

Volkswagen Financial Services AG Green Finance Framework

September 2024



Table of Contents

| | |
|--------------------------------------------------------|---|
| 1. Sustainability at Volkswagen Group..... | 2 |
| 2. Financing Sustainable Transportation | 3 |
| 3. VW FS AG Group - Green Finance Framework | 5 |
| 3.1 Use of Proceeds | 5 |
| 3.2 Process for Project Evaluation and Selection | 6 |
| 3.3 Management of Proceeds | 7 |
| 3.4 Reporting..... | 7 |
| 3.5 External Review..... | 8 |

Korrigendum to the version published on 10th September 2024

1. Sustainability at Volkswagen Group

Volkswagen AG is the parent company of the Volkswagen Group. It develops vehicles and components for passenger cars and light commercial vehicles for the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands. In its capacity as parent company, Volkswagen AG holds direct or indirect interests in AUDI AG, SEAT S.A., ŠKODA AUTO a.s., Dr. Ing. h.c. F. Porsche AG (Porsche AG), TRATON SE, Volkswagen Financial Services AG¹, Volkswagen Financial Services Overseas AG² and a large number of other companies in Germany and abroad.

The Volkswagen Group is one of the leading multi-brand groups in the automotive industry. The Group's business activities comprise the Automotive and Financial Services divisions. Our core brands within the Automotive Division – with the exception of the Volkswagen Passenger Cars and Volkswagen Commercial Vehicles brands – are independent legal entities. The Automotive Division comprises the Passenger Cars, Commercial Vehicles and Power Engineering business areas. The Passenger Cars Business Area essentially consolidates the Volkswagen Group's passenger car brands and the Volkswagen Commercial Vehicles brand. Activities focus on the development of vehicles, engines and vehicle software, the production and sale of passenger cars and light commercial vehicles, and the genuine parts business. The product portfolio extends from small cars through to luxury vehicles in the premium segment. It also includes motorcycles and is supplemented by mobility solutions. The Commercial Vehicles Business Area primarily comprises the development, production and sale of trucks and buses, the corresponding genuine parts business and related services. The commercial vehicles portfolio ranges from light vans to heavy trucks and buses. The collaboration between the commercial vehicle brands is coordinated within TRATON SE. The Power Engineering Business Area combines the large bore diesel engines, turbomachinery and propulsion components businesses. The Financial Services Division's activities comprise dealer and customer financing, vehicle leasing, direct banking and insurance activities, fleet management and mobility services.

In the context of the fast-changing environment and the challenges resulting from it, the Group Board of Management adopted the Group strategy "NEW AUTO" – Mobility for Generations to Come in May 2021 with the approval of the Supervisory Board. The strategy's focus is the world of mobility in 2030. As technology advances, the automotive industry is rapidly forging ahead with its transformation toward e-mobility and digitalization. We therefore expect the market for electric vehicles to grow strongly in the next few years, meaning that cost-efficient and sustainable production of battery systems and the expansion of charging infrastructure will be crucial to success. The shift to connected, intelligent and eventually self-driving vehicles, however, will bring more wide-reaching changes for the automotive industry. Autonomous driving will change the customer's mobility experience forever and lay the ground for new business models. Sources of revenue will gradually shift and will expand beyond the core product of the automobile. This shift will be dependent on increasing software development capabilities so as to excite customers with constantly improving digital functionality. As with technological trends, global economic as well as geopolitical constraints are increasingly confronting the automobile industry with greater challenges – for example, the economic influence wielded by the biggest mobility markets, China, the USA and Europe, and the way they are diverging.

Sustainability will continue to be a recurring theme in the business world and will gain further pertinence, driven by the increasingly noticeable consequences of climate change, a greater consciousness of sustainable lifestyles on the part of the customer and, not least, underlying factors such as the Paris Climate Agreement. To underline this importance, the Volkswagen Group presented its new, holistic sustainability strategy regenerate+ in March 2024. It is based on the vision of becoming a nature and society positive mobility provider - in a measurable and comprehensible way. The focus is on the four dimensions nature, our people, society and business. regenerate+ applies throughout the Group and forms the basis for ambitious sustainability programs for all Group brands and locations.

As we transition from automotive manufacturer to mobility group, we are resetting our priorities with NEW AUTO and positioning ourselves for the future. We are keeping our aim of being a world-leading provider of sustainable mobility firmly in our sights and making the Group more focused, efficient, innovative, customer-oriented and sustainable, as well as systematically gearing it toward profitable growth.

¹ Volkswagen Financial Services AG and Volkswagen Bank GmbH have undergone a comprehensive reorganization as of July 1st, 2024, aimed at separating non-European financial services activities ("Overseas Business") from the European financial services activities ("European Business").

As of July 1st, 2024, Volkswagen Financial Services AG was renamed and will operate under the name Volkswagen Financial Services Overseas AG (responsible for the Overseas Business) and, subsequently, Volkswagen Financial Services Europe AG was also renamed and will operate as Volkswagen Financial Services AG (responsible for the European Business including the UK). Both companies are (and will remain) 100% subsidiaries of Volkswagen AG.

² For further information on the reorganization of Volkswagen Group Mobility, please reference footnote 1.

2. Financing Sustainable Transportation

VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT³ ('Volkswagen Financial Services AG' or 'VW FS AG') and its subsidiaries ('Volkswagen Financial Services AG Group' or '**VW FS AG Group**') are active in the areas of dealer and customer financing, leasing, bank and insurance activities as well as mobility services in Europe, including the United Kingdom.

The key objectives of VW FS AG are:

1. To promote product sales for the benefit of the Volkswagen Group brands and its partners appointed to distribute these products
2. To strengthen customer loyalty to VW FS AG and the Volkswagen Group brands by offering our services along the entire automotive value chain (including through the targeted use of digital products and mobility solutions, among other things)
3. To create synergies for Volkswagen Group by pooling Group and brand requirements relating to finance and mobility services and to constantly evolve their value
4. To generate and sustain a high level of return on equity for Volkswagen Group by offering financing solutions with a multi-brand approach

How our mission commits us to sustainability

With our key objective to promote Volkswagen Group and partner sales efforts we also consider us an essential part in facilitating transitional ambitions, not only of the Volkswagen Group, but through our multi-brand platform, the whole automotive industry. VW FS AG aims to play a crucial role in supporting the advancement of sustainable mobility solutions including battery electric vehicles ('**BEV**') in the regions where we are active. Our objectives are not limited to enabling acquisition of BEV but also to offer integrated services which reflect the evolving needs and life-style decisions our clients take and which manifest in use and ownership of vehicles. For us our ability to enable flexible models of car possession and use, combined with the provision of insurance services and digital solutions support our vision and ambition of becoming "*the best automotive financial services provider in the world*".

In the pursuit of this vision, we do not stand alone. Volkswagen Group's environmental policy provides the tangible framework for the environmental activities of its brands and divisions. For VW FS AG this joint environmental policy means that VW FS AG aligns its core business operations and governance with these principles and thus supports the Volkswagen Group in implementing its environmental but also social and governance goals and objectives. The environmental policy of VW FS AG is hence substantially influenced by Volkswagen Group's policy.

In view of the climate crisis, for us, sustainability is not just a duty but a responsibility. We are adding a climate risk dimension which also covers prudential aspects of climate and ESG risk assessment with the customers we aim to support. In addition, we implement the internal structures, systems and controls which allow for a proactive management of these risks but also to help to facilitate environmental opportunities for our clients by providing concepts that facilitate the transition to sustainable mobility on an individual or fleet basis.

Finally, we are convinced that we can only be a credible and meaningful partner to our customers and be able to further implement our business model successfully by thinking and acting responsibly and with foresight. Therefore, the topic of sustainability has been a key component of our corporate conduct for over a decade and become an irreversible trend in the financial industry. We see sustainability as both a business responsibility and a strategic success factor.

Therefore, "Sustainability" has been determined as one of the five strategic dimensions to drive our new strategy MOBILITY2030 forward.

Our principle, our defining commitment, is to act in accordance with the laws and our core values. One of the concerns that matter to us particularly is our role in society and the communities in which we operate - and being able to give something back to it.

³ For further information on the reorganization of Volkswagen Group Mobility, please reference footnote 1.

Our sustainability approach is based on the following core principles:

1. Orienting our decisions towards the needs of society, our customers and our 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 our local roots. As such sustainable and responsible business management and operations are important to us.
4. We act reliably and with a focus on protecting the environment, we are an attractive employer, and we are committed to achieving a viable and sustainable society.

As such we also are mindful of and gratefully assume social responsibility also outside our core business areas and involve ourselves regionally and locally. We do so in the form of social and environmental/sustainability projects, the sponsoring of sports clubs and events, and the promotion of cultural life. We make an active contribution to ensure that the locations we work in have a viable and sustainable future. We are a top, first-rate employer for our employees because we respect their interests and offer them attractive and varied work assignments.

3. VW FS AG Group - Green Finance Framework

Volkswagen Financial Services AG has established a Green Finance Framework (the ‘**VW FS AG Framework**’) that is based on the 2021 International Capital Market Association’s Green Bond Principles (the ‘**GBP**’), including the updated Appendix I of June 2022⁴, and the 2023 Green Loan Principles (the ‘**GLP**’), jointly published by the Loan Market Association, the Asia Pacific Loan Market Association and the Loan Syndications & Trading Association.

This Framework provides VW FS AG with a common methodology for the issuance of “**Green Finance Instruments**”. Different entities within the VW FS AG group, including consolidated subsidiaries and special purpose vehicles used for asset-backed financings originated by VW FS AG Group will be able to issue securities under the VW FS AG Framework.

VW FS AG Group’s Green Finance Instruments may include but are not limited to unsecured and secured bonds (covered or asset-backed), commercial papers, Schuldscheindarlehen, bi- and multilateral bank loans, deposits and can be of any status or seniority. Any Green Finance Instrument will rank *pari passu* with conventional instruments of similar status and subordination.



The VW FS AG Framework may be further updated or expanded from time to time to reflect future updates to the GBP, market practices, the evolving regulatory landscape or developments in VW FS AG’s strategy.

The VW FS AG Framework consists of the following core components of the GBP and GLP, which are described in more detail below:

- 3.1 Use of Proceeds
- 3.2 Process for Project Evaluation and Selection
- 3.3 Management of Proceeds
- 3.4 Reporting
- 3.5 External Review

3.1 Use of Proceeds

An amount equal to the proceeds of any Green Finance Instrument issued by the VW FS AG Group will be used to finance and/or refinance projects⁵ (“**Eligible Financings**”) relating to zero-tailpipe emission mobility as eligible project category, as defined below (the “**Eligibility Criteria**”). VW FS AG can determine which entities of VW FS AG Group will facilitate the issuance of a Green Finance Instrument and against which Eligible Financings proceeds may be allocated towards on a gradual, instrument-by-instrument basis. The selection of Eligible Financings can, for example, be qualified or restricted in order to underline efforts in specific regions or product groups.

| Definition | EU Environmental Objective | SDG ⁶ Contribution |
|-------------------------------------------------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Eligible Financings relate to any vehicle with zero-tailpipe emissions | Climate Change Mitigation |   |

⁴ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles_June-2022-280622.pdf

⁵ Example projects include acquisitions of vehicles for the purpose of our leasing business or loans to customers

⁶ Sustainable Development Goal (SDG)

Exclusion Criteria: As Eligible Financings under this Framework, VW FS AG explicitly excludes financing of internal combustion engine vehicles (including plug-in hybrids).

VW FS AG exclusively captures projects related to the financing of zero-tailpipe emission vehicles, with that providing green mobility to end customers. Volkswagen AG has a separate Green Finance Framework which focuses on capitalized development costs as well as investments into Volkswagen's production capabilities for passenger BEVs, therefore, providing the industrial basis for the transformation of mobility at a scale.

However, Volkswagen AG will not capture individual vehicles under its eligible asset categories which are, to the extent financing is provided to our customers, the purview of VW FS AG under this Framework. Both Frameworks jointly represent the Volkswagen Group's ambition to lead sustainable mobility, while still recognizing the distinct projects underlining the contribution of Volkswagen AG and VW FS AG.

3.2 Process for Project Evaluation and Selection

VW FS AG has established a process to screen projects that meet the Eligibility Criteria outlined above with the goal to identify Eligible Financings that positively contribute to the objective of climate change mitigation.

Responsible for oversight and implementation is a newly established VW FS AG Green Finance Committee ('**VW FS AG GFC**'). Critical business areas such as treasury, investor relations, reporting and controlling are represented in the VW FS AG GFC. Main responsibilities of the VW FS AG GFC include but are not limited to:

1. Approval of the allocation of pre-selected Eligible Financings to a Green Finance Instrument of VW FS AG (the VW FS AG GFC has full discretion to object to the inclusion of any financing).
2. Overseeing, approving and publishing the allocation and impact reporting, including external assurance statements. VWFS may rely on external sources, in addition to its own assessment.
3. Reviewing the content of the VW FS AG Framework and updating it to reflect changes in corporate strategy, technology, market, or regulatory developments if deemed necessary in the context of the objective of making a positive impact on sustainable mobility and avoiding carbon emissions.
4. Observation of the developments in the principles and standards relating to Green Finance Instruments including the potential adoption of the European green bond standard and developing market conventions as well as assessment of potential implications for the VW FS AG Framework.
5. Monitoring internal processes to identify mitigants to known material risks of negative social and/or environmental impacts associated with the Eligible Financings. Such mitigants may include clear and relevant trade-off analysis undertaken and monitoring required where the issuer assesses the potential risks to be meaningful.
6. Initiating the update of non-Group documents such as second party opinion ("SPO") and related documents from external consultants.

The VW FS AG GFC may allow permanent or temporary observers and invite internal and external experts, although none of these constituents will be present at a vote in the GFC. The committee will meet at least on an annual basis.

On a best-efforts basis, VW FS AG GFC will strive to include Eligible Financings that are aligned with the EU Taxonomy⁷, if and when possible, after assessing the below steps:

1. **Compliance with substantial contribution criteria:** The Eligible Financings and the activities to which such financings relate to substantially contribute to one of the environmental objectives defined in the EU taxonomy by meeting the screening criteria. The financing of zero-tailpipe emission vehicles does meet the criteria as currently described in the delegated act. for the respective economic activity.
2. **Adherence to 'do-no-significant-harm' criteria:** For an economic activity to be aligned with the EU taxonomy, it must not do significant harm to other environmental objectives. The delegated acts define screening criteria for this test.

⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=DE>

3. **Respect minimum safeguards:** A company also needs to conduct its business in line with minimum social safeguards as referred to in the EU taxonomy, which inter alia refer to the respect for Human Rights as well as Labour Standards.

3.3 Management of Proceeds

An amount equal to the net proceeds of each Green Finance Instrument issued under the VW FS AG Framework will be allocated to Eligible Financings earmarked for the respective instrument⁸ (bond-by-bond approach). Pending full allocation, VW FS AG will temporarily manage any unallocated proceeds in line with its treasury policy.

The speed of this allocation process depends on and will reflect both market development and Volkswagen Group's efforts as well as those of VW FS AG's partners under its multi-brand approach with respect to the sales of BEV. A look-back period of 24 months will be applied.

VW FS AG may keep Eligible Financings directly on its consolidated balance sheet with any of its subsidiaries without any legal segregation but will also retain the right to include Eligible Financings which have been used, are used, or may be used at some point for asset-backed securities.

Generally, identifying Eligible Financings and allocating them to a Green Finance Instrument is a mere designation and does not imply any change in ownership, pledge or lien for the benefit of third parties and is a process independent from the allocation of any financial assets as collateral for any covered or asset backed securities.

3.4 Reporting

VW FS AG will publish annually until full allocation an allocation and impact report. Such reports can include the allocation and impact of several outstanding Green Finance Instruments, however, displayed separately. These adhere, on a best effort basis, to prevailing requirements as laid out in the "Harmonized Framework for Impact Reporting"⁹. The reporting is subject to confidentiality agreements and competitive considerations and, therefore, certain metrics might be only presented on aggregated levels.

Allocation Report:

The allocation report will contain (not limited to):

1. The balance of allocated and unallocated proceeds
2. Amount of Eligible Financing recorded per financial year
3. Regional split

Impact Report:

The impact report may contain (not limited to):

1. Number of BEVs financed which are allocated to outstanding Green Bonds
2. When and where feasible, examples of Life Cycle Assessments ("LCA") which estimate the environmental performance of a vehicle of a specified type and model year over its complete life cycle; to the extent and relating to those vehicles, and respective model year, as available to VW FS and its parent and externally verified
3. Life-cycle emissions (tCO₂) as result from the specified LCA and, where available, life-cycle emissions (tCO₂) of ICE of a particular model year-which are deemed comparable

⁸ When identifying Eligible Financings, VW FS AG flags the respective underlying vehicle as used for a particular Green Finance Instrument in its internal system and makes any subsequent financial asset relating to the vehicle ineligible to be used for a subsequent Green Finance Instrument for VW FS AG. This intends to prevent double counting. The Eligible Financings are treated as static, once the vehicles are financed and depreciation or replenishment of assets is not taken into account.

⁹ https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf

3.5 External Review

Second Party Opinion

VW FS AG has obtained an independent second-party opinion (SPO) from ISS ESG to confirm alignment of its Green Finance Framework with GBP and GLP. The independent SPO is published on VW FS AG's investor relation website [Refinancing \(vwfs.com\)](https://www.vwfs.com) and is also available on the website of the external reviewer ISS ESG.

Assurance

In order to ensure sustained compliance of all issued Green Financing Instruments with the methodology set out in this VW FS AG Framework, VW FS AG may appoint an external verifier to produce a verification report on the allocation of the proceeds once full allocation is achieved.

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