VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
IFRS

2020

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million (as of Dec. 31)	2020	2019
Total assets	117,845	112,444
Loans to and receivables from customers attributable to		
Retail financing	21,006	20,712
Dealer financing	4,272	5,413
Leasing business	39,984	39,951
Lease assets	27,311	22,776
Equity	12,760	12,029
Operating profit	1,223	1,223
Profit before tax	1,038	1,264

in percent (as of Dec. 31)	2020	2019
Cost/income ratio[1]	57	54
Equity ratio[2]	10.8	10.7
Return on equity[3]	8.4	12.6

Number (as of Dec. 31)	2020	2019
Employees	10,880	10,773
Germany	5,789	5,763
International	5,091	5,010

1 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 transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.
2 Equity/total assets.
3 Profit before tax / average equity.

RATING (AS OF DEC. 31)	STANDARD & POOR'S			MOODY'S INVESTORS SERVICE		
	Short-term	Long-term	Outlook	Short-term	Long-term	Outlook
Volkswagen Financial Services AG	A-2	BBB+	negative	P-2	A3	negative

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.

COMBINED MANAGEMENT REPORT

Fundamental Information about the Group

Volkswagen Financial Services AG and its companies are providers of comprehensive mobility services.

BUSINESS MODEL

Over the years, the companies in the Volkswagen Financial Services AG Group have evolved increasingly dynamically into providers of comprehensive mobility services. The key objectives of Volkswagen Financial Services AG are:

> To promote Group product sales for the benefit of the Volkswagen Group brands and the partners appointed to distribute these products
> To strengthen customer loyalty to Volkswagen Financial Services AG and the Volkswagen Group brands along the automotive value chain (among other things, by targeted use of digital products and mobility solutions)
> To create synergies for the Group by pooling Group and brand requirements in relation to finance and mobility services
> To generate and sustain a high level of return on equity for the Group

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

The companies of the Volkswagen Financial Service AG Group provide financial services to private, corporate and fleet customers. The close integration of marketing, sales and customer service focused on customers' needs should play a decisive role in keeping the processes lean and implementing the sales strategy efficiently.

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 non-financial performance indicators are penetration, current contracts and new contracts. The financial key performance indicators are the volume of business, 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 retail financing and leasing business to deliveries of Group vehicles, based on Volkswagen Financial Services AG's consolidated entities.
Current contracts	Contracts recognized as of the reporting date
New contracts	Contracts recognized for the first time in the reporting period
Financial performance indicators	
Volume of business	Loans to and receivables from customers arising from retail financing, dealer financing, leasing business and lease assets.
Operating result	Interest income from lending transactions and marketable securities, net income from leasing transactions, interest expense, net income from service contracts, net income from insurance business, provision for credit risks, net fee and commission income, net gain or loss on hedges, net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income, 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 transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are also measured.

Customer Satisfaction

Achieving a high level of customer satisfaction is a key objective of Volkswagen Financial Services AG's activities: the aspiration is to ensure that customers are completely satisfied.

With this in mind, Volkswagen Financial Services AG has determined the level of both external and internal customer satisfaction in its markets over the last few years. The key figures that have been used to date are now being revised within the Volkswagen Group in response to the changes in customer needs, the product offering and the strategic focus of Volkswagen Financial Services AG.

External Employer Ranking

A strategic key performance indicator has been specified for financial services activities: external employer ranking.

This involves Volkswagen Financial Services AG submitting itself to external benchmarking, generally on a two-year cycle.

The Company's aim is to position itself as an attractive employer and determine appropriate measures that will enable it to become a top-20 employer by 2025, not just in Europe, but globally. For example, Volkswagen Financial Services AG was represented in various national and international best-employer rankings the last time it participated in 2019. Coming in eleventh place, it was among the top European employers in the "Great Place to Work" employer competition.

CHANGES IN EQUITY INVESTMENTS

The following material changes in equity investments have occurred:

Effctive January 16, 2020, Volkswagen Financial Services AG, Braunschweig, acquired ca. 4% of the shares in sunhill technologies GmbH, Erlangen, from the previous minority shareholders thereby increasing its shareholding to 100%.

On February 3, 2020, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, (60% of the shares in which are held by Volkswagen Finance Overseas B.V., Amsterdam, Netherlands) acquired 57.97% of the shares in the leasing company Muntstad Auto Lease B.V., Zeist, Netherlands, from Phima B.V., Nijkerk, Netherlands.

Effective February 14, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired one share of Volkswagen Finance Belgium S.A., Brussels, Belgium, that had been previously held by Volkswagen Financial Services N.V., Amsterdam, Netherlands; this transaction was carried out as a result of a change in Belgian company law. As a consequence, Volkswagen Finance Overseas B.V. now holds all of the shares in Volkswagen Finance Belgium S.A.

On February 21, 2020, Volkswagen Financial Services AG acquired 26% of the shares in Glinicke Leasing GmbH, Kassel, from Glinicke Finanz Holding GmbH & Co. KG, Kassel. The purpose of this equity investment is, inter alia, to include business bike leasing in the range of products offered to German fleet customers. In the meantime, the company has been renamed to Digital Mobility Leasing GmbH.

Effective February 28, 2020, Volkswagen Financial Services AG transferred the following equity investments to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind:

> Its 100 % equity investment in sunhill technologies GmbH, Erlangen
> Its 100 % equity investment in PayByPhone Technologies Inc., Vancouver, Canada
> Its 60 % equity investment in Softbridge - Projectos Tecnológicos S.A., Porto Salvo, Portugal

Effective March 6, 2020, Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, a wholly owned subsidiary of Volkswagen AG, Wolfsburg, acquired a 44.44 % interest in Mobility Trader Holding GmbH, Berlin, by way of a capital increase. Mobility Trader Holding GmbH acts as the holding company for the local companies of the heycar Group.

On March 31, 2020, PayByPhone Technologies Inc., Vancouver, Canada, an indirect wholly owned subsidiary of Volkswagen Financial Services AG, acquired all of the shares in Mathom AG, Düdingen, Switzerland. Mathom AG is one of the leading providers of mobile payment solutions for parking in Switzerland based on its SEPP Parking product. The company has now been renamed PayByPhone Suisse AG. With this acquisition PayByPhone will expand its presence in the Swiss market to cover more than 70 cities, towns and municipalities. The Swiss market is a further element in PayByPhone's strategy to become the leading provider of mobile payment solutions for parking in Europe and North America.

On March 31, 2020, the non-regulated finance lease, insurance broking, services and dealer financing business activities of Volkswagen Bank GmbH, Ireland Branch, Dublin, Ireland, were transferred to Volkswagen Financial Services Ireland Ltd., Dublin, Ireland, a wholly owned subsidiary of Volkswagen Financial Services AG.

On April 2, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred all of the shares in sunhill technologies GmbH, Erlangen, to PayByPhone Technologies Inc., Vancouver, Canada.

Effective May 28, 2020, Volkswagen Leasing GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred the entire portfolio of its branch in Warsaw, Poland, to the newly established Volkswagen Leasing Polen GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a spin-off.

On May 29, 2020, Volkswagen Leasing Polen GmbH was merged into Volkswagen Financial Services Polska Sp. z o.o., Warsaw, Poland, a wholly owned subsidiary of Volkswagen Financial Services AG. The purpose of the spin-off and merger was to support the internal restructuring of the leasing business in Poland.

On May 29, 2020, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, founded Volkswagen Mobility Services S.p.A., Bolzano, Italy. The purpose of establishing this company is to transfer the business activities of Volkswagen Leasing GmbH´s branch in Italy to a separate legal entity going forward.

On June 2, 2020, Volkswagen Financial Services AG acquired all of the shares in the start-up business Voya GmbH, Hamburg, including its wholly owned subsidiary Voya Travel Technologies S.R.L., Bucharest, Romania, from a consortium of investors. Voya is one of the leading providers of state-of-the-art business travel management. The acquisition broadens Volkswagen Financial Services AG's mobility offering for fleet customers to include business travel management.

On June 18, 2020, as part of an asset deal, LogPay Transport Services GmbH, Eschborn, an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, acquired assets from Truckparking B.V., Utrecht, Netherlands, a subsidiary of Volkswagen Financial Services AG in which the latter holds 79.11 % of the shares.

With effect from June 30, 2020, Mobility Trader Holding GmbH, Berlin, in which Volkswagen Financial Services AG holds 44.44 % of the shares, founded Mobility Trader Spain S.L., Barcelona, Spain. The shareholders of Mobility Trader Spain S.L. are Mobility Trader Holding GmbH, Berlin, (shareholding of 75.1 %) and SEAT S.A., Martorell, Spain, (shareholding of 24.9 %). The aim of establishing this company is to support the expansion of the heycar used car platform in the Spanish market.

On July 31, 2020, MAN Financial Services GmbH, Munich, a wholly owned subsidiary of Volkswagen Financial Services AG, transferred all the shares in MAN Financial Services GesmbH, Eugendorf, Austria, to Volkswagen Financial Services AG. This spin-off formed part of a reorganization in preparation for the merger of MAN Financial Services GmbH into Volkswagen Leasing GmbH, Braunschweig.

On August 31, 2020, MAN Financial Services GmbH, Munich, was merged into Volkswagen Leasing GmbH, Braunschweig. Both companies are wholly owned subsidiaries of Volkswagen Financial Services AG. The purpose of the merger was to consolidate the Truck & Bus business in Germany under the umbrella of Volkswagen Leasing GmbH.

On September 1, 2020, Volkswagen Leasing GmbH, Braunschweig, a wholly owned subsidiary of Volkswagen Financial Services AG, established the branch "MAN Financial Services, Zweigniederlassung der Volkswagen Leasing GmbH" in Munich.

Likewise on September 1, 2020, Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, in which Volkswagen Financial Services AG holds an indirect 60% equity investment, acquired the leasing portfolio of M. de Koning Lease B.V., Krimpen aan den IJssel, Netherlands, by means of an asset deal.

Effective October 1, 2020, Volkswagen Financial Services AG transferred the following equity investments to Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, by means of a contribution in kind:

> Its 100% equity investment in MAN Financial Services GesmbH, Eugendorf, Austria,
> Its 100% equity investment in Volkswagen Financial Services Ireland Ltd., Dublin, Ireland

Effective October 7, 2020, LogPay Transport Services GmbH, Eschborn, an indirectly wholly owned subsidiary of Volkswagen Financial Services AG, established LogPay Charge & Fuel Slovakia s.r.o., Bratislava, Slovakia. The shareholders of LogPay Charge & Fuel Slovakia are LogPay Transport Services GmbH, Eschborn, (shareholding of 85%) and LogPay Financial Services GmbH, Eschborn, (shareholding of 15%). The aim of establishing this company is the expansion in the Slovakian market. The company shall commence operating activities in 2021.

On October 31, 2020, VVS Assuradeuren B.V., Amersfoort, Netherlands, a wholly owned subsidiary of Volkswagen Pon Financial Services B.V., Amersfoort, Netherlands, was merged into Volkswagen Pon Financial Services B.V., a subsidiary of Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, in which the latter holds 60% of the shares.

On December 18, 2020, all of the shares in sunhill technologies Italy S.R.L., Ronco all‘ Adige, Italy, were transferred from sunhill technologies GmbH, Erlangen, a wholly owned subsidiary of PayByPhone Technologies Inc., Vancouver, Canada, to PayByPhone Technologies Inc., an indirectly wholly owned subsidiary of Volkswagen Financial Services AG. The transfer formed part of the internal restructuring of the PayByPhone entities.

In the reporting year, Volkswagen Financial Services AG and its wholly owned subsidiary Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, increased the equity of the following companies to strengthen their capital resources:

> PayByPhone Technologies Inc., Vancouver, Canada, by €33.0 million
> sunhill technologies GmbH, Erlangen, by €19.5 million.

There were no further significant capital increases.

These measures served to expand the business and support the shared growth strategy with the brands of the Volkswagen Group.

There were no other significant changes with respect to equity investments. Detailed disclosures can be found in the list of all shareholdings in accordance with section 313(2) of the Handelsgesetzbuch (HGB – German Commercial Code) and in accordance with IFRS 12.10 and IFRS 12.21, which is included in the notes to the consolidated financial statements.

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

The summarized separate non-financial report of Volkswagen AG and the Volkswagen Group in accordance with sections 289 b and 315 b of the HGB for fiscal year 2020 will be available at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_d.pdf in German and at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2020/Nonfinancial_Report_2020_d.pdf in English from April 30, 2021.

Report on Economic Position

The global economy recorded negative growth in fiscal year 2020 due to the impact of the Covid-19 pandemic. Global demand for vehicles was lower than in the previous year. Volkswagen Financial Services AG's operating result was at the level of the previous year.

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in Wuhan, in the Chinese province of Hubei. This disease is attributable to a novel coronavirus. Infections also appeared outside China from mid-January 2020. In Europe, the number of people infected rose continuously in the course of February, and especially in March and April 2020. While many European countries recorded declining numbers of new infections as the second quarter of 2020 progressed, the rate of new infections continued to rise in North, Central and South America, Africa and parts of Asia. In the second quarter, many of the measures taken to contain the Covid-19 pandemic were gradually eased, especially in Europe. This included partially lifting border controls and travel restrictions and easing lockdowns as well as the reopening of businesses and public facilities. In addition, the European Commission and numerous European governments approved aid packages to support the economy. In other regions, too, governments introduced measures aimed at shoring up the economy to counteract the enormous disruption to everyday life and economic activity caused by the Covid-19 pandemic. During the third quarter, and particularly during the fourth quarter of 2020, many regions outside China around the world saw a renewed – and in some cases very rapid – increase in new infections, which led to the easing of restrictions being reversed in certain situations.

Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

SPECIAL MANAGEMENT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

Because of the Covid-19 pandemic, regular reports were generated in 2020 on new business, the credit risk situation, realized residual values and payment deferrals. Particular attention was paid to the risk and liquidity situation in the dealer organization. This reporting provided a detailed, timely overview of the risk situation in respect of the impact on the financial performance of the Volkswagen Financial Services AG Group, enabling the situation to be managed.

In the second quarter, risk situation calculations were also carried out for different ways in which the Covid-19 pandemic could develop.

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

Despite the conditions in fiscal year 2020 described above, the operating result was at the level of the previous year. New business around the globe contracted as a consequence of the Covid-19 pandemic. Following a reorganization of the legal entities in 2019, new contracts went up slightly compared with the prior-year figure.

Volkswagen Financial Services AG increased its business volume year-on-year, particularly in Germany.

The share of financed and leased vehicles in the Group's worldwide deliveries (penetration) stood at 27.6 (26.1) % at the end of 2020, enabling Volkswagen Financial Services AG to offset some of the contraction in deliveries.

Funding costs were lower than the prior-year level, although the volume of business was higher.

The risk costs arising from credit and residual value risk were above the prior-year level in the reporting year, but margins remained stable.

The credit risk situation arising from Volkswagen Financial Services AG's overall portfolio was strongly shaped by the Covid-19 pandemic in 2020. Specific measures were put in place to avert and cushion the economic impact of the Covid-19 pandemic on customers. These measures included payment deferrals and support for the dealer organization in collaboration with the Group brands. The international subsidiaries were granted a certain degree of latitude to develop their own responses, as a result of which they designed targeted measures locally and adapted them in line with – or occasionally over and above – specific legal requirements and customer needs. The action taken mitigated potential effects of the Covid-19 pandemic on Volkswagen Financial Services AG's credit risk in 2020, with the result that there was only a moderate deterioration in the risk situation while the volume of loans and receivables increased slightly. The current conditions mean that the provision for credit risks in the reporting year was higher than the prior-year figure.

The residual value portfolio expanded significantly in fiscal year 2020. Despite the pandemic, there was only a marginal rise in residual value risk. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

At the level of the Volkswagen Financial Services AG Group overall, liquidity risk remained stable. Because of the Covid-19 pandemic, markets could not be accessed temporarily or could only be accessed on a limited basis; in some cases, significant premiums were required.

The funding structure remained well diversified in terms of the instruments used. The Group's main sources of funding, comprising capital markets, ABSs, funding through banks and deposits in individual markets, continued to be available at Group level and could still be used as required (albeit with considerable additional risk premiums in some cases) despite the uncertainty arising from the Covid-19 pandemic, especially in the second quarter. The funding situation significantly improved again during the second half of the year.

The global, intercompany efficiency program referred to as Operational Excellence (OPEX), which was launched in fiscal year 2017, is becoming even more important because of the current situation (Covid-19 pandemic).

OPEX is focused on achieving further cost savings by 2025 in addition to the requirements under current planning.

The main components are initiatives to enhance productivity (among other things by streamlining processes), optimization of distribution costs and the harmonization of IT systems through the global introduction of standardized systems.

Events after the balance sheet date are reported in the notes to the consolidated financial statements of Volkswagen Financial Services AG in note 73 (page 162).

The Board of Management of Volkswagen Financial Services AG considers the course of business to have been positive in 2020 despite the consequences of the Covid-19 pandemic.

CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2020 COMPARED WITH PRIOR-YEAR FORECASTS

	Actual 2019	Forecast for 2020		Actual 2020
Nonfinancial performance indicators				
Penetration (percent)	26.1	> 26.1	Slightly above the previous year's level	27.6
Current contracts (thousands)	14,813	> 14,813	Moderately above the prior-year level	15,409
New contracts (thousands)	5,655	> 5,655	Slightly above the previous year's level	5,911
Financial performance indicators				
Volume of business (€ million)	88,852	> 88,852	Moderately above the prior-year level	92,572
Operating result (€ million)	1,223	= 1,223	At prior-year level	1,223
Return on equity (percent)	12.6	= 12.6	At prior-year level	8.4
Cost/income ratio (percent)	54	= 54	At prior-year level	57

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global spread of the SARS-CoV-2 virus, the associated restrictions, and the resulting downturn in demand and supply meant that growth in the world economy was negative in 2020, at –4.0 (2.6) %. The average rate of expansion of gross domestic product (GDP) was far below the previous year's level in both the advanced economies and the emerging markets. At country level, performance in the reporting period depended on the extent to which the negative impact of the Covid-19 pandemic was already materializing The governments and central banks of numerous countries responded in some cases with substantial fiscal and monetary policy measures. This meant cuts in the already relatively low interest rates. There was a significant drop in prices for energy resources, while other commodity prices increased slightly year-on-year on average. On a global average, consumer prices rose at a slower pace than in 2019, and global trade in goods declined in the reporting period.

Europe/Other Markets

At –7.2 (1.3) %, the economies of Western Europe as a whole, recorded a sharp fall in growth in 2020. This trend was seen in nearly all countries in Northern and Southern Europe. The impact of national measures to contain the pandemic, including border closures and physical distancing, caused deep cuts. In some states, the measures severely restricted everyday life and also had grave economic consequences. Governments of many countries in this region subsequently started to lift some of the restrictions imposed, spawning a gradual economic recovery. Due to the renewed increase in case numbers in many countries as the year went on, several of these measures were tightened again, or at least left in place. In addition, the uncertain outcome of the Brexit negotiations between the United Kingdom and the European Union (EU) generated uncertainty in fiscal year 2020, as did the related question of what form this relationship would take in the future.

The economies in Central and Eastern Europe reported a marked decline in the real absolute GDP in 2020 at –3.7 (2.5) %, with economic output falling by –3.4 (2.9) % in Central Europe and by –4.0 (2.0) % in Eastern Europe. The same trend was observed in Russia; economic output in Eastern Europe's largest economy contracted by –4.1 (1.3) %.

Turkey was unable to sustain the recovery seen in the first quarter, with GDP growth declining to 0.2 (1.0) % for 2020 as a whole but remaining in positive territory. South Africa's GDP trend declined sharply in the reporting period to –7.3 (0.2) % amid persistent structural deficits and political challenges.

Germany

Germany's economic output showed a significantly negative trend in the reporting year at –5.3 (0.6) %. The labor market was in a favorable situation at the start of the year, but the pandemic led many companies to introduce short-time working (Kurzarbeit) throughout the course of the year. The temporary easing of restrictions in everyday life and economic activity as well as government assistance packages enacted to support the economy led to improved confidence among consumers and companies as the year progressed. However, it only occasionally matched the previous years' levels.

North America

US economic output declined by –3.6 (2.2) % in the reporting year as rates of infection soared. To strengthen the economy in light of the disruption caused by the Covid-19 pandemic, the US government passed comprehensive stimulus packages. The US Federal Reserve cut interest rates twice, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits rose by several million before declining but still remaining at a relatively high level. This was reflected accordingly in the unemployment rate, which more than doubled year-on-year to 8.1 (3.7) % in the reporting period. GDP fell by –5.7 (1.9) % in neighboring Canada and by –9.0 (0.0) % in Mexico.

South America

Brazil's economy recorded a decline of –4.6 (1.4) % in 2020, resulting from the dynamic rate of infection caused by the Covid-19 pandemic. At –11.1 (–2.1) %, the economic downturn in Argentina intensified amid continued high inflation and substantial depreciation of the local currency compared with the previous year.

Asia-Pacific

The Chinese economy, which had been exposed to the negative effects of the Covid-19 pandemic earlier than other economies and benefited from a relatively small number of new infections as the year progressed, recorded positive growth rates from the second quarter onwards, expanding by 2.1 (6.1) % overall. Growth in India fell sharply to –8.9 (4.2) % amid relatively high infection rates. Japan also recorded negative growth of –5.4 (0.3) % compared with the same period of the previous year owing to the negative impact of the Covid-19 pandemic.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services were in high demand in 2020, particularly in the first three months of the year. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The impact from the Covid-19 pandemic was noticeable around the globe, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

The European passenger car market was affected by the Covid-19 pandemic especially in the second quarter of 2020, a downturn that unleashed a significant decline in demand in the automotive business over the reporting period as a whole. In these challenging market conditions, the proportion of vehicle sales accounted for by leases and financing agreements continued to rise in European markets, even though the absolute figures for signed contracts fell short of the level achieved in the previous year. The business with after-sales products such as servicing, maintenance and spare parts agreements, as well as automotive-related insurance was maintained at the prior-year level in the current market environment.

In Germany, the number of new vehicles financed by loans or leases in 2020 went down compared with the previous year, reflecting the challenges presented by the Covid-19 pandemic. In the leasing business with individual customers, the shift from financing to leases, which had begun in 2019, continued in the reporting year.

In South Africa, the demand for financing and insurance products stabilized in the second half of 2020 following a decline in the first six months of the year but remained below the prior-year level for the reporting period overall. Lower interest rates led to an increase in cash purchases. Non-vehicle loans were also used to buy vehicles.

A drop in demand for new vehicles has been seen across the entire North America region as a consequence of the Covid-19 pandemic. In the United States, however, demand for financial services rose slightly and increased as a proportion of vehicle sales. This included a noticeable shift from leases to financing agreements and an increase in used vehicle business. The proportions accounted for by leases and financing agreements also went up year-on-year in Canada in 2020, although the number of contracts declined in absolute terms because of the lower number of vehicles delivered. In Mexico, a downward trend was evident both proportionally and in the absolute number of financing agreements. This was attributable to a number of factors, including the current restricted level of fleet business.

In South America, demand for vehicles and automotive financial services in the reporting year was down on the previous year. It recovered at the end of 2020 after dipping in the second and third quarters as a consequence of the pandemic. In Brazil, the trend toward fleet business and long-term leases continued to strengthen, with the number of long-term lease contracts exceeding the prior-year level. In a difficult macroeconomic environment, customers in Argentina purchased their vehicles mostly in cash; demand for automotive financial services decreased year-on-year.

In China, the passenger car market began its recovery from the Covid-19 pandemic in the second quarter of 2020. The easing of the restrictions led to a steady rise in contracts for automotive financial services, which reached a slightly higher level than in the previous year overall. In Japan, the effects of the Covid-19 pandemic were perceptible in the form of weaker new car sales, with a related fall in demand for financing and leasing products. In India, demand for financial services was below the previous year but rose again in the course of the year as lending rates in the new and used vehicle segments stabilized.

The Covid-19 pandemic also led to a substantial drop in demand for new and used commercial vehicles in 2020. This gave rise to an equivalent fall in the number of leases and financing agreements in Europe, although the penetration rates for financing products increased in Brazil.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2020, the global market volume of passenger cars fell significantly below the prior-year level due to the Covid-19 pan-demic, decreasing to 67.7 million vehicles (–15.2%). This marked a decline for the third year in a row. All regions were affected by this slump. The overall markets of Western Europe, South America and Africa recorded above-average losses, while the decline in Asia-Pacific and the Middle East was smaller in percentage terms.

Global demand for light commercial vehicles in the reporting period was down significantly on the previous year.

Sector-Specific Environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets last year. These measures included tax cuts or increases, 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/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting period was down substantially by as much as −24.5% on the prior-year figure, at 10.9 million. The negative impact from the spread of the SARS-CoV-2 virus was noticeable in all countries in the region as early as March. After the drastic decline at the beginning of the second quarter, recovery set in the months that followed, and by the end of the third quarter, figures even matched those of the prior year. The fourth quarter of 2020 witnessed a lateral movement in the market, keeping volumes noticeably below the previous year's level. New registrations saw declines on a similar scale in all major individual markets and were in negative territory at year-end: France (–25.4%), Italy (–27.9%), the UK (–29.4%) and Spain (–32.1%).

The volume of new registrations of light commercial vehicles in Western Europe fell significantly below the prior-year figure, essentially due to the pandemic.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2020 was down 15.9% on

the prior-year level at 2.8 million vehicles. Following the slump in the second quarter and the recovery in the third quarter, the volume of new vehicle registrations flatlined in the fourth quarter and was moderately short of the previous year's figure. The development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations dropped substantially by 23.3% to 1.1 million units. By contrast, the decline in sales of passenger cars in Eastern Europe (–10.1%) was weaker, due in particular to demand in Russia slowing less sharply (–8.8%).
Registration volumes for light commercial vehicles in Central and Eastern Europe were down significantly year-on-year. In Russia, the number of vehicles sold in the reporting period was also significantly lower than in the previous year.

At 0.6 million units, the volume of the passenger car market in Turkey in the reporting period was up by over 50% on the very low prior-year level. The increase in demand was boosted in particular by the strong growth in the third quarter of 2020. In South Africa, the pandemic meant that the number of new passenger car registrations was down sharply on the comparatively poor results of the previous year (–30.4%).

Germany

New passenger car registrations in Germany in fiscal year 2020 fell significantly short of the previous year's high level, declining to 2.9 million units (–19.1%). Exacerbated by the Covid-19 pandemic and its fallout, demand for passenger cars fell to its lowest level since German reunification despite a temporary reduction in value-added tax and higher purchase premiums for electric vehicles.

Owing to the mandated temporary shutdowns driven by the pandemic and weak demand in important foreign markets, domestic production and exports in the reporting period again fell short of the comparable prior-year figures: passenger car production decreased by –24.6% to 3.5 million vehicles, largely due to the –24.1% drop in passenger car exports to 2.6 million units.

Demand for light commercial vehicles in Germany in the reporting period was significantly lower than in 2019.

North America

At 17.1 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America in fiscal year 2020 were down significantly on the prior-year figure (–15.9%). The negative effects of the Covid-19 pandemic were also very noticeable in this region. After a drastic decline in demand at the beginning of the second quarter and a steady recovery in the months that followed, until the prior-year level was reached in September, the region witnessed volatile market performance in the last quarter of 2020. In December, a new recovery set in and the previous year's figure was exceeded. The market volume in the USA remained markedly lower than the 2019 level, falling to 14.6 million units (–14.5%). The decline affected both the passenger car segment (–28.3%) and light commercial vehicles (–11.9%) such as SUVs and pickup models. In the Canadian automotive market, the Covid-19 pandemic significantly accelerated the downward trend that began in 2018 (–19.7%). In Mexico, sales of passenger cars and light commercial vehicles declined sharply (–28.0%), falling short of the prior-year figure for the fourth year in a row.

South America

In the markets of the South America region, the volume of new registrations for passenger cars and light commercial vehicles in 2020 was much lower (–28.1%) at 3.1 million units following the drastic decline in the second quarter, a strong recovery in the third quarter and a lateral movement in the fourth quarter, though falling short of the levels recorded in the previous year. The South America region saw the most severe negative impact of the Covid-19 pandemic on the automotive markets in terms of percentage. In Brazil, the recovery in vehicle demand that began in 2017 was interrupted in the reporting year; at 2.0 million vehicles (–26.7%), the number of new registrations was sharply lower than in the prior-year period. Exports of vehicles manufactured in Brazil continued to decline, falling by –24.3% to 324 thousand. In the Argentinian market, too, the spread of the SARS-CoV-2 virus negatively impacted the demand for passenger cars and light commercial vehicles. In 2020, there was sharp 26.6% fall in sales to 0.3 million units.

Asia-Pacific

In the Asia-Pacific region, too, the reporting period was adversely impacted by the spread of the SARS-CoV-2 virus. After the very sharp decline in the first three months, the rapid rebound in the second quarter and a return to prior-year levels in the third quarter, demand in the last quarter of 2020 was moderately up on the previous year. The market volume of passenger cars was noticeably lower than the prior-year level at 30.9 million units (–9.6%). This was also partly due to developments in the Chinese passenger car market, where the volume of demand fell distinctly short of the previous year to 19.9 million units (–6.5%) as a result of the Covid-19 pandemic. Following the severe losses in the first three months of 2020, there were clear signs of a recovery in the overall market there as the year went on. In India, sales of passenger cars dwindled significantly year-on-year, falling by –17.3% to 2.3 million units. In the Japanese passenger car market, vehicle demand in the reporting period of 3.8 million units (–11.2%) was down markedly on the previous year due not only to the Covid-19 pandemic, but also to the increase in VAT as of October 1, 2019.

There was a significant year-on-year decline in demand for light commercial vehicles in the Asia-Pacific region. Registration volumes in China, the region's dominant market and the largest market worldwide, fell distinctly year-on-year. The number of new vehicle registrations was significantly below the previous year's level in Japan and drastically lower in India.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 459 thousand new vehicles were registered (–24.7 %). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –30.1 % to a total of 263 thousand vehicles. Registrations in Germany, the largest market in this region, fell substantially year-on-year.

The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market also deteriorated noticeably as a consequence of the Covid-19 pandemic and the related economic fallout. Turkey saw new registrations more than double compared to an admittedly very low prior-year figure. By contrast, the South African market declined considerably. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt. Demand was very much lower in Brazil and was less than half the prior-year level in Mexico.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

	DELIVERIES OF VEHICLES		
	2020	2019	Change in percent
Deliveries of passenger cars worldwide	**9,115,185**	**10,733,077**	**–15.1**
Volkswagen Passenger Cars	5,328,029	6,279,007	–15.1
Audi	1,692,773	1,845,573	–8.3
ŠKODA	1,004,816	1,242,767	–19.1
SEAT	427,035	574,078	–25.6
Bentley	11,206	11,006	+1.8
Lamborghini	7,430	8,205	–9.4
Porsche	272,162	280,800	–3.1
Bugatti	77	82	–6.1
Volkswagen Commercial Vehicles	371,657	491,559	–24.4
Deliveries of commercial vehicles worldwide	**190,187**	**242,220**	**–21.5**
Scania	72,085	99,457	–27.5
MAN	118,102	142,763	–17.3

1 The delivery figures of the previous year have been updated or restated following statistical updates and changes to the reporting structure. Including Chinese joint ventures.

FINANCIAL PERFORMANCE

The global economy recorded negative growth in 2020 as a consequence of the Covid-19 pandemic. The performance of Volkswagen Financial Services AG was nevertheless stable.

The operating result remained at the prior-year level, amounting to €1,223 (1,223) million.

Profit before tax came to €1,038 (1,264) million, which was significantly below the prior-year level.

Return on equity amounted to 8.4 (12.6) %.

Interest income from lending transactions and marketable securities was below the prior-year level at €1,995 million (–4.7 %).

Net income from leasing transactions amounted to €2,006 (1,917) million and was therefore higher than in the previous year. The impairment losses on lease assets of €498 (324) million included in this figure were attributable to current market fluctuations and expectations.

Interest expenses were down year-on-year at €1,286 million (–4.9 %).

Net income from service contracts amounted to €454 (190) million and was significantly above the prior-year figure.

Net income from insurance business amounting to €155 (155) million remained on the previous year's level.

The provision for credit risks of €600 (294) million was significantly higher than in the previous year. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (Brexit, economic crises) in the United Kingdom, Russia, Brazil, Mexico, India and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. These valuation allowances were decreased by €47 million year-on-year to €581 million, largely as a consequence of the change in business volume.

Net fee and commission income amounted to €89 (156) million, which was significantly below the prior-year level. This decrease was attributable to a number of factors, most notably the higher expenses for business expansion in China.

General and administrative expenses were up on the previous year at €2,071 (2,006) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €469 (464) million were passed on to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 57 (54)%, the cost/income ratio was worse than in the previous year.

At €521 million (+8.1%), the figure for net other operating income/expenses exceeded the prior-year level. An amount of €52 (86) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses. The share of profits and losses of equity-accounted joint ventures declined moderately year-on-year to €64 (65) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounting to a net loss of €168 (14) million included impairment losses of €81 million for non-consolidated subsidiaries and €70 million for equity-accounted joint ventures. On the basis of these figures, together with the other income and expense components, the Volkswagen Financial Services AG Group generated a profit from continuing operations, net of tax, of €806 million (–9.4%).

Under Volkswagen Financial Services AG's current control and profit-and-loss transfer agreement, a loss of €673 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 31.4% of all contracts.

Despite the tough conditions, Volkswagen Leasing GmbH expanded its portfolio of leases slightly compared with the previous year. The operating result was significantly above the prior-year level.

The vehicle insurance business saw a stable level of new business in 2020 in spite of the conditions caused by the Covid-19 pandemic. Volkswagen Autoversicherung AG now holds a portfolio of 461 thousand vehicle insurance policies, which is higher than the prior-year figure. In addition to the new business, the migration of the legacy portfolio of Volkswagen-Versicherungsdienst GmbH to Volkswagen Autoversicherung AG (previously with Allianz AG) contributed to the portfolio growth compared with 2019 (422 thousand vehicle insurance policies).

In 2020, Volkswagen Versicherung AG was operating primary and reinsurance business in 14 international markets, complementing the core business in Germany.

Volkswagen-Versicherungsdienst GmbH, which operates as the sales partner in the German market for both Volkswagen Autoversicherung AG and Volkswagen Versicherung AG, has contributed to the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH help to support the earnings of Volkswagen Financial Services AG on a steady basis.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €106.0 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 90% of the Group's total assets.

The volume of retail financing lending rose by €0.3 billion to €21.0 billion (+1.4%).

The number of new retail financing contracts came to 1,256 thousand, which was below the prior-year level (1,268 thousand). The number of current contracts stood at 2,959 thousand at the end of the year.

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – declined to €4.3 billion (–21.1%).

Receivables from leasing transactions amounted to €40.0 billion (+0.1%), which was at the level of the previous year.

Lease assets recorded growth of €4.5 billion to €27.3 billion (+19.9%).

A total of 1,346 thousand new leases were entered into in the reporting period. The contract portfolio of lease vehicles as of December 31, 2020 was 3,539 thousand. As in the previous year (1,632[1] thousand), the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio for 1,631 thousand lease vehicles (–0.0%).

Total assets of the Volkswagen Financial Services AG Group rose to €117.8 billion year on year (+4.8%). This increase was mainly attributable to the growth in lease assets, reflecting the expansion in business in the reporting year.

The number of service and insurance contracts at the year-end was 8,912 thousand. The new business volume of 3,309 thousand contracts was up on the prior-year figure (3,087 thousand).

1 Prior-year figure adjusted following the merger of MAN Financial Services GmbH, Munich, into Volkswagen Leasing GmbH.

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €14.7 billion (+1.4%), liabilities to customers amounting to €20.2 billion (+28.4%) and notes, commercial paper issued of €62.0 billion (+1.7%). Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 17) and Funding (pages 17 – 18) and in the risk report within the disclosures on interest-rate risk (page 27) and liquidity risk (page 28).

Subordinated Capital

The subordinated capital decreased by 28.7% year-on-year to €3.5 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2020. Equity in accordance with IFRSs was €12.8 (12.0) billion. This resulted in an equity ratio of 10.8% (equity divided by total assets) based on total assets of €117.8 billion.

Changes in Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities increased by a total of €48 million year-on-year to €860 million as of December 31, 2020.

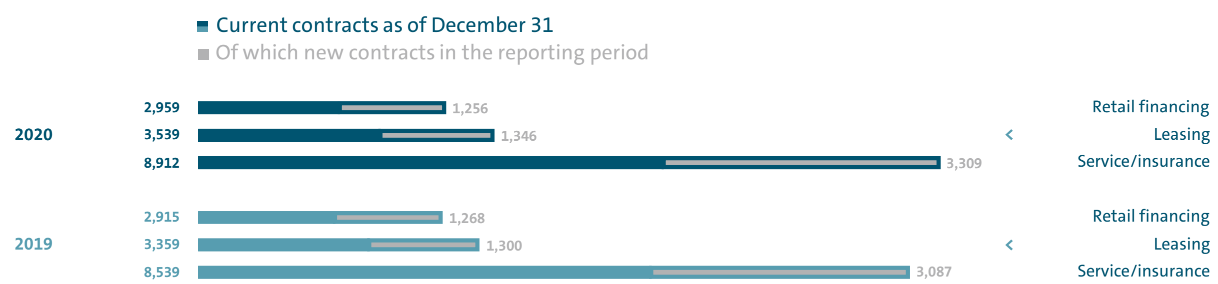
KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2020

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies[1]	VW FS AG Group
Current contracts	**4,833**	**1,873**	**657**	**1,316**	**602**	**638**	**5,491**	**15,409**
Retail financing	–	8	84	1,311	403	207	944	2,959
of which: consolidated	–	8	84	1,311	403	207	530	2,544
Leasing business	1,561	974	150	5	13	58	777	3,539
of which: consolidated	1,561	974	150	–	1	58	553	3,297
Service/insurance	3,272	891	422	–	186	372	3,769	8,912
of which: consolidated	3,272	848	230	–	111	372	2,193	7,026
New contracts	**1,755**	**817**	**247**	**637**	**260**	**184**	**2,011**	**5,911**
Retail financing	–	14	29	636	159	53	364	1,256
of which: consolidated	–	14	29	636	159	53	217	1,109
Leasing business	669	327	64	1	3	25	258	1,346
of which: consolidated	669	327	64	–	0	25	179	1,264
Service/insurance	1,087	476	153	–	98	106	1,389	3,309
of which: consolidated	1,087	453	85	–	72	106	779	2,582
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	196	1,016	9,397	2,591	1,097	6,710	21,006
Dealer financing	9	1	226	905	262	419	2,449	4,272
Leasing business	18,869	15,263	1,250	1	9	426	4,166	39,984
Lease assets	17,682	2,892	1,804	0	1	101	4,831	27,311
Investment[2]	8,593	1,317	545	–	–	1	2,404	12,860
Operating result	225	334	62	161	104	107	230	1,223
Percent								
Penetration[3]	55.1	49.3	59.3	16.0	33.9	49.2	26.4	27.6
of which: consolidated	55.1	49.3	59.3	15.8	33.2	49.2	17.3	25.4

1 The Other Companies segment covers the following markets: Australia, Belgium, the Czech Republic, France, India, Ireland, Italy, Japan, Korea, Luxembourg, Poland, Portugal, Russia and Spain. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium and the Netherlands, the EURO-Leasing companies in Denmark and Germany, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH and consolidation effects.
2 Corresponds to additions to lease assets classified as noncurrent assets.
3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

in thousands



Liquidity Analysis

The companies of Volkswagen Financial Services AG are funded primarily through capital market and ABS (asset-backed securities) programs. Committed and uncommitted credit facilities with external banks and with companies of the Volkswagen AG Group are also available to protect against unexpected fluctuations in the liquidity position. The utilization of credit lines is generally intended. The committed credit facility with Volkswagen AG serves solely as a liquidity backup; its utilization is not intended in the normal course of business.

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 Financial Services AG 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. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 67.3% of this limit was utilized as of December 31, 2020.

Various subsidiaries of Volkswagen Financial Services AG must fulfill different regulatory liquidity requirements at local level. For example, Volkswagen Leasing GmbH has to satisfy the “Mindestanforderungen an das Risikomanagement” (MaRisk – German Minimum Requirements for Risk Management). 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 thirty 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 Financial Services AG 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.

Implementation

Volkswagen Financial Services AG and its subsidiaries issued a number of bonds in different currencies during the year under review. In addition to euro bonds, bonds denominated in pound sterling, Swedish krona, Norwegian krone and Japanese yen were issued under Volkswagen Financial Services AG’s debt issuance program. Bonds based on local documentation requirements were also issued in Brazil. In addition, asset-backed securities (ABSs) were successfully placed.

Volkswagen Financial Services AG was active in global markets with various ABS transactions; along with the issuance of bonds in euros, securities were also issued in China and Japan.

The issuance of commercial paper and the use of bank credit lines together with borrower’s note loans completed the funding mix.

The Company continued to implement its strategy of mainly obtaining maturity-matched funding by borrowing on terms with matching maturities and by using derivatives. A currency-matched funding approach was taken by borrowing liquidity in local currency, and currency risks were eliminated by using derivatives.

The following tables show the transaction details:

CAPITAL MARKET 2020

Issuer	Month	Country	Volume and currency	Maturity
Volkswagen Financial Services N.V., Amsterdam	January	Sweden	SEK 1.5 billion	2 and 3 years
Volkswagen Financial Services N.V., Amsterdam	February	United Kingdom	GBP 400 million	4.1 years
Volkswagen Financial Services Japan Ltd., Tokyo	February	Japan	JPY 3 billion	3 years
Volkswagen Financial Services AG, Braunschweig	April	Germany	EUR 2.15 billion	3, 5 and 8 years
Volkswagen Financial Services N.V., Amsterdam	April	United Kingdom	GBP 350 million	5.6 years
Volkswagen Financial Services N.V., Amsterdam	April	Norway	NOK 800 million	3 years
Volkswagen Financial Services N.V., Amsterdam	September	Sweden	SEK 750 million	2 years
Volkswagen Financial Services AG, Braunschweig	September	Germany	EUR 700 million	1 year
Volkswagen Financial Services N.V., Amsterdam	September	United Kingdom	GBP 500 million	3 years
Volkswagen Leasing GmbH, Braunschweig	November	Germany	EUR 500 million	2 years
Volkswagen Financial Services N.V., Amsterdam	November	Sweden	SEK 250 million	2 years
Banco Volkswagen S.A., São Paulo	Full year	Brazil	BRL 1.3 billion	1 to 3 years

ABS 2020

Issuer	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan nine	February	Japan	JPY 64.2 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 30	March	Germany	EUR 1.0 billion
Volkswagen Finance China Co., Ltd., Beijing	Driver China ten	March	China	CNY 6.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 31	November	Germany	EUR 1.1 billion
Volkswagen Finance China Co., Ltd., Beijing	Driver China eleven	November	China	CNY 8.0 billion

Ratings

Volkswagen Financial Services AG is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Volkswagen Group. Following the transfer of Volkswagen Bank GmbH to become a direct subsidiary of Volkswagen AG in 2017, this association between ratings has become even closer.

In March 2020, S&P confirmed its short-term and long-term ratings for Volkswagen Financial Services AG at A-2 and BBB+ respectively. At the same time, following an identical rating action taken for Volkswagen AG, the outlook was lowered to negative. In March 2020, Moody's announced that it would be carrying out a review of the long-term A3 corporate rating to establish whether a downgrade was required because of the Covid-19 pandemic. Moody's concluded the review in June 2020 and confirmed the A3 long-term rating but revised the outlook to negative.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2020

Volkswagen Financial Services AG reported a result from ordinary activities after tax amounting to a loss of €673 million for fiscal year 2020.

Sales revenue amounted to €603 (612) million, with cost of sales coming to €596 (606) million. These items include the income from cost allocations to Group companies and the expenses related to personnel and administrative costs.

Other operating income came to €17 (8) million, with other operating expenses amounting to €24 (17) million. Other operating income included income from the reversal of provisions amounting to €13 million. Other operating expenses included issue and rating costs of €6 million.

Net investment income declined by €74 million to a net expense of €78 (–4) million. This decrease resulted primarily from the net loss of €100 (net profit of 28) million at VTI GmbH.

The loss after tax of €673 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets rose by 14.3% to €10,311 million. The change resulted from the increase of €857 million in loans to affiliated companies, of €110 million in loans to other investees or investors and of €402 million in other loans. Some of the increase was offset by a decline of €35 million in shares in affiliated companies and of €46 million in equity investments. Write-downs of €147 million and reversals of write-downs amounting to €39 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies rose by €3,634 million (44.0%). This increase was primarily attributable to loans. Loans to and receivables from other investees or investors increased by €348 million (6.8%) and were mainly attributable to loans and time deposits.

The increase in provisions of €51 million (9.4%) arose mainly from higher provisions for pensions.
Bonds rose year-on-year by €1,350 million to €9,700 million, an increase of 16.2%.

Liabilities to banks in connection with borrower's note loans rose by €75 million or 4.2% to €1,873 million. Liabilities to affiliated companies went up by €3,503 million (52.4%), largely as a result of new fixed-rate loans and time deposits from Volkswagen AG and fixed-rate loans from Volkswagen International Luxemburg S.A..

The equity ratio was 13.5 (16.8)%. Total assets at the end of the reporting period amounted to €27,756 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,311 (previous year: 5,275) employees as of December 31, 2020. Employee turnover was less than 1.0%.

The employees of Volkswagen Financial Services AG also work for the subsidiaries because of the structure of the German legal entities in the Volkswagen Financial Services AG Group. At the close of 2020, 1,017 (previous year: 798) employees were leased to Volkswagen Leasing GmbH. In addition, 173 (previous year: 170) employees were leased to Volkswagen Insurance Brokers GmbH, 80 (previous year: 82) employees to Volkswagen Versicherung AG, 9 (previous year: 10) employees to Volkswagen Autoversicherung AG, 0 (previous year: 161) employees to MAN Financial Services GmbH, 2 (previous year: 0) employees to Volkswagen Bank GmbH and 2,651 (previous year: 2,713) employees to Volkswagen Financial Services Digital Solutions GmbH. The changes in relation to Volkswagen Leasing GmbH were largely attributable to the merger of MAN Financial Services GmbH into Volkswagen Leasing GmbH.

Volkswagen Financial Services AG employed 131 (previous year: 131) vocational trainees as of December 31, 2020.

MANAGEMENT, AND OPPORTUNITIES AND RISKS RELATING TO THE BUSINESS PERFORMANCE OF VOLKSWAGEN FINANCIAL SERVICES AG

Volkswagen Financial Services AG operates almost exclusively as a holding company and is integrated into the internal management concept of the Volkswagen Financial Services Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. The legal requirements governing the management of Volkswagen Financial Services AG as a legal entity are observed using key performance indicators such as net assets, net income and liquidity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Financial Services Group (pages 4 and 5) as well as in the report on opportunities and risks (pages 22–30) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2020

€ million	2020	2019
Sales	603	612
Cost of sales	–596	–606
Gross profit on sales	**7**	**6**
General and administrative expenses	–195	–200
Other operating income	17	8
Other operating expenses	–24	–17
Net income from long-term equity investments	–78	–4
of which income under profit and loss transfer agreements	169	231
of which expenses from absorption of losses	–248	–236
Financial result	**–198**	**–75**
of which income from affiliated companies	98	53
of which expenses from affiliated companies	–108	–19
Income tax expense	**–201**	**13**
Profit after tax	–673	–270
Profits transferred under a profit-and-loss transfer agreement	–	–
Losses absorbed under a profit-and-loss transfer agreement	673	268
Net income	–	–
Profit brought forward	2	2
Amount withdrawn from capital reserves	0	0
Net retained profits	**2**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2020

€ million	Dec. 31, 2020	Dec. 31, 2019
Assets		
A. Fixed assets		
I. Financial assets	10,311	9,023
	10,311	**9,023**
B. Current assets		
I. Receivables and other assets	17,425	13,401
II. Cash-in-hand and bank balances	1	1
	17,426	**13,402**
C. Prepaid expenses	**19**	**15**
Total assets	**27,756**	**22,440**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	3,216	3,216
III. Retained earnings	100	100
IV. Net retained profits	2	2
	3,759	**3,759**
B. Provisions	**599**	**547**
C. Liabilities	**23,398**	**18,127**
D. Deferred income	**0**	**7**
Total equity and liabilities	**27,756**	**22,440**

Report on Opportunities and Risks

The active management of opportunities and risks is a fundamental element of the successful business model used by Volkswagen Financial Services AG.

OPPORTUNITIES AND RISKS

In this section, the opportunities and risks that arise in connection with business activities are presented across all segments. The opportunities and risks 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 are used, together with market observations, to identify not only risks but also opportunities, which then have a positive impact on the design of products, 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

The Board of Management of Volkswagen Financial Services AG anticipates that deliveries to Volkswagen Group customers will be significantly up on the previous year in 2021 – assuming successful containment of the Covid-19 pandemic – amid continued challenging market conditions. Volkswagen Financial Services AG supports this positive trend by providing financial services products designed to promote sales.

Overall, growth in the global economy depends on how the Covid-19 pandemic develops. However, diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. In this regard, particular attention needs to be paid to the expiry of government support measures and the economic consequences of the action implemented to contain the pandemic. The macroeconomic environment could also give rise to opportunities for Volkswagen Financial Services AG if actual trends turn out to be better than the forecast.

Strategic Opportunities and Risks

In addition to maintaining its international focus by tapping into new markets, Volkswagen Financial Services AG believes that developing innovative products that are tailored to customers' changing mobility requirements offers additional opportunities. Growth areas such as mobility products and service offerings are being systematically developed and expanded. Further opportunities may be created by launching established products in new markets.

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to ensure that all key products are also available online around the world, thereby enabling the Company to enhance efficiency. By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales and facilitating the extension of the used vehicle financing platform. In this way, changing customer needs are addressed and the competitive position of Volkswagen Financial Services AG reinforced. However, the digitalization of the business model also involves strategic risk, for example from the potential emergence of new competitors.

Opportunities from Credit Risk

Opportunities may arise in connection with credit risk if the losses actually incurred on lending transactions or in the lease business turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on the basis thereof. A situation in which the incurred losses are lower than the expected losses can occur particularly in individual countries where economic uncertainty dictates a conservative risk approach but the economic circumstances then stabilize, resulting in an improvement in the credit quality of the borrowers concerned.

Opportunities from Residual Value Risk

When vehicles are remarketed, Volkswagen Financial Services AG 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, efficiency 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 process of Volkswagen Financial Services AG.

> The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury Controlling, ICS Steering, Compliance & Integrity (ICS Steering) and Controlling units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly.
> Group-wide rules and accounting requirements have been put in place to ensure a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. What companies are included in the consolidation has been defined along with a mandatory requirement to use a standardized, comprehensive set of forms for mapping and processing intragroup transactions.
> Analyses and any adjustments to single-entity financial statements prepared by the consolidated entities are complemented by the reports submitted at Group level by the auditor, taking into account specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view. 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 the parent company Volkswagen AG, for example the Group Tax department.
> The Internal Audit department is a key component of the monitoring and control system. It carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Board of Management of Volkswagen Financial Services AG.

In summary, the existing internal monitoring and control system of the Volkswagen Financial Services AG Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Financial Services AG Group as of the reporting date December 31, 2020 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 Financial Services AG after the reporting date.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

At Volkswagen Financial Services AG, 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 Financial Services AG, including its subsidiaries and equity investments, is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. It accepts risks in a responsible manner so that it can exploit any resulting market opportunities.

An internal control system based on a three-lines-of-defense model has been implemented to manage risks in the Volkswagen Financial Services AG Group. This structure functions as a monitoring and control system for risk. The 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 makes it possible 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 then be initiated.

Appropriate procedures are in place to ensure the adequacy of the risk management. Firstly, the relevant risk owner for individual types of risk continuously monitors and manages risks, which are pooled by the ICS Steering unit and reported to the Board of Management. Secondly, the individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit and by external auditors as part of the audit of the annual financial statements.

The Chairman of the Board is responsible for risk monitoring and credit analysis within Volkswagen Financial Services AG. In this role, the Chairman of the Board submits regular reports to the Supervisory Board and Board of Management on the overall risk position of Volkswagen Financial Services AG.

An important feature of the risk management system at Volkswagen Financial Services AG is the clear, unequivocal separation of tasks and areas of responsibility, both organizationally and in terms of personnel, between the holding company (ICS Steering unit) and the markets (local risk management) to ensure that the system is fully functioning at all times and regardless of the personnel involved.

One of the functions of the ICS Steering unit is to provide framework constraints for the organization of the risk management system. This function includes drawing up and coordinating risk policy guidelines (to be carried out by the risk owner), developing and maintaining methodologies and processes relevant to risk management as well as issuing internal framework standards for the procedures to be used around the world.

ICS Steering is a neutral, independent unit that reports directly to the Chairman of the Board of Management of Volkswagen Financial Services AG. Local risk management ensures that the requirements applicable to the international subsidiaries are implemented and complied with. The on-site local risk management is responsible for the detailed design of models and procedures for measuring and managing risks, and carries out local implementation of processes and technical features.

BUSINESS STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management. As part of this overall responsibility, the Board of Management has introduced a strategy process and drawn up a business strategy. The ROUTE2025 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG 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.

The main risk management goals and measures for each category of risk provide direction for the business policy and risk appetite. The attainment of goals is reviewed annually and any variances are analyzed to establish the causes.The focus of the risk strategy, which is adopted and communicated by the Board of Management and applies throughout the Group, is based on risk appetite and the management requirements for each risk category and risk process. The risk appetite and management requirements are defined on a regular basis for all categories of risk that have been deemed material by the Board of Management. Risk appetite and management requirements have an impact on the extent to which risk management measures are implemented by the risk owner for the individual risk categories. Further details and specifics for the individual risk categories are set out in operational requirements as part of the planning round in accordance with management requirements.

PRODUCT TRANSPARENCY AND NEW MARKETS PROCESS

Before launching new financial-services products or commencing activities in new markets, Volkswagen Financial Services AG carries out processes – with the involvement of departments such as Controlling and Reporting – to ensure that the Company is aware of the requirements and effects relating to the new product or market concerned and that an informed decision can then be made on this basis at an appropriate level of organizational authority.

RISK CONCENTRATIONS

Volkswagen Financial Services AG 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 Financial Services AG's income is generated from just a few sources (income concentrations).

One of the objectives of Volkswagen Financial Services AG's risk policy is to reduce such concentrations by means of broad diversification.

Counterparty concentrations from customer financing are only of minor significance because of the large proportion of business accounted for retail lending. In terms of regional distribution, the Company aims for broadly based diversification of business across regions.

In contrast, sector concentrations in the dealership business are a natural part of the business for a captive and these concentrations are therefore individually analyzed.

Likewise, a captive cannot avoid collateral concentrations because the vehicle is the predominant collateral asset by virtue of the business model. A broad vehicle diversification also means that there is no residual value concentration. Income concentration arises from the very nature of the business model. The special constellation in which the Company serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

MATERIAL RISK CATEGORIES AND RISK REPORTING

A risk survey has identified the following risk categories as material to Volkswagen Financial Services AG: credit risk, country risk, shareholder risk, interest rate risk, residual value risk, liquidity risk, earnings risk, risks of insurance companies, operational risk, reputational risk, compliance and integrity risk, and strategic risk.

Risks are regularly reported to the Board of Management in the form of a management report. This includes key financial performance indicators and key risk data for selected substantial risk categories. The presentation of aggregated quantitative data for the Volkswagen Financial Services AG Group is accompanied by a presentation of the changes by market.

Ad hoc reports at risk-category level are generated as needed to supplement the system of regular reporting. These reports are used to ensure that the Board of Management is informed of any impending negative trends.

OVERVIEW OF RISK CATEGORIES

Financial risks	Nonfinancial risks
Credit risk	Operational risk
Country risk	Reputational risk
Shareholder risk	Compliance and integrity risks
Interest rate risk	Strategic risk
Residual value risk	
Liquidity risk	
Earnings risk	
Risks of insurance companies	

FINANCIAL RISKS

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 borrower or lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. The default is caused by the borrower's or lessee's insolvency or unwillingness to pay. This 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 systematic credit risk monitoring by the international subsidiaries is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action to prevent a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions. Significant borrowers or borrower units are also monitored by ICS Steering.

If a loan default materializes, this represents the loss of a business asset, which has a negative impact on financial position and financial performance. If, for example, an economic downturn leads to a higher number of insolvencies or greater unwillingness of borrowers or lessees to make payments, the recognition of a higher write-down expense is required. This in turn has an adverse effect on the operating result.

In the reporting year, there was only a modest increase in credit risk based on a slight rise in the volume of loans and receivables. Alongside statutory assistance, internal support measures implemented by the Group mitigated effects from the Covid-19 pandemic.

Lending or credit decisions at Volkswagen Financial Services AG are made primarily on the basis of the borrower credit check. In the local entities, these credit checks use rating or scoring systems, which provide the relevant departments with an objective basis for reaching a decision on a loan or a lease.

A set of procedural instructions outlines the requirements for developing and maintaining the local rating systems. Similarly, golden rules specify the parameters for developing, using and validating the scoring systems in the retail business.

Rating systems for corporate customers

Volkswagen Financial Services AG uses rating systems to assess the credit worthiness of corporate customers. This evaluation takes into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payment 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 loan and for decisions on provisions. The models in use are largely centrally validated and monitored on a regular basis, and are adjusted and refined as required.

Scoring systems in the retail business

For the purposes of determining the credit quality of retail customers, scoring systems are incorporated into the processes for credit approval and for evaluating the existing portfolio. These scoring systems provide an objective basis for credit decisions. The systems use information about the borrower available internally and externally and estimate the probability of default for the requested loan, generally with the help of statistical methods based on historical data covering a number of years. An alternative approach adopted for smaller or low-risk portfolios also uses generic, robust scorecards and expert systems to assess the risk involved in credit applications. To classify the risk in the credit portfolio, both behavioral scorecards and straightforward estimation procedures at risk pool level are used, depending on portfolio size and the risk inherent in the portfolio. The models and systems in use are regularly monitored, validated, adjusted (where required) and refined at local level.

Collateral
The general rule is that credit 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, the evaluation procedures and the evaluation bases. Local collateral guidelines with specific values take these rules into account. 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 Financial Services AG are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are locally monitored and analyzed; the collateral values based on this data are adjusted, where required.

Provisions
The calculation of provisions is based on the expected loss model in accordance with IFRS 9 and is also derived from the results of the rating and scoring processes.

With regard to impaired loans and receivables, a distinction is also made between significant and insignificant loans and receivables. Specific provisions are recognized for significant impaired loans and receivables, whereas specific provisions evaluated on a group basis are recognized for insignificant impaired loans and receivables. Portfolio (global) provisions are recognized to cover impaired loans or receivables for which no specific provisions have been recognized.

ICS Steering sets fundamental parameters in the form of golden rules and guidelines for the management of 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 lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified or problem loan). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company in accordance with the support strategy for the international subsidiaries. Regular reporting and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk[1]	Dec. 31, 2020	Dec. 31, 2019
Amount utilized (€ million)	103,263	100,962
Default rate in %	1.8	1.6
Impairment ratio in %	2.0	1.8

1 Including joint ventures (full inclusion) and subsidiaries recognized at cost.

The rating and scoring processes on which the impairment ratio is based include default probabilities of future events. As of the reporting date, the provisions exceed the actual losses incurred.

Country Risk
Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. For example, political or economic trends caused by a crisis or difficulties affecting the entire financial system in the country concerned may mean that cross-border services involving the movement of capital cannot be carried out because of transfer problems attributable to action implemented by the foreign government in question. Country risk would need to be taken into particular account when in connection with funding and equity investment activities involving foreign companies and with the lending and leasing business operated by the local companies. Given the focus of business activities in the Group, there is little chance that country risk (such as foreign exchange risks or legal risks) will arise. In addition, the causes of country risk are inevitably reflected in the other direct and indirect risk categories involved (e.g. credit risk).

Volkswagen Financial Services AG does not generally have any significant cross-border loans to borrowers outside the basis of consolidation. The conventional country risk analysis is not applicable to intercompany lending because, if the difficulties described above were to occur, the funding of the Group entities through lending could be extended if necessary, thereby ensuring that the entities could continue to operate in the strategic market concerned.

In 2020, the Brexit negotiations in the United Kingdom did not have any impact on the risk situation of Volkswagen Financial Services AG. Nevertheless, the risk situation continues to be closely monitored so that the Company can respond proactively to any emerging developments. Various scenarios were analyzed in 2020 in connection with the approach of Brexit, allowing the Company to be prepared for all eventualities.

Shareholder Risk

Shareholder risk refers to the risk that equity investments made by Volkswagen Financial Services AG could potentially lead to losses in connection with capital provided (as a result of lack of dividends, write-downs to going-concern value, losses on disposal or decrease in hidden reserves), profit-and-loss transfer agreements (loss absorption) or liability risks (for example, in the case of letters of comfort).

In principle, Volkswagen Financial Services AG only makes such equity investments to help it achieve its corporate objectives.

The investments must therefore support its own operating activities and are intended to be held on a long-term basis. If shareholder risk were to materialize in the form of a loss of fair value or even the complete loss of an equity investment, this would have a direct impact on relevant financial data. The net assets and financial performance of Volkswagen Financial Services AG would be adversely affected by write-downs recognized in profit or loss.

Equity investments are integrated into the annual strategy and planning process of Volkswagen Financial Services AG. It exercises influence over the business and risk policies of the equity investments through its representation on the relevant ownership or supervisory bodies. However, responsibility for the operational use of the risk management tools lies with the business units themselves.

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. Volkswagen Financial Services AG is exposed to interest rate risk in its banking book. Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance. Interest rate risk is managed on the basis of limits using interest rate derivatives as part of the risk strategy defined by the Board of Management of Volkswagen Financial Services AG. Monitoring is performed by Treasury on the basis of a service agreement with Volkswagen Bank GmbH. A report on interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each quarter. As of December 31, 2020, 81.2% of the limit was utilized.

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. On the other hand, there is an opportunity in that the remarketing could generate proceeds greater than the calculated residual value.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual value risk refers to residual value risk borne directly by Volkswagen Financial Services AG (contractually determined). 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 Financial Services AG.

If a residual value risk materializes, it may be necessary to recognize an impairment loss or a loss on disposal of the asset concerned. This could have a negative impact on financial performance. As stated in the accounting policies for leases described in the notes to the consolidated financial statements, the impairment losses generally lead to a subsequent adjustment of future depreciation rates.

Direct residual value risk is quantified using expected loss, which equates to the difference between the latest forecast as of the remeasurement date of the remarketing proceeds on expiration of the contract and the contractual residual value specified for each vehicle. Other parameters such as remarketing costs are also taken into account in the calculation. The expected loss for the portfolio is determined by aggregating the individual expected losses for all vehicles. The expected losses arising from contracts subject to risk relate to the losses expected at the end of the term of the contracts concerned. These losses are recognized in profit or loss in the consolidated financial statements for the current period or in prior periods. The ratio of the expected losses from contracts subject to risk to the contractually fixed residual values in the overall portfolio is expressed as a risk exposure. The results from the quantification of the expected loss and risk exposure are considered in the assessment of the risk situation.

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).

CHANGES IN DIRECT RESIDUAL VALUE RISK

Direct residual value risk[1]	Dec. 31, 2020	Dec. 31, 2019
Number of contracts	2,430,832	2,134,455
Guaranteed residual values (€ million)	32,713	27,678
Risk exposure in %	4.1	3.9

1 Including joint ventures (full inclusion) and subsidiaries recognized at cost

As part of the management of residual value risk, Volkswagen Financial Services AG has firstly specified rules for managing residual value. The processes for this include the calculation of the risk exposures of forward-looking residual value forecasts. Secondly, it has established uniform requirements for the Group, which reflect the accounting standards governing the recognition of provisions for risks. On the basis of this mandatory outer framework, the division/markets monitor and control their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Regular reporting, business financial reviews and the yearly planning process are used to monitor residual value risk at portfolio level.

Despite the pandemic, there was only a marginal increase in this risk in the reporting year.

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. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The analysis and management of liquidity risk at the entities belonging to Volkswagen Financial Services AG are outsourced to the Treasury unit of Volkswagen Bank GmbH.

The primary objective of liquidity management is to safeguard the ability of the Company to meet its payment obligations at all times. This can be guaranteed through the use of drawdowns under credit facilities available with third-party banks and with Volkswagen AG. To measure liquidity risk, Volkswagen Financial Services AG has set up a system of limits throughout the Group. This system restricts funding-related cash outflows over a time horizon of 12 months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) meets at least every four weeks to monitor the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. ICS Steering communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2020, 67.3% of the limit was utilized.

Earnings Risk

Earnings risk refers to the risk that actual figures will vary from the budgeted income statement earnings in the management strategy for the Volkswagen Financial Services AG Group. It is derived from any variance in the actual income (negative variance) and actual expenses (positive variance) in comparison with the budgeted figures.

The risk is largely determined by the business strategy and internal business planning as well as by changes in general operating parameters (such as the level of sales in the Volkswagen Group, business volume, technical processes, competitive environment).

Earnings risk is quantified on the basis of the anticipated deviation of the operating result from the budget. To this end, the trends in actual figures compared with forecasts are monitored at market level during the course of the year. This comparison is included in the standard reporting procedure carried out by Controlling.

Risks of Insurance Companies

The mission of the insurance companies in the Volkswagen Financial Services AG Group is to support sales of the Volkswagen Group's products. This is achieved in a number of ways, but mainly by offering guarantee insurance as a primary insurer and inward reinsurance.

Underwriting risk is one of the key types of risks for insurance companies. Within Volkswagen Financial Services AG, this risk arises in the subsidiaries Volkswagen Versicherung AG, Volkswagen Insurance Company DAC and Volkswagen Reinsurance Company DAC. It arises if the cash flows that are material to the insurance company differ from their expected value. One source of this risk is the uncertainty as to whether the total amount of actual payments for claims matches the total amount of expected payments for claims. A key feature of the risk position faced by insurance companies is that premiums are collected at the beginning of an insurance period but the associated contracted benefits are of a random nature. Depending on the insurance business operated by the company concerned, underwriting risk can be subdivided in accordance with regulatory requirements into the risks associated with three different classes of insurance: non-life underwriting risk, life underwriting risk and health underwriting risk.

The purpose of managing underwriting risk is not to avert such risk in its entirety but to manage the risk systematically in accordance with the objectives. In principle, risks are not accepted unless they can be calculated and borne by the company.

If claims are excessive relative to the premium calculation, the risk situation of the portfolio must be reviewed.

The materiality of non-life, life and health underwriting risks is assessed through a qualitative evaluation of the risks based on the magnitude of the potential loss and the associated probability that the risks will materialize. The risks are quantified using the standard formula specified in Solvency II. The risks are managed by the independent risk control function in each insurance company. The results are then reported to the relevant units.

The management of risk at the insurance companies includes, in addition to underwriting risk, other risks that are not subsumed under the risk categories described above and below because of partially differing regulatory definitions. Depending on the insurance business involved, these risks may include the following:

> Counterparty default risk
> Market risk
> Inflation risk
> Operational risk
> Liquidity risk
> Miscellaneous non-quantifiable risks

The risks of insurance companies in the Volkswagen Financial Services AG Group therefore reflect the entire risk profile of the insurance companies and allow the risks to be managed using a dedicated system appropriate to the business mission.

NONFINANCIAL RISKS

Operational Risk

Operational risk (OpR) is defined as the risk of loss that could result from inadequate or failed internal processes (process risk), people (HR risk), systems (technological risk), projects (project risk), legal positions or contracts (legal risk), or from external events (catastrophe risk).

The objective of operational risk management is to present operational risks transparently and initiate precautionary and corrective measures with a view to preventing or, when this is not possible, mitigating the risks or losses. If an operational risk materializes, this represents an operational loss with the resulting loss of a business asset, which has a negative impact on financial position and financial performance, depending on the amount of the loss. Processes and responsibilities are set out in the operational risk manual.

The annual risk self-assessment is used to determine a forward-looking monetary assessment of potential risks. A standardized risk questionnaire is provided for this purpose. The local experts use these questionnaires to determine and record the potential level of risk and the probability that a risk could materialize. The central loss database is used to ensure that information about monetary 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. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

Operational risk is managed by the companies/divisions (operational risk units) on the basis of the guidelines in force and the requirements laid down by the special operational risk units responsible for specific risk categories. To this end, local management decides whether future risks or losses are to be ruled out (risk prevention), mitigated (risk mitigation), consciously accepted (risk acceptance) or transferred to third parties (risk transfer).

The ICS Steering unit checks the plausibility of the information provided by the companies/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 the integration of all relevant operational risk units.

Details of operational risk are reported regularly as part of the financial analysis report to the Board of Management. Ad hoc reports are issued in addition to the ongoing reports, provided that the relevant specified criteria are satisfied.

The actual losses incurred as a result of operational risks amounted to €38.8 (43.7) million as of December 31, 2020, of which €5.6 million was attributable to additional costs arising from the pandemic. These costs were mainly incurred in connection with implementing social distancing and hygiene measures, deploying more security personnel and canceling planned events and business trips.

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) and 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.

Compliance and Integrity Risks

At Volkswagen Financial Services AG, compliance risk refers to risks that could arise from non-compliance with statutory rules and regulations or internal requirements.

Separately, integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or act in accordance with the Group's principles or the values of Volkswagen Financial Services, thereby presenting an obstacle to the long-term success of the business. Such risk can also result from inadequate conduct by the Company toward the customer, unreasonable treatment of the customer or provision of advice where products that are not suitable for the customer are used.

To counter these risks, the Compliance and Integrity function is committed to ensuring compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to creating and fostering an appropriate compliance and integrity culture.

The role of the Chief Compliance & Integrity Officer within the Compliance and Integrity function is to work toward implementing effective procedures to ensure compliance with legal rules and requirements, and toward establishing appropriate controls. This officer is also responsible for operating an integrity management system with the aim of raising awareness of the ethical principles and code of conduct and helping employees to choose the right course of action in a responsible and resolute manner, based on their own personal conviction. This is carried out mainly by stipulating binding requirements at Group level. In turn, these then provide a framework for specifying detailed requirements for which local compliance & integrity officers are responsible. Local companies are independently responsible for implementing the centrally defined requirements. Responsibility for complying with any further rules and ethical principles lies with the company concerned.

Overall, the emergence of a compliance and integrity culture is being nurtured by constantly promoting the Volkswagen Group's Code of Conduct and by raising employees' risk-oriented awareness. The main instruments used to foster this culture are a tone-from-the-top approach, classroom training, and e-learning programs. The compliance and integrity culture is also being consolidated by communication measures, including the distribution of guidelines and other information media as well as employee participation in compliance and integrity programs.

The Chief Compliance & Integrity Officer supports and advises the Board of Management in matters relating to the avoidance of compliance and integrity risks and reports to the Board at regular intervals. The Board of Management has also entered into a voluntary undertaking regarding compliance and integrity. This ensures that compliance and integrity aspects will also be discussed and taken into account in all decisions made by the Board of Management.

Strategic Risk

Strategic risk (also referred to as the risk from general business activities) 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 Financial Services AG is to manage its 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.

SUMMARY

In 2020, the risks were moderately greater than in the previous year. In fiscal year 2020, which was mainly shaped by the pandemic, the levels of credit and residual value risk, in particular, were slightly higher than in the previous year.

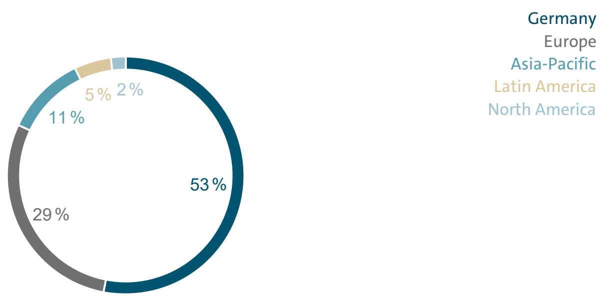
Human Resources Report

HR modernization – focus on the customer

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 10,880 (10,773) employees as of December 31, 2020. Of these, 5,789 (5,763), or 53 %, were employed in Germany and 5,091 (5,010), or 47 %, at international sites. Owing to economic considerations, 270 (336) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION
as of December 31, 2020



HUMAN RESOURCES STRATEGY

The ROUTE2025 strategy has created new areas of focus in terms of HR strategy. Five strategic areas of activity are listed under the heading “Top Employer/Top Employees”. These areas of activity are helping Volkswagen Financial Services AG to position itself as “The Key to Mobility”. The objective is to attract, develop and retain the best employees. With the support of these employees, the Company will drive forward development around the other strategic cornerstones of customers, volume, profitability and operational excellence. Through the use of specific activities to develop and retain personnel, coupled with performance-based profit sharing, the Company aims to encourage top performance, with the objective of ensuring outstanding customer service provided by top employees and still further improving its excellent globally recognized reputation as a top employer.

Responsibility for implementing the employee strategy at an international level lies with the international subsidiaries themselves, supported by the international HR unit at the head office in Braunschweig. The Human Resources Strategy Card remains the most important management tool for implementing the HR strategy. The objectives and definitions set out in the tool provide local companies with a uniform basis to be applied around the globe. The local entities hold regular meetings with the head office in Braunschweig – at least once a year – to report on their progress and share detailed information on this. Depending on the situation, support measures are agreed and/or excellent examples from other branches are presented and discussed in regional workshops and at the annual HR conference so that synergies can also be leveraged between the different local companies.

The HR unit was fundamentally restructured in the reporting year. Until now, administrative tasks have accounted for a high proportion of HR activities. Going forward, HR will be expected to be more proactive in influencing corporate strategy. The requirement is for an innovative partner capable of providing the impetus for the continued strategic development of various topics. At the same time, the focus is on supporting employees and providing advice for managers. A further requirement from now on is for HR to provide advisory expertise rather than an administrative service.

The HR unit has clearly oriented itself around customer needs with a structure based on a business partner model. The provision of strategic advice for managers on HR issues has been taken over by the customer function, whereas the new employee service center now looks after all employee-related matters. The two functions are backed by a broad range of specialist expertise in other components of the structure, enabling all matters to be treated on a holistic and long-term basis. The aim is thus to ensure that HR supports all customers efficiently and effectively and that it is involved in forward-looking issues for the business as appropriate for the right target group.

Another key aspect of HR activities has been the need to deal with the Covid-19 pandemic and the associated new requirements for managers and employees to work remotely. Because of the pandemic, the vast majority of employees have been working from home. To facilitate this, processes have been transformed and technical requirements put in place in the shortest possible time. Employees have been equipped with laptops and the necessary access authorizations established. In this context, a large number of initiatives for digitalizing HR products and processes have been implemented. For example, seminars and mandatory training sessions are offered online and events are held using Skype. Job interviews and employee appraisal sessions are also conducted remotely. In addition, the Occupational Health & Safety department conducted work station approvals and hygiene protocols have been implemented. These measures aim to ensure that employees who can only do their jobs at the Company's offices are provided with the best possible protection. Necessary measures are regularly discussed, decided upon and then communicated by the crisis team with the involvement of appropriate experts. In order to ensure employees and managers were informed quickly and comprehensively, a total of 55 HR bulletins were sent to the entire workforce and 44 special notices to managers in 2020 via e-mail.

The HR Transformation program was set up in 2018. Transformation refers to all the changes that employees can expect in the business over the coming years as a result of digitalization or efficiency programs. HR Transformation means everything involving the employees who are shaping the transformation process or are affected by it. The transformation of Volkswagen Financial Services represents a challenge to the flexibility of all employees and managers. The HR Transformation program sets the framework in which all employees – regardless of the extent to which they are affected – can make an individual contribution to the success of the transformation. In addition to placing employees in new jobs, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the skills and qualifications required. The Transformation Office established in connection with the project supports the change process in respect of the internal labor market. Its centralized management at the Braunschweig facilities ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure that there is a transparent procedure throughout the whole site. The employees concerned receive assistance in the form of special training. The Transformation Office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related to the internal labor market. There are similar approaches at the international facilities. The Strategic HR Planning subproject is a response to the changes in employee requirements. It enables the Company to carry out quantitative HR planning and detailed analysis based on job clusters and skills and qualifications.

The objective of the Leadership in Transformation program initiated in 2019 is to provide managers with the capability to deal with digital transformation successfully. The three words "Learn – Inspire – Transfer" are intended to sum up the approach. In addition to the mandatory and modular program "Erfolgreich durchstarten" (hit the ground running) for new and newly appointed managers, there are advanced modules for enhancing the management know-how of experienced managers, as well as the option of an individual review to assess the current level of a manager's skills.

From the "Inspire" and "Transfer" perspectives, BarCamps and the "Time for Stimulus" format offer all managers the opportunity to improve their knowledge about current issues. They can obtain support for specific management situations; internal and external facilitators help them analyze and enhance their leadership skills. Following a successful pilot project, a language analysis tool was also used in 2020 as a voluntary development mechanism for all managers and program leaders. Language analysis is based on artificial intelligence and can raise managers' awareness of the importance of language and its effects, particularly when many employees are working remotely. The aim is to help managers find the right way of communicating in times of change so that there is optimum support and engagement from employees.

Volkswagen Financial Services AG thus ensures consistent quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture as set out by the FS Way for more than 350 employees with line management responsibilities.

The international subsidiaries also attach great importance to continuously enhancing management skills in line with prevailing requirements. For example, FS Australia offered all managers support to help them lead teams working remotely during periods of crisis.

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of TOP20 employers in the "Great Place to Work" employer ranking by 2025, not just in Europe but worldwide. In 2019, Volkswagen Financial Services AG was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2019" and "Best Employer in Germany 2019" competitions. In a comparison within Europe, the Company was placed eleventh in a ranking of the top 25 European employers, which was an improvement on the twelfth place achieved in 2016. These results were based on the rankings in each country, for example sixth place in Norway and

28th place in Spain. The Company entered the competition again in 2020. The rankings in the German, European and wider international competitions are expected to be announced during the course of 2021.

Customer satisfaction with the work of the employees is given top priority at Volkswagen Financial Services AG. The results of external and internal customer satisfaction surveys are used as indicators of target achievement. The internal customer feedback system, which analyses internal collaboration, has now been introduced in 22 countries. Volkswagen Financial Services AG already offers competitive, performance-related remuneration. Performance appraisals are conducted as part of the annual staff dialogs in almost all international subsidiaries.

IMPLEMENTATION OF THE CORPORATE STRATEGY

The ROUTE2025 strategy is complemented by “The FS Way” and the associated leadership and management principles. The FS Way describes the Company’s corporate and leadership culture, i.e. the way in which the objectives of the five strategic areas for action – customers, employees, operational excellence, profitability and volume – can be achieved to enable the Company, as an automotive financial services provider, to live up to its strategic vision of being “The Key to Mobility”. The FS Way is anchored in the five FS values: living commitment to customers, responsibility, trust, courage and enthusiasm, combined with an attitude of continuously looking to improve and proactively making the changes this requires. The FS values are complemented by the new basic principles of the Volkswagen Group, known as the Essentials. The FS values are repeatedly explored and discussed at events for managers and employees, especially with a view to digital transformation, and then put into practice.

Together4Integrity (T4I), an integrity and compliance program for the entire Group launched in the second half of 2018, was continued in 2020. The international rollout was concentrated mainly in the EU East, EU West and EU4 regions, notably in Poland, Portugal and France. The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Financial Services AG by organizing and tracking integrity and compliance initiatives throughout the Group. Following the successful completion of the U.S. Compliance Monitorship in 2020, the program will be continued in 2021 and thereafter in accordance with the Group’s master plan.

The HR unit aims to use its processes, tools, rules and policies to make a significant contribution to the creation of a working environment in which the values and conduct requirements of Volkswagen Financial Services AG are taken seriously. The objectives of the T4I initiatives assigned to the HR unit are to enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention), giving these issues greater focus. The Group’s minimum standards underlying the initiatives have been set down in an organizational policy.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

In 2020, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional banking qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration focusing on digital marketing & sales and financial services management is offered in collaboration with Welfen Akademie e. V. and was initiated in a partnership with Volkswagen Financial Services AG. The combination of vocational training and studies for a Bachelor of Science in Business Informatics and Bachelor of Science in IT Security is offered in collaboration with Leibniz University of Applied Sciences. In 2020, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, with a view to designing vocational training on a forward-looking basis and incorporating the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. The training offering has been expanded to include the vocational field of media design.

As of December 31, 2020, a total of 131 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. In Germany, a total of 43 vocational trainees were offered permanent positions in the reporting period.

Skilled, committed employees are the cornerstones of the success of Volkswagen Financial Services AG as a business. To ensure that the Company is structured to deal with future challenges, Volkswagen Financial Services AG aims to recruit specialists and experts to complement the existing workforce. It is hugely important for the Company to continuously analyze its own business, competitors and target groups, especially in view of the shortage of specialists in the IT sector.

Candidates are supported by a quick, efficient and transparent application process, referred to as the Candidate Journey. An application using the SuccessFactors recruiting tool clears the administrative hurdle. This applies to both external and internal applications. The traditional cover letter is no longer required; applicants simply need to upload a career history. The selection procedure focuses on candidates and whether they are suitable for Volkswagen Financial Services AG and the position in question. On Match Day, applicants are provided with information on their intended area of employment and are able to meet their potential colleagues. This is an opportunity for both sides to gain a first impression of working together in the future.

Volkswagen Financial Services AG is also pursuing a rigorous approach to recruiting and retaining young talent. The recruitment process was fully digitalized in April of the reporting year so that the selection procedure could be maintained, even under the restrictions caused by the Covid-19 pandemic. HR marketing has also developed the “You like to move IT” campaign, which is aimed at school students who are thinking of a future career in which they are able to create or motivate, ideally in IT. Each year, the Company also invites applications from university graduates for the eight places available on the 12-month Digital Talents trainee program, which takes place both in Germany and abroad and focuses on the digitalization of the Company’s products. This is another part of the foundations that help the Company to safeguard its future viability. The development program for young graduates is complemented by a three-year doctoral program. Collaboration agreements with universities, such as Hildesheim University, offer departments and students the opportunity to transfer knowledge from research to practice and vice versa, thereby facilitating regular information-sharing on new methods and applications. In the area of data science and artificial intelligence (AI), such cooperation enables, for example, the Company to use state-of-the-art scientific methods and is therefore being extended by a further two years until the end of 2022.

As part of the reorganization, all HR professional development and qualification matters have been restructured from a strategic perspective and assigned to one of two units in the business partner model (Leadership, Culture and Change on the one hand, and Skills and Qualifications Management on the other). The objective is to ensure that all activities are oriented around the business of Volkswagen Financial Services AG with a strategic focus on professional and skills development as a primary component of the HR core business.

The range of skills development options is concentrated mainly on issues connected with preparing for change as part of the business and cultural transformation. Key areas are skills and vocations of the future alongside social and methodological know-how, for example in an agile working environment.

The importance of digitalization knowledge and experience is growing steadily – even within Volkswagen Financial Services AG. As a business, the Company has an interest in ensuring that its employees receive professional development in growth areas so they have the capability to adapt to changing job requirements. HR and the digital program have together developed a joint offering targeted at all employees who wish to receive professional development in connection with digitalization. In 2020, digitalization study programs and courses over a number of months were offered for the first time with 20 places being allocated. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee concerned. Volkswagen Financial Services bears the cost of this training. The following university courses were offered in 2020: UX Design B.A., Data Science B.Sc., Digital Business B.A., Artificial Intelligence M.Sc. and Computer Science in Cyber Security M.Sc. Long-term, intensive skills development is offered through the university courses. Online courses support medium-term skills development with the aim of improving the skills required in the Company in the digital world. The different skills development formats with varying degrees of intensity take into account differing employees, their needs and the ways in which they can be deployed in the business. These skills development activities support the HR Transformation program.

All information on training offered by the FS Academy (list of courses, specialist forums, lectures/presentations and e-learning sessions) is available centrally (with a booking option) via FS Academy Online, the Academy’s dedicated digital learning platform. The learning platform supports the entire training process for employees, including the search for a suitable learning opportunity, registration, participation and, subsequently, the digital provision of materials, such as photographic material, handouts and participation certificates. In addition, employees can use FS Academy Online to participate in different types of digital learning formats such as e-learning. The bulk of the skills development offering has also been transferred to a digital format so that employees are able to learn wherever they happen to be and, in some cases, at any time they choose.

To promote employee participation in the transformation and thereby support the transformation processes in the Company, Volkswagen Financial Services AG initiated a new ideas and innovation management system in the reporting year under the name “FS.IDEAS”. All employees are encouraged to submit their ideas for conventional improvements or innovative changes. Ideas are sent in by using an online tool that can be seen by all employees, thus creating transparency in respect of both the ideas and the process. Event months are held across the whole of the Group, during which time the Company puts incentives in place to encourage employees to submit ideas. In the system, the Company activates the function allowing employees to add comments and likes, which represents a new form of involvement and appreciation between colleagues. This approach fosters an environment in which employees share in the refinement of ideas and collaborate across departments and disciplines. If expert teams approve ideas that have been put forward, the ideas are then implemented by the relevant departments. If an idea is thought to be particularly beneficial, the originator may also be able to make a short pitch to a panel consisting of board members and members of the Works Council with a view to obtaining implementation support.

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2020, women accounted for 47.7% of the workforce of Volkswagen Financial Services AG in Germany, but this is not yet reflected in the percentage of women in management positions. Volkswagen Financial Services AG is striving to meet the targets it set itself in 2010 and revised in 2016 in line with the Gesetz zur gleichberechtigten Teilhabe von Frauen und Männern in Führungspositionen (FührposGleichberG – German Act on the Equal Representation of Women and Men in Management Positions) with regard to the proportion of women in management, on the Board of Management and on the Supervisory Board. The Company has set itself the objective of increasing the proportion of women in management positions over the long term. As part of succession planning, female candidates are systematically considered with the aim of complying with the relevant targets.

In 2018, the targets to be achieved by 2023 were redefined as a result of the separation of Volkswagen Bank GmbH from Volkswagen Financial Services AG and were then approved by the Board of Management.

Proportion of Women – Target and Actual Values for Germany

	Target 2023	Target 2020	Actual 2020
Second management level	27.8	26.1	26.8
First management level	16.8	13.9	14.7

The targets for the first and second management levels in Germany have therefore been attained.

The Supervisory Board has set the following targets for the proportion of women to be achieved by the end of 2021: 25.0% for the Supervisory Board and 16.7% for the Board of Management. At the end of 2020, the proportion of women on the Supervisory Board was 33.3%; the equivalent figure for the Board of Management was 25.0%.

Volkswagen Financial Services AG also pays close attention to diversity, and therefore to the proportion of women, at an international level. In 2020, women held 22.5% of management positions globally. The proportion of women at the upper management level was 19%. Internationally, the overall proportion of women at Volkswagen Financial Services AG was 49% in 2020.

The Board of Management maintains the necessary transparency through regular progress reports.

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Financial Services AG since 2002. Volkswagen Financial Services AG sent a clear signal with its corporate initiative, the Diversity Charter, which was signed in 2007. Under this initiative, the Company has pledged to respect and value diversity, and to promote employees according to their skills and ability. In 2018, Volkswagen Financial Services AG adopted a Diversity Policy to reinforce this approach and enshrined the policy in its organizational manual. The Diversity Policy ensures that diversity is recognized as the norm rather than an exception. Diversity becomes a strength through the conscious appreciation of the workforce. Volkswagen Financial Services AG operates at an international level and thus workforce diversity is a substantial factor in the successful performance of the business.

The Diversity wins@Volkswagen program, which is binding for all managers throughout the Group, makes a further contribution to fostering the concept of diversity. The aim of the program is to raise awareness of diversity and equal opportunities, to ensure that the added value of diversity is recognized and learned, and to develop an understanding of the obstacles that need to be overcome on the way to diversity in the Company. Workshops are held as part of the program to raise the awareness of all managers about the issue of diversity and equal opportunities.

Volkswagen Financial Services AG promotes a family-friendly environment and offers numerous and continuously expanding initiatives and programs aimed at achieving the right work-life balance, such as various work-time models and company childcare facilities. “Frech Daxe”, the company childcare facility of Volkswagen Financial Services AG, which is operated by Impuls Soziales Management GmbH & Co. KG, is in close proximity to the Company’s offices. It has capacity for up to 180 children and offers flexible hours of care, as well as care for schoolchildren during school holidays, thus making a substantial contribution to helping employees achieve a work-life balance.

Report on Expected Developments

Growth in the global economy is expected to recover overall in 2021. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year.

The main opportunities and risks arising from the operating activities having been set out in the report on opportunities and risks, the section below now outlines the expected future developments. These developments give rise to opportunities and potential benefits that are included in the planning process on an ongoing basis so that Volkswagen Financial Services AG can exploit them as soon as possible.

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 recover overall in 2021, provided lasting containment of the Covid-19 pandemic is achieved. This growth will most likely be sufficient for the economy to recover to approximately its pre-pandemic level. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2022 to 2025.

Europe/Other Markets

In Western Europe, we expect moderate economic growth in 2021 after the downturn in the last fiscal year. The impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the EU will fundamentally pose major challenges.

We also anticipate moderate growth rates in Central Europe in 2021. The economic situation in Eastern Europe is expected to recover as well, albeit at a somewhat slower pace given that only slight growth is anticipated for the Russian economy.

For Turkey, we expect an increasing economic growth rate combined with high inflation and a weak domestic currency. The South African economy will probably be dominated by political uncertainty and social tensions again in 2021 resulting from high unemployment, among other factors. Despite the sharp slump in the past fiscal year, we therefore expect only moderate growth.

Germany

We expect gross domestic product (GDP) in Germany to grow at a relatively robust pace in 2021 but to remain short of its pre-pandemic level. The labor market situation is likely to deteriorate somewhat depending, among other things, on a delayed increase in corporate insolvencies following the suspension of the obligation to file for insolvency during the pandemic.

North America

We anticipate a distinct improvement in the economic situation in the USA in 2021, despite a declining but still relatively high unemployment rate. The US Federal Reserve will probably leave key interest rates close to zero. Economic growth is also likely to increase distinctly in neighboring Canada and Mexico, albeit in Mexico probably not at the same pace compared with the relatively sharp decline in the reporting year.

South America

In all probability, the Brazilian economy will recover in 2021 and record a moderate rate of growth. After three years of negative GDP growth rates, we anticipate only little improvement in the economic situation in Argentina.

Asia-Pacific

The Chinese economy will probably continue growing at a relatively high level in 2021 after being one of the few economies not to experience a recession in 2020. After a sharp contraction in the reporting year, we also expect a relatively high rate of expansion for the Indian economy in 2021, outpacing the average growth seen in the years before the Covid-19 pandemic. In Japan, we anticipate a solid rise in GDP growth.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2021, particularly because of the ongoing challenges resulting from the Covid-19 pandemic. We expect demand to rise in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will become increasingly important in this regard. Additionally, we expect demand to increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging and that the initiated shift from financing to lease contracts will continue in the leasing business. We anticipate that this trend will continue in the period from 2022 to 2025.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, we are projecting increased demand in 2021 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2022 to 2025.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2021. Overall, the volume of demand worldwide for new vehicles is expected to be noticeably up on the reporting year, but will not reach the pre-pandemic level, provided successful containment of the Covid-19 pandemic is achieved. We are forecasting growing demand for passenger cars worldwide in the period from 2022 to 2025.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed in 2021; on the whole, we anticipate a moderate rise in demand for 2021, assuming a successful containment of the Covid-19 pandemic. For the years 2022 to 2025, we expect demand for light commercial vehicles to increase globally.

We believe we are well prepared overall for the future challenges pertaining to automobility business activities and for the mixed development of the regional automotive markets. Our brand diversity, our presence in all major world markets, our broad and selectively expanded product range, and our technologies and services put us in a good competitive position worldwide. With electric drives, digital connectivity and autonomous driving, we want to make the automobile cleaner, quieter, more intelligent and safer. With an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions we have set ourselves the goal of continuing to excite our customers and to meet their diverse needs.

Europe/Other Markets

For 2021, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting year. At the same time, however, possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Despite this, we expect a strong increase in the United Kingdom in 2021. In Italy, Spain and France, the markets are likely to significantly exceed the level seen in the reporting year.

For light commercial vehicles, we anticipate demand in Western Europe in 2021 to be noticeably up on the previous year's level despite the possible consequences of the pandemic and the uncertain impact of the United Kingdom's exit from the EU. We predict a moderate to large increase in Italy, France, Spain and the United Kingdom.

Sales of passenger cars in 2021 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we anticipate a moderate year-on-year increase in market volume. In the region's other markets, a slight to strong rise in the number of new registrations is expected.

Registrations of light commercial vehicles in the Central and Eastern European markets in 2021 will probably be distinctly higher than in the previous year. We predict a moderate increase in market volume for Russia.

The volume of the passenger car market in Turkey in 2021 is expected to remain at the previous year's level. The volume of new registrations in South Africa in 2021 is likely to be substantially higher year-on-year.

Germany

In the German passenger car market, we expect a moderate year-on-year increase in demand in 2021.

We also anticipate that registrations of light commercial vehicles will be noticeably up on the previous year.

North America

The volume of demand in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA in 2021 is likely to be distinctly higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is also projected to be significantly higher than the previous year's level. For Mexico, we expect demand to rise slightly compared with the reporting year.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate an overall large increase in new registrations in the South American markets in 2021 compared with the previous year. In Brazil, the volume of demand is expected to increase substantially compared with 2020. We anticipate that demand in Argentina will be significantly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2021. We predict demand in China to also be noticeably higher than the comparative figure for 2020. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. As long as there is no resolution in sight, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence. We anticipate an appreciable increase in the Indian market compared with the previous year. Japan should see slight growth in market volume in 2021.

The market volume for light commercial vehicles in 2021 will probably be slightly higher than the previous year's figure. We are expecting demand in the Chinese market to be distinctly lower than in the previous year. For India, we are forecasting a substantially higher volume in 2021 than in the reporting year. In the Japanese market, we expect demand to be comparable with the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes was down substantially year-on-year in fiscal year 2020 due to the spread of the SARS-CoV-2 virus: 460 thousand new vehicles were registered (–20.1%). Despite the ongoing uncertainty generated by the Covid-19 pandemic, a recovery could be seen in almost all of the markets that are relevant for the Volkswagen Group in the second half of 2020 compared with the first six months.

In the 27 EU states excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was sharply down on the prior-year figure, dropping –27.4% to a total of 273 thousand vehicles. Registrations in Germany, the largest market in this region, fell substantially year-on-year. The previously anticipated downturn in the market for 2020 was amplified by the Covid-19 pandemic, especially in the second quarter of the year. The Russian market also deteriorated noticeably as a consequence of the Covid-19 pandemic and the related economic fallout. Turkey saw new registrations more than double compared to an admittedly very low prior-year figure. By contrast, the South African market declined considerably. In Brazil, the largest market in the South America region, demand for trucks was significantly below the level seen in the previous year as a result of the pandemic.

Demand for buses in the markets that are relevant for the Volkswagen Group was much lower than in the previous year as a consequence of the pandemic. All key markets within the EU27+3 contributed to this trend, with the market for coaches in particular virtually grinding to a halt. Demand was very much lower in Brazil and was less than half the prior-year level in Mexico.

INTEREST RATE TRENDS

The period of low interest rates continued in Europe, the USA and numerous other economies in 2020, and also at the beginning of the current fiscal year. The outbreak of the pandemic in the spring of 2020 led to economic setbacks, to which central banks around the globe responded by further loosening monetary policy. Interest rates are still at historic lows. There is currently no end to the period of low interest rates in sight.

MOBILITY CONCEPTS

Social and political factors have an increasing impact on many people's individual mobility behavior. 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 area and is working on new models to support alternative marketing approaches and establish new mobility concepts with the goal of securing and expanding its existing business model. Simple, convenient, transparent, safe, reliable, flexible – these are the standards that the company set itself.

In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is aiming to get a leading position in the development of new mobility services, as has been the case in the conventional automotive business for many years.

Thanks to its subsidiaries, Volkswagen Financial Services AG already covers a large proportion of the mobility needs of its customers, including traditional leasing, long-term rental, car and truck rental, car sharing and car subscription. The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. Volkswagen Financial Services AG already offers a portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of payment solutions for digital business models within the Volkswagen Group, the further expansion of cashless and mobile payment for parking in North America and Europe as well as the development of the electric vehicle charging and fuel card services in Europe. In addition, the Europe-wide processing of toll transactions was integrated into the services for business customers. Further activities will focus on driving forward the expansion of the fleet business.

Volkswagen Financial Services AG partners with the Volkswagen Group brands in the marketing for vehicles with internal combustion engines as well as for electric vehicles. Such marketing includes an attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs. Those services play a key role in the marketing of electric vehicles produced by the Volkswagen Group.

Volkswagen Financial Services AG is also a partner of AUDI AG in the implementation of the e-tron Charging Service, which provides customers buying the new Audi e-tron with access to more than 184,000 public charging points in Europe.

In this context, Volkswagen Financial Services AG 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.

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

The financing, leasing, insurance and mobility services businesses are essential for attracting customers and developing loyal, long-term customer relationships globally. Volkswagen Financial Services AG, as financial services provider and strategic partner for the Volkswagen Group brands, specifically reviews the implementation of these business areas in new markets by developing market entry concepts in order to lay the foundations for profitable business volume growth there.

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Financial Services AG expects its growth in the next fiscal year to be linked to the growth in unit sales of Volkswagen Group vehicles. The Company aims to boost its business volume by expanding the product range in existing markets.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through joint strategic projects. Furthermore, Volkswagen Financial Services AG intends to continue enhancing the leveraging of potential along the automotive value chain.

Together with the Group brands, Volkswagen Financial Services AG aims to provide optimum solutions to satisfy the wishes and needs of its customers. Its end customers are looking in particular for mobility with predictable fixed costs. In addition, we intend to further expand the digitalization of our business.

The product packages and mobility solutions successfully launched in the last few years will be refined in line with customer needs.

In parallel with the Company's market-based activities, the position of Volkswagen Financial Services AG vis-à-vis its global competitors will be further strengthened through strategic investment in structural projects as well as through process optimization and productivity gains.

Forecast for Credit and Residual Value Risk

As far as credit risk is concerned, it is anticipated that the risk situation will remain challenging in 2021 because of the ongoing Covid-19 pandemic. The effects very much depend on how the pandemic develops and on the macroeconomic impact in each region. Nevertheless, the volume of loans and receivables is projected to grow.

The Company continues to monitor the risk situation closely so that it can respond proactively to any potential developments by initiating targeted corrective measures.

In the residual value portfolio, the volume of contracts is projected to continue to grow in fiscal year 2021. In this case too, the main drivers will be the growth programs implemented by the Company and further expansion in the fleet business.

Forecast for Liquidity Risk

Taking into account the uncertainty on capital markets as a result of the Covid-19 pandemic, the risk situation is still considered to be stable. Established sources of funding remain available. To ensure that this situation is maintained in the long term, funding diversification continues to be extended in individual markets and existing sources of funding are being expanded.

CONSOLIDATED FINANCIAL STATEMENTS

Braunschweig, February 15, 2021
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Dr. Alexandra Baum-Ceisig

This report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to the development of the economic and legal environment in individual countries and economic regions in terms of the global economy and financial and automotive markets, which have been made on the basis of the information available and which Volkswagen Financial Services AG currently considers to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. Any unexpected fall in demand or economic stagnation in the key sales markets of the Volkswagen Group will have a corresponding impact on the development of the business. The same applies in the event of material changes in exchange rates against the euro. The same applies should the actual effects of the Covid-19 pandemic differ from the scenario assumed in this report. In addition, expected business development may vary if the assessments of the key performance indicators and of risks and opportunities presented in the 2020 Annual Report do not develop in line with current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

OUTLOOK FOR 2021

Volkswagen Financial Services AG's Board of Management expects global economic growth in 2021 to be higher than the previous year's level. Risks will arise first and foremost from the consequences of the Covid-19 pandemic. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. We expect growth in the major industrialized nations to be stronger than in 2020. Growth in individual countries and regions is heavily dependent on the local course of the pandemic going forward. Taking into account the aforementioned factors and market trends, the overall picture is as follows: earnings expectations assume greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future, potential effects of geopolitical upheaval and continued uncertainty about macroeconomic conditions in the real economy. In this regard, risk costs have a significant impact. These costs depend on the development of the pandemic and the associated economic consequences. It is anticipated that risk costs will still be higher compared with the situation prior to Covid-19.

The Company forecasts that current contracts and business volume in 2021 will be significantly above the level of fiscal year 2020. New contracts are expected to be significantly above the prior-year level. It is assumed that the penetration rate will be slightly higher than the level in the previous year. Based on the effects described above and assuming that the Covid-19 pandemic is increasingly contained, the operating result for fiscal year 2021 is projected to be on a level with the previous year.

The forecast earnings performance and stable capital adequacy will probably result in a return on equity in 2021 that is on a level with the previous year. Similarly, we anticipate the cost/income ratio in 2021 to be at the level of the prior year.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2021 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2020	Forecast for 2021	
Nonfinancial performance indicators			
Penetration (percent)	27.6	> 27.6	Slightly above the previous year's level
Current contracts (thousands)	15,409	> 15,409	Significantly above the previous year's level
New contracts (thousands)	5,911	> 5,911	Significantly above the previous year's level
Financial performance indicators			
Volume of business (€ million)	92,572	> 92,572	Significantly above the previous year's level
Operating result (€ million)	1,223	= 1,223	At prior-year level
Return on equity (percent)	8.4	= 8.4	At prior-year level
Cost/income ratio (percent)	57	= 57	At prior-year level

Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019	Change in percent
Interest income from lending transactions and marketable securities[1]	5, 8, 54	1,995	2,094	–4.7
Income from leasing transactions[1]		17,457	14,294	22.1
Depreciation, impairment losses and other expenses from leasing transactions		–15,450	–12,378	24.8
Net income from leasing transactions[1]	5, 13, 64	2,006	1,917	4.6
Interest expense	5, 8, 19, 54	–1,286	–1,352	–4.9
Income from service contracts		2,100	1,738	20.8
Expenses from service contracts		–1,646	–1,548	6.3
Net income from service contracts	5, 20	454	190	X
Income from insurance transactions		345	318	8.5
Expenses from insurance transactions		–190	–163	16.6
Net income from insurance business	16, 21	155	155	0.0
Provision for credit risks	8, 22, 54	–600	–294	X
Fee and commission income		560	514	8.9
Fee and commission expenses[1]		–472	–358	31.8
Net fee and commission income[1]	5, 23	89	156	–42.9
Net gain or loss on hedges	8, 24	–50	–18	X
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	8, 25, 54	10	–100	X
General and administrative expenses	5, 10 – 13, 15, 17, 26	–2,071	–2,006	3.2
Other operating income		1,586	1,442	10.0
Other operating expenses		–1,064	–960	10.8
Net other operating income/expenses	5, 27	521	482	8.1
Operating result		**1,223**	**1,223**	**0.0**
Share of profits and losses of equity-accounted joint ventures		64	65	–1.5
Net gain/loss on miscellaneous financial assets	9, 28	–168	–14	X
Other financial gains or losses	29	–81	–9	X
Profit before tax		**1,038**	**1,264**	**–17.9**
Income tax expense	6, 30	–231	–374	–38.2
Profit after tax		**806**	**890**	**–9.4**
Profit after tax attributable to noncontrolling interests		0	0	0.0
Profit after tax attributable to Volkswagen AG		806	890	–9.4

1 Prior-year figures restated (see section Changes to Prior-Year Figures)

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Profit after tax		**806**	**890**
Pension plan remeasurements recognized in other comprehensive income	15, 46		
Pension plan remeasurements recognized in other comprehensive income, before tax		–62	–126
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 30	22	36
Pension plan remeasurements recognized in other comprehensive income, net of tax		–40	–90
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax	8	3	–3
Share of other comprehensive income of equity-accounted investments that will not be reclassified to profit or loss, net of tax		0	0
Items that will not be reclassified to profit or loss		**–37**	**–94**
Exchange differences on translating foreign operations	4		
Gains/losses on currency translation recognized in other comprehensive income		–582	101
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		–582	101
Deferred taxes relating to exchange differences on translating foreign operations	6, 30	–	–
Exchange differences on translating foreign operations, net of tax		–582	101
Hedging transactions	8		
Fair value changes recognized in other comprehensive income (OCI I)		49	–17
Transferred to profit or loss (OCI I)		–57	5
Cash flow hedges (OCI I), before tax		–8	–12
Deferred taxes relating to cash flow hedges (OCI I)	6, 30	3	4
Cash flow hedges (OCI I), net of tax		–5	–7
Fair value changes recognized in other comprehensive income (OCI II)		0	0
Transferred to profit or loss (OCI II)		0	0
Cash flow hedges (OCI II), before tax		0	0
Deferred taxes relating to cash flow hedges (OCI II)	6, 30	0	0
Cash flow hedges (OCI II), net of tax		0	0
Fair value valuation of debt instruments that may be reclassified to profit or loss	8		
Fair value changes recognized in other comprehensive income		0	4
Transferred to profit or loss		1	1
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		1	5
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	6, 30	0	–1
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		1	3
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		–28	2
Items that may be reclassified to profit or loss		**–615**	**99**
Other comprehensive income, before tax		–676	–34
Deferred taxes relating to other comprehensive income		24	39
Other comprehensive income, net of tax		**–652**	**5**
Total comprehensive income		**155**	**895**
Total comprehensive income attributable to noncontrolling interests		0	0
Total comprehensive income attributable to Volkswagen AG		155	895

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2020	Dec. 31, 2019	Change in percent
Assets				
Cash reserve	7, 32, 54 – 58, 60 – 61	47	106	–55.7
Loans to and receivables from banks	8, 54 – 61	3,830	2,477	54.6
Loans to and receivables from customers attributable to				
Retail financing		21,006	20,712	1.4
Dealer financing		4,272	5,413	–21.1
Leasing business		39,984	39,951	0.1
Other loans and receivables		13,391	13,119	2.1
Total loans to and receivables from customers	8, 13, 33, 54 – 59, 61	78,652	79,195	–0.7
Derivative financial instruments	8, 34, 54 – 58, 61 – 62	837	736	13.7
Marketable securities	8, 54 – 59, 61	312	305	2.3
Equity-accounted joint ventures	35, 55	743	737	0.8
Miscellaneous financial assets	8, 9, 54 – 58	460	591	–22.2
Intangible assets	10, 12, 36	92	91	1.1
Property and equipment	11, 12, 13, 37	494	498	–0.8
Lease assets	12, 13, 64	27,311	22,776	19.9
Investment property	12, 13, 14, 38, 64	15	17	–11.8
Deferred tax assets	6, 39	1,753	1,513	15.9
Current tax assets	6, 54 – 58	103	125	–17.6
Other assets	13, 40, 54 – 58	3,197	3,276	–2.4
Total		**117,845**	**112,444**	**4.8**

€ million	Note	Dec. 31, 2020	Dec. 31, 2019	Change in percent
Equity and Liabilities				
Liabilities to banks	8, 42, 54 – 58, 60 – 61	14,674	14,472	1.4
Liabilities to customers	8, 42, 54 – 58, 60 – 61	20,208	15,740	28.4
Notes, commercial paper issued	8, 43, 44, 54 – 58, 60 – 61	61,988	60,943	1.7
Derivative financial instruments	8, 45, 54 – 58, 60 – 62	464	427	8.7
Provisions for pensions and other post-employment benefits	15, 46	596	505	18.0
Underwriting provisions and other provisions	16, 17, 47	827	940	–12.0
Deferred tax liabilities	6, 48	571	655	–12.8
Current tax liabilities	6, 54 – 58	548	373	46.9
Other liabilities	49, 54 – 58, 60	1,684	1,413	19.2
Subordinated capital	8, 44, 50, 54 – 58, 60 – 61	3,526	4,947	–28.7
Equity	52	12,760	12,029	6.1
Subscribed capital		441	441	–
Capital reserves		3,216	3,216	–
Retained earnings		10,568	9,228	14.5
Other reserves		–1.467	–859	70.8
Equity attributable to noncontrolling interests		2	2	0.0
Total		**117,845**	**112,444**	**4.8**

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES: Currency translation	OTHER RESERVES: Hedging transactions: Cash flow hedges (OCI I)	OTHER RESERVES: Hedging transactions: Deferred hedging costs (OCI II)	OTHER RESERVES: Equity and debt instruments	OTHER RESERVES: Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 2019	**441**	**1,600**	**6,812**	**–759**	**3**	**–**	**1**	**–84**	**2**	**8,016**
Profit after tax	–	–	890	–	–	–	–	–	0	890
Other comprehensive income, net of tax	–	–	–90	100	–7	0	0	2	0	5
Total comprehensive income	**–**	**–**	**799**	**100**	**–7**	**0**	**0**	**2**	**0**	**895**
Changes due to contribution in kind by the shareholder Volkswagen AG[1]	–	617	2,261	–114	0	0	–	–	–	2,763
Capital increases	–	1,000	–	–	–	–	–	–	–	1,000
Distribution of retained earnings	–	–	–1,000	–	–	–	–	–	–	–1,000
Loss assumed by Volkswagen AG	–	–	268	–	–	–	–	–	–	268
Other changes[2]	–	–	87	0	–	–	–	–	–	87
Balance as of Dec. 31, 2019	**441**	**3,216**	**9,228**	**–772**	**–5**	**0**	**1**	**–82**	**2**	**12,029**
Balance as of Jan. 1, 2020	**441**	**3,216**	**9,228**	**–772**	**–5**	**0**	**1**	**–82**	**2**	**12,029**
Profit after tax	–	–	806	–	–	–	–	–	0	806
Other comprehensive income, net of tax	–	–	–40	–582	–5	0	4	–28	–1	–652
Total comprehensive income	**–**	**–**	**766**	**–582**	**–5**	**0**	**4**	**–28**	**0**	**155**
Capital increases	–	–	–	–	–	–	–	–	–	–
Loss assumed by Volkswagen AG	–	–	673	–	–	–	–	–	–	673
Other changes[3]	–	–	–99	–1	–	–	–	4	–	–96
Balance as of Dec. 31, 2020	**441**	**3,216**	**10,568**	**–1,355**	**–10**	**0**	**5**	**–106**	**2**	**12,760**

1 Changes due to contribution in kind by the shareholder Volkswagen AG
2 Mainly effects from the consolidation of Vehicle Trading International (VTI) GmbH and merger of Euromobil Autovermietung GmbH
3 Mainly effects from the consolidation of Volkswagen Financial Services Ireland Ltd., Dublin, Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat, Volkswagen Financial Services Polska Sp. z o.o., Warsaw, Volkswagen Financial Leasing Co., Ltd., Tianjin, VW New Mobility Services Investment Co., Ltd., Beijing, and the goodwill from the acquisition of the Irish business portfolio

Further information on equity is presented in note (52).

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2020	Jan. 1 – Dec. 31, 2019
Profit before tax[1]	**1,038**	**1,264**
Depreciation, amortization, impairment losses and reversals of impairment losses	5,003	3,422
Change in provisions	23	135
Change in other noncash items[1]	220	–272
Loss on disposal of financial assets and items of property and equipment	12	0
Net interest expense and dividend income[2]	–2,443	–2,222
Other adjustments	0	4
Change in loans to and receivables from banks	–1,433	–171
Change in loans to and receivables from customers	–503	–4,891
Change in lease assets	–9,182	–6,555
Change in other assets related to operating activities	31	–507
Change in liabilities to banks	858	186
Change in liabilities to customers[1]	4,330	–133
Change in notes, commercial paper issued	2,230	8,413
Change in other liabilities related to operating activities	219	–95
Interest received[2]	3,722	3,567
Dividends received	6	7
Interest paid	–1,286	–1,352
Income taxes paid	–393	–462
Cash flows from operating activities[1]	**2,453**	**338**
Proceeds from disposal of investment property	1	0
Acquisition of investment property	0	–
Proceeds from disposal of subsidiaries and joint ventures	–12	27
Acquisition of subsidiaries and joint ventures	–1,407	–215
Proceeds from disposal of other assets[1]	20	10
Acquisition of other assets[1]	–71	–68
Change in investments in marketable securities	–17	–8
Cash flows from investing activities[1]	**–1,485**	**–254**
Proceeds from changes in capital	–	1,000
Distribution to Volkswagen AG	–	–1,000
Loss assumed by Volkswagen AG	268	149
Change in cash funds attributable to subordinated capital	–1,268	–166
Repayment of liabilities arising from leases[1]	–19	–21
Cash flows from financing activities[1]	**–1,019**	**–38**
Cash and cash equivalents at end of prior period	**106**	**54**
Cash flows from operating activities[1]	2,453	338
Cash flows from investing activities[1]	–1,485	–254
Cash flows from financing activities[1]	–1,019	–38
Effect of exchange rate changes	–9	6
Cash and cash equivalents at end of period	**47**	**106**

1 The structure of the cash flow statement has been adjusted (see note (65) for disclosures). Prior year figures have been adjusted.
2 Prior-year figures restated (see section Changes to Prior-Year Figures)
Disclosures on the cash flow statement are presented in note (65).

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of December 31, 2020

General Information

Volkswagen Financial Services Aktiengesellschaft (VW FS AG) has the legal structure of a stock corporation. It has its registered office at Gifhorner Strasse, Braunschweig, Germany, and is registered in the Braunschweig commercial register (HRB 3790).

The object of the Company is to develop, sell and process its own and third-party financial services both in Germany and abroad, the purpose of such financial services being to support the business of Volkswagen AG and of Volkswagen AG's affiliated companies.

Volkswagen AG, Wolfsburg, is the sole shareholder of the parent company, VW FS AG. Volkswagen AG and VW FS AG have entered into a control and profit-and-loss transfer agreement.

The annual financial statements of the companies in the VW FS AG Group are included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the electronic German Federal Gazette and Company Register.

Basis of Presentation

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2020 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). All IFRSs issued by the International Accounting Standards Board (IASB) up to December 31, 2020 for which mandatory application was required in fiscal year 2020 in the EU have been taken into account in these consolidated financial statements.

In addition to the income statement, the statement of comprehensive income and the balance sheet, the IFRS consolidated financial statements include the statement of changes in equity, the cash flow statement and the notes. The separate report on the risks associated with future development (risk report in accordance with section 315(1) of the HGB) can be found in the management report on pages 22 – 30. This includes the qualitative disclosures on the nature and scope of risk from financial instruments required under IFRS 7.

All the estimates and assumptions necessary as part of recognition and measurement in accordance with IFRS comply with the relevant standard, are continuously updated and are based on past experience and other factors, including expectations regarding future events that appear to be reasonable in the given circumstances. The assumptions made by the Company are explained in detail in the disclosures on management's material estimates and assumptions.

The Board of Management completed the preparation of these consolidated financial statements on February 15, 2021. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Changes to Prior-Year Figures

Figures for 2019 have been restated because fees and commissions recognized using the effective interest method had been incorrectly reported under fee and commission expenses instead of under interest income. This restatement has led to reductions of €31 million in fee and commission expenses, of €22 million in interest income from lending transactions and marketable securities and of €10 million in income from leasing transactions in the income statement. The profit before tax for fiscal year 2019 has not been affected by the restatement.

In addition, this restatement has impacted the following items in the cash flow statement: net interest expense and dividend income (increased by €31 million) and interest received (decreased by €31 million).

It has also affected tables and figures in note 23, Net Fee and Commission Income (decrease in fee and commission expenses of €31 million); note 54, Carrying Amounts, Gains or Losses and Income or Expenses in Respect of Financial Instruments, by Measurement Category (correction of the prior-year figure for financial assets measured at amortized cost from €2,148 million to €2,127 million in the table showing net gains or losses and income or expenses in respect of financial instruments, and of the figure for interest income from financial assets measured at amortized cost or at fair value through other comprehensive income from €2,160 million to €2,138 million); note 63, Breakdown by Geographical Market (table showing the breakdown by geographical market for 2019, Mexico column: reduction in interest income from lending transactions and marketable securities in respect of third parties from €305 million to €283 million, reduction in income from leasing transactions with third parties from €322 million to €313 million, reduction in net income from leasing transactions from €127 million to €117 million; table showing the reconciliation to consolidated revenue, 2019 column: reduction in segment revenue from €18,366 million to €18,334 million and reduction in Group revenue from €18,672 million to €18,640 million) and note 64, Leases (reduction in the prior-year figure for interest income from the net investment in finance leases from €1,504 million to €1,494 million).

In the table of summarized financial information for material joint ventures in note 2, Basis of Consolidation, the prior-year figures have been restated with corrections for the missing disclosures under noncurrent financial liabilities from €0 million to €886 million and under current financial liabilities from €0 million to €1,317 million. In addition, the missing figure for dividends received has been added to the prior year (correction from €0 million to €12 million).

In the reconciliation from the financial information to the carrying amount of the equity-accounted investment, the plus/minus sign used in the prior year for the dividends figure has been amended in line with the general logic for the use of plus/minus signs, with the result that the prior-year figure has changed from €–20 million to €20 million.

In note 33, Loans to and Receivables from Customers, the prior-year figure for due loans to and receivables from customers has been corrected from €495 million to €497 million because the sublease receivables had not been included in the previous year.

In note 41, Noncurrent Assets, the prior-year figure for noncurrent loans to and receivables from customers has been restated from €18,494 million to €41,459 million following the incorrect classification of maturities in connection with lease receivables in the previous year.

In addition, the prior-year figures for loans to and receivables from customers in note 56, Fair Values of Financial Assets and Liabilities, have been restated as a result of a correction to the maturity structure in the previous year and the associated correction of the fair value. The fair value has been corrected from €39,034 million to €39,006 million and the difference from €113 million to €85 million.

In the same context, the prior-year figure for loans to and receivables from customers at Level 3 in the table showing the allocation of financial instruments to the three-level fair value hierarchy by class in note 57, Measurement Levels of Financial Assets and Liabilities, has been corrected from €37,791 million to €37,763 million.

In note 59, Default Risk, the prior-year figures for the reconciliation of the provision for credit risks have been restated because of an incorrect stage allocation in the previous year. This restatement comprises the following changes: increase in Stage 1 of €62 million to €461 million; increase in Stage 2 of €21 million to €376 million;

and decrease in Stage 3 of €83 million to €281 million. These corrections have been reported in the “Other changes within a stage” line item.
The prior-year figures in the table presenting the gross carrying amounts of financial assets broken down by default risk rating class, likewise in note 59, Default Risk, have also been restated because of an incorrect default risk rating class and stage classification in the previous year. The gross carrying amounts in default risk rating class 1 and Stage 1 have been reduced by €82 million to €36,794 and the gross carrying amounts in default risk rating class 3 and Stage 3 increased by €82 million to €429 million.

In note 62, Hedging Policy Disclosures, the rate for the Norwegian krone (NOK 9.6886) has been added to the prior-year figures for the average exchange rates. In addition, a disclosure of EUR (0.26%) has been corrected to NOK (0.26%) in the average interest rates used in the previous year.

In note 64, Leases, the prior-year figures for non-discounted lease payments and the loss allowance on lease receivables in the table showing a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases have been restated because some of the loss allowance had not been included. As a consequence, the figures have increased in each case by €192 million.

The same change is reflected in the prior-year table for the outstanding, undiscounted lease payments from finance leases expected for subsequent years. The prior-year figures have also increased by €192 million in this case.

In the table presenting the income generated from operating leases, the prior-year figure for lease income has also been corrected because the rental income from investment property had not been included in this item. The figure has been restated, changing from €4,464 million to €4,466 million.

Within the same note, the prior-year total in the table showing an overview of potential future cash outflows that have not been included in the measurement of the lease liabilities has been restated with a change from €69 million to €68 million as a result of a rounding correction.

The structure of the cash flow statement for the VW FS AG Group was modified in fiscal year 2020.

Firstly, in a voluntary change of accounting policy, the profit before tax has been used as the starting point for reconciling the cash flows from operating activities. This modification is in line with a generally accepted cash flow statement structure and creates a more meaningful presentation for the users of the consolidated financial statements.

In addition, modifications have been applied to the changes in liabilities to customers, proceeds from disposal of other assets and acquisition of other assets line items to facilitate separate presentation of the outflows from lessees for repayment of the liabilities arising from leasing contracts within the cash flows from financing activities. The corresponding adjustments of prior-year figures are presented in note 65, Cash Flow Statement.

Impact of the Covid-19 Pandemic

Throughout the whole of 2020, the global spread of the SARS-COV-2 virus brought enormous disruption to all areas of everyday life and the economy. Automotive financial services were in high demand in 2020, particularly in the first three months of the year. Nevertheless, the reporting period saw the Covid-19 pandemic exert downward pressure on the demand for financial services in virtually every region. The effects of the Covid-19 pandemic were noticeable worldwide, especially in the second quarter of 2020. Markets for automotive financial services staged a partial recovery in the third and fourth quarters.

Taking into account the nature of the conditions in 2020 and the impact of the Covid-19 pandemic, the Board of Management of Volkswagen Financial Services AG nevertheless considers the Group's business to have performed well. There are no indications that the ability of the business to continue as a going concern is impaired, as a result the consolidated financial statements have been prepared on a going concern basis. However, the Covid-19 pandemic has led to a higher level of estimation uncertainty overall.

Because of the Covid-19 pandemic, regular reports were generated in 2020 on new business, the credit risk situation, realized residual values and payment deferrals. Particular attention was paid to the impact of the Covid-19 pandemic on the risk and liquidity situation in the dealer organization. This reporting provided a detailed, timely overview of the risk situation and the impact on the financial performance of the VW FS AG Group, enabling the situation to be managed. Risk situation calculations were also carried out different ways in which the Covid-19 pandemic could develop.

In terms of the Group's overall portfolio, the credit risk situation in 2020 was strongly shaped by the Covid-19 pandemic. To avert and cushion the economic impact of the Covid-19 pandemic for customers, pinpointed measures such as payment deferrals and support for the dealer organization were established toghether with the brands. The international subsidiaries were granted a certain degree of latitude to develop their own responses. As a result, of which they designed targeted measures locally and adapted them in line with – or occasionally over and above – specific local legal requirements (such as statutory payment moratoriums) and customer needs. Payment deferrals were normally granted for a period of three to six months. These measures mitigated any effects of the Covid-19 pandemic on the Group's credit risk, with the result that the credit risk situation deteriorated only slightly overall in 2020, while the volume of receivables remained stable. In the context of the provision for credit risks recognized under the expected credit loss model specified in IFRS 9, a significant rise in credit risk has not been assumed for deferred contracts without differentiation in accordance with published technical guidance relating to handling the impact of the pandemic. Instead, the rise in credit risk has been assessed by taking into account all available information and estimates. The period of payment deferrals granted has not been treated as a period of default. However, the rise in significant credit risk is being closely monitored within the internal risk management systems. Estimation uncertainty relates primarily to projected credit quality, taking into account forward-looking factors and the associated uncertainty that the macroeconomic impact of the pandemic in the future could be deeper and more protracted than anticipated. Occasionally, management needs to apply overlays in the provision for credit risks if the models used for credit risk cannot fully reflect the effects of the pandemic. All available and sufficiently reliable information relevant to the estimate is taken into account when recognizing overlays.

Because of the short duration of deferrals, payment deferrals in connection with loans and leases do not have any material impact on the assets, liabilities or financial performance of the VW FS AG Group, for example in relation to the accounting treatment of contractual modifications.

Despite the pandemic, the Group only experienced a marginal rise in residual value risk. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

Overall, the Group's liquidity risk remained stable. This stability was achieved even though markets could not be accessed temporarily or could only be accessed on a limited basis or, in some cases, with significant premiums because of the Covid-19 pandemic.

Regarding funding, the Group's main sources of funding continued to be available and could be used as required – albeit in some cases with considerable additional spread markups – despite the uncertainty arising from the Covid-19 pandemic, especially in the second quarter.

In addition to the annual impairment tests carried out on goodwill and other intangible assets with an indefinite useful life, impairment tests were also conducted during the course of the year on equity investments in joint ventures and unconsolidated subsidiaries to assess the impact of the Covid-19 pandemic. As the

VW FS AG Group currently believes the pandemic to be a temporary event that will not have a lasting negative impact on the long-term performance of the Group, the planning years 2020 to 2021 used for the equity investment impairment tests related to the Covid-19 pandemic were based on last year's planning information and adjusted in line with the latest projections regarding the effects of the pandemic. If a fully updated budget account, taking into account the effects of the Covid-19 pandemic, was already available at the time of the impairment test, this account was used as the basis for the equity investment impairment test in question. In each case, cost of capital rates were updated on the date of the impairment test. The VW FS AG Group is subject to uncertainty in relation to estimate assumptions arising from the use of forward-looking planning information that could be affected by the development of the Covid-19 pandemic over time. Overall, the tests described above did not give rise to any requirement for the recognition of additional impairment losses. There was no evidence of impairment even in respect of the real estate used by the Company itself and reported under property and equipment.

For further information on the effects of the Covid-19 pandemic, please refer to the details set out in the Report on Economic Position and in the Report on Opportunities and Risks in the Management Report.

Effects of New and Revised IFRSs

VW FS AG has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2020.

Amendments to the definition of a business in IFRS 3 (Business Combinations) came into force on January 1, 2020. The new definition specifies that, to be considered a business, a set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. In addition, the definition of outputs is limited primarily to providing goods and services for customers and to generating investment income. The ability solely to reduce costs is no longer encompassed by the definition. The amendments have also introduced an optional concentration test that can be used to assess whether an acquired set of activities and assets is a business or not.

Amendments to IFRS 16 also came into force for annual reporting periods that began on or after June 1, 2020. These amendments introduced a practical expedient whereby lessees were exempted from having to consider whether a rent concession in connection with the Covid-19 pandemic relating to lease payments that originally would have been due on or before June 30, 2021 represented a lease modification and were allowed to account for such rent concessions as if they were not lease modifications. The VW FS AG Group is not making use of this option.

It was also mandatory to apply the amendments to IFRS 9, IAS 39 and IFRS 7 (Interest Rate Benchmark Reform – Phase 1) from January 1, 2020. In the previous year, the VW FS AG Group had decided in favor of their voluntary early application. The amendments affect hedges in existence at the beginning of the reporting period or designated thereafter. In application of the accompanying exceptions available under the amendments, the VW FS AG Group believes that the recognized hedges remain effective and are not adversely impacted by the IBOR reform and that therefore no hedges need to be discontinued.

Amendments to IAS 1 and IAS 8 also came into effect on January 1, 2020, clarifying and standardizing the definition of “material”.

The provisions mentioned above and the other amended provisions do not materially affect the VW FS AG Group’s financial position and financial performance.

New and Revised IFRSs Not Applied

VW FS AG has not applied in its 2020 consolidated financial statements the following financial reporting standards that have already been issued by the IASB but were not yet subject to mandatory application in fiscal year 2020.

Standard/interpretation		Published by the IASB	Application requirement[1]	Adopted by EU	Expected impact
IFRS 3	Updating of references to the Conceptual Framework	May 14, 2020	January 1, 2022	No	No material impact
IFRS 4	Insurance Contracts – Extension of the Temporary Exemption from Applying IFRS 9	June 25, 2020	January 1, 2021	Yes	No impact
IFRS 4; IFRS 7; IFRS 9; IFRS 16 and IAS 39	Interest Rate Benchmark Reform (Phase 2)	August 27, 2020	January 1, 2021	Yes	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023[2]	No	Detailed description following the overview in the table
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	No	Detailed description following the overview in the table
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2023	No	No material impact
IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	May 14, 2020	January 1, 2022	No	No material impact
IAS 37	Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract	May 14, 2020	January 1, 2022	No	No material impact
	Annual Improvements to IFRS Standards 2018–2020[3]	May 14, 2020	January 1, 2022	No	No material impact

1 Requirement for initial application from the VW FS AG perspective
2 On June 25, 2020, the IASB published amendments to IFRS 17 that are intended to come into force in conjunction with the original standard on January 1, 2023.
3 Minor changes to a range of IFRSs (IFRS 1, IFRS 9 and IAS 41)

EXPECTED IMPACT OF IFRS 17 INSURANCE CONTRACTS

IFRS 17 applies to primary and reinsurance contracts in the VW FS AG Group. The insurance contracts held are subdivided into portfolios and measured on this basis. They are generally measured using a fulfillment component (comprising future, discounted cash flows and a risk component) and a contractual service margin. The professional and technical implementation of IFRS 17 is being completed by the VW FS AG Group as part of a project. The future accounting for insurance contracts in accordance with IFRS 17 should, according to the current status, only be based on the "general measurement model" approach. In future, it will be mandatory to discount claims reserves for nonlife insurance contracts. A risk adjustment for non-financial risk must also be applied. From the perspective of the VW FS AG Group's financial position and financial performance, the changed reporting and measurement methods, as, a whole are expected to result in a small earnings deferral and lower underwriting provisions. More extensive disclosures will be required after the standard is introduced.

Accounting Policies

1. Basic Principles

All entities included in the basis of consolidation have prepared their annual financial statements as of the reporting date of December 31, 2020.

Financial reporting in the VW FS AG Group complies with IFRS 10 and is on the basis of standard Group-wide accounting policies.

Unless otherwise stated, amounts are shown in millions of euros (€ million). All amounts shown are rounded, so minor discrepancies may arise when amounts are added together.

Assets and liabilities are presented broadly in order of liquidity in accordance with IAS 1.60.

2. Basis of Consolidation

In addition to VW FS AG, the consolidated financial statements cover all significant German and non-German subsidiaries, including all structured entities, controlled directly or indirectly by VW FS AG. This is the case if VW FS AG has power over potential subsidiaries directly or indirectly from voting rights or similar rights, is exposed, or has rights to, positive or negative variable returns from its involvement with the potential subsidiaries, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the VW FS AG Group, VW FS AG holds no equity investment but nevertheless determines the main relevant activities remaining after the structure is created and thereby influences its own variable returns. The purpose of the structured entities is to facilitate asset-backed-securities transactions to fund the financial services business.

Subsidiaries are included in the consolidation from the date on which control comes into existence; they cease to be consolidated when control no longer exists. Subsidiaries in which activities are dormant or of low volume and that, individually and jointly, are of minor significance in the presentation of a true and fair view of the financial position, financial performance and cash flows of the VW FS AG Group are not consolidated. They are recognized in the consolidated financial statements under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The equity method is used to account for material entities in which VW FS AG has the opportunity, directly or indirectly, to exercise significant influence over financial and operating policy decisions (associates) or in which VW FS AG directly or indirectly shares control (joint ventures). Joint ventures also include entities in which the VW FS AG Group controls a majority of the voting rights but whose partnership agreements or articles of association specify that key decisions may only be made unanimously. Associates and joint ventures of minor significance are not accounted for using the equity method but are reported under financial assets at cost, taking into account any necessary impairment losses or reversals of impairment losses.

The composition of the VW FS AG Group is shown in the following table:

	2020	2019
VW FS AG and consolidated subsidiaries		
Germany	8	9
International	47	43
Subsidiaries recognized at cost		
Germany	8	8
International	49	50
Associates, equity-accounted joint ventures		
Germany	3	2
International	7	7
Associates, joint ventures and equity investments recognized at cost		
Germany	5	5
International	9	9
Total	**136**	**133**

The list of all shareholdings in accordance with section 313(2) of the HGB and in accordance with IFRS 12.10 and IFRS 12.21 is included as an annex to the consolidated financial statements.

The following consolidated German subsidiaries with the legal form of a corporation have satisfied the criteria in section 264(3) of the HGB and have elected not to publish annual financial statements:

> Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig
> Volkswagen-Versicherungsdienst GmbH, Braunschweig
> Volkswagen Insurance Brokers GmbH, Braunschweig
> EURO-Leasing GmbH, Sittensen
> Vehicle Trading International (VTI) GmbH, Braunschweig

The changes in the composition of the VW FS AG Group shown in the table above are explained below.

SUBSIDIARIES

The following subsidiaries, which had not previously been consolidated for reasons of materiality, were consolidated in the reporting period:

> Volkswagen Financial Services Ireland Ltd., Dublin
> Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat
> Volkswagen Financial Services Polska Sp. Z o.o., Warsaw
> Volkswagen Financial Leasing Co., Ltd., Tianjin
> Volkswagen New Mobility Services Investment Co., Ltd., Beijing

As of March 31, 2020, Volkswagen Financial Services Ireland Ltd., Dublin, acquired the Irish business portfolio (a business within the meaning of IFRS 3) of Volkswagen Bank GmbH, Ireland Branch, Dublin, for a purchase price of €1,328 million. The purchase price was paid in cash. The portfolio primarily consists of finance lease and dealer financing business. No cash or cash equivalents were acquired as part of the deal. As the transactions were under the common control of Volkswagen AG, the transferred assets and liabilities were measured using the existing group carrying amounts on the date of initial recognition (known as predecessor accounting). The difference between the acquired assets and liabilities and the purchase price amounted to €89 million and was recognized in equity.

The breakdown of the carrying amounts of the assets and liabilities on the acquisition date was as follows:

€ million	IFRS carrying amounts on the date of initial recognition
Loans to and receivables from customers attributable to	1,244
Dealer financing	185
Leasing business	1,039
Other loans and receivables	20
Other assets	3
Total assets	1,247
Liabilities to customers	6
Current tax liabilities	2
Total liabilities	**8**
Net assets	**1,239**

As part of an internal restructuring of the leasing business in Poland, the entire portfolio of the Warsaw branch of Volkswagen Leasing GmbH, Braunschweig, was spun off in May 2020 and transferred to Volkswagen Leasing Polen GmbH, Braunschweig, by way of a capital contribution in kind. Volkswagen Leasing Polen GmbH was then merged into Volkswagen Financial Services Polska Sp. Z o.o., Warsaw, Poland.

On August 31, 2020 and with retroactive effect from January 1, 2020, the consolidated subsidiary MAN Financial Services GmbH, Munich, was merged into Volkswagen Leasing GmbH, Braunschweig, likewise a consolidated subsidiary, and since then has been operated as a regional office of Volkswagen Leasing GmbH in Munich.

In February 2020, VW FS AG acquired 26% of the shares in Glinicke Leasing GmbH, Kassel. The company has now been renamed Digital Mobility Leasing GmbH. For reasons of materiality, the 26% equity investment in this associate is not accounted for using the equity method.

In March 2020, all the shares in Schweizer Mathom AG, Düdingen, were taken over by a subsidiary of Volkswagen Financial Services AG. The company is not consolidated for reasons of materiality.

In June 2020, VW FS AG acquired all the shares in the start-up Voya GmbH, Hamburg, and its wholly owned subsidiary Voya Travel Technologies S.R.L., Bucharest, from a syndicate of investors. Voya is one of the leading providers of state-of-the-art business travel management. Both entities are not consolidated for reasons of materiality.

The wholly owned subsidiaries Volkswagen Mobility Services S.p.A., Bolzano, and LogPay Charge & Fuel Slovakia s.r.o., Bratislava, which were newly established via subsidiaries of Volkswagen Financial Services AG in May and October of the reporting year respectively, are reported at cost for reasons of materiality.

The additions and disposals of special purpose entities in 2020 were as follows:

Additions:
- Driver China Eleven Auto Loan Securitization Trust, Beijing
- Driver China Ten Auto Loan Securitization Trust, Beijing

Disposals:
- Driver Australia Two Pty. Ltd. Ashfield
- Driver Brasil Three Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco
- Driver Brasil Two Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco

Other than the acquisition of the Irish portfolio, the changes described above did not have any material impact on the financial position or financial performance of the VW FS AG Group.

JOINT VENTURES

From a Group perspective, the following three entities among the equity-accounted joint ventures require separate presentation because they were deemed material on the reporting date because of the size of the entity concerned. These three joint ventures are strategically important to the VW FS AG Group. They run the financial services business in the respective countries and thus help to promote vehicle sales in the Volkswagen Group.

Volkswagen Pon Financial Services B.V.

The Volkswagen Pon Financial Services B.V. Group, whose registered office is situated in Amersfoort in the Netherlands, is a financial services provider offering leasing and insurance products for Volkswagen Group vehicles to business and private customers in the Netherlands. The VW FS AG Group and its partner in this joint venture, Pon Holdings B.V., have entered into an agreement for a long-term strategic partnership.

Volkswagen D’Ieteren Finance S.A.

Volkswagen D’Ieteren Finance S.A. and its subsidiary D’Ieteren Lease S.A., whose registered offices are situated in Brussels, Belgium, are financial services providers offering financing and leasing products for Volkswagen Group vehicles to business and private customers in Belgium. The VW FS AG Group and joint venture partner D’Ieteren S.A. have a long-term strategic partnership agreement.

Volkswagen Møller Bilfinans A/S

Volkswagen Møller Bilfinans A/S, whose registered office is situated in Oslo, Norway, is a financial services provider offering financing and leasing products for Volkswagen Group vehicles to business and private customers, predominantly in Norway. The VW FS AG Group and joint venture partner, Møllergruppen A/S, have entered into a long-term strategic partnership agreement.

Summarized financial information for the material joint ventures on a 100% basis:

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS) 2020	2019	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) 2020	2019	VOLKSWAGEN MØLLER BILFINANS A/S (NORWAY) 2020	2019
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Loans to and receivables from banks	21	8	42	5	11	33
Loans to and receivables from customers	971	900	1,836	1,746	1,933	1,997
Lease assets	1,988	1,775	617	654	–	–
Other assets	338	276	130	146	13	17
Total	**3,319**	**2,959**	**2,624**	**2,550**	**1,957**	**2,046**
of which: noncurrent assets	2,776	2,560	1,607	1,556	1,623	1,597
of which: current assets	543	398	1,017	994	334	449
of which: cash	21	8	42	5	11	33
Liabilities to banks	–	–	2,299	2,203	1,503	1,599
Liabilities to customers	2,294	2,121	130	163	47	51
Notes, commercial paper issued	695	587	–	–	–	–
Other liabilities	164	74	17	15	70	67
Equity	167	177	178	170	338	329
Total	**3,319**	**2,959**	**2,624**	**2,550**	**1,957**	**2,046**
of which: noncurrent liabilities	1,791	1,654	963	896	657	516
of which: current liabilities	1,361	1,129	1,483	1,484	963	1,201
of which: noncurrent financial liabilities	1,778	1,641	955	886[1]	570	437
of which: current financial liabilities	1,157	1,067	1,344	1,317[1]	933	1,162
Revenue	1,020	914	701	675	105	100
of which: interest income	108	103	37	34	102	101
Expenses	1,007	882	688	651	70	68
of which: interest expense	26	20	11	9	28	35
of which: depreciation and amortization	412	373	120	117	9	4
Profit/loss from continuing operations, before tax	**13**	**33**	**13**	**24**	**35**	**31**
Income tax expense or income	3	9	5	7	8	7
Profit/loss from continuing operations, net of tax	**10**	**24**	**8**	**17**	**27**	**24**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–	0	0	–1	–	–
Total comprehensive income	**10**	**24**	**8**	**16**	**27**	**24**
Dividends received	12	12[2]	–	–	–	–

1 The prior-year figures have been restated with corrections for the missing disclosures under noncurrent financial liabilities from €0 million to €886 million and under current financial liabilities from €0 million to €1,317 million (see section Changes to Prior-Year Figures).
2 The missing figure for dividends received has been added to the prior year (correction from €0 million to €12 million) (see section Changes to Prior-Year Figures).

Reconciliation from the financial information to the carrying amount of the equity-accounted investment:

€ million	Volkswagen Pon Financial Services B.V. (Netherlands)	Volkswagen D'Ieteren Finance S.A. (Belgium)	Volkswagen Møller BilFinans A/S (Norway)
2019			
Equity of the joint venture as of Jan. 1, 2019	173	153	302
Profit/loss	24	17	24
Other comprehensive income	0	–1	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	2
Dividends	20[1]	–	–
Equity of the joint venture as of Dec. 31, 2019	**177**	**170**	**329**
Share of equity	106	85	168
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2019	**146**	**85**	**168**
2020			
Equity of the joint venture as of Jan. 1, 2020	177	170	329
Profit/loss	10	8	27
Other comprehensive income	–	0	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	–18
Dividends	20	–	–
Equity of the joint venture as of Dec. 31, 2020	**167**	**178**	**338**
Share of equity	100	89	172
Goodwill	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2020	**141**	**89**	**172**

1 The plus/minus sign for the dividends figure has been amended in line with the general logic for the use of plus/minus signs, resulting in the change from €–20 million to €20 million (see section Changes to Prior-Year Figures).

Summarized pro-rated financial information for the joint ventures that are immaterial when considered individually:

€ million	2020	2019
Carrying amount of the share of equity as of Dec. 31	**341**	**338**
Profit/loss from continuing operations, net of tax	15	25
Profit/loss from discontinued operations, net of tax	–	–
Other comprehensive income, net of tax	1	2
Total comprehensive income	**16**	**27**

In March 2020, Mobility Trader Holding GmbH implemented a capital increase, which was subscribed by Volkswagen Finance Luxemburg S.A., Strassen, Luxembourg, a wholly owned subsidiary of Volkswagen AG, Wolfsburg. As a result of this transaction, Volkswagen Financial Services AG's shareholding in the joint venture declined to 44.44%. During the reporting year, this joint venture, which was previously measured at cost for reasons of materiality, was consolidated for the first time using the equity method and is included in the summarized pro-rated financial information.

There were no unrecognized losses relating to interests in joint ventures.

Cash attributable to joint ventures amounting to €197 million (previous year: €276 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group. Individual joint ventures are also subject to some restrictions; as a result, they are only able to transfer funds in the form of dividends after taking into account statutory and company-law requirements relating to capital adequacy in these joint ventures.

Financial guarantees to joint ventures amounted to €70 million (previous year: €134 million). In addition, certain articles of incorporation or partnership agreements specify obligations to individual joint ventures to provide loans for the funding of the entities, where required. The exact amount of the obligations depends on the future funding requirements of each entity and may therefore vary from the loan amounts recognized on the balance sheet as of the reporting date.

3. Consolidation Methods

The assets and liabilities of the German and international entities included in the consolidated financial statements are reported in accordance with the uniform accounting policies applicable throughout the VW FS AG Group. In the case of the equity-accounted investments, the pro rata equity is determined on the basis of the same accounting policies. The relevant figures are taken from the most recently audited annual financial statements of the entity concerned.

Acquisitions are accounted for by offsetting the carrying amounts of the equity investments with the proportionate amount of the remeasured equity of the subsidiaries on the date of acquisition or initial inclusion in the consolidated financial statements and in subsequent periods.

When subsidiaries are consolidated for the first time, the assets and liabilities, together with contingent consideration, are recognized at fair value on the date of acquisition. Subsequent changes in the fair value of contingent consideration do not generally result in an adjustment of the acquisition-date measurement. Acquisition-related costs that are not equity transaction costs are not added to the purchase price, but instead recognized as expenses. Goodwill arises when the purchase price of the investment exceeds the fair value of the identified assets less liabilities. Goodwill is tested for impairment at least once a year and additionally if relevant events or changes in circumstances occur (impairment-only approach) to determine whether its carrying amount is recoverable. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. If this is not the case, there is no change in the carrying amount of goodwill compared with the previous year. If the purchase price of the investment is less than the net value of the identified assets and liabilities, the difference is recognized in profit or loss in the year of acquisition. Goodwill is accounted for at the subsidiaries in the functional currency of those subsidiaries.

The net assets recognized at fair value as part of an acquisition transaction are depreciated or amortized over their relevant useful lives. If the useful life is indefinite, any requirement for the recognition of an impairment loss is determined at individual asset level using a procedure similar to that used for goodwill. Where hidden reserves and charges in the recognized assets and liabilities are uncovered during the course of purchase price allocation, these items are amortized over their remaining maturities.

The acquisition method described above is not applied when subsidiaries are newly established; no goodwill or negative goodwill can arise when newly established subsidiaries are included in the consolidation. The assets and liabilities of the subsidiaries are recognized at their values on the date of initial consolidation.

In the consolidation, the recognition and measurement arising from the independence of the individual companies is adjusted such that they are then presented as if they belonged to a single economic unit. Loans/receivables, liabilities, income and expenses relating to business relationships between consolidated entities are eliminated in the consolidation. Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated. Consolidation transactions recognized in profit or loss are subject to the recognition of deferred taxes.

Investments in subsidiaries that are not consolidated because they are of minor significance are reported, together with other equity investments, under miscellaneous financial assets.

4. Currency Translation

Transactions in foreign currencies are translated in the single-entity financial statements of VW FS AG and its consolidated subsidiaries at the rates prevailing at the transaction date. Foreign currency monetary items are reported in the balance sheet using the middle rate at the closing date and the resulting gains or losses are recognized in profit or loss. The foreign companies which form part of the VW FS AG Group are independent subunits whose financial statements are translated using the functional currency principle. Under this principle, assets and liabilities, but not equity, are translated at the closing rate. With the exception of income and expense items recognized in other comprehensive income, equity is translated at historical rates. Until the disposal of the subsidiary concerned, the resulting exchange differences on translating foreign operations are recognized in other comprehensive income and are presented as a separate item in equity.

The transaction data in the statement of changes in noncurrent assets is translated into euros using weighted average rates. A separate "Foreign exchange differences" line is reported to reconcile the carryforwards translated at the middle spot rate on the prior-year reporting date and the transaction data translated at average rates with the final balances translated at the middle spot rate on the reporting date.

The income statement items are translated into euros using weighted average rates.

The following table shows the rates applied in currency translation:

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	€1 =	2020	2019	2020	2019
Australia	AUD	1.58605	1.60080	1.65529	1.61071
Brazil	BRL	6.37555	4.51350	5.88850	4.41485
Denmark	DKK	7.44050	7.47120	7.45439	7.46609
United Kingdom	GBP	0.89925	0.84995	0.88904	0.87744
India	INR	89.69000	80.15450	84.57106	78.86396
Japan	JPY	126.51000	121.89500	121.77307	122.08649
Mexico	MXN	24.41145	21.24340	24.51746	21.56326
Poland	PLN	4.55615	4.25970	4.44376	4.29784
Republic of Korea	KRW	1,336.21000	1,296.35000	1,345.14093	1,304.89265
Russia	RUB	91.77540	69.84685	82.63583	72.46709
Sweden	SEK	10.02470	10.44505	10.48882	10.58593
Czech Republic	CZK	26.23900	25.40650	26.45443	25.66983
People's Republic of China	CNY	8.02895	7.81470	7.87025	7.73444

5. Recognition of Revenue and Expenses

Revenue and expenses are recognized in accordance with the accrual basis of accounting and are reported in profit or loss in the period in which the substance of the related transaction occurs.

Interest income is recognized in the income statement using the effective interest method. Income from financing activities is included in the interest income from lending and securities transactions; leasing income is reported in the income statement under income from leasing transactions. The leasing revenue from operating lease contracts is recognized on a straight-line basis over the lease term. Contingent payments under finance leases and operating leases are recognized when the conditions for the contingent payments are satisfied.

In the VW FS AG Group, contract origination costs are capitalized and amortized on a straight-line basis over the term of the contract only if the underlying contract has a term of at least one year and these costs would not have been incurred if the contract concerned had not materialized. Contract origination costs that would have arisen even if the relevant contract had not been signed are expensed as incurred.

Expenses relating to the funding of financing and leasing transactions are reported in interest expenses.

In the case of service contracts, such as maintenance or inspection agreements, revenue is recognized on either a percentage-of-completion or straight-line basis, depending on the type of service performed. Percentage of completion is normally calculated by considering the services provided up to the reporting date as a proportion of the total anticipated services (output-based). If the customer pays for services in advance, the Group recognizes a corresponding contractual liability until the relevant service is performed.

Fee and commission income from brokering insurance contracts is recognized in accordance with contractual arrangements with the insurers when the entitlement arises, i.e. when the related premium is charged to the policyholder. Other fee and commission income for services at a particular point in time is recognized on the date of performance. In the case of services that are provided over a particular period of time, income is recognized at the reporting date according to the stage of completion.

Fee and commission expenses arising from financing-business sales commission that are not included through the effective interest rate for the underlying financial assets are expensed in full on the date of performance.

Dividends are reported on the date on which the legal entitlement is established, i.e. generally the date on which a dividend distribution resolution is approved.

6. Income Taxes

Current income tax assets and liabilities are measured using the tax rates expected to apply in respect of the refund from or payment to the tax authorities concerned. Current income taxes are generally reported on an unnetted basis. Potential tax risks are recognized within the current tax liabilities item in the balance sheet.

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities in the consolidated balance sheet and those in the tax base and in respect of tax loss carryforwards. This gives rise to expected income tax income or expense effects in the future (temporary differences). Deferred taxes are measured using the domicile-specific income tax rates expected to apply in the period in which the tax benefit is recovered or liability paid.

Deferred tax assets are recognized if it is probable that in the future sufficient taxable profits will be generated in the same tax unit against which the deferred tax assets can be utilized. If it is no longer likely that it will be possible to recover deferred tax assets within a reasonable period, valuation allowances are applied.

Deferred tax assets and liabilities with the same maturities and relating to the same tax authorities are netted.

The tax expense attributable to the profit before tax is reported in the Group's income statement under the "Income tax expense" item and a breakdown into current and deferred taxes for the fiscal year is disclosed in the notes.

Other non-income-related taxes are reported as a component of general and administrative expenses.

7. Cash Reserve

The cash reserve is carried at the nominal amount.

8. Financial Instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

In the case of regular way purchases or sales, financial instruments are normally recognized on the settlement date, i.e. the date on which the asset is delivered. An exception to this rule arises in connection with the accounting treatment of derivatives, which are always recognized on the trade date.

Financial assets are classified and measured on the basis of the business model operated by an entity and the structure of its cash flows.

IFRS 9 breaks down financial assets into the following categories:
> financial assets measured at fair value through profit or loss,
> financial assets measured at fair value through other comprehensive income (debt instruments),
> financial assets measured at fair value through other comprehensive income (equity instruments), and
> financial assets measured at amortized cost.

Financial liabilities are classified using the following categories:
> financial liabilities measured at fair value through profit or loss, and
> financial liabilities measured at amortized cost.

In the VW FS AG Group, the categories shown above are allocated to the classes "financial assets and liabilities measured at amortized cost" and "financial assets and liabilities measured at fair value".

The fair value option for financial assets and financial liabilities is not applied in the VW FS AG Group.

Financial assets and financial liabilities are generally reported with their unnetted gross values. Offsetting is only applied if, at the present time, the offsetting of the amounts is legally enforceable by the VW FS AG Group and there is an intention to settle on a net basis in practice.

FINANCIAL ASSETS MEASURED AT AMORTIZED COST AND FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST CATEGORIES

Financial assets measured at amortized cost are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding, such that the cash flow criterion is satisfied.

Financial liabilities are measured at amortized cost unless these liabilities are derivatives.

The amortized cost of a financial asset or financial liability is the amount:

> at which the financial asset or financial liability is measured on initial recognition,
> minus any repayments of principal,
> adjusted, in the case of financial assets, for any recognized valuation allowances, impairment losses due to uncollectibility, and
> plus or minus the cumulative amortization of any difference between the initial amount and the maturity amount (premium, discount) using the effective interest method.

Gains and losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (DEBT INSTRUMENTS) CATEGORY

Financial assets (debt instruments) measured at fair value through other comprehensive income are held within a business model whose objective is to collect contractual cash flows and sell financial assets ("to collect and sell" business model). The contractual cash flows of these financial assets consist solely of payments of principal and interest on the principal amount outstanding.

Changes in fair value that extend beyond the changes in the amortized cost of these financial assets are recognized in other comprehensive income (taking into account deferred taxes) until the financial asset concerned is derecognized. Only then are the accumulated gains or losses reclassified to profit or loss.

The changes in amortized cost, such as impairment losses, interest determined in accordance with the effective interest method and foreign currency gains or losses, are immediately recognized in profit or loss.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS AND FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS CATEGORIES

Financial assets (debt instruments) for which the cash flow criterion is not satisfied, or that are managed within a business model that aims to sell these assets in order to realize cash flows ("sell" business model), together with derivatives, are measured at fair value through profit or loss.

The same applies to financial liabilities that are not measured at amortized cost.

In the case of these financial assets and liabilities, any changes in fair value are recognized in profit or loss.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (EQUITY INSTRUMENTS) CATEGORY

In the VW FS AG Group, financial assets that represent an equity instrument are measured at fair value through other comprehensive income in exercise of the fair-value-through-OCI option unless they are held for trading purposes. The accumulated gains or losses from remeasurement are transferred on derecognition to retained earnings and not to the income statement (i.e. they are not reclassified to profit or loss).

LOANS AND RECEIVABLES

Loans to and receivables from banks, and loans to and receivables from customers, originated by the VW FS AG Group are generally recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

In individual cases, some loans to and receivables from customers are recognized at fair value through profit or loss because the cash flow criterion is not satisfied. Gains and losses arising from changes in fair value are recognized in profit or loss under net gain or loss on financial instruments measured at fair value.

For reasons of materiality, non-interest-bearing current loans and receivables (due within one year) are not discounted and therefore no unwinding of discount is recognized.

Some of the loans to and receivables from customers are included in portfolio hedges. For reasons of materiality, the fair value adjustment from portfolio hedging of loans to and receivables from customers is not reported as a separate asset in the balance sheet. Instead, the customer loans and receivables assigned to portfolio hedging are reported at the hedged fair value within the loans to and receivables from customers item in the balance sheet. The amount of the fair value adjustments is presented in the notes within the disclosures relating to the loans to and receivables from customers.

Loans and receivables are derecognized when they are repaid or settled. There are no indications of derecognition for loans/receivables from ABS transactions carried out by the Group.

MARKETABLE SECURITIES

The "Marketable securities" balance sheet item largely comprises of investments of resources in the form of fixed-income securities from public- and private-sector issuers as well as investment fund shares/units within the framework specified by the investment policy issued by Volkswagen Versicherung AG.

The fixed-income securities are allocated to the category of financial assets (debt instruments) measured at fair value through other comprehensive income. Valuation allowances for fixed-income securities are recognized in profit or loss under the "Provision for credit risks" line item. Interest determined in accordance with the effective interest method and effects from changes in exchange rates are also recognized in profit or loss. In addition, the differences between the amortized cost and fair value arising from the remeasurement of fixed-income securities are recognized in other comprehensive income, taking into account deferred taxes.

Shares/units in investment funds are allocated to the category of financial assets measured at fair value through profit or loss. Gains and losses arising from the remeasurement of shares/units in investment funds are recognized in profit or loss under gains and losses on financial instruments measured at fair value.

EQUITY INVESTMENTS

The equity investments included in the “Miscellaneous financial assets” balance sheet item are measured as equity instruments generally at fair value through other comprehensive income in exercise of the fair-value-through-OCI option. As the equity investments are strategic financial investments, this classification provides a more meaningful presentation of the investments.

If, in the case of non-material equity investments, there is no active market and there is no evidence that the fair values are significantly different from cost, such equity investments are accounted for at cost and reported under financial assets measured at fair value.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives in effective hedges and derivatives not designated as hedging instruments. All derivatives are measured at fair value and are presented separately in notes (34) and (45).

The fair value is determined with the help of measurement software in IT systems using the discounted cash flow method and taking into account credit value adjustments and debt value adjustments.

In the VW FS AG Group, entities enter into derivative transactions solely for hedging purposes as part of the management of interest rate and/or currency risk.

Derivatives are used as hedging instruments to hedge fair values or future cash flows (referred to as hedged items). Hedge accounting in accordance with IFRS 9 is only applied in the case of hedges that can be demonstrated to be effective, both on designation and continuously thereafter. The VW FS AG Group documents all relationships between hedging instruments and hedged items.

When fair value hedges are applied, changes in the fair value of the derivative designated as the instrument used to hedge the fair value of a recognized asset or liability (hedged item) are recognized in profit or loss under net gain or loss on hedges. Changes in the fair value of the hedged item in connection with which the risk is being minimized are also reported in profit or loss under the same item. The effects in profit or loss from the changes in the fair value of the hedging instrument and the hedged item balance each other out depending on the extent of hedge effectiveness. Gains or losses arising from the ineffectiveness of fair value hedges are also recognized in gain or loss on hedges.

IFRS 9 allows entities to apply the provisions of IAS 39 to the hedging of the fair value of a portfolio of financial assets or financial liabilities (portfolio hedge accounting). In the reporting period, the VW FS AG Group used portfolio-based fair value hedges to hedge interest-rate risks and accounted for these hedges in accordance with the requirements of IAS 39. In portfolio-based hedging, the accounting treatment of changes in fair value is the same as in fair value hedging at micro level.

In the case of derivatives that are designated as hedges of future cash flows and that satisfy the relevant criteria, the changes in the fair value of the derivative are recognized in separate items of other comprehensive income. The designated effective portion is recognized within other comprehensive income in OCI I. For non-designated forward components of currency forwards, the effective portion is determined on the basis of an aligned value test and reported within other comprehensive income in OCI II. Effects on profit or loss under net gain or loss on hedges arise from the ineffective portion of the change in fair value as well as from the reclassification (on recognition of the hedged item) of changes in fair value previously recognized in other comprehensive income. The measurement of the hedged item remains unchanged.

Changes in the fair values of derivatives that do not satisfy the IFRS 9 criteria for hedge accounting and are therefore accounted for in the category of financial assets and financial liabilities measured at fair value through profit or loss are recognized in profit or loss under net gain or loss on financial instruments measured at fair value. Fair values are also reported for derivatives arising from early termination rights in the form of derivatives embedded in finance leases.

PROVISION FOR CREDIT RISKS

The provision for credit risks, which is recognized in accordance with the expected credit loss model specified by IFRS 9 and in accordance with uniform standards applied throughout the Group, encompasses all financial assets measured at amortized cost, financial assets in the form of debt instruments measured at fair value through other comprehensive income, lease receivables that fall within the scope of IFRS 16 and credit risks from off-balance-sheet irrevocable credit commitments and financial guarantees. The provision for credit risks calculation generally takes into account the exposure at default, the probability of default and the loss given default.

Financial assets are subject to credit risks, which are taken into account by recognizing valuation allowances in the amount of the expected loss; such valuation allowances are recognized for both financial assets with objective evidence of impairment and non-impaired financial assets. These allowances are posted to separate valuation allowance accounts.

The general approach is used for financial assets measured at amortized cost (with the exception of trade receivables), financial assets (debt instruments) whose changes in fair value are recognized in other comprehensive income and for irrevocable credit commitments and financial guarantees unless there is already objective evidence of impairment on initial recognition. Financial assets are broken down into three stages in the general approach. Stage 1 consists of financial assets that are being recognized for the first time or that have not demonstrated any significant increase in default risk since initial recognition. In this stage, the model requires the calculation of an expected credit loss for the next 12 months. Stage 2 consists of financial assets for which the risk of default has increased significantly since initial recognition. Financial assets demonstrating objective indications of impairment are allocated to Stage 3. In Stages 2 and 3, an expected credit loss is calculated for the entire remaining maturity of the asset.

In the case of financial assets already impaired on initial recognition and classified as Stage 4 for the purposes of the disclosures, the provision for credit risks is recognized in subsequent measurement on the basis of the cumulative changes in the expected credit loss for the entire life of the asset concerned. Any financial instrument classified as impaired on initial recognition remains in this stage until it is derecognized.

The provision for credit risks is calculated on the basis of the individual financial asset. The parameters required for this calculation are established by assessing portfolios in which individual financial assets of a similar type are brought together. Such homogeneous portfolios are created, for example, on the basis of customer group (e.g. dealer), product (e.g. financing or leasing), or type of collateral (e.g. vehicle). In the case of significant financial assets (e.g. dealer financing loans/receivables and fleet customer business loans/receivables) with objective evidence of impairment, the measurement parameters are determined on the basis of the individual contract.

In the VW FS AG Group, the provision for credit risks relating to trade receivables and to operating and finance lease receivables accounted for in accordance with IFRS 16 is uniformly determined using the simplified approach. In the simplified approach, an expected loss is calculated for the entire remaining maturity of the asset. The valuation allowance for trade receivables is calculated according to the extent the receivable is past due using a valuation allowance table (provision matrix).

Both historical information, such as average historical default probabilities for each portfolio, and forward-looking information, such as macroeconomic factors and trends (e.g. rate of change for gross domestic product, unemployment rate), linked to expected credit losses, are used to determine the measurement parameters for calculating the provision for credit risks. To model the measurement parameters, calculations are carried out for various probability-weighted scenarios using region-specific macroeconomic factors.

The calculation to determine whether the credit risk has increased significantly at the reporting date generally takes into account the maturity of the agreement. The credit risk expected for the reporting date on the date of initial recognition is compared against the actual credit risk on the reporting date on the basis of the 12-month probability of default. For the purposes of the comparison, the expected probability of default for the reporting date is determined by taking into account the maturity. Depending on the internal risk management models applied, threshold values are specified for expected credit risk using statistical methods and expert assessments, taking into account transaction-specific variables (such as maturity, payment record and credit process). A credit risk higher than the threshold value indicates a significant increase in credit risk. Depending on specific regional circumstances, qualitative factors may also be used to determine a significant increase in credit risk. This includes the addition of contracts to a watchlist for customers with loans subject to intensified loan management. Generally speaking, credit risk is assumed to have increased significantly, at the latest, if payments are past due by more than 30 days unless the financial assets have already been allocated to Stage 3 because of other objective evidence of impairment or, as a consequence of a substantial contractual modification, they are added to Stage 1 again at the reporting date despite payments being past due.

A financial asset for which the credit risk is determined to be very low at the reporting date can normally be allocated to Stage 1. In the VW FS AG Group, a very low credit risk can be assumed if the financial asset is classified as investment grade.

According to the definition of default used by the VW FS AG Group, there is deemed to be objective evidence of impairment if a number of situations arise, such as payment delayed by more than 90 days, the initiation of enforcement measures, the threat of insolvency or over-indebtedness, application for or the initiation of insolvency proceedings, or the failure of restructuring measures.

Reviews are regularly carried out to ensure the valuation allowances are appropriate.

Uncollectible loans or receivables that are already subject to a remediation for which all collateral has been recovered and all further options for recovering the loan or receivable have been exhausted are written off directly. Any valuation allowances previously recognized are utilized. Income subsequently collected in connection with loans or receivables already written off are recognized in profit and loss.

Loans and receivables are reported in the balance sheet at the net carrying amount. The provision for credit risks relating to off-balance sheet irrevocable credit commitments and financial guarantees is recognized within other liabilities.

Disclosures relating to the provision for credit risks are presented separately in note (59).

LIABILITIES

Liabilities to banks and customers (note 42), notes and commercial paper issued (note 43), and subordinated capital liabilities (note 50) are recognized at amortized cost using the effective interest method. Gains or losses arising from the changes in amortized cost are recognized in profit or loss, including the effects from changes in exchange rates.

For reasons of materiality, discounting or unwinding of discounting is not applied to non-interest-bearing current liabilities (due within one year). They are therefore recognized at their repayment or settlement value.

9. Miscellaneous Financial Assets

Investments in subsidiaries that are not consolidated and other equity investments are reported as miscellaneous financial assets.

Investments in unconsolidated subsidiaries are recognized at cost taking into account any necessary impairment losses. Impairment losses are recognized in profit or loss if there are country-specific indications of significant or permanent impairment (e.g. imminent payment difficulties or economic crises). Subsidiaries or joint ventures not consolidated for reasons of materiality do not fall within the scope of IFRS 9 and are therefore not included in the disclosures required by IFRS 7.

The accounting policies applicable to equity investments are set out in note (8) Financial Instruments.

10. Intangible Assets

Purchased intangible assets are recognized at cost and – provided they have a finite useful life – amortized on a straight-line basis over their useful lives. These assets mainly consist of software, which is generally amortized over three or five years.

Research costs are not capitalized.

Subject to the conditions specified in IAS 38, internally developed software and all the direct and indirect costs that are directly attributable to the development process are capitalized. When assessing whether the development costs associated with internally generated software are to be capitalized or not, VW FS AG takes into account not only the probability of a future inflow of economic benefits but also the extent to which the costs can be reliably determined. Amortization is on a straight-line basis over the useful life of three to five years and is reported under general and administrative expenses. If one or more of the criteria for capitalization are not satisfied, the costs are expensed in the year they are incurred.

At every reporting date, intangible assets with finite useful lives are tested to establish whether there are any indications of impairment. An appropriate impairment loss is recognized if a comparison shows that the recoverable amount for the asset is lower than its carrying amount.

Intangible assets with indefinite useful lives are not amortized. An annual review is carried out to establish whether an asset has an indefinite useful life. In accordance with IAS 36, these assets are tested for impairment by comparing the carrying amount and recoverable amount at least once a year and additionally if relevant events or changes in circumstances should occur. If required, an impairment loss is recognized to reduce the carrying amount to a lower recoverable amount (see note 12).

Goodwill is tested for impairment once a year and also if relevant events or changes in circumstances occur. If the carrying amount of goodwill is higher than the recoverable amount, an impairment loss is recognized. There can be no subsequent reversal of such impairment losses.

The recoverable amount of goodwill is derived from the value in use for the relevant cash-generating unit, which is determined using the discounted cash flow method. The basis is the latest planning data prepared by management for a planning period of five years, with growth in subsequent years estimated using a flat rate percentage. This planning is based on expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and on assumptions derived from these trends about financial services, taking into account market penetration, risk costs and margins. Planning assumptions are adjusted in line with the latest available information. The interest rate used is based on the long-term market interest rate relevant to each cash-generating unit (regions or markets). If necessary, the standard cost of equity rate for the Group is also adjusted using discount factors specific to the country and business concerned. The interest rates used are disclosed in note 36. The calculation of cash flows is based on the forecast growth rates for the relevant markets. Cash flows after the end of the planning period are generally estimated using a growth rate of 1% p.a. (previous year: 1% p.a.).

11. Property and Equipment

Property and equipment (land and buildings plus operating and office equipment) is reported at cost less depreciation and, if necessary, any impairment losses. Depreciation is applied on a straight-line basis over the estimated useful life. Useful lives are reviewed at every reporting date and adjusted where appropriate.

Depreciation is based mainly on the following useful lives:

Property and equipment	Useful lives
Buildings and property facilities	10 to 50 years
Operating and office equipment	3 to 15 years

An impairment loss is recognized in accordance with IAS 36 if the recoverable amount of the asset concerned has fallen below its carrying value (see note 12).

Depreciation expense and impairment losses are reported within general and administrative expenses. Income from the reversal of impairment losses is recognized in net other operating income/expenses.

The property and equipment line item on the balance sheet also includes right-of-use assets in connection with leases in which the VW FS AG Group is the lessee. The accounting policies for these right-of-use assets are set out in note (13) Leases within the subsection covering the Group as lessee.

12. Impairment of Non-Financial Assets

Assets with an indefinite useful life are not depreciated or amortized; they are tested for impairment once a year and additionally if relevant events or changes in circumstances occur. Assets subject to depreciation and amortization are tested for impairment if relevant events or changes in circumstances indicate that the recoverable amount of the asset concerned is lower than its carrying amount.

An impairment loss is recognized when the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and fair value less value in use. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties. The value in use is defined as the net present value of future cash flows expected to be derived from the asset.

If the reasons for the recognition of an impairment loss in prior years now no longer apply, an appropriate reversal of the impairment loss is recognized. This does not apply to impairment losses recognized in respect of goodwill.

13. Leases

The VW FS AG Group accounts for leases in accordance with IFRS 16. This standard defines a lease as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

GROUP AS LESSOR

The VW FS AG Group operates both finance lease and operating lease business. The leases are mainly vehicle leases, but to a lesser extent also involve land, buildings and dealer equipment. The accounting treatment of a lease is based on whether the lease is classified as a finance lease or an operating lease. The classification is determined according to the distribution of the risks and rewards associated with ownership of the leased asset.

A finance lease is a lease that transfers substantial risks and rewards to the lessee. Where residual value guarantees are agreed, residual value risks are passed to the residual value guarantor. In the consolidated balance sheet, receivables from finance leases are reported within loans to and receivables from customers and the net investment in the lease generally equates to the cost of the lease asset. Interest income from these transactions is reported under leasing income in the income statement. The interest paid by the customer is allocated so as to produce a constant periodic rate of interest on the remaining balance of the lease receivable.

In the case of operating leases, the substantial risks and rewards related to the leased asset remain with the lessor. In this case, the assets involved are reported in a separate "Lease assets" item in the consolidated balance sheet, measured at cost and reduced by straight-line depreciation over the lease term to the calculated residual carrying amount. Any impairment identified as a result of an impairment test in accordance with IAS 36 in which the recoverable amount (normally the value in use) is found to have fallen below the carrying amount is taken into account by recognizing an impairment loss. Generally, future depreciation rates are adjusted as a consequence of impairment. If the reasons for the recognition of an impairment loss in prior years no longer apply, a reversal of the impairment loss is recognized. Impairment losses and reversals of impairment losses are included in the net income from leasing transactions. The leasing revenue is recognized on a straight-line basis over the lease term.

Where the VW FS AG Group is a lessor, one of the ways in which it counters the risks arising in connection with the underlying leased assets (mainly vehicles) is to take into account residual value guarantees received for parts of the lease portfolio and to include residual value forecasts on the basis of internal and external information within residual value management. Residual value forecasts are regularly verified by a process of backtesting.

The VW FS AG Group takes full account of the credit risk arising in connection with lease receivables by recognizing loss allowances in accordance with the provisions specified in IFRS 9. The accounting policies covering loss allowances for the credit risk on lease receivables are included in note (8) Financial Instruments in the subsection addressing the provision for credit risks.

GROUP AS LESSEE

Where the VW FS AG Group is a party to leases as a lessee, the Group generally recognizes a right-of-use asset and a lease liability in its balance sheet. At the VW FS AG Group, the lease liability is measured at the present value of the outstanding lease payments, whereas the right-of-use asset is generally measured at the amount of the lease liability plus any direct costs.

The right-of-use asset is depreciated on a straight-line basis over the term of the lease. The depreciation expense is reported under general and administrative expenses. The allocation of the depreciation amounts for right-of-use assets to the categories "Right of use on land, land rights and buildings incl. buildings on third party land" and "Right of use on other equipment, operational and office equipment" is shown in note (64) Leases. In the subsequent measurement of the lease liability, the carrying amount is updated using the effective interest method and taking into account the lease payments made. The interest expenses arising from the application of the effective interest method are reported under interest expenses in the income statement.

The right-of-use assets recognized in the balance sheet are reported under those line items in which the lease's underlying assets would have been reported if these assets had been in the beneficial ownership of the VW FS AG Group. The right-of-use assets are therefore reported as of the reporting date under property and equipment and lease assets and included in the impairment tests for property and equipment carried out in accordance with the requirements of IAS 36.

Lease liabilities are carried at the present value of the lease payments.

Exemptions are provided for short-term leases and leases in which the underlying asset is of low value. The VW FS AG Group has elected to apply these exemptions and therefore does not recognize any right-of-use asset or lease liability for such leases. The associated lease payments are recognized as an expense under general and administrative expenses in the income statement. A lease is treated as a lease in which the underlying asset is of low value if the value of the underlying asset when new is no more than €5,000. The accounting requirements specified in IFRS 16 are not applied to leases for intangible assets either.

Leases may include extension or termination options. When determining the lease term, all relevant facts and circumstances that create an economic incentive for the lessee to exercise an option to extend the lease, or not to exercise an option to terminate the lease, must be taken into account. Periods covered by options are taken into account when determining the lease term if the lessee is reasonably certain to exercise an option to extend the lease or reasonably certain not to exercise an option to terminate the lease.

BUYBACK TRANSACTIONS

Leases in which the VW FS AG Group has a firm agreement with the seller of the lease asset regarding the return of the lease asset are recognized under other loans and receivables within loans to and receivables from customers at the amount of the resale value agreed at the inception of the lease and are also recognized in the amount equating to the right of use under lease assets (in the case of long-term (noncurrent) leases) or under other assets (in the case of short-term leases). In the case of noncurrent leases (maturity of more than one year), the agreed resale value is discounted at the inception of the lease. The unwinding of the discount during the term of the lease is recognized in interest income. The value of the right of use recognized under other assets is depreciated on a straight-line basis over the term of the lease. This depreciation is reported under depreciation, impairment losses and other expenses from leasing transactions. Lease payments received under subleases are reported as income from leasing business.

14. Investment Property

Land and buildings held to earn rentals are reported under the "Investment property" item in the balance sheet and measured at amortized cost. The land and buildings involved are generally leased out to dealer businesses. The fair values disclosed in the notes are determined by the relevant entity by discounting the estimated future cash flows using the relevant long-term market discount rate. Depreciation is applied on a straight-line basis over useful lives of ten to 33 years. Any impairment identified as a result of an impairment test in accordance with IAS 36 is taken into account by recognizing an impairment loss.

15. Provisions for Pensions and Other Post-Employment Benefits

Provisions are recognized for commitments in the form of retirement, invalidity and surviving dependants' benefits payable under pension plans. The benefits provided by the Group vary according to the legal, tax and economic circumstances of the country concerned, and usually depend on the length of service and remuneration of the employees.
The VW FS AG Group provides occupational pensions in the form of both defined contribution and defined benefit plans. In the case of defined contribution plans, the Company makes contributions to state or private pension schemes based on statutory or contractual requirements, or on a voluntary basis. Once the contributions have been paid, the VW FS AG Group has no further obligations. In 2020, the total contributions made by the VW FS AG Group came to €46 million (previous year: €46 million). Contributions to the compulsory state pension system in Germany amounted to €37 million (previous year: €37 million).

Pension schemes in the VW FS AG Group are predominantly defined benefit plans in which there is a distinction between pensions funded by provisions (without plan assets) and externally funded plans (with plan assets). The pension provisions for defined benefit commitments are measured by independent actuaries using the internationally accepted projected unit credit method in accordance with IAS 19. This means that the future obligations are measured on the basis of the proportionate benefit entitlements earned as of the reporting date. The measurement of pension provisions takes into account actuarial assumptions regarding discount rates, salary and pension trends, life expectancy and employee turnover rates, which are determined for each Group company depending on the economic environment. Actuarial gains or losses arise from differences between actual trends and prior-year assumptions as well as from changes in assumptions. These gains and losses are recognized in the period in which they arise in other comprehensive income (taking into account deferred taxes) and have no impact on profit or loss. Detailed disclosures on provisions for pensions and other post-employment benefits are set out in note (46).

16. Insurance Business Provisions

Inward reinsurance and direct insurance operations are accounted for in the period in which the reinsurance or insurance arises without any time delay.

Insurance contracts are accounted for in accordance with IFRS 4 and, to the extent permitted by local accounting regulations, also in accordance with sections 341ff. of the HGB and the Verordnung über die Rechnungslegung von Versicherungsunternehmen (RechVersV – German Accounting Regulation for Insurance Companies).

Unearned premiums for direct insurance business are generally determined on the basis of each individual contract using the 1/act method.

Provisions for claims outstanding in direct insurance operations are normally determined and measured on the basis of each claim in accordance with the estimated requirement. The chain ladder method or modified chain ladder method is generally used to determine the provision for incurred but not reported (IBNR) losses. The partial loss provision for claims settlement expenses is calculated in accordance with the requirements set out in the coordinated regulations issued by the German federal states on February 2, 1973.

The provision for performance-related and non-performance-related premium refunds contains only obligations in connection with non-performance related refunds and is estimated on the basis of contract-specific claims experience.

The other underwriting provisions include the cancellation provision for direct repair costs insurance business on the basis of premium receivables and amounts already received, and otherwise generally on the basis of historical cancellation rates.

An equalization provision was not recognized because it is prohibited under IFRS 4.

The reinsurers' share of provisions is calculated in accordance with the contractual agreements with the retrocessionaires and reported under other assets.

Provisions for outstanding claims in inward reinsurance business are generally recognized on the basis of the information provided by the cedants.

Actuarial methods and systems that guarantee ongoing monitoring and control of all key insurance risks are used to ensure that the level of underwriting provisions is adequate. One of the main features of the insurance business is underwriting risk, which comprises primarily premium/loss risk, reserve risk, cancellation risk and catastrophe risk. The VW FS AG Group counters these risks by constantly monitoring the basis of computations, making appropriate additions to provisions and applying a restrictive underwriting policy.

17. Other Provisions

Under IAS 37, provisions are recognized if a present legal or constructive obligation to a third party has arisen as a result of a past event, it is probable that settlement in the future will result in an outflow of resources embodying economic benefits and the amount of the obligation can be estimated reliably. If an outflow of resources is neither probable nor improbable, the amount concerned is deemed to be a contingent liability. In accordance with IAS 37, this contingent liability is not recognized but disclosed in note (66).

The share-based payment within other provisions and within other liabilities includes performance shares based on Volkswagen AG preferred shares. The commitments in relation to share-based payments are accounted for as cash-settled plans in accordance with IFRS 2. These cash-settled plans are measured during the term to maturity at fair value, which is determined by using a recognized option pricing model. The total remuneration expense to be recognized equates to the actual payout and is allocated over the vesting period. The remuneration expense is treated as part of personnel expenses within general and administrative expenses reported in the income statement.

Provisions for litigation and legal risks are recognized and measured using assumptions about the probability of an unfavorable outcome and the amount of possible utilization.

Income from the reversal of other provisions is generally recognized in the income statement item or net income item in which the associated expense was recognized in previous fiscal years.

Provisions not related to an outflow of resources likely to take place in the subsequent year are recognized at their settlement amount discounted to the reporting date using market discount rates. An average discount rate of –0.2% (previous year: –0.1%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

18. Estimates and Assumptions by Management

The preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the recognition and measurement of assets, liabilities, income and expenses, and disclosures relating to contingent assets and liabilities for the reporting period.

Assumptions and estimates are based on the latest available information. The circumstances prevailing at the time the consolidated financial statements are prepared and future trends in the global and sector environment considered to be realistic are taken into account in the projected future performance of the business. The estimates and assumptions used by management have been made, in particular, on the basis of assumptions relating to macroeconomic trends as well as trends in automotive markets, financial markets and the legal framework. These and other assumptions are explained in detail in the report on expected developments, which is part of the management report.

As future business performance is subject to unknown factors that, in part, lie outside the control of the Group, assumptions and estimates continue to be subject to considerable uncertainty. If changes in parameters are different from the assumptions and beyond any influence that can be exercised by management, the amounts actually arising could differ from the estimated values originally forecast. If actual performance varies with the forecasts, the assumptions and, where necessary, the carrying amounts of the assets and liabilities concerned are adjusted accordingly.

Please refer to the separate section within Significant Events for further information on estimation uncertainty arising from the effects of Covid-19 pandemic.

The assumptions and estimates largely relate to the items set out below.

RECOVERABLE AMOUNT OF LEASE ASSETS

The recoverable amount of leased assets in the Group mainly depends on the residual value of the leased vehicles when the leases expire because this value represents a considerable proportion of the expected cash inflows. Continuously updated internal and external information on trends in residual values – based on particular local circumstances and empirical values from the marketing of used vehicles – is factored into the forecasts of residual values for leased vehicles. These forecasts require the Group to make assumptions, primarily in relation to future supply and demand for vehicles and in relation to trends in vehicle prices. These assumptions are based on either professional estimates or information published by third-party experts. The professional estimates are based on external data (where available), taking into account any additional information available internally, such as values from past experience and current sales data. Forecasts and assumptions are regularly verified by a process of backtesting.

LEASE TERM IN LESSEE ACCOUNTING

Under IFRS 16, the term of a lease is determined on the basis of the fundamental non-cancelable term of the lease plus an assessment of whether any option to extend the lease will be exercised or whether any option to terminate the lease will not be exercised. The lease term determined in this way and the discount rates used affect the amounts recognized for the right-of-use assets and the lease liabilities.

FINANCIAL INSTRUMENTS

The procedure for determining the recoverability of financial assets requires estimates about the extent and probability of occurrence of future events. These estimates take into account the latest market data as well as rating classes and scoring information based on experience combined with forward-looking parameters. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 8).

Management estimates are necessary to determine the fair value of financial instruments. This relates to both fair value as a measurement standard in the balance sheet and fair value in the context of disclosures in the notes. Fair value measurements are categorized into a three-level hierarchy depending on the type of inputs used in the valuation technique and each level requires different management estimates. Fair values in Level 1 are based on prices quoted in active markets. Management assessments in this case relate to determining the primary or most advantageous market. Level 2 fair values are measured on the basis of observable market data using market-based valuation techniques. Management decisions for this level relate to selecting generally accepted, standard industry models and specifying the market in which the relevant input factors are observable. Level 3 fair values are determined with recognized valuation techniques relying on some inputs that cannot be observed in an active market. Management judgment is required in this case when selecting the valuation techniques and determining the inputs to be used. These inputs are developed using the best available information. If the Company uses its own data, it applies appropriate adjustments to best reflect market conditions.

INCOME FROM SERVICE CONTRACTS

The calculation of contractual service rates in service contracts is subject to assumptions about expenses during the term of contracts; these assumptions are based on past experience. The parameters used in the calculation of contractual service rates are regularly reviewed. During the term of contracts, income from service contracts is recognized on the basis of expenses incurred, plus a margin derived from the contractual service rates.

PROVISIONS

The recognition and measurement of provisions is also based on assumptions about the probability that future events will occur and the amounts involved, together with an estimation of the discount rate. Again, experience or reports from external experts are used as much as possible.

The measurement of pension provisions is based on actuarial assumptions regarding discount rates, salary and pension trends, and employee turnover rates, which are determined for each group company depending on the economic environment.

In the case of other provisions, expected values are used as the basis for measurement, which means that changes are made on a regular basis, involving either additions to the provisions or the reversal of unused provisions. Changes in the estimates of the amounts for other provisions are always recognized in profit or loss. The recognition and measurement of provisions for litigation and legal risks included within other provisions requires predictions with regard to decisions to be made by the courts and the outcome of legal proceedings. Each case is individually assessed on its merits based on developments in the proceedings, the company’s past experience in comparable situations and evaluations made by experts and lawyers.

RECOVERABLE AMOUNT OF NON-FINANCIAL ASSETS, JOINT VENTURES AND EQUITY INVESTMENTS

The impairment tests applied to non-financial assets (particularly goodwill and brand names), equity-accounted joint ventures and equity investments measured at cost require assumptions related to the future cash flows in the planning period and, where applicable, beyond. The assumptions about the future cash flows factor in expectations regarding future global economic trends, trends in the overall markets for passenger cars and commercial vehicles and expectations derived from these trends about financial services, taking into account market penetration, risk costs, margins and regulatory requirements. For further information on the assumptions relating to the detailed planning period, please refer to the report on expected developments, which forms part of the management report. The discount rates used in the discounted cash flow method applied when testing goodwill for impairment are based on specified cost of equity rates, taking into account historical experience and appropriate assumptions regarding macroeconomic trends. In particular the forecasts for short- and medium-term cash flows, and the discount rates used, are subject to uncertainty outside the control of the group.

DEFERRED TAX ASSETS AND UNCERTAIN INCOME TAX ITEMS

When determining deferred tax assets, there is a need to make assumptions about future taxable income and the timings for any recovery of the deferred tax assets. The measurement of deferred tax assets for tax loss carryforwards is generally based on future taxable income within a planning horizon of five fiscal years.

Tax liabilities are recognized for potential retrospective tax payments in the future; other liabilities are recognized for any additional tax costs incurred in this regard.

The entities in the VW FS AG Group operate worldwide and are audited on an ongoing basis by the local tax authorities. Changes to tax legislation, decisions by the courts and their interpretation by the tax authorities in the countries concerned could give rise to tax payments that are different from the estimates made in the financial statements.

The assessment of uncertain tax exposures is based on the most likely figure if the risk were to materialize. The VW FS AG Group makes a decision on a case-by-case basis as to whether to account for several tax uncertainties individually or in groups, depending on which approach better serves to predict whether the tax risk will materialize.

The pricing of individual services is particularly complex in contracts for cross-border intragroup services because, in many cases, there are no observable market prices or the application of market prices for similar services is subject to some uncertainty because the services are not comparable. In such cases – and for tax purposes – the pricing is determined using uniform measurement methods applied in generally accepted business practice.

Actual figures may differ from the original estimates if the circumstances differ from the assumptions made in the estimates.

Income Statement Disclosures

19. Interest Expense

Interest expenses include funding expenses for lending and leasing business. The net expense arising from interest income and expenses in the reporting period on derivatives not designated as hedging instruments amounts to €8 million (previous year: €19 million).

The disclosures relating to the interest expenses for lease liabilities reported under the interest expenses line item in the income statement can be found in note (64) Leases.

20. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €1,630 million (previous year: €1,350 million) related to service contracts requiring the recognition of income at a specific time, and €470 million (previous year: €388 million) related to service contracts requiring the recognition of income over a period of time.

Of the income from service contracts recognized in the reporting period, income of €608 million had been included in the contractual liabilities for service contracts as of January 1, 2020. Of the income recognized in the prior year, income of €442 million had been included in the contractual liabilities for service contracts as of January 1, 2019.

21. Net Income from Insurance Business

The following table shows the net income from insurance business:

€ million	2020	2019
Insurance premiums earned	345	318
Insurance claims expenses	–121	–119
Reinsurance commissions and with-profits expenses	–69	–45
Other underwriting expenses	0	0
Total	**155**	**155**

22. Provision for Credit Risks

The provision for credit risks relates to the following balance sheet items: loans to and receivables from banks, loans to and receivables from customers, marketable securities and other assets; in the context of the provision for credit risks in respect of credit commitments and financial guarantees, it also relates to the “Other liabilities” balance sheet item.

The breakdown of the amount recognized in the consolidated income statement is as follows:

€ million	2020	2019
Additions to provision for credit risks	–962	–819
Reversals of provision for credit risks	518	627
Direct write-offs	–223	–160
Income from loans and receivables previously written off	66	59
Net gain or loss from significant modifications	0	–
Total	**–600**	**–294**

Additional credit risks to which the VW FS AG Group is exposed as a result of various critical situations (Brexit, economic crises) in the United Kingdom, Russia, Brazil, India, Mexico and the Republic of Korea were accounted for in the reporting period. Reversals in respect of India, Mexico and the Republic of Korea in the reporting year gave rise to income of €47 million (previous year: income of €37 million), largely as a consequence of changes in business volume. In the previous year, the income resulted from additions for the United Kingdom and reversals for Brazil, Russia and the Republic of Korea.

23. Net Fee and Commission Income

Net fee and commission income largely comprises income and expenses from insurance brokerage, together with fees and commissions from the financing business and financial services business. The breakdown is as follows:

€ million	2020	2019
Fee and commission income	560	514
of which commissions from insurance broking	389	308
Fee and commission expenses[1]	–472	–358
of which sales commission from financing business[1]	–219	–173
Total[1]	**89**	**156**

1 Prior-year figures have been restated: reduction of €31 million (see section Changes to Prior-Year Figures).

24. Net Gain or Loss on Hedges

The “Net gain or loss on hedges” item comprises gains and losses arising from the fair value measurement of hedging instruments and hedged items.

The details of the gains and losses are as follows:

€ million	2020	2019
Gains/losses on hedging instruments in fair value hedges	89	78
Gains/losses on hedged items in fair value hedges	–89	–78
Gains/losses from the ineffective portion of hedging instruments in fair value hedges	–50	–17
Gains/losses from the reclassification of cash flow hedge reserves	56	1
Gains/losses from translation of foreign currency loans/receivables and liabilities in cash flow hedges	–57	–1
Gains/losses from the ineffective portion of hedging instruments in cash flow hedges	0	–1
Total	**–50**	**–18**

The “Gains/losses from the ineffective portion of hedging instruments in fair value hedges” line item also includes the amortization of fair value adjustments in respect of hedged items in portfolio hedge accounting.

25. Net Gain/Loss on Financial Instruments Measured at Fair Value and on Derecognition of Financial Assets Measured at Fair Value through Other Comprehensive Income

The net gains or losses on derivatives not designated as hedging instruments, net gains or losses on marketable securities and loans/receivables measured at fair value through profit or loss, and net gains or losses on derecognition of marketable securities measured at fair value through other comprehensive income are reported under this item. Gains and losses arising from changes in the fair value of derivatives that do not satisfy the IFRS 9 requirements for hedge accounting at micro level or the IAS 39 requirements for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2020	2019
Gains/losses on derivatives not designated as hedging instruments	9	–104
Gains/losses on marketable securities measured at fair value through profit/loss	–1	2
Gains/losses on loans/receivables measured at fair value through profit/loss	1	1
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	0	–
Total	**10**	**–100**

26. General and Administrative Expenses

The breakdown of general and administrative expenses is shown in the following table:

€ million	2020	2019
Personnel expenses	–926	–902
Non-staff operating expenses	–1,068	–1,000
Advertising, public relations and sales promotion expenses	–52	–49
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–78	–70
Other taxes	–10	–12
Income from the reversal of provisions and accrued liabilities	62	27
Total	**–2,071**	**–2,006**

Personnel expenses comprise wages and salaries of €747 million (previous year: €743 million) as well as social security, post-employment and other employee benefit costs of €179 million (previous year: €160 million).

The disclosures relating to the expenses from the depreciation of right-of-use assets included in general and administrative expenses and to the expenses from short-term leases and leases in which the underlying asset is of low value can be found in note (64) Leases.

In accordance with the requirements specified in section 314(1) no. 9 of the HGB, the general and administrative expenses include the total fees charged in the reporting year by the auditor of the consolidated financial statements Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft (previous year: PricewaterhouseCoopers Wirtschaftsprüfungsgesellschaft), as shown in the following table.

€ million	2020	2019
Financial statement audit services	2	2
Other attestation services	–	0
Tax consulting services	1	–
Other services	0	2
Total	**2**	**4**

The fees paid to the auditor for audit services in the year under review was mostly attributable to the audit of the consolidated financial statements of VW FS AG and of the annual financial statements of German Group companies, as well as to reviews of the interim financial statements of German Group companies.

27. Net Other Operating Income/Expenses

The breakdown of the net other operating income/expenses is as follows:

€ million	2020	2019
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	96	105
Income from cost allocations to other entities in the Volkswagen Group	469	464
Income from the reversal of provisions and accrued liabilities	140	82
Income from claims for damages	30	25
Income from the disposal of vehicles under loan agreements and finance leases	657	590
Income from non-significant modifications	8	2
Miscellaneous operating income	187	174
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–123	–5
Litigation and legal risk expenses	–52	–86
Expenses from the disposal of vehicles under loan agreements and finance leases	–698	–651
Expenses from non-significant modifications	–11	–1
Miscellaneous operating expenses	–181	–217
Total	**521**	**482**

28. Net Gain or Loss on Miscellaneous Financial Assets

The net gain/loss on miscellaneous financial assets includes dividend income, income and expenses arising from profit or loss transfers, and net gains or losses arising from the recognition of impairment losses on shares in unconsolidated subsidiaries, joint ventures and associates.

29. Other Financial Gains or Losses

Other financial gains or losses mainly consist of interest income and interest expenses in connection with tax-related issues, pensions and other provisions.

30. Income Tax Expense

Income tax expense includes the taxes charged in respect of the Volkswagen AG tax group, taxes for which VW FS AG and its consolidated subsidiaries are the taxpayers, and deferred taxes. The components of the income tax expense are as follows:

€ million	2020	2019
Current tax income/expense, Germany	–201	13
Current tax income/expense, foreign	–421	–373
Current income tax expense	**–622**	**–360**
of which income (+)/expense (–) related to prior periods	(–11)	(5)
Deferred tax income (+)/expense (–), Germany	339	–68
Deferred tax income (+)/expense (–), foreign	52	53
Deferred tax income (+)/expense (–)	**391**	**–14**
Income tax expense	**–231**	**–374**

The reported tax expense in 2020 of €231 million (previous year: €374 million) is €80 million lower (previous year: €3 million lower) than the expected tax expense of €311 million (previous year: €377 million) calculated by applying the tax rate of 30.0% (previous year: 29.8%) to the consolidated profit before tax.

The following reconciliation shows the relationship between the income tax expense and the profit before tax for the reporting period:

€ million	2020	2019
Profit before tax	**1,038**	**1,264**
multiplied by the domestic income tax rate of 30.0 % (previous year: 29.8 %)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–311**	**–377**
+ Effects from different foreign tax rates	45	5
+ Effects from tax-exempt income	60	56
+ Effects from non-deductible operating expenses	–144	–56
+ Effects from loss carryforwards	–1	–8
+ Effects from permanent differences	–26	–2
+ Effects from tax credits	1	0
+ Taxes attributable to prior periods	194	8
+ Effects from changes in tax rates	3	6
+ Effects from non-deductible withholding taxes	–1	–2
+ Other variances	–52	–5
= Current income tax expense	**–231**	**–374**
Effective tax rate in %	22.3	29.6

The statutory corporation tax rate in Germany for the 2020 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.97%.

In the German tax group, a tax rate of 30.0% (previous year: 29.8%) was used to measure deferred taxes.

The effects from different income tax rates outside Germany arise because of the different income tax rates in the individual countries in which the Group companies are domiciled compared with the rates in Germany. These rates outside Germany vary between 12.5% and 45.0% (previous year: 19.0% and 45.0%).

The following table shows a breakdown of the as yet unused tax loss carryforwards:

	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Usable indefinitely	166	160	157	154
Usable within the next 5 years	28	14	16	–
Usable within 5 – 10 years	0	–	–	–
Usable within more than 10 years	9	–	–	–
Total	**203**	**174**	**173**	**154**
thereon deferred tax assets recognized	8	6	–	–

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €0.7 million (previous year: €1.2 million).

The income taxes do not include any material amounts arising from the use of previously unrecognized tax losses, tax credits or temporary differences from previous periods. The deferred tax expense arising from impairment losses on deferred tax assets amounted to €29 million (previous year: €8 million). There were no material effects from the recognition of the reversal of impairment losses in respect to deferred tax assets. In the reporting year, no deferred tax assets were recognized for deductible temporary differences amounting to €58 million.

An effect on deferred taxes in an amount of €3 million (previous year: €6 million) arose throughout the Group in 2020 as a consequence of changes in tax rates.

The Group has recognized deferred tax assets of €144 million (previous year: €64 million) against which there are no deferred tax liabilities in an equivalent amount. The companies involved are expecting to generate profits in the future following losses in the reporting or in the prior period.

In accordance with IAS 12.39, deferred tax liabilities of €32 million (previous year: €26 million) have not been recognized for temporary differences and undistributed profits of subsidiaries because VW FS AG has the relevant control.

Of the deferred taxes recognized in the balance sheet, an amount of €128 million (previous year: €104 million) relates to transactions reported in other comprehensive income. A breakdown of the changes in deferred taxes is presented in the statement of comprehensive income.

31. Further Income Statement Disclosures

Fee and commission income and expenses related to fiduciary activities and to financial assets or financial liabilities not measured at fair value and not measured using the effective interest method:

€ million	2020	2019
Income from fees and commissions	29	44
Expenses from fees and commissions	0	0
Total	**29**	**44**

Balance Sheet Disclosures

32. Cash Reserve

The cash reserve includes credit balances of €47 million (previous year: €106 million) held with foreign central banks.

33. Loans to and Receivables from Customers

The “Loans to and receivables from customers” item includes deductions arising from the provision for credit risks recognized to cover the expected credit risk. The provision for credit risks is presented in note (59).

Loans to and receivables from customers arising from retail financing generally comprise loans to private and commercial customers for the financing of vehicles. The vehicle itself is normally pledged to us as collateral for the financing of vehicles. Dealer financing encompasses floor plan financing as well as loans to the dealer organization for operating equipment and investment. Again, assets are pledged as collateral, but guarantees and charges on real estate are also used as security. Receivables from leasing transactions include receivables from finance leases and receivables due in connection with lease assets. The other loans and receivables largely consist of loan and receivables from entities within the Volkswagen Group and receivables from leasing transactions with a buyback agreement.

Some of the fixed-income exposures associated with finance lease receivables have been hedged against fluctuations in the risk-free based interest rate using a portfolio hedge. Receivables from operating leases are excluded from this hedging strategy because they do not satisfy the definition of a financial instrument within the meaning of IFRS 9 and in conjunction with IAS 32.

The reconciliation to the balance sheet values is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans to and receivables from customers	**78,652**	**79,195**
Fair value adjustment from portfolio hedging	19	2
Loans to and receivables from customers, net of fair value adjustment from portfolio hedging	78,633	79,194

Receivables from leasing transactions include due receivables amounting to €550 million (previous year: €497 million[1]).

As of the reporting date, receivables from operating leases amounted to €307 million (previous year: €233 million).

At the end of the reporting period, a valuation allowance of €581 million (previous year: €628 million) was recognized as regards loans to and receivables from customers in the United Kingdom, Russia, Brazil, India, Mexico and the Republic of Korea, countries that are affected by various crises (Brexit, economic crises).

1 Prior-year figure restated: corrected from €495 million to €497 million because the sublease receivables had not been included (see section Changes to Prior-Year Figures).

34. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Transactions to hedge against		
currency risk on assets using fair value hedges	14	9
currency risk on liabilities using fair value hedges	2	–
interest-rate risk using fair value hedges	686	580
of which hedges against interest-rate risk using portfolio fair value hedges	0	6
interest-rate risk using cash flow hedges	0	1
currency and pricing risk on future cash flows using cash flow hedges	34	22
Hedging transactions	**735**	**611**
Assets arising from derivatives not designated as hedges	102	125
Total	**837**	**736**

35. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2019	**689**	**492**	**1,181**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–5	–5
Additions	11	204	215
Reclassifications	–	–	–
Disposals	–	5	5
Changes/remeasurements recognized in profit or loss	65	–	65
Dividends	–12	–	–12
Other changes recognized in other comprehensive income	2	–3	–1
Balance as of Dec. 31, 2019	**754**	**683**	**1,437**
Impairment losses as of Jan. 1, 2019	**17**	**88**	**105**
Foreign exchange differences	–	–	–
Changes in basis of consolidation	–	–	–
Additions	–	9	9
Reclassifications	–	–	–
Disposals	–	5	5
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2019	**17**	**92**	**109**
Net carrying amount as of Dec. 31, 2019	**737**	**591**	**1,328**
Net carrying amount as of Jan. 1, 2019	**671**	**404**	**1,075**

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2020	**754**	**683**	**1,437**
Foreign exchange differences	–	–4	–4
Changes in basis of consolidation	52	–197	–146
Additions	–	79	79
Reclassifications	–	–	–
Disposals	–	–	–
Changes/remeasurements recognized in profit or loss	64	–	64
Dividends	–12	–	–12
Other changes recognized in other comprehensive income	–28	3	–25
Balance as of Dec. 31, 2020	**830**	**564**	**1,394**
Impairment losses as of Jan. 1, 2020	**17**	**92**	**109**
Foreign exchange differences	–	0	0
Changes in basis of consolidation	–	–80	–80
Additions	70	92	162
Reclassifications	–	–	–
Disposals	–	–	–
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2020	**87**	**104**	**191**
Net carrying amount as of Dec. 31, 2020	**743**	**460**	**1,203**
Net carrying amount as of Jan. 1, 2020	**737**	**591**	**1,328**

In the reporting year, impairment losses were recognized in an amount of €70 million for joint ventures measured using the equity method and in an amount of €81 million for non-consolidated subsidiaries included in miscellaneous financial assets.

The amount of the impairment losses equated to the amount by which the determined recoverable amount fell below the carrying amount before recognition of the impairment losses. The methodology used to determine the recoverable amount was substantially the same as the methodology described in note 10 to determine impairment losses on goodwill.

36. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2019	**35**	**20**	**12**	**122**	**188**
Foreign exchange differences	0	0	0	4	4
Changes in basis of consolidation	1	4	5	36	45
Additions	1	–	–	27	28
Reclassifications	–	–	–	–	–
Disposals	–	–	–	6	6
Balance as of Dec. 31, 2019	**36**	**24**	**17**	**182**	**259**
Amortization and impairment losses as of Jan. 1, 2019	**31**	**3**	**–**	**90**	**124**
Foreign exchange differences	0	0	–	2	2
Changes in basis of consolidation	1	2	–	23	26
Additions to cumulative amortization	1	1	–	16	18
Additions to cumulative impairment losses	–	–	–	–	–
Reclassifications	–	–	–	–	–
Disposals	–	–	–	2	2
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2019	**33**	**6**	**–**	**129**	**168**
Net carrying amount as of Dec. 31, 2019	**4**	**18**	**17**	**52**	**91**
Net carrying amount as of Jan. 1, 2019	**4**	**17**	**12**	**32**	**64**

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2020	**36**	**24**	**17**	**182**	**259**
Foreign exchange differences	–3	–1	–1	–9	–13
Changes in basis of consolidation	–	–	–	13	13
Additions	20	–	–	21	41
Reclassifications	–	–	–	–	–
Disposals	2	–	–	19	21
Balance as of Dec. 31, 2020	**51**	**24**	**16**	**188**	**279**
Amortization and impairment losses as of Jan. 1, 2020	**33**	**6**	**–**	**129**	**168**
Foreign exchange differences	–2	0	–	–6	–8
Changes in basis of consolidation	–	–	–	9	9
Additions to cumulative amortization	1	1	–	20	21
Additions to cumulative impairment losses	–	–	–	0	0
Reclassifications	–	–	–	–	–
Disposals	1	–	–	4	4
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2020	**31**	**6**	**–**	**149**	**186**
Net carrying amount as of Dec. 31, 2020	**20**	**17**	**16**	**39**	**92**
Net carrying amount as of Jan. 1, 2020	**4**	**18**	**17**	**52**	**91**

The goodwill of €16 million (previous year: €17 million) and brand names of €17 million (previous year: €17 million) in Poland and Germany reported on the balance sheet as of the reporting date have an indefinite useful life. The indefinite useful life arises because goodwill and brand names are linked to the relevant cash-generating unit and will therefore remain in existence for as long as this unit remains in existence. The customer base in Poland and Germany is being amortized over a period of ten years. The remaining amortization periods for the customer bases in both Poland and Germany is one year.

Of the total recognized goodwill, €11 million (previous year: €12 million) was attributable to Poland and €5 million (previous year: €5 million) to Germany. Of the total recognized brand names, €6 million (previous year: €6 million) was attributable to Poland and €11 million (previous year: €11 million) to Germany. The discount rates used in the impairment tests were 9.2% (previous year: 9.4%) for Poland and 8.7% (previous year: 6.6%) for Germany.

The impairment tests for the reported goodwill and brand names are based on the value in use. The values in use determined for the reported goodwill and brand names in the impairment test exceeded the corresponding carrying amounts, so no impairment loss requirement was identified for the reported goodwill or brand names. The VW FS AG Group also carried out sensitivity analyses as part of the impairment tests. No change in certain material assumptions would lead to the recognition of an impairment loss for goodwill or brand names.

37. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2019	**435**	**131**	**566**
Foreign exchange differences	2	2	3
Changes in basis of consolidation	59	38	96
Additions	66	21	87
Reclassifications	–1	–1	–2
Disposals	16	18	34
Balance as of Dec. 31, 2019	**545**	**172**	**717**
Depreciation and impairment losses as of Jan. 1, 2019	**99**	**55**	**154**
Foreign exchange differences	0	1	1
Changes in basis of consolidation	2	20	23
Additions to cumulative depreciation	32	21	53
Additions to cumulative impairment losses	–	0	0
Reclassifications	–	0	0
Disposals	1	10	11
Reversal of impairment losses	0	0	0
Balance as of Dec. 31, 2019	**131**	**87**	**218**
Net carrying amount as of Dec. 31, 2019	**413**	**85**	**498**
Net carrying amount as of Jan. 1, 2019	**337**	**76**	**412**

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2020	**545**	**172**	**717**
Foreign exchange differences	–10	–8	–18
Changes in basis of consolidation	0	3	3
Additions	67	15	82
Reclassifications	–2	2	0
Disposals	22	13	35
Balance as of Dec. 31, 2020	**578**	**171**	**749**
Depreciation and impairment losses as of Jan. 1, 2020	**131**	**87**	**218**
Foreign exchange differences	–2	–5	–7
Changes in basis of consolidation	–	1	1
Additions to cumulative depreciation	35	21	56
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	0	0
Disposals	3	11	14
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2020	**161**	**94**	**255**
Net carrying amount as of Dec. 31, 2020	**417**	**77**	**494**
Net carrying amount as of Jan. 1, 2020	**413**	**85**	**498**

In connection with land and buildings, land charges of €18 million (previous year: €13 million) serve as collateral for financial liabilities.

Assets under construction with a carrying amount of €20 million (previous year: €13 million) are included in land and buildings.

38. Investment Property

The following table shows the changes in investment property assets in the prior year:

€ million	Investment property
Cost as of Jan. 1, 2019	**26**
Foreign exchange differences	0
Changes in basis of consolidation	6
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2019	**32**
Depreciation and impairment losses as of Jan. 1, 2019	**13**
Foreign exchange differences	0
Changes in basis of consolidation	1
Additions to cumulative depreciation	1
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	0
Balance as of Dec. 31, 2019	**15**
Net carrying amount as of Dec. 31, 2019	**17**
Net carrying amount as of Jan. 1, 2019	**13**

The following table shows the changes in investment property assets in the reporting year:

€ million	Investment property
Cost as of Jan. 1, 2020	**32**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	0
Reclassifications	–
Disposals	3
Balance as of Dec. 31, 2020	**29**
Depreciation and impairment losses as of Jan. 1, 2020	**15**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions to cumulative depreciation	1
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	2
Reversal of impairment losses	0
Balance as of Dec. 31, 2020	**13**
Net carrying amount as of Dec. 31, 2020	**15**
Net carrying amount as of Jan. 1, 2020	**17**

The fair value of investment property amounts to €16 million (previous year: €24 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €1 million (previous year: €1 million) were incurred in the reporting period for the maintenance of investment property.

Rental income from investment property of €2 million (previous year: €2 million) is included in the income from leasing transactions line item in the income statement.

39. Deferred Tax Assets

The deferred tax assets comprise exclusively of deferred income tax assets, the breakdown of which is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Deferred tax assets	8,579	8,098
of which noncurrent	5,502	5,286
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	8	6
of which noncurrent	8	6
Offset (with deferred tax liabilities)	–6,833	–6,591
Total	**1,753**	**1,513**

Deferred tax assets are recognized in connection with the following balance sheet items:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans, receivables and other assets	805	801
Marketable securities and cash	3	3
Intangible assets/property and equipment	312	20
Lease assets	6,367	6,253
Liabilities and provisions	1,120	1,021
Valuation allowances for deferred assets on temporary differences	–28	–
Total	**8,579**	**8,098**

40. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Vehicles returned for disposal	1,092	1,058
Restricted cash	777	810
Prepaid expenses and accrued income	293	313
Other tax assets	319	381
Reinsurers' share of underwriting provisions	41	58
Miscellaneous	676	657
Total	**3,197**	**3,276**

Contract origination costs of €63 million (previous year: €65 million) had been capitalized as of December 31, 2020. In 2020, the amortization expenses relating to capitalized contract origination costs amounted to €29 million (previous year: €13 million). No impairment losses were recognized in 2019 and 2020 in respect of the capitalized contract origination costs.

The breakdown of the reinsurers' share of underwriting provisions is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Reinsurers' share of provisions for claims outstanding	39	42
Reinsurers' share of provisions for unearned premiums	0	14
Reinsurers' share of other underwriting provisions	1	2
Total	**41**	**58**

41. Noncurrent Assets

€ million	Dec. 31, 2020	of which noncurrent	Dec. 31, 2019	of which noncurrent
Cash reserve	47	–	106	–
Loans to and receivables from banks	3,830	200	2,477	303
Loans to and receivables from customers[1]	78,652	41,855	79,195	41,459
Derivative financial instruments	837	734	736	673
Marketable securities	312	–	305	–
Equity-accounted joint ventures	743	743	737	737
Miscellaneous financial assets	460	460	591	591
Intangible assets	92	92	91	91
Property and equipment	494	494	498	498
Lease assets	27,311	24,537	22,776	20,082
Investment property	15	15	17	17
Current tax assets	103	3	125	5
Other assets	3,197	485	3,276	546
Total[1]	**116,092**	**69,618**	**110,931**	**65,003**

1 The prior-year figure for noncurrent loans to and receivables from customers has been restated from €18,494 million to €41,459 million following the correction of an error. Due to the incorrect implementation of disclosures of lease receivables from customers, some maturity ranges of noncurrent receivables had not been taken into account. The correction of this error relates only to this disclosure on noncurrent receivables from customers. There are no other effects on the balance sheet, the statement of comprehensive income, or other disclosures.

42. Liabilities to Banks and Customers

To cover the capital requirements for the leasing and financing activities, the entities in the VW FS AG Group make use of, among other things, credit and loans provided by the entities in the Volkswagen Group. These items are included in the liabilities to banks and liabilities to customers.

In the previous year, receivables from finance leases of €779 million were pledged as collateral for liabilities to banks.

The liabilities to customers also included contractual liabilities from service contracts and other contracts amounting to €1,196 million, in connection with which income of €640 million was expected to be recognized in the next fiscal year, followed by income of €556 million in subsequent years.

43. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2020	Dec. 31, 2019
Bonds issued	56,475	56,443
Commercial paper issued	5,513	4,501
Total	**61,988**	**60,943**

Customer and dealer financing loans and receivables amounting to €33 million (previous year: €181 million) have been pledged as collateral for issued bonds not related to ABS transactions.

44. ABS Transactions

The VW FS AG Group uses ABS transactions for funding purposes. The related liabilities are recognized in the following balance sheet items:

€ million	Dec. 31, 2020	Dec. 31, 2019
Bonds issued	25,633	24,102
Subordinated liabilities	644	1,996
Total	**26,277**	**26,097**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €21,173 million (previous year: €22,262 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €24,136 million (previous year: €23,551 million). As of December 31, 2020, the fair value of the liabilities amounted to €21,267 million (previous year: €22,281 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €24,852 million (previous year: €24,342 million) as of December 31, 2020.

Collateral totaling €30,229 million (previous year: €28,251 million) has been pledged in connection with ABS transactions, of which €24,584 million (previous year: €24,084 million) is accounted for by collateral in the form of financial assets. In these arrangements, the expected payments are assigned to special purpose entities and the ownership of the collateral in the financed vehicles is transferred. The assigned loans/receivables cannot be assigned again to anyone else or used in any other way as collateral. The rights of the bond holders are limited to the assigned loans/receivables, and the payment receipts arising from these loans/receivables are used to repay the corresponding liability.

These asset-backed security transactions did not lead to a derecognition of the loans or receivables from the financial services business because the credit risk and timing risk were retained in the Group. The difference between the amount of the assigned loans/receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the VW FS AG Group itself.

The bulk of the public and private ABS transactions in the VW FS AG Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

45. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument. The breakdown is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Transactions to hedge against		
currency risk on assets using fair value hedges	20	13
currency risk on liabilities using fair value hedges	5	1
interest-rate risk using fair value hedges	108	78
of which hedges against interest-rate risk using portfolio fair value hedges	101	63
interest-rate risk using cash flow hedges	15	14
currency and pricing risk on future cash flows using cash flow hedges	21	7
Hedging transactions	**170**	**114**
Liabilities arising from derivatives not designated as hedges	294	313
Total	**464**	**427**

46. Provisions for Pensions and Other Post-Employment Benefits

The following amounts have been recognized in the balance sheet for benefit commitments:

€ million	Dec. 31, 2020	Dec. 31, 2019
Present value of funded obligations	478	384
Fair value of plan assets	246	217
Funded status (net)	**232**	**167**
Present value of unfunded obligations	362	336
Amount not recognized as an asset because of the ceiling in IAS 19	–	0
Net liability recognized in the balance sheet	**595**	**503**
of which provisions for pensions	596	505
of which other assets	1	2

Key pension arrangements in the VW FS AG Group:
For the period after the active working life of employees, the VW FS AG Group offers its employees benefits under attractive, state-of-the-art occupational pension arrangements. Most of the arrangements in the VW FS AG Group are pension plans for employees in Germany classified as defined benefit plans under IAS 19. The majority of these obligations are funded by provisions recognized in the balance sheet. These plans are now closed for new members. To reduce the risks associated with defined benefit plans, in particular longevity, salary increases and inflation, the VW FS AG Group has introduced new defined benefit plans in recent years in which the benefits are funded by appropriate external plan assets. The risks referred to above have been significantly reduced in these pension plans. The proportion of the total defined benefit obligation attributable to pension obligations funded by plan assets will continue to rise in the future. The main pension commitments are described below.

German pension plans funded solely by recognized provisions
The pension plans funded solely by recognized provisions comprise both defined contribution plans with guarantees and final salary plans. For defined contribution plans, an annual pension expense dependent on income and status is converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlements). The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. For final salary plans, the underlying salary is multiplied at retirement by a percentage that depends on the years of service up to the retirement date. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk. The pension system provides for lifelong pension payments. The companies therefore bear the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

German pension plans funded by external plan assets
The pension plans funded by external plan assets are defined contribution plans with guarantees. In this case, an annual pension expense dependent on income and status is either converted into a lifelong pension entitlement using annuity factors (guaranteed modular pension entitlement) or paid out in a single lump sum or in installments. In some cases, employees also have the opportunity to provide for their own retirement through deferred compensation. The annuity factors include a guaranteed rate of interest. The modular pension entitlements earned annually are added together at retirement. The pension expense is contributed on an ongoing basis to a separate pool of assets that is administered independently of the Company in trust and invested in the capital markets. If the plan assets exceed the present value of the obligations calculated using

the guaranteed rate of interest, surpluses are allocated (modular pension bonuses). As the assets administered in the trust meet the IAS 19 criteria for classification as plan assets, they are offset against the obligations.

The amount of the plan assets is exposed to general market risk. The investment strategy and its implementation are therefore continuously monitored by the trusts' governing bodies, on which the companies are also represented. For example, investment policies are stipulated in investment guidelines with the aim of limiting market risk and its impact on plan assets. In addition, asset-liability management analyses are conducted at regular intervals so as to ensure that investments are in line with the obligations that need to be covered. The pension assets are currently invested primarily in fixed-income or equity funds. Interest rates and equity prices therefore present the main risks. To mitigate market risk, the pension system also provides for funds to be set aside in an equalization reserve before any surplus is allocated.

The present value of the obligation is reported as the maximum of the present value of the guaranteed obligation and of the plan assets. If the value of the plan assets falls below the present value of the guaranteed obligation, a provision must be recognized for the difference. The present value of the guaranteed obligation rises as interest rates fall and is therefore exposed to interest rate risk.

In the case of lifelong pension payments, the VW FS AG Group bears the longevity risk. This is accounted for by calculating the annuity factors and the present value of the guaranteed obligation using the latest generational mortality tables – the "Heubeck 2018 G" mortality tables – which already reflect future increases in life expectancy. In addition, the independent actuaries carry out annual risk monitoring as part of the review of the assets administered by the trusts.

To reduce the inflation risk from adjusting the regular pension payments by the rate of inflation, a pension adjustment that is not indexed to inflation was introduced for pension plans where this is permitted by law.

The calculation of the present value of the defined benefit obligations was based on the following actuarial assumptions:

	GERMANY		INTERNATIONAL	
Percent	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Discount rate	0.70	1.10	1.43	2.02
Pay trend	3.36	3.70	4.91	5.49
Pension trend	1.50	1.50	2.70	2.96
Staff turnover rate	1.10	1.10	6.65	2.20

These assumptions are averages that were weighted using the present value of the defined benefit obligation. The reduction in the international discount rate results mainly from the effect of a changed scope of companies on the weighting of the average discount rate.

With regard to life expectancy, the latest mortality tables in every country are taken into account. For example, in Germany calculations are based on the "2018 G" mortality tables developed by Professor Dr. Klaus Heubeck. The discount rates are generally determined to reflect the yields on prime-rated corporate bonds with matching maturities and currencies. The iBoxx AA 10+ Corporates index was taken as the basis for the obligations of German Group companies. Similar indices were used for foreign pension obligations.

During the reporting year, changes were made to the estimation methods for individual steps in the procedure for determining the EUR discount rate to better recflect the persistently low interest rate in the measurement methodology. The adjustment resulted in an increase in the discount rate of 0.1 percentage points and a resulting reduction of €21.4 million in actuarial losses.

The pay trends cover expected wage and salary trends, which also include increases attributable to career development. The pension trends either reflect the contractually guaranteed pension adjustments or are based on the rules on pension adjustments in force in each country. The employee turnover rates are based on past experience and future expectations.

The following table shows changes in the net defined benefit liability recognized in the balance sheet:

€ million	2020	2019
Net liability recognized in the balance sheet as of January 1	**503**	**364**
Current service cost	49	32
Net interest expense	5	7
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	74	135
Actuarial gains (–)/losses (+) arising from experience adjustments	–1	–1
Income/expenses from plan assets not included in interest income	11	8
Change in amount not recognized as an asset because of the ceiling in IAS 19	–	1
Employer contributions to plan assets	20	17
Employee contributions to plan assets	–	–
Pension payments from company assets	4	4
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	–1
Other changes	0	–3
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**595**	**503**

The change in the amount not recognized as an asset because of the ceiling in IAS 19 includes an interest component, some of which is recognized in profit or loss under general and administrative expenses and some of which is recognized in other comprehensive income.

The change in the present value of the defined benefit obligation is attributable to the following factors:

€ million	2020	2019
Present value of obligations as of January 1	**720**	**519**
Current service cost	49	32
Interest cost (unwinding of discount on obligations)	8	12
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	74	135
Actuarial gains (–)/losses (+) arising from experience adjustments	–1	–1
Employee contributions to plan assets	–	–
Pension payments from company assets	4	4
Pension payments from plan assets	2	2
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Changes in basis of consolidation	–	31
Other changes	0	–4
Foreign exchange differences from foreign plans	–3	2
Present value of obligations as of December 31	**841**	**720**

Changes in the relevant actuarial assumptions would have had the following effects on the defined benefit obligation:

Present value of defined benefit obligation if		DEC. 31, 2020		DEC. 31, 2019	
		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	747	–11.20	641	–10.99
	is 0.5 percentage points lower	952	13.21	813	12.94
Pension trend	is 0.5 percentage points higher	874	3.96	750	4.14
	is 0.5 percentage points lower	810	–3.61	693	–3.73
Pay trend	is 0.5 percentage points higher	848	0.86	727	1.05
	is 0.5 percentage points lower	834	–0.79	713	–0.95
Longevity	increases by one year	869	3.35	743	3.17

The sensitivity analysis shown above considers the change in one assumption at a time, leaving the other assumptions unchanged versus the original calculation. In other words, any correlation effects between the individual assumptions are ignored.
To examine the sensitivity of the present value of the defined benefit obligation to a change in assumed longevity, the estimates of mortality were reduced as part of a comparative calculation by a measure that was roughly equivalent to an increase in life expectancy of one year.

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 24 years (previous year: 24 years).

The following table shows a breakdown of the present value of the defined benefit obligation by category of plan member:

€ million	2020	2019
Active members with pension entitlements	657	567
Members with vested entitlements who have left the Company	55	54
Retirees	129	99
Total	**841**	**720**

The maturity profile of payments attributable to the defined benefit obligation is presented in the following table, which classifies the present value of the obligation by the maturity of the underlying payments:

€ million	2020	2019
Payments due within the next fiscal year	7	6
Payments due between two and five years	41	36
Payments due in more than five years	793	678
Total	**841**	**720**

Changes in plan assets are shown in the following table:

€ million	2020	2019
Fair value of plan assets as of January 1	**217**	**156**
Interest income on plan assets determined using the discount rate	3	5
Income/expenses from plan assets not included in interest income	11	8
Employer contributions to plan assets	20	17
Employee contributions to plan assets	–	–
Pension payments from plan assets	2	2
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	–	32
Other changes	0	–1
Foreign exchange differences from foreign plans	–3	2
Fair value of plan assets as of December 31	**246**	**217**

The investment of the plan assets to cover future pension obligations resulted in a net result of €14 million (previous year: net result of €12 million).
Employer contributions to plan assets are expected to amount to €20 million (previous year: €19 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

	DEC. 31, 2020			DEC. 31, 2019		
€ million	Quoted prices in active markets	No quoted prices in active markets	Total	Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	11	–	11	9	–	9
Equity instruments	3	–	3	3	–	3
Debt instruments	18	–	18	23	–	23
Direct investments in real estate	–	–	–	–	–	–
Derivatives	0	0	0	5	–1	4
Equity funds	73	–	73	51	–	51
Bond funds	136	–	136	124	–	124
Real estate funds	0	–	0	1	–	1
Other funds	1	0	1	0	0	0
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other	–	2	2	1	2	2

Of the total plan assets, 53% (previous year: 57%) are invested in German assets, 16% (previous year: 18%) in other European assets and 31% (previous year: 25%) in assets in other regions. Investments of plan assets in debt instruments issued by the Volkswagen Group are of minor significance.

The following amounts have been recognized in the income statement:

€ million	2020	2019
Current service cost	49	32
Net interest on the net defined benefit liability	5	7
Past service cost (including plan curtailments)	–	0
Gains (–) or losses (+) arising from plan settlements	–	–
Net income (–) and expenses (+) recognized in profit or loss	**54**	**39**

47. Underwriting Provisions and Other Provisions

€ million	Dec. 31, 2020	Dec. 31, 2019
Underwriting provisions	405	408
Other provisions	422	532
Total	**827**	**940**

The following table shows the changes in underwriting provisions:

	UNDERWRITING PROVISIONS			
€ million	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	Total
Balance as of Jan. 1, 2019	**84**	**325**	**7**	**416**
Changes to basis of consolidation	–	–	–	–
Utilization	32	161	3	197
Additions	39	147	2	188
Balance as of Dec. 31, 2019	**91**	**311**	**6**	**408**

	UNDERWRITING PROVISIONS			
€ million	Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	Total
Balance as of Jan. 1, 2020	**91**	**311**	**6**	**408**
Changes to basis of consolidation	–	–	–	–
Utilization	34	157	3	194
Additions	37	152	2	191
Balance as of Dec. 31, 2020	**94**	**306**	**5**	**405**

Maturity profile of underwriting provisions:

€ million	DEC. 31, 2020		DEC. 31, 2019	
	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Provision for claims outstanding	56	94	55	91
Provision for unearned premiums	166	306	165	311
Other underwriting provisions	–	5	–	6
Total	**222**	**405**	**220**	**408**

Underwriting provisions for direct insurance business:

€ million	2020		2019	
	Remaining maturity of more than one year	Total	Remaining maturity of more than one year	Total
Balance as of Jan. 1	**38**	**120**	**37**	**133**
Utilization	24	84	26	94
Additions	18	81	30	81
Transfers	0	0	–3	0
Balance as of Dec. 31	**32**	**117**	**38**	**120**

The underwriting provisions for direct insurance business were recognized in respect of warranty insurance and repair costs insurance.

Changes in the underwriting provisions for reinsurance business, by class of insurance:

€ million	2019			
	Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**50**	**186**	**47**	**283**
Utilization	4	84	14	102
Additions	5	89	13	107
Balance as of Dec. 31	**51**	**192**	**45**	**288**

€ million	2020			
	Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**51**	**192**	**45**	**288**
Utilization	6	87	17	110
Additions	11	88	11	110
Balance as of Dec. 31	**56**	**193**	**39**	**288**

In the reporting period, other provisions were broken down into provisions for employee expenses, provisions for litigation and legal risks, and miscellaneous provisions.

The following table shows the changes in other provisions, including maturities:

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 2019	**91**	**277**	**125**	**492**
Foreign exchange differences	1	–1	0	0
Changes in basis of consolidation	20	5	1	26
Utilization	40	16	47	103
Additions/new provisions	61	90	49	200
Unwinding of discount/effect of change in discount rate	–	2	–	2
Reversals	10	69	8	86
Balance as of Dec. 31, 2019	**123**	**288**	**121**	**532**
of which current	61	52	92	206
of which noncurrent	62	236	28	326
Balance as of Jan. 1, 2020	**123**	**288**	**121**	**532**
Foreign exchange differences	–3	–43	–1	–47
Changes in basis of consolidation	3	0	1	3
Utilization	55	10	36	100
Additions/new provisions	65	52	60	177
Unwinding of discount/effect of change in discount rate	–	1	–	1
Reversals	7	115	22	143
Balance as of Dec. 31, 2020	**125**	**174**	**123**	**422**
of which current	59	24	85	168
of which noncurrent	67	150	38	255

Provisions for employee expenses are recognized primarily for annually recurring bonuses such as long-term-service awards and other employee expenses.

The provisions for litigation and legal risks reflect the risks identified as of the reporting date in relation to utilization and legal expenses arising from the latest decisions by the courts and from ongoing civil proceedings involving dealers and other customers. Based on analysis of the individual matters covered by the provisions, the VW FS AG Group believes that the disclosure of further detailed information on individual proceedings, legal disputes or legal risks could seriously prejudice the course or initiation of proceedings.

The timing of the cash outflows in connection with other provisions is expected to be as follows: 40% in the next year, 50% in the years 2022 to 2025 and 11% thereafter.

48. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Deferred tax liabilities	7,404	7,246
of which noncurrent	4,288	4,113
Offset (with deferred tax assets)	–6,833	–6,591
Total	**571**	**655**

The deferred tax liabilities include taxes arising on temporary differences between amounts in the IFRS financial statements and those determined in the calculation of taxable profits in the Group entities.

Deferred tax liabilities have been recognized in connection with the following balance sheet items:

€ million	Dec. 31, 2020	Dec. 31, 2019
Loans, receivables and other assets	6,339	6,385
Marketable securities and cash	18	2
Intangible assets/property and equipment	56	38
Lease assets	643	528
Liabilities and provisions	347	294
Total	**7,404**	**7,246**

49. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2020	Dec. 31, 2019
Prepaid expenses and accrued income	1,217	944
Other tax liabilities	189	209
Social security and payroll liabilities	148	158
Miscellaneous	130	102
Total	**1,684**	**1,413**

50. Subordinated Capital

The subordinated capital of €3,526 million (previous year: €4,947 million) was issued or raised by Volkswagen Leasing GmbH, Volkswagen Financial Services (UK) Ltd., Volkswagen Finans Sverige AB, Banco Volkswagen S.A. and VW FS AG.

51. Noncurrent Liabilities

€ million	Dec. 31, 2020	of which noncurrent	Dec. 31, 2019	of which noncurrent
Liabilities to banks	14,674	5,454	14,472	5,486
Liabilities to customers	20,208	10,036	15,740	4,586
Notes, commercial paper issued	61,988	42,850	60,943	42,272
Derivative financial instruments	464	315	427	306
Current tax liabilities	548	295	373	161
Other liabilities	1,684	755	1,413	586
Subordinated capital	3,526	3,239	4,947	4,421
Total	**103,091**	**62,945**	**98,315**	**57,819**

52. Equity

The subscribed capital of VW FS AG is divided into 441,280,000 fully paid up no-par-value bearer shares, each with a notional value of €1, which are all held by Volkswagen AG, Wolfsburg. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, Volkswagen AG, are reported under the capital reserves of VW FS AG.

The retained earnings comprise the profits from previous fiscal years that have not been distributed. The retained earnings include a legal reserve of €44 million (previous year: €44 million).

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the loss of €673 million (previous year: loss absorption of €268 million) in accordance with the HGB incurred by VW FS AG was absorbed.

53. Capital Management

In this context, capital is generally defined as equity in accordance with the IFRS. The aims of capital management in the VW FS AG Group are to support the Company's credit rating by ensuring that the Group has adequate capital backing and is able to obtain capital for the planned growth over the next few years. Generally speaking, corporate action implemented by the parent company of VW FS AG has an impact on VW FS AG's equity in accordance with IFRS. However, in contrast to the previous year, the parent company did not implement any corporate action in the reporting year.

As of December 31, 2020, the equity ratio was 10.8% (previous year: 10.7%).

Financial Instrument Disclosures

54. Carrying Amounts, Gains or Losses and Income or Expenses in respect of Financial Instruments, by Measurement Category

The carrying amounts of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	Dec. 31, 2020	Dec. 31, 2019
Financial assets measured at fair value through profit or loss	451	516
Financial assets measured at fair value through other comprehensive income (debt instruments)	268	258
Financial assets measured at fair value through other comprehensive income (equity instruments)	6	2
Financial assets measured at amortized cost	43,143	42,453
Financial liabilities measured at fair value through profit or loss	294	313
Financial liabilities measured at amortized cost	99,114	94,886

Receivables from leasing business of €39,984 million (previous year: €39,951 million) do not have to be allocated to any of these categories.

The net gains or losses and income or expenses in respect of financial instruments (excluding hedge derivatives) broken down by IFRS 9 measurement category are shown in the following table:

€ million	2020	2019
Financial instruments measured at fair value through profit or loss	22	–99
Financial assets measured at amortized cost[1]	1,646	2,127
Financial assets measured at fair value through other comprehensive income (debt instruments)	2	2
Financial liabilities measured at amortized cost	–1,407	–1,466

1 Prior-year figure has been restated from €2,148 million to €2,127 million (see section Changes to Prior-Year Figures).

The net gains/losses and income/expenses are determined as follows:

Measurement category	Measurement method
Financial instruments measured at fair value through profit or loss	Fair value in accordance with IFRS 9 in conjunction with IFRS 13, including interest and effects from currency translation
Financial assets measured at amortized cost	Interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial assets measured at fair value through other comprehensive income (debt instruments)	Fair value valuation in accordance with IFRS 9 in conjunction with IFRS 13, interest income using the effective interest method and expenses/income from the recognition of valuation allowances in accordance with IFRS 9 and effects from currency translation
Financial liabilities measured at amortized cost	Interest expense using the effective interest method in accordance with IFRS 9 and effects from currency translation

The interest income from financial assets measured at amortized cost or at fair value through other comprehensive income is included in interest income from lending transactions and marketable securities amounted to €1,999 million (previous year: €2,138 million[1]).

The interest expenses in an amount of €1,295 million (previous year: €1,352 million) relate to financial instruments not measured at fair value through profit or loss.

Expenses that arise from the direct write-off of uncollectible financial assets previously measured at amortized cost are reported and explained as a component of the provision for credit risks line item in the income statement. Income recovered in respect of financial assets already written off is also reported and explained as a component of the provision for credit risks line item in the income statement. After recognizing the income and expenses referred to above, the VW FS AG Group did not generate or incur any material gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost that resulted from the elimination of a contractual right to cash flows or from a transfer subject to the fulfillment of the derecognition conditions. Furthermore, the Group did not generate or incur any material gains, losses, income or expenses from the derecognition of financial assets measured at amortized cost as a consequence of substantial contractual modifications (see disclosures on the provision for credit risks line item in the income statement).

1 Prior-year figure restated: corrected from €2,160 million (see section Changes to Prior-Year Figures)

55. Classes of Financial Instruments

Financial instruments are divided into the following classes in the VW FS AG Group:

- Measured at fair value
- Measured at amortized cost
- Derivative financial instruments designated as hedges
- Not allocated to any measurement category
- Credit commitments and financial guarantees (off-balance-sheet)

Loans/receivables and liabilities designated as hedges with derivative financial instruments are included in the class “Measured at amortized cost”.

Within “Miscellaneous financial assets”, subsidiaries and joint ventures that are not consolidated for reasons of materiality are not deemed financial instruments in accordance with IFRS 9 and therefore do not fall within the scope of IFRS 7. Equity investments forming part of miscellaneous financial assets are reported as financial instruments in accordance with IFRS 9 in the class “Measured at fair value”.

Lease receivables and liabilities, receivables from insurance contracts, subsidiaries and joint ventures not consolidated for reasons of materiality, equity-accounted joint ventures and other instruments (other than financial instruments) are classified as “Not allocated to any measurement category” for the purposes of reconciliation to the balance sheet.

The following table shows a reconciliation of the relevant balance sheet items to the classes of financial instruments:

	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[1]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Assets										
Cash reserve	47	106	–	–	47	106	–	–	–	–
Loans to and receivables from banks	3,830	2,477	–	34	3,830	2,443	–	–	–	–
Loans to and receivables from customers	78,652	79,195	305	310	38,346	38,921	–	–	40,001	39,965
Derivative financial instruments	837	736	102	125	–	–	735	611	–	–
Marketable securities	312	305	312	305	–	–	–	–	–	–
Equity-accounted joint ventures	743	737	–	–	–	–	–	–	743	737
Miscellaneous financial assets	460	591	6	2	–	–	–	–	454	588
Current tax assets	103	125	–	–	2	20	–	–	101	105
Other assets	3,197	3,276	–	–	918	963	–	–	2,278	2,313
Total	**88,180**	**87,548**	**725**	**776**	**43,143**	**42,453**	**735**	**611**	**43,578**	**43,708**
Equity and liabilities										
Liabilities to banks	14,674	14,472	–	–	14,674	14,472	–	–	–	–
Liabilities to customers	20,208	15,740	–	–	18,494	14,367	–	–	1,714	1,373
Notes, commercial paper issued	61,988	60,943	–	–	61,988	60,943	–	–	–	–
Derivative financial instruments	464	427	294	313	–	–	170	114	–	–
Current tax liabilities	548	373	–	–	266	60	–	–	282	314
Other liabilities	1,684	1,413	–	–	169	98	–	–	1,515	1,315
Subordinated capital	3,526	4,947	–	–	3,526	4,947	–	–	–	–
Total	**103,091**	**98,315**	**294**	**313**	**99,116**	**94,887**	**170**	**114**	**3,511**	**3,002**

1 Loans to and receivables from customers and liabilities to customers contain underlying transactions of fair value hedges.

The “Credit commitments and financial guarantees” class contains obligations under irrevocable credit commitments and financial guarantees amounting to €1,313 million (previous year: €1,266 million).

56. Fair Values of Financial Assets and Liabilities

The following table shows the fair values of financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”, together with the fair values of receivables from customers relating to the leasing business classified as “not allocated to any measurement category”. The fair value is the amount at which financial assets or liabilities could be sold on fair terms as of the reporting date. Where market prices (e.g. for marketable securities) were available, VW FS AG has used these prices without modification for measuring fair value. If no market prices were available, the fair values for loans/receivables and liabilities were calculated by discounting using a maturity-matched discount rate appropriate to the risk. The discount rate was determined by adjusting risk-free yield curves, where appropriate, by relevant risk factors and taking into account capital and administrative costs. For reasons of materiality, the fair values of loans/receivables and liabilities due within one year were deemed to be the same as the carrying amount.

The fair value of the unlisted equity investment reported under miscellaneous financial assets was determined using a measurement model based on strategic planning.

	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Assets						
Measured at fair value						
Loans to and receivables from banks	–	34	–	34	–	–
Loans to and receivables from customers	305	310	305	310	–	–
Derivative financial instruments	102	125	102	125	–	–
Marketable securities	312	305	312	305	–	–
Miscellaneous financial assets	6	2	6	2	–	–
Measured at amortized cost						
Cash reserve	47	106	47	106	–	–
Loans to and receivables from banks	3,832	2,445	3,830	2,443	2	2
Loans to and receivables from customers[1]	38,604	39,006	38,346	38,921	259	85
Current tax assets	2	20	2	20	–	–
Other assets	918	963	918	963	–	–
Derivative financial instruments designated as hedges	735	611	735	611	–	–
Not allocated to any measurement category						
Lease receivables	42,051	40,973	39,984	39,951	2,067	1,021
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	294	313	294	313	–	–
Measured at amortized cost						
Liabilities to banks	14,668	14,421	14,674	14,472	–6	–51
Liabilities to customers	18,537	14,384	18,494	14,367	43	18
Notes, commercial paper issued	62,089	61,027	61,988	60,943	101	83
Current tax liabilities	266	60	266	60	–	–
Other liabilities	169	98	169	98	0	0
Subordinated capital	3,284	4,435	3,526	4,947	–242	–512
Derivative financial instruments designated as hedges	170	114	170	114	–	–

1 Prior-year figures have been restated (fair value from €39,034 million to €39,006 million and difference from €113 million to €85 million) as a result of a change to the maturities and the associated correction of the fair value (see section Changes to Prior-Year Figures).

The fair values of financial instruments were determined on the basis of the following risk-free yield curves:

Percent	EUR	GBP	JPY	BRL	MXN	SEK	CZK	AUD	CNY	PLN	INR	RUB	KRW	DKK
Interest rate for six months	–0.471	0.015	–0.146	2.095	4.490	0.049	0.454	0.015	2.850	0.179	4.914	4.681	0.683	–0.410
Interest rate for one year	–0.515	–0.013	–0.096	2.884	4.393	0.003	0.555	0.025	2.902	0.152	4.985	4.876	0.734	–0.299
Interest rate for five years	–0.465	0.193	–0.038	6.026	4.515	0.133	1.115	–	3.350	0.610	5.330	5.880	1.115	–0.189
Interest rate for ten years	–0.265	0.397	0.051	–	5.275	0.388	1.285	0.983	4.070	1.080	5.510	6.460	1.275	–0.023

57. Measurement Levels of Financial Assets and Liabilities

For the purposes of fair value measurement and the associated disclosures, fair values are classified using a three-level measurement hierarchy. The following table shows the hierarchy breakdown for financial instruments in the classes “measured at amortized cost”, “measured at fair value” and “derivative financial instruments designated as hedges”. Classification to the individual levels is dictated by the extent to which the main inputs used in determining the fair value are or are not observable in the market.

Level 1 is used to report the fair value of financial instruments such as marketable securities or notes and commercial paper issued for which a quoted price is directly observable in an active market.

Level 2 fair values are measured on the basis of inputs observable in the markets, such as exchange rates or yield curves, using market-based valuation techniques. Fair values measured in this way include those for derivatives and liabilities to customers.

Level 3 fair values are measured using valuation techniques incorporating at least one input that is not directly observable in an active market. The fair values of loans to and receivables from customers measured at amortized cost and at fair value through profit or loss are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 56). An equity investment measured at fair value through other comprehensive income and using inputs that are not observable in the market is also reported under Level 3. The main inputs used to measure this equity investment are strategic planning and cost of equity rates.

Level 3 also includes the fair values of separately recognized derivatives in connection with the risk of early termination resulting from derivatives for early termination rights embedded in finance leases. The inputs used to determine the fair value of derivatives in connection with the risk of early termination are forecasts, estimates of used vehicle residual values for the models concerned, and yield curves.

The following table shows the allocation of financial instruments to the three-level fair value hierarchy by class:

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	34
Loans to and receivables from customers	–	–	–	–	305	310
Derivative financial instruments	–	–	102	125	–	–
Marketable securities	226	305	86	–	–	–
Miscellaneous financial assets	–	–	–	–	6	2
Measured at amortized cost						
Cash reserve	47	106	–	–	–	–
Loans to and receivables from banks	1,139	840	2,693	1,604	–	–
Loans to and receivables from customers[1]	–	–	1,172	1,243	37,432	37,763
Current tax assets	–	–	2	20	–	–
Other assets	–	–	918	963	–	–
Derivative financial instruments designated as hedges	–	–	735	611	–	–
Total	**1,412**	**1,251**	**5,708**	**4,566**	**37,744**	**38,110**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	106	145	188	168
Measured at amortized cost						
Liabilities to banks	–	–	14,668	14,421	–	–
Liabilities to customers	–	–	18,537	14,384	–	–
Notes, commercial paper issued	42,576	43,384	19,513	17,643	–	–
Current tax liabilities	–	–	266	60	–	–
Other liabilities	–	–	161	90	8	8
Subordinated capital	–	–	3,284	4,435	–	–
Derivative financial instruments designated as hedges	–	–	170	114	–	–
Total	**42,576**	**43,384**	**56,704**	**51,292**	**196**	**176**

1 Prior-year figures have been restated (Stage 3 from €37,791 million to €37,763 million) as a result of a change to maturities and the associated correction of the fair value (see section Changes to Prior-Year Figures).

The following table shows the changes in the loans to and receivables from banks, loans to and receivables from customers, and equity investments measured at fair value and allocated to Level 3.

€ million	2020	2019
Balance as of Jan. 1	**346**	**363**
Foreign exchange differences	3	4
Changes in basis of consolidation	9	–
Portfolio changes	–51	–19
Measured at fair value through profit or loss	1	1
Measured at fair value through other comprehensive income	3	–3
Balance as of Dec. 31	**311**	**346**

The amounts recognized in profit or loss for loans to and receivables from banks and for loans to and receivables from customers resulting in a net gain of €1 million (previous year: net gain €1 million) have been reported in the income statement under the item “Net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income”. Of the remeasurements recognized in profit or loss, a net gain of €1 million (previous year: €1 million) was attributable to loans to and receivables from banks and loans to and receivables from customers held as of the reporting date.

The risk variables relevant to the fair value of the loans to and receivables from banks and the loans to and receivables from customers are risk-adjusted interest rates. A sensitivity analysis is used to quantify the impact from changes in risk-adjusted interest rates on profit or loss after tax.

If risk-adjusted interest rates as of December 31, 2020 had been 100 basis points higher, profit after tax would have been €2 million (previous year: €2 million) lower. If risk-adjusted interest rates as of December 31, 2020 had been 100 basis points lower, profit after tax would have been €2 million (previous year: €2 million) higher.

The risk variables relevant to the fair value of the equity investment are the growth rate within strategic planning and the cost of equity rates. If a 10% change were applied to the financial performance (which takes into account the relevant risk variables) of the equity investment measured at fair value through other comprehensive income, there would be no material change to equity.

The following table shows the change in derivatives measured at fair value based on Level 3 measurement.

€ million	2020	2019
Balance as of Jan. 1	**168**	**–**
Foreign exchange differences	–9	2
Changes in basis of consolidation	–	168
Portfolio changes	–	–
Measured at fair value through profit or loss	29	–2
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**188**	**168**

The remeasurements recognized in profit and loss amounting to €29 million (previous year: €–2 million) have been reported in the income statement under net gain or loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income. Of the

remeasurements recognized in profit or loss, a net gain of €29 million (previous year: €–2 million) was attributable to derivatives held as of the reporting date.
The risk of early termination can arise from country-specific consumer protection legislation, under which customers may have the right to return used vehicles for which a lease has been signed. The impact on earnings arising from market-related fluctuations in residual values and interest rates is borne by the VW FS AG Group.

The market prices of used vehicles are the main risk variable applied to the fair value of derivatives recognized in connection with the risk of early termination. A sensitivity analysis is used to quantify the impact of changes in used vehicle prices on profit or loss after tax. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €86 million (previous year: €75 million) higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €123 million (previous year: €95 million) lower.

58. Offsetting of Financial Assets and Liabilities

The table below contains information about the effects of offsetting in the consolidated balance sheet and the financial effects of offsetting in the case of instruments that are subject to a legally enforceable master netting agreement or a similar arrangement.

The “Financial instruments” column shows the amounts that are subject to a master netting agreement but have not been netted because the relevant criteria have not been satisfied. Most of the amounts involved are positive and negative fair values of derivatives entered into with the same counterparty.

The “Collateral received/pledged” column shows the cash collateral amounts and collateral in the form of financial instruments received or pledged in connection with the total sum of assets and liabilities. It includes such collateral relating to assets and liabilities that have not been offset against each other. These items primarily consist of collateral received from customers in the form of cash deposits, together with collateral pledged in the form of cash collateral from ABS transactions.

€ million	Gross amount of recognized financial assets/liabilities		Gross amount of recognized financial assets/liabilities offset in the balance sheet		Net amount of financial assets/liabilities reported in the balance sheet		AMOUNTS NOT OFFSET IN THE BALANCE SHEET				Net amount	
							Financial Instruments		Collateral received/pledged			
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Assets												
Cash reserve	47	106	–	–	47	106	–	–	–	–	47	106
Loans to and receivables from banks	3,830	2,477	–	–	3,830	2,477	–	–	–	–34	3,830	2,443
Loans to and receivables from customers	78,625	79,172	–10	–11	78,635	79,182	–	–	–98	–98	78,537	79,084
Derivative financial instruments	837	736	–	–	837	736	–142	–159	–	–	695	577
Marketable securities	312	305	–	–	312	305	–	–	–	–	312	305
Miscellaneous financial assets	6	2	–	–	6	2	–	–	–	–	6	2
Income tax assets	2	20	–	–	2	20	–	–	–	–	2	20
Other assets	918	963	–	–	918	963	–	–	–	–	918	963
Total	**84,577**	**83,781**	**–10**	**–11**	**84,587**	**83,792**	**–142**	**–159**	**–98**	**–132**	**84,347**	**83,501**
Equity and liabilities												
Liabilities to banks	14,674	14,472	–	–	14,674	14,472	–	–	–47	–55	14,627	14,417
Liabilities to customers	18,694	14,558	10	11	18,684	14,548	–	–	–	–	18,684	14,548
Notes, commercial paper issued	61,988	60,943	–	–	61,988	60,943	–	–	–731	–752	61,257	60,192
Derivative financial instruments	464	427	–	–	464	427	–142	–159	–	–	322	267
Income tax liabilities	266	60	–	–	266	60	–	–	–	–	266	60
Other liabilities	169	98	–	–	169	98	–	–	–	–	169	98
Subordinated capital	3,526	4,947	–	–	3,526	4,947	–	–	–	–	3,526	4,947
Total	**99,779**	**95,505**	**10**	**11**	**99,769**	**95,494**	**–142**	**–159**	**–778**	**–806**	**98,850**	**94,528**

59. Default Risk

The default risk arising from financial assets is essentially the risk that a counterparty will default. The maximum amount of the risk is therefore the amount of the claims against the counterparty concerned arising from recognized carrying amounts and irrevocable credit commitments.

The maximum default risk is reduced by collateral and other credit enhancements. The collateral held relates to loans to and receivables from banks and customers in the classes “Measured at amortized cost”, “Measured at fair value” and “Not allocated to any measurement category”. The types of collateral held include vehicles, vehicles pledged as collateral, financial guarantees, marketable securities, cash collateral and charges on real estate.

In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €501 million (previous year: €419 million). For financial assets in the “Measured at fair value” class to which the IFRS 9 impairment requirements are not applied, the maximum credit and default risk was reduced by collateral with a value of €187 million (previous year: €273 million).

For financial assets on which impairment losses were recognized during the fiscal year and that are subject to enforcement measures, the contractually outstanding amounts total €138 million (previous year: €229 million).

As a consequence of the global distribution of business activities and the resulting diversification, there are no material concentrations of default risk in individual counterparties or individual markets. Sector concentrations in the dealership business are a natural part of the business for a captive financial services provider in the automotive industry and these concentrations are individually analyzed in the existing risk management processes. The loans and receivables from dealership business subject to the inherent sector concentrations described above are included in the loans to and receivables from customers arising from dealer financing.

As derivatives are only entered into with counterparties demonstrating strong credit ratings, and limits are set for each counterparty as part of the risk management system, the actual default risk arising from derivative transactions is deemed to be low.

For further qualitative information, please refer to the risk report, which forms part of the management report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (8) for disclosures on the accounting policies relating to the provision for credit risks.

The following tables show a reconciliation of the provision for credit risks relating to financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2019	**315**	**589**	**334**	**20**	**31**	**1,289**
Exchange differences on translating foreign operations	2	2	2	0	0	5
Changes in basis of consolidation	6	6	17	7	0	35
Newly extended/purchased financial assets (additions)	185	–	–	6	7	197
Other changes within a stage[1]	47	–171	86	2	–6	–42
Transfers to						
Stage 1	8	–17	–4	–	–	–14
Stage 2	–27	40	–6	–	–	7
Stage 3	–18	–36	83	–	–	29
Financial instruments derecognized during the period (derecognitions)	–55	–37	–41	–2	–2	–138
Utilizations	–	–	–188	–1	–4	–193
Model or risk parameter changes	–1	1	–	0	–	0
Balance as of Dec. 31, 2019[1]	**461**	**376**	**281**	**33**	**25**	**1,175**

1 Prior-year figures have been restated due to incorrect classification in Stages 1 through 3 (Stage 1: from €–15 million to €47 million, Stage 2: from €–192 million to €–171 million and Stage 3 from €169 million to €86 million (see section Changes to Prior-Year Figures).

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance as of Jan. 1, 2020	**461**	**376**	**281**	**33**	**25**	**1,175**
Exchange differences on translating foreign operations	–23	–18	–78	–1	–5	–125
Changes in basis of consolidation	14	–2	24	0	–	37
Newly extended/purchased financial assets (additions)	177	–	–	9	–	186
Other changes within a stage	38	–4	98	0	3	134
Transfers to						
Stage 1	4	–13	–8	–	–	–17
Stage 2	–30	63	–4	–	–	29
Stage 3	–45	–47	135	–	–	43
Financial instruments derecognized during the period (derecognitions)	–88	–35	–31	–9	–5	–168
Utilizations	–	–	–100	0	–6	–107
Model or risk parameter changes	3	11	–	–	–	14
Balance as of Dec. 31, 2020	**510**	**332**	**317**	**32**	**10**	**1,202**

In 2020, the gross carrying amount of assets measured at amortized cost went up by €716 million to €44,345 million. At Stage 1, the gross carrying amount rose by €1,961 million to €39,434 million. This increase was mainly attributable to changes in the basis of consolidation amounting to an increase of €890 million, the transfer of gross carrying amounts into Stage 1 from other stages amounting to a net decrease of €454 million, other portfolio changes within Stage 1 amounting to an increase of €3,234 million and currency effects amounting to a decrease of €1,711 million.

The gross carrying amount at Stage 2 fell by €531 million to €2,230 million. This was primarily attributable to other portfolio changes within Stage 2 amounting to a decrease of €394 million, the net transfer of gross carrying amounts into Stage 2 from other stages amounting to a net increase of €158 million and currency effects amounting to a decrease of €323 million.

At Stage 3, the gross carrying amount declined by €21 million to €408 million. This was attributable to net transfers into Stage 3 amounting to a net increase of €208 million, currency effects amounting to a decrease of €68 million and other portfolio changes amounting to a decrease of €169 million.

The gross carrying amount within the simplified approach declined by €675 million to €2,225 million. This contraction arose primarily because of portfolio changes amounting to a decrease of €608 million.

At Stage 4, the gross carrying amount went down by €17 million to €47 million because of portfolio changes amounting to a contraction of €8 million and currency effects amounting to a decrease of €8 million.

In 2019, the gross carrying amount of assets measured at amortized cost rose by €758 million to €43,629 million. At Stage 1, the gross carrying amount declined by €1,038 million to €37,474 million. This decrease was mainly attributable to changes in the basis of consolidation and associated consolidation effects amounting to a decrease of €2,632 million, a net transfer of gross carrying amounts from Stage 1 to other stages amounting to a net decrease of €334 million, other portfolio changes within Stage 1 amounting to an increase of €1,601 million and currency effects amounting to an increase of €326 million.

The gross carrying amount at Stage 2 rose by €319 million to €2,761 million. This was predominantly caused by changes to the basis of consolidation, accounting for an increase of €317 million.

At Stage 3, the gross carrying amount declined by €71 million to €429 million. This was attributable to net transfers into Stage 3 amounting to a net increase of €114 million and other portfolio changes amounting to a decrease of €206 million.

The gross carrying amount within the simplified approach rose by €1,543 million to €2,900 million. This increase largely arose because of changes to the basis of consolidation amounting to an increase of €958 million and portfolio changes amounting to an increase of €566 million.

At Stage 4, the gross carrying amount went up by €6 million to €64 million as a result of portfolio changes.

The undiscounted expected credit losses on the initial recognition of purchased or originated credit-impaired financial assets that were recognized for the first time in the reporting period amounted to €0 million (previous year: €1 million).

The provision for credit risks in respect of financial assets measured at fair value through other comprehensive income is allocated to Stage 1 and was subject to change in the reporting period only as part of other changes within Stage 1. The amount of the provision for these financial assets both in terms of the balance as of the reporting date and the prior-year reporting date and in terms of the changes in the reporting year is not material and is therefore not presented in a separate table.

The following tables show a reconciliation of the provision for credit risks relating to financial guarantees and credit commitments:

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2019	**0**	**–**	**–**	**–**	**0**
Exchange differences on translating foreign operations	0	0	–	–	0
Changes in basis of consolidation	0	0	–	–	0
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	–	–	–	0
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	0	0	–	–	0
Stage 3	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	–	–	–	0
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2019	**0**	**0**	**–**	**–**	**0**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2020	**0**	**0**	**–**	**–**	**0**
Exchange differences on translating foreign operations	0	0	–	–	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	1	–	–	–	1
Other changes within a stage	0	0	–	–	0
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	0	–	–	–	0
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2020	**1**	**0**	**–**	**–**	**1**

The following table shows a reconciliation for the provision for credit risks relating to lease receivables in the class “Not allocated to any measurement category”:

€ million	SIMPLIFIED APPROACH 2020	2019
Balance as of Jan. 1	**924**	**639**
Exchange differences on translating foreign operations	–24	9
Changes in basis of consolidation	7	175
Newly extended/purchased financial assets (additions)	224	133
Other changes	211	228
Financial instruments derecognized during the period (derecognitions)	–249	–184
Utilizations	–61	–47
Model or risk parameter changes	42	–30
Balance as of Dec. 31	**1,074**	**924**

As of the reporting date, the gross carrying amount of lease receivables in the class “Not allocated to any measurement category” had risen by €182 million year-on-year to €41,058 million. For the most part, this increase was the result of changes to the basis of consolidation amounting to an increase of €1,038 million, portfolio changes amounting to an increase of €226 million and currency effects amounting to a decrease of €1,077 million.

As of the prior-year reporting date, the gross carrying amount of lease receivables in the class “Not allocated to any measurement category” had risen by €20,477 million year-on-year to €40,876 million. This increase largely arose because of changes to the basis of consolidation amounting to an increase of €17,866 million and portfolio changes amounting to an increase of €2,358 million.

MODIFICATIONS

During the reporting period and the prior-year period, there were contractual modifications of financial assets that did not lead to a derecognition of the asset concerned. These modifications were caused not only by changes in credit ratings but also, in the reporting year, by targeted measures such as payment deferrals to mitigate the economic effects of the Covid-19 pandemic on customers.

In the case of financial assets for which the provision for credit risks was measured in the amount of the lifetime expected credit losses, the amortized cost before contractual modifications amounted to €444 million (previous year: €117 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net expense of €5 million (previous year: €0 million). In the case of trade receivables and lease receivables, which are all included in the simplified approach, the only modifications that are taken into account are those in which the underlying receivables are more than 30 days past due.

At the reporting date, the gross carrying amount of financial assets that had been modified since initial recognition and that, in the reporting period, had also been transferred from Stage 2 or Stage 3 to Stage 1 amounted to €80 million (previous year: €28 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

The following table shows the maximum credit risk, broken down by class, to which the VW FS AG Group was exposed as of the reporting date and to which the impairment model was applied.

€ million	Dec. 31, 2020	Dec. 31, 2019
Financial assets measured at fair value	268	258
Financial assets measured at amortized cost	43,143	42,453
Financial guarantees and credit commitments	1,303	1,329
Not allocated to any measurement category	39,984	39,951
Total	**84,697**	**83,991**

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2020	Dec. 31, 2019
Vehicles	70	70
Real estate	–	–
Other movable assets	–	–
Total	**70**	**70**

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

DEFAULT RISK RATING CLASSES

The VW FS AG Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lending contract or lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers and dealer financing transactions. In addition, the gross carrying amounts of the financial assets are broken down into three default risk rating classes so that default risk exposures can be presented on a uniform basis throughout the Group. Loans and receivables for which the credit quality is classified as “good” are allocated to default risk rating class 1. Loans to and receivables from customers whose credit quality has not been classified as “good” but who have not yet defaulted are included under default risk rating class 2. Accordingly, all loans and receivables in default are allocated to default risk rating class 3.

The following tables present the gross carrying amounts of financial assets broken down by default risk rating class:

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1[1]	36,794	1,331	–	41,768	3
Default risk rating class 2	938	1,430	–	1,448	6
Default risk rating class 3[1]	–	–	429	560	55
Total[1]	**37,731**	**2,761**	**429**	**43,776**	**64**

1 Prior-year figures have been restated due to an incorrect classification in Stage 1 and 3 (Stage 1: from €36,876 million to €36,794 million, Stage 3 from €347 million to €429 million) (see section Changes to Prior-Year Figures).

FISCAL YEAR 2020

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	38,942	1,552	–	40,921	37
Default risk rating class 2	802	912	–	1,331	3
Default risk rating class 3	–	–	408	755	8
Total	**39,744**	**2,465**	**408**	**43,006**	**47**

The following tables show the default risk exposures for financial guarantees and credit commitments broken down by default risk rating class:

FISCAL YEAR 2019

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,326	3	–	–
Default risk rating class 2	0	0	–	–
Default risk rating class 3	–	–	–	–
Total	**1,326**	**3**	**–**	**–**

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€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,301	3	–	–
Default risk rating class 2	0	0	–	–
Default risk rating class 3	–	–	–	–
Total	**1,301**	**3**	**–**	**–**

60. Liquidity Risk

Liquidity risk is defined primarily as the risk of not being able to meet payment obligations in full or when due. A rolling liquidity planning system, a liquidity reserve in the form of cash and confirmed lines of credit that can be accessed at any time at short notice, together with capital market and asset-backed securities (ABS) programs, ensure that the VW FS AG Group remains solvent and has an adequate supply of liquidity.

Local cash funds in certain countries (e.g. China, Brazil, India) are only available to the Group for cross-border transactions subject to exchange controls. Foreign exchange controls are not relevant to liquidity risk because the cash from credit lines subject to exchange controls is not used in the VW FS AG Group to safeguard the supply of liquidity other than within the countries concerned. There are otherwise no significant restrictions.

Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 17) and Funding (pages 17 – 18) and in the risk report within the disclosures on interest-rate risk (page 27) and liquidity risk (page 28).

The maturity profile of assets held to manage liquidity risk is as follows:

	ASSETS		REPAYABLE ON DEMAND		UP TO 3 MONTHS		3 MONTHS TO 1 YEAR		1 TO 5 YEARS		MORE THAN 5 YEARS	
€ million	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Cash reserve	47	106	47	106	–	–	–	–	–	–	–	–
Loans to and receivables from banks	3,830	2,477	3,246	1,830	365	235	19	109	68	141	132	162
Total	**3,877**	**2,583**	**3,293**	**1,937**	**365**	**235**	**19**	**109**	**68**	**141**	**132**	**162**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

€ million	Cash outflows		REMAINING CONTRACTUAL MATURITIES up to 3 months		3 months to 1 year		1 to 5 years		more than 5 years	
	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019	Dec. 31, 2020	Dec. 31, 2019
Liabilities to banks	15,102	15,101	2,928	3,787	6,559	5,526	5,615	5,762	0	26
Liabilities to customers	18,848	14,639	3,939	9,021	5,516	1,491	9,122	3,878	271	249
Notes, commercial paper issued	63,345	62,488	5,945	3,160	13,615	16,035	40,792	38,927	2,993	4,365
Derivative financial instruments	6,432	5,674	2,757	1,986	1,069	1,889	2,592	1,755	14	44
Other liabilities	169	98	120	67	46	26	3	4	1	1
Subordinated capital	3,697	5,256	50	55	263	545	478	1,669	2,906	2,988
Irrevocable credit commitments	494	369	494	369	–	–	–	–	–	–
Total	**108,087**	**103,625**	**16,233**	**18,445**	**27,067**	**25,512**	**58,601**	**51,996**	**6,185**	**7,673**

Financial guarantees with a maximum possible drawdown of €819 million (previous year: €898 million) are always assumed to be payable on demand.

61. Market Risk

For qualitative information, please refer to the risk report within the management report.

For quantitative risk measurement, interest rate and foreign currency risks are measured using a value-at-risk (VaR) model on the basis of a historical simulation. The value-at-risk calculation indicates the size of the maximum potential loss on the portfolio as a whole within a time horizon of 40 days, measured at a confidence level of 99%. To provide the basis for this calculation, all cash flows from non-derivative and derivative financial instruments are aggregated into an interest rate gap analysis. The historical market data used in determining value at risk covers a period of 1,000 trading days.

This approach has produced the following values:

€ million	Dec. 31, 2020	Dec. 31, 2019
Interest rate risk	92	80
Currency translation risk	136	62
Total market risk	**132**	**97**

As a result of correlation effects, the total market risk is not identical to the sum of the individual risks.

62. Hedging Policy Disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its international financial activities, the VW FS AG Group is exposed to fluctuations in interest rates and foreign exchange rates on international money and capital markets. The general rules governing the Group-wide currency and interest rate hedging policy are specified in internal Group guidelines. The partners used by the Group when entering into appropriate financial transactions are national and international banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit currency and interest rate risks. Regular derivative financial instruments are used for this purpose.

MARKET RISK

Market risk arises when changes in prices on financial markets (interest rates and exchange rates) have a positive or negative effect on the value of traded products. The fair values listed in the tables in the notes were determined using the market information available on the reporting date and represent the present values of the financial derivatives. They were determined on the basis of standardized techniques or quoted prices.

Interest rate risk

Changes in the level of interest rates in the money and capital markets represent an interest rate risk if the funding is not maturity-matched. Interest rate risk is managed at the level of the individual company based on an overall interest rate risk limit set for the entire Group and broken down into specific limits for each company. Interest rate risk is quantified using interest rate gap analyses to which various scenarios involving changes in interest rates are applied. The calculations take into account uniform risk ceilings applicable throughout the Group.

The hedging contracts entered into by the Group mainly comprise interest rate swaps and cross-currency interest rate swaps. Micro-hedges and portfolio hedges are used for interest rate hedging. Fixed-income assets and liabilities included in this hedging strategy are recognized at fair value rather than at amortized cost, the method used in their original subsequent measurement. The resulting effects in the income statement are generally offset by the opposite effects from the corresponding gains and losses on the interest rate hedging instruments (swaps).

Currency risk

The VW FS AG Group avoids currency risk by entering into currency hedging contracts, which may be currency forwards or cross-currency interest rate swaps. Generally speaking, all cash flows in foreign currency are hedged.

DESCRIPTION OF HEDGES AND METHODOLOGIES FOR MONITORING HEDGE EFFECTIVENESS

If possible, the hedge strategy aims to recognize hedges for suitable underlying transactions (hedged items) using micro- or portfolio hedges. The vast majority of hedged items are assets or liabilities on the balance sheet. Future transactions are only used as hedged items in exceptional cases. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items.

In the VW FS AG Group, hedges to which micro-hedge accounting is applied are normally held to maturity.

In portfolio hedge accounting, derivatives are designated as hedges for interest rate hedging on a quarterly basis. Hedge effectiveness is reviewed for each maturity band. Derivatives are only included in portfolio hedge accounting for a hedging period if a high level of hedge effectiveness is achieved, both prospectively and retrospectively.

Hedge effectiveness in the VW FS AG Group is generally measured prospectively using the critical terms match method. Hedge effectiveness is analyzed retrospectively by testing for ineffectiveness using the dollar offset method. The dollar offset method compares the changes in the value of the hedged item expressed in monetary units with the changes in the value of the hedging instrument expressed in monetary units. Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

In portfolio hedge accounting, ineffectiveness generally arises where the changes in the fair values of hedging instruments do not fully offset those of the hedged items.

In connection with hedges involving interest rate swaps or cross-currency interest rate swaps, the IBOR reform exposes the VW FS AG Group to uncertainty in terms of the timing and amount of the IBOR-based cash flows and of the hedged risk relating to the hedged item and hedging instrument. Regardless of the residual maturity of the hedged items and hedging instruments in hedging relationships, the VW FS AG Group makes use of the exceptions available under the amendments to the standards for all hedges affected by the aforementioned uncertainty arising from the IBOR reform.

This uncertainty relates mainly to the GBP LIBOR interest rate benchmark.

In the case of fair value hedges, the uncertainty relates to the ability to identify the risk component as the change in fair value for the purpose of hedging the risk of changes in the fair value of financial assets and financial liabilities. In the case of cash flow hedges, which hedge the risk arising from changes in future cash flows, the uncertainty relates to the extent to which hedged variable future cash flows can be expected to be highly probable.

The expected impact of the IBOR reform is being continuously assessed. Necessary measures have already been initiated for certain interest rate benchmarks or will be instigated in good time for others. The aim of these measures is to adapt the systems and processes in such a way that the benchmark interest rates covered by the IBOR reform can be replaced in good time by the new benchmark interest rates. The VW FS AG Group is continuing to focus its attention on the SONIA interest rate benchmark because this benchmark is already widely accepted by the market and because of the materiality of the transactions involved.

DISCLOSURES ON GAINS AND LOSSES FROM FAIR VALUE HEDGES

In fair value hedges, the transactions hedge the risk of changes in the fair value of financial assets and financial liabilities. Changes in fair value that arise from the recognition of hedging instruments at fair value and those from the recognition of the associated hedged items at the hedged fair value generally have an offsetting effect and are reported under the net gain or loss on hedges.

The following table shows the degree of hedge ineffectiveness from fair value hedges broken down by type of risk, equating to the differences between the gains or losses on hedging instruments and those on hedged items:

€ million	2020	2019
Interest rate risk hedging	–46	–10
Currency risk hedging	–4	–9
Combined interest rate and currency risk hedging:	0	2

DISCLOSURES ON GAINS AND LOSSES FROM CASH FLOW HEDGES

Cash flow hedges are recognized with the aim of hedging risks arising from changes in future cash flows. These cash flows can arise from a recognized asset or a recognized liability.

The following table covering gains and losses from cash flow hedges shows the gains and losses on hedges recognized in other comprehensive income, the hedge ineffectiveness recognized under net gain or loss on hedges, and the gains or losses arising from the reclassification of cash flow hedge reserves recognized under net gain or loss on hedges:

€ million	2020	2019
Interest rate risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	–5	–7
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	0	–
Currency risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	2	0
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–2	0
Combined interest rate and currency risk hedging:		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	37	–3
Recognized in profit or loss	0	0
Reclassifications from the cash flow hedge reserve to the income statement		
As a result of the early termination of hedges	–	–
As a result of the recovery of the hedged item	–38	3

In the table, effects recognized directly in equity are presented net of deferred taxes.

The gain or loss from changes in the fair value of hedges within hedge accounting equates to the basis for determining hedge ineffectiveness. Those gains or losses on changes in the fair value of hedging instruments that exceed the changes in the fair value of the hedged items constitute the ineffective portion of cash flow hedges. This ineffectiveness within a hedge arises as a result of differences in the parameters applicable to the hedging instrument and the hedged item. These gains or losses are recognized immediately under the gain or loss on hedges.

NOTIONAL AMOUNTS OF DERIVATIVE FINANCIAL INSTRUMENTS

The following tables present a maturity analysis of the notional amounts of hedging instruments reported under the hedge accounting rules and those of derivatives to which hedge accounting is not applied:

FISCAL YEAR 2019

€ million	RESIDUAL MATURITY Up to 1 year	1 – 5 years	more than 5 years	TOTAL NOTIONAL AMOUNT Dec. 31, 2019
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	8,692	28,968	4,212	41,872
Currency risk hedging				
Currency forwards/cross-currency swaps CZK	534	22	–	555
Currency forwards/cross-currency swaps DKK	294	–	–	294
Currency forwards/cross-currency swaps PLN	128	–	–	128
Currency forwards/cross-currency swaps other currencies	187	37	–	224
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	847	214	–	1,061
Cross-currency interest rate swaps, other foreign currencies	–	256	–	256
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	15,363	17,629	19,636	52,629
Currency risk hedging				
Currency forwards/cross-currency swaps	1,284	98	–	1,382
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	450	989	–	1,439

FISCAL YEAR 2020

€ million	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2020
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	7,939	27,366	2,850	38,155
Currency risk hedging				
Currency forwards/cross-currency swaps PLN	678	–	–	678
Currency forwards/cross-currency swaps CZK	503	38	–	541
Currency forwards/cross-currency swaps TRY	272	–	–	272
Currency forwards/cross-currency swaps other currencies	272	24	–	296
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	818	331	–	1,149
Cross-currency interest rate swaps, other foreign currencies	115	186	–	301
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	12,464	21,960	17,870	52,294
Currency risk hedging				
Currency forwards/cross-currency swaps	604	50	–	654
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	406	1,681	–	2,087

The timings of the future payments for the hedged items in the cash flow hedges match the maturities of the hedging instruments.

As of the reporting date and the prior-year reporting date, none of the cash flow hedges recognized involved a hedged item whose underlying transaction was no longer expected to occur in the future.

In the reporting period, the average exchange rates used in the measurement of hedging instruments were as follows for the following currencies with significant notional amounts: NOK 10.4623, PLN 4.4738, CZK 26.3987 and TRY 9.7275. The average interest rates used for interest rate swaps and cross-currency interest rate swaps in cash flow hedges in the reporting year were as follows for the following currencies: NOK 0.46%, AUD 1.93%, JPY 0.42%, MXN 8.47% and BRL 3.18%. In the previous year, the average exchange rates used in the measurement of hedging instruments were as follows for the following currencies with significant notional amounts: NOK 9.6886, PLN 4.2910, CZK 25.9257 and DKK 7.4687. The average interest rates used for interest rate swaps and cross-currency interest rate swaps in cash flow hedges in the previous year were as follows for the following currencies: NOK[1] 0.26%, AUD 2.08%, JPY 0.49%, MXN 8.05% BRL 5.57%.

The notional amounts of hedging instruments that are exposed to the uncertainty of the IBOR reform described above amount to a total of €9,228 (previous year: €17,836 million). In the reporting year, most of the notional amounts were accounted for by the GBP LIBOR: €9,147 million (previous year: €12,865 million). In contrast to the previous year, it is believed that the notional amounts of hedging instruments subject to the AUD BBSW and NOK OIBOR are no longer subject to any uncertainty from the IBOR reform.

1 Currency disclosures corrected (see section Changes to Prior-Year Figures)

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The VW FS AG Group regularly uses hedging instruments to hedge changes in the fair value of financial assets and financial liabilities.

The following overviews show the notional amounts, fair values and changes in fair value used to determine ineffectiveness in hedging instruments used in fair value hedges to hedge the risk arising from changes in fair value:

FISCAL YEAR 2019

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	39,924	580	78	405
Currency risk hedging				
Currency forwards/cross-currency swaps	1,137	2	14	–12
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	175	7	0	7

FISCAL YEAR 2020

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	36,645	686	108	436
Currency risk hedging				
Currency forwards/cross-currency swaps	1,696	14	23	–13
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	99	2	2	0

The VW FS AG Group also uses hedging instruments to hedge the risk arising from changes in future cash flows.

The following tables set out the notional amounts, fair values and changes in fair value used to determine ineffectiveness in hedging instruments used in cash flow hedges:

FISCAL YEAR 2019

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,948	1	12	–8
Currency risk hedging				
Currency forwards/cross-currency swaps	64	0	0	0
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,143	21	9	15

FISCAL YEAR 2020

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,510	–	15	–17
Currency risk hedging				
Currency forwards/cross-currency swaps	90	1	0	2
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,351	32	21	10

The change in fair value used to determine ineffectiveness equates to the change in the fair value of the designated components of the hedging instruments.

DISCLOSURES ON HEDGED ITEMS TO WHICH HEDGE ACCOUNTING IS APPLIED

Disclosures on hedged items, broken down by risk category and type of designation, are required in addition to the disclosures on hedging instruments.

The tables below show the hedged items hedged in fair value hedges:

FISCAL YEAR 2019

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	11,238	–3	–3	–
Liabilities to banks	–	–	–	–
Liabilities to customers	810	4	–1	–
Notes, commercial paper issued	24,845	343	165	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	465	0	0	–
Liabilities to banks	27	–1	0	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	127	–7	1	–
Liabilities to banks	–	–	–	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	48	3	3	–
Subordinated capital	–	–	–	–

FISCAL YEAR 2020

€ million	Carrying amount	Cumulative hedge adjustments	Hedge adjustments current period/fiscal year	Cumulative hedge adjustments from terminated hedges
Interest rate risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	19,059	16	12	0
Liabilities to banks	–	–	–	–
Liabilities to customers	813	16	6	–
Notes, commercial paper issued	23,161	629	334	–
Subordinated capital	–	–	–	–
Currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	528	17	17	–
Liabilities to banks	23	–4	–3	–
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–
Combined interest rate and currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	49	–3	–3	–
Notes, commercial paper issued	50	5	5	–
Subordinated capital	–	–	–	–

The following tables present the hedged items hedged in cash flow hedges:

FISCAL YEAR 2019

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–6	–8	0
Deferred taxes	–	3	0
Total interest rate risk	–6	–5	0
Currency risk hedging			
Designated components	0	0	–
Non-designated components	–	0	–
Deferred taxes	–	0	–
Total hedging currency risk	0	0	–
Combined interest rate and currency risk hedging:			
Designated components	15	1	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	15	0	–

FISCAL YEAR 2020

€ million	Fair value change to determine ineffectiveness	Reserve for: Existing cash flow hedges	Reserve for: Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–12	–15	–
Deferred taxes	–	5	–
Total interest rate risk	–12	–10	–
Currency risk hedging			
Designated components	1	0	–
Non-designated components	–	0	–
Deferred taxes	–	0	–
Total hedging currency risk	1	0	–
Combined interest rate and currency risk hedging:			
Designated components	5	0	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	5	0	–

CHANGES IN THE CASH FLOW HEDGE RESERVE

In the accounting treatment of cash flow hedges, the designated effective portion of a hedge is reported in other comprehensive income (in “OCI I”). All changes in the fair value of hedging instruments in excess of the effective portion are reported in profit or loss as hedge ineffectiveness.

The following tables show a reconciliation for the cash flow hedge reserve (OCI I):

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1, 2019	**2**	**0**	**1**	**3**
Gains or losses from effective hedges	–7	0	–3	–11
Reclassifications resulting from the recovery of the hedged item	–	0	3	3
Balance as of Dec. 31, 2019	**–5**	**0**	**0**	**–5**

€ million	Interest rate risk	Currency risk	Combined interest rate and currency risk	Total
Balance as of Jan. 1, 2020	**–5**	**0**	**0**	**–5**
Gains or losses from effective hedges	–5	2	37	35
Reclassifications resulting from the recovery of the hedged item	0	–2	–38	–40
Balance as of Dec. 31, 2020	**–10**	**0**	**0**	**–10**

The changes in the fair value of non-designated forward components in currency forwards and in currency hedging within cash flow hedges are initially reported in other comprehensive income (hedging costs) in the VW FS AG Group. Therefore, changes in the fair value of non-designated components (or parts thereof) are reported immediately in profit or loss only if they relate to ineffective portions of the hedge.

The following table presents an overview of the changes in the hedging costs reserve arising from the non-designated components of currency hedges:

	CURRENCY RISK	
€ million	2020	2019
Balance as of Jan. 1	**0**	**–**
Gains and losses from undesignated forward elements and CCBS		
Hedged item is recognized at a point in time	0	0
Reclassification due to realization of the hedged item		
Hedged item is recognized at a point in time	0	0
Reclassification due to changes in whether the hedged item is expected to occur		
Hedged item is recognized at a point in time	–	–
Balance as of Dec. 31	**0**	**0**

In the tables, the effects reported in equity are reduced by deferred taxes.

Segment Reporting

63. Breakdown by Geographical Market

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. The operating result is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, the United Kingdom, Sweden, China, Brazil and Mexico are the segments that are reportable under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. In line with internal reporting practice, the German market is composed of companies in Germany and Austria. All other companies that can be allocated to geographical markets are brought together under “Other Segments”.

Companies that are not allocated to any geographical market are reported in the reconciliation. The reconciliation also includes the VW FS AG holding company, the holding and financing companies in the Netherlands and Belgium, EURO Leasing companies in Germany and Poland, Volkswagen Insurance Brokers GmbH, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH and Volkswagen Versicherung AG. In the internal reporting structure, this presentation ensures that there is a separation between market activities on one side and typical holding company or financing functions, industry business, primary insurance business and reinsurance business on the other side. Effects from consolidation between the segments and from the provision for country risks are additionally included in the reconciliation.

All business transactions between the segments – where such transactions take place – are conducted on an arm’s-length basis.

In accordance with IFRS 8, noncurrent assets are reported exclusive of financial instruments, deferred tax assets, post-employment benefits and rights under insurance contracts.

BREAKDOWN BY GEOGRAPHICAL MARKET 2019:

€ million	JAN. 1 – DEC. 31, 2019 Germany	United Kingdom	Sweden	China	Brazil	Mexico[1]	Other segments	Segments total	Recon-ciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties[1]	11	6	12	726	515	283	488	2,042	53	2,094
Income from leasing transactions with third parties[1]	8,767	1,901	1,497	–	11	313	1,623	14,112	182	14,294
of which impairment losses in accordance with IAS 36	67	25	2	–	0	6	19	119	0	119
Intersegment income from leasing transactions	–	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–8,059	–1,168	–1,455	–	–5	–195	–1,350	–12,232	–145	–12,378
of which impairment losses in accordance with IAS 36	–226	–4	0	–	0	–	–91	–322	–1	–324
Net income from leasing transactions[1]	708	732	42	–	6	117	274	1,880	36	1,917
Interest expense	–152	–240	–8	–269	–218	–170	–282	–1,339	–13	–1,352
Income from service contracts with third parties	1,257	102	–	–	1	–	346	1,706	31	1,738
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	318	318
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	156	4	1	–	80	56	176	474	40	514
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–2	–3	–1	–8	–5	0	–24	–43	–27	–70
Operating result[2]	**232**	**236**	**21**	**169**	**136**	**128**	**333**	**1,255**	**–33**	**1,223**

1 Prior-year figures have been restated (see section Changes to Prior-Year Figures).
2 Prior-year figures have been adjusted as a result of internal structural changes.

BREAKDOWN BY GEOGRAPHICAL MARKET 2020:

€ million	JAN. 1 – DEC. 31, 2020									
	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Recon-ciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	12	7	30	838	400	223	456	1,964	31	1,995
Income from leasing transactions with third parties	9,388	2,389	3,104	1	7	252	2,171	17,312	145	17,457
of which impairment losses in accordance with IAS 36	27	0	2	–	0	3	23	54	0	54
Intersegment income from leasing transactions	–	–	–	–	–	–	2	2	–2	–
Depreciation, impairment losses and other expenses from leasing transactions	–8,822	–1,466	–2,995	–1	–4	–163	–1,879	–15,329	–122	–15,450
of which impairment losses in accordance with IAS 36	–369	–9	–3	0	0	0	–112	–492	–6	–498
Net income from leasing transactions	566	923	110	0	3	89	294	1,985	22	2,006
Interest expense	–206	–290	–25	–284	–134	–111	–249	–1,299	14	–1,286
Income from service contracts with third parties	1,391	140	–	0	0	0	547	2,079	21	2,100
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	345	345
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	136	5	5	–	61	47	260	513	47	560
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–3	–4	–1	–10	–3	0	–29	–51	–26	–78
Operating result	**225**	**334**	**64**	**158**	**108**	**107**	**271**	**1,267**	**–44**	**1,223**

Information on the main products (lending and leasing business) can be taken directly from the income statement.

The breakdown of noncurrent assets in accordance with IFRS 8 and of the additions to noncurrent lease assets by geographical market is shown in the following tables:

€ million	JAN. 1 – DEC. 31, 2019					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	13,069	3,185	1,119	26	258	43
Additions to lease assets classified as noncurrent assets.	6,737	940	236	–	0	1

€ million	JAN. 1 – DEC. 31, 2020					
	Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	15,558	2,961	1,503	73	193	33
Additions to lease assets classified as noncurrent assets	8,593	1,317	545	–	–	1

Investment recognized under other assets was of minor significance.

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	2020	2019
Segment revenue[1]	**21,868**	**18,334**
Other companies	621	586
Consolidation	–376	–280
Group revenue[1]	**22,112**	**18,640**
Segment profit or loss (operating result)[2]	**1,267**	**1,255**
Other companies	–47	–86
Contribution to operating profit by included companies[2]	–15	–47
Consolidation	18	101
Operating result	**1,223**	**1,223**
Share of profits and losses of equity-accounted joint ventures	64	65
Net gain or loss on miscellaneous financial assets	–168	–14
Other financial gains or losses	–81	–9
Profit before tax	**1,038**	**1,264**

1 Prior-year figures have been restated (see section Changes to Prior-Year Figures).
2 Prior-year figures have been adjusted as a result of internal structural changes.

Other Disclosures

64. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €1,786 million (previous year: €1,494 million[1]) was generated from finance leases. There was no income from variable lease payments that was not taken into account in the measurement of the net investment in the lease where finance leases were concerned.

The following table shows a reconciliation of the undiscounted lease payments under finance leases to the net investment in the leases.

€ million	Dec. 31, 2020	Dec. 31, 2019
Non-discounted lease payments[2]	43,145	43,268
Non-guaranteed residual value	190	170
Unearned interest income	–2,658	–2,849
Loss allowance on lease receivables[2]	–1,002	–872
Other	–	–
Net investment	**39,675**	**39,717**

2 Prior-year figures restated because some of the credit risk provisions had not been included. Each of the restated figures increased by €192 million. The restatement does not have any effect on the net investment (see section Changes to Prior-Year Figures).

In the VW FS AG Group, net investment equates to the net receivables from finance leases.

In the previous year, the following payments were anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2020	2021	2022	2023	2024	From 2025	Total
Finance lease payments[3]	14,645	11,599	10,152	6,051	612	209	43,268

3 Prior-year figures restated because some of the credit risk provisions had not been included. Each of the restated figures increased by €192 million. The restatement does not have any effect on the net investment (see section Changes to Prior-Year Figures).

1 Prior-year figure corrected from €1,504 million to €1,494 million (see section Changes to Prior-Year Figures).

In the year under review, the following payments are anticipated over the next few years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments	14,849	12,530	10,265	4,884	364	254	43,145

LESSOR ACCOUNTING FOR OPERATING LEASES

Income generated from operating leases is included in the income from leasing transactions and other operating income line items in the income statement. The following table shows a breakdown between income from leases without variable lease payments and income from leases with variable lease payments.

€ million	2020	2019
Lease income[1]	5,444	4,466
Income from variable lease payments	–	–
Total[1]	**5,444**	**4,466**

1 Prior-year figure restated from €4,464 million to €4,466 million. Rental income from investment property had not been included in the previous year (see section Changes to Prior-Year Figures).

The impairment losses recognized as a result of the impairment test on lease assets amounted to €498 million (previous year: €324 million) and are included in the depreciation, impairment losses and other expenses from leasing transactions. Impairment losses are based on continuously updated internal and external information, which is then fed into the forecasts of residual values for vehicles.

Income from reversals of impairment losses on lease assets applied in prior years amounted to €54 million (previous year: €119 million) and is included in income from leasing business.

The following table shows the changes in the prior year for assets leased out under operating leases:

€ million	Movable lease assets
Cost as of Jan. 1, 2019	**18,029**
Foreign exchange differences	87
Changes in basis of consolidation	7,576
Additions	14,157
Reclassifications	2
Disposals	10,427
Balance as of Dec. 31, 2019	**29,425**
Depreciation and impairment losses as of Jan. 1, 2019	**4,385**
Foreign exchange differences	14
Changes in basis of consolidation	1,687
Additions to cumulative depreciation	3,182
Additions to cumulative impairment losses	324
Reclassifications	0
Disposals	2,825
Reversal of impairment losses	119
Balance as of Dec. 31, 2019	**6,649**
Net carrying amount as of Dec. 31, 2019	**22,776**
Net carrying amount as of Jan. 1, 2019	**13,644**

In the previous year, the outstanding, undiscounted lease payments from operating leases expected for subsequent years were as follows:

€ million	2020	2021	2022	2023	2024	From 2025	Total
Lease payments	3,516	2,166	985	302	148	7	7,125

The following table shows the changes in the reporting year for assets leased out under operating leases:

€ million	Movable lease assets
Cost as of Jan. 1, 2020	**29,425**
Foreign exchange differences	–252
Changes in basis of consolidation	16
Additions	18,354
Reclassifications	–
Disposals	12,476
Balance as of Dec. 31, 2020	**35,067**
Depreciation and impairment losses as of Jan. 1, 2020	**6,649**
Foreign exchange differences	–66
Changes in basis of consolidation	3
Additions to cumulative depreciation	4,030
Additions to cumulative impairment losses	498
Reclassifications	–
Disposals	3,304
Reversal of impairment losses	54
Balance as of Dec. 31, 2020	**7,756**
Net carrying amount as of Dec. 31, 2020	**27,311**
Net carrying amount as of Jan. 1, 2020	**22,776**

From the perspective of the VW FS AG Group as lessor, the value of the right of use under noncurrent leases recognized in connection with buyback transactions is presented under the lease assets item in the balance sheet.

In the reporting year, the outstanding, undiscounted lease payments from operating leases expected for subsequent years were as follows:

€ million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments	3,756	2,486	1,212	568	116	13	8,151

The minimum lease payments expected in the reporting year from subleases in connection with buyback transactions are included in the presentation of the outstanding, undiscounted lease payments from operating leases.

LESSEE ACCOUNTING

The VW FS AG Group is a party to leases as a lessee in various aspects of the business. These leases mainly involve the leasing of land and buildings and operating and office equipment.

In the reporting year, interest expenses of €5 million (previous year: €6 million) were recognized under the interest expenses line item in the income statement in respect of lease liabilities reported under liabilities to customers on the balance sheet.

The subleasing of right-of-use assets gave rise to income of €575 million (previous year: €562 million) in the reporting year.

No right-of-use assets are recognized for short-term leases or leases in which the underlying asset is of low value. In the reporting year, expenses for leases in which the underlying assets are of low value amounted to €7 million (previous year: €5 million). Expenses for short-term leases were €7 million (previous year: €8 million). There were no variable lease expenses in the reporting year that were not taken into account in the measurement of the lease liabilities.

Right-of-use assets derived from leases are reported in the balance sheet of the VW FS AG Group within property and equipment under the following items:

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Right of use on other equipment, operational and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2019	**109**	**9**	**118**
Foreign exchange differences	1	0	1
Changes in basis of consolidation	53	0	53
Additions	45	2	47
Reclassifications	–	–	–
Disposals	13	5	18
Balance as of Dec. 31, 2019	**194**	**6**	**200**
Depreciation and impairment losses as of Jan. 1, 2019	**0**	**–**	**0**
Foreign exchange differences	0	0	0
Changes in basis of consolidation	1	0	1
Additions to cumulative depreciation	22	4	25
Additions to cumulative impairment losses	–	0	0
Reclassifications	–	–	–
Disposals	0	1	1
Reversal of impairment losses	–	0	0
Balance as of Dec. 31, 2019	**22**	**3**	**25**
Net carrying amount as of Dec. 31, 2019	**172**	**3**	**175**

€ million	Right of use on land, land rights and buildings incl. buildings on third party land	Right of use on other equipment, operational and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2020	**194**	**6**	**200**
Foreign exchange differences	–9	0	–9
Changes in basis of consolidation	0	0	1
Additions	50	2	52
Reclassifications	–	–	–
Disposals	20	1	21
Balance as of Dec. 31, 2020	**216**	**7**	**223**
Depreciation and impairment losses as of Jan. 1, 2020	**22**	**3**	**25**
Foreign exchange differences	–2	0	–2
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	25	2	27
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Disposals	3	1	4
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2020	**43**	**4**	**47**
Net carrying amount as of Dec. 31, 2020	**173**	**3**	**176**

The values of the rights of use under noncurrent leases recognized in connection with buyback transactions under lease assets in the balance sheet are presented as part of the disclosures on lessor accounting for operating leases.

When assessing the lease term underlying a lease liability, the VW FS AG Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

In the balance sheet, lease liabilities are reported under liabilities to customers. The following table shows a breakdown of the contractual maturities of lease liabilities:

	REMAINING CONTRACTUAL MATURITIES			
€ million	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2020	25	102	63	190
Lease liabilities as of Dec. 31, 2019	23	67	91	181

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €669 million (previous year: €691 million) in the reporting year. In the case of assets leased in as part of buyback transactions, the total cash outflows were reported in an amount equating to the value of the right of use recognized in the reporting year.

The following table shows an overview of the potential future cash outflows that have not been included in the measurement of the lease liabilities.

€ million	2020	2019
Future cash outflows to which the lessee is potentially exposed		
Variable lease payments	–	–
Residual value guarantees	0	0
Extension options	26	49
Termination options	–	–
Obligations under leases not yet commenced (contractual obligations)	5	19
Total[1]	**31**	**68**

1 Prior-year figure restated from €69 million to €68 million as a result of a rounding correction (see section Changes to Prior-Year Figure).

65. Cash Flow Statement

VW FS AG Group's cash flow statement documents changes in cash and cash equivalents attributable to cash flows from operating, investing and financing activities. Cash flows from investing activities comprise purchase payments and disposal proceeds relating to investment property, subsidiaries, joint ventures and other assets. Cash flows from financing activities reflect all cash flows arising from transactions involving equity, subordinated capital and other financing activities. All other cash flows are classified as cash flows from operating activities in accordance with standard international practice for financial services companies.

The narrow definition of cash and cash equivalents comprises only the cash reserve, which consists of cash-in-hand and central bank balances.

The changes in the balance sheet items used to determine the changes in the cash flow statement cannot be derived directly from the balance sheet because effects from the changes in the basis of consolidation have no impact on cash and are eliminated.

The prior-year figures have been adjusted in accordance with the disclosures in the section Changes to Prior-Year Figures, as follows:

€ million	Before adjustment	Adjustment	After adjustment
Profit after tax	**890**	**–890**	**–**
Profit before tax	**–**	**1,264**	**1,264**
Change in other noncash items	102	–374	–272
Change in liabilities to customers	–124	–9	–133
Cash flows from operating activities	**347**	**–9**	**338**
Proceeds from disposal of other assets	27	–17	10
Acquisition of other assets	–115	47	–68
Cash flows from investing activities	**–284**	**30**	**–254**
Repayment of liabilities arising from leases	–	–21	–21
Cash flows from financing activities	**–17**	**–21**	**–38**

The following tables show the breakdown of the changes in subordinated capital (as part of financing activities) into cash and noncash transactions for the reporting year and the prior year.

			NONCASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2019	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31, 2019
Subordinated capital	3,023	–166	8	2,081	–	4,947

			NONCASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2020	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31, 2020
Subordinated capital	4,947	–1,268	–153	–	–	3,526

66. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €296 million (previous year: €374 million) largely relate to legal disputes concerning tax matters in which the criteria for the recognition of a provision in accordance with IAS 37 are not satisfied. After an analysis of the individual cases covered by the contingent liabilities, it is believed that the disclosure of further detailed information on individual proceedings, legal disputes and legal risks could seriously prejudice the course of those proceedings.

The outflow of economic resources in connection with contingent liabilities based on trust assets and liabilities of the savings and trust entity belonging to the Latin American subsidiaries that are not included in the consolidated balance sheet (previous year: €419 million) is deemed to be unlikely in the current fiscal year and is therefore no longer disclosed.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2020	DUE 2021 – 2024	DUE From 2025	TOTAL Dec. 31, 2019
Purchase commitments in respect of				
Property and equipment	10	–	–	10
Intangible assets	2	–	–	2
Investment property	–	–	–	–
Obligations from				
Irrevocable credit commitments to customers	369	–	–	369
Long-term leasing and rental contracts	6	1	1	8
Miscellaneous financial obligations	48	1	–	49

€ million	DUE 2021	DUE 2022 – 025	DUE From 2026	TOTAL Dec. 31, 2020
Purchase commitments in respect of				
Property and equipment	4	–	–	4
Intangible assets	0	–	–	0
Investment property	–	–	–	–
Obligations from				
Irrevocable credit commitments to customers	494	–	–	494
Long-term leasing and rental contracts	9	1	0	11
Miscellaneous financial obligations	55	0	–	55

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

67. Average Number of Employees During the Reporting Period

	2020	2019
Salaried employees	10,654	10,322
Vocational trainees	149	143
Total	**10,803**	**10,465**

68. Benefits Based on Performance Shares (Share-Based Payment)

At the end of 2018, the Supervisory Board of VW FS AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term.

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. All other beneficiaries were granted benefits on the basis of performance shares for the first time at the beginning of 2020. The way the performance share plan granted to these beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019.

Each performance period of the performance share plan has a term of three years. For the members of the Board of Management and top management, the annual target amount under the LTI is converted, at the time the LTI is granted, on the basis of the initial reference price of Volkswagen's preferred shares into performance shares of Volkswagen AG, which are allocated to the beneficiaries purely for calculation purposes. The number of performance shares is determined definitively on the basis of a three-year forward-looking performance period according to the degree of target attainment for the annual earnings per Volkswagen preferred share. Settlement is in cash at the end of the performance period. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. For all other beneficiaries, the payout amount is determined by multiplying the target amount by the degree of target attainment for the annual earnings per Volkswagen preferred share and the ratio between the closing reference price at the end of the period (plus a dividend equivalent) and the initial reference price. The target attainment is determined on the basis of a three-year performance period with a one-year forward reference. In a deviation from this approach, the target attainment was initially determined in 2020 on the basis of a one-year forward-looking performance period and in 2021 will be on the basis of a two-year performance period with a one-year forward reference. The payment amount for all beneficiaries under the performance share plan is limited to 200% of the target amount; the payment amount is reduced by 20% if the average capital expenditure ratio or the R&D ratio in the Automotive Division during the performance period is lower than 5%.

MEMBERS OF THE BOARD OF MANAGEMENT AND TOP MANAGEMENT

€ million	Dec. 31, 2020	Dec. 31, 2019
Total expense for the period (Jan. 1 – Dec. 31)	4	4
Total carrying amount of the obligation	4	4
Intrinsic value of the liabilities	4	4
Fair value at grant date	3	2
Number of performance shares granted	34,705	15,119
of which: number granted in the reporting period	17,490	15,119

MANAGEMENT MEMBERS AND SELECTED BENEFICIARIES BELOW MANAGEMENT LEVEL

In the reporting year, all other beneficiaries were granted a target amount, based on target attainment of 100%, of €26 million (previous year: €26 million). As of December 31, 2020, the total carrying amount of the obligation, which equated to the intrinsic value of the liabilities, amounted to €35 million. A total expense of €35 million was recognized in the reporting period for this commitment.

69. Related Party Disclosures

Related parties within the meaning of IAS 24 are deemed to be individuals or entities who can be influenced by VW FS AG, who can exercise an influence over VW FS AG, or who are under the influence of another related party of VW FS AG.

Volkswagen AG, Wolfsburg, is the sole shareholder of VW FS AG. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG as of the reporting date. The Extraordinary General Meeting of Volkswagen AG held on December 3, 2009 approved the creation of rights of appointment for the State of Lower Saxony. As a result, Porsche SE cannot elect, via the Annual General Meeting, all the shareholder representatives on Volkswagen AG's Supervisory Board for as long as the State of Lower Saxony holds at least 15% of Volkswagen AG's ordinary shares. However, Porsche SE has the power to participate in the operating policy decisions of the Volkswagen Group and is therefore deemed to be a related party as defined by IAS 24. According to a notification dated January 4, 2021, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2020 and therefore indirectly had significant influence over the VW FS AG Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment).

VW FS AG and its sole shareholder Volkswagen AG have a control and profit-and-loss transfer agreement.

Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities provide the entities in the VW FS AG Group with funding on an arm's-length basis. As part of funding transactions, Volkswagen AG and other related parties in Volkswagen AG's group of consolidated entities sold vehicles to entities in the VW FS AG Group on an arm's-length basis. These transactions are presented in the "Goods and services received" line item. Volkswagen AG and its subsidiaries have also furnished collateral for the benefit of VW FS AG within the scope of the operating business.

The "Goods and services provided" line item primarily contains income from leasing transactions.

The business transactions with unconsolidated subsidiaries, joint ventures and associates of VW FS AG mainly relate to the provision of funding and services. These transactions are always conducted on an arm's-length basis, e.g. when using the cost plus method for the provision of services.

The two tables below show the transactions with related parties. In these tables, the exchange rates used are the closing rate for asset and liability items, and the weighted average rates for the year for income statement items.

FISCAL YEAR 2019

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities[1]	Non-consolidated subsidiaries	Joint ventures	Associates[1]
Loans and Receivables	–	–	3,241	0	6,409	226	6,054	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	8,523	–	10,685	193	170	–
Interest income	–	–	2	–	122	6	92	–
Interest expense	–	–	–17	–	–148	–1	–	–
Goods and services provided	0	–	1,091	0	2,987	22	426	1
Goods and services received	–	–	9,903	–	6,681	36	486	0

1 Separate presentation of associated companies. Prior-year figures have been adjusted.

FISCAL YEAR 2020

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associates[1]
Loans and Receivables	–	–	3,642	–	8,669	293	4,328	0
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	11,034	0	11,199	251	121	–
Interest income	–	–	2	–	83	7	46	–
Interest expense	–	–	–102	–	–199	–2	–	–
Goods and services provided	0	–	1,158	0	3,677	33	437	1
Goods and services received	–	–	9,146	–	7,894	46	512	–

1 Separate presentation of associated companies

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to VW FS AG. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance.

In the year under review, VW FS AG received no capital contributions from Volkswagen AG (previous year: €1,617 million). However, VW FS AG and its subsidiaries provided capital contributions to related parties of €75 million (previous year: €137 million).

Members of the Board of Management and Supervisory Board of VW FS AG are also members of management and supervisory boards of other entities in the Volkswagen Group with which VW FS AG sometimes conduct transactions in the normal course of business. All transactions with these related parties are on an arm’s-length basis.

During the course of the reporting period, standard short-term bank loans amounting to an average total of €179 million (previous year: €138 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

€ million	2020	2019
Short-term benefits	3	6
Benefits based on performance shares	2	2
Termination benefits	–	–
Post-employment benefits	1	10

The benefits based on performance shares for the fiscal year included expenses of €2 million (previous year: €2 million) for the performance shares granted to the members of the Board of Management. The total remuneration of the Board of Management in accordance with the HGB amounted to €5 million (previous year: €8 million); 9,195 performance shares were granted in the reporting period (previous year: 10,974), the fair value of which was €2 million (previous year: €2 million) on the grant date.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €0.8 million (previous year: €0.7 million); the provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €13 million (previous year: €15 million).

SUPERVISORY BOARD REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Supervisory Board are entitled to an annual allowance. This allowance is independent of the performance of the Company and the Supervisory Board role undertaken by the person concerned. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The amounts received for these functions is deducted from the allowance entitlement from VW FS AG. As a result, a total amount of less than €0.04 million (previous year: €0.04 million) was paid out to the members of the Supervisory Board in the reporting period.

The employee representatives on the Supervisory Board of VW FS AG also receive their regular salaries under the terms of their employment contracts. This salary is based on the provisions in the Betriebsverfassungsgesetz (BetrVG – German Works Constitution Act) and is an appropriate remuneration for the relevant function or activity in the Company. The same also applies to the representative of the senior executives on the Supervisory Board.

70. Disclosures Relating to Unconsolidated Structured Entities

A structured entity is normally designed so that voting rights or similar rights are not the deciding factor in determining control over the entity.

Typical features of a structured entity are as follows:

> Limited scope of activities
> Narrowly defined business purpose
> Inadequate equity to finance the business activities
> Financing through a number of instruments that contractually bind investors and that give rise to a concentration of credit risk and other risks

In the reporting year, VW FS AG maintained business relationships with structured entities in connection with acquired subordinated loans that were terminated at the end of the year. These were ABS special purpose entities within Volkswagen AG's group of consolidated entities. The entities carry out a process of securitization by taking assets from lending agreements and leases for vehicles and transforming them into securities (asset-backed securities) on a maturity-matched basis. In the VW FS AG Group, the subordinated loans have been allocated to assets measured at fair value through profit or loss. Under the principles specified in IFRS 10, the ABS special purpose entities were not controlled by VW FS AG and are therefore not included in the consolidated financial statements. The acquisition of subordinated loans granted by ABS special purpose entities in the Volkswagen AG group of consolidated entities means that the financial services business of the associated entities was funded within the Volkswagen AG group of consolidated entities.

The acquisition of the subordinated loans gave rise to default risk in connection with the assets contained in the securitized portfolio and to interest-rate risk. The maximum risk exposure of VW FS AG arising from its interests in unconsolidated structured entities was limited to the fair value of the subordinated loans reported in the balance sheet.

The following table contains disclosures on VW FS AG's assets reported in the previous year's balance sheet that are related to unconsolidated structured entities and the maximum risk exposure of the VW FS AG Group (disregarding collateral). The nominal amount of the securitized assets is also disclosed.

	ABS SPECIAL PURPOSE ENTITIES
€ million	2019
Reported in the balance sheet as of December 31	
Loans to and receivables from customers[1]	34
Maximum loss risk	34
Nominal volume of securitized assets	411

1 Subordinated loans granted

VW FS AG did not provide unconsolidated structured entities with any non-contractual support during the reporting period.

71. Governing Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

LARS HENNER SANTELMANN
Chairman of the Board of Management
Corporate Management
China,
Germany and Europe regions
Mobility Unit (until July 31, 2020)
Sales and Marketing

DR. ALEXANDRA BAUM-CEISIG (AS OF AUGUST 1, 2020)
Human Resources and Organization
International region

DR. MARIO DABERKOW
Information Technology and Processes
South America & Mexico regions

FRANK FIEDLER
Finance and Purchasing

CHRISTIANE HESSE (UNTIL JULY 31, 2020)
Human Resources and Organization
International region

The members of the Supervisory Board of VW FS AG are as follows:

FRANK WITTER
Chairman
Member of the Board of Management of Volkswagen AG
Finance and IT

DR. ARNO ANTLITZ
Deputy Chairman
Member of the Board of Management of AUDI AG
Finance and Legal Affairs

DANIELA CAVALLO
Deputy Chairwoman
Chairwoman of the General and Group Works Councils of Volkswagen AG

JOACHIM DREES (UNTIL JULY 15, 2020)
Chief Executive Officer of MAN SE and MAN Truck & Bus SE
Member of the Executive Board of TRATON SE

MICHAEL GROSCHE
Head of Fleet, Mobility and Remarketing of Volkswagen Financial Services AG

MATTHIAS GRÜNDLER (AS OF DECEMBER 1, 2020)
Chief Executive Officer of TRATON SE

ANDREAS KRAUß
Executive Director of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2020)
Head of Group Sales of Volkswagen AG

IMELDA LABBÈ (UNTIL JANUARY 31, 2020)
Head of Group After Sales Volkswagen AG Kassel

SIMONE MAHLER
Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

PETRA REINHEIMER
Deputy Chairwoman of the Joint Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

HANS-JOACHIM ROTHENPIELER (UNTIL FEBRUARY 29, 2020)
Member of the Board of Management of AUDI AG
Technical Development

DR. HANS PETER SCHÜTZINGER
Chief Executive Officer of Porsche Holding GmbH Salzburg

ALEXANDER SEITZ (SINCE MARCH 1, 2020)
Member of the Volkswagen Brand Board of Management, Controlling and Accounting

EVA STASSEK
1.Principal Representative of IG Metall Braunschweig

72. Letter of Comfort for Our Affiliated Companies

With the exception of political risks, Volkswagen Financial Services AG hereby declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in which it holds a direct or indirect majority share of the share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders. This comfort also applies to holders of unguaranteed bonds issued by the following affiliated companies: Banco Volkswagen S.A., São Paulo, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Finance Pvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Kağıthane-Istanbul, Turkey; Volkswagen Doğuş Faktoring A.Ş., Kağıthane-Istanbul, Turkey.

73. Events After the Balance Sheet Date

There were no significant events in the period between December 31, 2020 and February 15, 2021.

Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Financial Services Group in accordance with IFRS 12 as of December 31, 2020.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	local currency	local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
EURO-Leasing GmbH, Sittensen	EUR		100.00	–	100.00	23,284	–	1)	2020
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR		100.00	–	100.00	2,763	–	1)	2020
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR		100.00	–	100.00	26	–	1)	2020
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR		100.00	–	100.00	54,829	–	1)	2020
Volkswagen Leasing GmbH, Braunschweig	EUR		100.00	–	100.00	270,712	–	1) 12)	2020
Volkswagen Versicherung AG, Braunschweig	EUR		100.00	–	100.00	97,055	–	1)	2020
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR		100.00	–	100.00	54,369	–	1)	2020
2. International									
Autofinance S.A., Luxembourg	SEK	10.0247	–	–	–	300	–	13)	2019
Banco Volkswagen S.A., São Paulo	BRL	6.3756	–	100.00	100.00	2,627,089	635,950		2019
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	628,101	90,546		2019
Driver Australia Three Pty. Ltd., Ashfield	AUD	1.5861	–	–	–	–3,191	–1,210	13)	2019
Driver Brasil four Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3756	–	–	–	826,698	24,408	4) 13)	2019
Driver China Eleven Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 6) 13)	2020
Driver China Nine Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 13)	2019
Driver China Ten Auto Loan Securitization Trust, Beijing	CNY	8.0290	–	–	–	–	–	4) 6) 13)	2020
Driver UK Master S.A., Luxembourg	GBP	0.8993	–	–	–	29	–	3) 13)	2019

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/ LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	local currency	local currency	Footnote	Year
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8993	–	–	–	29	–	3) 13)	2019
Euro-Leasing A/S, Padborg	DKK	7.4405	–	100.00	100.00	488	–14,505		2019
Euro-Leasing Sp. z o.o., Kolbaskowo	PLN	4.5562	–	100.00	100.00	–368	–4,907		2019
MAN Financial Services España S.L., Coslada	EUR		–	100.00	100.00	25,509	–237		2019
MAN Financial Services GmbH, Eugendorf	EUR		–	100.00	100.00	26,620	2,137		2019
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.5562	100.00	–	100.00	60,746	4,114	10)	2019
MAN Location & Services S.A.S., Evry	EUR		100.00	–	100.00	6,727	–203		2019
OOO Volkswagen Bank RUS, Moscow	RUB	91.7754	99.00	–	99.00	16,250,171	1,258,821	10)	2019
OOO Volkswagen Group Finanz, Moscow	RUB	91.7754	100.00	–	100.00	3,818,758	435,287		2019
ŠkoFIN s.r.o., Prague	CZK	26.2390	–	100.00	100.00	7,057,000	408,000		2019
Trucknology S.A., Luxembourg	EUR		–	–	–	1	–	13)	2019
VCL Master Residual Value S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
VCL Master S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
VCL Multi-Compartment S.A., Luxembourg	EUR		–	–	–	31	–	13)	2019
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	24.4115	100.00	–	100.00	2,046,000	184,000		2019
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	21,040	–42,090		2019
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	8.0290	100.00	–	100.00	13,752,768	862,456		2019
Volkswagen Finance Belgium S.A., Bruxelles	EUR		–	100.00	100.00	48,120	6,278		2019
Volkswagen Finance Overseas B.V., Amsterdam	EUR		100.00	–	100.00	2,866,073	–2,965		2019
Volkswagen Finance Pvt. Ltd., Mumbai	INR	89.6900	91.00	9.00	100.00	13,166,929	–244,643	3)	2020
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	8.0290	–	100.00	100.00	581,130	–77,404		2019
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	1,775,510	238,095	10)	2019
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.5861	100.00	–	100.00	311,364	34,246	9)	2019
Volkswagen Financial Services Ireland Ltd., Dublin	EUR		–	100.00	100.00	–11,933	–6,660		2019
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	126.5100	–	100.00	100.00	22,317,729	3,060,712		2019
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1,336.2100	100.00	–	100.00	326,745,000	13,266,000		2019
Volkswagen Financial Services N.V., Amsterdam	EUR		–	100.00	100.00	1,265,233	10,584		2019
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.5562	100.00	–	100.00	41	–9	4) 12)	2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen Financial Services S.p.A., Mailand	EUR		100.00	–	100.00	106,219	27,106		2019
Volkswagen Finans Sverige AB, Södertälje	SEK	10.0247	–	100.00	100.00	2,072,350	194		2019
Volkswagen Holding Financière S.A., Villers-Cotterêts	EUR		–	100.00	100.00	196,295	653		2019
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR		–	100.00	100.00	17,448	9,038		2019
Volkswagen Leasing S.A. de C.V., Puebla	MXN	24.4115	100.00	–	100.00	10,775,047	1,617,385		2019
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	8.0290	100.00	–	100.00	1,051,908	6,139		2019
Volkswagen Participações Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	3,366,623	613,067		2019
Volkswagen Renting, S.A., Alcobendas (Madrid)	EUR		–	100.00	100.00	97,255	6,037		2019
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR		–	100.00	100.00	5,302	2,211		2018
Volkswagen Serviços Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	44,066	–2,780		2019
B. Unconsolidated companies									
1. Germany									
carmobility GmbH, Braunschweig	EUR		100.00	–	100.00	10,396	–	1)	2020
LogPay Financial Services GmbH, Eschborn	EUR		100.00	–	100.00	12,674	–	1) 11)	2020
LogPay Mobility Services GmbH, Eschborn	EUR		–	100.00	100.00	20	–		2019
LogPay Transport Services GmbH, Eschborn	EUR		–	100.00	100.00	3,312	1,265		2019
Rent-X GmbH, Braunschweig	EUR		100.00	–	100.00	33,024	–	1)	2020
sunhill technologies GmbH, Erlangen	EUR		–	100.00	100.00	–	–12,602		2019
Volkswagen Payment Systems GmbH, Munich	EUR		–	100.00	100.00	5,761	–734		2019
Voya GmbH, Hamburg	EUR		100.00	–	100.00	–	–	7)	2020
2. International									
Adaptis Solutions Ltd., Hatfield	GBP	0.8993	–	100.00	100.00	508	342		2019
Connect Cashless Parking Ltd., Liverpool	GBP	0.8993	–	100.00	100.00	72	–84	3)	2019
Fleetzil Locações e Serviços Ltda., Curitiba	BRL	6.3756	–	100.00	100.00	46,215	11,828		2019
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o., Mladá Boleslav	CZK	26.2390	–	100.00	100.00	37,728	32,228		2019
LogPay Charge & Fuel Slovakia s.r.o., Bratislava	EUR		–	100.00	100.00	–	–	4) 6)	2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
LogPay Fuel Czechia s.r.o., Prague	CZK	26.2390	–	100.00	100.00	286	–214		2019
LogPay Fuel Italia S.r.l., Bolzano	EUR		–	100.00	100.00	115	42		2019
LogPay Fuel Spain S.L., Barcelona	EUR		–	100.00	100.00	579	90		2019
Mobile Payment Services S.A.S., Boulogne-Billancourt	EUR		–	100.00	100.00	334	–893		2019
OOO Volkswagen Financial Services RUS, Moscow	RUB	91.7754	100.00	–	100.00	6,112,289	1,197,385		2019
PayByPhone Ltd., Hatfield	GBP	0.8993	–	100.00	100.00	16,902	12,796		2019
PayByPhone Suisse AG, Düdingen	CHF	1.0811	–	100.00	100.00	–	–	7)	2020
PayByPhone Technologies Inc., Vancouver / BC	CAD	1.5628	–	100.00	100.00	8,116	–33,420		2019
PayByPhone US Inc., Wilmington / DE	USD	1.2276	–	100.00	100.00	0	–	4) 5)	2019
Simple Way Locações e Serviços Ltda., Curitiba	BRL	6.3756	–	100.00	100.00	22,142	4,747		2019
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR		–	60.00	60.00	2,700	385		2019
sunhill technologies Italy S.R.L., Verona	EUR		–	100.00	100.00	59	–317		2019
Truckparking B.V., in liquidation, Utrecht	EUR		79.11	–	79.11	276	–3,089	2)	2019
Truckparking LLC, in Liquidation, Arlington / VA	USD	1.2276	–	100.00	100.00	–119	–39	2)	2019
VAREC Ltd., Tokyo	JPY	126.5100	–	100.00	100.00	611,914	98,279		2019
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	6.3756	–	100.00	100.00	47,105	11,024		2019
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	103.2880	–	96.00	96.00	66,741	47,384		2018
Volkswagen Financial Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	0	–	5)	2019
Volkswagen Financial Services Hellas A.E., Athens	EUR		100.00	–	100.00	2,274	–542		2019
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	103.2880	99.99	0.01	100.00	685,721	–188,580		2018
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	1.0811	–	100.00	100.00	7,436	2,722		2019
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	34.4845	–	100.00	100.00	1,059,180	130,167		2019
Volkswagen FS France S.A.S., Roissy-en-France	EUR		–	100.00	100.00	100	–	8)	2019
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	24.4115	–	100.00	100.00	–46,864	9,369		2019
Volkswagen Insurance Company DAC, Dublin	EUR		100.00	–	100.00	37,786	–2,290		2019
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8993	–	100.00	100.00	1,396	657		2019
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,336.2100	–	100.00	100.00	1,050,203	591,682		2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	34.4845	–	100.00	100.00	35,178	28,928		2019
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	8.0290	–	100.00	100.00	8,380	–23,167		2019
Volkswagen Leasing (Dalian) Co., Ltd., Dalian	CNY	8.0290	–	100.00	100.00	3,831	848		2019
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	8.0290	–	100.00	100.00	–1,465	–777		2019
Volkswagen Leasing (Nanjing) Co., Ltd., Nanjing	CNY	8.0290	–	100.00	100.00	–4,087	–2,112		2019
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	8.0290	–	100.00	100.00	7,873	–17,841		2019
Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou	CNY	8.0290	–	100.00	100.00	–263	–1,284		2019
Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	8.0290	–	100.00	100.00	953	–275		2019
Volkswagen Mobility Services S.p.A., Bolzano	EUR		–	100.00	100.00	–	–	4) 6)	2020
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	8.0290	–	100.00	100.00	15,470	–4,020		2019
Volkswagen Payments S.A., Strassen	EUR		100.00	–	100.00	18,370	–8,582		2019
Volkswagen Reinsurance Company DAC, Dublin	EUR		100.00	–	100.00	6,897	–1,816		2019
Volkswagen Service Sverige AB, Södertälje	SEK	10.0247	–	100.00	100.00	40,970	5,605		2019
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	24.4115	–	100.00	100.00	24,183	3,456		2019
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.5562	–	100.00	100.00	61,220	26,313		2019
Voya Travel Technologies S.R.L., Bukarest	RON	4.8685	–	100.00	100.00	–	–	7)	2020
VTXRM - Software Factory Lda., Porto Salvo	EUR		–	90.00	90.00	2,949	383		2019
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR		44.44	–	44.44	88,029	1,109		2019
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR		51.00	–	51.00	117,254	4,534		2019
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		49.00	–	49.00	77,147	22,642		2019

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0152	50.00	–	50.00	154,562	24,567	10)	2019
VDF Servis ve Ticaret A.S., Istanbul	TRY	9.1013	51.00	–	51.00	291,880	55,256		2019
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR		–	50.00	50.00	140,238	5,792		2019
Volkswagen Doguș Finansman A.S., Istanbul	TRY	9.1013	51.00	–	51.00	223,181	–52,612		2019
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0152	51.00	–	51.00	–175,205	–576,006		2019
Volkswagen Møller Bilfinans A/S, Oslo	NOK	10.4574	–	51.00	51.00	3,246,512	240,908	10)	2019
Volkswagen Pon Financial Services B.V., Amersfoort	EUR		–	60.00	60.00	175,806	22,610	9) 12)	2019
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR		60.00	–	60.00	9,732	–277		2019
2. International									
Collect Car B.V., Rotterdam	EUR		–	60.00	60.00	8,057	1,407		2019
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0152	51.00	–	51.00	30,054	25,209		2019
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	872.1700	50.00	–	50.00	2,300,190	890,882		2019
Shuttel B.V., Leusden	EUR		49.00	–	49.00	3,038	235		2019
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	103.2880	–	49.00	49.00	1,981,623	739,733		2019
Volkswagen Losch Financial Services S.A., Luxembourg	EUR		60.00	–	60.00	2,387	–332		2019
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4405	–	51.00	51.00	213,736	–8,865	4)	2019
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR		26.00	–	26.00	–	–	7)	2020

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	local currency	local currency	Footnote	Year
2. International									
Kuwy Technology Service Pvt. Ltd., Chennai	INR	89.6900	–	25.10	25.10	115,993	–83,409	3)	2020
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR		–	15.00	15.00	4,195	3,717		2019
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR		8.70	–	8.70	997	–8		2019
PosernConnect GmbH, Sittensen	EUR		–	49.00	49.00	954	577		2019
Verimi GmbH, Berlin	EUR		3.00	–	3.00	54,793	–28,661		2018
2. International									

1) Profit-and-loss transfer agreement
2) In liquidation
3) Different fiscal year
4) Short fiscal year
5) Currently not trading
6) Newly established company
7) Newly acquired company
8) Started trading in 2020
9) Consolidated financial statments
10) Figures in accordance with IFRSs
11) Profit-and-loss transfer agreement as of 2020
12) Matter within the meaning of section 1 of the UmwG
13) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 15, 2021

Volkswagen Financial Services AG
The Board of Management

Lars Henner Santelmann	Dr. Mario Daberkow
Frank Fiedler	Dr. Alexandra Baum-Ceisig

Responsibility Statement

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

Braunschweig, February 15, 2021

Volkswagen Financial Services AG
The Board of Management

Lars Henner Santelmann

Dr. Mario Daberkow

Frank Fiedler

Dr. Alexandra Baum-Ceisig

Independent Auditor's Report

(Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German)

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated income statement, and the consolidated statement of comprehensive income, consolidated balance sheet as at 31 December 2020, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2020 to 31 December 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies, as well as the segment reporting in the notes to the consolidated financial statements. In addition, we have audited the group management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, which is combined with the Company's management report, for the fiscal year from 1 January 2020 to 31 December 2020. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the group management report (disclosures on the quota for women on executive boards).

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2020 and of its financial performance for the fiscal year from 1 January 2020 to 31 December 2020, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the group management report does not cover the content of the corporate governance declaration referred to above.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group 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 consolidated financial statements and of the group management report” section of our auditor’s report. We are independent of the group entities 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 consolidated financial statements and on the group management report.

Key audit matters in the audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January 2020 to 31 December 2020. These matters were addressed in the context of our audit of the consolidated 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 matters:

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

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

Lease assets comprise vehicles under current leases. There is an impairment risk for these vehicles which is primarily dependent on the residual value expected at the end of the lease. The expected residual value of these vehicles is a significant area which is subject to estimation uncertainty and in which the executive directors of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT exercise judgment.

The expected residual value is reviewed quarterly using internal and external marketing results and on the basis of estimates of future market price development.

In light of the existing estimation uncertainty, the judgment exercised in determining the residual values and the significance of the amount for impairment testing, the determination of expected residual values was a key audit matter. As it is not possible to make a conclusive assessment of the impact of the global COVID-19 pandemic, the estimation uncertainty in relation to the determination of the expected residual values is significantly heightened.

Auditor’s response

During our audit, we analyzed the process implemented by the executive directors of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT for monitoring and determining 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 of the expected residual values. To assess the forecasting model used to determine the residual values, we assessed the validation plan on the basis of the model design and analyzed the validation procedures performed and the backtesting results as to whether any need for an impairment allowance was identified and whether there had been an unusual number of outliers. Furthermore, we assessed whether the assumptions underlying the forecasting model and the inputs used for determining the expected residual values were clearly documented. We obtained evidence for the main inputs and assumptions used for age, mileage and lifecycle phase of the vehicles to determine the residual values and examined them for currentness and transparency. We assessed whether the marketing assumptions used reflect current marketing results and industry-specific and general market expectations.

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 disclosures of the VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT Group on the recognition and measurement policies applied for lease assets are contained in note "13. Leases" and the disclosures on the determination of the residual values of lease assets in note "18. Estimates and Assumptions by Management" of the notes to the consolidated financial statements. The effects of the COVID-19 pandemic on the residual values is presented in the notes to the consolidated financial statements under "Impact of the COVID-19 Pandemic."

Other information

The Supervisory Board is responsible for the Report of the Supervisory Board. In all other respects, the executive directors are responsible for the other information. The other information comprises the corporate governance declaration pursuant to Sec. 289f (4) HGB (disclosures on the quota for women on executive boards). The other information also comprises additional parts of the annual report of which we received a version before issuing this auditor's report, such as the Report of the Supervisory Board and the Responsibility Statement, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group 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 consolidated financial statements, with the group 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 Supervisory Board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group'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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated 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 group 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 group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated 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 consolidated financial statements and on the group 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 or error 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 consolidated financial statements and this group 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 consolidated financial statements and of the group 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 for one 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 consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group 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.
> 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 Group'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 consolidated financial statements and in the group 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 Group to cease to be able to continue as a going concern.
> Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.
> Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
> Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
> Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the sig-

nificant 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, the 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 consolidated 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 in accordance with Sec. 317 (3b) HGB on the electronic reproduction of the consolidated financial statements and the group management report prepared for publication purposes

Opinion

We have performed assurance work in accordance with Sec. 317 (3b) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the attached electronic file "Volkswagen Financial Services_AG_KA+KLB_ESEF-2020-12-31.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 only extends to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor to any other information contained in the abovementioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the abovementioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2020 to 31 December 2020 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above.

Basis for the opinion

We conducted our assurance work on the reproduction of the consolidated financial statements and the group management report contained in the abovementioned attached electronic file in accordance with Sec. 317 (3b) HGB and Exposure Draft of IDW Assurance Standard: Assurance in Accordance with Sec. 317 (3b) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (ED IDW AsS 410). Our responsibilities under that standard are further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applied the requirements for quality control systems set forth in IDW Standard on Quality Control: "Requirements for Quality Control in Audit Firms" (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the group management report in accordance with Sec. 328 (1) Sentence 4 No. 1 HGB and for the tagging of the consolidated financial statements in accordance with Sec. 328 (1) Sentence 4 No. 2 HGB.

In addition, the executive directors of the Company are responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Sec. 328 Abs. 1 HGB for the electronic reporting format, whether due to fraud or error.

The executive directors of the Company are also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and the audited group management report as well as other documents to be published to the operator of the Bundesanzeiger [German Federal Gazette].

The Supervisory Board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Group 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 non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error. We exercise professional judgment and maintain professional skepticism throughout the engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Sec. 328 (1) HGB, whether due to fraud or error, 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 electronic file containing the ESEF documents meets the requirements of Delegated Regulation (EU) 2019/815, in the version valid as of the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 2 March 2020. We were engaged by the Supervisory Board on 19 November 2020. We have served as group auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, for the first time.

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).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Werthmann.

Hannover, 17 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Prof. Dr. Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Report of the Supervisory Board

of Volkswagen Financial Services AG

In the year under review, the Supervisory Board gave regular and thorough consideration to the position and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management informed the Supervisory Board promptly and comprehensively at all times, in writing or verbally, regarding material aspects of the Company's planning and position, including the risk situation and the risk management system, and also regarding business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the Company's and the Group's business and was thus able to carry out without limitation the functions assigned to it by law and under the articles of association. All decisions of fundamental importance for the Company and other transactions requiring the approval of the Supervisory Board under the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board generally comprises twelve members. Changes in the reporting period are disclosed in the information on governing bodies.

The Supervisory Board held three regular meetings and one extraordinary meeting in the reporting year. The average attendance rate was 96%. Decisions were made on seven matters by means of a written resolution circulated to each of the members for approval; the Chairman of the Supervisory Board also made eight urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Supervisory Board of Volkswagen Financial Services AG is not subject to an obligation to establish committees. Instead, the full Supervisory Board is responsible for performing the tasks of an audit committee pursuant to Article 39(2) of Directive 2014/56/EU in conjunction with section 107(3) of the Aktiengesetz (AktG – German Stock Corporation Act).

In this regard, the Supervisory Board held detailed discussions in the reporting period, addressing the supervision of the internal control, risk management and internal audit systems as well as the monitoring of the financial reporting and auditing process.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 13, 2020, following reports submitted by the auditor, the Supervisory Board examined in detail and then approved both the consolidated financial statements of the Volkswagen Financial Services AG Group and the annual financial statements and management report of Volkswagen Financial Services AG for 2019 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2020.

Furthermore, the Board of Management reported to the Supervisory Board on the funding strategy of the Volkswagen Financial Services subgroup and necessary adjustments in relation to Strategy 2025. The Supervisory Board also received updates on the status of the Operational Excellence initiative launched in 2018. At this meeting, the Board of Management informed the Supervisory Board about the current situation regarding the hey.car used vehicle platform and the plans for further expansion in European countries outside Germany. The Supervisory Board approved the market launch of Mobility Trader Holding GmbH in Spain. Under a further agenda item at the meeting on February 13, 2020, the Supervisory Board consented to the acquisition of a parking services provider in Switzerland by the PayByPhone Group.

At the extraordinary Supervisory Board meeting on April 8, 2020 and at the ordinary Supervisory Board meeting on July 2, 2020, the Board of Management reported to the Supervisory Board on the crisis scenarios arising from the Covid-19 pandemic and the potential impact on the business of Volkswagen Financial Services AG. At the meetings on July 2, 2020 and November 19, 2020, the Board of Management presented the Supervisory Board with comprehensive reports about the economic and financial position of the Company and the Volkswagen Financial Services subgroup.

At the meeting of the Supervisory Board held on July 2, 2020, the Board of Management reported in detail on the Company's latest position. This report focused particularly on current positioning in the market and on the strategy in the mobility services offered by the Company, for example in connection with parking and fleet customer business.

At the meeting held on November 19, 2020, the Board of Management reported to the Supervisory Board on the new strategy for the used vehicle business.

In addition, the Supervisory Board received an explanation from the Chief Compliance Officer regarding the information on the risk classification of the international subsidiaries and the relevant risk categories derived from the internal control system. The Supervisory Board also addressed the implementation status of action plans in the Together4Integrity program at Volkswagen Financial Services AG. Under another agenda item, the Head of Internal Audit presented the key areas of activity in the reporting year. Various reasons for audits, such as submissions via the Whistleblower System, were also discussed in this context. Finally, the Head of Internal Audit set out the planned audits for 2021.

The Chief Digital Officer also informed the Supervisory Board about the latest implementation status of digitalization at Volkswagen Financial Services AG and about the product and customer groups at the focus of these activities. In addition, the Board of Management provided an IT status report. This mainly consisted of presentations on the status of key IT projects and IT security.

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2020, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRS and the annual financial statements of Volkswagen Financial Services AG in accordance with HGB for the year ended December 31, 2020, together with the management reports, were submitted to the Supervisory Board. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

The Supervisory Board agrees with the findings of these audits. The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit.

At its meeting on February 19, 2021, the Supervisory Board approved both the consolidated financial statements and annual financial statements of Volkswagen Financial Services AG prepared by the Board of Management. The consolidated financial statements and annual financial statements have thus been adopted.

Under the current control and profit-and-loss transfer agreement, the loss reported by Volkswagen Financial Services AG in accordance with the HGB for fiscal year 2020 was absorbed by Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Board of Management, the Works Council, the managerial staff and all employees of Volkswagen Financial Services AG and its affiliated companies. The high level of commitment from all of you has helped to sustain the ongoing growth of Volkswagen Financial Services AG.

Braunschweig, February 19, 2021

Frank Witter
Chairman of the Supervisory Board

PUBLISHED BY
Volkswagen Financial Services AG
Gifhorner Straße 57
38112 Braunschweig, Germany
Telephone +49 (0) 531 212-0
info@vwfs.com
https://www.vwfs.com/en.html

INVESTOR RELATIONS
Telephone +49 (0) 531 212-30 71
ir@vwfs.com

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VOLKSWAGEN FINANCIAL SERVICES AG
Gifhorner Strasse 57 · 38112 Braunschweig · Germany · Phone +49 (0) 531 212-0
info@vwfs.com · www.vwfs.com/en.html · www.facebook.com/vwfsde
Investor Relations: Phone +49 (0) 531 212-30 71 · ir@vwfs.com