

English version

TCFD 2024

Task Force on Climate-related
Financial Disclosures

The
Mobility
Bank

Ziklo

Ziklo Bank - TCFD Report

1. GOVERNANCE

The following section describes the Board's supervision of climate-related risks and opportunities, and a description of the way company management deals with risks and opportunities.

The Board's supervision of climate-related risks and opportunities

The CEO has overall responsibility for the Bank's sustainability work. The Head of Sustainability is responsible for coordinating, supporting and regularly monitoring the Bank's sustainability work and reporting to the Board.

Ziklo Bank is a company of public interest. It is owned by the Swedish Volvo dealers and Volvo Personvagnar AB. The Bank must promote sustainable development to the extent that it does not increase risk for its owners or impede its overall goal of generating returns. An annual report is submitted to the Board every year covering the financial year, including sustainability work.

The Board approves the Bank's annual business plan and then updates e.g. its risk strategy and sustainability policy. This falls within the framework of the Bank's ICAAP/ILAAP process. The Board and management follow up the business plan every year and present their findings in the annual report.

In 2024, the Bank will continue to develop policies and frameworks related to sustainability. These are measures taken to contribute to the UN's sustainability goals and to meet the Paris Agreement, which also involves managing risks related to climate change. The Board resolves on policies and frameworks.

Management's role in assessing and managing climate-related risks and opportunities

Sustainability work is governed by the Bank's sustainability policy; its strategy and related sustainability objectives are integrated throughout the Bank's operations with the following division of responsibilities. The Bank's CEO has overall responsibility for sustainability work. The Head of Sustainability is responsible for coordinating, supporting and regularly monitoring the Bank's sustainability work and reporting outcomes to company management.

All senior executives must consider the climate and how ESG factors can be influenced by their decisions.

Henceforth, the Bank will implement recommendations from the Corporate Sustainability Reporting Directive (CSRD) and the Principles for Responsible Banking (PRB). The Bank set up a sustainability forum in 2022. The forum seeks to enable representatives from the business areas to meet and exchange knowledge about trends in sustainability and tomorrow's marketplace, partly to agree on the Bank's short and long-term objectives, including follow-up. It also seeks to create a common understanding of how the Bank will work with sustainability in the organisation moving forward.



The sustainability forum includes employees from the first and second lines of defence who work with the Bank's daily operations, control and compliance. Internal audits make up the third line of defence, auditing sustainability work as necessary.

2. STRATEGY

The following sections describe real and potential climate-related risks and opportunities for the organisation's business model, its strategy and financial planning where such information is relevant.

Growing concern about climate change among the nations of the world saw the creation of the Paris Agreement, which came into force in 2016. The Paris Agreement is a worldwide climate agreement aimed at limiting global temperature rises and supporting those affected by climate change. The agreement's main objective is to keep the temperature increase below 2°C compared to pre-industrial levels by reducing greenhouse gas emissions and achieving a net zero emissions target. Ziklo Bank will take measures aimed at achieving this target, e.g. by setting a good example. The Bank can achieve this by helping to promote the exchange of knowledge between banks, partners, customers and other market players.

Climate-related risks

The Bank's risks are strongly correlated with the Bank's lending portfolio and its greenhouse gas emissions as the majority of the portfolio consists of fossil-fuelled vehicles. It's easy to see that a rapid transition to climate neutrality would promote a reduction in greenhouse gas emissions, and while physical climate-related risks would be lower, transition-

related risks would increase. The converse is true in a slow transition where greenhouse gas emissions are reduced at a lower rate and transition-related risk becomes all the lower as a result of greater physical climate-related risk.

What's more, there are a number of transition risks that will affect the Bank in the short, medium and long terms, such as how well the Bank can predict future residual values, the effect of how well its partners are involved in the transition and lastly, by laws and regulations. The Bank defines short term as a time horizon of 1 year, medium term as 2–4 years and long term as more than 5 years.

The Bank ascribes the majority of its risks to the medium and long-term horizons. The Bank has identified several risks, the greatest of which could be how well it sets accurate residual values, as these are becoming increasingly difficult to forecast due to the transition from traditional fossil fuels to new, electric drivetrains. Another important factor in our transition is how well our partners are mindful of it and champion the cause. The Bank's core business is based on financing cars sold through Swedish Volvo dealers. Thus, the extent to which Volvo dealers and Volvo Cars enable the sale and supply of EVs and hybrid vehicles is a dependent variable for the Bank. Historically, collaboration with the parties who supply the market with fossil fuels has created value for the Bank, and enjoying the right partnership in this regard will continue to be important. The Bank's current forecasts show fossil fuels to have a downward trend. This will place great pressure on operators to get involved in the transition and provide the market with new products and services to replace traditional fossil fuels. Lastly, the Bank is subject to laws and regulations that have a considerable impact. The Bonus Malus system is a good concrete example. In somewhat simple terms, the system rewards cars with low greenhouse gas emissions with a bonus, while cars with higher greenhouse gas emissions are charged a higher rate of tax.

Also, the Bank has identified a number of physical risks resulting from climate change. They concern damage to property, reduced productivity, or indirect consequences in the form of supply chain delays.

The Bank notes that some of its assets may have a greater adverse climate impact than others, and it may thus be subject to higher insurance premiums. In the long term, this may mean that demand for some of the Bank's assets will be lower, which will in turn be negative for the Bank. As a result, the Bank sees that the credit risk will be affected by this and that in the long term it may need greater capital adequacy linked to exposure to assets with a greater negative climate impact. The Bank also notes that the component shortage has had an indirect effect on the Bank. It also notes that climate change may have a long-term negative impact on the Bank, e.g. through an increase in the default

risk among our customers. The Bank also feels that price corrections and a greater volatility of its assets arising from the transition and climate change may become a factor in the future.

In the work and analysis of climate-related risks, the Bank conducted a review of the PACTA method. The Bank considers itself not to be subject to the PACTA method. Also, the PACTA method helps companies analyse the transition risks in credit portfolios, i.e. the Bank analyses the companies in the portfolio that are financed. The PACTA method is used to define transition risks in the Bank's loan portfolios and the degree of harm to the climate caused by its lending. An example of lending that causes harm to the climate is loans to automotive companies where financing is used to produce internal combustion engines. The Bank may be seen to be involved in financing the production of fossil-fuelled Volvo vehicles. In the Bank's view, it is not directly involved in financing production as its loan portfolio is not directly aimed at financing the production of fossil-fuelled vehicles, even though it is highly likely that the Bank makes an indirect contribution to the production of such vehicles. To conclude, in the Bank's opinion, the PACTA method in its current form is intended to focus on climate transition in production.

From a geographical perspective, the Bank's risks are deemed to be small. The Bank's total operation is conducted within Sweden and its exposure is limited to Sweden, which means the Bank only offers its services to people or companies registered as domiciled in Sweden.

Lastly, it is important to point out that the Bank's risks are spread over partners other than Volvo. As dealers diversify through more brands the Bank's portfolio is doing the same, add to that the business area Fleet within the Bank is the market leader targeting all brands which further the spreading of risks as it enables a diversified portfolio.

Climate-related opportunities

The Bank sees a number of opportunities if it remains nimble and acts as openings arise in a transitioning market that is increasingly climate smart.

Financing the transition toward greener mobility is an opportunity ideally suited to the Bank. Primarily, this would involve prioritising the financing of EVs and hybrid vehicles. Financing tomorrow's mobility as a more sustainable alternative could also become the Bank's unique competitive advantage. As mentioned, the Bank feels it can contribute to positive development by rewarding more sustainable alternatives. The Bank also sees an opportunity in informing its customers, whereby e.g. business area Fleet helps customers make eco-friendly, sustainable, and economical decisions regarding their fleets. In the long term,

the Bank could also refuse to grant credit from a credit-risk perspective, and by this means oppose financing mobility that has a negative climate impact, or which counteracts sustainable development. In reference to the introduction, the Bank sees opportunities in new markets, and there will be new players in the Swedish market who will need financing partners. The Bank also sees opportunities through expansion into neighbouring geographic markets to enable the financing of sustainable mobility. In summary, the Bank's sustainability work is in line with future earnings.

Impact on strategy

The Bank's strategy will be influenced by changes in the world at large, and this is essential if the Bank is to become the leader in its niche. In practical terms, the Bank must be responsive when markets change, otherwise there is an increased risk of unfavourable business decisions. Incorrect adjustments arising from such decisions constitute yet another risk linked to transition. Parameters taken into account under the Bank's strategy include its earnings, customer behaviour, competitive behaviour, laws & regulations, and the business cycle. In short, behavioural changes on the part of consumers and customers may have a major impact on the future of the Bank, so constant, comprehensive business intelligence monitoring is essential. In order to monitor changes in external factors, the Bank actively engages in risk assessment and workshops that also involve senior executives. There are also strategies in place regarding the way the Bank should work with customers and handle competition.

Based on available data and knowledge, the Bank feels it will have a significant positive influence on achieving the Paris Agreement's temperature target. 2022 was the first year in which the Bank had specific goals for its contribution to the Paris Agreement. The Bank conduct ongoing detailed analyses into how well its strategy falls in line with the Paris Agreement.

Ongoing work

Henceforth, the focus will be on gaining a deeper understanding of how the Bank influences the world at large and on making deeper scenario analyses. The Bank also has a responsibility to learn more about how financing the industries the Bank is involved in affects the climate. This concerns the heavy haulage and taxi sectors, among others. The Bank's sustainability and risk policies will also be evaluated on an ongoing basis to make sure they keep pace with the world at large as it changes. Immediately ahead for the Bank are the implementation of the Corporate Sus-

tainability Reporting Directive (CSRD) and the Principles for Responsible Banking (PRB). Meanwhile, the Bank's work on including sustainability in the organisation will continue. This includes rendering the Bank's analyses and credit assessments more comprehensive by including climate risks. In this regard, the Bank follows up relevant risk KPIs, including the number of counterparties with increased credit risk.

Moving forward, further analyses will be conducted concerning financial impact. The Bank predicts that operational costs will increase as the bank takes on more contracts in its own balance sheet. The Bank's investment and expansion are also factors driving up operating costs, as they create demand for new recruitments. The Bank's operating revenues will increase as new markets are exploited and the existing portfolio expands. A strong second-hand market for vehicle disposals is a factor driving operating earnings. A decrease in capital costs is expected from a macro perspective. This is because the Swedish Central Bank must protect the inflation target, and interest rates are expected to fall. Such a scenario would have a direct impact on the Bank as its borrowing is directly affected by the repo rate. However, because the Bank will reduce its own lending rate, the impact is expected to be small. The Bank intends the holding to become increasingly diversified moving forward. A major part of the fossil holding will be replaced by electric drivetrains. Another driving factor is the potential to add new brands to tomorrow's portfolio. Also, capital is readily available and the prospects for borrowing both brown and green capital are deemed to be good.

3. RISK MANAGEMENT

The next sections provide a review of the Bank's process for identifying and assessing climate-related risks and how they are managed. An explanation on how the process is integrated into the Bank's general risk management will also be given.

The Bank endorses the TCFD definition of climate-related risks. TCFD splits risks into two categories: 1) risks related to an economy with low carbon dependence and 2) the physical impact of climate change.¹ The Bank's sustainability policy describes sustainability-related risks. The Bank's operations are influenced by several different fields and stakeholders. In addition to including ESG factors in credit decisions, the Bank has a number of strategic risks which must be managed in terms of capital adequacy. These include legal risks, risks linked to customer behaviour, transition risks and revenue risks.

¹ TCFD. *Recommendations of the Task Force on Climate-related Financial Disclosures*. 2017. [E06 – Climate related risks and opportunities.pdf](https://www.tcfdd.org/~/media/TCFD/Recommendations_of_the_Task_Force_on_Climate-Related_Financial_Disclosures.pdf) (tcfdd.org) (as of 22/04/2022).

The process for identifying and assessing risks

The Bank constantly gathers business intelligence to identify any changes that may affect it indirectly or directly. The ILAAP process organises strategic workshops to assess sustainability-related risks. One obvious direct transition risk for the Bank is transition toward a society that is less dependent on fossil energy. Climate has taken on an increasingly central role in the financial sector, largely driven by customer behaviour and EU Sustainable Finance efforts. Hopefully, the EU's work will also help operators and stakeholders identify and assess climate risks. Among other things, the Bank has been guided by the Taxonomy to adjust strategies and business decisions based on identified risks. The Bank has been open to the exchange of knowledge with industry colleagues and partners as a complement to conventional business intelligence.

The process for managing climate-related risks

Companies that do not adapt to climate change or which have unethical operations are considered to have a lower debt servicing ability over the long term. Today, the Bank focuses on the "large company" segment. At present, small companies and private individuals are not considered as being materially affected from a credit risk and/or sustainability perspective, but the Bank feels specific industries can be classified as having a higher sustainability risk.

There should be a sustainability perspective in the assessment of large companies, with the assessment being made and registered in conjunction with the granting of credit. The proportion of counterparties with a raised credit risk linked to a raised sustainability risk must not exceed 3 per cent. If the proportion of counterparties exposed to risk exceeds the risk appetite, immediate action must be taken.

The Bank's liquidity surplus is invested in low-risk assets in terms of climate risks. This includes municipal and covered mortgage bonds. Note that the Bank does not invest in sectors with an increased sustainability risk, such as mining and nuclear power.

The Bank is committed to making ESG data more accessible. It does so by e.g. implementing the TCFD initiative, as the Bank believes that stakeholders including its employees, will thus be more aware of sustainability-related risks. The Bank will also continue to initiate internal training programmes to raise awareness of climate-related risks.

The process for identifying, assessing and managing climate-related risks and how it is integrated into the Bank's overall risk management

As previously mentioned, the Bank's major corporate customers are assessed from a sustainability perspective when granting them credit. Thus, the Bank monitors large customers to identify increased sustainability risks so as not to raise the Bank's credit risk. In addition, the Bank's Scope 1 to 3 carbon dioxide data is compiled with a focus on the Bank's emissions in relation to the agreements it manages.

Ongoing work

Credit approval processes and analyses will be under constant development. The Bank will continue to work and evaluate scenarios to identify potential risks that may affect its operations. The Bank also sees the importance of continuing to include climate risks in ongoing risk reporting. Ongoing discussions with the Bank's partners and stakeholders will continue in order to identify risks that may affect business operations.

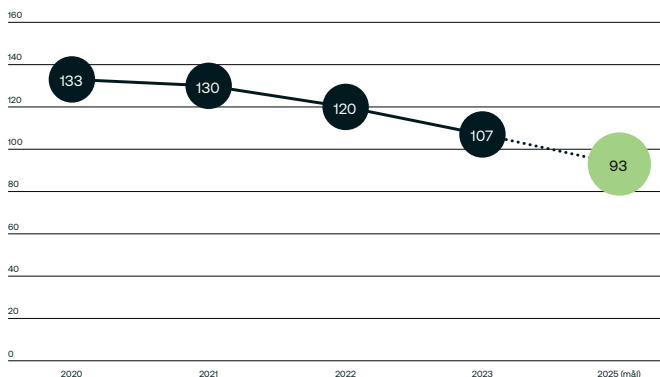
4. METRICS AND TARGETS

The next sections describe metrics and targets for follow-up regarding climate-related risks and opportunities.

Metrics used by the Bank to assess climate-related risks and opportunities that are in line with the Bank's strategy and risk management

For some time, the Bank will focus on making sure its strategy is in line with the Paris Agreement goals. The overarching objective is to become a bank with a net zero carbon footprint. Such an objective requires the establishment of effective targets, such as the Bank's target of reducing its greenhouse gas emissions by 30 per cent by 2025, which is also in line with the Paris Agreement goals, and with 70 per cent by 2030 which is also in line with Sweden's climate target. This goal will be achieved by replacing vehicles in the Bank's portfolio and increasing the portfolio's Green Asset Ratio (GAR). Another objective related to the Bank's overarching goal is for the order share of rechargeable vehicles in its Fleet business area to be equal or exceed 85 per cent in 2024.

Average emissions: grams CO₂ per km



Reporting Scopes 1, 2 and 3 where relevant – reporting greenhouse gases (GHG) and related risks

The Bank’s total carbon dioxide emissions for 2023 are calculated on the latest available data for direct Scope 1 emissions and indirect Scope 2 emissions. The Bank also measures indirect Scope 3 emissions, and as its main source of greenhouse gas emissions are in Scope 3, it is relevant to report them.

For 2023, the Bank measured GHG emissions from vehicles used by its employees in Scope 1; in Scope 2, it measured energy consumption from its offices in Gothenburg and Stockholm. In Scope 3, the Bank estimated the amount of GHG emissions generated by vehicles administered by the Bank.

In addition, emissions from business trips and staff commuting to the bank’s offices are also reported for both employees and consultants. Scope 1 was calculated on internal data compiled continuously based on vehicle mileage and their CO₂ emissions. Scope 2 consisted of the number of kWh consumed by the Bank in 2021, with data derived from electricity invoices. In Scope 3, the bank has made an estimate of how much emissions the vehicles that the bank administrates give rise to, the data is based on an approximation of how many km a passenger car are driven on average for 2023 as well as from internal data on grams of CO₂ per km regarding the cars covered of the bank’s lending.

(Tonnes CO ₂)	2023	2022
Scope 1		
Vehicles	101	154
Scope 2		
Electricity	1	1
Scope 3		
Vehicles	234 609	278 840
Business trips	1	1
Staff commuting*	122	-

* The bank started measuring emissions for staff commuting for the first time in 2023, no comparison is available for 2022.

The Bank’s targets for managing climate-related risks, opportunities and development in order to achieve its goals

With regard to CO₂ emissions, the Bank’s stated target is to reduce greenhouse gas emissions by 30 per cent by 2025. This goal is also indirectly linked to Scope 3, where the Bank measures emissions related to contracts the Bank finances and administers. The Bank produces most emissions in Scope 3. In order to achieve the overall goal of reducing greenhouse gas emissions by 30 per cent by 2025, the Bank’s portfolio holdings must be converted into assets with lower CO₂ emissions. Vehicle emissions in Scope 1, which the Bank’s own employees give rise to, are also measured. The Bank’s indirect Scope 2 emissions are measured in the form of electricity consumption at its Gothenburg and Stockholm premises. The bank also reports emissions in Scope 3 from business trips and staff commuting to the bank’s offices for both employees and consultants. The emissions for business trips are based on internal data with applied emission factors for flights and trains. The emissions for commuting are calculated based on a survey to the staff and applied emission factors per means of transport.

5. SCENARIO ANALYSIS

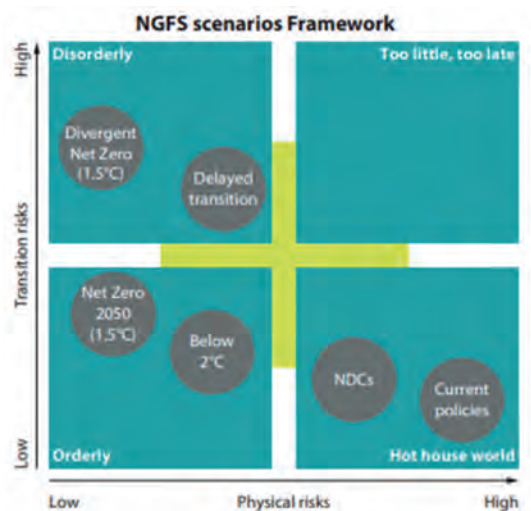
Because the Bank’s operations are affected by a number of different fields and stakeholders, sustainability-related risks can affect every area of the Bank. Sustainability-related risks are in turn driven by other risks, mainly strategic risk and credit risk.

The Bank manages ESG risks when granting credit to companies, works internally with well-being for personnel, and takes action against financial crime etc. In addition to this, the Bank has a number of strategic risks that are mana-

ged for capital adequacy on an ongoing basis. This includes sustainability-related risk. The Bank has also chosen to maintain a capital buffer (5% minimum capital requirement under Pillar 1) in capital adequacy.

The Bank has chosen to keep with e.g. the TCFD framework and it has begun planning the Bank’s working methods from a climate-related risk perspective. One way to begin the work is to use the scenarios set by the Network for Greening the Financial System (NGFS), to provide guidance for the risks the Bank considers to be the most apt. 2Key individuals at the Bank held a risk workshop in which they evaluated six scenarios.

These were:



- Orderly**
 - Net Zero 2050** limits global warming to 1.5°C through stringent climate policies and innovation, reaching global net zero CO₂ emissions around 2050. Some jurisdictions such as the US, EU and Japan reach net zero for all GHGs.
 - Below 2°C** gradually increases the stringency of climate policies, giving a 67% chance of limiting global warming to below 2°C.
- Disorderly**
 - Divergent Net Zero** reaches net zero around 2050 but with higher costs due to divergent policies introduced across sectors leading to a quicker phase out of oil use.
 - Delayed transition** assumes annual emissions do not decrease until 2030. Strong policies are needed to limit warming to below 2°C. CO₂ removal is limited.
- Hot house world**
 - Nationally Determined Contributions (NDCs)** includes all pledged policies even if not yet implemented.
 - Current Policies** assumes that only currently implemented policies are preserved, leading to high physical risks.

Of the six different scenarios, two – Divergent Net Zero and NDC – were evaluated to gain an idea of how the Bank’s operations would be affected based on the perspectives of residual risk, the new car market, borrowing and credit losses. Delayed transition was deemed to be the most likely scenario, but two extremes were chosen to stress the outcome. The conclusion is that the Bank is well prepared one year ahead, but in five years’ time residual risk, the new car market and borrowing may potentially affect the operation. Thus the Bank must work to minimise residual risk, increase penetration in the new car market and secure borrowing with green assets at a maintained rating.

² NGFS. NGFS Climate Scenarios for central banks and supervisors. 2021. [ngfs_climate_scenarios_phase2_june2021.pdf](https://www.ngfs.net/en/press-releases/2021/06/ngfs-climate-scenarios-phase2-june2021.pdf) (as of 27/04/2022)

Ziklo Bank (publ), Göteborg
Org no. 556069-0967
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