

An aerial photograph of a two-lane asphalt road curving through a lush green landscape. The road is flanked by grassy hills and scattered trees. A dark-colored car is driving on the road, moving away from the viewer. The overall scene is bright and clear, suggesting a sunny day.

# INVESTOR REPORT

GREEN BONDS / VOLVOFINANS BANK AB

2022

# 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<sup>1</sup>. Since then, Volvofinans Bank has further intensified the sustainability focus by establishing new goals, upgrading its Green Bond Framework in 2019 with stricter eligibility criterias as well as by being an active issuer in the green bond market. The auto industry is experiencing a rapid transition from fossil fueled vehicles to electric vehicles and Volvofinans Bank is determined to contribute to a new transportation landscape consisting of electric vehicles in “green cities” with less climate impact. In March 2022 the bank had eight green bonds outstanding with a total volume of SEK 4,050 million (2,800). Green bonds are issued under the bank's MTN program, where green bond funding is used to refinance the bank's portfolio of green loans.

Volvofinans Bank's activity in green bond issuance has continued since the previous report, and from April 2021 to March 2022, the bank has issued three bonds with a total value of SEK 1,250 million. The issue volume of each bond was 350, 400 and 500 million and all three have a maturity of 3 years. The bank's overall objective is to reduce the impact of climate change and to promote the transition to sustainable mobility. This is reflected in Volvofinans Bank's updated main goal of 40 % reduction in greenhouse gas emissions by 2025. From a business strategy point of view, the utilization of green financing also allows the bank to benefit from risk differentiation, increased business opportunities and competitive advantage.

Liquidity from current 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 low or zero CO<sub>2</sub> emissions. These contracts constitute the green loan portfolio of Volvofinans Bank. The Green Bond 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 team and the Treasury.

In March 2022, the green loan portfolio amounted to SEK 9,284 million (7,590) while outstanding bond volumes amounted to SEK 4,050 million (2,800). The increasing green loan portfolio provides opportunities for Volvofinans Bank to achieve its desire to grow the volume of green bonds but at the same time also provides scope for lowering CO<sub>2</sub> emission limits on recurring occasions and thereby making the portfolio even greener.

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



## Framework for Green Bonds

Volvofinans Bank's green bond framework is based on ICMA's "Green Bond Principles" and sets out the conditions for issuing Volvofinans Bank's green bonds and refinancing. The framework, together with CICERO's statement, can be found at [volvofinans.se](http://volvofinans.se).

Bond liquidity is used to refinance Volvofinans Bank's 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 Bank, the vehicles promote a transition to low carbon dioxide emissions and climate-resistant growth.

The green bond framework 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 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.

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. The threshold values above were introduced from the start in the framework from April 2019 and corresponded to the then applicable threshold for the Bonus-Malus legislation and the Swedish definition of green cars. Volvofinans Bank's ambition has since been to continuously, in step with stricter Bonus-Malus limits, reduce emission levels. Since April 1 2021 to March 31 2022, Volvofinans Bank only approved vehicles with a maximum emission of 60 grams according to WLTP when new contracts were added to the green loan portfolio.

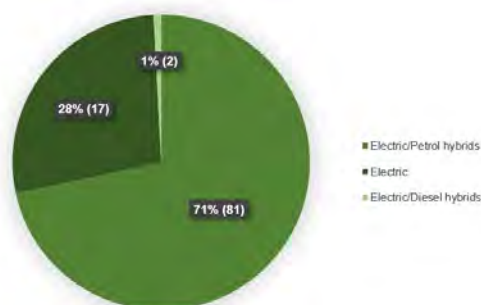
New contracts are continuously allocated to the portfolio, which is then amortized over the contract's duration. The duration of new contracts is up to 84 months with the average remaining contract term being 24 months as of March 31, 2022. Of the original value of the financing object, 90% was financed by Volvofinans Bank. As such, the bank's ambition is that the green loan portfolio should always be greater than the outstanding volume of green bonds.

2022-03-31	million SEK
Approved Green Loan Portfolio	9,284
Outstanding volume of Green Bonds	4,050
<b>Remaining approved investment amount</b>	<b>5,234</b>

2022-03-31 Vehicles	Number	Balance (MSEK)
Electric/petrol hybrid vehicles	20,974	6,587
Electric vehicles	8,439	2,633
Electric/diesel hybrid vehicles	178	64
<b>Total</b>	<b>29,591</b>	<b>9,284</b>

<sup>1</sup> Source: GlobalCapital

## Green Loan Portfolio 220331 (210331), % of balance (SEK M)



### New updated framework – 2022

At the time of writing, Volvofinans Bank is in the final phase of completing a new framework, based on an update of the framework from 2019. The new framework will include a significant decrease of the CO<sub>2</sub> emission limit for new financing contracts to qualify for incorporation into the green loan portfolio.

The new framework is expected to be published on Volvofinans Bank's website shortly.

### 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 Bank 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 petrol or diesel), the manufacturer's declared consumption figure (according to WLTP/NEDC) is used.

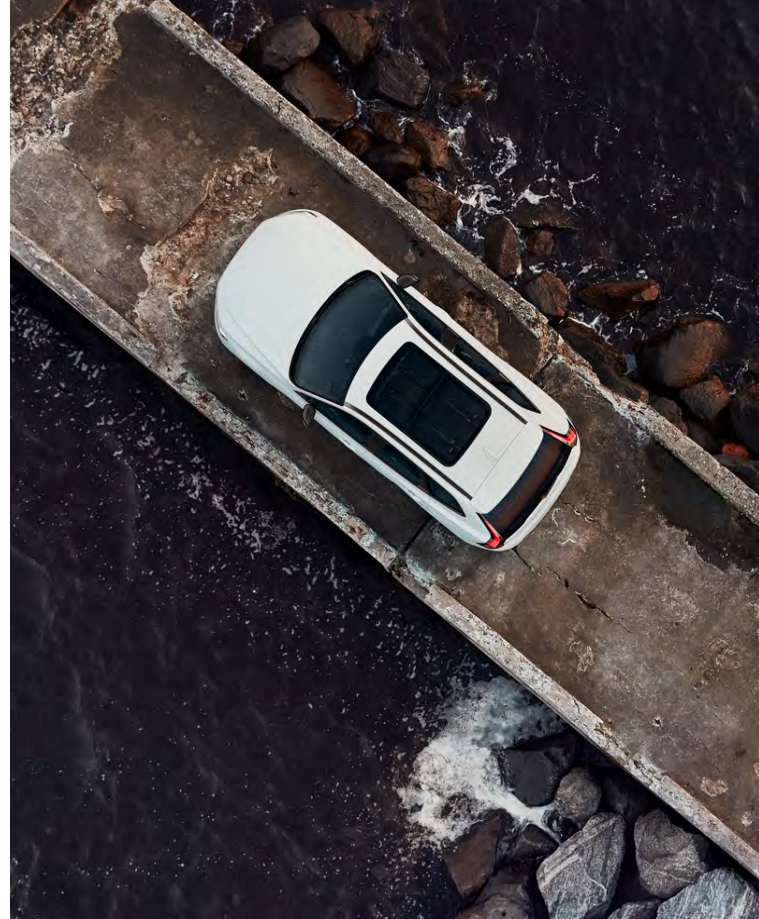
Volvofinans Bank uses the statutory definition for green cars, the calculations being based on the above assumptions and where the expected CO<sub>2</sub>-reduction is calculated by the difference between the emissions of cars financed by Volvofinans Bank and the average emission of new cars in Sweden. In 2021, the average emission was 75g CO<sub>2</sub> / km for newly registered cars during the year, according to the Swedish Transport Administration<sup>2</sup>.

By comparing the environmentally-rated cars as per 2022-03-31 with average emissions for new cars of 75g CO<sub>2</sub> / km, one can assume an annual reduction of 13,162 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 11,120 km / year<sup>3</sup>.

Outstanding volumes of green bonds correspond to an annual CO<sub>2</sub>-reduction of 5,742 tonnes of CO<sub>2</sub>.

<sup>2</sup> <https://bransch.trafikverket.se/contentassets/7ce1527807fa44ff9aa195ab440d5184/pm-vagtrafikens-utslapp-220207.pdf>

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



2022-03-31	Green Loan Portfolio	CO <sub>2</sub> -reduction total portfolio	CO <sub>2</sub> -reduction Green Bonds
Gram CO <sub>2</sub> per km	35	40	
Vehicles (number)	29,591	29,591	
Balance (MSEK)	9,284		4,050
CO <sub>2</sub> -emissions tonnes/year	11,517	13,162	5,742

### Review performed by compliance function

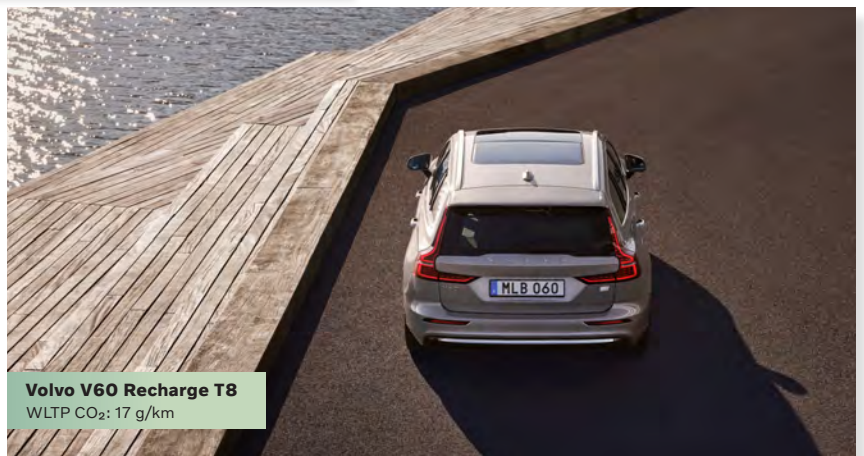
Volvofinans Bank's regulatory compliance function has reviewed this investor report, as well as the use, management and traceability of green bond issues. This review has not resulted in any remarks.

### 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. Volvo Cars is accelerating its electrification and plans to be a leading fully electric premium car brand by 2030. In 2021 Volvo introduced the new fully electric Volvo C40 Recharge, Volvo's first pure electric crossover with leather free interior. Prior to this, Volvo introduced a pure electric version of the compact SUV, the XC40. The Recharge version also incorporates sustainable materials and a 100% leather free interior<sup>4</sup>.

## Renault



Renault is fully committed to the electric vehicle as the innovative solution capable of meeting today's environmental challenges. Renault supply the market with a large choice of electric vehicles, all the way from a zero-emission light truck for business customers to an electric 2-seater car for the private customer. Some of the cars from Renault zero emissions range consist of, Twizy E-tech Electric, ZOE E-tech Electric, Master E-tech Electric and the all new Megane E-tech Electric<sup>5</sup>.

## 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. As part of our strategy of designing towards zero, we have set ourselves a moonshot goal: to create a climate-neutral car by 2030. Today, Polestar supplies the market with their first electric model Polestar 2 which was launched in 2020. Polestar will expand their diversified premium product portfolio with additional three electric models, Polestar 3, 4 and 5, which will enter the market between 2022 and 2024<sup>6</sup>.

## Other car brands



VolvoFinans Bank takes responsibility for the transition to a fossil free fleet by offering financing to brands that continues on its path toward sustainable mobility. VolvoFinans Bank finance cars from for example Volkswagen which launched additional electric vehicles during the fiscal year 2021, the models ID.3 and ID.4. Further, the all-electric Ford Mustang Mach-E SUV and Tesla model S and model 3 is additional examples<sup>7</sup>.

<sup>4-7</sup> Text and information taken from annual reports and/or VolvoFinans Bank AB

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