

Green Loan Framework of Volkswagen Bank

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1. Our motivation

We, Volkswagen Bank GmbH (Group) (hereafter: Volkswagen Bank), have developed this Green Loan Framework as part of our overarching sustainability strategy.

Our strategic goal is to drive the transition to zero-emission mobility. To this end, we focus on avoiding, reducing and offsetting CO₂ emissions in our products and business operations. In the same vein, we also want to transform Volkswagen Bank's lending business. This requires clear parameters that determine what Green Loans that contribute to the strategic goal of CO₂ reduction are.

2. Basics of the framework

Our Green Loan Framework is based on the Green Loan Principles (GLP), which are jointly published by the Loan Market Association (LMA), the Asia Pacific Loan Market Association (APLMA) and the Loan Syndications Trading Association (LSTA).

The Green Loan Principles include voluntary (recommended) guidelines that contribute to the integrity of the development of the Green Loan Market by providing clarity on when a loan can be called 'green'.

Based on this, we define a Green Loan as follows:

Any type of loan¹ that is used exclusively for the financing/refinancing/guarantee of new or existing green projects or uses, provided that it meets the conditions defined in the four core components of the Green Loan Principles.

The four core components of the Green Loan Principles and their implementation within the context of this framework are presented below. They create a clear basis for the scope of a Green Loan from Volkswagen Bank.

¹ For ease of understanding, the term 'loan' is used uniformly in this document. In this context, this term includes, for example, receivables from the leasing business.

3. Use of Proceeds

The decisive factor for a Green Loan is the green use of the loan funds, which should be adequately described in the financing documents.² All designated green projects must have clear environmental benefits that are evaluated by the borrower and, where possible, quantified, measured and reported.

Financing that makes a positive contribution to sustainable mobility, energy efficiency, renewable energy supply, water/waste management or environmentally friendly production technologies qualifies as a Green Loan within the meaning of Volkswagen Bank's Green Loan Framework if its purpose falls into at least one of the categories listed below.

Mobility and transport

Criteria

Electric vehicles with no direct emissions

Infrastructure for e-mobility (including e-charging stations)

Means of transport for non-motorised or electrically motorised transport (e.g. bicycles)

SDGs³

7 Affordable and clean energy

13 Climate action

Buildings / Energy Efficiency

Criteria

Building projects or energy-efficiency measures

- New construction: buildings whose annual energy demand is at least 10% lower than that of a comparable building
- Modernisation: reduction of energy demand by at least 30% compared to the original state of the building

The principles of energy efficiency defined within the framework of local government programs are adopted accordingly (e.g. the KfW energy efficiency programme 'Energy-efficient construction and refurbishment')

SDGs

7 Affordable and clean energy

11 Sustainable cities and communities

13 Climate action

² Regulated in the internal framework guidelines.

³ Sustainable Development Goals. The 17 Sustainable Development Goals (SDGs) are political objectives of the United Nations (UN) that are intended to ensure sustainable development worldwide on an economic, social and ecological level.

Renewable energies

Criteria

Equipment for the generation of renewable energies (e.g. heat pumps, solar systems, photovoltaics, solar thermal systems) including electricity storage systems

Equipment for the exclusive development or production of components for the generation and storage of renewable energies (battery cells)

Equipment for the production of green hydrogen

Grids directly related to the connection of renewable energies

The principles defined within the framework of the KfW programme are adopted accordingly

SDGs

7 Affordable and clean energy

13 Climate action

Sustainable water and waste management

Criteria

Waste water plants for low-consumption treatment of sewage and waste water (washing plants)

SDG

6 Clean water and sanitation

Environmentally friendly production technologies

Criteria

Financing of project-related plans, such as end-of-pipe technologies including recycling; equipment for the reduction, recycling and reuse of waste materials

SDG

12 Responsible consumption and production

4. Project Selection and Evaluation

One condition for qualifying as a Green Loan is that the borrower must explain what environmental goals they are pursuing and to what extent their project contributes to them (e.g. renewable energies). As part of the loan appraisal, Volkswagen Bank has introduced process steps to ensure that a commitment is classified and evaluated as a Green Loan from Volkswagen Bank.

Private clients, individual commercial clients, special clients	As part of the loan application, processes are in place to ensure that the financing is made available for the corresponding purpose. In the case of vehicle and bicycle financing, for example, the loan is granted directly to the trade.
Corporate clients	Evidence of compliance with the above criteria must be provided by the borrower as part of the loan initiation process.

5. Management of Proceeds

The use of the funds by the borrower as specified in the intended purpose must be ensured at all times. The necessary transparency with regard to the use of loan funds ('management of loan funds') is regulated as follows, depending on the client group:

Private clients, individual commercial clients, special clients	As described in Section 4, for the client groups private clients, individual commercial clients and special clients, it is ensured that the loan funds are initially used only for the requested financing object. In addition, the financing form of an instalment loan over the loan term ensures that the client only uses the funds provided for the defined purpose in the long term. A separate agreement in the loan contract is therefore not necessary.
Corporate clients	In the area of corporate financing, the borrower must ensure that the loan funds provided as a Green Loan are only used for the correspondingly defined purposes. This is ensured by the borrower as follows: <ul style="list-style-type: none"> • Via a corresponding passage in the loan contract and • Via their assurance that they will provide evidence of appropriate use of funds upon request Examples are: <ul style="list-style-type: none"> • Posting of loan funds to a separate account • Tracking by the borrower • Monitoring by the bank that the borrower has used the loan funds in accordance with their specifications, e.g. by submitting invoices

6. Reporting

We attach great importance to transparent reporting by borrowers regarding the use of Green Loans as an integrity-enhancing means of achieving environmentally sustainable goals. Depending on the financing object, the borrower must provide appropriate evidence on a regular basis.

In this context, Volkswagen Bank recommends the use of the following indicators to measure climate and environmental impact in relation to the areas of 'renewable energies' and 'energy efficiency'.

Renewable energies

- Reduction of annual greenhouse gas emissions in metric tons of CO₂
- Annual energy production from renewable energies in MWh⁴
- Capacity expansion of renewable energies in MWh

Energy efficiency

- Reduction of annual greenhouse gas emissions in metric tons of CO₂
- Annual energy savings in MWh

7. Outlook and updates

With this framework, we are complementing our sustainability strategy and laying the foundation for our activities until 2030. Achieving carbon neutrality is a top priority at Volkswagen Bank. The task now is to effectively and consistently pursue the set emissions targets through the initiatives that have been launched. In addition, new ideas and activities will be needed to achieve the target. After all, we operate in a dynamic environment, which is something to which we must react but from which we can also benefit. With that in mind, this framework will also be compared annually with the current requirements and, if necessary, supplemented or adapted.

What matters is that we have made a strong start to our journey.

⁴ Megawatt hours (MWh)

8. Disclaimer

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