

INVESTOR REPORT

GREEN BONDS / VOLVOFINANS BANK AB

2023



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 sector¹. Since then, Volvofinans Bank has further intensified the sustainability focus by establishing new goals, upgrading its Green Bond Framework in 2019 and 2022 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 2023 the bank had nine green bonds outstanding with a total volume of SEK 4,100 million (4,050). 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 2022 to March 2023, the bank has issued two bonds with a total value of SEK 750 million. The issue volume of each bond was 550 and 200 million and both have a maturity of 3.25 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 CO₂-emissions. These contracts constitute the green loan portfolio of Volvofinans Bank. Volvofinans Bank updated the green bond framework in September 2022 where the definition of eligible assets was changed to vehicles with zero CO₂-emissions. This means that only loans and leases to electrified vehicles (BEV) have been added to the green loan portfolio since April 1, 2022 already approved low-emission vehicles (PHEV) with a maximum of 50 grams of CO₂-emissions have however been left in the green loan portfolio. 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 2023, the green loan portfolio amounted to SEK 9,031 million (9,284) while outstanding bond volumes amounted to SEK 4,100 million (4,050). The tightening of the framework's emission requirements has resulted in a slightly reduced credit volume in the portfolio, compared to a year ago. But as can be seen below, the share of pure electric cars is increasing sharply and now makes up the majority, which in turn means lower CO₂-emissions and a darker green portfolio.

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

¹ Source: GlobalCapital

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.

Bond liquidity is used to refinance Volvofinans Bank's green loan portfolio of loan and leasing contracts. Each individual contract has a passenger car or a truck as its financing object, whereupon the vehicle is zero or low emitting. 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 eligible assets and defined as clean transportation providing they;

- have zero specific CO₂-emissions.

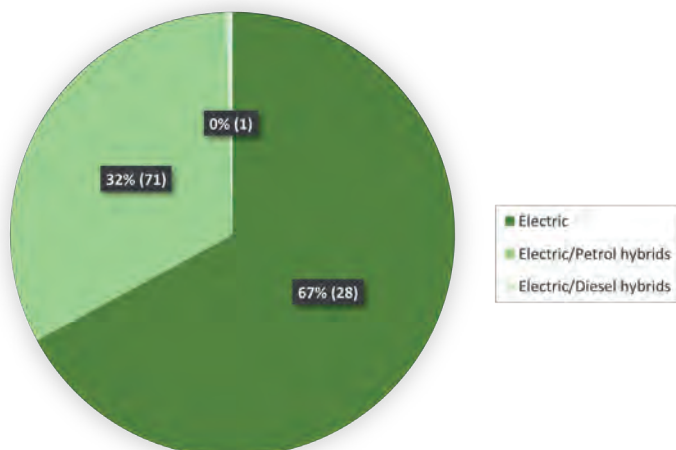
As already mentioned above, the threshold value were introduced from April 1, 2022 with the exception of the then remaining low-emission vehicles. Over time the green loan portfolio will be zero-emission assets only.

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 96 months but the average remaining contract term being 21 months as of March 31, 2023 as the major part is shorter leasing contracts. In average about 90% of the original value of the financing object was financed by Volvofinans Bank. Furthermore, the bank's ambition is for the green loan portfolio to always be larger than the outstanding volume of green bonds.

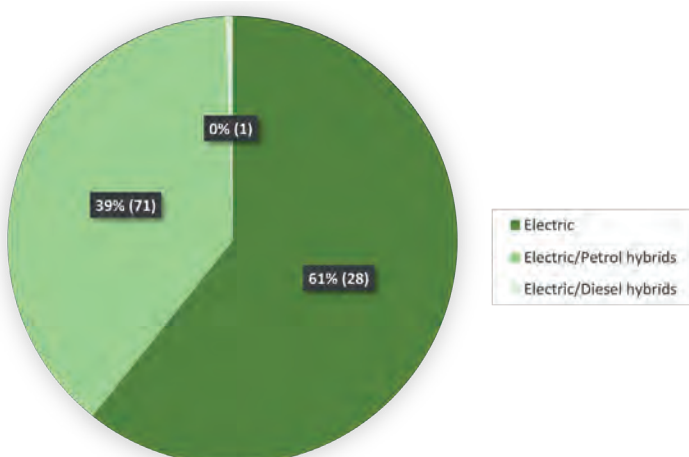
2023-03-31	million SEK
Approved Green Loan Portfolio	9,031
Outstanding volume of Green Bonds	4,100
Remaining approved investment amount	4,931

2023-03-31 Vehicles	Number	Balance (MSEK)
Electric vehicles	18,787	6,063
Electric/petrol hybrid vehicles	12,012	2,927
Electric/diesel hybrid vehicles	147	42
Total	30,946	9,031

Green Loan Portfolio 230331 (220331)
% of Balance



Green Loan Portfolio 230331 (220331)
% of Number

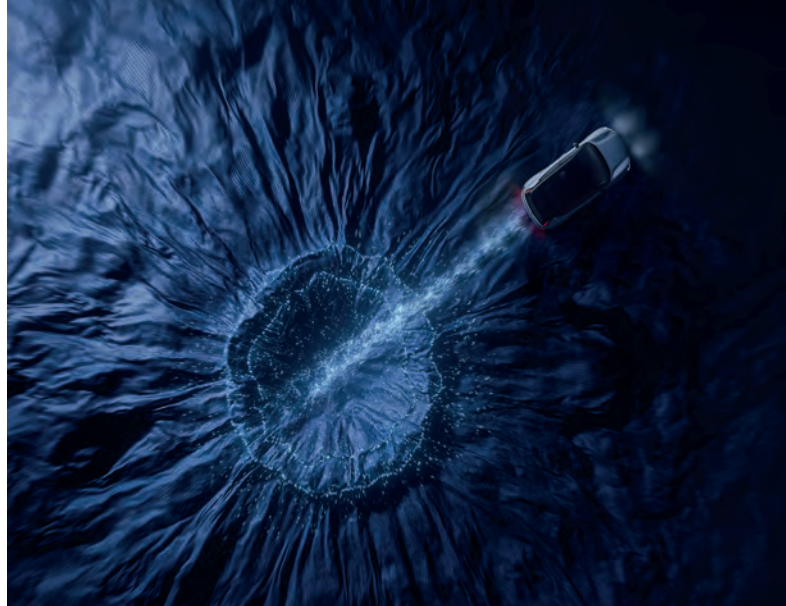


CO₂-reduction

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 Bank 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 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 CO₂-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 2022, the average emission was 67g CO₂/km for newly registered cars during the year, according to the Swedish Transport Agency².

By comparing the environmentally-rated cars as per March 31, 2023 with average emissions for new cars of 67g CO₂/km, one can assume an annual reduction of 18,120 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 11,260 km/year³.

Outstanding volumes of green bonds correspond to an annual CO₂-reduction of 8,226 tonnes of CO₂.

2023-03-31	Green Loan Portfolio	CO ₂ -reduction total portfolio	CO ₂ -reduction Green Bonds
Gram CO ₂ per km	15	52	
Vehicles (number)	30,946	30,946	
Balance (MSEK)	9,031		4,100
CO ₂ -emissions tonnes/year	5,227	18,120	8,226

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.



² <https://www.transportstyrelsen.se/sv/vagtrafik/statistik/Statistik-over-koldioxidutslapp/statistik-over-koldioxidutslapp-2022/>

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

COMMON CARS IN THE GREEN LOAN PORTFOLIO



Volvo C40 Recharge
WLTP CO₂: 0 g/km



Volvo XC40 Recharge
WLTP CO₂: 0 g/km



Renault Zoe
WLTP CO₂: 0 g/km



Polestar 2
WLTP CO₂: 0 g/km

The Volvo logo consists of the word "VOLVO" in a bold, black, sans-serif font, centered within a light green square background.

V O L V O

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 2023 Volvo introduced the new fully electric EX30, a small SUV loaded with smart tech at an attractive starting price. Prior to this, in 2022 Volvo introduced the new fully electric flagship SUV, the EX90, a seven-seater that further raises the standards in safety and sustainability⁴.

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 Electric⁵.



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. In 2022 Polestar launched their first SUV, the Polestar 3, followed by the Polestar 4 in 2023, aerodynamic like a coupé, spacious as an SUV. Both models will be available in Europe in 2024⁶.

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 with 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 examples⁷.



⁴⁻⁷ Text and information taken from annual reports and/or Volvofinans Bank AB

VOLVOFINANS BANK

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