



Rating Action: Moody's Ratings affirms Ziklo Bank's A3 long-term issuer ratings, changes outlooks to negative from stable

12 May 2025

Action follows negative outlook on Ziklo Bank's part owner Volvo Car AB

Stockholm, May 12, 2025 -- Moody's Ratings (Moody's) has today affirmed all ratings and assessments of Ziklo Bank AB (Ziklo Bank): the A3/P-2 long- and short-term deposit and issuer ratings, the baa2 Baseline Credit Assessment (BCA) and Adjusted BCA, the A2/P-1 long- and short-term Counterparty Risk Ratings (CRR), and the A2(cr)/P-1(cr) long- and short-term Counterparty Risk Assessments (CR Assessment).

The outlooks on the long-term deposit and issuer ratings were changed to negative from stable.

This rating action follows the change of outlook to negative from stable of Ziklo Bank's part owner, Volvo Car AB (Volvo Cars, Ba1, negative).

RATINGS RATIONALE

-- AFFIRMATION OF ALL RATINGS AND ASSESSMENTS

The affirmation of all the ratings and assessments of Ziklo Bank reflects the affirmation of the bank's BCA and Adjusted BCA, along with unchanged loss given failure and government support assumptions.

Ziklo Bank's baa2 BCA reflects its strong asset quality demonstrated by a low level of problem loans and consistently well-managed residual value risk with historically low write-offs. This is further supported by loan loss guarantees from Swedish Volvo dealers. The affirmation also reflects our expectation that the bank's leasing and lending portfolio will continue to perform well with limited delinquencies, aided by lower interest rates and solid employment rates in its operating market of Sweden.

Additionally, the affirmation reflects our expectation that the bank will maintain its conservative capital management policy, including modest dividends to its joint 50:50 owners, Volvo Cars and Swedish Volvo dealers (through their holding company AB Volverkinvest). This, along with stable recurring profitability, will support its strong capitalisation, as demonstrated by a common equity tier 1 ratio of 24.5% as of March 2025.

The bank's strong solvency is balanced against its significant reliance on market funding, primarily domestic senior unsecured funding, and its tightly managed liquidity. Ziklo Bank maintains a sizable deposit book, almost exclusively retail deposits covered under deposit guarantees. However, these savings deposits are sourced online and do not include transaction accounts, making them more price-sensitive and therefore potentially less stable.

-- OUTLOOKS CHANGE TO NEGATIVE

The change in outlooks on the long-term deposit and issuer ratings to negative from stable aligns with the negative outlook on its part owner, Volvo Cars. The change of Volvo Cars' outlook to negative from stable is driven by our expectation that amid a challenging macroeconomic environment, the automaker's profitability will remain subdued and it will be difficult to improve

profitability and cash flow to levels commensurate with Volvo Cars' Ba1 rating.

In our view, a deterioration in Volvo Cars' creditworthiness could have a spillover effect on the bank's financing volumes, profitability, or ability to fund itself. Additionally, a weaker performance of the automaker could impact the operating performance of Volvo dealers, which provide loan and lease residual guarantees for Ziklo's lending portfolio. These risks are balanced by the significant share of financed vehicles being non-Volvo, including those in its fleet business and affiliated Volvo dealers.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

While unlikely given the negative outlook on its long-term deposit and issuer ratings, Ziklo Bank's ratings could be upgraded following higher liquidity buffers and permanent central bank liquidity access, provided that also Volvo Cars' ratings are upgraded (unlikely at present given the negative outlook), or provided that Ziklo Bank further diversifies the cars it finances away from Volvo Cars and it reduces its interdependencies with Volvo Cars and the Volvo brand.

The ratings could be downgraded if the BCA is downgraded or if there is a substantial reduction in the volume of deposits compared to 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, which would put pressure on liquidity.

Furthermore, a downgrade of Volvo Cars' ratings could lead to a downgrade of Ziklo Bank's ratings, particularly if we believe that a deterioration in Volvo Cars' creditworthiness impacts Ziklo Bank's financing volumes, the performance of Volvo dealers in Sweden, or its ability to fund itself in wholesale markets.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks published in November 2024 and available at <https://ratings.moodys.com/rmc-documents/432741>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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