

Second-Party Opinion

VEF Sustainability Bond Framework



Evaluation Summary

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is credible and impactful and aligns with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021 and Social Bond Principles 2023. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Financial Inclusion; Financial Fairness and Wellness; Financial Infrastructure and Enablement; and Renewable Energy – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, and 10.



PROJECT EVALUATION AND SELECTION VEF's Board of Directors and Sustainability Bond Committee (SBC) are responsible for reviewing eligible investments and making investment recommendations based on the Framework's eligibility criteria. The SBC will make investment recommendations to the Board of Directors for final approval. VEF has communicated to Sustainalytics that it has a due diligence process in place to ensure that private equity companies use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess social and environmental risks. Sustainalytics considers the project selection process to be in line with market practice.



MANAGEMENT OF PROCEEDS VEF's processes for the management of proceeds are overseen by the SBC and the Company's Board of Directors. VEF will use existing internal systems to track the allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance. This is in line with market practice.



REPORTING VEF intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as the amount invested per category, the share of financing versus refinancing, and the balance of unallocated proceeds. In addition, VEF is committed to reporting on examples of investee companies and details of their impact and target population. Sustainalytics views VEF's allocation and impact reporting as aligned with market practice.

Evaluation date	November 10, 2023 ¹
Issuer Location	Stockholm, Sweden

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¹ This document updates the Second-Party Opinion originally provided by Sustainalytics in March 2022.

Introduction

VEF AB (publ) (“VEF”, or the “Company”) is a venture capital firm focused on growth-stage private fintech companies across the emerging markets.² Headquartered in Stockholm, Sweden, the Company is a long-term investor in companies providing financial services including payments, credit, savings and investments. VEF’s investment portfolio has holdings in 17 companies collectively valued at USD 420.6 million as of December 2022.³

VEF has developed the VEF Sustainability Bond Framework dated November 2023 (the “Framework”) under which it intends to issue sustainability bonds. It intends to use the proceeds to finance and refinance, equity investments in fintech companies working to improve access to essential financial services in developing countries, as well as equity investments in emerging markets to improve access to installation of solar panels and wind turbines. The Framework defines eligibility criteria in four areas:

1. Financial Inclusion
2. Financial Fairness and Wellness
3. Financial Infrastructure and Enablement
4. Renewable Energy

VEF engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Sustainability Bond Guidelines 2021 (SBG), Green Bond Principles 2021 (GBP) and Social Bond Principles 2023 (SBP).⁴ The Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Sustainability Bond Guidelines 2021, Green Bond Principles 2021, and Social Bond Principles 2023, as administered by ICMA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.15, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of VEF’s management team to understand the sustainability impact of their business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. VEF representatives have confirmed that (1) they understand it is the sole responsibility of VEF to ensure that the information provided is complete, accurate and up to date; (2) they have provided Sustainalytics with all relevant information and (3) any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics’ opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and VEF.

² VEF follows MSCI’s market classification to define emerging and frontier markets. Available at: <https://www.msci.com/market-classification>

³ VEF, “Annual Report 2022”, at: <https://storage.mfn.se/acad41c4-3242-4a7d-8539-1feaf7c82113/vef-ar22-eng.pdf>

⁴ The Sustainability Bond Guidelines, Green Bond Principles, and Social Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/>

⁵ The VEF Sustainability Bond Framework is available on VEF AB (publ)’s website at: <https://vef.vc/investors/>

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner. In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that VEF has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the VEF Sustainability Bond Framework

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is credible and impactful and aligns with the four core components of the GBP and SBP. Sustainalytics highlights the following elements of VEF's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Financial Inclusion; Financial Fairness and Wellness; Financial Infrastructure and Enablement; and Renewable Energy – are aligned with those recognized by the GBP and SBP. Sustainalytics views the expenditures as having the potential to expand access to financial services and foster financial inclusion and socioeconomic advancement in low-income communities across developing countries and contribute towards promoting renewable energy in emerging markets.
 - VEF may finance or refinance equity in a portfolio of fintech companies based in emerging and frontier markets.⁷ Sustainalytics notes that the definition of emerging and frontier markets includes certain developed countries, as defined by the UN,⁸ and encourages VEF to specifically target equity investments in companies based in developing countries. Furthermore, the Company defines pure play companies as companies that derive more than 90% of their revenues from activities that comply with the eligibility criteria set in the Framework. VEF has confirmed that its investment decision process includes a robust due diligence process to guarantee that funds are fully allocated to eligible pure play companies. Sustainalytics has assessed this due diligence process and confirms that it is adequate in order to ensure that financing will adhere to the criteria. For more information regarding VEF's due diligence, please refer to Section 2. Sustainalytics notes that the SBP favour project financing and that there is, in general, less transparency associated with reporting on non-project-based financing. While Sustainalytics recognizes the Issuer's commitment to carry out due diligence, it encourages VEF to report on recipient companies and the beneficiary target populations of the activities carried out by these companies. Nevertheless, Sustainalytics believes that, while project and activity-based lending generally results in more direct environmental and social benefits and ensures compliance with the criteria in the Framework, equity investment in pure play companies through the proceeds is a commonly accepted approach, that is likely to generate positive impacts through supporting the activities of the pure-play company.
 - Under Financial Inclusion, VEF may finance or refinance investments in pure play companies whose business model is designed to increase access to financial products and services, including savings, insurance, secured credit, and payments to "underserved"⁹ consumers and

⁷ VEF will use MSCI's classification of emerging and frontier markets. For more information, please see: <https://www.msci.com/market-classification>

⁸ UN, "World Economic Situation and Prospects", (2020), at: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_Annex.pdf

⁹ The Framework defines "underserved" as "those who have not previously used formal financial services or those lacking access because financial products are either unaffordable or to a large extent unavailable to them."

- micro, small and medium-sized (MSMEs)¹⁰ in emerging and frontier markets. Examples of eligible companies include those offering below-market-rate secured loans to low-income individuals and SMEs that previously lacked access to such services.
- Within the Financial Fairness and Wellness category, VEF may finance companies whose business models target MSMEs and underserved populations to deliver financial products at lower prices when compared with market alternatives, or to improve access to and transparency of financial products. Sustainalytics notes that VEF may hold equity in companies engaged in earned-wage access, which consists in providing access to employees to some of their accrued wages before the end of their payroll cycle. Sustainalytics notes that earned-wage access may provide a credible alternative to payday lending when companies disclose fees that are affordable and may prevent the offering of credit lending. However, Sustainalytics has assessed the portfolio of existing companies in which VEF holds equity and is unable to determine that these companies are offering affordable and accessible fees.
 - Regarding Financial Infrastructure and Enablement, VEF may finance investments in pure play companies that develop financial infrastructure services for underserved consumers and MSMEs in emerging and frontier markets that lack access to financial services. Examples of eligible companies include those focused on offering international money transfer, including remittances¹¹ from migrant workers, and online payment applications. While recognizing the importance of enabling financial services for underserved consumers and MSMEs, Sustainalytics notes that the Framework is not sufficiently detailed to demonstrate that investments in this category will support activities that go beyond business-as-usual financial services. Sustainalytics regards this, together with the above-noted lack of assurance regarding earned-wage access, as a limitation of the Framework and encourages VEF to provide detailed reporting on investee companies and the expected benefits of their activities.
 - Under Renewable Energy, VEF may invest in pure play companies that provide financing or distribution solutions to private individuals to install solar photovoltaic cells or wind energy systems.
- Project Evaluation and Selection:
 - VEF's Board of Directors and its Sustainability Bond Committee (SBC), which comprises the Company's CEO, CFO, Head of Sustainability and Chief Investment Officer, manage the internal process for reviewing eligible investments. The SBC will make investment recommendations to the Board of Directors for final approval.
 - VEF has communicated to Sustainalytics that it has a due diligence process in place to ensure that private equity companies will use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess environmental and social risks relevant to companies such as over-indebtedness, predatory lending activities and fair consumer practices and transparency.
 - Based on the clear delegation of responsibility and appropriate oversight, Sustainalytics considers this process to be in line with market practice.
 - Management of Proceeds:
 - VEF's process for the management of proceeds is overseen by the SBC and Board of Directors. VEF will use existing internal systems to track the allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance.
 - Based on the use of an internal tracking system and the disclosure on temporary allocation, Sustainalytics considers this process to be in line with market practice.
 - Reporting:
 - VEF is committed to reporting on the allocation and impact of proceeds via a Sustainability Bond Report published annually on its website until allocation has been fully completed. The allocation reporting will include details such as nominal amounts of sustainability bonds outstanding, the amount invested per category, the share of financing versus refinancing, and the balance of unallocated proceeds with information regarding temporary placements. The

¹⁰ VEF has communicated to Sustainalytics that MSMEs are defined as enterprises with either a maximum of 300 employees, total assets below USD 15 million or annual sales below USD 15 million. For further information, please visit: <https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/definitions-of-targeted-sectors>

¹¹ A remittance is a non-commercial transfer of money by a foreign worker, a member of a diaspora community, or a citizen with familial ties abroad, for household income in their home country or homeland.

- impact reporting will include examples of investee companies and details of their impact and target population.
- Based on these elements, Sustainalytics considers this process to be in line with market practice.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the VEF Sustainability Bond Framework aligns with the four core components of the GBP and SBP. For detailed information please refer to Appendix 1: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Strategy of VEF

Contribution to VEF's sustainability strategy

VEF's Sustainability Policy,¹² aims to make sustainability a fundamental part of VEF's business with a focus on three key areas: i) Business Ethics; ii) Responsible Finance; and iii) Financial Inclusion.¹³ VEF is committed to promoting fair and transparent consumer practices; responsible lending; and prevention of over-indebtedness.¹⁴ The Company aims to improve the financial inclusion of consumers and MSMEs through its investments in fintech companies in emerging markets.¹³

As of 2022, VEF's investment portfolio of USD 420.6 million consists of stakes in 17 fintech companies in Brazil, Pakistan, Africa, Mexico, India, Russia and emerging markets in Central and Eastern Europe.¹⁵ VEF's equity investments have helped serve 21 million unbanked and under-banked customers and MSMEs in the markets of Africa and Pakistan. Since 2015, VEF has disbursed 150 million loans totalling approximately USD 8.7 billion, most of which benefitted first-time users of formal credit.¹⁶ In Pakistan, these investments include a disbursement of more than 15,000 loans of which 70% (or 10,500) were made to majorly underserved MSME customers.¹⁷ Furthermore, VEF's investments have helped to boost growth of SMEs and sole traders in Mexico, 30% of which are female-owned businesses and 85% of which are first-time users of formal financial services.¹⁸ In Brazil, the Company's investments have helped to disburse USD 1.7 billion in loans and have contributed to reducing consumer debt burden by cutting interest rates compared with alternative sources such as unsecured lenders and credit card providers.¹⁹

As an investment company, VEF adheres to industry responsible practices. For example, it is a signatory member of the Responsible Finance Forum, which promotes responsible financing practices, such as fair and transparent pricing and terms, data privacy and security, and prevention of over-indebtedness.¹⁴ VEF is also a member of Sweden's Sustainable Investment Forum, which aims to spread, drive and raise awareness of investments for sustainable development.^{20,21}

Sustainalytics is of the opinion that the VEF Sustainability Bond Framework is aligned with the Company's overall sustainability strategy and initiatives and will further the Company's action on its key social priorities. Sustainalytics notes that VEF has not made public its goals regarding renewable energy and encourages VEF to define quantitative time-bound targets for its key sustainability priorities.

Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that the proceeds from the bonds issued under the Framework will be directed towards eligible projects that are expected to have a positive environmental and social impact. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects include issues involving risks related to over-indebtedness; predatory lending; and MSME and stakeholder engagement.

Sustainalytics is of the opinion that VEF can manage or mitigate potential risks through implementation of the following:

¹² VEF, "Sustainability Policy," at: https://vef.vc/app/uploads/vef_sust_policy.pdf

¹³ VEF, "Sustainability Report 2022", at: https://vef.vc/app/uploads/vef_sust_report_22_eng.pdf

¹⁴ VEF, "Responsible Investment and Shareholding Policy," at: https://vef.vc/app/uploads/VEF_RISP.pdf

¹⁵ VEF, "Annual Report 2022", at: <https://storage.mfn.se/acad41c4-3242-4a7d-8539-1feaf7c82113/vef-ar22-eng.pdf>

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ Ibid.

¹⁹ Ibid.

²⁰ Ibid.

²¹ SWESIF, "About SWESIF", at: <https://swesif.org/om-swesif/>

- VEF's Responsible Investment and Shareholding Policy (RISP) outlines and incorporates its sustainability principles in investment processes, including risk identification and management processes.¹⁴ RISP has set out ESG standards for portfolio companies, especially its "Social" standards, which ensure fair and transparent pricing and terms for consumers and responsible lending practices to prevent over-distribution of debt.²²
- VEF's internal guideline for Impact Due Diligence ("DD Process") is the due diligence framework that the Company employs before investing in new companies. The DD Process aims to ensure that new investments align with VEF's sustainability policies and principles and prevent harmful social consequences. The DD Process, consisting of various stages, assesses the potential impact on financial inclusion and the UN SDGs; undertakes ESG due diligence; and conducts a responsible financing and impact assessment. VEF uses its DD Process not only to mitigate risks prior to investments, but also to identify opportunities to help its portfolio companies strengthen their ESG focus. In addition to assessing the ESG considerations of portfolio companies, VEF's DD Process assesses pricing transparency and responsible lending practices to ensure that portfolio companies disclose key pricing data and avoid over-indebtedness and other harmful lending activities.²³ Additionally, the Company's RISP ensures that portfolio companies follow international standards and best practice on business ethics, data privacy, human rights, labour rights and environmental issues.²⁴
- VEF's Sustainability Policy lays out the Company's commitment to conduct its business ethically and responsibly. The Company's CEO and Head of Sustainability are responsible for overseeing the implementation of the guidelines and processes for identifying and addressing ESG risks related to VEF's investments in portfolio companies, prior to investment, and ensure compliance with the Sustainability Policy, including compliance with laws related to corruption, money laundering, and labour and human rights during the lifetime of the Company's investments.²⁵
- As a signatory member of the Responsible Finance Forum, VEF is committed to implement the Investor Guidelines of the Forum which includes working towards the prevention of risks related to over-indebtedness through consumer protection initiatives such as digital and financial literacy awareness and strengthening financial capability and informed decision-making among consumers.²⁶

Based on these policies, standards and assessments, Sustainability is of the opinion that VEF has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All four use of proceeds categories are aligned with those recognized by GBP or SBP. Sustainability focuses below on two categories where the impact is specifically relevant in the local context.

Increasing access to financial services in developing countries

As of 2022, there were 1.4 billion unbanked adults globally according to the World Bank.²⁷ In developing economies, the average rate of account ownership reached 71% of adults in 2021, compared with 76% of adults worldwide.²⁸ Financial inclusion has been identified as a growth-enhancing factor for developing countries²⁹ and an enabler for reducing poverty.³⁰ Financial inclusion is particularly important for SMEs as they contribute 40% of GDP in emerging economies.³¹ Furthermore, 600 million jobs will be needed to absorb the growing global workforce by 2030, making SME development a key priority for all economies.³²

²² VEF, "Responsible Investment and Shareholding Policy," at: https://vef.vc/app/uploads/VEF_RISP.pdf

²³ VEF, "Sustainability Report 2022", at: https://vef.vc/app/uploads/vef_sust_report_22_eng.pdf

²⁴ VEF, "Responsible Investment and Shareholding Policy," at: https://vef.vc/app/uploads/VEF_RISP.pdf

²⁵ VEF, "Annual Report 2022", at: <https://storage.mfn.se/acad41c4-3242-4a7d-8539-1feaf7c82113/vef-ar22-eng.pdf>

²⁶ Responsible Finance Forum, at: <https://globalrff.org/>

²⁷ World Bank, "COVID-19 Boosted the Adoption of Digital Financial Services", (2022), at:

<https://www.worldbank.org/en/news/feature/2022/07/21/covid-19-boosted-the-adoption-of-digital-financial-services>

²⁸ World Bank, "The Global Findex Database 2021", (2022), at: <https://www.worldbank.org/en/publication/globalfindex/Report>

²⁹ Abubakar, A. M., Daneji, B. A., Muhammed, A. I., & Chekene, I. A. B., "Driving faster financial inclusion in developing nations", Technology audit and production reserves, (2020), 2/4(52), 35–40, at: <http://journals.uran.ua/tarp/article/view/201120>

³⁰ World Economic Forum, "How 'financial inclusion' can help lift millions of people out of poverty - on Radio Davos", (2022), at:

<https://www.weforum.org/agenda/2022/09/financial-inclusion-findex-radio-davos-world-bank-economist/>

³¹ World Bank, "SMEs Finance", at: <https://www.worldbank.org/en/topic/sme/finance>

³² United Nations, "Galvanizing MSMEs worldwide by supporting women and youth entrepreneurship and resilient supply chains", at: <https://www.un.org/en/observances/micro-small-medium-businesses-day>

Despite their economic importance, MSMEs face significant challenges and barriers in accessing finance. MSMEs in Brazil account for 98.5% of all legally constituted companies and 27% of the nation's GDP.³³ Nonetheless, these businesses face various challenges including unfavourable credit market conditions, high interest rates. Similarly, micro enterprises are a key component of Mexico's economy, representing 14.6% of national GDP and employing approximately 50% of the workforce.³⁴ However, even though SMEs in Mexico account for 99.7% of all enterprises, less than 20% of them have access to bank credit.³⁵ The limited access to financing constrains growth and subsequently lowers contributions to Mexico's overall economic development. According to the International Development Bank, 47.5% of Mexican MSMEs lack access to credit and must rely on retained earnings to reinvest in their operations, constraining their growth potential.³⁶ The lack of access to finance is further compounded by the fact that SMEs are usually charged a higher interest rate than large enterprises, given their inherently riskier profiles.³⁷

Increasing access to financial services for SMEs in emerging economies typically reduces poverty and inequalities, contributes to employment generation, and strengthens overall economic development. Sustainalytics is of the opinion that the loans provided through the Framework can increase financial inclusion for SMEs in emerging economies and can therefore have a positive social impact.

Importance of financing renewable energy in emerging markets

As of 2023, the energy sector accounts for more than 75% of global greenhouse gas emissions.³⁸ According to the IEA's World Energy Outlook 2023, the demand for oil, natural gas and coal is expected to peak in all three estimated scenarios before 2030 owing to the accelerated scaling of the clean energy transition.³⁹ Renewable energy has experienced strong growth worldwide, accounting for 16% of global primary energy supply mix in 2020. However, achieving net zero emissions in the energy sector by 2050 would require the share of renewable energy sources to increase to 77% of the global energy mix by 2050.⁴⁰

Emerging economies are set to account for the bulk of emissions growth in the coming decades unless much stronger action is taken to transform their energy systems. In a scenario reflecting the existing policies, emissions from emerging economies are projected to grow by 5 gigatonnes over the next two decades.⁴¹ However, a huge gap remains between demand for investment and actual investments in emerging markets. While emerging economies account for two-thirds of the world's population, only one-third of total energy investment and 20% of global investment in clean energy technologies were mobilized in these markets in 2021.⁴² Furthermore, annual investments across all parts of the energy sector in emerging markets had fallen by around 20% in 2021 compared with 2016.⁴³

Sustainalytics is of the opinion that investments in pure-play fintech companies dedicated to financing solar panel installations are impactful. In addition, such investments are expected to bridge the current gap between investment demand and flows in emerging markets, increase the share of renewables in emerging markets' energy mix and contribute to their progress towards achieving their climate ambitions.

³³ The Organization of Economic Cooperation and Development (OECD), "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard", at: <https://www.oecd-ilibrary.org/sites/e9073a0f-en/1/3/3/index.html?itemId=/content/publication/e9073a0f-en&csp=f3c512744374df0f64f9df449eb7e26c&itemIGO=oecd&itemContentType=book#section-d1e23224>

³⁴ Organization of Economic Cooperation And Development (OECD), "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard", at: <https://www.oecd-ilibrary.org/sites/e9073a0f-en/1/3/3/index.html?itemId=/content/publication/e9073a0f-en&csp=f3c512744374df0f64f9df449eb7e26c&itemIGO=oecd&itemContentType=book#section-d1e63601>

³⁵ OECD, "OECD Economics Department Working Papers No. 1717", (2022), at: <https://www.oecd-ilibrary.org/docserver/2de3cd7d-en.pdf?expires=1699043096&id=id&accname=quest&checksum=10004F06F759435D4D7DE468D8294305>

³⁶ IDB, "Boosting Business Growth while Leveling the Credit Playing Field for Women MSMEs in Mexico", (2023), at: <https://idbinvest.org/en/publications/boosting-business-growth-while-leveling-credit-playing-field-women-msmes-mexico>

³⁷ Organization of Economic Cooperation and Development (OECD), "Financing SMEs and Entrepreneurs 2022: An OECD Scoreboard", at: <https://www.oecd-ilibrary.org/sites/e9073a0f-en/1/3/3/index.html?itemId=/content/publication/e9073a0f-en&csp=f3c512744374df0f64f9df449eb7e26c&itemIGO=oecd&itemContentType=book#section-d1e63601>

³⁸ International Energy Agency (IEA), "Greenhouse Gas Emissions from Energy Data Explorer", (2023), at: <https://www.iea.org/data-and-statistics/data-tools/greenhouse-gas-emissions-from-energy-data-explorer>

³⁹ IEA, "World Energy Outlook 2023- Pathways for the energy mix", (2023), at: <https://www.iea.org/reports/world-energy-outlook-2023/pathways-for-the-energy-mix>

⁴⁰ IRENA, "World Energy Transitions Outlook 2023", (2023), at: https://mc-cd8320d4-36a1-40ac-83cc-3389-cdn-endpoint.azureedge.net/-/media/Files/IRENA/Agency/Publication/2023/Jun/IRENA_World_energy_transitions_outlook_v1_2023.pdf?rev=cc4522ff897a4e26a47906447c74bca6

⁴¹ International Energy Agency (IEA), "Financing Clean Energy Transitions in Emerging and Developing Economies", at: https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4-b73428ff9c72/FinancingCleanEnergyTransitionsinEMDEs_WorldEnergyInvestment2021SpecialReport.pdf

⁴² Ibid.

⁴³ Ibid.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by 2030. The bonds issued under the VEF Sustainability Bond Framework are expected to help advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
Financial inclusion	8. Decent work and economic growth	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services.
Financial fairness and wellness		8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.
Financial infrastructure and enablement	10. Reduced inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status. 10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix

Conclusion

VEF AB (publ) has developed the VEF Sustainability Bond Framework, under which it intends to issue sustainability bonds and use the proceeds to finance equity investments in fintech companies working to improve access to essential financial services in developing countries and finance pureplay companies to promote renewable energy.

The VEF Sustainability Bond Framework outlines the process by which proceeds will be tracked, allocated and managed, and the Company has committed to reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the Company's overall sustainability strategy and that the use of proceeds categories will contribute to the advancement of UN Sustainable Development Goals 7, 8 and 10. Additionally, Sustainalytics is of the opinion that VEF has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the proceeds.

Based on the above, Sustainalytics is confident that VEF AB (publ) is well-positioned to issue sustainability bonds and that the VEF Sustainability Bond Framework is robust, transparent, and in alignment with the four core components of the Green Bond Principles 2021 and Social Bond Principles 2023.

Appendix

Appendix 1: Green, Social and Sustainability Bonds - External Review Form

Section 1. Basic Information

Issuer name:	VEF AB (publ)
Social Bond ISIN or Issuer Social Bond Framework Name, if applicable:	VEF Sustainability Bond Framework
Review provider's name:	Sustainalytics
Completion date of this form:	November 10, 2023
Publication date of review publication: Original publication date [please fill this out for updates]:	Update to VEF Sustainability Bond Framework Second-Party Opinion, originally provided in March 2022

Section 2. Review overview

SCOPE OF REVIEW

The review:

- assessed the 4 core components of the Principles (**complete review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*).
- assessed only some of them (**partial review**) and confirmed the alignment with the GBP/SBP/SBG (*delete where appropriate*); please indicate which ones:
 - Use of Proceeds
 - Management of Proceeds
 - Process for Project Evaluation and Selection
 - Reporting
- assessed the alignment with other regulations or standards (CBI, EU GBS, ASEAN Green Bond Standard, ISO 14030, etc.); please indicate which ones:

ROLE(S) OF INDEPENDENT REVIEW PROVIDER

- Second Party Opinion
- Verification
- Other (please specify):
- Certification
- Scoring/Rating

Does the review include a sustainability quality score?

- Of the issuer
- Of the Framework
- Of the project
- Other (please specify):

- No scoring

ASSESSMENT OF THE PROJECT(S)

Does the review include:

- The environmental and/or social features of the type of project(s) intended for the Use of Proceeds?
- The environmental and/or social benefits and impact targeted by the eligible Green and/or Social Project(s) financed by the Green, Social or Sustainability Bond?
- The potentially material environmental and/or social risks associated with the project(s) (where relevant)?

ISSUER'S OVERARCHING OBJECTIVES

Does the review include:

- An assessment of the issuer's overarching sustainability objectives and strategy, and the policies and/or processes towards their delivery?
- An identification and assessment of environmental, social and governance related risks of adverse impact through the Issuer's [actions] and explanations on how they are managed and mitigated by the issuer?
- A reference to the issuer's relevant regulations, standards, or frameworks for sustainability-related disclosure and reporting?

CLIMATE TRANSITION STRATEGY

Does the review assess:

- The issuer's climate transition strategy & governance?
- The alignment of both the long-term and short/medium-term targets with the relevant regional, sector, or international climate scenario?
- The credibility of the issuer's climate transition strategy to reach its targets?
- The level/type of independent governance and oversight of the issuer's climate transition strategy (e.g. by independent members of the board, dedicated board sub-committees with relevant expertise, or via the submission of an issuer's climate transition strategy to shareholders' approval).
- If appropriate, the materiality of the planned transition trajectory in the context of the issuers overall business (including the relevant historical datapoints)?
- The alignment of the issuer's proposed strategy and targets with appropriate science-based targets and transition pathways that are deemed necessary to limit climate change to targeted levels?
- The comprehensiveness of the issuer's disclosure to help investors assess its performance holistically?

Overall comment on this section:

Section 3. Detailed Review

1. USE OF PROCEEDS

Does the review assess:

- the environmental/social benefits of the project(s)?
- whether those benefits are quantifiable and meaningful?
- for social projects, whether the target population is properly identified?

Does the review assess if the issuer provides clear information on:

- the estimated proceeds allocation per project category (in case of multiple projects)?
- the estimated share of financing vs. re-financing (and the related lookback period)?

Overall comment on this section:

The eligible categories for the use of proceeds –Financial Inclusion; Financial Fairness and Wellness; Financial Infrastructure and Enablement; and Renewable Energy – are aligned with those recognized by both the Green Bond Principles and Social Bond Principles. Sustainalytics considers that investments in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDGs 7, 8, and 10.

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Does the review assess:

- whether the eligibility of the project(s) is aligned with official or market-based taxonomies or recognised international standards? Please specify which ones. *Sustainalytics has a proprietary taxonomy which is influenced by the EU taxonomy, Climate Bonds Initiative taxonomy as well as international standards.*
- whether the eligible projects are aligned with the overall sustainability strategy of the issuer and/or if the eligible projects are aligned with material ESG-related objectives in the issuer's industry?
- the process and governance to set the eligibility criteria including, if applicable, exclusion criteria?
- the processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s)?
- any process in place to identify mitigants to known material risks of negative social and/or environmental impacts from the relevant project(s)?

Overall comment on this section:

VEF's Board of Directors and Sustainability Bond Committee (SBC) are responsible for reviewing eligible investments and making investment recommendations based on the Framework's eligibility criteria. The SBC will make investment recommendations to the Board of Directors for final approval. VEF has communicated to Sustainalytics that it has a due diligence process in place to ensure that private equity companies use the funds to carry out activities aligned with the Framework's eligibility and targeting criteria, and to assess social and environmental risks. Sustainalytics considers the project selection process to be in line with market practice.

3. MANAGEMENT OF PROCEEDS

Does the review assess:

- the issuer's policy for segregating or tracking the proceeds in an appropriate manner?
- the intended types of temporary investment instruments for unallocated proceeds?
- Whether an external auditor will verify the internal tracking of the proceeds and the allocation of the funds?

Overall comment on this section:

VEF's processes for the management of proceeds are overseen by the SBC and the Company's Board of Directors. VEF will use existing internal systems to track the allocation of bond proceeds. Should any proceeds remain unallocated, they will be temporarily held in cash or short-term money market instruments. VEF intends to fully allocate net proceeds within 36 months of issuance. This is in line with market practice.

4. REPORTING

Does the review assess:

- the expected type of allocation and impact reporting (bond-by-bond or on a portfolio basis)?

- the frequency and the means of disclosure?
- the disclosure of the methodology of the expected or achieved impact of the financed project(s)?

Overall comment on this section:

VEF intends to report on the allocation of proceeds on its website on an annual basis until full allocation. Allocation reporting will include details such as the amount invested per category, the share of financing versus refinancing, and the balance of unallocated proceeds. In addition, VEF is committed to reporting on examples of investee companies and details of their impact and target population. Sustainalytics views VEF's allocation and impact reporting as aligned with market practice.

Section 4. Additional Information

Useful links (e.g. to the external review provider's methodology or credentials, to the full review, to issuer's documentation, etc.)

Analysis of the contribution of the project(s) to the UN Sustainable Development Goals:

Additional assessment in relation to the issuer/bond framework/eligible project(s):

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE SBP

- i. **Second-Party Opinion:** An institution with social expertise, that is independent from the issuer may issue a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Social Bond framework, or appropriate procedures, such as information barriers, will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Social Bond Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy and/or processes relating to social sustainability, and an evaluation of the social features of the type of projects intended for the Use of Proceeds.
- ii. **Verification:** An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or social criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Social Bond proceeds, statement of social impact or alignment of reporting with the SBP, may also be termed verification.
- iii. **Certification:** An issuer can have its Social Bond or associated Social Bond framework or Use of Proceeds certified against a recognised external social standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. **Social Bond Scoring/Rating:** An issuer can have its Social Bond, associated Social Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on social performance data, process relative to the SBP, or another benchmark. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material social risks.

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These are based on information made available by the issuer and therefore are not warranted as to their merchantability, completeness, accuracy, up-to-dateness or fitness for a particular purpose. The information and data are provided "as is" and reflect Sustainalytics' opinion at the date of their elaboration and publication. Sustainalytics accepts no liability for damage arising from the use of the information, data or opinions contained herein, in any manner whatsoever, except where explicitly required by law. Any reference to third party names or Third Party Data is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner. A list of our third-party data providers and their respective terms of use is available on our website. For more information, visit <http://www.sustainalytics.com/legal-disclaimers>.

The issuer is fully responsible for certifying and ensuring the compliance with its commitments, for their implementation and monitoring.

In case of discrepancies between the English language and translated versions, the English language version shall prevail.

About Sustainalytics, a Morningstar Company

Sustainalytics, a Morningstar Company, is a leading ESG research, ratings and data firm that supports investors around the world with the development and implementation of responsible investment strategies. For more than 30 years, the firm has been at the forefront of developing high-quality, innovative solutions to meet the evolving needs of global investors. Today, Sustainalytics works with hundreds of the world's leading asset managers and pension funds who incorporate ESG and corporate governance information and assessments into their investment processes. Sustainalytics also works with hundreds of companies and their financial intermediaries to help them consider sustainability in policies, practices and capital projects. With 17 offices globally, Sustainalytics has more than 1500 staff members, including more than 500 analysts with varied multidisciplinary expertise across more than 40 industry groups.

For more information, visit www.sustainalytics.com

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