

An aerial photograph of a dense forest. A curved, light-colored path or road runs horizontally across the middle of the image, separating two different types of trees. The trees above the path are taller and darker green, while the trees below are shorter and a lighter shade of green. The overall scene is lush and green.

# **GREEN BOND FRAMEWORK**

**VOLVOFINANS BANK**

**SEPTEMBER 07, 2022**

# VOLVOFINANS BANK GREEN BOND FRAMEWORK

## 1. INTRODUCTION

Volvofinans Bank AB (publ) ("Volvofinans Bank") is the mobility Bank, specialised in cars and trucks. The Bank develops products and services generating a smarter car economy and facilitating freedom and mobility for customers. By offering a wide range of financing solutions and payment services in the automotive and transport industry, Volvofinans Bank ensures a safe and convenient car holding. Through its products, knowledge and systems the Bank strengthens the relation to customers, creating value and enable more and better business for everyone. The entire operation is run with a great responsibility, as sustainable and as effective as possible.

Volvofinans Banks only operates in Sweden and the head office, where the majority of the more than 250 employees work, is located in Gothenburg.

The commitment to sustainability is a natural part of the Bank's business operation. The goal is to develop products with a sustainability focus and take responsibility in the transition to a fossil-free society. All new products take sustainability into account as it is a required part within the Bank's New Product Approval Process (NPAP). In the annual report for 2021 Volvofinans Bank has announced its most recent updates on the sustainability goals. The Bank's overarching goal is to reduce green house gas emissions with 40% by 2025. That goal is shared by the Bank's business areas and one example is Fleet, for which the order share of rechargeable cars should exceed 70% by the end of 2022.

### 1.1 Sustainability policy and sustainability governance procedures

Volvofinans Bank's sustainability policy aims to create a common approach for the organisation regarding sustainability issues and is indicative of the work on sustainability. For the Bank, sustainability means responsibility towards customers, partners, employees, society and the environment. The basic strategy is to combine business value with being a healthy player in a healthy market. The policy is divided into four areas: ecological-, social- and economic sustainability, alongside responsible corporate governance.

Complementary to the sustainability policy are other policies addressing anti-money laundering, credit, bribery and anti-corruption, as well as the importance of diversity. For full details please see [Volvofinans Bank's sustainability policy](#).

In 2021, Volvofinans Bank has begun work on expanding sustainability assessments in the credit approval process, thereby increasing the focus on sustainability-related risk in credit decisions. The Bank has chosen to voluntarily align with the Task Force on Climate-related Financial Disclosures (TCFD) framework in order to determine which risks are considered most material from a climate perspective. The engagement with the TCFD will continue in the coming years.

### 1.2 Volvofinans Bank's contribution to climate change mitigation

Volvofinans Bank will assume long-term environmental responsibility aimed at reducing its ecological footprint as far as technically possible and financially reasonable. The automotive industry is changing towards fossil-free vehicles. Electric cars are on the rise and Volvofinans Bank wants to be a driving force in the transition by helping partners, customers and employees to make better, smarter choices for the future when it comes to a life of movement and mobility.

The Bank is working closely with Volvo Cars, Polestar, Renault and AB Volvo to drive sales and financing of electric cars and trucks and expects an increase in funding electric vehicles going forward.

As stated in Volvofinans Bank's published Green Bond Investor Report, by comparing the environmentally-rated cars as per a specific date with average emissions for new cars, one can approximate a reduction of CO<sub>2</sub> for the vehicles throughout the entire Green Assets Portfolio. The CO<sub>2</sub> reduction is calculated on an average annual basis of kilometers per year. As described in the Reporting section of this Framework, the reduction will be stated in yearly Investor Reports.

### 1.3

#### Volvofinans Bank's Green Assets Portfolio – partner companies and electric vehicle models



#### **VOLVO CARS**

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 percent leather free interior<sup>1</sup>.

#### **RENAULT**

Renault is fully committed to the electric vehicle as the innovative solution capable of meeting today's environmental challenges. Renault supplies 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. Examples of Renault's zero emissions range include Twizy E-tech Electric, ZOE E-tech Electric, Master E-tech Electric and the all new Megane E-tech Electric<sup>2</sup>.

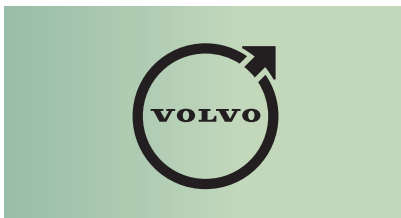
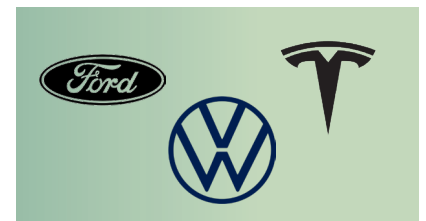


#### **POLESTAR**

Polestar is determined to improve the society we live in by accelerating the change to a fully electric, climate-neutral future. 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 which will enter the market between 2022 and 2024<sup>3</sup>.

#### **OTHER CAR BRANDS**

Volvofinans Bank takes responsibility for the transition to a fossil free fleet by offering financing to brands that continue their path toward sustainable mobility. Volvofinans Bank finances cars from for example Volkswagen which added further attractive vehicles in fiscal year 2021 by 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>4</sup>.



#### **AB VOLVO**

The Volvo Group drives prosperity through transport and infrastructure solutions, offering, among others, trucks and buses. AB Volvo was an early mover in the electrification journey and has sold electrified buses for over ten years. A recent example of an electric bus is the new Volvo BZL which provides a solid platform for sustainable and efficient public transportation. In 2021 AB Volvo took further steps on the journey to sell heavy-duty electric trucks in the European market. The new electrified heavy-duty trucks consist of FH, FM and in addition the new FMX model<sup>5</sup>.

<sup>1-5</sup> Text and information taken from annual reports and/or Volvofinans Bank AB

## 2. GREEN BOND FRAMEWORK

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 utilisation of green financing has accelerated within the automotive industry, as businesses with large carbon footprints recognise the importance of their part in the transition. To continue to lead the Green Bond Market the Bank has, with this Green Bond Framework, tightened its definition of Green Assets to be financed with Green Bonds. This Green Bond Framework provides an update to the framework dated April 10, 2019.

This Green Bond Framework is based on the 2021 version of the Green Bond Principles published by the International Capital Markets Association (ICMA). The objective of the framework is to continue help shift capital to, as well as highlight investment opportunities contributing to climate change mitigation.

### 2.1 Use of Proceeds



Volvofinans Bank will allocate an amount equal to the net proceeds of Green Bonds to finance or re-finance, in part or in full, Eligible Assets provided by Volvofinans Bank in line with the below Eligible Asset definitions. Only zero emission vehicles will be added to the Green Assets Portfolio, starting April 1<sup>st</sup> 2022, which means that the Green Bond Asset portfolio will include only zero emission vehicles over time<sup>6</sup>. The Bank will continuously exercise professional judgement, discretion and sustainability expertise when identifying Eligible Assets. As long as a Loan or Lease is aligned with the below eligibility criteria it will be considered an Eligible Asset.

“**Eligible Assets**” means a selected pool of Loans and Leases to vehicles that are funded, in whole or in part, by Volvofinans Bank and that promote the transition to low carbon and climate resilient growth, as determined by Volvofinans Bank.

Volvofinans Bank has mapped out the Eligible Assets against the Sustainability Development Goal (SDG) as well as the EU environmental objective they aim to foster through this framework. Volvofinans Bank will further follow the future developments of the EU Taxonomy and take the implemented and suggested criteria into account when selecting Eligible Assets to be included in the Green Assets Portfolio.

<sup>6</sup> The latest distribution of Volvofinans Bank's Green Bond Portfolio over different Green Asset categories can be found in the Bank's latest Green Bond Investor Report

### Volvofinans Bank's Eligible Assets

<b>GBP Category</b>	<b>Clean Transportation</b>  
<b>Assets financed</b>	<p><b>Light commercial and passenger vehicles with zero specific CO<sub>2</sub> emissions</b></p> <p><b>Fully electric freight transport vehicles with zero specific CO<sub>2</sub> emissions</b></p>
<b>Contribution to Climate Change Mitigation</b>	<p>6.5. Transport by motorbikes, passenger cars and light commercial vehicles</p> <p>6.6. Freight transport services by road</p>

Only Loans and Leases to electrified vehicles (BEV) will be added to the Green Assets Portfolio starting April 1<sup>st</sup> 2022. Already approved low-emission passenger vehicles (PHEV), that are EU Taxonomy aligned with a maximum of 50g CO<sub>2</sub>/km (WLTP), will however remain in the Green Assets Portfolio. Over time the Green Assets Portfolio will be zero emitting assets only.

### 2.2 Process for Project Evaluation and Selection

Eligible Assets will be selected in consensus by the Head of Treasury and the Sustainability Manager (i.e. both have a veto). Approved Eligible Assets will be included in Volvofinans Bank's Green Assets Portfolio. The Treasury department regularly monitors the allocation of Eligible Assets to the Green Assets Portfolio and the development of its total assets. The ambition is that the Green Assets Portfolio at all times will be larger than the amount of outstanding Green Bonds from Volvofinans Bank. The share of Green Bond financing of the Green Assets Portfolio will be specified in the annual Green Bonds investor report as outlined in 2.4 Reporting.

## 2.3

### Management of Proceeds

All Green Bonds issued by Volvofinans Bank will be managed on a portfolio level. This means that a Green Bond will not be linked directly to one (or more) pre-determined Eligible Assets. The bank's Treasury department is responsible for ensuring that the net proceeds are financing Eligible Assets in accordance with this Framework.

Volvofinans Bank strives to have a Green Assets Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Bonds. Any issue of a new Green Bond will only be executed if the present total credit volume in the Green Assets Portfolio is greater than the expected outstanding total volume of Green Bonds. All proceeds from the Green Bonds will, without delay, replace a corresponding amount of existing temporary financing of the Green Assets Portfolio.

In the unexpected event that the volume of Green Bonds would exceed the volume of the Green Assets Portfolio, the excess amount will be placed in Volvofinans Bank's liquidity reserve. The reserve consists mainly of covered bonds and municipal bonds and the bank will ensure that no amount will not flow towards financing of fossil fuel infrastructure.

## 2.4

### Reporting

To enable investors to follow the development and provide insight to prioritised areas, Volvofinans Bank will provide an annual Green Bonds Investor Report which will include the following items:

1. Total amount of Green Bonds issued and outstanding
2. A description of the Green Assets Portfolio including:
  - (a) total value of approved and outstanding Eligible Assets and a breakdown of the portfolio by vehicle types and criteria for approval
  - (b) impact reporting at portfolio level
  - (c) information about the maturity profile of the Green Assets Portfolio
  - (d) information about the average share of the total value of the vehicles in the Green Assets Portfolio that has been financed by Volvofinans Bank
  - (e) information about the share of Green Bond financing of the Green Assets Portfolio and
  - (f) amount of unallocated proceeds (if any)

3. A selection of Eligible Asset examples, such as common car models in the portfolio
4. Potential information on Taxonomy alignment of the included Eligible Assets

Volvofinans Bank recognises the importance of impact reporting and will strive to include information in the Green Bonds Investor Report about the reduced carbon footprint of the funded Eligible Assets at portfolio level in relation to relevant reference values as described in the Green Bonds Investor Report.

The Green Bonds Investor Report as well as the use of proceeds, tracking and management of funds will be assured by Volvofinans Bank's designated compliance function. The Green Bonds Investor Report includes the opinion of the compliance function and will be made publicly available on Volvofinans Bank's web page, [volvofinans.se](http://volvofinans.se)

## 2.5

### External Review

CICERO Shades of Green have independently assessed this framework as an external second opinion provider. The Second Opinion is available on Volvofinans Bank's web page.

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