CREDIT OPINION
20 May 2025

Update

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Ziklo Bank AB

Update to credit analysis following outlook change to negative

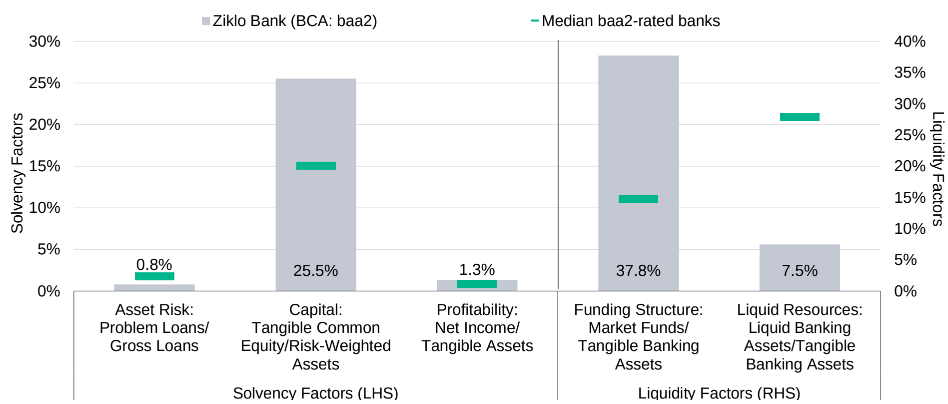
Summary

The A3 long-term deposit and issuer ratings of Ziklo Bank AB (Ziklo Bank) reflect the bank's standalone creditworthiness, as expressed by baa2 Baseline Credit Assessment (BCA), and very low loss-given-failure, which results in a two-notch uplift to its deposit ratings under our advanced Loss Given Failure (LGF) analysis. Low probability of support from the Government of Sweden (Aaa, outlook stable), does not result in any further uplift.

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.

The outlook on Ziklo Bank's deposit and issuer rating is negative, reflecting the interlinks with its part owner Volvo Car AB (Volvo Car, Corporate Family Rating Ba1, outlook negative).

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

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	Negative

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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Credit strengths

» Stable asset quality and low level of loan losses

» High regulatory capital ratios

» Stable recurring profitability

» Tightly managed liquidity

Credit challenges

» Highly concentrated loan book in the automotive sector

» Interlinkages with Volvo Car

» High reliance on market funding

» No permanent access to central bank liquidity

Outlook

The outlook on Ziklo Bank's long-term deposit and issuer ratings is negative, aligned with the negative outlook on its part owner, Volvo Car. The negative outlook of Volvo Car's 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 Car's Ba1 rating.

In our view, a deterioration in Volvo Car's 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

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 Car's ratings are upgraded (unlikely at present given the negative outlook), or provided that Ziklo Bank further diversifies the cars it finances away from Volvo Car and it reduces its interdependencies with Volvo Car and the Volvo brand.

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

Key indicators

Exhibit 2

Ziklo Bank AB (Unconsolidated Financials) [1]

	12-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (SEK Million)	58,059.9	49,791.8	46,920.1	45,112.0	44,142.4	7.1[4]
Total Assets (USD Million)	5,254.6	4,940.7	4,503.1	4,986.4	5,375.0	(0.6)[4]
Tangible Common Equity (SEK Million)	8,146.2	6,388.4	5,778.7	5,251.9	4,608.6	15.3[4]
Tangible Common Equity (USD Million)	737.3	633.9	554.6	580.5	561.2	7.1[4]
Problem Loans / Gross Loans (%)	0.8	0.8	0.6	0.6	0.8	0.7[5]
Tangible Common Equity / Risk Weighted Assets (%)	25.5	23.3	23.8	23.7	21.6	23.6[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	4.8	5.1	4.0	4.1	6.2	4.8[5]
Net Interest Margin (%)	2.2	2.5	1.9	1.6	1.6	2.0[5]
PPI / Average RWA (%)	3.7	4.4	3.8	3.2	3.0	3.6[6]
Net Income / Tangible Assets (%)	1.3	1.6	2.8	1.8	1.0	1.7[5]
Cost / Income Ratio (%)	43.1	38.1	39.3	41.4	44.8	41.3[5]
Market Funds / Tangible Banking Assets (%)	37.8	29.8	29.5	31.5	30.4	31.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	7.5	7.4	6.9	8.5	8.6	7.8[5]
Gross Loans / Due to Customers (%)	198.0	174.3	173.1	177.5	169.0	178.4[5]

[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 support its multi-brand strategy, the bank rebranded as Ziklo Bank in March 2024, while retaining the Volvofinans name for its deposit products and Volvo related offerings.

In addition to car and truck financing (55% and 14% of lending, respectively, as of end-December 2024), the bank provides fleet financing solutions (28%) 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

Highly concentrated loan book in the automotive sector and interlinkages with Volvo Car constrain the BCA

Similar to other automotive financing banks, Ziklo Bank's derives the majority of its revenue from consumer and automotive finance operations 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.

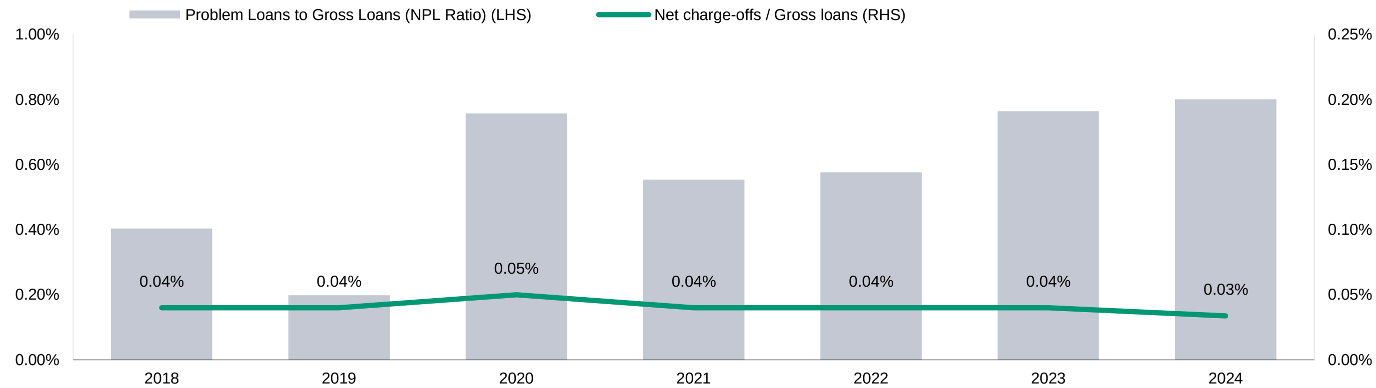
Ziklo Bank's baa2 BCA is constrained at two notches above Volvo Car's Ba1 Corporate Family Rating due to Volvo Car's substantial ownership stake in Ziklo Bank (50%) and the commercial connection through the Volvofinans brand, as well as being a significant financier of Volvo vehicles. However, the two-notch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

Stable asset quality and low level of loan losses

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

We expect problem loans to remain stable during the next 12-18 months and 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 problem loans
Problem loans and net charge-offs as a share of gross loans and leases



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 3 basis points of gross outstanding loans as of end of December 2024. Likewise, of the SEK291 million in loan and leasing receivables more than 90 days overdue or defaulted, SEK288 million are protected by recourse agreements. The bank also has SEK23 million of credit cards related impaired receivables as of end of December 2024.

Given its business model, Ziklo Bank's 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. 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 December 2024 and they're higher risk, forming the bank's main source of loan losses.

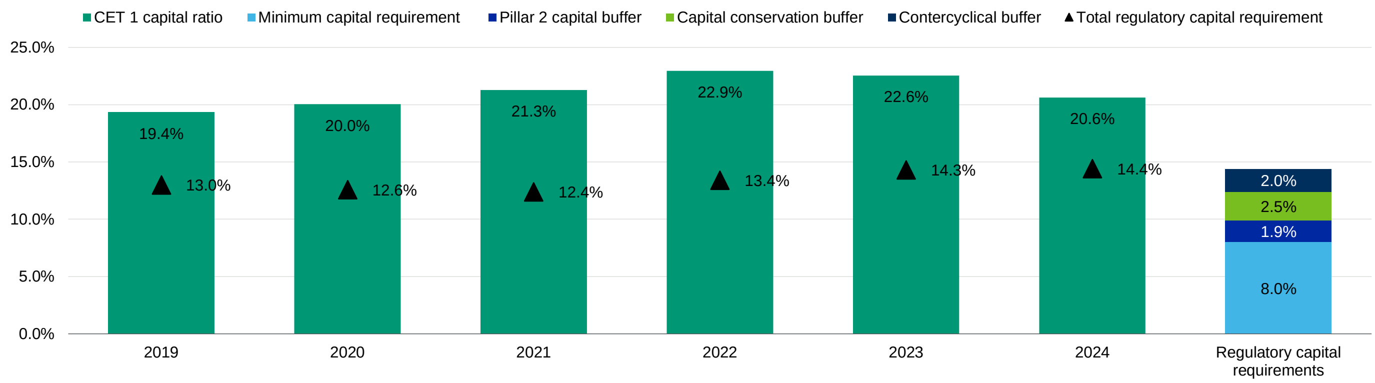
In November 2024, Ziklo Bank acquired a portfolio of leasing contracts from Volvo Car Sweden going under the name Care by Volvo, which was a leasing and car subscription service. The acquisition was of 8745 cars valued at 2.7 billion. The customers were both private and corporates, and their leasing contracts were transferred to Ziklo Bank after the acquisition. Hence, out of the SEK6.6 billion growth in lending for Ziklo Bank in 2024, SEK2.7 billion was a result of this acquisition.

The bank's concentrated exposure to automative 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 December 2024, Ziklo Bank reported a 20.6% Common Equity Tier 1 (CET1) capital ratio and a 20.6% total capital ratio, lower from year-end 2023 but still well-above its regulatory requirements (Exhibit 4). Ziklo Bank has a strong reported leverage ratio of 11.9% as of end-December 2024 which reflects its exposure to automotive financing which carries higher risk-weights.

Exhibit 4
High capital buffers demonstrates a conservative capital management approach
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 our TCE ratio, we deduct taxes from the untaxed reserves and treat the net balance as equity.

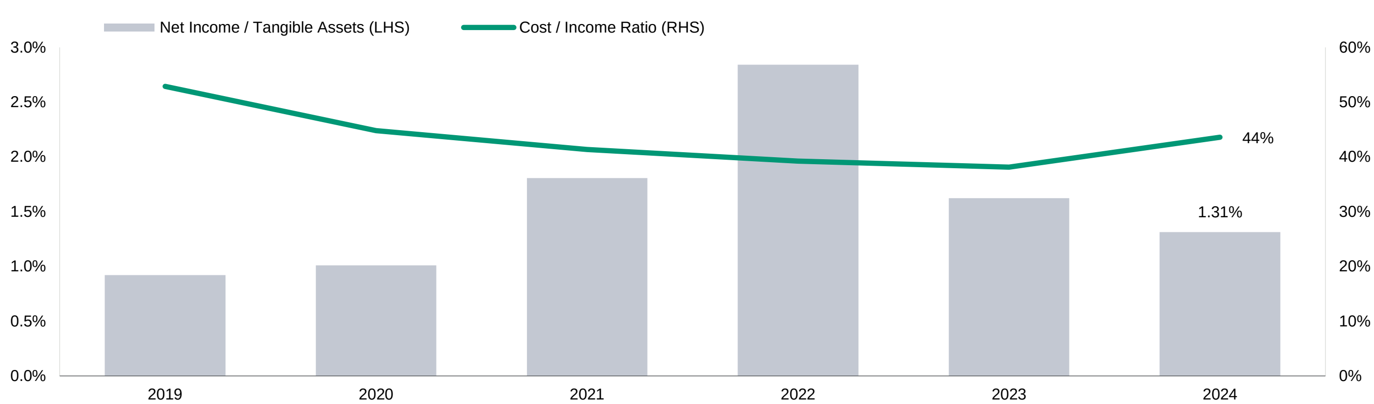
Ziklo Bank is privately owned by the Volvo dealers (via their holding company, AB Volverkinvest) and Volvo Personvagnar AB, and therefore does not have the same type of access to capital as a publicly traded bank. The bank's limited access to capital against its very strong capitalisation results in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

Stable recurring profitability

The bank's high recurring profitability is supported by sound margins and good operational efficiency with a modest reported cost-to-income ratio of 44% for 2024, up from 38% in 2023. 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 automative brands that it finances.

Ziklo Bank's earnings remained high during 2024, with a net income to tangible assets ratio of 1.3% due to elevated net interest margins (NIM), and as solid origination volumes from corporate customers offset waning private customers originations (Exhibit 5). Looking ahead, we expect a moderation in the bank's NIM, driven by low growth of 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
Profitability metrics



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 2024, loan loss provisions amounted to SEK 24.2 million, compared to SEK 12.4 million in 2023.

The Profitability score of a3 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.

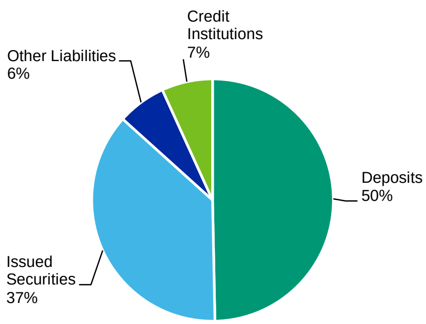
High reliance on market funding

Ziklo Bank is primarily funded via deposits, which account for 50% of its reported total liabilities (non-equity funding) as of end-December 2024 (Exhibits 6 and 7). While its share of retail deposits, generally a less volatile funding source, is considerably higher than other automotive financing banks it still remains reliant on a significant portion of wholesale funding, largely domestic senior unsecured funding. To date, deposits have been a relatively cheap and a 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 31 December 2024)

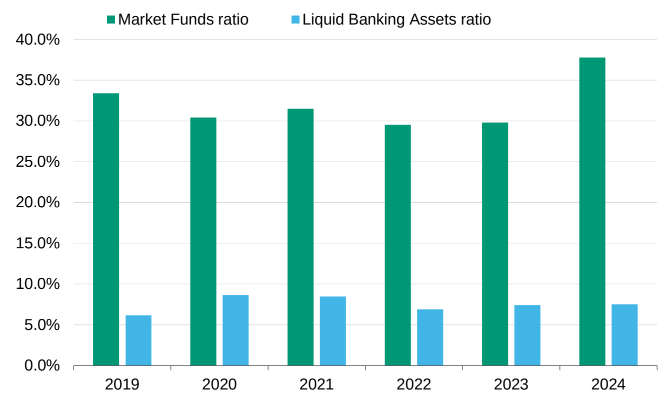


Source: Moody's Ratings

Exhibit 7

The acquisition of Care by Volvo led to an increased reliance on wholesale funding in 2024

Funding and liquidity metrics



Source: Moody's Ratings

As a small Swedish bank, Ziklo Bank has a debt investor base that is smaller 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 share of market funding has increased in the past years, from 29.8% as of year-end 2023 to 37.8% by year-end 2024. The increase was largely driven by the acquisition of SEK1.8 billion of leases from Volvo Car Sweden in October 2024. We however don't expect this increase to continue as we believe deposits will become a larger share of total funding in the coming 12-18 months.

The Funding Structure score of ba2 is positioned in line with the Macro Adjusted score, reflecting the bank's high reliance on market funding.

Tightly managed liquidity but no permanent access to central bank liquidity

The bank's Liquid Banking Assets / Tangible Banking Assets (TBA) ratio was a low 7.5% as of year-end 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 120% as of December 2024, compared to 119% by year end 2023. The LCR ratio was a strong 248%, up from 246% since year-end 2023.

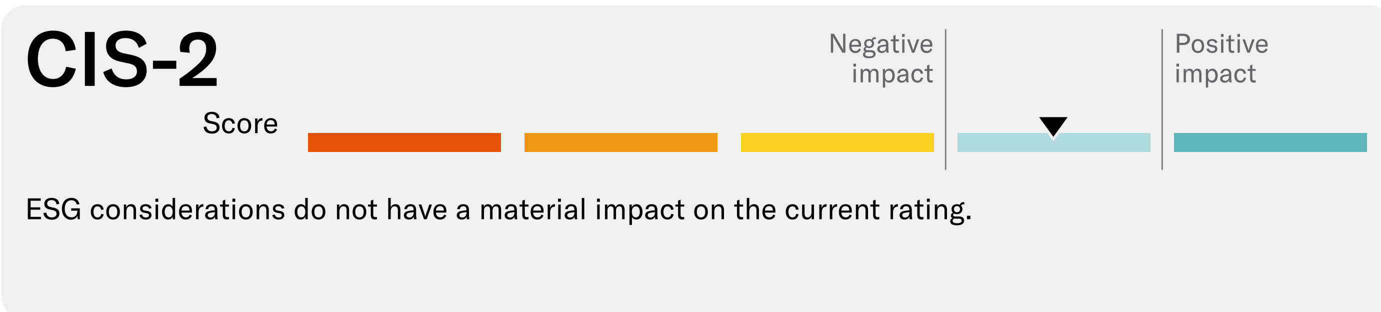
Our assessment on liquidity also takes into account Ziklo Bank lack of permanent access to central bank liquidity as a monetary policy counterparty, which reduces the available liquidity sources during severe market stress. The bank was granted temporary access during the pandemic between 2020-22, however, their status stands out compared to other Swedish banks with permanent access to the central bank as 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.

ESG considerations

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

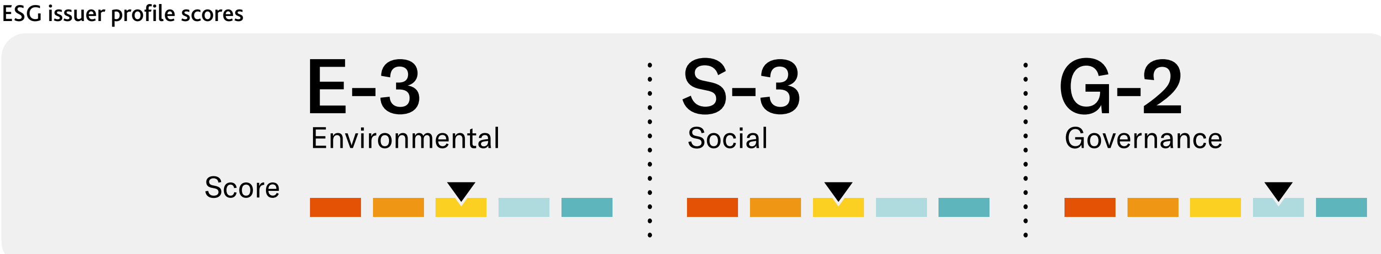
Exhibit 8
ESG credit impact score



Source: Moody's Ratings

Ziklo Bank's **CIS-2** reflects our view that environmental, social and governance risks have no material impact on the ratings.

Exhibit 9
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 AB Volverkinvest 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 Moodys.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 based in Sweden, 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.

Our LGF analysis indicates that Ziklo Bank's deposits and senior unsecured debt are likely to face very low loss given failure because of the loss absorption provided by the volume of deposits and senior debt themselves. This results in a two-notch uplift for the long-term deposit and issuer ratings from the bank's Adjusted BCA.

Government support considerations

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 10

Rating Factors

Macro Factors							
Weighted Macro Profile	**Strong +**	**100%**					
Factor		**Historic Ratio**	**Initial Score**	**Expected Trend**	**Assigned Score**	**Key driver #1**	**Key driver #2**
Solvency							
Asset Risk							
Problem Loans / Gross Loans		0.7%	aa2	↔	a2	Sector concentration	
Capital							
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)		31.2%	aa1	↔	aa2	Access to capital	
Profitability							
Net Income / Tangible Assets		1.5%	a2	↓	a3	Expected trend	
Combined Solvency Score			aa2		a1		
Liquidity							
Funding Structure							
Market Funds / Tangible Banking Assets		37.8%	ba2	↔	ba2	Extent of market funding reliance	
Liquid Resources							
Liquid Banking Assets / Tangible Banking Assets		7.5%	b1	↔	b2	Additional liquidity resources	
Combined Liquidity Score			ba3		ba3		
Financial Profile			a3		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		

Balance Sheet	**in-scope (SEK Million)**	**% in-scope**	**at-failure (SEK Million)**	**% at-failure**
Other liabilities	12,805	21.9%	14,507	24.8%
Deposits	24,320	41.6%	22,618	38.6%
Preferred deposits	21,888	37.4%	20,794	35.5%
Junior deposits	2,432	4.2%	1,824	3.1%
Senior unsecured bank debt	19,640	33.6%	19,640	33.6%
Equity	1,756	3.0%	1,756	3.0%
Total Tangible Banking Assets	58,521	100.0%	58,521	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	39.7%	39.7%	39.7%	39.7%	3	3	3	3	0	a2
Counterparty Risk Assessment	39.7%	39.7%	39.7%	39.7%	3	3	3	3	0	a2 (cr)
Deposits	39.7%	3.0%	39.7%	36.6%	2	3	2	2	0	a3
Senior unsecured bank debt	39.7%	3.0%	36.6%	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 11

Category	Moody's Rating
ZIKLO BANK AB	
Outlook	Negative
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

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454