

INVESTOR REPORT

GREEN BONDS / VOLVOFINANS BANK AB

2021



INVESTOR REPORT – GREEN BONDS

Volvofinans Bank issued its first green bond in May 2017 and was among the first in Europe to ever issue a green bond linked to the passenger car sector . Since then, the utilization of green financing has accelerated within the auto industry, as businesses with large carbon footprints recognize the importance of sustainability. Volvofinans Bank continues to be part of this trend and has to date issued four additional green bonds and the total outstanding bond volume now amounts to 2,800 million SEK (700). 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.

The outstanding green bond portfolio of Volvofinans Bank ("Volvofinans") currently consists of five bonds in total. The first bond was issued in May 2017 with a volume of SEK 700,000,000 and a maturity of 5 years. In November 2020, Volvofinans issued three additional green bonds. One with a 3-year maturity and a volume of SEK 750,000,00 and two 5-year maturity bonds with a volume of SEK 500,000,000 and SEK 250,000,000, respectively. The fifth and latest green bond was issued in February 2021 with a 3-year maturity and a volume of SEK 600,000,000.

Liquidity from these 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 zero or low CO₂ emissions - which together constitute the green loan portfolio of Volvofinans. 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 2021, the green loan portfolio amounted to 7,590 million SEK (3,340) while outstanding bond volume amounted to 2,800 million SEK (700). The increasing green loan portfolio provides opportunities for Volvofinans to achieve the desire to grow the volume of green bonds.

For information on Volvofinans' sustainability work, see the Sustainability Report and Sustainability Policy at volvofinans.se.



Framework for Green Bonds

A refined and to a certain extent revised green bonds framework has, since 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.

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 framework from 2019 stipulates that the vehicles shall be considered as sustainable transport and 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 CO₂ 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.

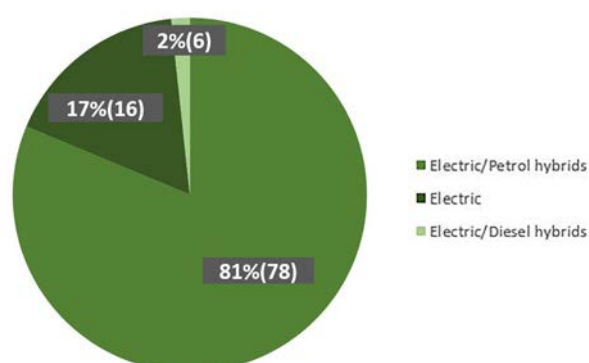
To avoid any doubt, the hybrid alternatives above must be possible to run with electricity as the only source of power, which means that mild hybrids (battery-assisted hybrid vehicles) do not qualify. During 2020 and the first quarter of 2021 Volvofinans only approved vehicles with a maximum emission of 70 grams according to WLTP when new contracts were added to the green loan portfolio. Since April 1 2021 Volvofinans has lowered the emission value to 60 grams WLTP. The threshold values corresponds to the current threshold for the Bonus-Malus legislation and the Swedish definition of green 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 of March 31, 2021. 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.

2021-03-31	million SEK
Approved Green Loan Portfolio	7,590
Outstanding volume of Green Bonds	2,800
Remaining approved investment amount	4,790

2021-03-31 Vehicles	Number	Balance (MSEK)
Electric/petrol hybrid vehicles	17,928	6,170
Electric vehicles	5,245	1,291
Electric/diesel hybrid vehicles	678	128
Total	23,851	7,590

Green Loan Portfolio 210331 (200331), % of balance



CO₂-reduction

When estimating the climate benefit, the following standardized reasoning focuses on CO₂ emissions.

There are a number of uncertainties when attempting to calculate CO₂ 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 CO₂ 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 green cars, the calculations being based on the above assumptions and where the expected CO₂ reduction is calculated by the difference between the emissions of cars financed by Volvofinans and the average emission of new cars in Sweden. In 2020, the average emission was 93g CO₂ / km for newly registered cars during the year, according to the Swedish Transport Administration².

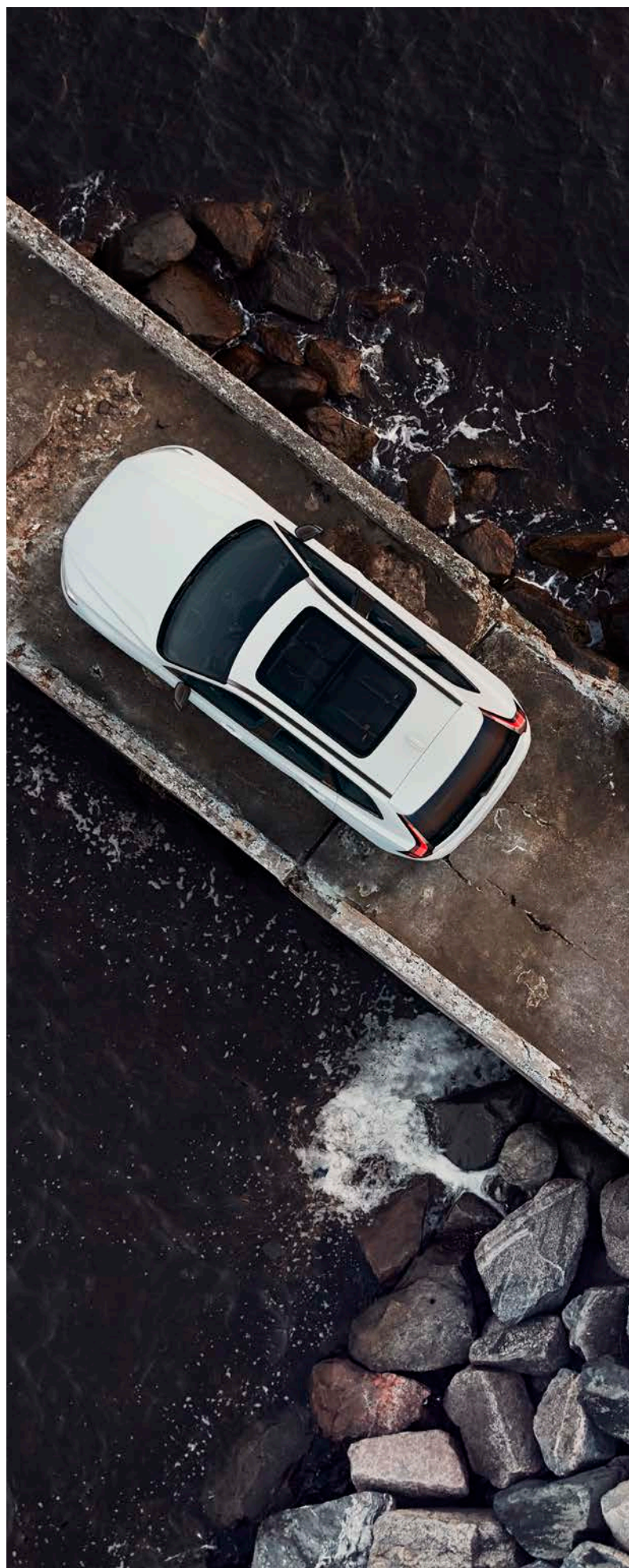
By comparing the environmentally-rated cars as per 2021-03-31 with average emissions for new cars of 93g CO₂ / km, one can assume an annual reduction of 14,692 tonnes of CO₂ for the vehicles throughout the entire green loan portfolio, see table below. The CO₂ reduction is calculated on an average annual basis on mileage of 11,000 km /year³.

Outstanding volume of green bonds corresponds to an annual CO₂ reduction of 5,420 tonnes of CO₂.

2021-03-31	Green Loan Portfolio	CO ₂ -reduction total portfolio	CO ₂ -reduction Green Bonds
Gram CO ₂ per km	37	56	
Vehicles (number)	23, 851	23,851	
Balance (MSEK)	7,590		2,800
CO ₂ -emissions tonnes/year	9,707	14,642	5,420

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.



² <https://www.trafikverket.se/contentassets/ac3df8a1b07a49f09230c64189ccba4b/pm-vagtrafikens-utslapp-210224.pdf>

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

UN Sustainable Development Goals

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



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. We've made up our mind: we're accelerating our electrification and plan to be a leading fully electric premium car brand by 2030. Improving the sustainability of the material within our vehicles is also a key focus area, including through greater use of recycled plastics. We want to consistently reduce the life cycle carbon footprint per car through concrete actions. In the long term, we want to be a climate neutral company by 2040. 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.

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. Year after year, Renault's electric vehicles remain the most prevalent on European roads, representing more than 15% of all 100%-electric vehicles sold in Europe in 2020. 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.

Polestar



At Polestar, we're determined to improve the society we live in by accelerating the change to a fully electric, climate-neutral future. That's why we're taking concrete actions to achieve net-zero greenhouse gas emissions. Leading the development of new technologies. Embracing solutions for a circular economy. We want to be the change we know needs to happen, and inspire the car industry to move in the same direction. That means improving, innovating, experimenting, and leaving no stone unturned in our ambition to create a future society that is climate-neutral, circular, transparent and inclusive. As part of our strategy of designing towards zero, we have set ourselves a moonshot goal: to create a climate-neutral car by 2030. It's time to make a positive change in the world. Join us on the journey towards sustainable, avant-garde electric mobility.

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.

VOLVOFINANS BANK

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