

# INVESTOR REPORT

GREEN BONDS / VOLVOFINANS BANK AB

2020



# INVESTOR REPORT – GREEN BONDS

In May 2017, Volvofinans Bank issued its first, and to date, only green bond, being the second such green issue ever in Europe linked to the passenger car sector. 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 very much contributes to achieving 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' green loan portfolio. The Green Bonds Framework has been reviewed by the CICERO Shades of Green AS, which is a subsidiary of the climate and research institute CICERO (The Center for International Climate and Environmental Research – Oslo), and has been awarded a "Medium 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 2020, the green loan portfolio amounted to 3,340 million SEK (2,103) while outstanding bond volume amounted to 700 million SEK (700). The increasing green loan portfolio provides opportunities for Volvofinans Bank to meet the desire to grow the volume of green bonds.

For information on Volvofinans Bank's sustainability work, see the Sustainability Report and Sustainability Policy at [volvofinans.se/en/about-us/investor-relations/green-bonds](http://volvofinans.se/en/about-us/investor-relations/green-bonds)



## Framework for Green Bonds

A refined and to a certain extent revised green bonds framework has, since the publication in June 2019, replaced Volvofinans first inaugural framework from 2017. The framework is based on ICMA's "Green Bond Principles" and sets out the conditions for issuing Volvofinans' green bonds and refinancing. In the update, Volvofinans has, among other things, chosen to exclude ethanol hybrids and gas hybrids as eligible vehicles, thereby tightening the conditions for what is defined as sustainable transportation. The framework, together with CICERO's statement, can be found 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:

- can be powered entirely or partially by non-fossil fuels, i.e.
  - o electric vehicles
  - o fuel cells vehicles
  - o electric/petrol hybrid vehicles
  - o electric/diesel hybrid vehicles

and:

- have a maximum emission of 60 grams of CO<sub>2</sub> emissions per kilometer according to NEDC. The corresponding value will apply for vehicles measured according to WLTP when this is the sole standard for new cars.

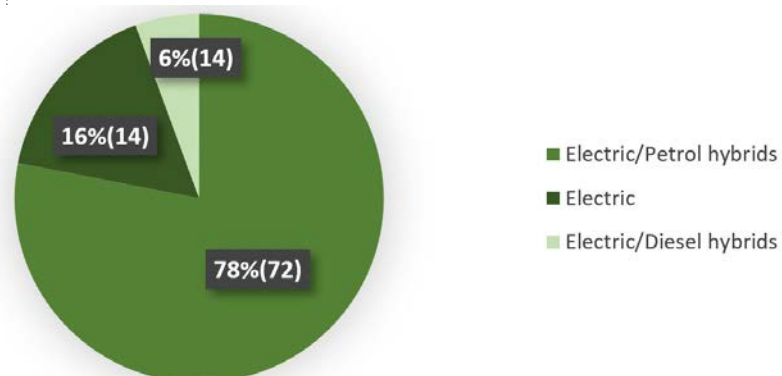
For the avoidance of doubt, the hybrid alternatives above must be possible to run with electricity as the only source of power, which means that mild hybrids (battery-assisted hybrid vehicles) are not qualified. Since January 1, 2020, Volvofinans only approves vehicles with a maximum emission of 70 grams according to WLTP when new contracts are added to the green loan portfolio. The Threshold correspond to the threshold for the Bonus-Malus legislation and the Swedish definition of Environmental cars.

New contracts are continuously allocated to the 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, 2020. Of the original value of the financing object, 90% 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.

2020-03-31	million SEK
Approved Green Loan Portfolio	3,340
Outstanding volume of Green Bonds	700
<b>Remaining approved investment amount</b>	<b>2,640</b>

2020-03-31 Vehicles	Number	Balance (MSEK)
Electric/petrol hybrid vehicles	7,708	2,607
Electric vehicles	3,167	546
Electric/diesel hybrid vehicles	990	187
<b>Total</b>	<b>11,865</b>	<b>3,340</b>

## Green Loan Portfolio 200331 (190331), % of balance



## 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 WLTP/NEDC) is used.

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 2019, according to the Swedish Transport Administration<sup>2</sup>, the average emission was 120g CO<sub>2</sub> / km for newly registered cars during the year.

By comparing the environmentally-rated cars as per 2020-03-31 with average emissions for new cars of 120g CO<sub>2</sub> / km, one can assume an annual reduction of over 12,000 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 11,700 km /year<sup>3</sup>.

Outstanding volume of green bonds corresponds to an annual CO<sub>2</sub> reduction of 2,600 tonnes of CO<sub>2</sub>.

2020-03-31	Green Loan Portfolio	CO <sub>2</sub> -reduction total portfolio	CO <sub>2</sub> -reduction Green Bonds
Gram CO <sub>2</sub> per km	33	87	
Vehicles (number)	11,865	11,865	
Balance (MSEK)	3,340		700
CO <sub>2</sub> -emissions tonnes/year	4,590	12,068	2,568

### 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>2</sup> <https://www.trafikverket.se/contentassets/07f80f01d92144eebf1a01fcb60ac923/pm-vagtrafikens-utslapp-200224.pdf>

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



### UN Sustainable Development Goals

Volvofinans Bank's Green bonds framework addresses two of the UN Sustainable Development Goals



### Most common cars in the green loan portfolio.



## Volvo Cars



Volvo Cars new company purpose is Freedom to Move – in a personal, sustainable and safe way. We actively support the Sustainable Development Goals, both through our operations and our products. We are committed to reducing our carbon footprint, including through aiming for 50% of our sales to be from fully electric vehicles by 2025, and to have climate neutral manufacturing operations by the same year. Improving the sustainability of the material within our vehicles is also a key focus area, including through greater use of recycled plastics. Volvo Cars remains committed to making the safest cars in the industry, protecting those both inside and outside the vehicle. Finally, a responsible approach to business underpins our work, and extends to the social and environmental requirements we place on our suppliers.

<https://group.volvocars.com/>

## Renault



Groupe Renault considers electric vehicles the best global solution to the challenges of the environment and sustainable mobility for all. Because an electric motor does not burn any fossil fuel, Renault is fully committed to the electric vehicle as the innovative solution capable of meeting today's environmental challenges. In 2018, Renault once again established itself as the European leader in the rapidly expanding electric vehicle market, for the fourth consecutive year. Electric vehicles are at the centre of Renault's strategy, for three main reasons. First of all, they are a real driver of growth and competitiveness for the company, which notably allows Renault to innovate more and more. Next, they are easy-to-use vehicles that everyone can enjoy driving, which is critical for the customers. Finally, they represent the best, immediately-available response to the issues of climate change and air quality – certainly not the least of their strengths.

<https://group.renault.com/en/>

## 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 VolvoFinans fleet business area, 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.

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