

# INVESTOR REPORT

GREEN BONDS / VOLVOFINANS BANK AB

# 2018



**VOLVOFINANS BANK**

# Investor report - Green Bonds

In May 2017, Volvofinans Bank issued its first, and to date, only green bond, being only the second such green issue ever in Europe linked to the passenger car sector<sup>1</sup>. Green bonds are issued under Volvofinans Bank's MTN program, where green bond funding is used to refinance the bank's portfolio of green loans. As such, Volvofinans Bank has the overall objective of reducing the impact of climate change and the issuing of green bonds is one way of contributing to this objective. Moreover, through this initiative, the Bank can benefit from both risk differentiation and competitive advantage.

Volvofinans Bank ("Volvofinans") issued a green bond of SEK 700,000,000 on May 9, 2017 with a maturity of 5 years. Liquidity from this and future bonds is allocated to investments covered by the bank's green bond framework. These investments consist of loan and leasing contracts – entered into by a customer for the use of a 'green car' that has no or low CO<sub>2</sub> emissions - which together constitute Volvofinans's green loan portfolio. The Green Bonds Framework has been reviewed by the climate and research institute CICERO (The Center for International Climate and Environmental Research – Oslo), and has been awarded a "Light Green" rating. The work involved in green bonds and the green loan portfolio is carried out in cooperation with the Bank's Sustainability Officer and Treasury.

In March, the green loan portfolio amounted to 1,598 million SEK (-) while outstanding bond volume amounted to 700 million SEK (-).

For information on Volvofinans Bank's sustainability work, see the Sustainability Report and Sustainability Policy at [volvofinans.se/om-volvofinans-bank/hallbarhet](http://volvofinans.se/om-volvofinans-bank/hallbarhet).

## Framework for Green Bonds

A framework, based on ICMA's "Green Bond Principles", has been established, setting out the conditions for issuing Volvofinans' green bonds and refinancing. The framework has been reviewed by CICERO, and can be found in its entirety, together with CICERO's statement, at [volvofinans.se](http://volvofinans.se).

Bond liquidity is used to refinance Volvofinans' green loan portfolio of loan and leasing contracts. Each individual contract has a passenger car as its financing object, whereupon the vehicle is wholly or partly driven by fossil-free fuel. As such and according to Volvofinans, the vehicles promote a transition to low carbon dioxide emissions and climate-resistant growth.

The vehicles shall be considered as sustainable transport and shall be defined as passenger vehicles providing they:

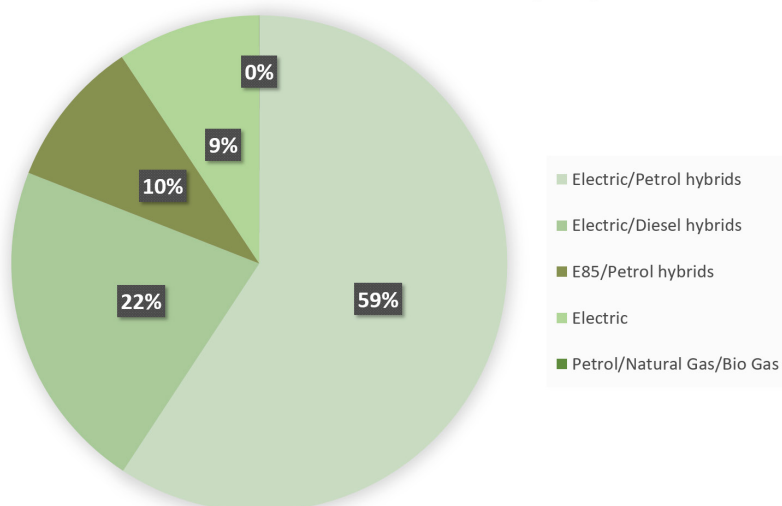
- Meet the criteria as specified in Paragraph 11 a of Chapter 2 of the Swedish Road Traffic Act (Sw. Vägtrafikskattelag (2006:227) ("Environmentally Friendly Cars") (Sw. Miljöbilar) and
- Can be powered entirely or partially by non-fossil fuels i.e.:
  - o electric vehicles
  - o fuel-cell vehicles
  - o electric/petrol hybrid vehicles
  - o electric/diesel hybrid vehicles
  - o ethanol/petrol hybrid vehicles
  - o biogas/natural gas vehicles
  - o biogas/natural gas/petrol vehicles

New contracts are continuously allocated to the green loan portfolio, which is then amortized over the contract's duration. The duration of new contracts is up to 84 months with the average remaining contract term being 23 months as at March 31, 2018. Of the original value of the financing object, 87% was financed by Volvofinans. As such, Volvofinans' ambition is that the green loan portfolio should always be greater than the outstanding volume of green bonds.

2018-03-31 million SEK	
Approved Green Loan Portfolio	1,598
Outstanding volume of Green Bonds	700
<b>Remaining approved investment amount</b>	<b>898</b>

2018-03-31	Vehicles (number)	Balance (mnkr)
Electric/petrol hybrid vehicles	2,875	947
Electric/diesel hybrid vehicles	1,380	347
Ethanol/petrol hybrid vehicles	4,551	155
Electric vehicles	1,092	149
Biogas/natural gas/petrol vehicles	1	0
<b>Total</b>	<b>9,899</b>	<b>1,598</b>

Green Loan Portfolio 180331, balance (mnkr)



<sup>1</sup> Source: GlobalCapital



## CO<sub>2</sub>-reduction

When estimating the climate benefit, the following standardized reasoning focuses on CO<sub>2</sub> emissions.

There are a number of uncertainties when attempting to calculate CO<sub>2</sub> emissions where in principle, the technical specifications supplied by the car manufacturers give each car's expected emissions. However, there are several variables that deviate from the norm. Among other things, it cannot be said with certainty which fuel a hybrid engine customer chooses to drive on and it cannot be determined with certainty whether the car is being used in the city or on the open road. Volvofinans is also aware that cars have environmental impact in ways other than CO<sub>2</sub> emissions, for example, a life-cycle analysis for the car has not been established nor have particle emissions been included. From a 'green' perspective, we do not imply any social benefits associated with being a financier of social transportation nor any negative effects such as societal costs for road accidents.

The estimated consumption of each individual car is the basis for the calculations. For electric cars '0' is used and for electric hybrids (electricity in combination with gasoline or diesel), the manufacturer's declared consumption figure (according to NEDC) is used, the same reasoning applies to gas hybrid and ethanol cars. For ethanol vehicles, the value is reduced by a CO<sub>2</sub> conversion factor<sup>1</sup> to compare fuel types, ethanol with biological origin does not contribute to fossil CO<sub>2</sub> emissions.

Volvofinans uses the statutory definition for environmental cars, the calculations being based on the above assumptions and where the expected CO<sub>2</sub> reduction is calculated by the difference between the emissions of cars financed by Volvofinans and the average emission of new cars in Sweden. In 2017, according to the Swedish Transport Administration<sup>2</sup>, the average emission was 123g CO<sub>2</sub>/km for newly registered cars during the year.

By comparing the environmentally-rated cars as per 2018-03-31 with average emissions for new cars of 123g CO<sub>2</sub>/km, one can assume an annual reduction of over 8,600 tonnes of CO<sub>2</sub> for the vehicles throughout the entire green loan portfolio, see table below. The CO<sub>2</sub> reduction is calculated on an average annual basis on mileage of 12,000 km/year<sup>3</sup>.

Outstanding volume of green bonds corresponds to an annual CO<sub>2</sub> reduction of 3,700 tonnes of CO<sub>2</sub>.

2018-03-31	Green Loan portfolio	CO <sub>2</sub> -reduction total portfolio	CO <sub>2</sub> -reduction Green Bonds
Grams CO <sub>2</sub> per km	50	73	
Vehicles (number)	9 899	9 899	
Balance (MSEK)	1 598		700
CO <sub>2</sub> emissions tonnes/year	5 946	8 664	3 794

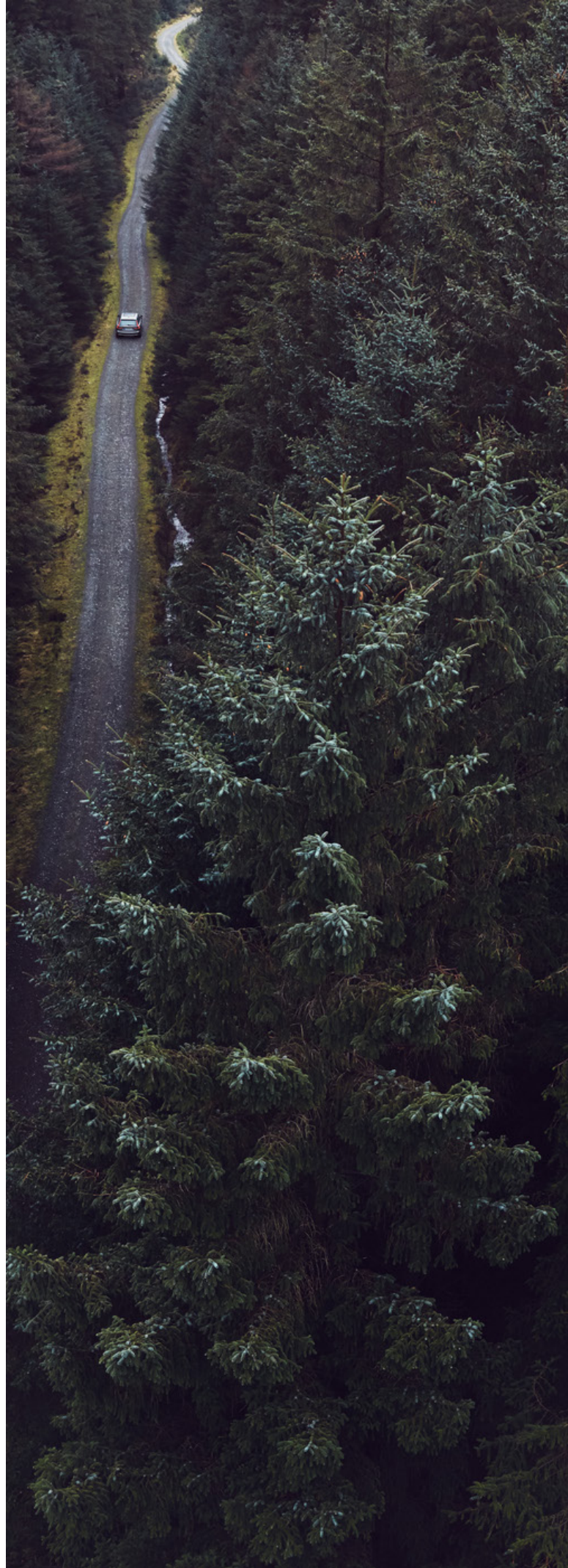
## Review performed by compliance function

Volvofinans' regulatory compliance function has reviewed this investor report, as well as the use, management and traceability of green bond issues. This review has not resulted in any remarks.

<sup>1</sup> <http://spbi.se/blog/faktadatabas/artiklar/berakningsmodeller/>

<sup>2</sup> [https://www.trafikverket.se/contentassets/07f80f01d92144eebf1a01fcb60ac923/pm\\_vagtrafikens\\_utslapp\\_180225.pdf](https://www.trafikverket.se/contentassets/07f80f01d92144eebf1a01fcb60ac923/pm_vagtrafikens_utslapp_180225.pdf)

<sup>3</sup> <http://www.trafa.se/vagtrafik/korstrackor/>





## Volvo Cars



Volvo Cars is taking a bold lead with electrification in the auto industry. The company is already a leader in hybrid technology and the latest generation of cars has been designed from the outset for electrification. Volvo Cars has committed itself to putting one million electrified cars on the road by 2025 and 50% of Volvo Cars' sales volume will be fully electric by 2025. Volvo Cars will introduce a range of electrified cars over the coming years, where there will be something for everyone. The choices will include plug-in hybrid models that build on the success of Volvo Cars' existing Twin Engine technology. There will also be new mild-hybrid models that provide zero-emissions electric power when the internal combustion engine is least efficient. Further information can be found at <https://group.volvocars.com/company/innovation/electrification>

## Renault



Groupe Renault considers electric vehicles the best global solution to the challenges of the environment and sustainable mobility for all. Already a pioneer and leader in electric vehicle sales in Europe, with the best supply in price and autonomy, Renault is not stopping there. Its new goal: to increase supply and accelerate the construction of a dedicated ecosystem. From 2010 to 2016, Groupe Renault has reduced its carbon footprint every year by 3.3% on average, exceeding its initial target of 3%. By 2022, the company expects to reduce its carbon footprint by as much as 25% compared with its 2010 levels. Further information can be found at

<https://group.renault.com/en/our-commitments/respect-for-the-environment/>

## Other car brands



Volvofinans takes responsibility for its conversion to a fossil-free fleet of vehicles by offering financing for vehicles powered by fossil-free fuels. Through Svensk Vagnparksfinans, the bank can offer larger companies new car financing that covers all car brands on the market as well newer trade-in vehicles of all brands at the Volvo Dealers. Whilst, all car manufacturers are working to reduce their carbon footprint, the technical solutions for fossil-free operations vary.

# **VOLVOFINANS BANK**

Volvofinans Bank AB (publ) • Org nr 556069-0967  
Bohusgatan 15 • Box 198 • 401 23 Göteborg  
Tel: 031-83 88 00 • [volvofinans.se](http://volvofinans.se)