale funding diversification than traditional retail and commercial banks.

The bank's Liquid Banking Assets / Tangible Banking Assets (TBA) ratio was a low 7.7% as of Q2 2024. Its high-quality liquid assets and due from financial institutions as a share of TBA was slightly higher at 9.8%. The bank does have access to additional credit facilities and could draw down on a total of SEK3.8 billion from leading financial institutions. In addition, much of the bank's lending is related to cars and has shorter terms than those of banks that focus on mortgage lending, lowering its asset-liability mismatch. Ziklo Bank had an NSFR ratio of 119% as of June 2024, compared to 119% by year end 2023. The LCR ratio was a strong 281%, up from 252% since year end 2023.

Our assessment on liquidity also takes into account Ziklo Bank lack of permanent access to central bank liquidity as a monetary policy counterparty, which reduces the available liquidity sources during severe market stress. Their status stands out compared to other Swedish banks where the central bank is the lender of last resort. While the bank does not have the same intraday liquidity needs as banks that offer current accounts, there is still a risk of accelerated deposit outflows and limited access to capital markets during times of high volatility.

The assigned Liquid Assets score of b2, one notch below the Macro Adjusted score, reflects the bank's tightly managed liquidity but also its lack of permanent access to central bank liquidity.

**Highly concentrated loan book in the automotive sector and interlinkages with lower rated Volvo Car AB constrain the BCA**

Similar to other automotive financing banks, Ziklo Bank has sources of income that are dominated by consumer and automotive finance in Sweden, exposing it to the cycles within the automotive industry. The bank's BCA of baa2 is, therefore, one notch below its baa1 Financial Profile because its monoline business model prevents it from having other income streams to fall back on to help absorb any unexpected shocks.

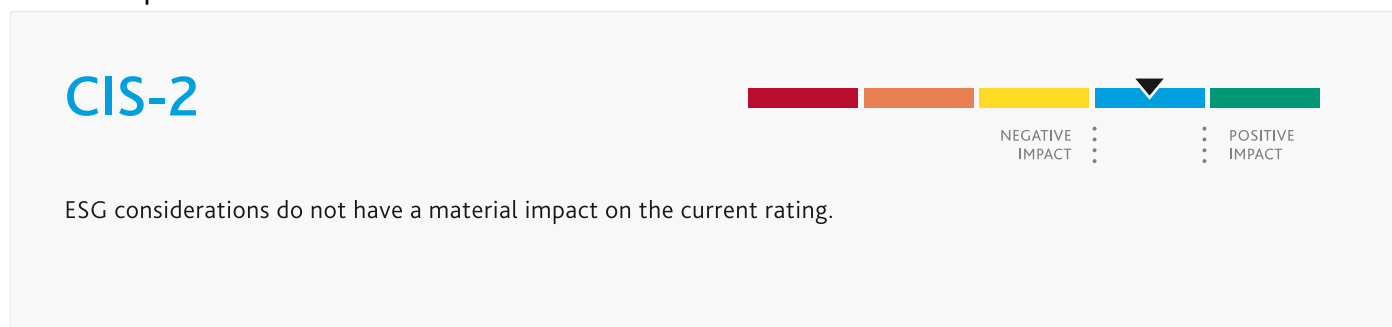
Ziklo Bank's baa2 BCA is constrained at two notches above Volvo Cars AB's Ba1 rating due to Volvo Cars' substantial ownership stake in Ziklo Bank (50%) and the commercial connection through the Volvofinans brand, as well as being a significant financier of Volvo vehicles. However, the two-notch difference is greater than that of other auto captives, reflecting the lower level of interlinkages between the two companies than other auto captives.

**ESG considerations**

**Ziklo Bank AB's ESG credit impact score is CIS-2**

Exhibit 7

**ESG credit impact score**



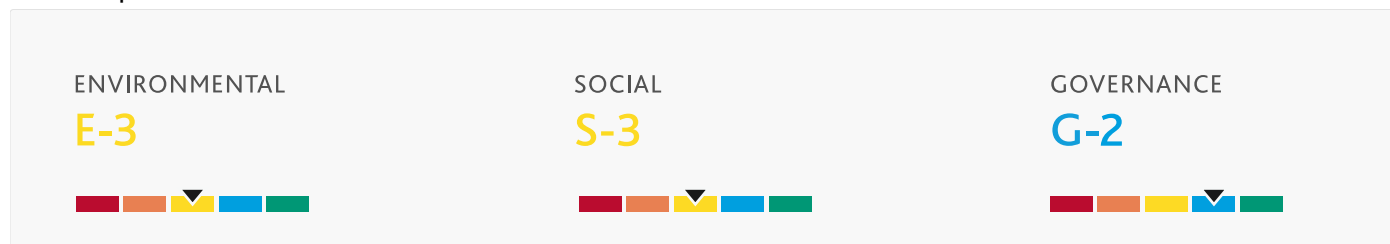
ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

Ziklo Bank's **CIS-2** reflects that ESG Considerations have no material impact on the ratings.

Exhibit 8

## ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Ziklo Bank faces environmental risks primarily because of its portfolio exposure to carbon transition risks in its auto lending business. The bank is subject to the same shift in demand characteristics for their product offering in the same way that auto manufacturers are. These risks are addressed by the bank's active climate risk management strategy and portfolio management capabilities, which is reflected in its growing share of financed electric and plug-in hybrid electric vehicles.

### Social

Ziklo Bank faces social risks related to regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by the bank's developed policies and procedures. High cyber and personal data risks are mitigated by the bank's strong IT framework.

### Governance

Ziklo Bank faces low governance risks. It has a track record of sound capital management and earnings stability while losses have been low, even at times of market turbulence. The lack of permanent access to central bank liquidity as a monetary policy counterparty increases the bank's liquidity risk compared to other Swedish banks. Ziklo Bank is 50:50 jointly owned by the Swedish Volvo dealers through Volverkinvest AB and the car manufacturer Volvo Personvagnar AB, leading to moderately negative risks with respect to board structures and policies. Its seven-member board of directors includes three independent directors, two members appointed by Volvo Personvagnar, and two members appointed by the Volvo dealers. The minority of representation by either of the large owners supports board independence and effective oversight. Ziklo Bank benefits from a degree of strategic, operational and financial independence, which makes its credit profile less correlated with its automotive-manufacturer parent than is typically observed with captive automotive financing banks.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Support and structural considerations

### Loss Given Failure (LGF) analysis

We apply our Advanced LGF analysis to Ziklo Bank because the bank is subject to the European Union Bank Recovery and Resolution Directive, which we consider an operational resolution regime. For this analysis, we assume that equity and losses are at 3% and 8%, respectively, of tangible banking assets in a failure scenario. We also assume a 25% runoff of junior wholesale deposits and a 5% runoff in preferred deposits. Moreover, we assign a 25% probability to junior deposits being preferred over senior unsecured debt. These are in line with our standard assumptions. We also assume that the share of junior deposits is 10%, in line with our view that retail oriented banks will have a low share of large corporate deposits.

Ziklo Banks' deposits are likely to face very low LGF because of the loss absorption provided by unsecured debt (if deposits are treated preferentially in a resolution). In addition, the bank has a large deposit base, which means that any losses would be spread over a large base, hence translating into very low losses for the individual depositor. The bank's long-term deposit ratings, consequently, receive a two-notch uplift to A3. Similarly, the bank's long-term issuer rating receives two notches of uplift from our LGF analysis, resulting in an A3 rating.



### Government support

We believe that Ziklo Bank is not a systemic institution. As such, the bank's ratings do not include uplifts for government support, reflecting of our assessment of a low probability of support from the Swedish government.

### Methodology and scorecard

#### About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

## Rating methodology and scorecard factors

Exhibit 9

### Rating Factors

<b>Macro Factors</b>							
<b>Weighted Macro Profile</b>	<b>Strong +</b>	<b>100%</b>					
<b>Factor</b>	<b>Historic Ratio</b>	<b>Initial Score</b>	<b>Expected Trend</b>	<b>Assigned Score</b>	<b>Key driver #1</b>	<b>Key driver #2</b>	
Solvency							
Asset Risk							
Problem Loans / Gross Loans	0.8%	aa2	↔	a2	Sector concentration		
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	23.2%	aa1	↔	aa2	Access to capital		
Profitability							
Net Income / Tangible Assets	1.7%	a1	↔	a2	Expected trend		
Combined Solvency Score		aa2		a1			
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets	29.8%	baa2	↔	ba1	Extent of market funding reliance	Deposit quality	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets	7.4%	b1	↔	b2	Stock of liquid assets	Additional liquidity resources	
Combined Liquidity Score		ba1		ba3			
Financial Profile				baa1			
Qualitative Adjustments				Adjustment			
Business Diversification				-1			
Opacity and Complexity				0			
Corporate Behavior				0			
Total Qualitative Adjustments				-1			
Sovereign or Affiliate constraint				baa2			
BCA Scorecard-indicated Outcome - Range				baa1 - baa3			
Assigned BCA				baa2			
Affiliate Support notching				0			
Adjusted BCA				baa2			
<b>Balance Sheet</b>							
		<b>in-scope (SEK Million)</b>	<b>% in-scope</b>	<b>at-failure (SEK Million)</b>	<b>% at-failure</b>		
Other liabilities		11,018	21.1%	13,496	25.9%		
Deposits		24,296	46.6%	21,817	41.9%		
Preferred deposits		17,979	34.5%	17,080	32.8%		
Junior deposits		6,317	12.1%	4,738	9.1%		
Senior unsecured bank debt		15,246	29.2%	15,246	29.2%		
Equity		1,564	3.0%	1,564	3.0%		
Total Tangible Banking Assets		52,123	100.0%	52,123	100.0%		

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	41.3%	41.3%	41.3%	41.3%	3	3	3	3	0	a2
Counterparty Risk Assessment	41.3%	41.3%	41.3%	41.3%	3	3	3	3	0	a2 (cr)
Deposits	41.3%	3.0%	41.3%	32.2%	2	3	2	2	0	a3
Senior unsecured bank debt	41.3%	3.0%	32.2%	3.0%	2	2	2	2	0	a3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	0	A2	A2
Counterparty Risk Assessment	3	0	a2 (cr)	0	A2(cr)	
Deposits	2	0	a3	0	A3	A3
Senior unsecured bank debt	2	0	a3	0	A3	A3

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

## Ratings

Exhibit 10

Category	Moody's Rating
<b>ZIKLO BANK AB</b>	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	A3/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A2(cr)/P-1(cr)
Issuer Rating	A3
ST Issuer Rating	P-2

Source: Moody's Ratings

## Endnotes

1 [Polestar](#) was acquired by the Volvo Car Group in 2015.

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