VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT
German GAAP

2023

Key Figures

VOLKSWAGEN LEASING GMBH GROUP

€ million	Dec 31, 2023	Dec. 31, 2022
Total assets	58,525	54,249
Loans to and receivables from customers attributable to		
Dealer financing	12	12
Leasing business	21,137	18,932
Lease assets	27,708	25,764
Equity	9,870	6,506

in percent (as of Dec. 31)	2023	2022
Cost/income ratio[1]	85	43
Equity ratio[2]	16.9	12.0
Return on equity[3]	–2.0	22.8

in thousand vehicles	Dec 31, 2023	Dec 31, 2022	Dec 31, 2021	Dec 31, 2020	Dec 31, 2019
New contracts	750	637	646	702	769
Current contracts	1,978	1,897	1,814	1,721	1,674

All figures shown in the report are rounded, so minor discrepancies may arise when amounts are added together. The comparative figures from the previous fiscal year are shown in parentheses directly after the figures for the current fiscal year.

1 General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group divided by interest income from bank balances and loans, net income from leasing transactions, interest expenses, net income from service contracts, provision for credit risks and net fee and commission income.
2 Equity divided by total assets.
3 Return on equity before tax, which is calculated by dividing profit before tax by average equity.

Fundamental Information about the Group

Continuous growth confirms Volkswagen Leasing GmbH Group's business model.

BUSINESS MODEL

The establishment of Volkswagen Leasing GmbH in 1966 marked the beginning of leasing in the automotive sector in Germany. Today, the Company is part of the Financial Services division and is responsible for the operating activities related to the leasing business with retail and business customers as well as the fleet management business within the Volkswagen Group in Germany and Italy.

ORGANIZATION OF THE VOLKSWAGEN LEASING GMBH GROUP

The Volkswagen Leasing GmbH Group focuses on the operating activities for the leasing business with retail and business customers as well as on the fleet management/services business. The organization of the Group is aligned with the requirements of the products demanded by retail and fleet customers.

The responsibilities of the Management Board of Volkswagen Leasing GmbH are subdivided into four areas (Board departments).

Armin Villinger heads the Fleet Germany Board department and has the role of Chief Executive Officer.

Following the integration of the organizational units from MAN Financial Services GmbH, the Front Office MAN FS Board department was established, which has likewise been under the responsibility of Armin Villinger since February 1, 2023.

The activities assigned to the Back Office Board department of Hendrik Eggers consist of risk management, back office and controlling.

The Retail Sales & Digitalization Board department is headed by Manuela Voigt. This department brings together the areas of retail sales, digital sales applications, sales management and marketing.

PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF A COMBINED MANAGEMENT REPORT

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), and the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRS IC) as well as in accordance with the additional disclosures required by German commercial law under section 315e(1) of the *Handelsgesetzbuch* (HGB – German Commercial Code).

On the basis of the legal provisions, the Volkswagen Leasing GmbH Group makes use of the option of preparing a combined management report.

RESTRUCTURING OF THE VOLKSWAGEN FINANCIAL SERVICES AG AND VOLKSWAGEN BANK GMBH SUBGROUPS

The Board of Management of Volkswagen Financial Services AG and the Management Board of Volkswagen Bank GmbH commenced work on the implementation of a comprehensive restructuring program in 2023.

This will involve the German and European entities, including the respective subsidiaries and equity investments, being consolidated under a new financial holding company supervised by the ECB, a move intended to create a clearer focus on geographical regions. The reorganization of legal entities, which is scheduled to be completed by the middle of 2024, will lead to corresponding moves of employees, and this will affect Volkswagen Leasing GmbH as well as other entities. The associated employee-related provisions recognized will be assigned to the receiving entities.

Initial steps to establish the aforementioned European financial holding company were completed during the reporting year and the company is currently operating as Volkswagen Financial Services Europe AG. It will be renamed Volkswagen Financial Services AG once the restructuring program has been completed. The steps planned for 2024 include transferring all shares in Volkswagen Leasing GmbH to Volkswagen Bank GmbH, which will then become part of the European financial holding company.

Combining activities within one European financial services provider will enable Volkswagen Bank GmbH's funding strength to be optimally leveraged to support the growth of the leasing business in Germany and Europe. The Volkswagen Group is thus laying the foundation for the successful implementation of the Group's strategy in the mobility sector, taking into account the regulatory framework. The number of companies to be consolidated under regulatory requirements will increase as a result of the restructuring and regulatory reporting requirements will become stricter. This will also affect Volkswagen Leasing GmbH.

MOBILITY2030 STRATEGY

Building on the MOBILITY2030 strategy introduced by Volkswagen Financial Services AG in 2022, we are working constantly to expand on the Volkswagen Group's mobility service provider mission and to be as well prepared as possible for changes in customer requirements as a result of digitalization.

The core mission of Volkswagen Financial Services AG is to develop and make available a comprehensive mobility platform, together with the brands of the Volkswagen Group, to give customers rapid, digital and flexible access to mobility – from financing and leasing options to car sharing and the Auto Abo car subscription product.

As a provider of mobility solutions, Volkswagen Financial Services AG has formulated a clear growth plan in its MOBILITY2030 strategy and intends to extend its relationship with customer and vehicle throughout the automotive value chain.

Five strategic dimensions for the practical implementation of this growth plan are defined in the MOBILITY2030 strategy:

> **Customer loyalty:** "We maximize the loyalty of our customers to our Group brands."
> **Vehicle:** "We tap business potential throughout the vehicle cycle together with the Group brands."
> **Performance:** "We are entrepreneurial in our approach and strive to maximize our performance."
> **Data and technology:** "We leverage data and technology as central pillars of our success."
> **Sustainability:** "We drive the transition to zero-emissions mobility in accordance with the Volkswagen Group's ESG principles."

Volkswagen Leasing GmbH and its products and services will contribute to the implementation of the MOBILITY2030 strategy in the Volkswagen Financial Services AG Group.

SIGNIFICANT CHANGES IN THE VOLKSWAGEN LEASING GMBH GROUP

TRATON SE, Munich, Germany, TRATON Financial Services AB, Södertälje, Sweden, Volkswagen Financial Services AG and Volkswagen Bank GmbH signed a framework agreement concerning the acquisition of substantial parts of the worldwide financial services business of MAN and Volkswagen Truck & Bus (VWTB) on July 12, 2023. The transaction includes the sale and transfer of rights to provide financing solutions to customers of MAN and VWTB. The Volkswagen Leasing GmbH Group will be affected by this in that new business of the MAN Financial Services branch of Volkswagen Leasing GmbH is expected to be operated by a subsidiary of TRATON Financial Services AB, Södertälje, Sweden, from the fourth quarter of 2024 onward. Existing business will remain with Volkswagen Leasing GmbH.

INTERNAL MANAGEMENT

The Company's key performance indicators are determined on the basis of IFRSs and are presented as part of the internal reporting system. The most important nonfinancial performance indicators are penetration, number of current contracts and new contracts concluded. The financial key performance indicators are the interest-bearing assets, operating result, return on equity and the cost/income ratio.

KEY PERFORMANCE INDICATORS

	Definition
Nonfinancial performance indicators	
Penetration	Ratio of new contracts for new Group vehicles under leasing business to deliveries of Group vehicles in markets Germany
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Interest-bearing assets	Loans to and receivables from customers arising from leasing business and lease assets.
Operating result	Interest income from cash and loans, net income from leasing transactions, interest expense, net income from service contracts, provision for credit risks, net fee and commission result, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value, general and administrative expenses and net other operating income/expenses
Return on equity	Return on equity before tax, which is calculated by dividing profit before tax by average equity.
Cost/income ratio	General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transactions, interest expenses, net income from service contracts, provision for credit risks and net fee and commission result.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

Pursuant to section 289b(2) of the HGB and section 315b(2) of the HGB, Volkswagen Leasing GmbH has decided to make use of the option not to submit a nonfinancial report or a nonfinancial report for the Group. Please refer to the separate combined nonfinancial report of Volkswagen AG for fiscal year 2023, which will be available in German at https://www.volkswagen-group.com/de/publikationen/weitere/nichtfinanzieller-bericht-2023-2575 and in English at https://www.volkswagen-group.com/en/publications/more/nonfinancial-report-2023-2575 from April 30, 2024.

In this context, Volkswagen AG is also responsible for managing environmental, social and corporate governance (ESG) issues throughout the Group.

Report on Economic Position

Overall, the global economy recorded positive growth in fiscal year 2023. In spite of these circumstances, Volkswagen Leasing GmbH managed to grow its current contracts and expand its lease assets. Volkswagen Leasing GmbH's operating result in accordance with IFRS is substantially lower than the level of the previous year.

OVERALL ASSESSMENT OF THE COURSE OF BUSINESS AND THE GROUP'S ECONOMIC POSITION

The operating result, which amounted to a loss of €162 million in fiscal year 2023 was substantially down on the previous year (profit of €1,268 million). The non-recurrence of the previous year's positive special factors in the provision for credit risks, the marketing performance and fair value changes of derivatives used for hedging purposes, and the substantial rise in funding costs are the main drivers of earnings performance against the backdrop of stable interest income.

In fiscal year 2023, the Volkswagen Group's deliveries to customers increased and were above the prior-year level, as expected. This had a positive impact on new business performance. The volume of receivables in the Volkswagen Leasing GmbH Group grew significantly despite the difficult economic conditions (poor economic performance, inflation, geopolitical uncertainty, etc.). This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. New contracts were up significantly compared with the previous year, while the number of current contracts expanded moderately.

In the reporting year, the share of leased vehicles in the Volkswagen Group's deliveries (penetration) for Volkswagen Leasing GmbH in the Germany market was 58.0% and thus moderately under the prior-year level (59.5%).

The difficult macroeconomic environment referred to above led to an exacerbated risk situation against a background of continuing portfolio growth, with the result that credit risk costs increased. The improved availability of new vehicles initially led to falling marketing results. At the end of the year, the marketing results stabilized at below the previous year's level. The provision for residual value risk was increased accordingly. Any changes in residual value risk continue to be closely monitored on an ongoing basis, leading to further measures where required.

Due to higher interest-bearing assets, funding costs amounting to €1,578 million were substantially higher than the prior-year level of €364 million.

At the level of Volkswagen Leasing GmbH, liquidity risk remained stable in the reporting period. Funding risk always remained within the specified limits. The existing sources of funding were adequate to enable the growth achieved in the fiscal year. This was achieved by using a wide range of funding instruments.

As a result, the funding structure remained well diversified in terms of the instruments used. The Group's main sources of funding, comprising capital markets, ABSs and intragroup refinancing, remained available and were utilized on a needs-oriented basis.

Various activities associated with the Operational Excellence (OPEX) efficiency program were implemented in the respective divisions of Volkswagen Leasing GmbH. In addition, new OPEX activities were developed and tracked on an ongoing basis as an important element of corporate culture. The financial aspects of the actions concerned were finalized in the planning round. Despite concerning interest rate and inflation trends and the changed situation in the marketing of used cars, the Management Board of Volkswagen Leasing GmbH considers the course of business to have been adequate in 2023.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2023 COMPARED WITH PRIOR-YEAR FORECASTS

	Actual 2022	Forecast for 2023		Actual 2023
Nonfinancial performance indicators				
Penetration (percent)	59.5	<59.5	Slightly lower than the prior-year level	58.0
Current contracts (thousands)	1,897	>1,897	Significantly higher than the prior-year level	1,978
New contracts (thousands)	637	>637	Significantly higher than the prior-year level	750
Financial performance indicators				
Interest-bearing assets (€ million)	42,189	>42,189	Significantly higher than the prior-year level	45,285
Operating result (€ million)	1,268	<1,268	Substantially lower than the prior-year level	–162
Return on equity (percent)	23.0	<23.0	Substantially lower than the prior-year level	–2.0
Cost/income ratio (percent)	43	>43	Substantially higher than the prior-year level	85

DEVELOPMENTS IN THE GLOBAL ECONOMY

The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, restricted gas deliveries to Europe. The resulting shortage of supply led particularly in 2022 to rising prices on energy and commodity markets. While prices dropped in the reporting year as a result of weakening momentum in the global economy, they remain at a relatively high level in some cases. Furthermore, salary trends in the overheated labor markets, among other factors, pose the threat of continued high inflation.

After the slump in global economic output in 2020 and the incipient recovery due to baseline and catch-up effects in 2021, followed by a further normalization of economic activity in 2022 despite the Russia-Ukraine conflict, the global economy recorded positive overall growth of +2.7 (+3.1)% in 2023. The slowdown in economic momentum versus the previous year was mainly due to weaker growth in the advanced economies, whereas the overall rate of change in the emerging markets increased somewhat. At national level, developments depended on the one hand on the intensity with which central banks had to tighten monetary policy to curb the higher inflation – mainly by raising interest rates and reducing bond holdings – which had a negative impact on consumer spending and investment activity. On the other hand, the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict was a decisive factor. Prices for energy and many other raw materials were lower than in the previous year, and shortages of intermediate products and commodities eased somewhat. Global trade in goods expressed in nominal terms decreased in the reporting period.

Europe

The economy in Western Europe recorded positive, yet low overall growth of +0.4 (+3.5)% in 2023. This trend was seen in many countries in Northern and Southern Europe. The main reasons for this were the momentary and in some cases significant increases in energy and commodity prices, which had substantially pushed up inflation rates in the previous year and thus had a negative impact on consumer confidence. Business sentiment also deteriorated across all sectors. In addition, the restrictive monetary policy measures taken to rein in inflation impacted both consumer spending and investment.

Germany

Germany’s economic output recorded a negative growth rate of –0.2 (+1.9)% in the reporting year. Compared with the prior year, the seasonally adjusted unemployment figures rose on average. After reaching historically high levels in 2022, monthly inflation rates fell on average over the year, but remained relatively high.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was at a high level in the first nine months of 2023of reporting year; however, higher interest rates put pressure on demand for financial services in almost all regions.

The European passenger car market was still affected by shortages in the reporting year. Vehicle deliveries nevertheless increased and were up on the prior-year period. Demand for financial services products also grew; however, as a percentage of vehicle deliveries, the figure was down on the equivalent figure for 2022. The positive trend in the financing of used vehicles continued. The sale of after-sales products such as servicing, maintenance and spare parts agreements continued to expand.

In Germany, the persistent challenges presented by parts supply in vehicle production and by logistics chains continued to impact vehicle sales and the financial services business. Nevertheless, the increase in deliveries of new vehicles in the first nine months of 2023 of reporting year led to a higher volume of contracts. New vehicle penetration was down on the comparative figure for 2022, however. New contracts for used vehicles were on a level with the previous year. The number of new after-sales contracts increased and in the reporting year was above the level seen in 2022.

The financial services business in the market for heavy commercial vehicles was slightly up on the prior-year level from January to September 2023 of reporting year. The lengthy delivery times for commercial vehicles are gradually beginning to return to normal. The borrowing habits of commercial vehicle customers changed due to the rise in interest rates: the decision on financing is moving closer to the time of vehicle delivery because customers are counting on falling interest rates.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2023, the volume of the passenger car market worldwide was noticeably higher than in the prior year at 76.6 million vehicles. Most markets registered growth, which together with weak prior-year figures was attributable to the fact that shortages and disruption in global supply chains eased restricting vehicle availability to a lesser extent. While the supply situation for intermediates improved compared with 2022, the trend in new registrations in individual markets dampened at the end of the previous year, primarily as a consequence of the Russia-Ukraine conflict and pull-forward effects generated by state subsidies expiring.

Significant and strong growth was recorded in the overall market of the Western Europe region.

In the reporting year, the global volume of new registrations for light commercial vehicles was on a level with the previous year (–0.2%).

Sector-specific environment

Along with fiscal policy measures, the sector-specific environment was considerably affected by the economic situation, which contributed to the mixed trends in unit sales in the markets in the fiscal year now ended. While real purchasing power fell in many places and vehicle prices stagnated at a high level, it was possible to reduce the backlog of orders on a large scale due to increased vehicle availability worldwide. The fiscal policy measures included tax cuts or increases, the introduction, expiry and adjustment of incentive programs and sales incentives, as well as import duties. In addition, non-tariff trade barriers to protect the respective domestic automotive industries made the movement of vehicles, parts and components more difficult.

Europe

In Western Europe, the number of new passenger car registrations in the reporting year was significantly higher than the previous year's weak level, increasing by 13.8% to 11.6 million vehicles. The performance of the market in Italy in the reporting year was positive and significantly above the prior year level (+18.8%).
The volume of new registrations for light commercial vehicles in Western Europe was significantly higher than in the previous year, increasing by 14.3%.

Germany

At 2.8 million units, the total number of new passenger car registrations in Germany in fiscal year 2023 was noticeably higher than the weak prior-year level (+7.3%). Shortages and disruption in global supply chains eased, improving vehicle availability and allowing the backlog of orders from the previous year to be cleared. The number of passenger cars produced rose by 18.3% to 4.1 million vehicles and exports of passenger cars grew by 17.5% to 3.1 million units.

The number of sales of light commercial vehicles in Germany in the reporting year was significantly up on the 2022 figure (+15.7%).

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, demand for mid-sized and heavy trucks with a gross weight of more than six tonnes experienced noticeable growth in fiscal year 2023 versus the comparison period (+8.5%). Global truck markets grew significantly, due in particular to a recovery of the Chinese market following the end of the country's zero-Covid strategy.

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was significantly up on the prior-year level, increasing by 15.1% to a total of 387 thousand vehicles. New registrations in Germany, the largest market in this region, were up strongly on the previous year (+23.6%).

Demand in the bus markets relevant for the Volkswagen Group was strongly higher than in the previous year (+23.2%). Total demand for buses in the EU27+3 markets in the reporting year was also up significantly on the previous year (+18.7%), with the picture varying from country to country.

FINANCIAL PERFORMANCE

The IFRS operating result declined to €–162 (1,268) million, significantly down on the corresponding prior-year figure. The decrease is primarily due to a substantial rise in funding costs as well as a substantial deterioration in the net gain from the disposal of used ex-lease vehicles and in the net gain or loss on financial instruments measured at fair value. This was set against a rise in net income from leasing transactions and in interest income from bank balances and loans.

Profit before tax came to €–162 (1,267) million, which was substantially lower than in the prior year.

Return on equity amounted to –2.0 (22.8)%.

Interest income from bank balances and loans amounted to €170 million, which was substantially higher than the prior-year figure of €28 million.

Net income from leasing transactions amounted to €2,113 (1,677) million and was therefore substantially higher than in the previous year. The rise was to a significant extent due to interest income from finance leases, which contributed €906 (633) million. The impairment losses on lease assets of €581 (–23) million included in net income from leasing transactions were attributable to current market fluctuations and expectations.

Interest expense was €1,578 million, a substantial increase from the prior-year level (€364 million).

Net income from service contracts amounted to €145 (191) million and was substantially below the prior-year figure.

The provision for credit risks of €55 (33) million was substantially higher year-on-year.

Net fee and commission income amounted to €–110 (–76) million, substantially below the prior-year level.

General and administrative expenses were slightly down on the previous year at €616 (624) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €33 (30) million were recharged to other entities in the Volkswagen Group and reported under net other operating income/expenses. The cost/income ratio of 85 (43)% was substantially higher than in the previous year, driven in particular by the increase in interest expense.

Net other operating income/expenses fell substantially short of the prior-year level at €93 (36) million. An amount of €1 (64) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses.

In total, the Volkswagen Leasing GmbH Group generated a profit after tax amounting to €–117 (859) million.

Under Volkswagen Leasing GmbH's current control and profit-and-loss transfer agreement, a loss of €479 million reported by Volkswagen Leasing GmbH in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen Financial Services AG.

NET ASSETS AND FINANCIAL POSITION

Lending business

At €54.9 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Leasing GmbH Group – accounted for approximately 94% of the Group's total assets.

The number of new retail financing contracts came to 750 thousand, which was significantly above the prior-year level (637 thousand). The number of current contracts stood at 1,978 thousand at the end of the year.

Overall, receivables from leasing transactions were significantly above the previous year's level at €21.1 billion (+11.6%).

Lease assets recorded noticeable growth of €1.9 billion to €27.7 billion (+7.5%).

Total assets of the Volkswagen Leasing GmbH Group rose to €58.5 billion year-on-year (+7.9%). This growth resulted primarily from the increase in loans to and receivables from customers and in lease assets and hence reflects business expansion over the fiscal year ended.

There were 3,398 thousand service contracts in the portfolio as of the end of the year. The new business volume of 1,150 thousand contracts was very significantly up on the prior-year level (976 thousand).

Deposit business and borrowings

In terms of capital structure, the main liability items are the liabilities to customers of €17.7 billion (–6.5%) and the notes and commercial paper issued amounting to €27.6 billion (+10.0%). Further details on the funding and hedging strategy can be found in the sections Liquidity Analysis and Funding and in the risk report within the disclosures on interest-rate risk and liquidity risk.

Equity

The subscribed capital of Volkswagen Leasing GmbH remained unchanged at €76 million in fiscal year 2023. Equity in accordance with the IFRSs was €9.9 (6.5) billion. The increase was the result of contributions to capital reserves by the parent company, Volkswagen Financial Services AG, amounting to €1.5 billion each in September and November of the reporting period. This resulted in an equity ratio (equity divided by total assets) of 16.9% based on total assets of €58.5 billion.

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2023

in thousands	Retail	Fleet	Sum	Reconciliation	Group
Current contracts	**2,117**	**3,259**	**5,376**	**–**	**5,376**
Leasing business	896	1,082	1,978	–	1,978
Service	1,221	2,177	3,398	–	3,398
New contracts	**749**	**1,151**	**1,900**	**–**	**1,900**
Leasing business	343	407	750	–	750
Service	406	744	1,150	–	1,150
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	12	12	–	12
Leasing business	9,576	11,561	21,137	–	21,137
Lease assets	12,553	15,155	27,708	–	27,708
Investment[1]	5,501	6,540	12,041	–	12,041
Operating result	–43	62	19	–181	–162

1 Corresponds to additions to lease assets classified as noncurrent assets.

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2022

in thousands	Retail	Fleet	Segments total	Other	Group
Current contracts	**2.259**	**3.067**	**5.326**	**–**	**5.326**
Leasing business	915	982	1.897	–	1.897
Service	1.343	2.085	3.428	–	3.428
New contracts	**703**	**911**	**1.613**	**–**	**1.613**
Leasing business	302	336	637	–	637
Service	401	575	976	–	976
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	12	12	–	12
Leasing business	9.134	9.798	18.932	–	18.932
Lease assets	12.430	13.334	25.764	–	25.764
Investment[1]	4.777	5.313	10.090	–	10.090
Operating profit	296	775	1.070	197	1.268

1 Corresponds to additions to lease assets classified as noncurrent assets.

Liquidity analysis

The companies of the Volkswagen Leasing GmbH Group are funded primarily through capital market and ABS (asset-backed securities) programs. Credit facilities with companies of the Volkswagen AG Group are also available to protect against unexpected fluctuations in the liquidity position.

To ensure there is appropriate liquidity management, Treasury prepares liquidity maturity balances, carries out cash flow forecasts and takes action as required. In these calculations, the legally determined cash flows are assumed for funding instruments, whereas estimated cash flows are used for other factors that affect liquidity.

The internal control system (ICS) at Volkswagen Leasing GmbH is used to measure liquidity risk individually for significant companies. The liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent 12 months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis.

Volkswagen Leasing GmbH must satisfy the minimum requirements for risk management (MaRisk). Compliance with these requirements is determined and continuously monitored by the liquidity risk management department. Additionally, the cash flows for the coming 12 months are projected and compared against the potential funding available in each maturity bucket.

There is a strict regulatory requirement that any liquidity requirements identified in institution-specific stress scenarios must be covered with an adequate liquidity buffer over a time horizon of seven and 30 days. From a regulatory perspective, there was no immediate need to take action for Volkswagen Leasing GmbH in the reporting year.

FUNDING

Strategic principles

In terms of funding, Volkswagen Leasing GmbH generally pursues a strategy of diversification with the aim of achieving the best possible balance of cost and risk. This means accessing the widest possible variety of funding sources in the various regions and countries with the objective of safeguarding funding on a long-term basis at optimum terms.

This strategy remains valid in the context of the wide-ranging restructuring program launched in 2023.

With customers increasingly preferring to lease vehicles rather than seek finance for their purchases and in light of plans to grow the business, this new structure will incorporate the use of funding opportunities of Volkswagen Bank GmbH, such as customer deposits for the entities of the European holding company Volkswagen Financial Services AG as well as the placing of bonds and ABS transactions.

Implementation

Volkswagen Financial Services AG published its first Green Finance Framework in August 2023; it covers the financing and funding of financial products for purely battery-electric vehicles (BEV). Volkswagen Leasing GmbH placed the first three green bonds (total volume €2 billion) under this framework in the capital market in September.

In addition, Volkswagen Leasing GmbH was active in the German market with its ABS program. German lease receivables were securitized in March, June and October in the form of "Volkswagen Car Lease" (VCL) transactions, which had a total volume of €2.75 billion.

The following tables show the transaction details:

CAPITAL MARKET

Issuer	Month	Volume and currency	Maturity
Volkswagen Leasing GmbH, Braunschweig	September	EUR 800 million	2.5 years
Volkswagen Leasing GmbH, Braunschweig	September	EUR 500 million	5.5 years
Volkswagen Leasing GmbH, Braunschweig	September	EUR 700 million	8 years

ABS

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Leasing GmbH, Braunschweig	VCL 38	March	Germany	EUR 1.25 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 39	June	Germany	EUR 750 million
Volkswagen Leasing GmbH, Braunschweig	VCL 40	October	Germany	EUR 750 million

Volkswagen Leasing GmbH

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2023

Volkswagen Leasing GmbH reported a result from ordinary activities after tax amounting to a loss of €479 million for fiscal year 2023.

Lease income of €26,213 (23,105) million was offset by lease expenses of €13,349 (11,652) million.

Net fee and commission income of €–1,179 (–969) million is mainly comprised of closing commissions arising from lease business.

Other operating income came to €289 (270) million, with other operating expenses amounting to €22 (28) million. Other operating income included income from service fees from ABS transactions amounting to €186 million.

The general and administrative expenses included expenses from cost allocations to Group companies and the expenses related to personnel and administrative costs.

Risk costs totaling €579 (1,593) million primarily included expenses arising from additions to provisions.

The loss after tax of €479 million will be absorbed by Volkswagen Financial Services AG pursuant to the existing control and profit-and-loss transfer agreement.

Receivables from customers rose by €304 million (3.7%). The increase results primarily from the subordinated loan given to the ABS transaction.

Lease assets increased by 9.2% to €45,030 million. The change results from an increased vehicle inventory.

Liabilities to customers increased by €835 million (3.0%) to €28,439 million. This primarily results from increased liabilities from ABS transactions.

Commercial paper issued decreased by €273 million compared to the previous year (2.2%) to €12,144 million.

The decrease in provisions of €452 million (21.3%) arose mainly from lower provisions for expected losses.

The sole shareholder, Volkswagen Financial Services AG, paid €3,000 million into capital reserves in the reporting year, taking the equity ratio to 5.6 (0.5)%. Total assets at the end of the reporting period amounted to €57,987 million.

NUMBER OF EMPLOYEES

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are provided by Volkswagen Financial Services AG in return for a consideration. In addition, the Company had an annual average of 64 (53) salaried employees at its branches in Milan and Verona.

MANAGEMENT, AND OPPORTUNITIES AND RISKS RELATING TO THE BUSINESS PERFORMANCE OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH is integrated into the internal management concept of the Volkswagen Leasing GmbH Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Leasing GmbH Group. The legal requirements governing the management of Volkswagen Leasing GmbH as a legal entity are observed using key performance indicators such as penetration, operating result and return on equity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Leasing GmbH Group as well as in the report on opportunities and risks of this annual report.

INCOME STATEMENT OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, FOR FISCAL YEAR 2023

€ thousand	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
1. Lease income	26,213,082	23,104,557
2. Leasing expenses	13,349,344	11,652,020
	12,863,738	11,452,537
3. Interest income		
b) From other activities		
aa) Lending and money market transactions	419,759	142,249
4. Interest expense		
b) From other activities	1,317,311	713,886
thereof: unwinding of discount on provisions	1,430	2,965
	–897,552	–571,637
5. Fee and commission income		
a) From payment services and the issuance of e-money	48	82
b) From other activities	23,727	812
6. Fee and commission expenses		
b) From other activities	1,202,984	970,135
	–1,179,209	–969,241
7. Other operating income		
b) From other activities	288,687	270,277
8. Income from the reversal of special tax-allowable reserve	59	59
9. General and administrative expenses		
a) From payment services and the issuance of e-money		
bb) Other administrative expenses	125	123
b) From other activities		
aa) Personnel expenses		
aaa) Wages and salaries	4,768	4,254
bbb) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €129 thousand	1,395	1,192
	6,163	5,446
bb) Other administrative expenses	614,844	625,483
	621,132	631,052

€ thousand	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
10. Depreciation, amortization and write-downs		
a) Depreciation and write-downs of lease assets		
ab) From other activities	10,945,616	9,257,708
b) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		
bb) From other activities	60,267	60,978
	11,005,883	9,318,686
11. Other operating expenses		
b) From other activities	21,788	28,430
12. Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business		
b) From other activities	579,013	1,592,874
13. Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business		
b) From other activities	655,447	349,716
14. Result from ordinary business activities	**–496,646**	**–1,039,331**
a) From payment services and the issuance of e-money	–77	–41
b) From other activities	–496,569	–1,039,290
15. Income tax expense	–18,080	–23,386
a) From payment services and the issuance of e-money	–3	–1
b) From other activities	–18,077	–23,385
16. Income from the absorption of losses	478,566	1,015,945
a) From payment services and the issuance of e-money	80	42
b) From other activities	478,486	1,015,903
17. Net income for the year	**–**	**–**
18. Retained profits brought forward	649	649
19. Net retained profits	**649**	**649**

BALANCE SHEET OF VOLKSWAGEN LEASING GMBH, BRAUNSCHWEIG, AS OF DECEMBER 31, 2023

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Assets		
1. Loans to and receivables from banks		
b) From other activities		
aa) Repayable on demand	802,639	619,918
2. Loans to and receivables from customers		
a) From payment services	192	243
aa) From fees and commissions	192	243
b) From other activities	8,614,960	8,311,091
	8,615,152	8,311,334
3. Notes and other fixed-income securities		
b) Commercial paper and notes		
ba) from public-sector issuers	102,519	–
4. Lease assets		
aa) From other activities	45,029,628	41,227,096
5. Intangible fixed assets		
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	94,065	80,382
	94,065	80,382
6. Property and equipment		
a) Land and buildings		
ab) From other activities	24,577	25,961
b) Operating and office equipment		
ab) From other activities	689	481
	25,266	26,442
7. Other assets		
b) From other activities	1,976,324	1,987,780
8. Prepaid expenses and accrued income		
b) From other activities	1,341,162	1,038,696
Total assets	**57,986,755**	**53,291,648**

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Equity and liabilities		
1. Liabilities to banks		
b) From other activities		
aa) Repayable on demand	–	162
	–	162
2. Liabilities to customers		
b) From other activities	28,438,604	27,603,478
3. Notes, commercial paper issued		
a) Bonds issued	11,246,340	10,978,686
b) Commercial paper	897,981	1,438,526
	12,144,321	12,417,212
4. Other liabilities		
b) From other activities	1,460,781	1,254,251
5. Prepaid expenses and accrued income		
b) From other activities	11,000,505	9,622,317
6. Provisions		
a) Provisions for pensions and other post-employment benefits		
bb) From other activities	1,243	1,114
b) Provisions for taxes		
bb) From other activities	29,435	35,619
c) Other provisions		
bb) From other activities	1,635,189	2,080,759
	1,665,867	2,117,492
7. Special tax-allowable reserve	765	824
8. Fund for general banking risks	6,000	6,000
9. Equity		
a) Subscribed capital	76,004	76,004
b) Capital reserves	3,193,259	193,259
c) Net retained profits	649	649
	3,269,912	269,912
Total equity and liabilities	**57,986,755**	**53,291,648**
1. Contingent liabilities		
Liability arising from the provision of collateral for third-party liabilities	84,375	74,953
2. Other obligations		
Irrevocable leasing commitments	6,896,733	11,267,767

Report on Opportunities and Risks

The proactive management of opportunities and risks is a fundamental element of the successful business model used by the Volkswagen Leasing GmbH Group.

OPPORTUNITIES AND RISKS

In this section, the risks and opportunities that arise in connection with business activities are presented. The risks and opportunities are grouped into various categories. Unless specifically stated, there were no material year-on-year changes to the individual risks or opportunities.

Analyses of the competitive and operating environment have been used, together with market observations, to identify not only risks but also opportunities, which have a positive impact on the design of products, on the efficiency of their production, on the success of the products in the marketplace and on the cost structure. Opportunities and risks that are expected to materialize have already been taken into account in the medium-term planning and forecast. The following sections therefore describe fundamental opportunities that could lead to a positive variance from the forecast and the risk report presents a detailed description of the risks.

Macroeconomic opportunities and risks

From the current perspective, economic development will depend in particular on future inflation and interest rate trends. The relatively high overall level of inflation, which is projected to taper off as the year goes on, and comparatively high interest rates pose a major challenge. It is expected in this context that key interest rates have peaked and that the European Central Bank (ECB) will start to make interest rate cuts as early as in 2024.

Global economic growth could also be further dampened by geopolitical tensions, should these give rise to shortages in global supply chains, for example, or contribute to a renewed upward trend in inflation. This, in turn, could also impact negatively on both consumption and the investment climate.

In the event that actual inflation and interest rate trends are more positive than expected or geopolitical tensions decrease, this could result in opportunities for Volkswagen Leasing GmbH.

However, it is not possible to make a reliable assessment of the further development of individual economies and of the economy as a whole. The Management Board of Volkswagen Leasing GmbH expects that deliveries to customers of the Volkswagen Group in Germany will exceed the reporting year’s level, based on the assumption that bottlenecks affecting intermediate products, commodities and logistics improve.

Volkswagen Leasing GmbH supports this trend by providing financial services products designed to promote sales.

Strategic opportunities and risks

Volkswagen Leasing GmbH is continuing with its strategic drive to digitalize and optimize all processes, systems and products. In doing so, it is leveraging the opportunity offered by changing customer requirements, an ever greater awareness of sustainability, increasingly tighter regulation and new technologies. The focus here is on the innovation of new sustainable mobility and service products as well as on an enhanced customer experience. Other growth opportunities arise from offering suitable products and services throughout the entire vehicle and customer lifecycle – especially in the area of electromobility.

Opportunities from credit risk

Opportunities may arise in connection with credit risk if the losses actually incurred on non-performing contracts in the lease business turn out to be lower than the prior calculations of expected losses and the associated provisions recognized on the basis of those losses. A situation in which the incurred losses are lower than the expected losses can occur particularly at times when economic uncertainty dictates a conservative risk approach but in which the economic circumstances subsequently stabilize, resulting in an improvement in the credit quality of the lessees concerned.

Opportunities from residual value risk
When vehicles are remarketed, Volkswagen Leasing GmbH may be presented with the opportunity to achieve a price that is higher than the calculated residual value if increasing demand pushes up market values more than expected.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM AS REGARDS THE FINANCIAL REPORTING PROCESS
The internal control system (ICS) that is relevant to the accounting system and used for the consolidated and annual financial statements is the sum of all principles, procedures and activities aimed at ensuring the effectiveness and propriety of the financial reporting and the compliance with the relevant legal requirements. The internal risk management system (IRMS) as regards the accounting process refers to the risk of misstatement in the bookkeeping at the Company and Group level as well as in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting processes of Volkswagen Leasing GmbH.

- The Management Board of Volkswagen Leasing GmbH is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury, Compliance, Risk Management and Controlling units, each with clearly separate functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly. The tasks of the treasury unit are performed by Volkswagen Bank GmbH on the basis of an outsourcing agreement. The compliance function has also been outsourced to Volkswagen Bank GmbH, although its services are supplemented by a compliance officer at Volkswagen Leasing GmbH. The accounting function is also carried out by Volkswagen Financial Services AG under an outsourcing agreement.
- Group-wide rules and accounting and measurement requirements have been put in place to ensure a standardized, proper and continuous financial reporting process in accordance with the International Financial Reporting Standards as well as the accounting provisions pursuant to the HGB in conjunction with the *Verordnung über die Rechnungslegung der Kreditinstitute und Finanzdienstleistungsinstitute* (RechKredV – German Bank Accounting Regulation).
- The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are supplemented with specific Group-level functions at Volkswagen AG.
- Internal Audit in the Volkswagen Financial Services AG subgroup is a key component of Volkswagen Leasing GmbH's monitoring and control system. As an outsourcee, supplemented by an audit officer at Volkswagen Leasing GmbH, it carries out regular audits of accounting-related processes as part of its risk-oriented auditing activities and reports on these audits directly to the Management Board of Volkswagen Leasing GmbH and the Board of Management of Volkswagen Financial Services AG.

In summary, the existing internal monitoring and control system of the Volkswagen Leasing GmbH Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Leasing GmbH Group as of the reporting date December 31, 2023 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Leasing GmbH after the reporting date.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM
At Volkswagen Leasing GmbH, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned.

Volkswagen Leasing GmbH is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. It accepts these risks in a responsible manner so that it can exploit any resulting market opportunities.

Volkswagen Leasing GmbH has implemented a risk management system to identify, assess, manage, monitor and communicate risks. The Risk Management System comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure is intended to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can be initiated.

Appropriately implemented procedures are in place to ensure the adequacy of the Risk Management System. Firstly, Volkswagen Leasing GmbH's Risk Management unit continuously monitors the system. The individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit and the risk early detection system used by external auditors as part of the audit of the annual financial statements and consolidated financial statements.

Risk management and back office have been assigned to a member of the Management Board of Volkswagen Leasing GmbH while observing the separation of functions. In this role, the Management Board member concerned submits regular reports to the other members and to the sole shareholder, Volkswagen Financial Services AG, on the overall risk position of Volkswagen Leasing GmbH.

Risk Management at Volkswagen Leasing GmbH is broken down at the Braunschweig offices into two areas of activity: strategic and operational risk management, both of which are encompassed by the term "risk management" below. In addition, there is a local risk management function at the Milan office, which implements the provisions of Risk Management from Braunschweig. The Risk Management function at the Braunschweig offices sets out the framework for the organization of risk management and also performs the local risk management tasks for the German market, including the Truck & Bus business.

This function includes drawing up risk policy guidelines, developing and maintaining methodologies and processes relevant to risk management, and monitoring international framework standards for the procedures to be used.

In particular, these activities involve providing models for carrying out credit assessments, quantifying the different categories of risk and evaluating collateral. Risk Management is therefore responsible for identifying possible risks, analyzing, quantifying and evaluating risks, and for determining the resulting measures to manage the risks. Risk Management is a neutral, independent unit and reports directly to the Management Board of Volkswagen Leasing GmbH.

Local risk management in the Italian branch ensures that the risk management system is implemented and its requirements complied with; Operational Risk Management does the same for the German market.

The local risk management functions and Risk Management at the Braunschweig offices are each responsible for the detailed design of models and procedures for measuring and managing risks, and carry out local implementation from process and technical perspectives. There is a direct line of reporting from local risk management to Risk Management at the Braunschweig site.

To summarize, continuous monitoring of risks, transparent and direct communication with the Management Board and the integration of all information obtained into the Risk Management System form a foundation for the best possible leveraging of market potential based on conscious, effective management of the overall risk faced by Volkswagen Leasing GmbH.

RISK CULTURE, RISK STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Management Board of Volkswagen Leasing GmbH. Furthermore, the Management Board is responsible for implementing the overall risk strategy at Volkswagen Leasing GmbH.

As part of this overall responsibility, the Management Board of Volkswagen Leasing GmbH has introduced a business and risk strategy within the meaning of MaRisk. The high-level MOBILITY 2030 strategy sets out the fundamental views of the Management Board of Volkswagen Leasing GmbH on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

Building on the MOBILITY2030 strategy, the business strategy serves as the starting point for creating a consistent risk strategy. The implementation of the risk strategy is supported by the risk culture at Volkswagen Leasing GmbH, which is being steadily fostered by the Management Board and embedded in the consciousness of employees and managers with a lasting effect. The risk culture therefore supports the effectiveness of the entire Risk Management System and thereby promotes control as part of the business and risk strategy.

The risk strategy is reviewed each year and ad hoc on the basis of a risk inventory, risk-bearing capacity and legal requirements. It is adjusted where appropriate and discussed with the supervisory body of Volkswagen Leasing GmbH. The risk strategy describes the risk tolerance, risk appetite and the main derived risk management goals and action plans for each category of risk, taking into account the business policy focus (business strategy). A review is carried out at least annually to establish whether the goals have been attained. The causes of any variances are analyzed and then discussed with the Management Board and the supervisory body of Volkswagen Leasing GmbH.

The risk strategy includes all material quantifiable and non-quantifiable risks. Further details and specifics for the individual risk categories are set out in risk sub-strategies and included in operational requirements as part of the planning round. Under its risk strategy, Volkswagen Leasing GmbH has defined an approach for integrating sustainability risks into the risk management system. In this context, existing elements of the risk management control cycle are reviewed in stages and adjusted when necessary.

ESG RISKS

The increasing emphasis placed on sustainability and the need to manage ESG risks are changing the financial system.

Volkswagen Leasing GmbH regards ESG matters as a business responsibility and critical strategic success factor for a captive such as itself operating in the automotive and personal mobility spheres. It actively chooses not to record ESG risks as a discrete category of risk in the risk inventory process, however, because their highly heterogeneous nature as cross-sectional risks means they have potential impacts across a large number of risk categories. The management of ESG risks is based in particular on an ESG risk driver analysis, which is performed once a year. On the basis of this analysis, the ESG risks are integrated into the respective risk types and thus into the risk management system. Another component is externally procured ESG scores, which are processed when taking lending or credit decisions for risk-relevant customers.

Even beyond risk management, Volkswagen Leasing GmbH works intensively on ESG matters, the various aspects of which affect all areas of our business model, and which is embedded as a separate (governance) dimension in the MOBILITY2030 strategy. As an example of the environmental and sustainable mobility aspect, VW Leasing GmbH issued three bonds under a green bond transaction this year. Social engagement within the Volkswagen Financial Services Group, to which Volkswagen Leasing GmbH belongs, is primarily conducted from within Volkswagen Financial Services AG.

RISK INVENTORY

The objective of the risk inventory, which has to be carried out at least annually, is to identify the main categories of risk. To this end, all known categories of risk are investigated to establish whether they are relevant for Volkswagen Leasing GmbH.

In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, subjected to a qualitative assessment by experts, and then evaluated to determine whether they are material for Volkswagen Leasing GmbH. The main categories of risk are then assessed as part of portfolio analyses regarding their influence on drivers of sustainability risk.

The risk inventory carried out for 2023 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that business risk – which is not quantifiable and consists of earnings risk, reputational risk and strategic risk – should also be considered material. Indirect residual value risk was still classified as immaterial because it accounted for a low proportion of the overall risk. Other existing subcategories of risk are taken into account within the categories specified above.

The results from the risk inventory provide the basis for the level of detail in the design of the risk management process and for inclusion in the risk-bearing capacity.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

A system has been set up to determine the risk-bearing capacity of Volkswagen Leasing GmbH. An institution has the capacity to bear its risk if, as a minimum, all material risks to which the institution is exposed are covered at all times by the institution's risk-taking potential.

Risk-bearing capacity is calculated in accordance with the guidance on risk-bearing capacity published in May 2018 by the German Federal Financial Supervisory Authority (BaFin). Volkswagen Leasing GmbH uses the economic perspective alone based on the exemptions available for financial services institutions. This relates to the internal process for ensuring capital adequacy using internal economic risk assessment models (measured on the basis of the internal risk-bearing capacity ratio). The aim is to ensure that the Company will continue to operate as a going concern indefinitely.

The confidence level for quantifying the individual risk types when determining risk-bearing capacity has been 99.9% since April 1, 2023. Despite the increase in risk attributable to this step, the risk-bearing capacity requirement has continued to be met. Earnings risk is combined with strategic risk and reputational risk to make up business risk. Business risk is measured on the basis of an expert estimate. In determining the aggregate risk cover, the net asset value of the contracted portfolio is taken into account.

To monitor the risk-bearing capacity, Volkswagen Leasing GmbH uses a system of limits derived from the overall risk appetite. These limits are compared against the risk-taking potential in the risk-bearing capacity analysis and specifically used by the Management Board for control purposes.

The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of Volkswagen Leasing GmbH. Net asset value has been determined from the available equity and earnings components since January 1, 2022. This takes the present value of future income and expenses for contracted leases in the German passenger car portfolio into account. The risk-taking potential is then determined under consideration of various deductions. In line with the risk appetite of Volkswagen Leasing GmbH, only a portion of this risk-taking potential is specified as a risk ceiling in the form of an overall risk limit. The overall risk limit is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for customer business credit risk, credit risk from intercompany loans, issuer risk and counterparty risk.

In a second step, the limits for the risk categories for customer business credit risk, residual value risk and operational risk are allocated to the German portfolio and Italy.

The limit system provides the Management with a tool that enables it to meet its strategic and operational corporate management responsibilities in accordance with statutory requirements.

As of December 31, 2023, the economic overall risk of Volkswagen Leasing GmbH stood at €6,471 million; it is attributable to the respective risk categories in the following proportions:

Risk categories (€ million)	Dec. 31, 2023	Dec. 31, 2022
Credit risk	2,776	1,727
Counterparty risk	72	58
Issuer risk	12	–
Residual value risk	2,118	1,116
Market risk	696	379
Operational risk	312	142
Business risk	485	278
Total	**6,471**	**3,700**

As of December 31, 2023, the risk-taking potential amounted to €11,052 billion and consisted of the balance sheet equity including the current net income, adjusted for hidden reserves and liabilities. 60% of the risk-taking potential was utilized by the risks described above. In the period January 1, 2023 to December 31, 2023 the maximum utilization of risk-taking potential in accordance with MaRisk was 73%.
Volkswagen Leasing GmbH's equity was increased in the third and fourth quarters by €1.5 billion each time.

Volkswagen Leasing GmbH not only determines its risk-bearing capacity in a normal scenario, but also carries out stress tests, the results of which are reported directly to the Management Board in the risk management report. Stress tests are used to examine the potential impact from exceptional but plausible events on the risk-bearing capacity and earnings performance of Volkswagen Leasing GmbH. The purpose of these scenarios is to facilitate early identification of those risks that would be particularly likely to materialize in the scenarios, so that any necessary corrective action can be initiated in good time. The stress tests include both historical scenarios (such as the financial crisis in the years 2008 to 2010) and hypothetical scenarios (global economic downturn, a sharp drop in sales in the Volkswagen Group and a combination of institution-related and market-wide scenarios). In addition, reverse stress tests are used to identify what events could represent a threat to the ability of Volkswagen Leasing GmbH to continue as a going concern. Moreover, stress tests or scenario analyses are carried out on an ad hoc basis to account for current developments of external factors.

The calculations of risk-bearing capacity and the stress tests confirmed that all material risks that could adversely impact the net assets, results of operations or liquidity position were adequately covered by the available risk-taking potential in the expected scenarios. In the reporting period, Volkswagen Leasing GmbH managed risk such that the utilized risk-taking potential was below the overall risk limit set internally. The stress tests did not indicate any need for action either.

RISK CONCENTRATIONS

Volkswagen Leasing GmbH is a captive financial services provider in the automotive sector. The business model, which focuses on promoting vehicle sales for the different Volkswagen Group brands, results in concentrations of risk, which can take various forms.

Concentrations of risk can arise from an uneven distribution of activity in which

> Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)
> A small number of sectors account for a large proportion of the loans (sector concentrations)

- Many of the loans are to businesses within a defined geographical area (regional concentrations)
- Loans/receivables are secured by just one type of collateral or by a limited range of collateral types (collateral concentrations)
- Residual values subject to risk are limited to a small number of vehicle segments or models (residual value concentrations), or
- Volkswagen Leasing GmbH’s income is generated from just a few sources (income concentrations)

One of the objectives of Volkswagen Leasing GmbH’s risk policy is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer business are only of minor significance in Volkswagen Leasing GmbH because of the large proportion of business accounted for by retail leases. From a regional perspective, Volkswagen Leasing GmbH is concentrated on the German market, but is focusing on broad diversification across regions. The fact that customers come from different sectors enhances diversification.

The following table presents the collateral structure of Volkswagen Leasing GmbH:

Collateral structure in %	Dec. 31, 2023	Dec. 31, 2022
Off-road vehicles and SUV’s	39	38
Compact class	19	21
Medium class	12	14
Commercial/recreational vehicles	9	10
Upper mid-size	9	9
Small cars	4	4
Large-capacity vans	4	1
Other	4	3
Total	**100**	**100**

As the vehicle is the predominant collateral asset by virtue of the business model of a captive provider, concentrations of collateral are consciously accepted. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, Volkswagen Leasing GmbH enjoys a broad diversification across all vehicle segments (see collateral structure diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.

This broad vehicle diversification also means that there is no residual value concentration at Volkswagen Leasing GmbH.

A concentration of income does arise from the nature of the business model because this model is predominantly based on vehicle leasing and associated services. The special constellation in which the Company serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth. With regard to the portfolio distribution, the high granularity of the Volkswagen Leasing GmbH portfolio (large retail proportion) results in broad diversification of income from its customers.

As for liquidity risk, Volkswagen Leasing GmbH has a high concentration of its funding sources in bonds and ABSs via its consolidated subsidiaries. This concentration is not considered to be critical due to the ability to increase the existing potential funding of internal VW Group sources or CP at all times.

RISK REPORTING

A detailed risk management report is submitted to the Management Board of Volkswagen Leasing GmbH and to the supervisory body on a quarterly basis. One core component of the risk management report is risk-bearing capacity because of its importance from a risk perspective for the continuation of the business as a going concern. To this end, the derivation of the available risk-taking potential, the utilization of limits and the current percentage allocation of the overall risk to the individual risk categories are also analyzed and presented. These details form the basis for the stress test across the whole of the institution. This stress test highlights any need for action based on institution-specific, market-wide and combined scenarios. In addition, Risk Management reports in detail on counterparty default risk, direct residual value risk, market risk, liquidity risk and operational risk, both at an aggregate level and at market level. These reports include quantitative information (financial data) and also qualitative elements in the form of an evaluation of the current situation and expected developments, including recommendations for action where appropriate. Additional reports are produced for specific risk categories. Ad hoc reports are generated as needed to supplement the system of regular reporting.

The high quality of the information contained in the risk management reports about structures and trends in the portfolios is maintained by a process of constant refinement and ongoing adjustment in line with current circumstances.

NEW PRODUCT AND NEW MARKET PROCESS

Before launching new products, the new product process must be completed. All the units involved (such as Controlling, Accounting, Legal Affairs, Compliance, Treasury and IT in addition to Risk Management) are integrated into the process. The process for every new activity involves the preparation of a written concept, which includes an analysis of the risks in connection with the new product and a description of the possible implications for management of the risks. Responsibility for approval or rejection lies with the relevant members of the Management Board of Volkswagen Leasing GmbH and, if applicable, the Board of Management of Volkswagen Financial Services AG. If activities are planned in new markets, the new market process has to be completed.

MATERIAL RISK CATEGORIES AND RISK REPORTING

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Counterparty default risk	Operational risk
Residual value risk	Business risk
Market risk	
Liquidity risk	

FINANCIAL RISKS

Counterparty default risk

Counterparty default risk refers to a potential negative variance between actual and forecast counterparty risk outcomes. The forecast outcome is exceeded if the loss incurred as a consequence of defaults or changes in credit rating is higher than the expected loss.

At Volkswagen Leasing GmbH, counterparty default risk encompasses the following risk categories: credit risk, counterparty risk and issuer risk.

Credit risk

Credit risk is defined as the danger of incurring losses as a result of defaults in customer business, specifically the default of the lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. Default includes a situation in which the counterparty does not make interest payments or repayments of principal on time or does not pay the full amounts.

The aim of a systematic credit risk monitoring system is to identify potential lessee insolvencies or unwillingness to pay at an early stage, initiate any corrective action in respect of a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions.

If a loan default materializes, this represents the loss of a business asset, which has a negative impact on net assets, financial position and results of operations, depending on the amount of the loss. If, for example, an economic downturn leads to a higher number of insolvencies, the recognition of a higher write-down expense is required. This in turn has an adverse effect on the operating result.

Risk identification and assessment

Leasing decisions at Volkswagen Leasing GmbH are made primarily on the basis of the lessee credit check. These credit checks use rating systems for risk-relevant customers (28%) or scoring systems for customers not relevant to risk (72%), which provide the respective departments with an objective basis for reaching a decision on the lease.

A set of procedural instructions outlines the requirements for developing, validating and maintaining the rating systems. The Company also has a rating manual which specifies how the rating systems are to be applied as part of the approval process. Similarly, other written procedures specify the parameters for developing, using and validating the scoring systems.

To quantify credit risk, Volkswagen Leasing GmbH determines an expected loss (EL) at contract or customer level and an unexpected loss (UL) at portfolio level for each market. The UL is determined from the value-at-risk (VaR) less the EL, the amount of which depends on the probability of default (PD), the loss given default (LGD) and the exposure at default (EAD). The calculation uses an asymptotic single risk factor model (ASRF model) in accordance with the capital requirements specified by the Basel Committee on Banking Supervision taking into account the credit quality assessments from the individual rating and scoring systems used.

Rating systems in risk-relevant business

Volkswagen Leasing GmbH uses rating systems to assess the credit quality of customers in risk-relevant business. These evaluations take into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, market and industry environment, and the customer’s payments record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a lease and for decisions on the amount of provisions.

Scoring systems in non-risk-relevant business

For the purposes of determining the credit quality of retail and commercial customers in non-risk-relevant business, scoring systems are incorporated into the processes for lease approval and for evaluating the existing portfolio. These scoring systems provide an objective basis for lease decisions. The systems use information about the lessee available internally and externally and estimate the probability of default for the requested lease, generally with the help of statistical models based on historical data covering a number of years.

To classify the risk in the lease portfolio, both behavioral scorecards and straightforward estimation procedures are used, depending on portfolio size and the risk inherent in the portfolio.

System supervision and review

The models and risk classification systems supervised by Risk Management are regularly validated and monitored using standardized procedural models. The models and systems are adjusted and refined, as required. When systems are validated, attention is particularly focused on reviewing discriminant power and on ensuring that the calibration is appropriate to the risk. These validation and monitoring procedures are applied to models and systems for assessing credit quality and estimating the probability of default (such as rating and scoring systems) and to models used for estimating loss given default.

Collateral

The general rule is that leasing transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral and the associated measurement methods. Further local regulations (collateral policies) set out specific values and special regional requirements that must be observed.

The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of Volkswagen Leasing GmbH are focused on the leasing of vehicles, the vehicles themselves are very important as collateral assets. For this reason, trends in the market values of vehicles are closely monitored and analyzed. Procedures provide for adjustments to evaluation systems if there are sharp changes in the market values of vehicles.

Risk Management also carries out regular quality assurance tests on local collateral policies. This includes a review of collateral values and implementation of any necessary adjustments.

Risk monitoring and control

Risk Management sets guidelines as part of managing credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority.

Appropriate processes are used to monitor all leasing transactions in relation to financial circumstances, collateral, compliance with limits, contractual obligations, and internal and external conditions. Individual approval limits determined by Volkswagen Leasing GmbH are also used to manage credit risk.

Trends
Volkswagen Leasing GmbH's volume of receivables increased in fiscal year 2023 despite the continuing tense situation in the markets. The prevailing macroeconomic conditions continue to be subject to uncertainty about future development. Impacts on the portfolio of Volkswagen Leasing GmbH are already being taken into account through higher provisions for credit risks. This resulted in elevated risk costs in fiscal year 2023.

Counterparty risk

Volkswagen Leasing GmbH defines counterparty risk as the risk of financial loss that could arise from entering into monetary investments or derivatives if the counterparty fails to make payments of interest or repayments of principal as contractually required.

The primary objective in the management of counter-party risk is to identify potential defaults in a timely manner so that corrective action can – where possible – be initiated at an early stage. Another important objective is to ensure that the Company only takes on risks within the approved limits.

If a counterparty risk were to materialize, this would represent the potential loss of a business asset, which would have a negative impact on net assets, financial position and results of operations, depending on the amount of the loss.

Risk identification and assessment
Counterparty risk is recorded as part of the overall counter-party default risk category. The risk is determined by using a Monte Carlo simulation to calculate the UL (value at risk and expected shortfall) and the EL from a normal scenario and stress scenarios.

Risk monitoring and control
To establish effective monitoring and control, limits are specified in advance for each counterparty. Under an outsourcing agreement, the Treasury Back Office unit of Volkswagen Bank GmbH is responsible for monitoring compliance with these limits on a day-to-day basis. The limits are set at an appropriate, needs-driven level, based on the credit assessment. The Credit Analysis department is responsible for the initial classification and subsequent regular reviews.

On the basis of an outsourcing agreement, the Risk Management unit of Volkswagen Bank GmbH evaluates counterparty risk on a quarterly basis. If limits are exceeded, the situation is escalated to the Management Board of Volkswagen Leasing GmbH. Counterparty risks are reported to the Management Board and Risk Management of Volkswagen Leasing GmbH in the quarterly risk management report.

Issuer risk

Issuer risk is the risk that the issuer of a security becomes insolvent during the maturity of the instrument and, as a result, an allowance has to be recognized on all or some of the invested capital, including expected interest.

The primary objective when entering into issuer risk is to ensure adequate liquidity or an adequate liquidity reserve to meet the payment obligations from the operating business of Volkswagen Leasing GmbH and to meet legal and/or regulatory requirements.

Risk identification and assessment
Similar to determining counterparty risk, issuer risk is also quantified by estimating the loss distribution on the basis of a Monte Carlo simulation and the value at risk or unexpected loss determined in this process.

Risk monitoring and control
To manage issuer risk effectively, a strictly regulated investment policy is prescribed, which allows only investments in highly liquid securities with a strong credit rating. In addition, limits are specified that have to be complied with at all times. When selecting possible investments, it is mandatory to observe the strict investment policy specified, including any limits. The risk limit is monitored on a quarterly basis when calculating risk-bearing capacity. Issuer risks are reported to the Management Board of Volkswagen Leasing GmbH in the quarterly risk management report.

Residual value risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing could be lower than the residual value calculated at the inception of the lease.

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. Direct residual value risk refers to residual value risk borne directly by Volkswagen Leasing GmbH. An indirect residual value risk arises if the residual value risk has been transferred to a third party (such as a dealer) on the basis of a residual value guarantee. In such cases, the initial risk is a counterparty default risk in respect of the residual value guarantor. If the residual value guarantor defaults, the residual value risk reverts to Volkswagen Leasing GmbH.

The objective of residual value risk management is to keep the risks within the agreed limits. If a residual value risk materializes, the Company may have to recognize an exceptional write-down or a loss on disposal of the asset concerned, resulting in a negative impact on results of operations.

Risk identification and assessment

Direct residual value risks are quantified on the basis of expected loss (EL) and unexpected loss (UL). The EL equates to the difference between the latest forecast remarketing proceeds at the end of the lease as of the measurement date and the contractual residual value specified at the inception of the lease for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The EL portfolio is calculated by aggregating the individual ELs for all the vehicles.

To determine the UL, the Company measures the difference between the projected residual value one year before the end of the lease and the actual selling price achieved (adjusted for damage and mileage variances). Based on the history of this difference, a markdown is calculated.

The UL is calculated by multiplying the latest projected residual value by the markdown. This value is calculated at individual lease level for each vehicle in the portfolio. As in the calculation of the EL, the UL portfolio is determined by aggregating the ULs for all the vehicles. This figure is generated quarterly. The results from the calculation of the EL and UL are fed in to the assessment of the risk situation, e.g. they are one of the factors used in assessing the adequacy of the provisions for risks and are included in the calculation of risk-bearing capacity.

In the case of indirect residual value risk, the risk arising in connection with determining residual value is generally quantified using a methodology similar to that applied for direct residual value risk, but the methodology also takes into account further risk parameters (dealer default and other factors specific to this risk category).

The general requirements for developing, using and validating the risk parameters for direct and indirect residual value risk are laid down in a set of procedural instructions.

Risk monitoring and control

The Risk Management unit monitors residual value risk within Volkswagen Leasing GmbH.

As part of risk management procedures, the adequacy of the provision for risks and the potential residual value risk are regularly reviewed in respect of direct residual value risk; residual value opportunities are disregarded in the recognition of the provision for risks.

The analysis based on individual leases does not always fully cover the assumed risks as a result of the distribution of the risks (because of the difference between the residual value curve (degressive) and the incoming repayments curve (progressive) during the term of the lease). For risks already identified, the risk amounts allocated to the residual maturity must still be earned in the future and added to write-downs.

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease origination must take into account prevailing market circumstances and future influences. There are also a number of stress tests for direct residual value risks for creating a comprehensive picture of the risk sensitivity of the residual value business. These stress tests are carried out by experts with the involvement of risk specialists at head office and in the local units.

As part of risk management activities, Risk Management regularly reviews the potential indirect residual value risk and the adequacy of the associated provision for risks. Based on the potential indirect residual value risk determined in these activities, various measures are initiated in close collaboration with the brands and the dealer organization to limit the risk.

Trends

Compared with the previous year, the volume of contracts continued to grow in all markets of Volkswagen Leasing GmbH. There were lingering supply shortages for new vehicles in the first half of the year so that demand for used vehicles and therefore used vehicle prices remained at a high level. The availability of new vehicles increasingly improved in the course of the year, with the result that demand for used vehicles noticeably declined and thus normalized. There was even a discernible trend toward an oversupply of used vehicles, which in turn led to pressure on prices.

Market risk

Market risk refers to the potential loss arising from adverse changes in market prices or parameters that influence prices.

The objective of market risk management is to keep the financial losses arising from this category of risk as low as possible. With this in mind, the Management Board has agreed limits for this category of risk. If limits are exceeded, the Risk Management unit of Volkswagen Bank GmbH escalates the situation ad hoc to the Management Board of Volkswagen Leasing GmbH and the Treasury unit (Asset Liability Management) as part of an outsourcing agreement. Action to reduce risk is discussed and initiated by the Treasury unit.

As part of risk management activities, market risk is included in the monthly risk report with a transparent analysis based on value at risk (VaR), a calculation offsetting the total market risk against the loss ceiling set for Volkswagen Leasing GmbH, and recommendations for targeted measures to manage the risk.

At the moment, market risk at Volkswagen Leasing GmbH arises solely from interest rate risk. With regard to the development of market risk, please refer to the following section on interest rate risk.

Interest rate risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet.

Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance.

Risk identification and assessment

The present value of interest rate risk for Volkswagen Leasing GmbH is determined as part of the quarterly risk-bearing capacity process using the VaR method with a holding period of 365 calendar days and a confidence level of 99.9%. For monthly operational management and monitoring, a holding period of 60 calendar days and a confidence level of 99.9% are assumed under the VaR method. The model is based on a historical simulation and calculates potential profits and losses taking into account 1,460 historical market fluctuations (volatilities). The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and –200 basis points, as specified by the German Federal Financial Supervisory Authority (BaFin).

In addition to the present value perspective, interest rate risk at Volkswagen Leasing GmbH is also measured from an income-oriented or periodic perspective pursuant to the provisions of MaRisk. The income-oriented perspective relates to the periodic gains and losses and therefore represents a direct correlation to the income statement.

The overall focus of interest rate risk management is on the present value perspective. The periodic perspective supplements the present value perspective and is monitored via the threshold value.

The calculation of interest rate risk uses notional maturities to take into account early contract settlements.

Risk monitoring and control

Under an outsourcing agreement, the Treasury unit of Volkswagen Bank GmbH is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed by implementing specific drawdowns of funds and by using interest rate derivatives at both micro and portfolio levels. Risks are monitored by Volkswagen Leasing GmbH’s Risk Management using a system of limits. Also under an outsourcing agreement, the communication of the main risk management information and relevant early-warning indicators is carried out within the framework of the reporting on interest rate risks by the Risk Management of Volkswagen Bank GmbH.

A report on the latest position regarding interest rate risk is submitted to the Management Board and Risk Management of Volkswagen Leasing GmbH once a month. In addition, Risk Management submits reports to the Management Board of Volkswagen Leasing GmbH in the quarterly risk management report.

Trends

Due to the sharp rise in interest rates since the beginning of the year, market risk increased strongly in the form of interest rate risk. The increased risk was actively countered through the use of corrective measures such as payer swaps.

Liquidity risk

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows.

Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. This results in a distinction between illiquidity risk (day-to-day cash flow risk including deposit withdrawal/commitment drawdown risk and the risk of delayed repayment of loans on maturity), funding risk (structural liquidity risk) and market liquidity risk. The primary objective of liquidity management at Volkswagen Leasing GmbH is to safeguard the ability of the Company to meet its payment obligations at all times.

If liquidity risk were to materialize, funding risk would result in higher costs and market liquidity risk would result in lower selling prices for assets, both of which would have a negative impact on results of operations. The most serious consequence associated with the risk of insolvency is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise.

Risk identification and assessment

The expected cash flows at Volkswagen Leasing GmbH are brought together and evaluated by the Treasury unit at Volkswagen Bank GmbH on the basis of an outsourcing agreement.

The Risk Management of Volkswagen Bank GmbH is responsible for identifying and recording liquidity risk, also on the basis of an outsourcing agreement. Stress tests are applied to funding matrices using a scenario approach with scenario triggers from the Company itself or the market, or a combination of the two. To determine the parameters for these stress scenarios, the first approach uses observed historical events and specifies different degrees of impact from hypothetical, but conceivable events. To quantify the funding risk, this approach takes into account the relevant aspects of illiquidity risk and changes in spreads driven by credit ratings or the market.

Risk monitoring and control

To manage liquidity, the Operational Liquidity Committee (OLC) holds meetings at least every other week at which it monitors the current liquidity situation. It decides on funding measures and prepares any necessary decisions for the decision-makers.

Under an outsourcing agreement, the Risk Management unit at Volkswagen Bank GmbH communicates key management information and relevant early warning indicators relating to risk of insolvency and funding risk to the Management Board and the Risk Management unit at Volkswagen Leasing GmbH. As far as risk of insolvency is concerned, these indicators involve appropriate threshold values for determined degrees of utilization over various time horizons, taking into account access to relevant sources of funding. The indicators relating to funding risk are based on potential funding costs, which are monitored using a system of limits.

A further strict requirement imposed under banking regulations is the need to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons. For this reason, a contingency plan with an appropriate list of measures for obtaining liquidity has already been drawn up so that it can be implemented in the event of a liquidity squeeze. The Management Board and Risk Management unit of Volkswagen Leasing GmbH are given an up-to-date report on the liquidity position on a monthly basis.

Trends

At the level of Volkswagen Leasing GmbH, liquidity risk remained stable in the reporting period. Funding risk always remained within the specified limits.

NONFINANCIAL RISKS

Operational risk

Operational risk (OpR) is defined as the risk of loss resulting from inadequate or failed internal processes (process risk), people (HR risk) or systems (technological risk), or resulting from external events (third-party risk). This definition includes legal risks.

Other categories of risk, such as reputational or strategic risk, do not fall within the scope of operational risk because they are analyzed separately.

The objective of operational risk management is to present operational risks transparently and initiate precautionary or corrective measures with a view to preventing or mitigating the risks or losses. If an operational risk materializes, this can lead to an operational loss with the potential resulting loss of a business asset, which would have a negative impact on net assets, financial position and results of operations.

The operational risk strategy specifies the focus for the management of operational risk; the operational risk manual sets out the implementation process and allocates responsibilities.

Risk identification and assessment

Operational risks or losses are identified and assessed by experts with the help of two operational risk tools: risk self-assessments and a loss database. Risk self-assessments and losses are subject to approval by a second expert.

The risk self-assessment is used to determine an assessment of future potential risks. A standardized risk questionnaire is provided once a year for this purpose. The local experts use these questionnaires to determine and record the details for various risk scenarios. The details include the possible amount of the risk and the probability of occurrence, in each case with typical and maximum figures.

The central loss database is used to ensure that information about operational losses is collected internally on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. This form can be used, for example, to determine the amount and cause of the loss.

Based on the figures from the risk self-assessment and the historical losses, Risk Management carries out quarterly calculations to determine the expected loss, unexpected loss and then the overall value-at-risk (VaR).

Regular training and communications campaigns aim to create greater awareness of operational risk at Volkswagen Leasing GmbH. These activities have led to better recording of loss events. Experience and information gained about past loss events means that potential future risks can be assessed more comprehensively and more accurately.

Risk monitoring and control

Operational risk is managed by the branches/divisions (operational risk units) on the basis of the guidelines in force. To this end, local management decides whether future risks or resulting losses are to be prevented (risk prevention), mitigated (risk mitigation), consciously accepted (risk acceptance) or transferred to third parties (risk transfer).

On the basis of random samples, Risk Management checks the plausibility of the information provided by the branches/divisions in the risk self-assessments, reviews the reported loss events and then initiates any necessary corrective action, reviews the operational risk system to ensure it is fully functioning and instigates appropriate modifications as required. This includes, in particular, the full integration of all operational risk units and a review of the methods and procedures used for risk measurement.

Risks are also managed on the basis of the specified limit and quarterly monitoring of the limit utilization in the risk-bearing capacity assessment. Operational risks and losses are communicated on a quarterly basis as part of the risk management reports. The quarterly details are supplemented by an annual operational risk report in which the main events of the year are presented and assessed again in a coherent manner. Ad hoc reports are issued in addition to the regular reports, provided that the relevant specified criteria are satisfied.

Trends

Despite the decline in fiscal year 2023, actual operational losses continued at a high level. The resulting operational risks for the fiscal year are also decreasing. This decline in the reporting period is mainly the result of utilizing a provision for leasing transactions from operations.

Risk from outsourcing activities

Outsourcing describes a situation in which another entity (the outsourcee) is engaged to carry out activities and processes in connection with the provision of services that would otherwise be carried out by the outsourcing entity itself.

A distinction needs to be made between outsourcing and one-time or occasional procurement from third parties of goods or services or services that are typically obtained from a supervised entity and, because of the actual circumstances or legal requirements, cannot usually be supplied by the buying entity itself, either at the time of the purchase from the third party or in the future.

The aim of outsourcing management, which is closely associated with operational risk management, is to identify the risks from outsourcing and manage them in accordance with specific strategic objectives.

Risk identification and assessment
Risks are identified and assessed by examining the circumstances and performing a risk analysis. In the first step, an examination of the circumstances is used to establish whether the planned activity constitutes procurement from a third-party supplier or an outsourcing arrangement. The risk analysis uses various criteria to determine the risk content. The outcome is the classification of the outsourcing arrangement as material or immaterial. “Material” outsourcing arrangements are subject to greater monitoring and control requirements as well as special and stricter contractual clauses. Since April 1, 2023, the process described here has been supported by recently installed outsourcing management software.

Risk monitoring and control
For monitoring and control purposes, Volkswagen Leasing GmbH has issued a framework policy specifying the guidelines for outsourcing management.

Before each contract is signed, the service to be provided must be discussed with and examined by outsourcing management. This ensures that the contracting party is informed about all outsourced activities.

The Management Board of the Company is informed on a quarterly basis about the existing risks and the countermeasures that have been put in place. The quarterly details are supplemented by an annual report in which the main events of the year are presented and assessed again.

Compliance and conduct risk

At Volkswagen Leasing GmbH, compliance risk encompasses all risks that could arise from non-compliance with statutory rules and regulations or other official or regulatory requirements, or that could be caused by a breach of internal company regulations.

This is not to be confused with conduct risk, which is defined as the risk arising from inadequate conduct by the institution toward the customer, unreasonable treatment of the customer or provision of advice using products that are not suitable for the customer.

In addition, integrity risk encompasses all risks that arise from a failure of employees to behave in an ethically acceptable manner or act in accordance with the Group Essentials, thereby presenting an obstacle to the long-term success of the business.

Volkswagen Leasing GmbH has taken account of these risks by setting up a local compliance and integrity unit which works toward specifying and implementing risk-mitigating measures. The tasks of the compliance unit are managed by Volkswagen Bank GmbH on the basis of an outsourcing arrangement.

To counter risks relating to compliance and conduct, it is the responsibility of the compliance unit to ensure that laws, other legal requirements, internal rules and self-proclaimed values are adhered to, and to create and foster an appropriate compliance culture. It is also the responsibility of the integrity function, on the basis of an integrity management system, to raise awareness of the ethical principles, the code of conduct and the need for compliance, and to help employees choose the right course of action, responsibly and steadfastly, driven by their own personal conviction.

Further regular activities also nurture a compliance and integrity culture. These activities include, in particular, constantly promoting the Volkswagen Group’s Code of Conduct, raising employee awareness on a risk-oriented basis (e.g. “tone from the top”, classroom training, e-learning programs and other media-based activities), implementing communications initiatives, including distributing guidelines and other information media, and participating in compliance and integrity programs.

The compliance unit has been set up on a decentralized basis. The departments are responsible for complying with the rules and regulations in their respective areas of activity. A compliance theme coordinator is appointed for all central and core rules and regulations. The coordinator is responsible for adherence to and the implementation of the defined compliance requirements (such as documenting responsibilities, setting up controls, raising awareness and training employees).

Using the control plans and records as a basis, the compliance unit checks whether the implemented controls are appropriate. In addition, the findings from various audit activities are used to evaluate whether there are indications that the implemented compliance requirements are ineffective, or whether the audits have identified material residual risks on the basis of which further action needs to be determined.

As part of the compliance unit, the role of the compliance officer is to work toward implementing effective procedures to ensure compliance with legal rules and regulations that are central for and core to the institution and toward establishing appropriate controls. This is achieved, in particular, by specifying mandatory compliance requirements for legal stipulations classified as material. These requirements include documenting responsibilities and processes, establishing controls to the extent required and raising employee awareness of pertinent rules so that employees comply with the rules as a matter of course, reflecting a fully functioning compliance culture.

The compliance officer is responsible for coordinating ongoing legal monitoring, the purpose of which is to ensure that new or amended legal regulations and requirements are identified promptly. The compliance theme coordinators in turn must work in collaboration with the legal department and the various other departments to implement measures aimed at identifying at an early stage new or amended regulations and requirements relevant to their areas of responsibility and, if such relevance is established, furnishing an analysis of materiality for the Company. The respective compliance officer is notified immediately of any identified regulations and requirements.

The internal Compliance Committee conducts a regular materiality analysis on the basis of the outcomes of this legal monitoring. After taking into account the evaluated compliance risks, the Compliance Committee makes a decision on the materiality of new legal requirements applicable to the Company. Compliance risk primarily includes the risk of a loss of reputation vis-à-vis the general public or supervisory authorities and the risk of material financial loss.

Currently, the following specific legal fields have been determined as being generally material from the perspective of the institution:

> Prevention of money laundering and terrorist financing
> Prevention of corruption and other criminal acts
> Data protection
> Consumer protection
> Securities trading law/capital markets law
> Supervisory law
> Antitrust law, and
> IT security

The compliance requirements for Volkswagen Leasing GmbH are specified centrally and must be implemented autonomously in Germany and Italy. Deviations from the minimum requirements or guidelines are only possible if accompanied by a description of the reasons (such as local statutory requirements) and only in consultation with, and with the consent of, the institution’s compliance officer.

As in the case of the compliance unit, the central integrity unit only specifies the basic framework for Volkswagen Leasing GmbH. Responsibility for raising employee awareness of the ethical principles remains with the local entities and their respective integrity officers.

The compliance and integrity officer receives regular reports and carries out on-site visits on a risk-oriented basis to ensure that the local compliance and integrity units are meeting their responsibilities.

To meet the statutory reporting requirements of the compliance unit, the compliance officer must submit to the Management Board both regular reports on the outcome of the meetings of the Compliance Committee and ad hoc reports as necessary (for example, if control plans are not prepared by the required deadline).

The Management Board also receives an annual compliance report, and additional compliance reports as required. The annual compliance report contains a presentation of the appropriateness and effectiveness of the compliance requirements implemented to ensure compliance with central and core legal rules and regulations.

The Management Board has entered into a voluntary undertaking regarding compliance and integrity. This ensures that aspects of compliance and integrity are also always discussed and taken into consideration for all decisions of the Management Board.

Business risk

Based on net asset value analysis, strategic risk is combined with earnings risk and reputational risk to form business risk and subtracted from the risk-taking potential. Business risk is measured on the basis of an expert estimate. The risk subcategories of earnings risk, strategic risk and reputational risk have been defined as follows:

Earnings risk

Earnings risk refers to the risk that actual values will vary from the budgeted values for certain items on the income statement that are not already covered by the other categories of risks described elsewhere.

The objective is to regularly analyze and monitor the potential risk associated with earnings risk to ensure that variances compared with budgeted values are identified at an early stage and any necessary corrective action is initiated. If the risk were to materialize, this would adversely impact the operating result.

Strategic risk

Strategic risk is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions.

Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the Management in relation to the positioning of the Company in the market.

The objective of Volkswagen Leasing GmbH is the controlled acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

Reputational risk

Reputational risk refers to the risk that an event or several successive events could cause reputational damage (in the eyes of the general public), which in turn could limit current and future business opportunities or activities (potential earnings), thereby leading to an indirect adverse financial impact (customer base, sales, funding costs, etc.) and/or direct financial losses such as penalties, litigation costs, etc.

The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

Model risk

Model risk arises from inaccuracies in the risk figures and must be taken into account, particularly in the case of underestimated risk and complex models.

Depending on model complexity, model risk can occur in a number of areas of model development and application.

Potential model risks in the risk models are assessed by the model coordinator on a qualitative basis in an annual model review. The objective is to verify that the risks are covered by the Company's own funds.

The assessment is carried out using the criteria “simple”, “transparent”, “conservative”. If there is evidence of model risk, a validation must be carried out. The validation must include decisions on the measures to reduce the risk. The monitoring process includes a regular inventory check of all models, validations and model risk classifications using a model risk inventory list.

SUMMARY

Volkswagen Leasing GmbH accounts for the risks arising as part of its operating activities. This approach is based on a comprehensive system for identifying, measuring, analyzing, monitoring and controlling risks, which is part of a comprehensive risk- and return-oriented management system.

In response to the continuing tense situation in the markets, the provision for credit risks has already been increased.

To counter the decline in residual values in the course of the year, the provision for residual value risk has also been raised accordingly.

The interest rate hikes in 2023 led to a continuous rise in market risk (interest rate risk), which Volkswagen Leasing GmbH actively counteracts via interest rate derivatives.

The risk-bearing capacity was assured at all times in 2023. Volkswagen Leasing GmbH does not believe that there are any risks to the continuation of the business as a going concern.

Report on Expected Developments

The global economy is expected to grow in 2024, albeit at a slower pace. Global demand for passenger cars will probably vary from region to region, but largely develop positively. With our brand diversity, broad product range and services, we believe we are well prepared for the future challenges in the mobility business.

The expected development of the Volkswagen Leasing GmbH Group and the framework conditions of its business activities are described in the following. Risks and opportunities that could cause a deviation from the forecast development are presented in the report on risks and opportunities.

The assumptions are based on current estimates by third-party institutions. These include economic research institutes, banks, multinational organizations and consulting firms.

DEVELOPMENTS IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will grow overall in 2024 albeit at a slower pace. The persistently high inflation in many regions and the resulting restrictive monetary policy measures taken by central banks are expected to increasingly dampen consumer spending. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, continuing geopolitical tensions and conflicts are weighing on growth prospects; risks are associated in particular with the Russia-Ukraine conflict and the confrontations in the Middle East. Furthermore, it cannot be ruled out that risks may also arise if new variants of the SARS-CoV-2 virus occur, particularly with regard to regional outbreaks and the measures associated with these. We assume that both the advanced economies and the emerging markets will show positive momentum on average, but with below-average growth in gross domestic product (GDP).

We also expect the global economy to recover in 2025 and continue a path of stable growth until 2028.

Europe

In Western Europe, we expect a comparatively low rate of economic growth in 2024. The relatively high overall level of inflation, albeit projected to taper off further as the year goes on, poses a major challenge for consumers and companies alike, as do the relatively high interest rates. It is therefore possible that the European Central Bank (ECB) might make the first cuts in key rates of interest as early as 2024 to support the eurozone economy.

Germany

We expect only low growth in GDP in Germany in 2024, and, averaged over the year, we anticipate that inflation will fall further but remain relatively high. The labor market situation is likely to deteriorate.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We assume that automotive financial services will prove highly important to global vehicle sales in 2024. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the consequences of the Russia-Ukraine conflict and the confrontations in the Middle East. Furthermore, the increased interest rates could put pressure on the demand for financial services. Demand for solutions providing access to mobility at the lowest possible total cost is expected to continue to grow in regions with established automotive financial services markets. The shift initiated in the European financial services business with individual customers from financing to lease contracts will also continue. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, we expect that demand will increase for new forms of mobility, such as rental and car subscription services, and for integrated mobility services, for example parking, refueling and charging. We anticipate an increase in the importance of direct business between manufacturers and customers. The seamless integration of financial services into the online vehicle offering will become increasingly important in the promotion of this type of business. We estimate that this trend will also persist in the years 2025 to 2028.

In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2024. This trend is also expected to persist in the period 2025 to 2028.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further. Crisis-related disruption to the global supply chain and the resulting impact on vehicle availability may weigh on the volume of new registrations. Uncertainty may also arise from shortages of intermediates and commodities. These could be further exacerbated by the impacts of the Russia-Ukraine conflict and fighting in the Middle East, the consequences of which could specifically include rising prices and a reduction in the availability of energy.

We predict that trends in the markets for passenger cars in the individual regions will be mixed but predominantly positive in 2024. Overall, the global volume of new car sales is expected to be slightly higher than in the previous year. We are forecasting growing demand for passenger cars worldwide in the period from 2025 to 2028.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed, with sales volume expected to match or slightly exceed the previous year's level in 2024 overall. For the years 2025 to 2028, we expect demand for light commercial vehicles to increase globally.

Europe

For 2024, we anticipate that the volume of new passenger car registrations in Western Europe will be slightly above that recorded in the reporting period. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. For the major individual markets of France, the United Kingdom, Italy and Spain, we expect growth in 2024 to varying degrees between slight and noticeable.

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2024 to be noticeably up on the previous year's level. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. We expect a slight decline in Italy.

Germany

In the German passenger car market, we expect the volume of new registrations in 2024 to be slightly up on the prior-year level.

We anticipate that the number of registrations of light commercial vehicles in 2024 will also be slightly up on the previous year's figure.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2024, we expect to see a noticeable downward trend in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year in the markets that are relevant for the Volkswagen Group, with variations from region to region.

A noticeable decline in the market is expected in the 27 EU countries excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3). A large part of the pent-up demand for trucks from recent years was already met in the reporting year, meaning that demand will return to normal in 2024.

On average, we anticipate a constant level in the relevant truck markets for the years 2025 through 2028.

A noticeable year-on-year increase in demand is anticipated for 2024 in the bus markets relevant for the Volkswagen Group, whereby this will vary depending on the region. In the EU27+ 3 region, we expect demand on a level with the previous year.

Overall, we expect demand for buses to be steady on average across the relevant markets for the period from 2025 to 2028.

INTEREST RATE TRENDS

Interest rates rose strongly again in Europe and across much of the rest of the world in fiscal year 2023. Some central banks did put an end to interest rate rises in the second half of the year though, and no further significant interest rate hikes are anticipated in 2024. It is expected instead that the first cuts in interest rates could start to be made from the middle of the year.

Interest rate trends are generally factored into pricing.

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility patterns. Among the general public, environmental and climate protection has grown immensely in importance over the last few years and is attracting increasing attention from lawmakers. Especially in large metropolitan areas, new challenges are appearing in connection with the design of an intelligent mobility mix consisting of public transport combined with motorized and non-motorized private transport. In addition, new mobility solutions will change the traditional perception of owning a vehicle. As a result, mobility is being redefined in many respects.

Volkswagen Financial Services AG closely monitors developments in the mobility market and is working on new models to support alternative marketing approaches and establish new mobility concepts with the goal of securing and expanding its business model. Simple, convenient, transparent, safe, reliable, flexible – these are the standards that the company has set for itself. Volkswagen Leasing GmbH plays a key role in this regard.

From traditional financing and traditional leasing, long-term rentals and car hire to car subscription, Volkswagen Leasing GmbH and other subsidiaries of Volkswagen Financial Services AG already cover a large proportion of the mobility needs of their customers.

Under the VW FS | Auto Abo product name, Volkswagen Financial Services AG, through its Euromobil GmbH subsidiary, offers customers a flexible car subscription as an alternative to leasing and credit financing. It covers several brands of the Volkswagen Group and enables customers to use a vehicle without any long-term commitment. The VW FS | Auto Abo allows customers to gather initial experience in the use of an electric vehicle as a way of overcoming assumed entry barriers.

In cooperation with Volkswagen Leasing GmbH, Euromobil GmbH is also responsible for the car subscription offerings of other Group brands, such as Volkswagen, Audi, CUPRA and Skoda in Germany, thus providing an additional boost to the Volkswagen Group's electrification strategy.

The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. In addition, Volkswagen Leasing GmbH already offers a supporting portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts are focused on the global expansion of payment solutions for digital business models in the Volkswagen Group and the ongoing development of electric vehicle charging and fuel card services in Europe. Together with the charging network of the Group brand Elli, Volkswagen Leasing GmbH provides access to over 550,000 public charging points and another 20,000 fueling stations in Europe through the Charge&Fuel Card.

As in the case of vehicles with conventional combustion engines, Volkswagen Leasing GmbH is a close partner with the Volkswagen Group brands in the marketing of electric vehicles. Attractive leasing offers in particular play an important role in the marketing of the Volkswagen Group's e-vehicles. These are supplemented by maintenance and wear-and-tear packages.

In this context, Volkswagen Leasing GmbH continues serving as a one-stop shop for its customers, remaining true to the essence of its company slogan "The Key to Mobility" also in the future.

Volkswagen Leasing GmbH makes a significant contribution to fulfilling the brand promise with its products and services.

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Leasing GmbH expects its business growth in fiscal year 2024 to be linked to the growth in unit sales of Volkswagen Group vehicles.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through joint strategic projects. Furthermore, Volkswagen Leasing GmbH intends to maintain the measures it has introduced to leverage greater potential along the automotive value chain.

Together with the Group brands, Volkswagen Leasing GmbH aims to provide optimum solutions to satisfy the wishes and needs of its customers. Its end customers are looking in particular for sustainable individual mobility with predictable fixed costs. The Company is also looking to digitalization to drive further expansion of the business.

The product packages and mobility solutions successfully launched in the last few years will be refined strictly in line with customer needs (e.g. electromobility). In addition to optimizing existing products, the focus is on discontinuing outdated products and introducing innovative sustainable products and services.

Forecast for credit risk

Due to the continuing deterioration of economic conditions in the light of inflation, geopolitical uncertainty and a weak economy, the risk situation with regard to credit risk is expected to increase slightly in 2024. In this context, the effects are strongly dependent on the further course of economic development. The Company continues to monitor the risk situation closely so that it can respond proactively to any potential developments by initiating targeted corrective measures.

Forecast for residual value risk

On account of the projected growth in business, we are anticipating an increase in overall risk. Although the risk situation for 2024 is largely considered to be stable, used vehicle prices are projected to follow a slight downward trend in 2024.

Forecast for liquidity risk

The risk situation is considered to be stable. In spite of the geopolitical uncertainties (Russia-Ukraine conflict, among others), the established sources of funding are available. Funding diversification continues to be extended and existing sources of funding are being expanded.

Forecast for operational risk

Any change in operational risk going forward will generally be shaped by the growth in the Company's business. Due to the anticipated expansion of the business volume, operational risk is expected to rise in 2024.

OUTLOOK FOR 2024

Volkswagen Leasing GmbH's Management Board expects the global economy to grow at a slower pace in 2024.

Risks will arise first and foremost from the increased uncertainty caused by the Russia-Ukraine conflict, interest rate trends, high inflation and the resulting drop in real purchasing power. Furthermore, other geopolitical tensions and conflicts could give rise to supply bottlenecks for intermediaries and commodities, which would then lead to restricted vehicle availability.

When the above factors and the market trends are considered, the following overall picture emerges: earnings expectations assume an increase in funding costs, greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future and continued uncertainty about macroeconomic conditions in the real economy as well as potential effects arising from geopolitical upheaval. In addition, risk costs and market developments of derivatives used for hedging purposes have a significant impact. These depend on the further course of the economy and interest rates.

Based on the effects described above and assuming that the margin will stabilize in the coming year and performance in the services business will be positive, the operating result for fiscal year 2024 is projected to be substantially above the prior-year level. Based on the expected rise in the number of vehicle deliveries and a slight year-on-year increase in the penetration rate for Volkswagen Leasing GmbH in the Germany market, new contracts are forecast to grow noticeably. Moderate increases compared with prior-year figures are anticipated for existing contracts.

For the coming fiscal year, the Italian market is predicted to see stable unit sales (deliveries to customers) and a significant rise in new leasing business. The number of existing leases will go up slightly, while the services business will contract slightly. The higher provision for direct residual value risk and lower income from marketing used vehicles are expected to lead to a significant decline in the operating result in 2024.

A rise in new leasing business is forecast for MAN Financial Services in the coming fiscal year due to the planned increase in deliveries to customers and a slight rise in the penetration rate.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2023 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2023	Forecast for 2024	
Nonfinancial performance indicators			
Penetration (percent)	58.0	> 58.0	Slightly up on previous year
Current contracts (thousands)	1,978	> 1,978	Moderately up on previous year
New contracts (thousands)	750	> 750	Noticeably up on previous year
Financial performance indicators			
Volume of business (€ million)	45,285	> 45,285	Moderately up on previous year
Operating result (€ million)	–162	> 162	Substantially up on previous year
Return on equity (percent)	–2.0	> 2.0	Substantially up on previous year
Cost/income ratio (percent)	85	< 85	Significantly below previous year

Braunschweig, February 13, 2024
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

Balance Sheet

of Volkswagen Leasing GmbH, Braunschweig, as of December 31, 2023

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Assets		
1. Loans to and receivables from banks		
b) From other activities		
aa) Repayable on demand	802,639	619,918
2. Loans to and receivables from customers		
a) From payment services	192	243
aa) From fees and commissions	192	243
b) From other activities	8,614,960	8,311,091
	8,615,152	8,311,334
3. Notes and other fixed-income securities		
b) Commercial paper and notes		
ba) From public-sector issuers	102,519	–
4. Lease assets		
aa) From other activities	45,029,628	41,227,096
5. Intangible fixed assets		
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	94,065	80,382
	94,065	80,382
6. Property and equipment		
a) Land and buildings		
ab) From other activities	24,577	25,961
b) Operating and office equipment		
ab) From other activities	689	481
	25,266	26,442
7. Other assets		
b) From other activities	1,976,324	1,987,780
8. Prepaid expenses and accrued income		
b) From other activities	1,341,162	1,038,696
Total assets	**57,986,755**	**53,291,648**

€ thousand	Dec. 31, 2023	Dec. 31, 2022
Equity and liabilities		
1. Liabilities to banks		
b) From other activities		
aa) Repayable on demand	–	162
	–	162
2. Liabilities to customers		
b) From other activities	28,438,604	27,603,478
3. Notes, commercial paper issued		
a) Bonds issued	11,246,340	10,978,686
b) Commercial paper	897,981	1,438,526
	12,144,321	12,417,212
4. Other liabilities		
b) From other activities	1,460,781	1,254,251
5. Prepaid expenses and accrued income		
b) From other activities	11,000,505	9,622,317
6. Provisions		
a) Provisions for pensions and other post-employment benefits		
bb) From other activities	1,243	1,114
b) Provisions for taxes		
bb) From other activities	29,435	35,619
c) Other provisions		
bb) From other activities	1,635,189	2,080,759
	1,665,867	2,117,492
7. Special tax-allowable reserve	765	824
8. Fund for general banking risks	6,000	6,000
9. Equity		
a) Subscribed capital	76,004	76,004
b) Capital reserves	3,193,259	193,259
c) Net retained profits	649	649
	3,269,912	269,912
Total equity and liabilities	**57,986,755**	**53,291,648**
1. Contingent liabilities		
Liability arising from the provision of collateral for third-party liabilities	84,375	74,953
2. Other obligations		
Irrevocable leasing commitments	6,896,733	11,267,767

Income Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period from January 1 through December 31, 2023

€ thousand	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
1. Lease income	26,213,082	23,104,557
2. Leasing expenses	13,349,344	11,652,020
	12,863,738	11,452,537
3. Interest income		
b) From other activities		
aa) Lending and money market transactions	419,759	142,249
4. Interest expense		
b) From other activities	1,317,311	713,886
thereof: unwinding of discount on provisions	1,430	2,965
	–897,552	–571,637
5. Fee and commission income		
a) From payment services and the issuance of e-money	48	82
b) From other activities	23,727	812
6. Fee and commission expenses		
b) From other activities	1,202,984	970,135
	–1,179,209	–969,241
7. Other operating income		
b) From other activities	288,687	270,277
8. Income from the reversal of special tax-allowable reserve	59	59
9. General and administrative expenses		
a) From payment services and the issuance of e-money		
bb) Other administrative expenses	125	123
b) From other activities		
aa) Personnel expenses		
aaa) Wages and salaries	4,768	4,254
bbb) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €129 thousand	1,395	1,192
	6,163	5,446
bb) Other administrative expenses	614,844	625,483
	621,132	631,052

€ thousand	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
10. Depreciation, amortization and write-downs		
a) Depreciation and write-downs of lease assets		
ab) From other activities	10,945,616	9,257,708
b) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment		
bb) From other activities	60,267	60,978
	11,005,883	9,318,686
11. Other operating expenses		
b) From other activities	21,788	28,430
12. Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business		
b) From other activities	579,013	1,592,874
13. Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business		
b) From other activities	655,447	349,716
14. Result from ordinary business activities	**–496,646**	**–1,039,331**
a) From payment services and the issuance of e-money	–77	–41
b) From other activities	–496,569	–1,039,290
15. Income tax expense	–18,080	–23,386
a) From payment services and the issuance of e-money	–3	–1
b) From other activities	–18,077	–23,385
16. Income from the absorption of losses	478,566	1,015,945
a) From payment services and the issuance of e-money	80	42
b) From other activities	478,486	1,015,903
17. Net income for the year	**–**	**–**
18. Retained profits brought forward	649	649
19. Net retained profits	**649**	**649**

Notes

to the Annual Financial Statements of Volkswagen Leasing GmbH, Braunschweig, as of December 31, 2023

1. General Information

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the provisions of the *Handelsgesetzbuch* (HGB – German Commercial Code) and the *Verordnung über die Rechnungslegung der Kreditinstitute* (RechKredV – German Bank Accounting Regulation) as well as the additional disclosures required under the *Verordnung über die Rechnungslegung der Zahlungsinstitute und E-Geld-Institute* (RechZahlV – German Regulation on the Accounting of Payment Institutions and E-Money Institutions).

Volkswagen Leasing GmbH provides IT and other internal services for companies in the Volkswagen Financial Services AG Group. An internal cost allocation system is used to charge these services to the German group companies according to the costs-by-cause principle. The income derived from the allocation of these costs is reported under other operating income/expenses.

2. Accounting Policies

The accounting policies applied in the previous year have been retained.

Intangible fixed assets, property and equipment, and lease assets are carried at cost less depreciation and less impairment losses, if the impairment is expected to be permanent, taking existing collateral into account. In this process, the non-amortizable intangible fixed assets are measured at fair value. Since a hedge relationship exists between the residual value under the lease and the put option, the option to apply hedge accounting allowed by section 254 of the HGB has been applied.

The office buildings are depreciated on a straight-line basis (useful life of 50 years for old buildings and 25 years for new buildings). Operating and office equipment is depreciated on a straight-line basis over its typical useful life of three to seven years. Lease assets are depreciated on a straight-line basis over their typical useful life. The useful life of a passenger car is six years, of trucks and buses between five and nine years, and of other leased items, which mainly comprise movable lease assets at dealerships (workshop equipment), three to 13 years. Amortizable intangible fixed assets are amortized on a straight-line basis over three years. Non-amortizable intangible assets are written down for any impairment expected to be permanent.

Receivables and other assets are recognized at their principal amounts. Appropriate valuation allowances are recognized to take into account any default risk. Lease purchase agreements that specify the transfer of ownership of the vehicle from Volkswagen Leasing GmbH (MAN Financial Services branch) to the customer on payment of the last installment are recognized under receivables from customers at the present value of receivables outstanding less any valuation allowances.

Bonds and other fixed-income securities are measured at cost or at the lower fair value.

Prepaid expenses are expenses incurred before the reporting date but attributable to a period or periods after this date; the item is reversed and taken to the income statement on a straight-line basis over the relevant period of time.

Liabilities are recognized at the settlement amount.

Deferred income comprises income before the reporting date, representing income or other operating income from the leasing business that is attributable to future periods.

Pension provisions are recognized at present values at the branch in Italy. The pension obligations are determined annually by an independent actuary using the projected unit credit method.

Discernible risks and uncertain liabilities are accounted for by recognizing adequate provisions in the amount required to settle the liability determined in accordance with prudent business judgment. Provisions with a maturity of more than one year are discounted using the average market discount rate for the previous seven fiscal years. This discount rate is published monthly by Deutsche Bundesbank.

On the basis of an existing profit and loss transfer agreement, deferred taxes are generally recognized by Volkswagen AG, Wolfsburg, the controlling entity in the tax group. Deferred taxes are recognized for all temporary differences between the carrying amounts in accordance with the HGB and those in the tax base using the specific company tax rate of 29.98%. No deferred tax liabilities were recognized separately in fiscal year 2023, as the Company exercised the option to offset deferred tax assets and deferred tax liabilities. The Italy branch, which is taxed separately, mainly recognizes deferred tax assets relating to lease assets and to provisions and liabilities. Beyond this, the Company does not exercise the option to recognize deferred tax assets provided for in section 274 of the HGB.

The model rules on global minimum taxation (Pillar 2) published by the OECD have been enacted or substantively enacted in certain countries where Volkswagen Leasing GmbH operates. For Germany, the legislation enters into force for the fiscal year of Volkswagen Leasing GmbH beginning on January 1, 2024. Volkswagen Leasing GmbH falls within the scope of the legislation that has been enacted or substantively enacted and has begun to assess the potential risk to which the company is exposed in relation to the global minimum taxation.

This assessment is based on the latest available information on the financial performance of Volkswagen Leasing GmbH. Based on the assessment made, the effective Pillar Two tax rates are higher than 15% in all jurisdictions in which Volkswagen Leasing GmbH operates. For this reason, Volkswagen Leasing GmbH does not expect any potential risk of additional Pillar Two taxes.

The exemption introduced in section 274(3) of the HGB means that deferred taxes in connection with income taxes arising from applicable or announced tax rules relating to the implementation of the Pillar Two model rules are neither recognized nor disclosed at Volkswagen Leasing GmbH.

Differences between the carrying amounts required by the HGB and those permitted in the tax base continue to be reported under the special tax-allowable reserve in exercise of the grandfather rights provided for in article 67(3) sentence 1 of the *Einführungsgesetz zum Handelsgesetzbuch* (EGHGB – Introductory Act to the German Commercial Code).

The fund for general banking risks was first established by MAN Financial Services GmbH in accordance with section 340g of the HGB in fiscal year 2012 and has been continued since then.

Equity is recognized at the nominal amount. Irrevocable lease commitments are reported at their present value. Interest rate derivatives entered into by Volkswagen Leasing GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements. The interest rate derivatives of Volkswagen Leasing GmbH were reviewed to assess whether there was any need to recognize a provision for expected losses. In addition to positive fair values, there were also negative fair values, and this led to the recognition of a provision for expected losses.

Leasing income is recognized insofar as the goods or services due have been provided and an entitlement to the due consideration has been created. Income from goods supplied, principally from the sale of used vehicles (sales revenue), is reported as soon as beneficial ownership has passed to the customer (transfer of possession, of the right to use and sell, of charges and of the risk of loss and accidental loss). The transfer of beneficial ownership is determined in accordance with the agreed terms of delivery and/or general terms and conditions. Income from services is recognized as soon as the service has been rendered. The amount of income reported corresponds to the agreed consideration minus the applicable sales tax and income deductions such as bonuses, discounts and rebates.

Balance Sheet Disclosures

The breakdown of receivables from banks is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Loans to and receivables from banks	802,639	619,918
(of which to affiliated companies €802,232 thousand; previous year: €619,591 thousand)		
Total	**802,639**	**619,918**

The breakdown of receivables from customers is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Trade receivables	1,641,754	1,510,018
2. Receivables from affiliated companies	6,956,225	6,790,249
(of which from the sole shareholder €846,127 thousand; previous year: €1,250,641 thousand)		
(of which trade receivables €395,780 thousand; previous year: €335,524 thousand)		
3. Other receivables	17,173	11,067
Total	**8,615,152**	**8,311,334**

The following table shows the maturity analysis for the receivables:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Loans to and receivables from banks	802,639	619,918
of which due in 0 – 3 months	802,639	619,918
2. Trade receivables	1,641,754	1,510,018
of which due in 0 – 3 months	364,639	365,226
of which due in 3 – 12 months	326,374	152,639
of which due in 12 – 60 months	950,741	992,153
3. Receivables from affiliated companies	6,956,225	6,790,249
of which due in 0 – 3 months	3,426,745	3,030,252
of which due in 3 – 12 months	235,514	709,892
of which due in 12 – 60 months	2,993,966	2,750,105
of which due in > 60 months	300,000	300,000
4. Other receivables	17,173	11,067
of which due in 0 – 3 months	17,173	11,067
Total	**9,417,791**	**8,931,252**

In the fiscal year under review, bonds and other fixed-income securities in an amount of €102,519 thousand were acquired for the first time to build a liquidity reserve. Of the bonds and other fixed-income securities, an amount of €102,519 thousand is eligible as collateral with the Deutsche Bundesbank and fully negotiable.

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. Capitalized put options are recognized under intangible assets.

Additions in the current fiscal year amounted to €72,476 thousand. Assets under construction amounting to €19 thousand (previous year: €9 thousand) are included in the land and buildings shown under fixed assets.

Other assets relate primarily to the receivable of €478,566 thousand under the profit and loss transfer agreement, available-for-sale lease returns amounting to €793,538 thousand (previous year: €394,822 thousand), receivables from the processing of ABS transactions amounting to €121,941 thousand (previous year: €172,537 thousand), accrued swap interest of €158,914 thousand (previous year: €119,885 thousand) and value added tax receivables of the Italy branch in an amount of €197,550 thousand (previous year: €125,649 thousand).

Prepaid expenses include discounts on purchased bonds and ABS transactions amounting to €1,226,796 thousand (previous year: €930,514 thousand); these discounts are amortized over the relevant maturity. Prepaid vehicle taxes of €11,032 thousand (previous year: €12,109 thousand), insurance payments in connection with service leases in the amount of €35,891 thousand (previous year: €30,997 thousand) and other prepaid expenses are also recognized under this item.

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Liabilities to banks	–	162
(of which to affiliated companies €0 thousand; previous year: €162 thousand)		
2. Liabilities to customers	28,438,604	27,603,478
(of which to affiliated companies €27,911,530 thousand; previous year: €27,255,563 thousand)		
(of which to the sole shareholder €5,265,126 thousand; previous year: €7,533,651 thousand)		
(of which trade receivables €787,430 thousand; previous year: €398,604 thousand)		
3. Notes, commercial paper issued	12,144,321	12,417,212
4. Other liabilities	1,460,781	1,254,251
Total	**42,043,706**	**41,275,103**

The following table shows the maturity analysis for the liabilities:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Liabilities to banks	–	162
of which due in 0 – 3 months	–	162
of which due in 3 – 12 months	–	–
of which due in 12 – 60 months	–	–
2. Liabilities to customers	28,438,604	27,603,478
of which due in 0 – 3 months	1,384,874	1,838,102
of which due in 3 – 12 months	6,593,605	8,973,803
of which due in 12 – 60 months	19,928,157	15,497,207
of which due in > 60 months	531,968	1,294,366
3. Notes, commercial paper issued	12,144,321	12,417,212
of which due in 0 – 3 months	1,975,436	1,708,825
of which due in 3 – 12 months	2,518,885	1,558,387
of which due in 12 – 60 months	4,950,000	7,650,000
of which due in > 60 months	2,700,000	1,500,000
4. Other liabilities	1,460,781	1,254,251
of which due in 0 – 3 months	323,161	280,275
of which due in 3 – 12 months	602,174	575,536
of which due in 12 – 60 months	535,446	398,440
Total	**42,043,706**	**41,275,103**

Volkswagen Leasing GmbH has not furnished any collateral in connection with the liabilities.

A total nominal amount of €3,500,000 thousand (previous year: €1,750,000 thousand) of the notes and commercial paper issued is due in the next fiscal year.

Other liabilities include liabilities for outstanding repair invoices under servicing and wear-and-tear agreements amounting to €839,581 thousand (previous year: €769,782 thousand) and swap interest liabilities amounting to €119,040 thousand (previous year: €56,506 thousand).

The provisions comprise pension provisions for the Italy branch amounting to €1,243 thousand (previous year: €1,114 thousand), tax provisions of €29,435 thousand (previous year: €35,619 thousand) and other provisions of €1,635,189 thousand (previous year: €2,080,759 thousand).

The other provisions include provisions for the risks arising in connection with existing leases. The provisions for residual value risks amount to €981 thousand (previous year: €800 thousand). Further notable recognized items include expenses from service leases and expenses for outstanding invoices in an amount of €288,168 thousand (previous year: €232,544 thousand). Provisions totaling €464,120 thousand (previous year: €475,431 thousand) have also been recognized for dealer bonuses and other bonus payments. The provision for expected losses from interest rate derivatives amounted to €588,000 thousand (previous year: €975,654 thousand). Expected losses from interest rate derivatives are set against positive fair values, which are not reported due to the prudence principle.

The provision recognized for risks arising from the terms and conditions of leases amounts to €17,400 thousand before discounting (previous year: €46,000 thousand). The discount amount is €456 thousand (previous year: €283 thousand).

The tax write-downs for the office building in accordance with section 3 of the *Zonenrandförderungsgesetz* (ZRFG – German Border Zone Development Act) are recognized in the special tax-allowable reserve. The reported net income is not materially increased by the reversal of the special tax-allowable reserve and the resulting change in the tax expense. This measurement for tax purposes will not have a significant impact on future net income either.

Subscribed capital did not change in the year under review.

Statement of changes in fixed assets of Volkswagen Leasing GmbH, Braunschweig, for 2023

€ thousand	Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	Land and buildings	Operating and office equipment	Assets under construction	Vehicles, technical equipment and machinery	Prepayments	Total fixed assets
Gross carrying amount Balance brought forward as of Jan. 1, 2023	**225,853**	**42,908**	**1,168**	**9**	**58,129,524**	**166,802**	**58,566,264**
Additions	72,476	–	333	10	25,393,343	263,522	**25,729,684**
Disposals	63,533	–	95	–	20,801,930	–	**20,865,558**
Transfers	–	–	–	–	166,801	–166,801	**–**
Balance as of Dec. 31, 2023	**234,796**	**42,908**	**1,406**	**19**	**62,887,738**	**263,523**	**63,430,390**
Depreciation, amortization and write-downs brought forward January 1, 2023	**145,471**	**16,956**	**687**	**–**	**17,069,230**	**–**	**17,232,344**
Additions	58,793	1,394	79	–	10,945,615	–	**11,005,881**
Disposals	63,533	–	49	–	9,893,212	–	**9,956,794**
Transfers	–	–	–	–	–	–	**–**
Balance as of Dec. 31, 2023	**140,731**	**18,350**	**717**	**–**	**18,121,633**	**–**	**18,281,431**
Net carrying amount as of Dec. 31, 2023	**94,065**	**24,558**	**689**	**19**	**44,766,105**	**263,523**	**45,148,959**
Net carrying amount as of Dec. 31, 2022	**80,382**	**25,952**	**481**	**9**	**41,060,294**	**166,802**	**41,333,920**

3. Income Statement Disclosures

Leasing income amounts to €26,213,082 thousand. The leasing expense amounts to €13,349,344 thousand and includes the expenses necessary to generate the income. These expenses largely comprise the net carrying amounts of lease assets for which the leases have expired, and expenses from the services business. Net leasing income is €12,863,738 thousand.

The breakdown of net interest income/expenses is as follows:

€ thousand	Dec. 31, 2023	Dec. 31, 2022
1. Interest income from lending and money market transactions	419,759	142,249
(of which from affiliated companies €357,075 thousand; previous year: €105,617 thousand)		
2. Interest expense	1,317,311	713,886
(of which to affiliated companies €1,081,286 thousand; previous year: €636,906 thousand)		
Total	**–897,552**	**–571,637**

Fee and commission income was up significantly because there was income rather than expenses from the commission model with Volkswagen Bank GmbH in the reporting period.

Fee and commission expenses rose to €1,202,984 thousand (previous year: €970,135 thousand). In this context, it has to be taken into account that fee and commission expenses were reduced by €72,476 thousand (previous year: €55,478 thousand), corresponding to the capitalized amount of put options under contracts dating from 2023. In addition, the item includes expenses of €115,318 thousand from additional payments under the commission model with Volkswagen Bank GmbH (previous year: €237,312 thousand).

Net other operating income is €288,687 thousand, of which €247,664 thousand is attributable to the leasing business and €41,023 thousand to the allocation of overheads to other entities. Other operating income includes income from administration and brokerage services provided for third parties amounting to €185,888 thousand (previous year: €161,828 thousand). Income related to prior periods is also included in the amount of €7,605 thousand (previous year: €12,597 thousand).

Income from the reversal of special tax-allowable reserve amounts to €59 thousand.

The personnel expenses for employees at the branches in Milan and Verona total €6,163 thousand, of which €4,768 thousand relates to wages and salaries and €1,395 thousand to social security costs.

Other administrative expenses amount to €614,969 thousand. These relate, in particular, to internal charges from other group companies in connection with workplace costs, staff leasing and IT services, and to charges for services provided by third parties.

Depreciation and write-downs on lease assets are reported separately, the recognized amount for this item being €10,945,616 thousand. This figure includes write-downs to fair value amounting to €743,316 thousand (previous year: €100,460 thousand). Lease assets have been written down by an additional amount of €396 thousand (previous year: €8,104 thousand) to account for risks arising from the early remarketing of vehicles following the default of a lessee (latent credit risk). Amortization and write-downs of intangible fixed assets and depreciation and write-downs of property and equipment amounted to €60,267 thousand (previous year: €60,978 thousand), of which €58,298 thousand was attributable to write-downs of put options.

Other operating expenses amounted to €21,788 thousand in the reporting period. This figure includes issuance and rating expenses of €7,094 thousand (previous year: €3,187 thousand) and expenses related to prior periods of €775 thousand (previous year: €2,055 thousand).

Expenses for write-downs of, and valuation allowances on, receivables and additions to provisions in the leasing business amounting to €579,013 thousand are offset by corresponding income of €655,447 thousand. The income is mainly attributable to income from reversals of the provision for expected losses from interest rate derivatives (€387,654 thousand).

The above figures resulted in a loss before tax for the reporting period of €496,646 thousand (previous year: loss before tax of €1,039,331 thousand).

Income tax expense includes tax allocations amounting to €–45,694 thousand (previous year: €–61,436 thousand).

Under the existing profit-and-loss transfer agreement, the loss after tax of €478,566 thousand is absorbed by Volkswagen Financial Services AG.

Breakdown of income by region:

€ thousand	Dec. 31, 2023			Dec. 31, 2022
	Germany	Italy	Total	Total
1. Lease income				
Lease payments	7,758,916	525,771	8,284,687	8,002,120
Maintenance and service income	1,137,265	323,835	1,461,100	1,354,229
Used vehicle sales	13,534,538	325,106	13,859,644	11,734,382
Miscellaneous	2,563,994	43,657	2,607,651	2,013,826
	24,994,713	1,218,369	26,213,082	23,104,557
3. Interest income from lending and money market transactions	419,700	59	419,759	142,249
5. Fee and commission income	23,775	–	23,775	82
7. Other operating income	286,543	2,144	288,687	270,277
8. Income from the reversal of special tax-allowable reserve	59	–	59	59
13. Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business	565,866	89,581	655,447	349,716
Total	**26,290,656**	**1,310,153**	**27,600,809**	**23,866,940**

4. Other Disclosures

Interest rate risk has been hedged by interest rate swaps with a total notional value of €44,804,524 thousand. As of the reporting date, the positive fair values were €463,184 thousand and the negative fair values €572,017 thousand. The fair values are determined using the discounted cash flow method with the help of market information as of the reporting date and suitable IT-based valuation methods. In connection with these derivatives, accrued interest of €158,914 thousand is included in other assets and €119,040 thousand in other liabilities.

The put options limit the residual value risk of the vehicles for Volkswagen Leasing GmbH. They give Volkswagen Leasing GmbH the right at the end of the contract term to sell the vehicles to the intermediary dealers at an agreed option price. This option price is therefore the minimum value threshold for Volkswagen Leasing GmbH. In accordance with section 254 of the HGB, the resulting hedge relationship meant that, by applying the net hedge presentation method (*Einfrierungsmethode*), a write-down of the lease assets in the amount of €587,751 thousand, equivalent to the hedged risk, was avoided.

The annual financial statements of the Company are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (largest basis of consolidation), which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

The annual financial statements of the Company are also included in the consolidated financial statements of Volkswagen Leasing GmbH, Braunschweig (smallest basis of consolidation), which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

To fund the lease assets, Volkswagen Leasing GmbH has placed asset-backed securities transactions (ABS transactions) in the market. Three such transactions were carried out in fiscal year 2023. In 2023, Volkswagen Leasing GmbH generated cash inflows totaling €10,364,166 thousand from the sale of future lease receivables and residual values under these leases. Six further transactions are in place, dating back to prior years. Other than the one-time inflows from each of these transactions, there is no other material impact on the present or future liquidity and financial position of Volkswagen Leasing GmbH.

The land and buildings belonging to Volkswagen Leasing GmbH are largely used by the other companies in the FS subgroup based in Braunschweig.

The irrevocable leasing commitments relate to confirmed leases for which the vehicle had not yet been delivered on the reporting date and for which the credit limit to which the Company had committed itself had thus not yet been utilized. It is expected that the credit will be drawn down, as the commitments relate to leasing agreements that have been entered into. Other financial obligations relate to purchase commitments in an amount that is not material for assessing the company’s financial position.

These contingent liabilities and obligations arise from ABS transactions VCL 33, VCL 34, VCL 35, VCL 36, VCL 37, VCL 38, VCL 39, VCL 40 and VCL Master RV C2. A market risk reserve serving as collateral for certain risks was paid to investors in connection with these transactions. It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize.

In the year under review, Volkswagen Leasing GmbH executed 57,761 payment transactions with a volume of €1,584 thousand.

Volkswagen Leasing GmbH does not enter into transactions with related parties that are not on an arm’s length basis.

The fees paid to the auditor are disclosed in the notes to the IFRS consolidated financial statements of Volkswagen Leasing GmbH. In 2023, the fees attributable to Volkswagen Leasing GmbH for audit-related services concerned the audit of the annual financial statements and reviews of interim financial statements prepared during the year.

The other services performed by the auditor in the reporting period focused mainly on other assurance services.

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are provided by Volkswagen Financial Services AG in return for a consideration. In addition, the Company had an annual average of 64 salaried employees, including one senior executive, at its branches in Milan and Verona (previous year: 53, including one senior executive).

The managing directors do not receive any remuneration from the Company. The expenses borne by the Company for the Management Board amounted to €1,266 thousand.

The Management Board is represented on the following supervisory bodies whose establishment is required by law:

Armin Villinger: Member of the Supervisory Board of Euromobil GmbH, Member of the Supervisory Board of LOGPAY Financial Services GmbH

The Management Board of Volkswagen Leasing GmbH proposes that the net retained profits of €648,680.82 be carried forward to the new fiscal year.

5. Report on Post-Balance Sheet Date Events

There were no developments of special significance for Volkswagen Leasing GmbH after the end of the 2023 fiscal year.

6. Company Information

Company: Volkswagen Leasing Gesellschaft mit beschränkter Haftung
Registered office: Braunschweig
Registry court: Amtsgericht Braunschweig, Commercial Register B
Commercial register number: HRB 1858

7. Governing Bodies of Volkswagen Leasing GmbH

The composition of the Management Board is as follows:

ARMIN VILLINGER
Chair of the Management Board
Fleet Germany, Volkswagen Leasing GmbH
Front Office, MAN FS (as of February 1, 2023)

FRANK CZARNETZKI (UNTIL JANUARY 31, 2023)
Front Office, MAN FS

HENDRIK EGGERS
Back Office, Volkswagen Leasing GmbH

MANUELA VOIGT
Retail Sales & Digitalization
Volkswagen Leasing GmbH

The members of the Audit Committee of Volkswagen Leasing GmbH are as follows:

WERNER FLÜGGE

Chair
Auditor, tax consultant, Managing Shareholder of Gehrke Econ GmbH WPG

HELMUT STREIFF

Deputy Chair
Managing Director of Streiff Holding GmbH & Co. KG

FRANK FIEDLER

Member of the Board of Management of Volkswagen Financial Services AG
Finance and Purchasing division

Braunschweig, February 13, 2024

Volkswagen Leasing GmbH
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of Volkswagen Leasing GmbH, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Leasing GmbH.

Braunschweig, February 13, 2024

Volkswagen Leasing GmbH
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

Independent Auditor's Report

To Volkswagen Leasing GmbH, Braunschweig

REPORT ON THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

OPINIONS

We have audited the annual financial statements of Volkswagen Leasing GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2023, and the income statement for the fiscal year from 1 January 2023 to 31 December 2023, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Leasing GmbH, Braunschweig, which is combined with the group management report, for the fiscal year from 1 January to 31 December 2023.

In our opinion, on the basis of the knowledge obtained in the audit,

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2023and of its financial performance for the fiscal year from 1 January 2023 to 31 December 2023in compliance with German legally required accounting principles, and
> the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the combined management report in accordance with Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the annual financial statements and of the management report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January 2023to 31 December 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matter:

Determination of the expected residual values of lease assets during impairment testing

Reasons why the matter was determined to be a key audit matter

The balance sheet item lease assets comprises vehicles under leases. The recoverability of the lease assets depends in particular on the expected residual value of the leased vehicles after expiration of the contractual term. The expected residual values are reviewed by the Company on a quarterly basis. The forecast residual values are adjusted to include constantly updated internal and external information on residual values, depending on specific local factors and the experiences gained in the marketing of used cars. This requires management to make, in particular, assumptions about vehicle supply and demand in the future, as well as about vehicle price trends.

In 2023, vehicle supply increased due to the normalization of the availability of intermediate products and raw materials, while vehicle demand is influenced by the effects of inflation and higher interest rates in many regions and markets, among other things. The residual values of electric vehicles are also influenced in particular by technological developments in this segment. Due to these factors, the estimation uncertainty in relation to the determination of the expected residual values remained heightened in the fiscal year. In this light, the determination of the expected residual values of the lease assets during impairment testing was a key audit matter.

Auditor’s response

During our audit, we analyzed the process implemented by the Company for determining and monitoring the residual values to identify any risks of material misstatement and obtained an understanding of the process steps and controls. On this basis, we tested the operating effectiveness of the implemented controls over the determination and monitoring of the expected residual values. To assess the forecasting models used to determine the residual values, we assessed the validation plans on the basis of the respective model designs to determine whether the validation procedures described in the plans allow an assessment of the models’ forecast quality. We investigated whether the validation procedures and the back testing performed led to any indications of model weaknesses or any need to adjust the models. Furthermore, we assessed whether the assumptions underlying the forecasting model and the inputs used for determining the expected residual values were clearly documented. To this end, we obtained evidence for the main inputs and assumptions used for mileage, age and lifecycle phase of the vehicles to determine the residual values and examined them for topicality and transparency. We assessed whether the marketing assumptions used reflect industry specific and general market expectations as well as, in particular, current marketing results.

Our audit procedures did not lead to any reservations relating to the determination of the expected residual values of the lease assets during impairment testing.

Reference to related disclosures

The Company's disclosures on the recognition and measurement policies applied for lease assets are contained in section 2 "Accounting Policies" and in section 3 "Balance Sheet Disclosures" and section 4 "Income Statement Disclosures" of the notes to the financial statements.

OTHER INFORMATION

The Audit Committee is responsible for the Report of the Audit Committee. In all other respects, the executive directors are responsible for the other information. The other information comprises the Responsibility Statement section to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the annual financial statements, not the combined management report disclosures whose content is audited and not our auditor's report thereon. In addition, the other information comprises the Report of the Audit Committee, which we expect to be provided with after issuing our auditor's report.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

> is materially inconsistent with the annual financial statements, with the combined management report or our knowledge obtained in the audit, or
> otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS AND THE AUDIT COMMITTEE FOR THE ANNUAL FINANCIAL STATEMENTS AND THE MANAGEMENT REPORT

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, the executive directors are responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Audit Committee is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE ANNUAL FINANCIAL STATEMENTS AND OF THE MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

> Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
> Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our

conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on the assurance on the electronic rendering of the annual financial statements and the management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file "Volkswagen Leasing_GmbH_JA+LB_ESEF-2023-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the combined management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying annual financial statements and the accompanying management report, which is combined with the group management report, for the fiscal year from 1 January 2023to 31 December 2023contained in the "Report on the audit of the annual financial statements and of the combined management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (06.2022). Our responsibility in accordance therewith is further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Audit Committee for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the annual financial statements and the combined management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The Audit Committee is responsible for overseeing the process for preparing the ESEF documents as part of the financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE ASSURANCE WORK ON THE ESEF DOCUMENTS

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

> Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
> Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
> Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
> Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited annual financial statements and to the audited combined management report.

FURTHER INFORMATION PURSUANT TO ART. 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the Annual General Meeting on 24 February 2023 and were engaged by the Management Board on 17 October 2023. We have been the auditor of Volkswagen Leasing GmbH without interruption since fiscal year 2020.

In addition to the financial statement audit, we have provided the following services that are not disclosed in the annual financial statements or in the management report:

> Review of the reporting packages for the reporting dates 31 March, 30 June and 30 September 2023 in accordance with the instructions of the group auditor
> Agreed-upon procedures relating to the investor reports of VCL Master S.A., VCL Master Residual Value S.A., VCL Multi-Compartment S.A. and Trucknology S.A. as of 31 December 2022.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited annual financial statements and the audited management report as well as the assured ESEF documents. The combined annual financial statements and management report converted to the ESEF format – including the versions to be published in the Unternehmensregister [German Company Register] – are merely electronic renderings of the audited annual financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the assured ESEF documents made available in electronic form.

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Matthias Koch.

Eschborn/Frankfurt am Main, 19 February 2024

EY GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft

Koch Wirtschaftsprüfer [German Public Auditor]	Hölscher Wirtschaftsprüfer [German Public Auditor]

Report of the Audit Committee

of Volkswagen Leasing GmbH

Volkswagen Leasing GmbH is a publicly traded corporation within the meaning of section 264d of the HGB.
In accordance with the provisions of section 324 of the HGB, the Company has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the *Aktiengesetz* (AktG – German Stock Corporation Act). The Audit Committee has three members. There were no changes to the committee membership compared with the prior year. The members of the Audit Committee are listed in the disclosures on governing bodies. The Audit Committee held two regular meetings in the reporting year. There were no extraordinary meetings. One decision was made using the written procedure.

At the meeting held on February 22, 2023, the Audit Committee reviewed the annual financial statements and the management report of Volkswagen Leasing GmbH for the fiscal year 2022. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements and the management report of Volkswagen Leasing GmbH, as well as material transactions and issues related to financial reporting. The Audit Committee reported on its review to the sole shareholder.

The Committee also assured itself of the extent to which relationships of a professional, financial or other nature existed between Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft and the Company and/or its governing bodies, the aim being to assess the independence of the future auditor. In this regard, the Audit Committee obtained information on the services that the auditor had provided for the Company in addition to their auditing activities and on whether there were any grounds for disqualification or partiality. Following a detailed evaluation of the independence of the auditor, the Audit Committee submitted a recommendation to the sole shareholder using the written procedure regarding the election of the auditor (Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft) and drew up the resolution on the audit engagement in preparation for the Annual General Meeting.

In addition, the committee discussed the latest status of the special audit of Volkswagen Leasing GmbH in accordance with section 44 of the *Kreditwesengesetz* (German Banking Act – KWG).

At its meeting held on November 21, 2023, the Audit Committee mainly discussed audit planning, key areas of emphasis for the audit and the obligations of the auditor to provide certain information. As part of this, the Audit Committee also paid particular attention to the quality of the audit. The Committee also dealt with the results of the special audit of Volkswagen Leasing GmbH pursuant to section 44 KWG. In addition, the Committee discussed the Company's risk management system, focusing particularly on the treatment of residual value and ESG risks. Also at this meeting, the Committee reviewed the effectiveness of the compliance and audit system and discussed the restructuring of Volkswagen Leasing GmbH under the restructuring program. Key audit activities and findings were discussed in detail.

Braunschweig, February 21, 2024

Werner Flügge
Chair

Helmut Streiff
Deputy Chair

Frank Fiedler
Member

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This annual report is also available in German at https://www.vwfs.com/gbvwleasing23.