

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Finance Framework

Volkswagen Financial Services AG

10 September 2024

VERIFICATION PARAMETERS

Type(s) of instruments contemplated

- Green Finance Instruments

Relevant standards

- Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
- Green Loan Principles, as administered by the LMA (as of February 2023)

Scope of verification

- Volkswagen Financial Services Green Finance Framework (as of September 10, 2024)
- Volkswagen Financial Services Eligibility Criteria (as of September 10, 2024)

Lifecycle

- Pre-issuance verification
- 1st Update of SPO as of as of August 29, 2023 (ISS-Corporate [weblink](#))

Validity

- Valid as long as the cited Framework remains unchanged

CONTENTS

SCOPE OF WORK.....	3
VOLKSWAGEN FINANCIAL SERVICES OVERVIEW	4
ASSESSMENT SUMMARY	5
SPO ASSESSMENT.....	6
PART I: ALIGNMENT WITH GBP AND GLP	6
PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA	8
A. CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE UN SDGs	8
B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA.....	9
PART III: CONSISTENCY OF GREEN FINANCE INSTRUMENTS WITH VOLKSWAGEN FINANCIAL SERVICES' SUSTAINABILITY STRATEGY	11
ANNEX 1: METHODOLOGY	14
ANNEX 2: QUALITY MANAGEMENT PROCESSES.....	15
About this SPO.....	16

SCOPE OF WORK

Volkswagen Financial Services AG (“the Issuer”, “the Company”, or “VWFS”) commissioned ISS-Corporate to assist with its Green Finance Instruments by assessing three core elements to determine the sustainability quality of the instruments:

1. Volkswagen Financial Services’ Green Finance Framework (as of September 10, 2024) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBP) and Loan Market Association’s Green Loan Principles (GLP).
2. The Eligibility Criteria – whether the project categories contribute positively to the United Nations Sustainable Development Goals (UN SDGs) and how they perform against proprietary issuance-specific key performance indicators (KPIs) (See Annex 1).
3. Consistency of Green Finance Instruments with Volkswagen Financial Services’ Sustainability Strategy – drawing on the key sustainability objectives and priorities defined by the Issuer.

VOLKSWAGEN FINANCIAL SERVICES OVERVIEW

Volkswagen Financial Services engages in the provision of automotive financial services. It operates through the following segments: Banking, Leasing, Insurance and Service, Mobility, and Payment. The Banking segment comprises retail financing, wholesale financing, as well as factoring and deposits. The Leasing segment offers finance lease and operating lease. The Insurance and Service segment includes motor and telematics, warranty, commercial lines, full and limited maintenance, tires, as well as service and inspection. The Mobility segment focuses on fleet, rental, parking, as well as charge and fuel. The Payment segment specializes in in-car payment, mobile payment, and wallet. The company was founded in 1994 and is headquartered in Braunschweig, Germany.



ESG risks associated with the Issuer Industry

Volkswagen Financial Services is classified in the Specialized Finance industry, as per ISS ESG's sector classification. Key sustainability issues faced by companies¹ in this industry are: Sustainability impacts of lending and other financial services/ products, Customer and product responsibility, Labour standards and working conditions, Products and services with social and environmental benefits.

This report focuses on the sustainability credentials of the issuance. Part III. of this report assesses the consistency between the issuance and the Issuer's overall sustainability strategy.

¹ Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry. Key ESG issues by industry are sourced from ISS ESG's Corporate Rating methodology.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ²
<p>Part I:</p> <p>Alignment with GBP/GLP</p>	<p>The Issuer has defined a formal concept for its Green Finance Instruments regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the GBP and GLP.</p>	<p>Aligned</p>
<p>Part II:</p> <p>Sustainability quality of the Eligibility Criteria</p>	<p>The Green Finance Instruments will (re)finance eligible service-related category which includes: Clean Transportation.</p> <p>Service-related use of proceeds category individually contribute to one or more of the following SDGs:</p> <div style="display: flex; justify-content: center; gap: 10px;">   </div> <p>The environmental and social risks associated with the use of proceeds category are managed.</p>	<p>Positive</p>
<p>Part III:</p> <p>Consistency of Green Finance Instruments with Volkswagen Financial Services' Sustainability Strategy</p>	<p>The key sustainability objectives and the rationale for issuing Green Finance Instruments are clearly described by the Issuer. The project category considered is in line with the sustainability objectives of the Issuer.</p> <p>At the date of publication of the report and leveraging ISS ESG Research, no severe controversies have been identified.</p>	<p>Consistent</p>

² The evaluation is based on the Volkswagen Financial Services' Green Finance Framework (September 10, 2024 version), on the analysed Eligibility Criteria as received on September 10, 2024.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GBP AND GLP

This section evaluates the alignment of the Volkswagen Financial Services' Green Finance Framework (as of September 10, 2024) with the GBP and GLP.

GBP AND GLP	ALIGNMENT	OPINION
<p>1. Use of Proceeds</p>	<p>✓</p>	<p>The Use of Proceeds description provided by Volkswagen Financial Services' Green Finance Framework is aligned with the GBP and GLP.</p> <p>The Issuer's green category aligns with the project categories as proposed by the GBP and GLP. Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds by the project category is provided and environmental benefits are described.</p>
<p>2. Process for Project Evaluation and Selection</p>	<p>✓</p>	<p>The Process for Project Evaluation and Selection description provided by Volkswagen Financial Services' Green Finance Framework is aligned with the GBP and GLP.</p> <p>The project selection process is defined and structured in a congruous manner. ESG risks associated with the project categories are identified and managed through an appropriate process. Moreover, the projects selected show alignment with the sustainability strategy of the Issuer.</p> <p>The Issuer involves various stakeholders in this process and identify alignment of their Green Bond framework and their green projects with official or market-wide taxonomies and to reference any green standards or certifications used, in line with best marked practices.</p>
<p>3. Management of Proceeds</p>	<p>✓</p>	<p>The Management of Proceeds provided by Volkswagen Financial Services' Green Finance Framework is aligned with the GBP and GLP.</p>

		<p>The net proceeds collected will be equal to the amount allocated to eligible projects. The net proceeds are tracked in an appropriate manner and attested in a formal internal process. The net proceeds are managed per bond (bond-by-bond approach). Moreover, the Issuer discloses the temporary investment instruments for unallocated proceeds.</p> <p>VWFS has disclosed a look-back period of 24 months applied to the proceeds.</p>
<p>4. Reporting</p>	<p>✓</p>	<p>The allocation and impact reporting provided by Volkswagen Financial Services' Green Finance Framework is aligned with the GBP and GLP.</p> <p>The Issuer commits to disclose the allocation of proceeds transparently and to report in an appropriate frequency. The reporting will be publicly available on the Issuer's website. Volkswagen Financial Services has disclosed the type of information that will be reported and explains that the level of expected reporting will be at project category level using a bond-by-bond approach. Moreover, the Issuer commits to report annually, until the proceeds have been fully allocated.</p>

PART II: SUSTAINABILITY QUALITY OF THE SELECTION CRITERIA

A. CONTRIBUTION OF THE GREEN FINANCE INSTRUMENTS TO THE UN SDGs³


Companies can contribute to the achievement of the SDGs by providing specific services/products which help address global sustainability challenges, and by being responsible corporate actors, working to minimize negative externalities in their operations along the entire value chain.

The assessment of UoP categories for (re)financing products and services is based on a variety of internal and external sources, such as the ISS ESG SDG Solutions Assessment (SDGA), a proprietary methodology designed to assess the impact of an Issuer's products or services on the UN SDGs, as well as other ESG benchmarks (the EU Taxonomy Climate Delegated Acts, the ICMA Green and/or Social Bond Principles and other regional taxonomies, standards and sustainability criteria).

The assessment of UoP categories for (re)financing specific products and services is displayed on a 3-point scale:



Each of the Green Finance Instruments' Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS (PRODUCTS/SERVICES)	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
<p>Clean Transportation</p> <p><i>Eligible financings related to any vehicle with zero-tailpipe emissions, including acquisitions of vehicles for the purpose of leasing business or loans to customers</i></p>	<p>Contribution</p>	

³ The impact of the UoP categories on UN Sustainable Development Goals is assessed with proprietary methodology and may therefore differ from the Issuer's description in the framework.

B. MANAGEMENT OF ENVIRONMENTAL & SOCIAL RISKS ASSOCIATED WITH THE FINANCIAL INSTITUTION AND THE ELIGIBILITY CRITERIA

The table below evaluates the Eligibility Criteria against issuance-specific KPIs. The entirety of the assets are not limited to any specific geographical regions.

ASSESSMENT AGAINST KPIs

ESG guidelines into financing process

VWFS' Code of Conduct states that employees should commit to ensure the underlying vehicle subject to financing /leasing don't pose any risks, detrimental effects and hazards to the health, safety, and environment to the customers or any third party. In addition, VWFS' Code of conduct states that employees should prevent money laundering and terrorism financing through checking the identity of customers, business partners and third parties that VWFS might potentially deal with. In addition, there are internal documents outlining ESG questions to be considered during the credit processes specified to the renting and leasing of motor vehicles.

Data protection and information security



VWFS has implemented ISO 27001, Information Security Management System to safeguard personal data and information security. The implementation has been certified by an external audit. In addition, VWFS' Code of Conduct commits to protect the personal data of customers and suppliers, and will collect, gather, process, use and store personal data in accordance with legal provisions in the company's Code of Conduct. VWFS' Code of Conduct also requires employees to oblige Information Technology security regulations and electronic data processing security.

Responsible treatment of customers with debt repayment problems



VWFS applies the Responsible Lending for Consumers Code to analyze the credit worthiness of the lessee prior the start of contract and will also conduct credit check in regular intervals during the contract to identify credit worthiness risks. If credit worthiness risks are identified, VWFS will work with the Borrower to discuss appropriate support program. Support programs include debt management programs such as payment moratorium for leasing installments. VWFS also has ombudsperson's contact for the consumer to settle dispute displayed in public website.

Sales Practices



Within the sales training program, there are modules in place for product matching based on customer's situation and personal preference. VWFS has a

reward system based on a cooperation model between the dealership and VWFS to limit sales targets, it also has a system in evaluating and recording customer complaints and has collected product and services satisfaction feedback from client surveys.

Inclusion

VWFS applies the Responsible Lending to Consumer Code in ensuring that credit is provided without discriminations based on race, gender, religious groups, and sexual orientations.

Responsible marketing

VWFS applies the Responsible Lending to Consumer Code to ensure marketing material are presented in an accurate, understanding, and not misleading manner. In addition, the Code also states that consumers will be provided key information on the loan including but not limited to effective annual interest, all costs of the loan, and repayment amount. Lastly, VWFS doesn't systematically provide an explanation of the loan rejection in how and why the consumer did not meet the loan requirement, while doing so upon request.

Exclusion criteria

As VWFS focuses in providing leasing and financing services for vehicles, there are no policies in not financing weapons, military equipment or infrastructure, ethically or morally controversial projects. Regarding due diligence process, VWFS has due diligence process in place to identify and address illegal business practices of a potential Borrower. The scope include business with violations against sanction or embargo lists, violations against money laundering regulations, bribery and corruption, violations against competition and antitrust law, and organized crime.

PART III: CONSISTENCY OF GREEN FINANCE INSTRUMENTS WITH VOLKSWAGEN FINANCIAL SERVICES’ SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

TOPIC	ISSUER APPROACH
Strategic ESG topics	<p>The Issuer aims to facilitate the number of battery electric vehicle (BEV) deliveries by its parent company, Volkswagen Group, to more than 50% of total deliveries worldwide, and over 70% in Europe by 2030.</p>
ESG goals/targets	<p>To facilitate the increased amount of BEV deliveries by the parent company, the Issuer aims to improve the % of BEV leasing or financing contracts to 80% of the European portfolio by 2030.</p> <p>Internally, the Issuer aims to reduce 50% of CO₂ emissions within the operational and Information technology department, and achieve CO₂ neutrality by 2030.</p> <p>The Issuer is using a carbon tracking tool to collect CO₂ emissions from operations in different geographical regions for planning and setting respective KPIs, which are discussed yearly between the board and management team.</p>
Action plan	<p>To achieve carbon neutrality by 2030 in VWFS’ operation, VWFS’ headquarters only uses certified electricity from renewable sources. In the future, heating power will be procured from renewable district heating generated by the local utility company to facilitate the carbon neutrality goal by 2030.</p> <p>Currently, The Issuer is not disclosing any public financial budget to achieve the specific ESG goals.</p>
Climate Transition Strategy	<p>The Issuer states that a detailed transition plan will be communicated within the new sustainability strategy by the end of 2024.</p>

Top three areas of breaches of international norms and ESG controversies in the industry⁴	Failure to respect the right to safe and healthy working conditions, Strike action, Layoffs, Failure to prevent money laundering.
Breaches of international norms and ESG controversies by the Issuer	At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.
Sustainability Reporting	VWFS reports on its ESG performance and initiatives within Volkswagen Group’s Sustainability Report. The report is prepared according to Task Force on Climate-Related Financial Disclosures (TCFD), Global Reporting Initiative (GRI), UN Global Compact, Sustainability Accounting Standards Board (SASB), and Carbon Disclosure Project (CDP) reporting guidelines.
Industry associations, Collective commitments	VWFS is a signatory to the Responsible Lending for Consumers code, administrated by Bankenfachverband since 2010, setting guidelines and best practices on how to achieve responsible lending.
Previous sustainable/sustainability-linked issuances or transactions and publication of sustainable financing framework	VWFS has published Green Finance Framework in August, 2023. ⁵ VWFS has issued approximately eight billion Euros of Green Bonds through 17 transactions from September 2023 to June 2024, with maturity dates ranging between year 2025 and 2031.

Rationale for issuance

The Green Finance Framework will help VWFS in achieving the goal of financing sustainable transportation by enabling the ownership of battery electric vehicles, a goal that is part of the 2030 sustainability strategy plan.

Opinion: *The key sustainability objectives and the rationale for issuing Green Financing Instruments are clearly described by the Issuer. The project category financed is in line with the sustainability objectives of the Issuer.*

⁴ Based on a review of controversies identified by ISS ESG over a 2-year period, the top three issues that have been reported against companies within the Specialized Finance industry are displayed above. Please note that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

⁵ Volkswagen Financial Services AG, Green Finance Framework, August 2023, https://www.vwfs.com/content/dam/bluelabel/valid/www-vwfs-com/investor-relations/vwfs-ag/green-finance-framework/VWFSAG_GFF_2023.pdf

DISCLAIMER

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ANNEX 1: METHODOLOGY

The ISS-Corporate SPO provides an assessment of labelled transactions against international standards using ISS-Corporate proprietary methodology. For more information, please visit: <https://www.iss-corporate.com/file/publications/methodology/iss-corporate-green-social-and-sustainability-bond-loan-spo-methodology-summary.pdf>

ANNEX 2: QUALITY MANAGEMENT PROCESSES

SCOPE

Volkswagen Financial Services commissioned ISS-Corporate to compile a Green Finance Instruments SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the Green Bond Principles and Green Loan Principles and to assess the sustainability credentials of its Green Finance Instruments, as well as the Issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion:

- Green Bond Principles, as administered by the ICMA (as of June 2021 with June 2022 Appendix 1)
- Green Loan Principles, as administered by the LMA (as of February 2023)
- Key Performance Indicators relevant for Use of Proceeds categories selected by the Issuer

ISSUER'S RESPONSIBILITY

Volkswagen Financial Services' responsibility was to provide information and documentation on:

- Green Finance Framework
- Selection criteria
- Documentation of ESG risks management at the project level

ISS-CORPORATE'S VERIFICATION PROCESS

Since 2014, ISS Group, of which ISS-Corporate is a part of, has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

This independent Second Party Opinion of the Green Finance Instruments to be issued by Volkswagen Financial Services has been conducted based on a proprietary methodology and in line with the ICMA Green Bond Principles and Green Loan Principles.

The engagement with Volkswagen Financial Services AG took place from July to September 2024.

ISS-CORPORATE'S BUSINESS PRACTICES

ISS-Corporate has conducted this verification in strict compliance with the ISS Group Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behavior and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About this SPO

Companies turn to ISS-Corporate for expertise in designing and managing governance, compensation, sustainability and cyber risk programs that align with company goals, reduce risk, and manage the needs of a diverse shareholder base by delivering best-in-class data, tools, and advisory services.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the Issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.iss-corporate.com/solutions/sustainable-finance/bond-issuers/>

For more information on SPO services, please contact: SPOsales@iss-corporate.com

Project team

Project lead

Allen Ng
Associate
Sustainable Finance Research

Project supervision

Marie-Bénédicte Beaudoin
Associate Director
Head of Sustainable Finance
Research