



# ZENITH GREEN FINANCING FRAMEWORK

December 2021

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# 1 INTRODUCTION

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## 1.1 Company overview

Zenith is the UK's largest independent vehicle asset manager, with approximately 150,000 vehicles under management, across all asset types, including cars, vans, trucks and trailers. Zenith is also the largest independent (i.e. neither bank- nor manufacturer-owned nor part of a group with a banking licence) vehicle leasing business in the UK, providing a variety of leasing and fleet management options for its customers, be that corporates or consumers.

Zenith has leasing and asset management capabilities across corporate, commercial and consumer sectors; asset types ranging from motorbikes to cars to light commercial vehicles to heavy goods vehicles and specialist assets such as trailers; and leases ranging from durations of one day to eight years and beyond. Zenith has capabilities across all asset types, service offers and funding options, including business-to-business (B2B), business-to-consumer (B2C) and business-to-employee (B2E) services.

## 1.2 Mission, vision and strategy

Zenith's mission is to decarbonise the UK vehicle parc by eliminating tailpipe emissions.

Zenith's vision is as follows:

- To make a difference to society through a strong Environmental, Social and Governance (ESG) agenda
- To transition the funded fleet to zero emissions at tailpipe (BEVs or alternatives) by 2030
- To own the new and used consumer personal contract hire (PCH) sector, the company car and salary sacrifice sector and the HGV and fleet management sector
- To be a Best Companies Top 100 Company to work for
- To provide shareholders with the returns to encourage continuous investment in our business.

The Group vision includes embedding ESG at the centre of our culture. This entails both ESG and decarbonisation roadmaps that support our strategy, ensuring they are embedded within our culture and drive our actions. We are also striving towards establishing Zenith as a thought leader in the transition to zero emissions vehicles.

## 1.3 Environment and corporate social responsibility

Zenith is committed to ensuring that our business practices have positive impacts on the community and the environment. Zenith is dedicated to maintaining high ethical and moral standards and to ensuring that we act in accordance with responsible social behaviour.

The three core objectives of our ESG statement are:

1. E: to be a steward of nature by focusing on climate change initiatives including energy and emissions;
2. S: to drive initiatives that support our people and our communities, suppliers and customers;
3. G: to ensure that we have a strict compliance and governance structure in place, appropriate for status as an FCA-regulated business.

**Environmental:** we aim to conduct our business in a sustainable manner at all levels. Our sustainability principles influence every area of our business; from the vehicles and advice we provide to customers, to our use of energy, to the service suppliers that we engage. By operating sustainably, we strive to be an industry-leader and inspiration for our employees, suppliers and customers in reducing their environmental impact. We believe climate change is the largest existential threat facing society, so it is vital that businesses plan to enable a smooth transition to net-zero emission status.

**Social:** our aim is to create a fulfilled, diverse and inclusive culture where our employees' wellbeing is central, and everyone is able to reach their full potential. Giving back and supporting the local community through partnerships is integral to our aims as well.

**Governance:** we care passionately about operating transparently, with effective reporting to senior management and the wider public. The governance employed by an organisation is an indicator of future sustainable growth, profitability and helps ensure trust in us by our customers, suppliers and employees.

## 1.4 Commitment to the Environment

We have established an ESG committee to support the delivery of our ESG strategy. Our core strategy is to deliver both an ESG and a decarbonisation roadmap which are measurable, transparent and which establish Zenith as 'best in class'. The decarbonisation roadmap incorporates our customers' fleets (most notably our c. 50,000 vehicles in our Corporate book of cars and light commercial vehicles, and c. 8,000 vehicles in our consumer ZenAuto leased book and c. 45,000 vehicles in our "White Label" consumer operations on behalf of manufacturer and consumer finance brands) and Zenith's own company car fleet.

The most substantial contribution Zenith can make towards decarbonisation is to fund and purchase, influence and drive the migration of our customers' vehicle fleets to Battery Electric Vehicles (BEVs). Approximately 17% of our live Corporate and ZenAuto fleet is BEV, though ~50% of current and recent orders are BEV – i.e. we are driving and delivering an unprecedented change in the make-up and carbon footprint of our customers' fleets.

As part of our range of services for customers, Zenith provides advice and technical information to encourage our customers to promote and incorporate the most environmentally friendly vehicles and practice within their core fleet policies. We also educate and inform our customers on the "total cost of ownership" and carbon footprint involved with running Internal Combustion Engine (ICE) vehicles – and the benefits of moving to BEVs or alternatives.

In addition, our ESG strategy includes carbon-offsetting. The Group gained carbon neutral certification in July 2021. We are working with the science based targets initiative (SBTi) to ensure we reduce our relevant emissions and provide a framework so our suppliers and partners can do likewise.

In terms of direct emissions, Zenith plans to switch its own company car fleet to 100% BEV by 2025.

## **Zenith's engagement with customers**

Zenith has engaged proactively with customers to put plans in place to transition to cleaner fuel types. This has involved:

- Moving customers policies to be based on Whole Life Cost, which includes not only the lease rental but fuel, employer's national insurance and corporation tax relief. This has resulted in more customers being able to accurately compare the costs of electric with other fuel (where the rental cost is cheaper but fuel and employer's national insurance cost higher)
- Introducing customer plans to transition to cleaner fuel types by assessing daily travel requirements compared with the EV range of available and planned future car and van releases
- Helping customers develop a driver policy on the usage of EVs to include eligibility and in-use responsibilities such as charging provisions
- Making it easy for drivers and consumers to move to EVs by offering support with installing a charge point through the utilisation of partnerships
- Evolving and developing proposition to remove the barriers for electric cars such as unrestricted trade-ups
- Ensuring that decision-makers within our customers' businesses are fully aware of the data and information / analysis involved with the transition to BEV and the merits of doing so.

## **Zenith's own car fleet**

Zenith has joined the EV100, committing to accelerate our own fleet's transition to EVs. The EV100 is a global initiative, by The Climate Group, and brings together forward-looking companies to drive the electric transport transition, reduce air pollution and tackle climate change.

Zenith plans to switch its own employees' fleet to 100% EV by 2025 – five years ahead of the target date required by EV100. Zenith wishes to take the lead in the transition from fossil fuel to electric in the UK, acting as an example to our corporate clients and consumers of how they can maximise the opportunities available through making the move to electric.

## 2 GREEN FINANCING FRAMEWORK

In line with its ambition to decarbonise the UK vehicle parc, Zenith has developed this Green Financing Framework under which we intend to issue Green Finance Instruments (which could include bonds, loans, and securitisations). The Green Finance Framework is aligned to the ICMA Green Bond Principles 2021<sup>1</sup> and the LMA Green Loan Principles 2021<sup>2</sup>, which provide guidelines in the form of four core components:



1. Use of Proceeds
2. Project Evaluation and Selection Process
3. Management of Proceeds
4. Reporting

### 2.1 Use of Proceeds

An amount equivalent to the net proceeds of any green financings will be used to finance and/or refinance<sup>3</sup> investments that meet the Eligibility Criteria as outlined below:

Eligible Expenditure Category	Eligibility Criteria
Clean transportation	Investments related to the purchase of Battery Electric Vehicles (BEVs)

Investments in BEVs contribute to the environmental objective of climate change mitigation and the achievement of UN Sustainable Development Goals, specifically:

UN Sustainable Development Target	
	7.3. By 2030, double the global rate of improvement in energy efficiency
	9.4. By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities

<sup>1</sup> <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

<sup>2</sup> <https://www.lma.eu.com/documents-guidelines/documents/category/green--sustainable-finance#>

<sup>3</sup> Zenith may refinance investments that were financed in the 36 months prior to the green bond issuance

## 2.2 Project Evaluation and Selection Process

The Project Evaluation and Selection Process will ensure that the proceeds of Zenith Green Financing(s) are allocated to finance or refinance expenditures that meet the criteria and objectives set out above in section 2.1, 'Use of Proceeds'.

The evaluation and selection process for Use of Proceeds will be carried out internally by Zenith's Green Financing Working Group ("GFWG"), which is composed of representatives from the existing ESG Committee, operations (i.e. purchasing), legal and finance teams across our Group. Zenith's Deputy Chief Financial Officer oversees the functioning of the GFWG.

On an ongoing basis, eligible capital expenditures will be identified and reviewed regularly by the GFWG. The GFWG will screen the Eligibility Criteria set out in Zenith's Green Financing Framework (see Section 2.1, 'Use of Proceeds'), and recommend eligible expenditures for inclusion as Eligible Use of Proceeds to the ESG Committee. On a quarterly basis, the GFWG will review all proposed Eligible Use of Proceeds to determine their compliance with the Zenith Green Financing Framework in order to approve the allocation of proceeds. The GFWG will review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary. While any Zenith Green Financings are outstanding, in the case of divestment or cancellation of expenditures to which proceeds have been allocated, Zenith will reallocate the proceeds to other eligible expenditures.

The selected eligible expenditures will be provided to the ESG Committee, as described in Overview, for review. The Committee, after a thorough review, will present its conclusion to the Leadership Board (i.e. executive board of the Group) for approval.

The GFWG will also review the management of proceeds (as described in Section 2.3) and facilitate reporting (as described in Section 2.4).

The ESG Committee will supervise the processes under this framework and will require relevant updates from the GFWG. As part of its reporting to the Leadership Board, its findings, conclusions and recommendations will be submitted to the Leadership Board.

## 2.3 Management of Proceeds

To manage the proceeds of Zenith Green Financing(s), Zenith will establish a Green Financing Register.

The proceeds of each Zenith Green Financing will be tracked against the pool of eligible expenditures identified in the Green Financing Register by the Zenith Finance team.

The Green Financing Register will be reviewed quarterly by GFWG to account for any re-allocation, repayments or drawings on the eligible expenditures within the pool. The conclusion of the GFWG will be presented to the ESG Committee.

The Green Financing Register will contain relevant information including:

1. Details of outstanding Green Financings: key information including transaction date, principal amount of proceeds, settlement date, maturity date, and interest margin or coupon, ISIN number etc.;

2. Details of Use of Proceeds, including:

- summary of expenditures to which the proceeds of the Green Financings have been earmarked in accordance with this Framework;
- amount of allocation made;
- any unallocated Financing proceeds yet to be earmarked against eligible expenditures; and
- other necessary information.

Zenith intends for proceeds from any green financing instrument to be fully allocated against eligible expenditures within 24 months.

In the event that outstanding Green Financings exceed the pool of eligible green expenditures, or in the event that the proceeds are allocated to an eligible green expenditure that is cancelled or otherwise divested, proceeds will be held in cash or other short-term instruments until they can be allocated to eligible green expenditures as outlined in section 2.1, 'Use of Proceeds'.

## 2.4 Reporting

Zenith commits to provide reporting, with regard to the entire portfolio of green expenditures. This reporting will be provided on an annual basis within Zenith's Annual Report and Accounts and made publicly available on our website.<sup>4</sup>

### 2.4.1 Allocation Reporting

On an annual basis, Zenith will provide information on the allocation of the net proceeds of any outstanding green financing to eligible expenditures. This information will be provided throughout the lifetime of Zenith Green Financing instruments.

The information will contain at least the following details:

- the size of the Eligible Expenditure portfolio;
- the remaining balance of unallocated proceeds; and
- the amount or percentage of financing versus refinancing, where relevant.

### 2.4.2 Impact Reporting

Zenith will provide impact reporting using the metrics recommended under the Harmonized Framework for Impact Reporting, namely:

Project Category	Impact Reporting Metrics
Clean transportation	<ul style="list-style-type: none"><li>• Annual GHG emissions reduced/avoided (t CO<sub>2</sub> eq pa)</li><li>• Average energy consumption of vehicles (MWh pa)</li></ul>

<sup>4</sup> Zenith's annual reports and accounts are made available at <https://www.zenith.co.uk/results-policies/>



### **2.4.3 External Review**

Zenith has engaged Sustainalytics to provide an External Review in the form of a Second Party Opinion on the Zenith Green Financing Framework and any subsequent revisions, and confirm alignment with GBP 2021<sup>5</sup>.

The External Review will be made available publicly on Zenith's website.

Zenith's annual reporting will also be subject to External Review which will be accessible on Zenith's website.

<sup>5</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2021-updates/Green-Bond-Principles-June-2021-140621.pdf>