



SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Green Finance Framework

Volkswagen Financial Services AG
29 August 2023

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">Green Finance Instruments
Relevant standards	<ul style="list-style-type: none">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	<ul style="list-style-type: none">Volkswagen Financial Services AG Green Finance Framework (as of August 29, 2023)Volkswagen Financial Services AG Eligibility Criteria (as of August 29, 2023)
Lifecycle	<ul style="list-style-type: none">Pre-issuance verification
Validity	<ul style="list-style-type: none">Valid as long as the cited Framework remains unchanged

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SCOPE OF WORK

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



1. Volkswagen Financial Services AG’s Green Finance Framework (as of August 29, 2023) – 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. Linking the transaction(s) to Volkswagen Financial Services AG’s overall Environmental, Social, and Governance (ESG) profile – drawing on the issuance-specific Use of Proceeds (UoP) categories.

VOLKSWAGEN FINANCIAL SERVICES AG BUSINESS OVERVIEW

Volkswagen Financial Services AG is the business division of the Volkswagen AG group of companies, that provides automotive financial services to private, corporate, and fleet customers. It is classified in the Specialized Finance industry, as per ISS ESG’s sector classification.

Headquartered in Germany, the company was founded in 1994 and operates in the areas of banking, leasing, insurance and services, mobility, and payment. As of June 30, 2023, the company has had total assets worth €138,215million.

ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Alignment with GBP/GLP	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 Green Bond Principles and Green Loan Principles.	Aligned
Part 2: Sustainability quality of the Eligibility Criteria	<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 well managed.</p>	Positive
Part 3: Linking the transaction to Volkswagen Financial Services AG's ESG profile	<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>	Consistent with Issuer's sustainability strategy

¹ ISS ESG's evaluation is based on the Volkswagen Financial Services AG's Green Finance Framework (August 29, 2023 version), on the analysed Eligibility Criteria as received on the 29.08.2023, and on publicly available information.

SPO ASSESSMENT

PART I: ALIGNMENT WITH GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES

This section evaluates the alignment of the VWFS's Green Finance Framework (as of August 29, 2023) with the Green Bond Principles and Green Loan Principles.

GREEN BOND PRINCIPLES AND GREEN LOAN PRINCIPLES	ALIGNMENT	OPINION
1. Use of Proceeds	✓	<p>The Use of Proceeds description provided by Volkswagen Financial Services AG's Green Finance Framework is aligned with the Green Bond Principles and Green Loan Principles.</p> <p>The Issuer's green category aligns with the project category as proposed by the Green Bond Principles and Green Loan Principles, Criteria are defined in a clear and transparent manner. Disclosure of distribution of proceeds to the only project category is provided and Environmental benefits is described.</p>
2. Process for Project Evaluation and Selection	✓	<p>The Process for Project Evaluation and Selection description provided by Volkswagen Financial Services AG's Green Finance Framework is aligned with the Green Bond Principles and Green Loan Principles.</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>
3. Management of Proceeds	✓	<p>The Management of Proceeds proposed by Volkswagen Financial Services AG's Green Finance Framework is aligned with the Green Bond Principles and Green Loan Principles.</p>

		<p>The net proceeds collected will be equal to the amount allocated to eligible projects, with no exceptions. 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 proposed by Volkswagen Financial Services AG's Green Finance Framework is aligned with the Green Bond Principles and Green Loan Principles.</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 AG explains the level of expected reporting and the type of information that will be reported. Moreover, the Issuer commits to report annually, until the bond matures/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 SDGs²


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 (see Annex 1 for methodology):

Obstruction	No Net Impact	Contribution
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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>	Contribution	

² The impact of the UoP categories on UN Social 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/leasing 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

- ✓ Volkswagen Financial Services AG 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 Code³ 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.

³ The Issuer has stated that the Code is from the German Bankenfachverband and is signed by the VW Bank only. The code was signed in 2010 where VW Bank was part of VW FS AG.

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: LINKING THE TRANSACTION(S) TO VOLKSWAGEN FINANCIAL SERVICES AG'S ESG PROFILE

A. CONSISTENCY OF GREEN FINANCE INSTRUMENTS WITH VOLKSWAGEN FINANCIAL SERVICES AG'S SUSTAINABILITY STRATEGY

Key sustainability objectives and priorities defined by the Issuer

In 2021, VW Group has launched the “New Auto – Mobility for Generations to Come” strategy, leveraging on the transformation toward e-mobility and digitalization. On e-mobility, the Group expects a growth in the market for electric vehicles and subsequently an increased interest in cost-efficient and sustainable production of battery systems and an expansion of charging infrastructure, which will be the main focus of the Group.

VWFS plays a role in providing sustainable mobility solutions such as increasing the company's battery electric vehicles (BEV) penetration to 80% in the regions where the Group is active by 2030 and achieving CO₂ neutrality of VWFS business operations and from their products. For that, VWFS has implemented an environmental policy, aligned with the one for the VW Group, aiming to support the implementation of the environmental, social and governance goals of the company. The sustainability approach of VWFS is based on four core principles:

1. Orienting decisions towards the needs of society, customers and employees.
2. Offering comprehensive automotive financial services under one roof and developing products and services to meet the mobility needs of tomorrow.
3. Operating internationally but always being mindful of the local roots. As such sustainable and responsible business management and operations are important.
4. Acting reliably and with a focus on protecting the environment, be an attractive employer, and committed to achieve a viable and sustainable society.

Climate change risks include transition risks, and negative impacts of climate-related litigation, technological change, and environmental regulatory regimes; and physical risks, such as disruption resulting from extreme weather conditions or increased mortality or morbidity. VWFS' internal policies and guidelines provide enterprise-wide protocols for managing environmental risks, including climate change. Business and functional units are responsible for observing protocols and exercising due diligence to identify and manage environmental risks in accordance with these policies.

VWFS is part of the VW Group's overall efforts to achieve its decarbonization targets for which non-public interim targets have been set.

As such, VW Group has set a target on scope 3, aiming a reduction target of 30% by 2030 compared to 2018 with the progress being published in the VW Sustainability Report.

VWFS is a signatory to the Responsible Lending for Consumers code, administrated by Bankenfachverband, setting guidelines and best practices on how to achieve responsible lending.

On the climate transition strategy of the company, VWFS leverages on the strategy of VW Group and contributes to the reduction target on scope 3 by developing carbon neutral products.

VWFS reporting leverages on VW Group, who follows TCFD, GRI, UNGC, SASB and CDP reporting guidelines.

There is no further public information available on VWFS' quantified ESG targets and associated action plans to reach these targets.

VWFS has never issued any Sustainable Finance Instrument.

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 goal.

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

B. VOLKSWAGEN FINANCIAL SERVICES AG'S BUSINESS EXPOSURE TO ESG RISKS

This section aims to provide an overall level of information on the ESG risks to which the Issuer is exposed through its business activities, providing additional context to the issuance assessed in the present report.

ESG risks associated with the Issuer's industry

The Issuer is classified in the Specialized finance industry, as per ISS ESG's sector classification. Key challenges faced by companies in terms of sustainability management in this industry are displayed in the table below. Please note, that this is not a company specific assessment but areas that are of particular relevance for companies within that industry.

ESG KEY ISSUES IN THE INDUSTRY
Customer and Product Responsibility
Labor Standards and Working Conditions
Products and Services with Social and Environmental Benefits
Sustainability Impacts of Lending and Other Financial Services/ Products

ESG strengths and points of attention related to the Issuer's disclosures

Leveraging ISS ESG's Research, the following strengths and points of attention⁴ have been identified:

STRENGTHS	POINTS OF ATTENTION
<p>The company is committed to responsible marketing and has disclosed a policy that includes comprehensive product information, transparency on pricing, and informing customers regarding reasons for their loan application rejections.</p> <p>The company is certified to ISO 27001 as the standard for its information security and management system. This also limits the risk of information security in outsourced data processing.</p>	<p>The company provides staff training on relevant aspects of responsible sales practices; however, information on further aspects such as responsible reward system and monitoring responsible sales practices is not disclosed.</p> <p>Additionally, the company has an ombudsperson; however, information on pre-emptive actions to prevent debt repayment problems and debt management options under non-detrimental conditions is not disclosed.</p>
<p>The company has a health and safety management system at the group level. It also has implemented some measures to prevent</p>	<p>Though the company has labor policies and practices in place, there is no quantitative disclosure of different employment types such as temporary employees, permanent employees, etc.</p>

⁴ Please note that Volkswagen Financial Services AG is not part of the ISS ESG Corporate Rating Universe. Thus, the information is based on a disclosure review conducted by the analyst in charge of the Specialized Finance sector, based on publicly available information exclusively. No direct communication between the Issuer and the analyst has taken place during the process. The below is not based on an ISS ESG Corporate Rating but considers ISS ESG Research's methodology.

<p>and alleviate mental health problems for its employees.</p> <p>In terms of labor management, the company is committed to avoiding redundancies and has an employment security and responsible workforce restructuring procedure in place. Further, the company offers childcare facilities, flexible work schedules, and special and part-time employment opportunities to its employees.</p>	
<p>The company provides green financial services such as eco-friendly cars (battery electric vehicles) for private sector and public sector customers.</p>	<p>The company provides social financial services to vulnerable and disadvantaged groups; however, there is no clear disclosure to estimate the corresponding business volume.</p>
	<p>The company's social and environmental lending guidelines cover risk and impact assessment; however, information on further aspects such as climate change, resource efficiency, human rights, etc. is not sufficiently disclosed.</p>

Please note that the consistency between the issuance subject to this report and the Issuer's sustainability strategy is further detailed in Part III.B of the report.

Sustainability impact of products and services portfolio

Leveraging ISS ESG's Sustainability Solutions Assessment methodology, the contribution of the Issuer's current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs) has been assessed as per the table below. This analysis is limited to the evaluation of final product characteristics and does not include practices along the Issuer's production process.

Social Impact of Product Portfolio:

Volkswagen Financial Services AG provides automotive financial services. Products and services of this company has neither positive nor negative contribution to social sustainability objectives. Thus, the impact of the product portfolio on social sustainable development goals (SDG) is considered neutral.

Environmental Impact of Product Portfolio:

Volkswagen Financial Services AG provides automotive financial services, and car rental services. The company also provides green financial services for eco-friendly cars (battery electric vehicles). Therefore, it positively contributes to the environmental sustainable development goal (SDGs) of sustainable energy use and mitigating climate change. However, there is limited information available to estimate the size of each product portfolio that contributes to different environmental SDGs.

Breaches of international norms and ESG controversies

At Issuer level

At the date of publication and leveraging ISS ESG Research, no controversy in which the Issuer would be involved has been identified.

At industry level

Based on a review of controversies over a 2-year period, the top two issues that have been reported against companies within the Specialized Finance industry are as follows: Failure to respect the right to safe and healthy working conditions, financial market irregularities and irregularly charging consumers.

Please note, that this is not a company specific assessment but areas that can be of particular relevance for companies within that industry.

ANNEX 1: Methodology

The ISS ESG SPO provides an assessment of labelled transactions against international standards using ISS ESG proprietary methodology. For more information, please visit:

<https://www.issgovernance.com/file/publications/SPO-Use-of-Proceeds-Bonds-and-Loans.pdf>

ANNEX 2: Quality management processes

SCOPE

Volkswagen Financial Services AG commissioned ICS 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 AG's responsibility was to provide information and documentation on:

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

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG 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 AG 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 January to August 2023.

ISS' BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS 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

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

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.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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