VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
IFRS

2021

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million (as of Dec. 31)	2021	2020
Total assets	124,590	117,834[4]
Loans to and receivables from customers attributable to		
Retail financing	22,903	21,006
Dealer financing	3,868	4,272
Leasing business	40,901	40,803[4]
Lease assets	32,066	26,510[4]
Equity	14,433	12,755[4]
Operating result	2,987	1,210[4]
Profit before tax	3,005	1,024[4]

In percent (as of Dec. 31)	2021	2020
Cost/income ratio[1]	41	57
Equity ratio[2]	11.6	10.8
Return on equity[3]	22.1	8.3[4]

Number (as of Dec. 31)	2021	2020
Employees	11,021	10,880
Germany	5,901	5,789
International	5,120	5,091

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 divided by total assets.
3 Profit before tax divided by average equity.
4 Prior-year figures restated.

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+	stable	P-2	A3	stable

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 a wide range of mobility services.

BUSINESS MODEL

Over the years, the companies in the Volkswagen Financial Services AG Group have evolved into providers of a wide range of 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 (through the targeted use of digital products and mobility solutions, among other things)
- To create synergies for the Group by pooling Group and brand requirements relating 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 plays a decisive role in keeping the processes lean and efficiently implementing the sales strategy.

INTERNAL MANAGEMENT

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

KEY PERFORMANCE INDICATORS USED BY VOLKSWAGEN FINANCIAL SERVICES AG

	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 fully satisfied.

With this in mind, Volkswagen Financial Services AG has measured 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.

For the purposes of this indicator, Volkswagen Financial Services AG undergoes an external benchmarking process, generally every two years.

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. During 2021, Volkswagen Financial Services AG successfully participated in various national and international benchmarkings for best employers. In the "Great Place to Work" employer awards, the Company was once again among the leaders in Europe, achieving its target of a top-20 ranking.

SIGNIFICANT CHANGES IN EQUITY INVESTMENTS

By means of three capital increases, Volkswagen Financial Services AG acquired, in round figures, a further 27% of the shares in Verimi GmbH, Berlin, expanding its overall shareholding to 29.98%. By increasing its stake in the cross industry identity platform, Volkswagen Financial Services AG is giving further momentum to the theme of digital customer identity in the Volkswagen Group.

On July 28, 2021, Volkswagen Financial Services AG and J.P. Morgan International Finance Limited, Delaware, USA, signed a sale and purchase agreement under which J.P. Morgan International Finance Limited will, when the agreement is concluded, acquire 74.9% of the shares in Volkswagen Payments S.A., Luxembourg, a wholly owned subsidiary of Volkswagen Financial Services AG. The execution of the transaction is subject to, among others, the approval of the anti-trust authorities and expected in the first quarter of 2022.

Effective July 29, 2021, Allianz Strategic Investments S.à r.l., Luxembourg, acquired a 10% stake in Mobility Trader Holding GmbH, Berlin, by means of a capital increase.

Effective December 22, 2021, RCI Banque S.A., Paris, France, and Renault s.a.s., Boulogne-Billancourt, France, acquired an equity investment totaling 8.22% in Mobility Trader Holding GmbH, Berlin, by way of a capital increase. Mobility Trader Holding GmbH acts as the holding company for the national subsidiaries of the heycar Group. The brand-neutral used car marketplace heycar, which specializes in the online marketing of premium used cars, will thus be further expanded.

On October 8, 2021, Simple Way Locações e Servicos S.A., Curitiba, Brazil, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired 60% of the shares in LM Transportes Interestaduais Servicos e Comercio S.A., Salvador, Brazil, through a combination of share purchase, capital increase and contribution in kind. Through this equity investment, Volkswagen Financial Services AG is further expanding its fleet business in order to continue to benefit from the great growth potential in Brazil in the future.

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

Pursuant to section 289b(2) of the HGB and section 315b(2) of the HGB, Volkswagen Financial Services AG has decided to make use of the option not to submit a nonfinancial report or a nonfinancial report for the Group. Please refer to the separate combined nonfinancial report of Volkswagen AG for fiscal year 2021, which will be available in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2021/Nonfinancial_Report_2021_e.pdf from April 30, 2022.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2021 as it recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was up on the previous year. Volkswagen Financial Services AG's operating result was substantially higher than 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 China. This disease is attributable to a novel virus belonging to the coronavirus family. Infections also appeared outside China from mid-January 2020. The number of people infected rose very rapidly in the course of 2020, albeit with differences in timing and regional spread. Around the world, measures were taken and adapted at national level and with varying levels of intensity based on the situation. However, these ultimately failed to bring the spread of the SARS-CoV-2 virus under control. In addition, aid packages to support the economy were agreed by the European Commission and by numerous governments in Europe and other regions, and economic stimulus measures were introduced to counter the pandemic's impact. 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.

The mostly dynamic increase in the rate of infection continued in many places throughout the first quarter of 2021. This was accompanied by ongoing disruption – such as contact and mobility restrictions or limitations on business activities – in many parts of the world. With the increased availability of testing capacities and vaccines, some countries have permitted the extensive reopening of everyday life and the economy. In China in particular, the measures taken resulted in a removal of restrictions. In most of the world, infection rates initially declined in the second quarter of 2021, leading to further easing of the measures taken to contain the pandemic. From the middle of the year, however, some countries recorded a renewed increase in infection rates, which was mainly due to new variants of the SARS-CoV-2 virus. Some restrictions returned in response to the situation. Most regions of the world saw a declining rate of new infections in the third quarter of 2021. Against this backdrop, many countries largely lifted their restrictions on everyday life and the economy, depending on the progress of their vaccination campaigns. Temporary increases in case numbers – primarily associated with increased travel – only rarely resulted in the measures being tightened again. Mainly due to new variants of the SARS-CoV-2 virus, numerous countries around the world again recorded some very dynamic increases in infection rates in the fourth quarter, which, depending particularly on the country's vaccination progress, resulted in renewed restrictions.

Overall in 2021, the global spread of the SARS-CoV-2 virus again brought substantial disruption to all areas of everyday life and the economy.

SPECIAL MANAGEMENT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

Due to the Covid-19 pandemic, new business, the credit risk situation, realized residual values and payment deferrals were regularly reported on in fiscal year 2021. 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.

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

In 2021, the operating result was substantially up on the prior year. Global new business contracted due to the shortage of semiconductors and the resulting restricted availability of vehicles. At the same time, the shortage led to a substantial rise in marketing performance in respect of used vehicles.

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 26.7 (27.6) % at the end of 2021.

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

The provision for credit risks was moderately lower than the corresponding prior-year figure, but the provision for residual value risk declined substantially. Margins were moderately below the level of the previous year.

The credit risk situation arising from Volkswagen Financial Services AG's overall portfolio was again shaped by the Covid-19 pandemic in 2021. The measures introduced in the previous year to avert and cushion the economic impact of the Covid-19 pandemic for customers, such as payment deferrals and joint support with the brands for the dealer organization, had the desired lasting effect and were gradually withdrawn in the first half of the reporting year. The action taken mitigated potential effects of the Covid-19 pandemic on Volkswagen Financial Services AG's credit risk in 2021. The risk situation improved significantly despite the marked rise in the exposure from financing and leasing business, including lease assets. As a consequence of these trends, it was possible to reduce the provision for credit risks by a moderate amount, such that the figure was down noticeably year-on-year in relation to the volume of loans and receivables at the end of the reporting year.

The residual value portfolio again expanded significantly in fiscal year 2021. Residual value risk declined substantially, particularly due to the strong demand for used vehicles generated by the restricted availability of new vehicles. 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. In 2021, risk premiums returned to pre-pandemic levels and in some cases fell even lower.

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.

The purpose of the global, cross-company Operational Excellence (OPEX) efficiency program is to generate further cost savings by 2025. 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. For several years, the program has been helping the Company to achieve the objectives in the ROUTE2025 corporate strategy, but it was also one of the drivers behind the earnings performance in 2021.

The Board of Management of Volkswagen Financial Services AG considers the course of business to have been positive in 2021 despite the consequences of the Covid-19 pandemic and the semiconductor bottlenecks.

EVENTS AFTER THE BALANCE SHEET DATE

The most recent events in the conflict between Russia and Ukraine could have a negative effect on new business and counterparty default risk in Russia. The Russian companies OOO Volkswagen Group Finanz, Moscow, OOO Volkswagen Bank RUS, Moscow, and OOO Volkswagen Financial Services RUS, Moscow, are funded mainly on the local capital and financial markets.

The specific effects of the Russia–Ukraine conflict cannot be conclusively assessed at this time. The potential effects are of minor significance.

There were no other significant events in the period between December 31, 2021 and February 24, 2022.

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

	Actual 2020	Forecast for 2021		Actual 2021
Nonfinancial performance indicators				
Penetration (percent)	27.6	> 27.6	Slightly higher than the prior-year level	26.7
Current contracts (thousands)	15,409	> 15,409	Significantly higher than the prior-year level	15,775
New contracts (thousands)	5,911	> 5,911	Significantly higher than the prior-year level	5,778
Financial performance indicators				
Volume of business (€ million)[1]	92,590	> 92,572	Significantly higher than the prior-year level	99,738
Operating result (€ million)[1]	1,210	= 1,223	At prior-year level	2,987
Return on equity (percent)[1]	8.3	= 8.4	At prior-year level	22.1
Cost/income ratio (percent)	57	= 57	At prior-year level	41

1 Prior-year figures restated.

DEVELOPMENTS IN THE GLOBAL ECONOMY

The global economy recovered in 2021 due to the temporary relaxation of many restrictions and recorded growth of 5.6% (–3.4)%. The average rate of expansion of gross domestic product (GDP) was far above the previous year's level in both the advanced economies and the emerging markets. The progress made by many countries in administering vaccines to their populations had a positive effect, while the emergence of new variants of the virus led to renewed national rises in infections. At a national level, performance was dependent among other things on the extent to which the negative impacts of the Covid-19 pandemic were materializing and the intensity with which measures were taken to contain the spread. The governments and central banks of numerous countries maintained their expansive fiscal and monetary policy measures. Interest rates therefore remained relatively low. Prices for many energy commodities and other commodities rose significantly on average year-on-year, amid growing shortages of intermediates and commodities. On a global average, consumer prices increased at a faster pace than in 2020, and global trade in goods grew in the reporting year.

Europe/Other Markets

The economy in Western Europe recorded significantly positive overall growth of 5.4 (–6.5)% in 2021. This trend was seen in all countries in Northern and Southern Europe. The reasons for this included the increased resilience to high infection rates experienced by the economies in many countries. At the same time, the economic recovery was hit by temporary national restrictions to contain the pandemic and the imbalances between supply and demand that partially resulted from them.

Further uncertainty was caused in fiscal year 2021 by the United Kingdom's exit from the European Union (EU) and the new Trade and Cooperation Agreement associated with this.

In the economies of Central and Eastern Europe, real absolute GDP increased significantly by 5.6 (–2.4)% in 2021. Economic output increased by 6.4 (–2.1)% in Central Europe and 4.2 (–2.8)% in Eastern Europe. The same trend was observed in Russia; economic output in Eastern Europe's largest economy grew by 4.3 (–2.9)%.

In Turkey, the GDP growth rate in fiscal year 2021 rose to 10.3 (1.6)% amid high inflation and a fall in the value of the local currency. South Africa saw significant GDP growth of 4.7 (–6.4)% in the reporting period, amid persistent structural deficits and political challenges.

Germany

Germany's economic output recorded a positive growth rate of 2.7 (–4.9)% in the reporting year. The labor market recovered over the course of the year with a fall in the unemployment rate and the number of people on *Kurzarbeit* (short-time working). The temporary easing of restrictions on everyday life and economic activity led confidence among consumers and companies to improve. On average, it exceeded the prior-year levels. Confidence rose significantly in the industrial and service sectors.

North America

US economic output increased by 5.7 (–3.4)% in the reporting year despite soaring rates of infection at times. The US government approved a further comprehensive stimulus package in the first quarter of 2021 to strengthen the economy. The US Federal Reserve maintained its low interest rates, alongside other measures to support the economy. The weekly number of people filing new claims for unemployment benefits showed a downward trend. This was reflected accordingly in the unemployment rate, which fell significantly year-on-year in the reporting period to 5.4 (8.1)% but was still higher than the pre-crisis level seen in 2019.

GDP rose by 4.6 (–5.2)% in neighboring Canada and by 5.5 (–8.4)% in Mexico.

South America

Brazil's economy posted growth of 4.4 (–4.2)% in 2021 despite high infection rates. Argentina registered a positive economic performance with year-on-year growth of 8.4 (–9.9)% amid continued high inflation and a substantial depreciation of the local currency.

Asia-Pacific

The Chinese economy, which had been exposed to the negative effects of the Covid-19 pandemic earlier than other economies and tackled isolated outbreaks in 2021 with a strict zero-Covid strategy, expanded by 8.1 (2.3)% overall. India registered strong growth of 8.1 (–7.5)% amid at times relatively high infection rates. Japan recorded positive growth of 1.9 (–4.5)% versus the prior year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services enjoyed a high level of demand in 2021. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic combined with the restricted availability of vehicles because of the semiconductor shortage continued to exert downward pressure on demand for financial services in virtually every region.

Overall, there continued to be a trend toward leasing and away from financing. Moreover, mobility services that focus on the use rather than the ownership of a car – such as car subscription models – saw a rise in demand in the private and business customer segments. Service products, such as inspection and maintenance agreements, also benefited from a modest uptick in demand due to the resulting predictability of total operating costs.

The European passenger car market was increasingly impacted in the reporting period by the consequences of the semiconductor shortage, with vehicle deliveries slightly below those of the prior year, which itself had been weak due to the pandemic. In these persistently difficult market conditions, the number of new contracts for financial services products in new vehicle business remained at the prior-year level. However, the financing of used vehicles experienced a positive trend, the most noticeable development being in sales of aftersales products, such as servicing, inspection and spare parts agreements, which rose substantially above the prior-year level.

During 2021, the financial services business in Germany increasingly had to cope with the challenges presented by the shortage of semiconductors in addition to the impact of the Covid-19 pandemic. New vehicle deliveries declined, which consequently also led to a fall in vehicles available on the used vehicle market. Despite this, there was a year-on-year rise in the number of leases for new vehicles, both for private and for fleet customers. On the other hand, new financing agreements for new and used vehicles, as well as for direct business went down compared with the previous year, although the penetration rate for new vehicles was higher than the very good level achieved in the previous year. With a few exceptions, the number of new contracts for services and insurance products declined year-on-year.

In South Africa, demand for financing and insurance products related to new and used vehicles remained at the prior-year level, supported as in the previous year by campaigns, vehicle price inflation and the persistently low level of interest rates. Overall, however, financed vehicle sales remained challenging because of subdued economic activity and the ongoing downward pressure on disposable income.

The semiconductor shortage increasingly hampered vehicle deliveries in the North America region, although these deliveries still exceeded the prior-year level. In the US and Mexico, the proportion of deliveries accounted for by leases and financing agreements fell short of the prior-year figure, as did the absolute number of contracts. In Canada, the proportion of deliveries accounted for by leases and financing agreements was below the prior-year level, but the absolute number of contracts was higher. Demand for automotive after-sales products went up year-on-year across the whole region.

In the South America region, cash sales increased, driven by excess demand for new vehicles and a sharp rise in interest rates in Brazil. Consequently, the number of financing agreements declined compared with the previous year. The region also experienced a growth in demand for long-term leases, including such demand from private customers. Argentina saw a rise in sales through vehicle savings plans.

In the Chinese market, the proportion of credit-financed vehicle purchases and growth in new contracts decreased in 2021 because of the ongoing shortage of semiconductors and the associated lower level of passenger car sales. As a result, the figures in the reporting period failed to reach the comparative figures for the prior year.

Demand for financial services in India remained muted in 2021 because of the pandemic and the shortage of semiconductors, but a recovery began to take hold at the end of the year.

In Japan, the limited availability of vehicles led to a fall in sales of financing and leasing products.

In 2021, the commercial vehicles market – which had been sharply impacted by the Covid-19 pandemic in the previous year – benefited from a year-on-year recovery, primarily on the back of growth in demand for heavy-duty commercial vehicles. This positive trend was also evident in the financing agreements and leases of heavy-duty commercial vehicles in Europe and Brazil.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2021, the volume of the passenger car market worldwide rose moderately by 4.2% to 70.9 million units from a weak level in the prior year. However, the growth was uneven owing to the effects of the Covid-19 pandemic, which varied strongly from region to region both in 2020 and in the reporting period. The semiconductor shortage and the resulting supply bottlenecks also had a negative impact in the second half of 2021. The overall markets of the Asia-Pacific, South America, Africa and Middle East regions recorded above-average growth. Increases in Central and Eastern Europe as well as in North America were slightly below the global average, while in Western Europe, the market volume declined further, falling short of the poor prior-year figure.

In the reporting period, the global volume of new registrations for light commercial vehicles was slightly (1.5%) higher than in 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 in 2021. 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 slightly down on the previous year's weak level, declining by 2.0% to 10.7 million vehicles. The continuing restrictions aimed at containing the Covid-19 pandemic led to a year-on-year decline in deliveries in the first two months of 2021. From March to June, demand in each of the individual months exceeded that of the previous year, which had been affected by the pandemic as of the last third of the first quarter and particularly in the second quarter of 2020. In the second half of 2021, the number of new passenger cars registered declined month-on-month, in some cases substantially. This was due on the one hand to the market recovery that had been experienced the previous year, and on the other to the semiconductor shortage which reduced vehicle availability. Nevertheless, with the exception of Spain (–0.9%), the performance of the large individual passenger car markets was positive on the whole in fiscal year 2021: France (+0.5%), United Kingdom (+1.0%) and Italy (+5.6%).

Registration volumes for light commercial vehicles in Western Europe were moderately higher than in the previous year, increasing by 4.4%.

In the Central and Eastern Europe region, the market volume of passenger cars in fiscal year 2021 stood at 2.9 million vehicles, a modest 2.8% more than in the previous year, which had been strained by the pandemic. Here, the development of demand in the reporting period differed from market to market. In Central Europe, the number of new registrations saw a slower rate of increase on the whole, with a rise of 1.4% to 1.1 million units. By contrast, sales of passenger cars in Eastern Europe rose at a somewhat faster pace (+3.8%) to 1.8 million units. Here, the absolute growth in demand was mainly attributable to a higher level of new registrations in Russia (+2.6%).

The market volume of light commercial vehicles in Central and Eastern Europe was significantly higher year-on-year (+12.1%). In Russia, the number of vehicles sold in the reporting period was distinctly higher than in the previous year with an 7.5% increase.

The market volume of passenger cars in Turkey was distinctly lower than in the prior year, down 6.9%. In South Africa, the number of passenger cars sold in 2021 was substantially (+21.7%) higher than the very weak prior-year figure.

In the reporting period, the volume of new registrations of light commercial vehicles was moderately down (–3.9%) in Turkey compared with the prior-year figure; in South Africa, by contrast, substantial growth (+22.3%) was recorded.

Germany

New passenger car registrations in Germany in fiscal year 2021 stood at 2.6 million units, falling noticeably (–10.1%) short of the previous year's weak level and thus declining to the lowest level since German reunification. Along with the effects of the Covid-19 pandemic, this was attributable to early purchases made in 2020 due to the expiry of the temporary reduction in value-added tax and to the deterioration in the supply situation as a result of the semiconductor shortage.

Owing to a lack of semiconductor deliveries and related measures such as cutbacks in production and production shutdowns, domestic production and exports in the reporting period also fell short again of the comparable prior-year figures: passenger car production decreased by 11.9% to 3.1 million vehicles and passenger car exports fell by 10.3% to 2.4 million units.

Sales of light commercial vehicles in Germany in the reporting period were down by a slight 1.8% on the 2020 figure.

North America

At 17.7 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2021 showed moderate growth of 3.9% on the prior-year figure, which had been impacted by the negative effects of the Covid-19 pandemic. However, this growth weakened during the second half of the year due mainly to supply bottlenecks for semiconductors. In this region, the market volume in the USA also rose moderately year-on-year to 15.1 million units (+3.4%), although the momentum was also weaker. Of the light commercial vehicles, the SUV models in particular benefited from this increase. The Canadian automotive market saw a distinct rise in sales in the reporting period (+6.7%). In Mexico, new registrations for passenger cars and light commercial vehicles were up +6.8%, also distinctly higher than the comparable prior-year figure.

South America

In the South America region, the volume of new registrations for passenger cars and light commercial vehicles in the 2021 reporting period was on the whole significantly higher at 3.5 million units (+12.9%) than the previous year's weak level, which had been very severely affected by the fallout of the Covid-19 pandemic. At 2.0 million vehicles, the volume of new registrations in Brazil was up slightly (+1.1%) on the prior-year figure. Total exports of vehicles manufactured in Brazil increased by 16.0% to 376 thousand passenger cars and commercial vehicles. In the Argentinian market, demand for passenger cars and light commercial vehicles in the 2021 reporting period rose noticeably by 9.7% to 356 thousand units.

Asia-Pacific

In the Asia-Pacific region, the volume of the passenger car market in fiscal year 2021 rose to 32.7 million units, moderately (+5.0%) higher than the prior-year figure, which had been considerably impacted by the SARS-CoV-2 virus. Over half of the absolute rise in demand for passenger cars in the region was attributable to the favorable trend in the Chinese passenger car market, where the signs of a recovery that had begun during the second half of 2020 initially continued, but weakened in the latter months of the reporting period owing to the semiconductor shortage. Overall, the volume of demand totaled 20.8 million units, thus moderately exceeding the prior-year figure by 4.4%. In India, passenger car sales rose substantially by 26.2% to 3.0 million units compared with the comparatively weak prior-year figure. In the Japanese passenger car market, the number of new passenger cars registered in the reporting period was moderately down on the previous year at 3.7 million units (–3.2%).

There was a slight year-on-year decrease in demand for light commercial vehicles in the Asia-Pacific region in 2021, which was down by 1.2%. Registration volumes in China, the region's dominant market and the largest market worldwide, were slightly lower, falling 2.4% short of the prior-year figure. The number of new vehicle registrations in India was significantly (–14.3%) lower than the prior-year level; in Japan this figure was moderately (–3.7%) down year-on-year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Since July 1, 2021, Navistar has been a TRATON GROUP brand, making it part of the Volkswagen Group's Commercial Vehicles Business Area. This has broadened the relevant markets in the commercial vehicles business, both for trucks and for the school bus segment, which expanded to include North America (consisting of USA, Canada and Mexico).

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 experienced significant growth versus the comparison period in fiscal year 2021 (+19.5%). In comparison with the previous year, which had been adversely affected by the Covid-19 pandemic, a recovery of the truck markets could be observed worldwide.

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was significantly up on the prior-year figure, with growth of 17.1% to a total of 320 thousand vehicles. Growth could be observed in almost all truck markets in the region, albeit to differing degrees. The market recovery already evident since the second half of 2020 continued in the reporting year. Registrations in Germany, the largest market in this region, increased distinctly year-on-year (+6.2%). An increase of almost 60% was registered in Poland, while the UK recorded growth of 12.8%. There was also a distinct increase in demand in France (+6.1%). The Russian market grew significantly (+19.5%) and new registrations in Turkey increased by around 56% year-on-year, as compared with the low prior-year level. In the South African market, demand rose substantially (+20.8%). The truck market in North America is divided into weight classes 1 to 8. In the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier) – new registrations were markedly higher (+13.0%) than the previous year's figure. In Brazil, the largest market in the South America region, demand for trucks in the reporting year was approximately 44% above the level seen in the previous year.

There was moderate growth in demand overall (+3.0%) in the bus markets that are relevant for the Volkswagen Group compared with the previous year. Demand for buses in the EU27+3 markets in the reporting year was overall in line with the weak level of the previous year (+0.1%), to differing extents in the individual countries. The bus market in North America recorded a moderate decline (–2.6%) year-on-year. Demand for buses in Brazil was slightly up on the previous year's level (+0.9%). As a consequence of the Covid-19 pandemic, demand for coaches in particular was still virtually non-existent in all of the bus markets that are relevant for the Volkswagen Group.

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

	DELIVERIES OF VEHICLES		
	2021	2020	Change in percent
Deliveries of passenger cars worldwide	**8,610,747**	**9,114,804**	**–5.5**
Volkswagen Passenger Cars	4,896,914	5,328,090	–8.1
Audi	1,680,512	1,692,773	–0.7
ŠKODA	878,202	1,004,816	–12.6
SEAT	470,531	426,641	10.3
Bentley	14,659	11,206	30.8
Lamborghini	8,405	7,430	13.1
Porsche	301,915	272,162	10.9
Bugatti[2]	63	77	–18.2
Volkswagen Commercial Vehicles	359,546	371,609	–3.2
Deliveries of commercial vehicles worldwide	**271,210**	**190,187**	**42.6**
Scania	90,366	72,085	25.4
MAN	150,968	118,102	27.8
Navistar	29,876	0	x

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.
2 Until October 31, 2021.

FINANCIAL PERFORMANCE

Fiscal year 2021 continued to be dominated by the consequences of the Covid-19 pandemic and the shortage of semiconductors. The performance of Volkswagen Financial Services AG was nevertheless positive.

The operating result improved to €2,987 (1,210[3]) million, substantially exceeding the corresponding prior-year figure. This improvement was mainly attributable to the rise in net income from leasing transactions and a fall in the provision for credit risks.

Profit before tax came to €3,005 (1,024[3]) million, which was substantially higher than in the prior year.

Return on equity amounted to 22.1 (8.3[3]) %.

Interest income from lending transactions and marketable securities was €2,095 million (+5.0 %), which represented a moderate year-on-year increase.

Net income from leasing transactions amounted to €3,136 (2,027[3]) million and was therefore substantially higher than in the previous year. A considerable portion of this increase was accounted for by the net gain from the disposal of used ex-lease vehicles amounting to €604 (63) million. The impairment losses on lease assets of €236 (478[3]) million included in net income from leasing transactions were attributable to current market fluctuations and expectations.

Interest expenses were moderately down year-on-year at €1,241 million (–3.5 %).

Net income from service contracts amounted to €205 (454) million and was substantially below the prior-year figure.

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

The provision for credit risks of €122 (610[3]) million was substantially lower year-on-year. Credit risks to which the Volkswagen Financial Services AG Group is exposed as a result of various critical situations (Brexit effects, economic crises) in the United Kingdom, Russia, Brazil, Mexico and the Republic of Korea were accounted for in the reporting period by recognizing valuation allowances. These declined by €61 million year-on-year to €520 million, due largely to lower risk expectations in respect of the United Kingdom and the Republic of Korea and the disposal of a portfolio in India.

Net fee and commission income amounted to €188 (89) million, substantially higher than the prior-year level.

General and administrative expenses were significantly up on the previous year at €2,299 (2,067[3]) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €501 (461[3]) million were recharged to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 41 (57) %, the cost/income ratio was better than in the previous year.

Net other operating income/expenses substantially exceeded the prior-year level at €635 (513[3]) million (+23.8 %). An amount of €61 (52) 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 increased substantially year-on-year to €78 (64) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounted to a net loss of €50 (168) million and included impairment losses of €10 million for nonconsolidated subsidiaries and €52 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 €2,227 (796[3]) million.

Under Volkswagen Financial Services AG's current control and profit-and-loss transfer agreement, a profit of €771 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with the HGB was transferred to the sole shareholder Volkswagen AG. This profit included recognized dividends of €1,431 million received from foreign subsidiaries.

The German companies continued to account for the highest business volumes with 30.9 % of all contracts.

Despite the difficult environment, Volkswagen Leasing GmbH expanded its portfolio of leases slightly compared with the previous year. The operating result was substantially up on the prior year.

Market conditions for vehicle insurance were influenced by a second year dominated by the Covid-19 pandemic. Activities focused on stabilizing the business. Volkswagen Autoversicherung AG now holds a portfolio of 532 thousand vehicle insurance policies, which is thus only slightly below the prior-year level and in line with forecasts.

In 2021, Volkswagen Versicherung AG was operating primary and reinsurance business in 15 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, played a part in the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH made a steady contribution to the earnings of Volkswagen Financial Services AG.

3 Prior-year figures restated.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €112.4 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 €1.9 billion to €22.9 billion (+9.0 %).

The number of new retail financing contracts came to 1,081 thousand, which was below the prior-year level (1,256 thousand). The number of current contracts stood at 2,725 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 €3.9 billion (–9.5 %).

Receivables from leasing transactions were on a level with the previous year at €40.9 billion (+0.2 %).

Lease assets recorded growth of €5.6 billion to €32.1 billion (+21.0 %).

A total of 1,354 thousand new leases were entered into in the reporting period. There were 3,640 thousand lease vehicles in the contract portfolio as of December 31, 2021. As in the previous year (1,631 thousand), the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,734 thousand lease vehicles.

Total assets of the Volkswagen Financial Services AG Group rose to €124.6 billion year-on-year (+5.7%). This increase was mainly attributable to the growth in lease assets, reflecting the expansion in business in the reporting year.

There were 9,410 thousand service and insurance contracts at the end of the year. The new business volume of 3,342 thousand contracts was up on the prior-year figure (3,309 thousand).

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €13.9 billion (–5.5 %), liabilities to customers amounting to €19.5 billion (–3.3 %) and notes, commercial paper issued in the amount of €68.3 billion (+10.2 %). Further details on the funding and hedging strategy can be found in the management report in the sections Liquidity Analysis (page 15) and Funding (pages 15 – 16) and in the risk report within the disclosures on interest-rate risk (page 25) and liquidity risk (page 26).

Subordinated Capital

The subordinated capital decreased by 15.7% year-on-year to €3.0 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2021. Equity in accordance with the IFRSs was €14.4 (12.8) billion. This resulted in an equity ratio (equity divided by total assets) of 11.6 % based on total assets of €124.6 billion.

Within equity, an amount of €400 million was reclassified from capital reserves to retained earnings. This related to an authorized repayment of capital reserves to Volkswagen AG.

Changes in Off-Balance-Sheet Liabilities

Off-balance-sheet liabilities increased by a total of €124 million year-on-year to €984 million as of December 31, 2021.

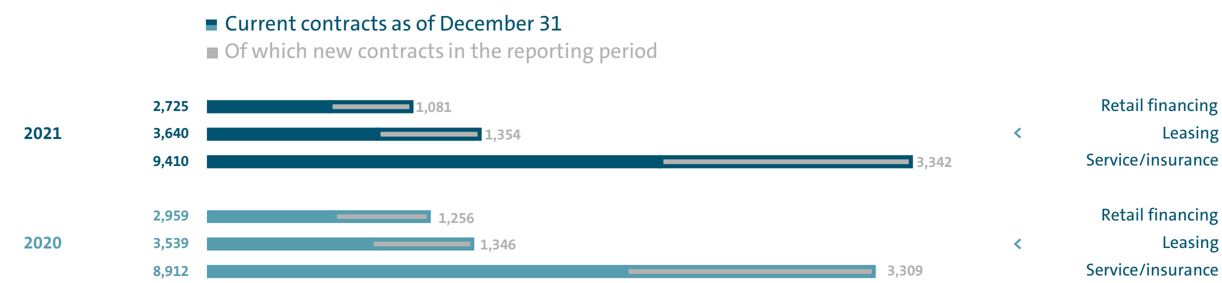
KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2021

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies[1]	VW FS AG Group
Current contracts	**4,869**	**1,974**	**662**	**1,266**	**593**	**552**	**5,859**	**15,775**
Retail financing	–	8	90	1,264	385	178	801	2,725
of which: consolidated	–	8	90	1,264	385	178	419	2,344
Leasing business	1,654	935	144	2	15	49	841	3,640
of which: consolidated	1,654	935	144	–	0	49	488	3,270
Service/insurance	3,215	1,031	428	–	194	325	4,217	9,410
of which: consolidated	3,215	990	237	–	170	325	2,590	7,527
New contracts	**1,563**	**915**	**233**	**540**	**264**	**180**	**2,083**	**5,778**
Retail financing	–	10	38	540	135	53	306	1,081
of which: consolidated	–	10	38	540	135	53	160	935
Leasing business	642	331	46	0	31	20	283	1,354
of which: consolidated	642	331	46	0	25	20	162	1,227
Service/insurance	921	573	148	–	98	108	1,494	3,342
of which: consolidated	921	564	87	–	89	108	904	2,673
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	206	1,044	10,881	3,161	1,029	6,581	22,903
Dealer financing	9	0	173	851	428	202	2,204	3,868
Leasing business	18,416	16,284	1,143	1	4	448	4,606	40,901
Lease assets	21,711	3,123	1,910	0	0	82	5,241	32,066
Investment[2]	10,144	1,296	455	0	–	4	2,363	14,262
Operating result	873	967	82	247	106	139	573	2,987
Percent								
Penetration[3]	61.4	46.0	60.1	15.0	36.7	43.9	21.1	26.7
of which: consolidated	61.4	46.0	60.1	15.0	34.8	43.9	13.7	24.6

1 The Other Companies segment covers the following markets: Australia, France, India, Ireland, Italy, Japan, Korea, Luxembourg, Poland, Portugal, Russia ,Spain and the Czech Republic. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, Belgium, Denmark, 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 company in Denmark, 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; 68.7% of this limit was utilized as of December 31, 2021.

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 and Norwegian krone were issued under Volkswagen Financial Services AG’s debt issuance program. Bonds based on local documentation requirements were also issued in Australia, Poland, Brazil and Korea.

In addition, asset-backed securities (ABSs) were 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, Australia, Japan and Brazil.

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 largely eliminated by using derivatives.

The following tables show the transaction details:

CAPITAL MARKET 2021

Issuer	Month	Volume and currency	Maturity
Volkswagen Leasing GmbH, Braunschweig	January	EUR 1.0 billion	2.5 years
Volkswagen Leasing GmbH, Braunschweig	January	EUR 750 million	5 years
Volkswagen Leasing GmbH, Braunschweig	January	EUR 750 million	8 years
Volkswagen Financial Services N.V., Amsterdam	January	GBP 400 million	4.1 years
Volkswagen Financial Services N.V., Amsterdam	January	SEK 1.5 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	February	NOK 500 million	3 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	April	AUD 450 million	3 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	April	AUD 100 million	5 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	April	PLN 750 million	2 years
Volkswagen Financial Services N.V., Amsterdam	April	NOK 500 million	3.5 years
Volkswagen Financial Services Korea Co., Ltd., Seoul	April	KRW 130 billion	3 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 1.25 billion	3.2 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 1.0 billion	5.2 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 750 million	8.2 years
Banco Volkswagen S.A., São Paulo	May	BRL 200 million	2 years
Banco Volkswagen S.A., São Paulo	May	BRL 550 million	3 years
Volkswagen Financial Services N.V., Amsterdam	July	GBP 250 million	5 years
Volkswagen Financial Services AG, Braunschweig	August	EUR 750 million	3.5 years
Volkswagen Financial Services AG, Braunschweig	August	EUR 1.0 billion	5.5 years
Volkswagen Financial Services AG, Braunschweig	August	EUR 750 million	8.5 years
Volkswagen Financial Services Australia Pty. Ltd., Chullora	August	AUD 300 million	4 years
Volkswagen Financial Services N.V., Amsterdam	September	GBP 350 million	7 years

ABSS 2021

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan ten	February	Japan	JPY 64.2 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 32	March	Germany	EUR 1.0 billion
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China twelve	May	China	CNY 6.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 33	June	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 34	November	Germany	EUR 750 million
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China thirteen	November	China	CNY 8.0 billion
Volkswagen Financial Services Australia Pty Limited., Chullora	Driver Australia seven	November	Australia	AUD 600 million
Banco Volkswagen S.A., São Paulo	Driver Brasil five	November	Brazil	BRL 1.1 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. In April 2021, the S&P rating agency affirmed its combined ratings for Volkswagen AG and Volkswagen Financial Services AG at A–2 (short term) and BBB+ (long term). Based on higher-than-expected free cash flow in the automotive business, the outlook for Volkswagen AG and Volkswagen Financial Services AG was revised to stable from negative. In March 2021, Moody's revised the outlook for Volkswagen AG to stable from negative and affirmed the short-term and long-term ratings at P–2 and A3 respectively because of the continuing recovery in global vehicle sales and a resulting anticipated improvement in credit metrics. At the same time, Volkswagen Financial Services AG's short-term and long-term ratings were also affirmed at P–2 and A3 respectively. The outlook was revised to stable from negative.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2021

Volkswagen Financial Services AG reported a result from ordinary activities after tax amounting to a profit of €771 million for fiscal year 2021.

Sales revenue amounted to €679 (603) million, with cost of sales coming to €684 (596) 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 €98 (17) million, with other operating expenses amounting to €422 (24) million. Other operating income included income from the reversal of provisions amounting to €67 million. Other operating expenses included expenses arising from a payment to the parent Volkswagen AG in the amount of €400 million, which was made in March 2021. The payment was a withdrawal from the reserves of Volkswagen Financial Services AG based on a resolution adopted by the sole shareholder Volkswagen AG.

Net investment income improved by €1,649 million to a net income of €1,571 (net expense of 78) million. This was primarily attributable to higher income from equity investments amounting to €1,431 (1) million. Of this amount, €1,271 million was accounted for by dividends from Volkswagen Finance Overseas B.V. Based on the significantly improved earnings at VTI GmbH amounting to a profit of €172 (loss of 100) million, income under profit and loss transfer agreements rose to €365 (169) million.

The profit after tax of €771 million will be transferred to Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets rose by 2.1% to €10,532 million. The change resulted from the increase of €84 million in loans to affiliated companies, of €235 million in loans to other investees or investors and of €6 million in other loans. Some of the increase was offset by a decline of €93 million in shares in affiliated companies and of €11 million in equity investments. Write-downs of €224 million and reversals of write-downs amounting to €36 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies rose by €177 million (1.5%). This increase was primarily attributable to loans and time deposits. Loans to and receivables from other investees or investors increased by €92 million (1.7%) and were also mainly attributable to loans and time deposits.

The increase in provisions of €89 million (14.9%) arose mainly from higher provisions for pensions.

Bonds rose year-on-year by €550 million to €10,250 million, an increase of 5.7%.

Liabilities to banks in connection with borrower's note loans decreased by €126 million or 6.7% to €1,747 million. Liabilities to affiliated companies went up by €458 million (4.5%), largely because of the drawdown of fixed-rate and rollover loans from Volkswagen Leasing GmbH and Volkswagen Versicherung AG. An amount of €400 million was withdrawn from capital reserves by Volkswagen AG.

The equity ratio was 13.3 (13.5)%. Total assets at the end of the reporting period amounted to €28,254 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,409 (5,311) employees as of December 31, 2021. Employee turnover was below 1.0% and thus significantly below the industry average. 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 2021, 966 (1,017) employees were leased to Volkswagen Leasing GmbH. In addition, 172 (173) employees were leased to Volkswagen Insurance Brokers GmbH, 86 (80) employees to Volkswagen Versicherung AG, 9 (9) employees to Volkswagen Autoversicherung AG, 187 (0) employees to Vehicle Trading International (VTI) GmbH, 2 (2) employees to Volkswagen Bank GmbH and 2,643 (2,651) employees to Volkswagen Financial Services Digital Solutions GmbH.

Volkswagen Financial Services AG employed 131 (131) vocational trainees as of December 31, 2021.

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 21 – 29) of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2021

€ million	2021	2020
Sales	679	603
Cost of sales	–684	–596
Gross profit on sales	**–5**	**7**
General and administrative expenses	–215	–195
Other operating income	98	17
Other operating expenses	–422	–24
Net income from long-term equity investments	1,571	–78
of which income under profit and loss transfer agreements	365	169
of which expenses from absorption of losses	–224	–248
Financial result	**–180**	**–198**
of which income from affiliated companies	112	98
of which expenses from affiliated companies	–35	–108
Income tax expense	–76	–201
Profit after tax	**771**	**–673**
Profits transferred under a profit-and-loss transfer agreement	771	–
Losses absorbed under a profit-and-loss transfer agreement	–	673
Net income	–	–
Profit brought forward	2	2
Amount withdrawn from capital reserves	400	0
Net retained profits	**402**	**2**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2021

€ million	Dec. 31, 2021	Dec. 31, 2020
Assets		
A. Fixed assets		
I. Financial assets	10,532	10,311
	10,532	**10,311**
B. Current assets		
I. Receivables and other assets	17,693	17,425
II. Cash-in-hand and bank balances	0	1
	17,693	**17,426**
C. Prepaid expenses	**29**	**19**
Total assets	**28,254**	**27,756**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	2,816	3,216
III. Retained earnings	100	100
IV. Net retained profits	402	2
	3,759	**3,759**
B. Provisions	**688**	**599**
C. Liabilities	**23,805**	**23,398**
D. Deferred income	**2**	**0**
Total equity and liabilities	**28,254**	**27,756**

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 up on the previous year in 2022 despite ongoing challenging market conditions, provided that the Covid-19 pandemic does not worsen again and the supply problems affecting commodities and intermediate products such as semiconductors improve. Fiscal year 2022 will continue to be adversely impacted by supply chain difficulties because of the structural shortage of semiconductor chips. However, these difficulties are expected to ease over the course of the year.

Volkswagen Financial Services AG supports sales of vehicles by supplying financial services products.

Growth in the global economy depends on how the Covid-19 pandemic evolves. Constant changes in the course of the pandemic mean that 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 economic consequences of any action implemented to contain the pandemic. Delays and bottlenecks in global supply chains could also have an adverse impact on worldwide growth.

However, the macroeconomic environment could give rise to opportunities for Volkswagen Financial Services AG if actual trends in connection with the containment of the pandemic and the resolution of supply chain problems turn out to be better than the forecast.

Strategic Opportunities

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 to complement its dealership business. It is also 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.

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 prices actually achieved from remarketing rise more than anticipated because of an increase in demand for used vehicles or other factors causing supply bottlenecks for new vehicles.

KEY FEATURES OF THE INTERNAL CONTROL SYSTEM AND THE INTERNAL RISK MANAGEMENT SYSTEM AS REGARDS THE FINANCIAL REPORTING PROCESS

The internal control system (ICS) that is relevant to the accounting system and used for the consolidated and annual financial statements, is the sum of all principles, procedures and activities aimed at ensuring the effectiveness and propriety of the financial reporting and the compliance with the relevant legal requirements. The internal risk management system (IRMS) as regards the accounting process refers to the risk of misstatement in the bookkeeping at the Company and Group level as well as in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting 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 separate 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. The rules and requirements define which companies are included in the consolidation along with the mandatory use of 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, 2021 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 these risks in a responsible manner so that it can exploit any resulting market opportunities.

The organizational structure of the Volkswagen Group's RMS/ICS is based on the internationally recognized Enterprise Risk Management Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The structure of the RMS/ICS in accordance with the COSO ERM Integrated Framework also ensures that potential areas of risk in the Volkswagen Financial Services AG Group are comprehensively covered. Risk is managed using an internal control system based on a three-lines-of-defense model. 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 that risk management is adequate. 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. The individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit.

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) and 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. 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.

RISK-BEARING CAPACITY

Volkswagen Financial Services AG has established a system for determining risk-bearing capacity in which risk is compared with risk-taking potential. The outcome of an analysis of substantial risks that could jeopardize the continued existence of the business as a going concern forms the basis for inclusion in the calculation of risk-bearing capacity. The Company is deemed to have maintained its risk-bearing capacity if, as a minimum, all specified risks are covered by the risk-taking potential at all times. Risks are quantified using methodologies that reflect an unexpected loss within a certain period of time.

In accordance with the risk tolerance level laid down by the Board of Management of Volkswagen Financial Services AG, only a portion of the risk-taking potential is specified as the maximum risk that can be assumed (overall risk limit).

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 by 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, risks of insurance companies, operational risk, reputational risk, compliance and integrity risk, and strategic risk. All these risk categories lead to earnings risk, which is not analyzed separately here but made transparent in the planning and management process.

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	
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.

Credit risks declined significantly in the reporting year despite the noticeable rise in the exposure from financing and leasing business, including lease assets.

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, guidelines known as 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, 2021	Dec. 31, 2020
Amount utilized (€ million)	111,018	103,263
Default rate in %	1.6	1.8
Impairment ratio in %	1.8	2.0

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 exceeded 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.

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, 2021, 90.0% 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, 2021	Dec. 31, 2020
Number of contracts	2,521,813	2,430,832
Guaranteed residual values (€ million)	36,858	32,713
Risk exposure in %	2.9	4.1

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.

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, 2021, 68.7% of the limit was utilized.

Risks of Insurance Companies

The mission of the insurance companies belonging to Volkswagen Financial Services AG is to support sales of the Volkswagen Group's products. This is achieved by operating various primary insurance business models 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.

Actual losses from operational risk amounted to €82.7 (38.8) million for the year ended December 31, 2021.

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 or litigation costs. 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 the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

SUMMARY

In 2021, risks were noticeably lower than in the previous year. The reporting year was again dominated by the pandemic but the levels of credit and residual value risk, in particular, were noticeably below the prior-year levels.

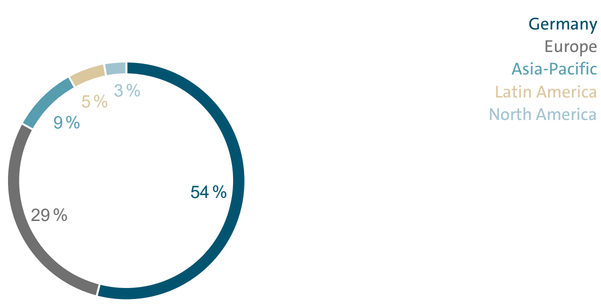
Human Resources Report

Realignment of HR: Business Driven – People Focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 11,021 (10,880) employees as of December 31, 2021. Of these, 5,901 (5,789), or 54%, were employed in Germany and 5,120 (5,091), or 46%, at international sites. Owing to economic considerations, 226 (270) 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, 2021



HUMAN RESOURCES STRATEGY

The ROUTE2025 strategy has created new areas of focus in terms of HR strategy. Five strategic areas for action are listed under the heading Top Employer/Top Employees. These areas for action 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 profit sharing, the Company aims to encourage top performance, with the objective of ensuring outstanding 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, with support coming from the international HR unit at the head office in Braunschweig. The local entities hold regular individual and overarching meetings with the head office in Braunschweig to report on their progress and share detailed related information. For example, notable positive trends and activities are presented and discussed at an annual HR conference so that best practices can also be shared between the different local entities.

In the reporting period, the HR unit undertook to act in accordance with the new motto, “business driven – people focused”.

The Company has launched many new initiatives to remain competitive in future, with the customer increasingly at the center. For this reason, the HR unit has begun to adjust its focus as well. The business partners are to partner the projects proactively and in this way ensure the best possible strategic advice. At the same time, aspects such as interdisciplinary teams, agility and cross-functional collaboration, including within the HR unit, will now be given greater importance.

To ensure the best possible structure and have the ability to meet the needs of customers in future, the HR unit has already started this year to develop a new HR strategy. The main themes encompassed by this strategy are those that support the transformation of the business and at the same time enable the HR unit to adopt a more digital and data-driven approach to its activities. The HR strategy is to be completed by 2022.

Another key aspect of HR activities continued to be coping with the Covid-19 pandemic and the associated new requirements for managers, as well as working remotely. While, due to the pandemic, most employees were still working from home in the first half of the year, over half of them were back in the office in the second half of the year. The greatest challenge therefore was to allow new hybrid formats for working together. Seminars and mandatory training sessions continue to be offered online, and many events are held in hybrid formats. For employees working at the Company’s offices, the best possible protection continues to be provided by implementing hygiene protocols.

Ways of working, together with the desires, expectations and needs of both employees and employers, are changing in response to the many-faceted, rapid transformation of the world of work in general. This transformation is both structural and cultural, and to ensure it is handled successfully, Volkswagen Financial Services AG has set up initiatives such as #newwork, which encompasses various perspectives such as culture, leadership, environment and tools. In addition to the FS Way and Internal Labor Market company agreements, one of the core components is the FlexWork company agreement, which was upgraded in 2021 to cover flexible working from any place outside the business premises. On request, employees can carry out some of their work on an alternating basis at a location other than the company workplace (within Germany). Generally, employees use the standard hardware provided by the Company but can be supplied with additional equipment, if required. The company agreements are making a valuable contribution to the success of the business and are both safeguarding and enhancing the appeal of the Company as an employer.

The HR Transformation program was set up in 2018. HR Transformation is aimed at employees who are shaping the transformation process or are affected by it.

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 qualifications required. The importance of knowledge and experience in the field of digitalization is growing. Since 2020, HR has each year offered 20 sponsored online degree programs and other online training courses related to the areas of data, digitalization and cyber security.

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 site ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure a transparent procedure throughout the entire site. The employees concerned receive assistance in the form of training geared to their individual needs. 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. To date, more than 220 employees have found new roles in this way. The Internal Labor Market has become an attractive option and managers now proactively seek applications via the transformation process. The international sites have similar approaches in place. The Strategic HR Planning subproject is a response to the changes in requirements for employees. It enables the Company to carry out quantitative HR planning and detailed analysis based on job profiles and on skills and qualifications. It takes account of both present and future needs, and therefore also newly emerging tasks and skills requirements.

In addition, by means of the Fit4Tech project, HR supports individual strategic initiatives internally with innovative HR strategies, tools and approaches focusing on recruitment, skills development and mindset. The project is piloting new concepts and tools together with individual departments in a European environment. The starting point for the project was the feedback from carefully selected strategic projects as part of a preliminary study carried out at the beginning of 2021. Recruitment-related examples of activities in this project are an employer branding strategy that can be adapted for use throughout Europe and the creation of a cross-border work strategy. From a skills development perspective, the project includes reviewing the current portfolio of skills and qualifications, expanding this portfolio to include any needs arising from strategic initiatives and creating learning paths for selected job profiles. Mindset-related project work has included the development and testing of a digital coaching app in a development partnership.

Leadership is a significant topic at Volkswagen Financial Services AG and is more important than ever in periods of transformation. The focus of managerial professional development is therefore on providing the best possible level of support for both young and experienced managers along the way. In addition to the mandatory and modular program *Erfolgreich durchstarten* (Hit the Ground Running) for new and newly appointed managers, there are advanced training offers 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. Skills development content is based, among other things, on the latest leadership trends and is offered according to need.

The *Zeit für Impulse* (Time for Stimulus) skills development approach offers managers at Volkswagen Financial Services AG support for specific leadership and managerial situations. Internal and external facilitators help them analyze and enhance their leadership skills.

The *Blickwechsel* (Change of Perspective) event format, which was relaunched in the fall of 2021, enables managers to obtain information on current issues and strengthen their networking with other managers. The events regularly feature charismatic, insightful speakers from various industries presenting their ideas on leadership, mobility and future trends.

The Company also enables its managers to participate in Volkswagen Group skills development programs, including the Transform Leadership 2030 program. The program was launched in the fall of 2021 and enables managers to get to grips with the current challenges and opportunities in the areas of new technologies, customers and environmental/social issues while at the same time aiming to strengthen managers' transformation leadership skills and understanding of technology.

Volkswagen Financial Services AG thus ensures high quality standards for 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 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 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2021" and "Best Employer in Germany 2021" competitions. In a comparison within Europe, the Company was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. There are plans to enter the Best Employer competition again in 2023.

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, is used in 11 countries.

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 in view of the 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 2021 as well. The program was rolled out at international level mainly in the affiliated companies and further smaller entities, primarily in Switzerland, Taiwan and Denmark. 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 September 2020, the program will be continued in 2022 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 refine and enshrine the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention). The Group's minimum standards underlying the initiatives have been set down in an organizational policy.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2021, 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 e-commerce qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration specializing in digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie 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 2021, 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, in an effort to design vocational training on a forward-looking basis and incorporate the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. The offering has been expanded to include the vocational field of media design.

As of December 31, 2021, 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 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 and digitalization sector.

Candidates are supported by a pleasant, quick, efficient and transparent application process, referred to as the Candidate Journey. An application submitted via the SuccessFactors recruiting tool clears the administrative hurdles. This applies to both external and internal applications. The traditional cover letter is no longer required; applicants simply need to upload a resume or curriculum vitae. 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 get to meet their future supervisor and any potential colleagues from the department concerned. This is an opportunity for both sides to gain a first impression of working together in the future. An entirely digital Match Day process has now become well established.

Volkswagen Financial Services AG is also pursuing a rigorous approach to recruiting and retaining young talent. For the period 2020 to 2022, the “You like to move IT” campaign was set up for this purpose. This is aimed at school students who are thinking of a future career in which they are able to create or motivate, ideally in IT. This campaign mainly involves current vocational trainees who can extol the virtues of starting a career at the Company based on their own experiences. A new employer branding strategy is currently being developed, one of the components of which is a new campaign for recruiting future employees for various target groups. From the next training start date, this campaign will aim to present the Company as a forward-looking employer. As almost all HR marketing activities are now online, in keeping with the latest developments, interested school students will also be offered a careers test on the careers page enabling them to find the most suitable training or study opportunities.

The employment of law students, interns and temporary student employees lays further foundations that will enable the Company to safeguard its future. Each year, the Company also invites applications from university graduates for the eight places available on the 12-month Digital Talent trainee program, which takes place both in Germany and abroad and focuses on the digitalization of the Company’s products.

All HR professional development and qualification matters have been assigned to one of two units in the business partner model (either Leadership, Culture and Change or Skills and Qualifications Management). The objective is to ensure that all activities are centered around the business of Volkswagen Financial Services AG with a strategic focus on professional development and qualification as a primary component of the HR core business.

The range of qualification options is focused mainly on issues pertaining to preparing for change as part of the business and cultural transformation. Key areas include skills and vocations of the future alongside social and methodological know-how, for example in an agile working environment.

The importance of knowledge and experience in the field of digitalization is growing steadily – even within Volkswagen Financial Services AG. 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 collaborated to develop a joint offering targeted at all employees who wish to enhance their skills in the field of digitalization. Since 2020, digitalization study programs and courses lasting several months have been offered for the first time, with 56 places allocated to employees. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee. Volkswagen Financial Services AG bears the cost of this training. The following university courses are offered: UX Design B.A., Data Science B.Sc. and M.Sc., Digital Business B.A., Artificial Intelligence M.Sc. and Computer Science in Cyber Security M.Sc. These university programs offer long-term, intensive skills development. In addition, 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 different employees, their varying needs and the ways in which they can be deployed in the business. These professional development activities support the transformation of the business such that it will continue to be able to compete in the marketplace in the future.

All information on training offered by the FS Academy (course catalogue, specialist forums, lectures/presentations and e-learning sessions) is available centrally via FS Academy Online, the Academy’s own 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. Further expansion of these development opportunities and the independent learning approach is planned for the future. To this end, Volkswagen Financial Services AG launched a pilot project in 2021 in which 500 test users in Europe could try out a new AI-supported learning platform. Based on the user’s existing skills and expertise, the online platform offers customized skills development coupled with the opportunity to network with colleagues as well as share and continually expand knowledge.

To promote employee engagement with the transformation and thereby support the transformation processes in the Company, Volkswagen Financial Services AG continued to implement its ideas and innovation management system, known as FS.IDEAS, in the reporting year. All employees are encouraged to submit their ideas for conventional improvements or innovative changes. Ideas are sent in via an online tool that can be viewed by all employees, thus creating transparency in terms 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 among colleagues. This approach fosters an environment in which employees share in the refinement of ideas and collaborate across departments and disciplines. Once 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 the aim of obtaining implementation support.

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2021 47.3%, 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. In 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 2021	Actual 2021
Second management level	27.8	26.7	23.1
First management level	16.8	15.0	14.5

The targets for the first and second management levels in Germany have therefore not been attained. This was against the backdrop that significantly greater growth in the number of management posts had been projected when the targets were originally specified in 2018. The strategic reorganization of the business, which has become necessary in the meantime, and the Operational Excellence initiatives have in fact led to less expansion in the number of management positions. The reduced number of new management appointments has meant that it has not been possible to achieve the targets.

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 2021, the proportion of women on the Supervisory Board was 41.7%; the equivalent figure for the Board of Management was 20.0%.

Volkswagen Financial Services AG is also giving special attention to the proportion of women at international level. The proportion of women in management functions was 24.7% worldwide. The proportion of women at the upper management level was 17.5%. Internationally, the overall proportion of women at Volkswagen Financial Services AG was 50.2% in 2021.

The Board of Management maintains the necessary transparency by means of regularly planned progress reports.

A new series of events entitled Let’s talk was initiated in 2021 with the aim of gathering specific ideas from the workforce to support the advancement of women. These ideas are being used to develop any necessary new activities that could increase the proportion of women in management positions.

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. In the Best Employer in Germany 2021 award, which is a Great Place to Work competition for the whole of Germany, Volkswagen Financial Services AG received a special equal opportunities and diversity award for its strategically embedded HR management system. 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 path to diversity in the Company. Workshops are held as part of the program to raise the awareness about the issue of diversity and equal opportunities among all managers.

Volkswagen Financial Services AG promotes a family-friendly environment and offers numerous continuously expanding initiatives and programs aimed at achieving the right work-life balance, such as various work-time models, company childcare facilities and the FlexWork company agreement. 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

The global economy is expected to continue growing in 2022, albeit at a somewhat lower level overall. Global demand for passenger cars will probably vary from region to region and increase moderately year-on-year. With our broad product range and services, we believe we are well prepared for the future challenges in the mobility business.

With the main opportunities and risks arising from the operating activities having been presented 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 continue to grow in 2022, albeit at a somewhat lower level overall, on the heels of the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. 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 2023 to 2026.

Europe/Other Markets

In Western Europe, we expect comparatively robust economic growth, exceeding the 2019 pre-crisis level. The widespread 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 likewise anticipate relatively robust growth rates in Central Europe in 2022. Economic output in Eastern Europe is also expected to continue growing, though at a somewhat slower pace, similar to the Russian economy.

For Turkey we expect markedly positive, albeit slower growth than in the reporting period given high inflation and a weak local currency. The South African economy will probably be dominated by political uncertainty and social tensions again in 2022 resulting from high unemployment, among other factors. Here we anticipate only moderate growth.

Germany

We expect GDP in Germany to grow at a significantly positive pace in 2022, comparatively speaking, exceeding the 2019 pre-crisis level. The labor market situation is likely to improve in 2022.

North America

We anticipate comparatively high economic growth in the USA in 2022 with a continued recovery of the labor market situation. The US Federal Reserve expects interest rates to rise in the course of the year, albeit at a relatively low level. Further inflationary trends and developments in the labor market will play a key role as decisive factors for possible adjustments to the key interest rate. Economic growth in Canada is also likely to be significantly positive, comparatively speaking, while growth in Mexico is expected to be moderate.

South America

In all probability, the Brazilian economy will record a moderately positive rate of growth in 2022. The economic situation in Argentina is likely to improve slightly amid continued very high inflation and depreciation of the local currency.

Asia-Pacific

The Chinese economy will probably continue growing at a relatively high level in 2022. We also expect a relatively high rate of expansion for the Indian economy in 2022. A robust rise in economic output is anticipated in Japan.

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 2022, particularly because of the ongoing challenges resulting from the Covid-19 pandemic and the persistent supply chain difficulties arising from the semiconductor chip shortage. 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 presumably 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 probably become increasingly important in this regard. It is also likely that demand for new forms of mobility, such as rental services or car subscription models, and for other mobility services, such as parking, refueling and charging, will increase and that the shift from financing to lease contracts that has already begun in the European leasing business will continue. The importance of direct business between manufacturer and customer is predicted to grow, especially in China. The seamless integration of financial services into online vehicle sales is becoming increasingly important to promote this business. We anticipate that this trend will continue in the period from 2023 to 2026.

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 2022 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2023 to 2026.

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 2022. Overall, the global volume of new vehicle sales is expected to be moderately up on the prior year without reaching the pre-pandemic level. This prediction assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense. We are forecasting growing demand for passenger cars worldwide in the period from 2023 to 2026.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, we anticipate a slight increase in the sales volume for 2022. This assumes that the Covid-19 pandemic does not flare up again and that shortages of intermediates, especially semiconductors, and commodities become less intense. For the years 2023 to 2026, we expect demand for light commercial vehicles to increase globally.

We believe we are well prepared overall for the future challenges pertaining to automotive 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, the Volkswagen Group wants to make the automobile cleaner, quieter, more intelligent and safer. We have set ourselves the goal of continuing to excite our customers in the future and meeting their diverse needs with an appealing product portfolio of impressive vehicles and forward-looking, tailor-made mobility solutions.

Europe/Other Markets

For 2022, we anticipate that the volume of new passenger car registrations in Western Europe will be distinctly above that recorded in the reporting period. At the same time, however, possible consequences of the pandemic and the still uncertain impact of the United Kingdom's exit from the EU may result in ongoing uncertainty among consumers and dampen demand. Limited vehicle availability as a result of the semiconductor shortage may also continue to weigh on the volume of new registrations. Nevertheless, we anticipate a significant increase for the United Kingdom and Spain in 2022. In France and Italy, the markets will probably be slightly or moderately higher than the level seen in the reporting period.

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2022 to be moderately up on the previous year's level despite the possible impact of the pandemic, continuing supply bottlenecks for semiconductors and the still uncertain consequences of the United Kingdom's exit from the EU. We predict a moderate to noticeable increase in the United Kingdom, Spain and France and a slight decline in Italy.

Sales of passenger cars in 2022 are expected to distinctly exceed the prior-year figures in markets in Central and Eastern Europe. In Russia, we likewise anticipate a distinct year-on-year increase in market volume. In the region's other markets, a slight to significant rise in the number of new registrations is expected.

Registrations of light commercial vehicles in 2022 are expected to slightly exceed the prior-year figures in markets in

Central and Eastern Europe. We predict a distinct increase in market volume for Russia.

The volume of new registrations for passenger cars in Turkey in 2022 is projected to be significantly above the previous year's level. In South Africa, the market volume in 2022 is likely to be up moderately year-on-year.

The volume of new registrations for light commercial vehicles in 2022 is expected to be significantly higher in Turkey and moderately higher in South Africa compared with the prior year.

Germany

In the German passenger car market, we expect the volume of new registrations in 2022 to distinctly exceed the prior-year figure.

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

North America

The sales volume 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 2022 is likely to be slightly 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 projected to be moderately higher than the previous year's level. For Mexico we also expect a moderate increase in new registrations compared with the reporting period.

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 a distinct increase overall in new registrations in the South American markets in 2022 compared with the previous year. The market volume in Brazil is also expected to grow distinctly compared with 2021. We anticipate that the volume of new registrations in Argentina will also be distinctly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be slightly up on the prior-year level in 2022. We estimate that the market volume in China will also be slightly higher than the comparative figure for 2021. 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 that the Indian market will perform at the previous year's level. Japan should see distinct growth in market volume in 2022.

The volume of new registrations for light commercial vehicles in 2022 will probably be slightly higher than the previous year's figure. We are expecting demand in the Chinese market to be on a level with the prior year. For India, we are forecasting a distinctly higher volume in 2022 than in the reporting period. In the Japanese market, we estimate that volumes will be slightly up year-on-year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

Since July 1, 2021, Navistar has been a TRATON GROUP brand, making it part of the Volkswagen Group's Commercial Vehicles Business Area. This has broadened the relevant markets in the commercial vehicles business, both for trucks and for the school bus segment, which expanded to include North America (consisting of USA, Canada and Mexico).

For 2022, we expect a significantly positive development in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group.

Noticeable market growth is expected for the 27 EU countries excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3) because it has so far not been possible to fully satisfy the high demand for trucks due to existing supply bottlenecks. We anticipate that Russia and Turkey will witness a distinct rebound in demand and there will be a moderate increase in demand in South Africa. The truck market in North America is divided into weight classes 1 to 8. We expect a significant increase in new registrations in the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier). We estimate that demand in Brazil will be noticeably higher than in the previous year.

On average, we anticipate slight growth rates in the relevant truck markets for the years 2023 to 2026.

A significant increase in overall demand, with regional variations, is expected for 2022 in the bus markets relevant for the Volkswagen Group. We anticipate slight year-on-year market growth in the EU27+3 countries. Here, we are assuming that the coach segment will start to recover and that we will receive orders in the context of government-funded programs. We expect significant growth in North America. New registrations in Brazil are anticipated to be substantially higher than the prior-year figure.

Overall, we expect a moderate increase in the demand for buses in the relevant markets for the period from 2023 to 2026.

INTEREST RATE TRENDS

Europe saw a continuation of the period of low interest rates throughout 2021 and also at the beginning of the current fiscal year. However, in the US and numerous other economies, expansionary monetary policy is expected to come to an end, giving way to interest rate hikes.

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 market and is working on new models to support alternative marketing approaches and establish new mobility concepts with the goal of securing and expanding its business model. Simple, convenient, transparent, safe, reliable, flexible – these are the standards that the company has set for itself.

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 concepts, as has been the case in the conventional automotive business for many years.

From traditional financing and traditional leasing, long-term rentals, car subscription, car and truck rental to car sharing, Volkswagen Financial Services AG already covers a large proportion of the mobility needs of their customers through its subsidiaries.

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

Volkswagen Financial Services is also responsible for the Auto-Abo offerings of other Group brands, such as Volkswagen and CUPRA, thus providing an additional boost to the Volkswagen Group's electrification strategy.

The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. In addition, Volkswagen Financial Services AG already offers a supporting portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of payment solutions for digital business models in the Volkswagen Group, the further expansion of cashless and mobile payment for parking in North America and Europe as well as the further development of the electric vehicle charging and fuel card services in Europe. Together with the charging network of the Group brand Elli, Volkswagen Financial Services AG provides through the Charge&Fuel Card access to over 250,000 public charging points and another 18,000 fueling stations 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 markting includes an attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs. Those services plays a key role in the marketing of electric vehicles produced by the Volkswagen Group.

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 business growth in fiscal year 2022 to be linked to the growth in unit sales of Volkswagen Group vehicles.

Sales activities related to the Volkswagen Group brands will be further intensified, particularly through joint strategic projects. Furthermore, Volkswagen Financial Services AG intends to maintain the measures it has introduced to leverage greater 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. The Company is also looking to digitalization to drive further expansion of the business.

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

Volkswagen Financial Services AG's position in the global competitive environment will continue to be strengthened not only through market-related activities, but also through strategic investment in structural initiatives, process optimization and productivity improvements.

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 2022 because of the ongoing Covid-19 pandemic. The effects very much depend on the further development of the pandemic and on the macroeconomic impact in individual regions. 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 2022. 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.

OUTLOOK FOR 2022

Volkswagen Financial Services AG's Board of Management expects global economic growth in 2022 to be lower than the previous year's level. Risks will arise first and foremost from the evolution of the Covid-19 pandemic, global supply shortages and a temporary rise in inflation. In addition, growth prospects will be impacted by geopolitical tensions and conflicts. Nevertheless, both the emerging economies of Asia and the major industrialized countries are projected to record high rates of growth again in 2022.

Growth in individual countries and regions is heavily dependent on the local course of the pandemic. When the above factors and the market trends are considered, the following overall picture emerges: 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.

The Company forecasts that current contracts and business volume in 2022 will be noticeably above the level of fiscal year 2021. New contracts are expected to be significantly above the prior-year level. It is assumed that the penetration rate will be noticeably higher than the level in the previous year. Because of the shortage of semiconductors, one of the features of 2021 was a particularly strong uptrend in the marketing of used vehicles. In 2022, net gains from the marketing of used vehicles will probably be substantially below the prior-year figure. Based on the effects described above and assuming that the Covid-19 pandemic is increasingly contained, the operating result for fiscal year 2022 is projected to be substantially lower than the corresponding figure for the previous year.

The forecast earnings performance and stable capital adequacy will probably result in a return on equity in 2022 that is very significantly the previous year's level. It is likely that there will be a substantial year-on-year rise in the cost/income ratio in 2022.

FORECAST CHANGES IN KEY PERFORMANCE INDICATORS FOR FISCAL YEAR 2022 COMPARED WITH PRIOR-YEAR FIGURES

	Actual 2021	Forecast for 2022	
Nonfinancial performance indicators			
Penetration (percent)	26.7	> 26.7	Noticeably up on previous year
Current contracts (thousands)	15,775	> 15,775	Noticeably up on previous year
New contracts (thousands)	5,778	> 5,778	Significantly up on previous year
Financial performance indicators			
Volume of business (€ million)	99,738	> 99,738	Noticeably up on previous year
Operating result (€ million)	2,987	< 2,987	Substantially lower than in the previous year
Return on equity (percent)	22.1	< 22.1	Very significantly below the previous year's level
Cost/income ratio (percent)	41	> 41	Substantially up on previous year

Braunschweig, February 24, 2022
Volkswagen Financial Services AG

The Board of Management

Dr. Christian Dahlheim	Anthony Bandmann
Dr. Alexandra Baum-Ceisig	Dr. Mario Daberkow
Frank Fiedler	

This Annual Report contains forward-looking statements on the future business development of Volkswagen Financial Services AG. These statements are based on assumptions relating to changes in the economic, political and legal environment in individual countries, economic regions and markets, in particular for financial services and the automotive industry; these assumptions have been made on the basis of the information available and Volkswagen Financial Services AG currently considers them to be realistic. The estimates given entail a degree of risk, and the actual developments may differ from those forecast. If material parameters relating to key sales markets vary from the assumptions, or material changes arise from the exchange rates, commodities or supply of parts (in particular, semiconductors) relevant to the Volkswagen Group, or the actual impact of the Covid-19 pandemic deviates from the scenario assumed in this report, the performance of the business will be affected accordingly. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in this annual report turn out to be different from current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

CONSOLIDATED FINANCIAL STATEMENTS

Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]	Change in percent
Interest income from lending transactions and marketable securities	5, 8, 56	2,095	1,995	5.0
Income from leasing transactions		19,316	16,938	14.0
Depreciation, impairment losses and other expenses from leasing transactions		–16,180	–14,911	8.5
Net income from leasing transactions	5, 8, 12 – 14, 19, 66	3,136	2,027	54.7
Interest expense	5, 8, 20, 56	–1,241	–1,286	–3.5
Income from service contracts		2,107	2,100	0.3
Expenses from service contracts		–1,902	–1,646	15.6
Net income from service contracts	5, 21	205	454	–54.8
Income from insurance transactions		345	345	0.0
Expenses from insurance transactions		–190	–190	0.0
Net Income from insurance business	16, 22	155	155	0.0
Provision for credit risks	8, 23, 56	–122	–610	–80.0
Fee and commission income		631	560	12.7
Fee and commission expenses		–443	–472	–6.1
Net fee and commission income	5, 24	188	89	X
Net gain or loss on hedges	8, 25	–11	–4	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, 26, 56	278	–57	X
Net gain/loss on derecognition of financial assets measured at amortized cost	27	–31	–	X
General and administrative expenses	5, 10 – 13, 15, 17, 28	–2,299	–2,067	11.2
Other operating income		1,499	1,578	–5.0
Other operating expenses		–864	–1,064	–18.8
Net other operating income/expenses	5, 29	635	513	23.8
Operating result		**2,987**	**1,210**	**X**
Share of profits and losses of equity-accounted joint ventures		78	64	21.9
Net gain/loss on miscellaneous financial assets	9, 30	–50	–168	–70.2
Other financial gains or losses	31	–10	–81	–87.7
Profit before tax		**3,005**	**1,024**	**X**
Income tax expense	6, 32	–778	–228	X
Profit after tax		**2,227**	**796**	**X**
Profit after tax attributable to noncontrolling interests		0	0	0.0
Profit after tax attributable to Volkswagen AG		2,227	796	X

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and corrected reporting of investment property.

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]
Profit after tax		**2,227**	**796**
Pension plan remeasurements recognized in other comprehensive income	15, 48	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax		101	–62
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	6, 32	–25	22
Pension plan remeasurements recognized in other comprehensive income, net of tax		76	–40
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax	8	–	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		**76**	**–37**
Exchange differences on translating foreign operations	4	–	–
Gains/losses on currency translation recognized in other comprehensive income		473	–581
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		473	–581
Deferred taxes relating to exchange differences on translating foreign operations	6, 32	–	–
Exchange differences on translating foreign operations, net of tax		473	–581
Hedging transactions	8	–	–
Fair value changes recognized in other comprehensive income (OCI I)		–34	49
Transferred to profit or loss (OCI I)		62	–57
Cash flow hedges (OCI I), before tax		28	–8
Deferred taxes relating to cash flow hedges (OCI I)	6, 32	–10	3
Cash flow hedges (OCI I), net of tax		18	–5
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, 32	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		–4	0
Transferred to profit or loss		–	1
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax		–4	1
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	6, 32	1	0
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		–3	1
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		29	–28
Items that may be reclassified to profit or loss		**518**	**–614**
Other comprehensive income, before tax		627	–675
Deferred taxes relating to other comprehensive income		–34	24
Other comprehensive income, net of tax		**594**	**–651**
Total comprehensive income		**2,821**	**146**
Total comprehensive income attributable to noncontrolling interests		0	0
Total comprehensive income attributable to Volkswagen AG		2,821	146

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Change in percent	Jan. 1, 2020 restated[2]
Assets					
Cash reserve	7, 34, 56 – 60, 62 – 63	33	47	–29.8	106
Loans to and receivables from banks	8, 56 – 63	5,066	3,830	32.3	2,477
Loans to and receivables from customers attributable to					
Retail financing		22,903	21,006	9.0	20,712
Dealer financing		3,868	4,272	–9.5	5,413
Leasing business		40,901	40,803	0.2	40,831
Other loans and receivables		12,625	13,391	–5.7	13,119
Total loans to and receivables from customers	8, 13, 35, 56 – 61, 63	80,297	79,471	1.0	80,075
Derivative financial instruments	8, 36, 56 – 60, 63 – 64	586	837	–30.0	736
Marketable securities	8, 56 – 61, 63	320	312	2.6	305
Equity-accounted joint ventures	2, 37, 57	787	743	5.9	737
Miscellaneous financial assets	8, 9, 56 – 60	674	460	46.5	591
Intangible assets	10, 12, 38	113	92	22.8	91
Property and equipment	11 – 13, 39	410	429	–4.4	430
Lease assets	12 – 13, 66	32,066	26,510	21.0	21,932
Investment property	12 – 14, 40, 66	76	80	–5.0	86
Deferred tax assets	6, 41	1,641	1,752	–6.3	1,528
Income tax assets	6, 56 – 60	147	103	42.7	125
Other assets	13, 42, 56 – 60	2,374	3,169	–25.1	3,241
Total		**124,590**	**117,834**	**5.7**	**112,460**

€ million	Note	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Change in percent	Jan. 1, 2020 restated[2]
Equity and liabilities					
Liabilities to banks	8, 44, 56 – 60, 62 – 63	13,873	14,674	–5.5	14,472
Liabilities to customers	8, 44, 56 – 60, 62 – 63	19,539	20,208	–3.3	15,740
Notes, commercial paper issued	8, 45 – 46, 56 – 60, 62–63	68,311	61,988	10.2	60,943
Derivative financial instruments	8, 47, 56 – 60, 62 – 64	532	464	14.7	427
Provisions for pensions and other post-employment benefits	15, 48	530	596	–11.1	505
Underwriting provisions and other provisions	16 – 17, 49	785	827	–5.1	940
Deferred tax liabilities	6, 50	708	572	23.8	676
Income tax liabilities	6, 56 – 60	603	548	10.0	373
Other liabilities	51, 56 – 60, 62	2,305	1,678	37.4	1,404
Subordinated capital	8, 46, 52, 56 – 60, 62 –63	2,971	3,526	–15.7	4,947
Equity	54	14,433	12,755	13.2	12,033
Subscribed capital		441	441	–	441
Capital reserve		2,816	3,216	–12.4	3,216
Retained earnings		12,148	10,561	15.0	9,231
Other reserves		–975	–1,466	–33.5	–859
Equity attributable to noncontrolling interests		2	2	0.0	2
Total		**124,590**	**117,834**	**5.7**	**112,460**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and corrected reporting of investment property.
2 January 1, 2020 is the same as December 31, 2019 after corrections as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and corrected reporting of investment property.

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserve	Retained earnings	OTHER RESERVES					Non-con-trolling Interests	Total equity
					Hedging transactions					
				Currency translation	Cash flow hedges (OCI I)	Deferred hedging costs (OCI II)	Equity and debt In-struments	Equity-accounted Investments		
Balance as of Jan. 1, 2020 before corrections	**441**	**3,216**	**9,228**	**–772**	**–5**	**0**	**1**	**–82**	**2**	**12,029**
Adjustments due to the corrected accounting treatment of buyback transactions and corrections from the reversal of the application of portfolio fair value hedge accounting[1]	–	–	3	–	–	–	–	–	–	3
Balance as of Jan. 1, 2020, after corrections	**441**	**3,216**	**9,231**	**–772**	**–5**	**0**	**1**	**–82**	**2**	**12,033**
Profit after tax[1]	–	–	796	–	–	–	–	–	0	796
Other comprehensive income, net of tax	–	–	–40	–581	–5	0	4	–28	–1	–651
Total comprehensive income[1]	**–**	**–**	**756**	**–581**	**–5**	**0**	**4**	**–28**	**0**	**146**
Capital increase	–	–	–	–	–	–	–	–	–	–
Loss assumed by Volkswagen AG	–	–	673	–	–	–	–	–	–	673
Other changes[2]	–	–	–99	–1	–	–	–	4	–	–96
Balance as of Dec. 31, 2020[1]	**441**	**3,216**	**10,561**	**–1,354**	**–10**	**0**	**5**	**–106**	**2**	**12,755**
Balance as of Jan. 1, 2021	**441**	**3,216**	**10,561**	**–1,354**	**–10**	**0**	**5**	**–106**	**2**	**12,755**
Profit after tax	–	–	2,227	–	–	–	–	–	0	2,227
Other comprehensive income, net of tax	–	–	76	473	18	0	–3	29	0	594
Total comprehensive income	**–**	**–**	**2,302**	**473**	**18**	**0**	**–3**	**29**	**0**	**2,821**
Capital increases	–	–	–	–	–	–	–	–	–	–
Profit transfer to Volkswagen AG	–	–	–1,171	–	–	–	–	–	–	–1,171
Other changes[3]	–	–400	456	–27	–	–	–	–	–	29
Balance as of Dec. 31, 2021	**441**	**2,816**	**12,148**	**–908**	**9**	**0**	**2**	**–77**	**2**	**14,433**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

2 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.

3 Mainly a reclassification of €400 million from capital reserve to retained earnings in connection with an authorized repayment of capital reserves to Volkswagen AG and effects from the consolidation of OOO Volkswagen Financial Services RUS, Moscow.

Further information on equity is presented in note (54).

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020 restated[1]
Profit before tax	**3,005**	**1,024**
Depreciation, amortization, impairment losses and reversals of impairment losses	4,447	4,600
Change in provisions	–114	23
Change in other noncash items	–122	220
Gain on disposal of financial assets and items of property and equipment	3	12
Net interest expense and dividend income	–2,625	–2,563
Other adjustments	1	0
Change in loans to and receivables from banks	–1,168	–1,433
Change in loans to and receivables from customers	1,247	–461
Change in lease assets	–9,868	–8,803
Change in other assets related to operating activities	857	23
Change in liabilities to banks	–1,539	858
Change in liabilities to customers	–1,648	4,330
Change in notes, commercial paper issued	5,458	2,230
Change in other liabilities related to operating activities	613	222
Interest received	3,851	3,842
Dividends received	15	6
Interest paid	–1,241	–1,286
Income taxes paid	–523	–393
Cash flows from operating activities	**648**	**2,453**
Proceeds from disposal of investment property	–	1
Acquisition of investment property	0	0
Proceeds from disposal of subsidiaries and joint ventures	1	–12
Acquisition of subsidiaries and joint ventures	–275	–1,407
Proceeds from disposal of other assets	8	20
Acquisition of other assets	–58	–70
Change in investments in marketable securities	–8	–17
Cash flows from investing activities	**–332**	**–1,485**
Proceeds from changes in capital	0	–
Distribution to Volkswagen AG	–400	–
Loss assumed by Volkswagen AG	673	268
Change in cash funds attributable to subordinated capital	–576	–1,268
Repayment of liabilities arising from leases	–28	–19
Cash flows from financing activities	**–332**	**–1,019**
Cash and cash equivalents at end of prior period	**47**	**106**
Cash flows from operating activities	648	2,453
Cash flows from investing activities	–332	–1,485
Cash flows from financing activities	–332	–1,019
Effect of exchange rate changes	2	–9
Cash and cash equivalents at end of period	**33**	**47**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and corrected reporting of investment property.
Disclosures on the cash flow statement are presented in note (67).

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of December 31, 2021

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, 2021 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, 2021 for which mandatory application was required in fiscal year 2021 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 21 – 29. 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 24, 2022. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Changes to Prior-Year Figures due to Correction of Errors

ACCOUNTING TREATMENT OF BUYBACK TRANSACTIONS

Some of the customer leasing business operated by the VW FS AG Group is on the basis of buyback transactions. Buyback transactions are described under Accounting Policies in note (13) Leases. In the past, customer subleases in connection with buyback transactions were incorrectly classified in the classification criteria on the basis of the useful life of the vehicle. This meant that these subleases were classified as operating leases in previously published consolidated financial statements.

This error has been corrected and the classification of such subleases has now been based on the right of use received for an agreed period. As a consequence, the subleases in most of the buyback transactions have been classified as finance leases.

The previous reporting of the right-of-use assets under lease assets (in the case of long-term leases) or under other assets (in the case of short-term leases) has therefore been changed and the amounts are now presented as receivables from finance leases. Measurement differences amounting to €13 million that have arisen in the VW FS AG Group up to December 31, 2020 as a result of the change to the classification have been recognized directly in equity under retained earnings.

The corrections to the prior-year figures following the amended classification are highlighted, in each case with footnotes, in the components of the primary consolidated financial statements and in the disclosures set out in the following notes: (19) Net Income from Leasing Transactions, (23) Provision for Credit Risks, (32) Income Tax Expense, (35) Loans To and Receivables from Customers, (41) Deferred Tax Assets, (42) Other Assets, (43) Noncurrent Assets, (50) Deferred Tax Liabilities, (51) Other Liabilities, (53) Noncurrent Liabilities, (56) Carrying Amounts, Gains or Losses and Income or Expenses in respect of Financial Instruments, by Measurement Category, (57) Classes of Financial Instruments, (58) Fair Values of Financial Assets and Liabilities, (59) Measurement Levels of Financial Assets and Liabilities, (60) Offsetting of Financial Assets and Liabilities, (61) Default Risk, (65) Breakdown by Geographical Market and (66) Leases.

The prior-year income statement has been restated as follows in respect of the corrections to buyback transactions:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Jan. 1 – Dec. 31, 2020 after buyback transaction corrections
Income from leasing transactions	17,457	–527	16,930
Depreciation, impairment losses and other expenses from leasing transactions	–15,450	544	–14,907
Net income from leasing transactions	2,006	17	2,023
Provision for credit risks	–600	–10	–610
Operating result	**1,223**	**7**	**1,230**
Profit before tax	**1,038**	**7**	**1,045**
Income tax expense	–231	0	–231
Profit after tax	**806**	**7**	**814**
Profit after tax attributable to Volkswagen AG	806	7	814

The balance sheet as of January 1, 2020 has been restated as follows to reflect the corrections to buyback transactions:

€ million	Jan. 1, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Jan. 1, 2020 after buyback transaction corrections
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,951	882	40,833
Total loans to and receivables from customers	79,195	882	80,077
Lease assets	22,776	–844	21,932
Deferred tax assets	1,513	14	1,527
Other assets	3,276	–35	3,241
Total	**112,444**	**16**	**112,460**

€ million	Jan. 1, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Jan. 1, 2020 after buyback transaction corrections
Equity and liabilities			
Deferred tax liabilities	655	19	674
Other liabilities	1,413	–9	1,404
Equity	12,029	6	12,035
Retained earnings	9,228	6	9,234
Total	**112,444**	**16**	**112,460**

The balance sheet as of December 31, 2020 has been restated as follows to reflect the corrections to buyback transactions:

€ million	Dec. 31, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Dec. 31, 2020 after buyback transaction corrections
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,984	840	40,824
Total loans to and receivables from customers	78,652	840	79,493
Lease assets	27,311	–801	26,510
Deferred tax assets	1,753	–8	1,745
Other assets	3,197	–27	3,169
Total	**117,845**	**4**	**117,850**

€ million	Dec. 31, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Dec. 31, 2020 after buyback transaction corrections
Equity and liabilities			
Deferred tax liabilities	571	–2	569
Other liabilities	1,684	–7	1,678
Equity	12,760	13	12,773
Retained earnings	10,568	13	10,581
Total	**117,845**	**4**	**117,850**

The prior-year cash flow statement has been restated as follows in respect of the corrections to buyback transactions:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Adjustments due to corrected treatment of buyback transactions	Jan. 1 – Dec. 31, 2020 after buyback transaction corrections
Profit before tax	**1,038**	**7**	**1,045**
Depreciation, amortization, impairment losses and reversals of impairment losses	5,003	–403	4,600
Net interest expense and dividend income	–2,443	–66	–2,509
Change in loans to and receivables from customers	–503	22	–482
Change in lease assets	–9,182	379	–8,803
Change in other assets related to operating activities	31	–8	23
Change in other liabilities related to operating activities	219	2	222
Interest received	3,722	66	3,788
Cash flows from operating activities	**2,453**	**–**	**2,453**
Cash and cash equivalents at end of prior period	**106**	**–**	**106**
Cash flows from operating activities	2,453	–	2,453
Cash and cash equivalents at end of period	**47**	**–**	**47**

The prior-year reconciliation for the provision for credit risks relating to lease receivables in the class “Not allocated to any measurement category” in note (61) Default Risk has been restated as follows to reflect the corrected accounting treatment of buyback transactions:

€ million	SIMPLIFIED APPROACH 2020
Balance as of Jan. 1 before corrections	**–**
Adjustments due to corrected treatment of buyback transactions	37
Balance as of Jan. 1 after corrections	**37**
Exchange differences on translating foreign operations	0
Changes in basis of consolidation	–
Newly extended/purchased financial assets (additions)	19
Other changes	0
Financial instruments derecognized during the period (derecognitions)	–10
Utilizations	0
Model or risk parameter changes	–
Classified as held for sale	–
Balance as of Dec. 31	**46**

The corrections to buyback transactions in the prior-year figures shown in the table presenting gross carrying amounts of financial assets by default risk rating class within note (61) Default Risk are described in the Changes to Prior-Year Figures due to Correction of Errors section under the header “Default Risk Rating Classes in the Default Risk Disclosures”.

The corrections to buyback transactions in the prior-year figures shown in the table presenting the reconciliation of the gross carrying amounts of lease receivables in the class “Not allocated to any measurement category” within note (61) Default Risk are described in the Changes to Prior-Year Figures due to Correction of Errors section under the header “Reconciliation of Gross Carrying Amounts in the Default Risk Disclosures”.

PORTFOLIO FAIR VALUE HEDGE ACCOUNTING

Under IAS 39, an entity must satisfy a number of criteria before it can apply portfolio fair value hedge accounting, i.e. before it can apply the relevant mechanisms to account for the hedging of interest rate risk in a portfolio of financial assets. One of the requirements is that an assessment must be carried out at the inception of the hedge to establish whether the hedge will be highly effective within the hedging period. In the VW FS AG Group, the prospective test of hedge effectiveness was related to the inception of the hedge, but was not carried out at the beginning of the hedging period. Furthermore, the hedges were not documented at the beginning of the relevant hedging periods either. As a consequence, the VW FS AG Group did not satisfy all of the requirements for the application of portfolio fair value hedge accounting, either in the reporting year or in prior periods.

The consolidated financial statements have therefore been restated retrospectively to correct the error, reversing the application of portfolio fair value hedge accounting. In this process, the changes in fair value recognized for hedged items of receivables from finance leases and their amortization have been retrospectively corrected and the correction of the measurement differences reported directly in equity under retained earnings. The retrospective reversal of the application of portfolio fair value hedge accounting has also led to a correction of the prior-year figures for interest rate swaps: an amount of €101 million previously reported as hedging instruments is now shown as relating to independent derivatives (see (47) Derivative Financial Instruments). The corrections have led to the changes in the income statement and balance sheet explained below. In the statement of changes in equity and in the relevant notes, footnotes are used in each case to highlight the corrections. The following notes have been affected by the corrections: (8) Financial Instruments, (25) Net Gain or Loss on Hedges, (26) Net Gain/Loss on Financial Instruments Measured at Fair Value and on Derecognition of Financial Assets Measured at Fair Value through Other Comprehensive Income, (32) Income Tax Expense, (35) Loans To and Receivables from Customers, (36) Derivative Financial Instruments, (41) Deferred Tax Assets, (43) Noncurrent Assets, (47) Derivative Financial Instruments, (50) Deferred Tax Liabilities, (53) Noncurrent Liabilities, (56) Carrying Amounts, Gains or Losses and Income or Expenses in respect of Financial Instruments, by Measurement Category, (57) Classes of Financial Instruments, (58) Fair Values of Financial Assets and Liabilities, (59) Measurement Levels of Financial Assets and Liabilities, (60) Offsetting of Financial Assets and Liabilities, (61) Default Risk, (64) Hedging Policy Disclosures, (65) Breakdown by Geographical Market and (66) Leases.

The prior-year income statement has been restated as follows to incorporate the corrections relating to the reversal of the application of portfolio fair value hedge accounting:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Jan. 1 – Dec. 31, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Net gain or loss on hedges	–50	46	–4
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	10	–66	–57
Operating result	**1,223**	**–21**	**1,202**
Profit before tax	**1,038**	**–21**	**1,017**
Income tax expense	–231	3	–228
Profit after tax	**806**	**–17**	**789**
Profit after tax attributable to Volkswagen AG	806	–17	789

The balance sheet as of January 01, 2020 has been restated as follows to incorporate the corrections relating to the reversal of the application of portfolio fair value hedge accounting:

€ million	Jan. 1, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Jan. 1, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,951	–2	39,950
Total loans to and receivables from customers	79,195	–2	79,194
Deferred tax assets	1,513	2	1,515
Total	**112,444**	**0**	**112,444**

€ million	Jan. 1, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Jan. 1, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Equity and liabilities			
Deferred tax liabilities	655	2	657
Equity	12,029	–3	12,026
Retained earnings	9,228	–3	9,225
Other reserves	–859	–	–859
Total	**112,444**	**0**	**112,444**

The balance sheet as of December 31, 2020 has been restated as follows to incorporate the corrections relating to the reversal of the application of portfolio fair value hedge accounting:

€ million	Dec. 31, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Dec. 31, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,984	–21	39,963
Total loans to and receivables from customers	78,652	–21	78,631
Deferred tax assets	1,753	6	1,760
Total	**117,845**	**–15**	**117,830**

€ million	Dec. 31, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Dec. 31, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Equity and liabilities			
Deferred tax liabilities	571	4	574
Equity	12,760	–19	12,742
Retained earnings	10,568	–20	10,548
Other reserves	–1,467	1	–1,466
Total	**117,845**	**–15**	**117,830**

The prior-year cash flow statement has been restated as follows to incorporate the corrections relating to the reversal of the application of portfolio fair value hedge accounting:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Corrections from reversal of application of portfolio fair value hedge accounting	Jan. 1 – Dec. 31, 2020 after corrections from reversal of application of portfolio fair value hedge accounting
Profit before tax	**1,038**	**–21**	**1,017**
Change in loans to and receivables from customers	–503	21	–483
Cash flows from operating activities	**2,453**	**0**	**2,453**
Cash and cash equivalents at end of prior period	**106**	**0**	**106**
Cash flows from operating activities	2,453	0	2,453
Cash and cash equivalents at end of period	**47**	**0**	**47**

MICRO FAIR VALUE HEDGE ACCOUNTING

Disclosures relating to the net gains or losses on hedges can be found in note (25) Net Gain or Loss on Hedges. In previously published presentations of the net gains and losses from micro fair value hedges, the gains and losses from hedging instruments reported in the notes were broken down into gains and losses from the effective and ineffective portions of hedging instruments.

In the corrected presentation of gains and losses from micro fair value hedges in note (25), the gains and losses from hedging instruments are no longer broken down into separate effective and ineffective portions but are shown simply as gains and losses from hedging instruments. The corrected presentation reports gains and losses from fair value hedges as the balance of the gains/losses on hedging instruments and the gains/losses on hedged items. Hedge ineffectiveness under fair value hedges is disclosed as an "of which" line after the gains and losses from fair value hedges.

In the prior-year figures, the corrected presentation of the gains and losses from micro fair value hedges means that the gains of €110 million previously shown as the effective portion of hedging instruments and the losses of €4 million previously shown as the ineffective portion of hedging instruments are now together reported as gains on hedging instruments of €105 million.

INVESTMENT PROPERTY

Land and buildings in connection with data processing centers are leased out by a company in the VW FS AG Group to a joint venture with the aim of generating rental income for the VW FS AG Group. In the prior year, the land and buildings were incorrectly reported under property and equipment in the balance sheet; the error has been corrected and the items are now accounted for as investment property. The correction has led to changes solely to the figures reported in the income statement, balance sheet and cash flow statement and to the associated disclosures in the following notes: (19) Net Income from Leasing Transactions, (28) General and Administrative Expenses, (29) Net Other Operating Income/Expenses, (39) Property and Equipment, (40) Investment Property and (43) Noncurrent Assets.

The prior-year income statement has been restated as follows, reflecting the corrected reporting of investment property:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Adjustments from corrections to the reporting of investment property	Jan. 1 – Dec. 31, 2020 after corrections to the reporting of investment property
Income from leasing transactions	17,457	8	17,465
Depreciation, impairment losses and other expenses from leasing transactions	–15,450	–4	–15,454
Net income from leasing transactions	2,006	4	2,010
General and administrative expenses	–2,071	4	–2,067
Other operating income	1,586	–8	1,578
Net other operating income/expenses	521	–8	513
Operating result	**1,223**	**–**	**1,223**
Profit before tax	**1,038**	**–**	**1,038**
Income tax expense	–231	–	–231
Profit after tax	**806**	**–**	**806**
Profit after tax attributable to Volkswagen AG	806	–	806

The balance sheet as of January 1, 2020 has been restated as follows, reflecting the corrected reporting of investment property:

€ million	Jan. 1, 2020 before corrections	Adjustments from corrections to the reporting of investment property	Jan. 1, 2020 after corrections to the reporting of investment property
Assets			
Property and equipment	498	–68	430
Investment property	17	68	86
Total	**112,444**	**–**	**112,444**

The balance sheet as of Dec. 31, 2020 has been restated as follows, reflecting the corrected reporting of investment property:

€ million	Dec. 31, 2020 before corrections	Adjustments from corrections to the reporting of investment property	Dec. 31, 2020 after corrections to the reporting of investment property
Assets			
Property and equipment	494	–65	429
Investment property	15	65	80
Total	**117,845**	**0**	**117,845**

In the prior-year cash flow statement figures, an amount of €0.2 million has been reclassified from acquisition of other assets to acquisition of investment property.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The prior-year figures for loans to and receivables from customers in the class "Measured at amortized cost" and for lease receivables in note (58) Fair Values of Financial Assets and Liabilities have been restated because the fair values were incorrectly transcribed in the previous year. The fair value for loans to and receivables from customers has been corrected from €38,604 million to €38,556 million and the difference between the carrying amount and fair value from €259 million to €210 million. The fair value for lease receivables has been corrected from €42,051 million to €41,136 million and the difference between the carrying amount and fair value from €2,067 million to €1,152 million. Accordingly, the figure for loans to and receivables from customers in the class "Measured at amortized cost" at Level 3 in the table showing the allocation of financial instruments to the three-level fair value hierarchy by class in note (59) Measurement Levels of Financial Assets and Liabilities has been corrected by €48 million to €37,384 million.

DEFAULT RISK RATING CLASSES IN THE DEFAULT RISK DISCLOSURES

The prior-year figures for the gross carrying amounts of financial assets by default risk rating class under the "Default Risk Rating Classes" header in note (61) Default Risk have been restated as follows in order to rectify incorrectly classified gross carrying amounts of financial assets by default risk rating class:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	–21	–234	–	277	–30
Default risk rating class 2	0	–	–	–	7
Default risk rating class 3	–	–	–	–	2
Total	**–21**	**–234**	**–**	**277**	**–20**

The prior-year figures for the gross carrying amounts of financial assets by default risk rating class under the "Default Risk Rating Classes" header in note (61) Default Risk have also been restated as follows to reflect the corrected accounting treatment of buyback transactions:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	–	–	–	748	–
Default risk rating class 2	–	–	–	99	–
Default risk rating class 3	–	–	–	39	–
Total	**–**	**–**	**–**	**886**	**–**

In addition, the prior-year figures for the gross carrying amounts of financial assets by default risk rating class under the "Default Risk Rating Classes" header in note (61) Default Risk have been restated as follows to incorporate the corrections to reverse the application of portfolio fair value hedge accounting:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	–	–	–	–21	–
Default risk rating class 2	–	–	–	–	–
Default risk rating class 3	–	–	–	–	–
Total	**–**	**–**	**–**	**–21**	**–**

To summarize the corrections individually described above, the prior-year figures for the gross carrying amounts of financial assets by default risk rating class under the "Default Risk Rating Classes" header in note (61) Default Risk have been restated as follows:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	–21	–234	–	1,004	–30
Default risk rating class 2	0	–	–	99	7
Default risk rating class 3	–	–	–	39	2
Total	**–21**	**–234**	**–**	**1,142**	**–20**

RECONCILIATION OF GROSS CARRYING AMOUNTS IN THE DEFAULT RISK DISCLOSURES

The correction of the incorrectly classified gross carrying amounts of financial assets by default risk rating class described above under the header "Default Risk Rating Classes in the Default Risk Disclosures" has also affected the prior-year reconciliation of gross carrying amounts in the table showing the gross carrying amounts of financial assets measured at amortized cost. The table presenting prior-year figures in note (61) Default Risk has been restated as follows:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2020	**–**	**–**	**–**	**–**	**–**	**–**
Changes	20	–	–	–	–20	–
Carrying amount as of Dec. 31, 2020	**20**	**–**	**–**	**–**	**–20**	**–**

A summary of the corrections relating to the prior-year reconciliation of gross carrying amounts in the table showing the gross carrying amounts for financial assets measured at amortized cost is provided under the header "Disclosures on Stage Transfers within the Reconciliation of Gross Carrying Amounts of Financial Assets Measured at Amortized Cost".

The prior-year figures in the reconciliation of the gross carrying amounts of lease receivables in the class "Not allocated to any measurement category" in note (61) Default Risk have been restated as follows to reflect the corrected accounting treatment of buyback transactions:

	SIMPLIFIED APPROACH
€ million	2020
Carrying amount as of Jan. 1 before corrections	**–**
Adjustments due to corrected treatment of buyback transactions	918
Carrying amount as of Jan. 1 after corrections	**918**
Exchange differences on translating foreign operations	–11
Changes in basis of consolidation	–
Changes	–21
Modifications	–
Carrying amount as of Dec. 31	**886**

The prior-year figures in the reconciliation of the gross carrying amounts of lease receivables in the class “Not allocated to any measurement category” in note (61) Default Risk have been restated as follows to incorporate the corrections to reverse the application of portfolio fair value hedge accounting:

€ million	SIMPLIFIED APPROACH 2020
Carrying amount as of Jan. 1 before corrections	**–**
Corrections from reversal of application of portfolio fair value hedge accounting	–2
Carrying amount as of Jan. 1 after corrections	**–2**
Exchange differences on translating foreign operations	–
Changes in basis of consolidation	–
Changes	–19
Modifications	–
Carrying amount as of Dec. 31	**–21**

To summarize the changes individually described above relating to the corrected accounting treatment of buyback transactions and to the corrections to reverse the application of portfolio fair value hedge accounting, the prior-year figures in the reconciliation of the gross carrying amounts of lease receivables in the class “Not allocated to any measurement category” in note (61) Default Risk have been restated as follows:

€ million	SIMPLIFIED APPROACH 2020
Carrying amount as of Jan. 1 before corrections	**–**
Adjustments due to the corrected accounting treatment of buyback transactions and corrections from the reversal of the application of portfolio fair value hedge accounting	916
Carrying amount as of Jan. 1 after corrections	**916**
Exchange differences on translating foreign operations	–11
Changes in basis of consolidation	–
Changes	–40
Modifications	–
Carrying amount as of Dec. 31	**865**

DISCLOSURES ON STAGE TRANSFERS WITHIN THE RECONCILIATION OF GROSS CARRYING AMOUNTS OF FINANCIAL ASSETS MEASURED AT AMORTIZED COST

In the reconciliation of the gross carrying amounts of financial assets measured at amortized cost, only the portfolios of financial assets at the time of the transfer are now used as a basis for the presentation of the figures in the transfers to Stage 1, Stage 2 and Stage 3 lines. Other portfolio changes, such as additions and derecognitions, are presented in separate lines. Accordingly, the prior-year figures in the reconciliation of the gross carrying amounts of financial assets measured at amortized cost in note (61) Default Risk have been adjusted as follows:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of January 1, 2020	**–**	**–**	**–**	**–**	**–**	**–**
Changes	–42	–36	–10	–	–	–88
Transfers to						
Stage 1	42	–	–	–	–	42
Stage 2	–	36	–	–	–	36
Stage 3	–	–	10	–	–	10
Carrying amount as of Dec. 31, 2020	**–**	**–**	**–**	**–**	**–**	**–**

To summarize the adjustments relating to the impact from the incorrectly allocated gross carrying amounts by default risk rating class on the reconciliation of gross carrying amounts under the header "Reconciliation of Gross Carrying Amounts in the Default Risk Disclosures" and the adjustments to correct the presentation of the stage transfer disclosures, the prior-year figures in the reconciliation of the gross carrying amounts of financial assets measured at amortized cost in note (61) Default Risk have been restated as follows:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of January 1, 2020	**–**	**–**	**–**	**–**	**–**	**–**
Changes	–21	–36	–10	–	–20	–88
Transfers to						
Stage 1	42	–	–	–	–	42
Stage 2	–	36	–	–	–	36
Stage 3	–	–	10	–	–	10
Carrying amount as of Dec. 31, 2020	**20**	**–**	**–**	**–**	**–20**	**–**

RELATED PARTY DISCLOSURES

The prior-year figures for business relationships with related parties in note (71) Related Party Disclosures have been corrected because a business was incorrectly allocated to the "Other related parties in the consolidated entities" category. The correction of the prior-year figures involved reclassifying amounts between the "Other related parties in the consolidated entities" and "Joint ventures" categories within the loans and receivables and interest income items.

The prior-year figure for loans and receivables under other related parties in the consolidated entities has been reduced by €2,240 million to €6,429 million. The loans and receivables figure under joint ventures has been increased by the same amount to €6,568 million.

Interest income under other related parties in the consolidated entities has been decreased by €14 million to €69 million, with a corresponding increase to €59 million under joint ventures.

SUMMARY RECONCILIATION OF CHANGES TO PRIOR-YEAR FIGURES DUE TO CORRECTION OF ERRORS

The following tables show a summary reconciliation from the prior-year figures before corrections to the prior-year figures after corrections for the prior-year figures in the income statement, the balance sheets as of January 1, 2020 and December 31, 2020, and the cash flow statement that have been restated as a result of the error corrections described above.

Reconciliation for the prior-year income statement:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Error corrections	Jan. 1 – Dec. 31, 2020 restated
Income from leasing transactions	17,457	–519	16,938
Depreciation, impairment losses and other expenses from leasing transactions	–15,450	540	–14,911
Net income from leasing transactions	2,006	21	2,027
Provision for credit risks	–600	–10	–610
Net gain or loss on hedges	–50	46	–4
Net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income	10	–66	–57
General and administrative expenses	–2,071	4	–2,067
Other operating income	1,586	–8	1,578
Net other operating income/expenses	521	–8	513
Operating result	**1,223**	**–13**	**1,210**
Profit before tax	**1,038**	**–13**	**1,024**
Income tax expense	–231	3	–228
Profit after tax	**806**	**–10**	**796**
Profit after tax attributable to Volkswagen AG	806	–10	796

Reconciliation for the balance sheet as of January 1, 2020:

€ million	Jan. 1, 2020 before corrections	Error corrections	Jan. 1, 2020 restated
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,951	880	40,831
Total loans to and receivables from customers	79,195	880	80,075
Property and equipment	498	–68	430
Lease assets	22,776	–844	21,932
Investment property	17	68	86
Deferred tax assets	1,513	15	1,528
Other assets	3,276	–35	3,241
Total	**112,444**	**16**	**112,460**

€ million	Jan. 1, 2020 before corrections	Error corrections	Jan. 1, 2020 restated
Equity and liabilities			
Deferred tax liabilities	655	21	676
Other liabilities	1,413	–9	1,404
Equity	12,029	3	12,033
Retained earnings	9,228	3	9,231
Other reserves	–859	–	–859
Total	**112,444**	**16**	**112,460**

Reconciliation for the balance sheet as of December 31, 2020:

€ million	Dec. 31, 2020 before corrections	Error corrections	Dec. 31, 2020 restated
Assets			
Loans to and receivables from customers attributable to			
Leasing business	39,984	819	40,803
Total loans to and receivables from customers	78,652	819	79,471
Property and equipment	494	–65	429
Lease assets	27,311	–801	26,510
Investment property	15	65	80
Deferred tax assets	1,753	–2	1,752
Other assets	3,197	–28	3,169
Total	**117,845**	**–11**	**117,834**

€ million	Dec. 31, 2020 before corrections	Error corrections	Dec. 31, 2020 restated
Equity and liabilities			
Deferred tax liabilities	571	1	572
Other liabilities	1,684	–7	1,678
Equity	12,760	–6	12,755
Retained earnings	10,568	–7	10,561
Other reserves	–1,467	1	–1,466
Total	**117,845**	**–11**	**117,834**

Reconciliation for the prior-year cash flow statement:

€ million	Jan. 1 – Dec. 31, 2020 before corrections	Error corrections	Jan. 1 – Dec. 31, 2020 restated
Profit before tax	**1,038**	**–13**	**1,024**
Depreciation, amortization, impairment losses and reversals of impairment losses	5,003	–403	4,600
Net interest expense and dividend income	–2,443	–66	–2,509
Change in loans to and receivables from customers	–503	42	–461
Change in lease assets	–9,182	379	–8,803
Change in other assets related to operating activities	31	–8	23
Change in other liabilities related to operating activities	219	2	222
Interest received	3,722	66	3,788
Cash flows from operating activities	**2,453**	**–**	**2,453**
Acquisition of investment property	0	0	0
Acquisition of other assets	–71	0	–70
Cash flows from investing activities	**–1,485**	**–**	**–1,485**
Cash and cash equivalents at end of prior period	**106**	**–**	**106**
Cash flows from operating activities	2,453	–	2,453
Cash flows from investing activities	–1,485	–	–1,485
Cash and cash equivalents at end of period	**47**	**–**	**47**

Impact of the Covid-19 Pandemic

Overall, the global spread of SARS-COV-2 continued to have a substantial detrimental impact in all areas of society and the economy in 2021 even though the increasing availability of testing capacity and vaccines meant that some restrictions and measures could be lifted (at least for a while).

Because of the Covid-19 pandemic, regular reports continued to be generated in 2021 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 dealerships.

In terms of the Group's overall portfolio, the credit risk situation in 2021 was again shaped by the Covid-19 pandemic. The measures introduced in the previous year to avert and cushion the economic impact of the Covid-19 pandemic for customers, such as payment deferrals and joint support with the brands for the dealerships, had the desired lasting effect and were gradually withdrawn in the first half of the reporting year. The action taken mitigated potential effects of the Covid-19 pandemic on the Group's credit risk. The tendencially higher level of estimation uncertainty caused by the pandemic relates primarily to projected credit quality, taking into account forward-looking factors. In the previous year, management had occasionally needed to apply overlays in the provision for credit risks if the models used for credit risk were unable to fully reflect the effects of the pandemic. All available and sufficiently reliable information relevant to the estimate is taken into account when recognizing overlays. These management overlays were reversed in the reporting year.

Despite the pandemic, residual value risk declined substantially because of the strong demand for used vehicles, which in turn resulted from the fall in deliveries of new vehicles. Nevertheless, a heightened level of estimation uncertainty still remains. 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. In 2021, risk premiums returned to pre-pandemic levels and in some cases fell even lower.

Regarding funding, the Group's main sources of funding continued to be available and could be used as required. Funding costs were lower than the prior-year level, although the volume of business was higher.

The mandatory annual impairment tests for goodwill, brand names and other intangible assets with indefinite useful lives, taking into account planning that factored in the Covid-19 pandemic, did not identify the need to recognize any impairment losses.

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 2021.

Since January 1, 2021, it has been mandatory to apply Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16). The phase 2 amendments address financial reporting issues that might arise when an interest rate benchmark rate is replaced with an alternative rate. The amendments introduce practical expedients or exemptions for modifications of financial assets, financial liabilities, lease liabilities and hedges. If contractual cash flows are modified by replacing the existing interest rate benchmark on an economically equivalent basis as a direct consequence of the interest rate benchmark reform, such modifications must be accounted for by adjusting the effective interest rate without direct modification gains or losses. A similar practical expedient has been introduced through amendments to IFRS 16 to cover the accounting treatment of lease liabilities. In addition, under the amendments to the standards, a hedge relationship does not need to be discontinued following an economically equivalent switch to a new interest rate benchmark; the hedge may continue, provided that the hedge documentation is appropriately updated and the hedge continues to satisfy the other hedge accounting requirements.

The VW FS AG Group has been affected by the interest rate benchmark reform largely because of the switch from GBP LIBOR to SONIA. In fiscal year 2021, the VW FS AG Group successfully completed the switch to the SONIA interest rate benchmark for the transactions in existence at the reporting date. In the case of derivatives based on GBP LIBOR that continued in existence beyond the reporting date and for which an interest rate adjustment was applied after the reporting date, the interest rate benchmarks were replaced on an economically equivalent basis during the contractual term in the reporting year without agreeing any additional compensation payments. Non-derivative financial liabilities from ABS transactions were also switched to SONIA. Overall, there was no material impact on the consolidated financial statements from the switch from GBP LIBOR to SONIA.

In addition, an amendment to IFRS 16 Leases extended the option for lessees to apply practical expedients in assessing whether rent concessions in connection with the Covid-19 pandemic represented lease modifications. As in the previous year, the VW FS AG Group is not making use of this option.

The amended provisions referred to above 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 2021 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 the year under review.

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	Yes	No material impact
IFRS 17	Insurance Contracts	May 18, 2017	January 1, 2023	Yes[2]	Detailed description following the overview in the table
IFRS 17	Insurance Contracts – Amendments to IFRS 17	June 25, 2020	January 1, 2023	Yes[2]	Detailed description following the overview in the table
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2023	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	No	Some changes to disclosures in the notes based on the amended requirements
IAS 8	Definition of accounting estimates	February 12, 2021	January 1, 2023	No	No material impact
IAS 12	Deferred taxes on leases and decommissioning and restoration liabilities	May 7, 2021	January 1, 2023	No	No material impact
IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	May 14, 2020	January 1, 2022	Yes	No material impact
IAS 37	Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract	May 14, 2020	January 1, 2022	Yes	No material impact
	Annual Improvements to International Financial Reporting Standards 2018–2020[3]	May 14, 2020	January 1, 2022	Yes	No material impact

1 Requirement for initial application from the VW FS AG perspective.
2 The EU's endorsement includes an option that exempts companies from applying a valuation requirement in certain cases.
3 Minor amendments to a number of IFRSs (IFRS 1, IFRS 9 and IAS 41).

EXPECTED IMPACT OF IFRS 17 INSURANCE CONTRACTS AND OF AMENDMENTS TO IFRS 17 INSURANCE CONTRACTS

IFRS 17 applies to primary and reinsurance contracts in the VW FS AG Group. The insurance contracts issued and 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 ongoing 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, 2021.

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. The VW FS AG Group does not have any business relationships with unconsolidated structured entities. Business relationships with unconsolidated structured entities in existence in previous years were ended during the prior year without any material impact on the financial position or financial performance of the VW FS AG Group; there were no longer any such business relationships in existence as of December 31, 2020.

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.

COMPOSITION OF THE VW FS AG GROUP

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

	2021	2020
VW FS AG and consolidated subsidiaries		
Germany	8	8
International	50	47
Subsidiaries recognized at cost		
Germany	8	8
International	46	49
Associates, equity-accounted joint ventures		
Germany	3	3
International	6	7
Associates, joint ventures and equity investments recognized at cost		
Germany	5	5
International	8	9
Total	**134**	**136**

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.

The subsidiary OOO Volkswagen Financial Services RUS, Moscow, which had previously not been consolidated for reasons of materiality, was consolidated in the reporting period. In January 2021, Volkswagen Finance Pvt. Ltd., Mumbai, a wholly owned subsidiary of Volkswagen Financial Services AG, acquired a further 42.6% of the shares in Kuwy Technology Service Pvt. Ltd., Chennai, thereby increasing its total shareholding to 67.7%. The increase in the shareholding meant that this company, which had previously been an associate, became a subsidiary in the VW FS AG Group. Kuwy Technology Service Pvt. Ltd. continues not to be consolidated for reasons of materiality.

The subsidiaries Truckparking B.V., Utrecht, Netherlands, and Truckparking LLC, Arlington/VA, USA, which were not consolidated, have been wound up. These two companies had already been put into liquidation in the previous year because they did not have any business operations to speak of.

In June 2021, Volkswagen Financial Services AG sold its equity-accounted joint venture Volkswagen Doğuş Finansman A.S., Istanbul, to its joint venture VDF Servis ve Ticaret A.S., Istanbul, which is also accounted for using the equity method.

In December 2021, the Chinese subsidiary Volkswagen Leasing (Dalian) Co., Ltd., Dalian, which was not consolidated, was wound up on the basis of a new strategic plan.

The additions and disposals of special purpose entities in 2021 were as follows:

Additions:
- Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco
- Driver China Twelve Auto Loan Securitization Trust, Beijing
- Driver China Thirteen Auto Loan Securitization Trust, Beijing

Disposals:
- Driver Australia Three Pty. Ltd., Ashfield

The changes in the composition of the VW FS AG Group described above did not have any material impact on the financial position or financial performance of the Group.

JOINT VENTURE DISCLOSURES PURSUANT TO IFRS 12

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:

	VOLKSWAGEN PON FINANCIAL SERVICES B.V. (NETHERLANDS)		VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM)		VOLKSWAGEN MØLLER BILFINANS A/S (NORWAY)	
€ million	**2021**	2020	**2021**	2020	**2021**	2020
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Loans to and receivables from banks	5	21	67	42	13	11
Loans to and receivables from customers	1,034	971	1,772	1,836	2,020	1,933
Lease assets	2,278	1,988	671	617	–	–
Other assets	210	338	79	130	11	13
Total	**3,527**	**3,319**	**2,589**	**2,624**	**2,044**	**1,957**
of which: noncurrent assets	3,105	2,776	1,683	1,607	1,737	1,623
of which: current assets	422	543	905	1,017	307	334
of which: cash	5	21	67	42	13	11
Liabilities to banks	–	–	2,248	2,299	1,541	1,503
Liabilities to customers	2,385	2,294	132	130	37	47
Notes, commercial paper issued	761	695	–	–	–	–
Other liabilities	173	164	12	17	90	70
Equity	207	167	197	178	377	338
Total	**3,527**	**3,319**	**2,589**	**2,624**	**2,044**	**1,957**
of which: noncurrent liabilities	2,140	1,791	1,079	963	819	657
of which: current liabilities	1,180	1,361	1,313	1,483	848	963
of which: noncurrent financial liabilities	2,120	1,778	1,070	955	719	570
of which: current financial liabilities	1,000	1,157	1,178	1,344	822	933
Revenue	1,065	1,020	621	701	102	105
of which: interest income	120	108	40	37	102	102
Expenses	981	1,007	597	688	63	70
of which: interest expense	27	26	10	11	21	28
of which: depreciation and amortization	440	412	126	120	12	9
Profit/loss from continuing operations, before tax	**84**	**13**	**24**	**13**	**40**	**35**
Income tax expense or income	23	3	6	5	17	8
Profit/loss from continuing operations, net of tax	**61**	**10**	**18**	**8**	**23**	**27**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–	–	1	0	–	–
Total comprehensive income	**61**	**10**	**19**	**8**	**23**	**27**
Dividends received	12	12	–	–	–	–

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)
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
Dividend	20	–	–
Equity of the joint venture as of Dec. 31, 2020	**167**	**178**	**338**
Share of equity	100	89	172
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2020	**141**	**89**	**172**
2021			
Equity of the joint venture as of Jan. 1, 2021	167	178	338
Profit/loss	61	18	23
Other comprehensive income	–	1	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	16
Dividend	20	–	–
Equity of the joint venture as of Dec. 31, 2021	**207**	**197**	**377**
Share of equity	124	98	192
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2021	**165**	**98**	**192**

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

€ million	2021	2020
Carrying amount of the share of equity as of Dec. 31	**331**	**341**
Profit/loss from continuing operations, net of tax	24	15
Profit/loss from discontinued operations, net of tax	–	–
Other comprehensive income, net of tax	–3	1
Total comprehensive income	**21**	**16**

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

Cash attributable to joint ventures amounting to €185 million (previous year: €197 million) was pledged as collateral in connection with ABS transactions and was therefore not available to the VW FS AG Group.

Financial guarantees to joint ventures amounted to €70 million (previous year: €70 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. Please refer to note (12) for information on the subsequent recognition of goodwill. 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 the monthly average rates for the relevant months of underlying transactions. 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 line items are translated into euros using the monthly average rates for the relevant months of underlying transactions.

The following table shows the closing date middle spot rates used and, for information purposes, the unweighted average rates for the year derived from the monthly average rates used.

		BALANCE SHEET, MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT, AVERAGE RATE	
	€1 =	2021	2020	2021	2020
Australia	AUD	1.56120	1.58605	1.57478	1.65529
Brazil	BRL	6.30680	6.37555	6.38119	5.88850
Denmark	DKK	7.43670	7.44050	7.43706	7.45439
United Kingdom	GBP	0.84000	0.89925	0.86000	0.88904
India	INR	84.16900	89.69000	87.46457	84.57106
Japan	JPY	130.32000	126.51000	129.86045	121.77307
Mexico	MXN	23.14175	24.41145	23.99548	24.51746
Poland	PLN	4.59425	4.55615	4.56535	4.44376
Republic of Korea	KRW	1,344.96500	1,336.21000	1,353.93832	1,345.14093
Russia	RUB	84.97785	91.77540	87.22880	82.63583
Sweden	SEK	10.25475	10.02470	10.14603	10.48882
Czech Republic	CZK	24.85900	26.23900	25.65394	26.45443
People’s Republic of China	CNY	7.18700	8.02895	7.63330	7.87025

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.

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

Gains from the sale of used ex-lease vehicles are recognized when the buyer has acquired title to the vehicle concerned. The gains are reported under income from leasing transactions. The expenses that are incurred in connection with the disposal of used ex-lease vehicles are recognized under depreciation, impairment losses and other expenses from leasing transactions.

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.

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.

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. Liabilities are recognized for potential tax risks using best estimates.

Deferred tax assets are generally recognized for deductible temporary differences between the carrying amounts in the consolidated balance sheet and those in the tax base, for tax loss carryforwards and for tax credits, provided it is anticipated that they can be used. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts in the consolidated balance sheet and those in the tax base (temporary concept).

These deferred tax assets and liabilities are recognized in the amount of the expected tax refund or expense in subsequent fiscal years on the basis of the tax rate expected to apply at the time the asset is recovered or the liability settled. 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.

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.

Loans and receivables are generally derecognized when they are repaid or settled. There are no indications of derecognition for loans/receivables from ABS transactions carried out by the Group.
The accounting policies relating to receivables from customers attributable to the leasing business in the VW FS AG Group are described in note (13) Leases.

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 (36) and (47).

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.

In the case of derivatives that are designated as hedges of future cash flows in cash flow hedges 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.

Interest income or interest expense related to derivatives is reported in the income statement item in which the interest income or interest expense related to the hedged item is presented.

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, finance lease receivables and receivables related to payments due under operating leases 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, largely in the capital markets business, 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 is 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 (61).

MODIFICATIONS

Modifications falling within the scope of IFRS 9 are adjustments of an individual financial instrument or finance lease in which the provisions of IFRS 9 must be applied in accordance with IFRS 16.80(b) and in which the nature, amount and/or timing of the contractual cash flows from the contract are modified. They can be caused by credit rating or market factors. If modified cash flows arise in connection with financial assets or financial liabilities, an assessment must be carried out to establish whether the modification is significant or not. The significance of a modification is assessed from both a qualitative perspective (e.g. change in cash flow currency, adjustment in subordination, switch from fixed to variable interest rate) and a quantitative perspective. As a quantitative guideline, the VW FS AG Group deems any variation in the discounted cash flows for a financial asset or a financial liability of more than 10% to be significant.

If a modification is significant, the financial asset or financial liability concerned must be derecognized and the modified contract recognized as a new financial asset or financial liability at fair value, taking into account a new effective interest rate. In the case of financial assets that are credit-impaired when purchased or originated and thereby allocated to Stage 4 (POCI assets), a credit-adjusted effective interest rate is applied. Financial assets that are not posted as credit-impaired as part of a significant modification and are subject to the general approach are allocated to Stage 1; in subsequent measurement, they are allocated to Stage 2 if a significant increase in credit risk is determined in connection with the modification.

If a modification is not significant, the gross carrying amount of the financial asset or financial liability must be adjusted such that the gross carrying amount after modification reflects the modified cash flows discounted with the original effective interest rate, including all the costs incurred as a result of the modification of the agreement. The old financial asset or financial liability is therefore not derecognized and there is no recognition of a new asset or liability. The difference between the gross carrying amount before and after modification is the modification gain or loss. If a significant increase in credit risk is determined as part of a non-significant modification of a financial asset subject to the general approach, the asset is allocated to Stage 2.

LIABILITIES

Liabilities to banks and customers (note 44), notes and commercial paper issued (note 45), and subordinated capital liabilities (note 52) 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 (38). 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, such as goodwill or brand names, 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 conducts 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.

Lease income and lease expenses that the Group generates or incurs as a lessor are recognized under income from leasing transactions and depreciation, impairment losses and other expenses from leasing transactions in the income statement and are explained in note (19) Net Income from Leasing Transactions. Net income from leasing transactions largely consists of the following components: revenue from operating leases, interest income from finance leases, gains and expenses from the disposal of used ex-lease vehicles, net interest income/expense from derivatives used for the economic hedging of finance leases, and depreciation and impairment losses in respect of lease assets.

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. The net interest income or expense from derivatives held for economic interest rate hedging in connection with some of the finance lease receivables is recognized under income from leasing transactions. This net interest income or expense is reported within the income from leasing transactions in order to present hedged interest income from finance leases, including the net interest income/expense from economic interest rate hedging, as it accrues to the VW FS AG Group.

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. Depreciation and impairment losses are reported under depreciation, impairment losses and other expenses from leasing transactions. Reversals of impairment losses are included in income from leasing transactions. Leasing revenue is recognized on a straight-line basis over the lease term and is reported in income from leasing transactions.

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, operating and office equipment" is shown in note (66) 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 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

The VW FS AG Group enters into vehicle purchase contracts in which there is a fixed buyback agreement with the vehicle sellers, who are entities in the Volkswagen Group. Ultimately, these contracts entitle the Group solely to use the vehicles during an agreed timeframe, the contracts being accounted for as leases. The Group is the lessee in the primary lease and uses the vehicles made available under the lease to conduct leasing business with customers. The leases with customers are treated as subleases linked to the right of use received for the period of use and are classified as finance leases or operating leases according to the classification criteria. The vast majority of buyback transactions are classified as finance leases and the values arising from the transfer of the right of use are consequently presented as receivables from finance leases in the balance sheet. To a lesser extent, some transactions are classified as operating leases and the values arising from the transfer the right of use are thus in this case accounted for as lease assets.

In connection with buyback transactions, buyback receivables are also recognized under loans to and receivables from customers within other loans and receivables in the amount of the buyback values agreed at the inception of the lease. In the case of noncurrent leases (maturity of more than one year), the agreed buyback 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.

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. This item largely consists of data processing centers leased out to a joint venture and real estate assets leased 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 nine 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. Current contributions are recognized as pension expenses of the period concerned. In 2021, they amounted to a total of €49 million (previous year: €46 million) in the VW FS AG Group. Contributions to the compulsory state pension system in Germany amounted to €38 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 (48).

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 (68).

The share-based payment within other provisions and within other liabilities encompasses cash-settled performance-related remuneration plans based on Volkswagen AG preferred shares. The commitments are therefore accounted for as cash-settled plans in accordance with IFRS 2. During the term to maturity of these remuneration plans, the commitments are measured at fair value 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 –0.04% (previous year: –0.2%) 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 Impact of the Covid-19 Pandemic section for further information on estimation uncertainty arising from the effects of the Covid-19 pandemic.

Currently, additional estimation uncertainty arising from ESG considerations is believed to be of minor significance in terms of the impact on the consolidated financial statements.

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 nonfinancial 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. The assumptions are based on current estimates by third-party institutions, which include economic research institutes, banks, multinational organizations and consulting firms. 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. Net Income from Leasing Transactions

The breakdown of net income from leasing transactions is as follows:

€ million	2021	2020 restated[1]
Leasing income from operating leases	5,796	4,865
Interest income from finance leases	1,830	1,852
Gains from the disposal of used ex-lease vehicles	11,195	9,871
Net interest income/expense from finance lease hedging derivatives	–73	–68
Miscellaneous income from leasing transactions	569	418
Income from leasing transactions	**19,316**	**16,938**
Lease assets depreciation and impairment losses	4,663	4,111
Expenses from the disposal of used ex-lease vehicles	10,591	9,808
Miscellaneous expenses from leasing transactions	927	992
Depreciation, impairment losses and other expenses from leasing transactions	**16,180**	**14,911**
Total	**3,136**	**2,027**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrected reporting of investment property.

20. 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 €58 million (previous year: €62 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 (66) Leases.

21. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €1,556 million (previous year: €1,630 million) related to service contracts requiring the recognition of income at a specific time, and €552 million (previous year: €470 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 €603 million had been included in the contractual liabilities for service contracts as of January 1, 2021. Of the income recognized in the prior year, income of €608 million had been included in the contractual liabilities for service contracts as of January 1, 2020.

22. Net Income from Insurance Business

The following table shows the net income from insurance business:

€ million	2021	2020
Insurance premiums earned	345	345
Insurance claims expenses	–128	–121
Reinsurance commissions and with-profits expenses	–60	–69
Other underwriting expenses	–1	0
Total	**155**	**155**

23. 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	2021	2020 restated[1]
Additions to provision for credit risks	–773	–981
Reversals of provision for credit risks	712	528
Direct write-offs	–161	–223
Income from loans and receivables previously written off	98	66
Net gain or loss from significant modifications	1	0
Total	**–122**	**–610**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

Additional credit risks to which the VW FS AG Group is exposed as a result of various critical situations (Brexit effects, economic crises) in the United Kingdom, Russia, Brazil, Mexico and the Republic of Korea were accounted for in the reporting period. Income of €61 million was recognized in the reporting period (previous year: income of €47 million), mainly due to reversals in response to a fall in the risk anticipated in connection with the United Kingdom and the Republic of Korea as well as the sale of a portfolio in India.

24. 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	2021	2020
Fee and commission income	631	560
of which commissions from insurance broking	396	389
Fee and commission expenses	–443	–472
of which sales commission from financing business	–198	–219
Total	**188**	**89**

25. 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	2021	2020 restated[1]
Fair value hedges		
Gains/losses on hedging instruments	–441	105
Gains/losses on hedged items	430	–110
Gains/losses from fair value hedges	**–11**	**–4**
of which ineffectiveness fair value hedges	–11	–4
Cash flow hedges		
Gains/losses from the reclassification of reserves	–62	56
Gains/losses from translation of foreign currency loans/receivables and liabilities	62	–57
Gains/losses from the ineffective portion of hedging instruments	0	0
Total	–11	–4

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrections to reverse the application of portfolio fair value hedge accounting and corrections to amend the presentation of the net gains and losses from micro fair value hedges.

26. 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 requirements for hedge accounting are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2021	2020 restated[1]
Gains/losses on derivatives not designated as hedging instruments	271	–57
Gains/losses on marketable securities measured at fair value through profit/loss	5	–1
Gains/losses on loans/receivables measured at fair value through profit/loss	3	1
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	–	0
Total	**278**	**–57**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

27. Net Gain/Loss on Derecognition of Financial Assets Measured at Amortized Cost

The net loss resulted from the disposal of the private customer financing portfolio of Volkswagen Finance Private Ltd., Mumbai. In terms of the VW FS AG Group as a whole, the disposal of this portfolio was a one-time sale of a discrete portfolio of minor significance in the Indian market. The sale of this portfolio of financial assets measured at amortized cost did not therefore have any impact on the existing objective for financial assets measured at amortized cost held in the Group of holding financial assets in order to collect contractual cash flows ("hold to collect" business model). The "Net gain/loss on derecognition of financial assets measured at amortized cost" line item has been added to the income statement and note (27) to the notes to the consolidated financial statements. In the previous year, there were no disposals that led to a net gain or loss from the derecognition of financial assets measured at amortized cost.

28. General and Administrative Expenses

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

€ million	2021	2020 restated[1]
Personnel expenses	–1,029	–926
Non-staff operating expenses	–1,147	–1,068
Advertising, public relations and sales promotion expenses	–65	–52
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–69	–74
Other taxes	–16	–10
Income from the reversal of provisions and accrued liabilities	28	62
Total	**–2,299**	**–2,067**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected reporting of investment property.

Personnel expenses comprise wages and salaries of €830 million (previous year: €747 million) as well as social security, post-employment and other employee benefit costs of €200 million (previous year: €179 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 (66) 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, as shown in the following table.

€ million	2021	2020
Financial statement audit services	2	2
Other attestation services	0	–
Tax consulting services	0	1
Other services	0	0
Total	**3**	**2**

The fees paid to the auditor for audit services in the year under review were 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.

29. Net Other Operating Income/Expenses

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

€ million	2021	2020 restated[1]
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	95	96
Income from cost allocations to other entities in the Volkswagen Group	501	461
Income from the reversal of provisions and accrued liabilities	115	140
Income from claims for damages	35	30
Income from the disposal of vehicles under loan agreements and finance leases	544	657
Income from non-significant modifications	8	8
Miscellaneous operating income	201	187
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–134	–123
Litigation and legal risk expenses	–61	–52
Expenses from the disposal of vehicles under loan agreements and finance leases	–524	–698
Expenses from non-significant modifications	–8	–11
Miscellaneous operating expenses	–136	–181
Total	**635**	**513**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrected reporting of investment property.

30. Net Gain/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 and reversals on shares in unconsolidated subsidiaries, joint ventures and associates.

31. 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.

32. 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	2021	2020 restated[1]
Current tax income/expense, Germany	–77	–201
Current tax income/expense, foreign	–453	–421
Current income tax expense	**–530**	**–622**
of which income (+)/expense (–) related to prior periods	–3	–11
Deferred tax income (+)/expense (–), Germany	–257	337
Deferred tax income (+)/expense (–), foreign	9	56
Deferred tax income (+)/expense (–)	**–249**	**394**
Income tax expense	**–778**	**–228**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

The reported tax expense in 2021 of €778 million (previous year restated: €228 million) is €123 million lower (previous year restated: €79 million lower) than the expected tax expense of €902 million (previous year restated: €307 million) calculated by applying the tax rate of 30.0% (previous year: 30.0%) 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	2021	2020 restated[1]
Profit before tax	**3,005**	**1,024**
multiplied by the domestic income tax rate of 30.0% (previous year: 30.0%)		
= Imputed income tax expense in the reporting period at the domestic income tax rate	**–902**	**–307**
+ Effects from different foreign tax rates	137	46
+ Effects from tax-exempt income	61	60
+ Effects from non-deductible operating expenses	–66	–144
+ Effects from loss carryforwards	0	–1
+ Effects from permanent differences	–46	–26
+ Effects from tax credits	36	1
+ Taxes attributable to prior periods	–26	194
+ Effects from changes in tax rates	29	3
+ Effects from non-deductible withholding taxes	–1	–1
+ Other variances	–1	–52
= Income tax expense	**–778**	**–228**
Effective tax rate in %	25.9	22.3

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

The statutory corporation tax rate in Germany for the 2021 assessment period was 15%. Including trade tax and the solidarity surcharge, this resulted in an aggregate tax rate of 29.99%.

In the German tax group, a tax rate of 30% (previous year: 30.0%) 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: 12.5% 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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Usable indefinitely	164	166	155	157
Usable within the next 5 years	91	28	14	16
Usable within 5 – 10 years	–	0	–	–
Usable within more than 10 years	1	9	–	–
Total	**256**	**203**	**169**	**173**
thereon deferred tax assets recognized	18	8	–	–

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €36 million (previous year: €1 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 €8 million (previous year: €29 million). In the reporting year, the reversal of impairment losses on deferred tax assets gave rise to deferred tax income of €28 million. No deferred tax assets were recognized in respect of deductible temporary differences of €114 million (previous year: €58 million).

The Group has recognized deferred tax assets of €144 million (previous year: €144 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 €42 million (previous year: €32 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 €95 million (previous year: €128 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.

33. Further Income Statement Disclosures

The following table shows both fee and commission income and expenses related to trust business and fee and commission income and expenses related to financial assets and financial liabilities not measured at fair value and not measured using the effective interest method.

€ million	2021	2020
Income from fees and commissions	27	29
Expenses from fees and commissions	0	0
Total	**27**	**29**

Balance Sheet Disclosures

34. Cash Reserve

The cash reserve includes credit balances of €33 million (previous year: €47 million) held with foreign central banks.

35. 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 (61).

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 loans and receivables from entities within the Volkswagen Group and receivables from leasing transactions with a buyback agreement.

Receivables from leasing transactions include due receivables amounting to €483 million (previous year: €550 million).

As of the reporting date, receivables from operating leases amounted to €266 million (previous year: €307 million).

At the end of the reporting period, a valuation allowance of €520 million (previous year: €581 million) was recognized as regards to loans and receivables from customers in the United Kingdom, Russia, Brazil, Mexico and the Republic of Korea, countries that are affected by various crises (Brexit, economic crises).

In note (35) Loans to and Receivables from Customers, the prior-year figures have been restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

36. Derivative Financial Instruments

This item comprises the positive fair values from hedges and from derivatives not designated as a hedging instrument. In the presentation within the table, the positive fair values of hedging derivatives are broken down into currency and interest rate components provided that there is an appropriate underlying hedging strategy. This approach has been applied for cross-currency interest rate swaps.

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Transactions to hedge against		
currency risk on assets using fair value hedges	0	14
currency risk on liabilities using fair value hedges	2	2
interest-rate risk using fair value hedges	336	686
interest-rate risk using cash flow hedges	28	0
currency risk on future cash flows using cash flow hedges	11	34
Hedging transactions	**378**	**735**
Assets arising from derivatives not designated as hedges	208	102
Total	**586**	**837**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

37. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2021	**830**	**564**	**1,394**
Foreign exchange differences	–	1	1
Changes in basis of consolidation	–	–43	–43
Additions	14	261	275
Reclassifications	–	–	–
Disposals	5	5	9
Changes/remeasurements recognized in profit or loss	112	–	112
Dividends	–12	–	–12
Other changes recognized in other comprehensive income	–14	–	–14
Balance as of Dec. 31, 2021	**926**	**778**	**1,704**
Impairment losses as of Jan. 1, 2021	**87**	**104**	**191**
Foreign exchange differences	–	1	1
Changes in basis of consolidation	–	–	–
Additions	52	14	66
Reclassifications	–	–	–
Disposals	–	5	5
Reversal of impairment losses	0	11	11
Balance as of Dec. 31, 2021	**139**	**104**	**243**
Net carrying amount as of Dec. 31, 2021	**787**	**674**	**1,460**
Net carrying amount as of Jan. 1, 2021	**743**	**460**	**1,203**

€ 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 €52 million for joint ventures measured using the equity method and in an amount of €10 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.

38. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2021	**51**	**24**	**16**	**188**	**279**
Foreign exchange differences	2	0	0	5	7
Changes in basis of consolidation	–	–	–	3	3
Additions	11	–	–	26	38
Reclassifications	–	–	–	–	–
Disposals	0	–	–	4	5
Balance as of Dec. 31, 2021	**64**	**24**	**16**	**218**	**321**
Amortization and impairment losses as of Jan. 1, 2021	**31**	**6**	**–**	**149**	**186**
Foreign exchange differences	0	0	–	4	4
Changes in basis of consolidation	–	–	–	1	1
Additions to cumulative amortization	0	1	–	16	17
Additions to cumulative impairment losses	–	–	–	0	0
Reclassifications	–	–	–	–	–
Disposals	–	–	–	0	0
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2021	**31**	**7**	**–**	**170**	**208**
Net carrying amount as of Dec. 31, 2021	**32**	**17**	**16**	**48**	**113**
Net carrying amount as of Jan. 1, 2021	**20**	**17**	**16**	**39**	**92**

€ 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: €16 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 bases in Poland and Germany were written off in full in the reporting year. They were amortized over a period of ten years. In the previous year, the remaining amortization period for the customer bases had been one year in each case.

Of the total recognized goodwill, €11 million (previous year: €11 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 9.3% (previous year: 9.2%) for Poland and 8.5% (previous year: 8.7%) 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.

39. Property and Equipment

€ million	Land and buildings[1]	Operating and office equipment[1]	Total[1]
Cost as of Jan. 1, 2021	**532**	**139**	**671**
Foreign exchange differences	5	5	10
Changes in basis of consolidation	–1	0	0
Additions	25	15	40
Reclassifications	–1	0	–1
Disposals	19	17	36
Balance as of Dec. 31, 2021	**540**	**144**	**684**
Depreciation and impairment losses as of Jan. 1, 2021	**154**	**88**	**242**
Foreign exchange differences	1	4	5
Changes in basis of consolidation	–1	0	–1
Additions to cumulative depreciation	34	18	51
Additions to cumulative impairment losses	0	–	0
Reclassifications	0	0	0
Disposals	9	15	24
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2021	**179**	**95**	**274**
Net carrying amount as of Dec. 31, 2021	**361**	**49**	**410**
Net carrying amount as of Jan. 1, 2021	**378**	**51**	**429**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected reporting of investment property.

€ million	Land and buildings[1]	Operating and office equipment[1]	Total[1]
Cost as of Jan. 1, 2020 before corrections	**545**	**172**	**717**
Adjustments from corrections to the reporting of investment property	**–46**	**–32**	**–77**
Cost as of Jan. 1, 2020 after corrections	**499**	**140**	**639**
Foreign exchange differences	–10	–8	–18
Changes in basis of consolidation	0	3	3
Additions	66	15	82
Reclassifications	–2	2	0
Disposals	22	13	35
Balance as of Dec. 31, 2020	**532**	**139**	**671**
Depreciation and impairment losses as of Jan. 1, 2020 before corrections	**131**	**87**	**218**
Adjustments from corrections to the reporting of investment property	**–5**	**–4**	**–9**
Depreciation and impairment losses as of Jan. 1, 2020 after corrections	**126**	**84**	**209**
Foreign exchange differences	–2	–5	–7
Changes in basis of consolidation	–	1	1
Additions to cumulative depreciation	34	18	52
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	0	0
Disposals	3	11	14
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2020	**154**	**88**	**242**
Net carrying amount as of Dec. 31, 2020	**378**	**51**	**429**
Net carrying amount as of Jan. 1, 2020	**373**	**57**	**430**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected reporting of investment property.

In connection with land and buildings, land charges of €49 million (previous year: €18 million) serve as collateral for financial liabilities.

Assets under construction with a carrying amount of €6 million (previous year: €20 million) are included in land and buildings.

40. Investment Property

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

€ million	Investment property[1]
Cost as of Jan. 1, 2021	**106**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	0
Reclassifications	0
Disposals	–
Balance as of Dec. 31, 2021	**107**
Depreciation and impairment losses as of Jan. 1, 2021	**26**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions to cumulative depreciation	5
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	–
Reversal of impairment losses	0
Balance as of Dec. 31, 2021	**31**
Net carrying amount as of Dec. 31, 2021	**76**
Net carrying amount as of Jan. 1, 2021	**80**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected reporting of investment property.

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

€ million	Investment property[1]
Cost as of Jan. 1, 2020 before corrections	**32**
Adjustments from corrections to the reporting of investment property	**77**
Cost as of Jan. 1, 2020 after corrections	**110**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	0
Reclassifications	–
Disposals	3
Balance as of Dec. 31, 2020	**106**
Depreciation and impairment losses as of Jan. 1, 2020 before corrections	**15**
Adjustments from corrections to the reporting of investment property	9
Depreciation and impairment losses as of Jan. 1, 2020 after corrections	24
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions to cumulative depreciation	5
Additions to cumulative impairment losses	–
Reclassifications	–
Disposals	2
Reversal of impairment losses	0
Balance as of Dec. 31, 2020	**26**
Net carrying amount as of Dec. 31, 2020	**80**
Net carrying amount as of Jan. 1, 2020	**86**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected reporting of investment property.

The fair value of investment property amounts to €91 million (previous year restated: €96 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). Operating expenses of €8 million (previous year restated: €8 million) were incurred in the reporting period for the maintenance of investment property.

Rental income from investment property of €11 million (previous year restated: €10 million) is included in the “Income from leasing transactions” line item in the income statement.

41. Deferred Tax Assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Deferred tax assets	7,897	8,577
of which noncurrent	5,039	5,497
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	18	8
of which noncurrent	18	8
Offset (with deferred tax liabilities)	–6,273	–6.833
Total	**1,641**	**1,752**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

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

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Loans, receivables and other assets	841	803
Marketable securities and cash	4	3
Intangible assets/property and equipment	339	312
Lease assets	5,614	6,361
Liabilities and provisions	1,107	1,126
Valuation allowances for deferred assets on temporary differences	–8	–28
Total	**7,897**	**8,577**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

42. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Vehicles returned for disposal	327	1,092
Restricted cash	865	777
Prepaid expenses and accrued income	272	293
Other tax assets	290	319
Reinsurers’ share of underwriting provisions	37	41
Miscellaneous	583	648
Total	**2,374**	**3,169**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

Contract origination costs of €76 million (previous year: €63 million) had been capitalized as of December 31, 2021. In 2021, the amortization expenses relating to capitalized contract origination costs amounted to €44 million (previous year: €29 million). No impairment losses were recognized in 2020 and 2021 in respect of the capitalized contract origination costs.

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Reinsurers’ share of provisions for claims outstanding	37	39
Reinsurers’ share of provisions for unearned premiums	0	0
Reinsurers’ share of other underwriting provisions	–	1
Total	**37**	**41**

43. Noncurrent Assets

€ million	Dec. 31, 2021	of which noncurrent	Dec. 31, 2020 restated[1]	of which noncurrent restated[1]
Cash reserve	33	–	47	–
Loans to and receivables from banks	5,066	198	3,830	200
Loans to and receivables from customers	80,297	44,088	79,471	42,316
Derivative financial instruments	586	497	837	734
Marketable securities	320	–	312	–
Equity-accounted joint ventures	787	787	743	743
Miscellaneous financial assets	674	674	460	460
Intangible assets	113	113	92	92
Property and equipment	410	410	429	429
Lease assets	32,066	29,701	26,510	23,736
Investment property	76	76	80	80
Income tax assets	147	4	103	3
Other assets	2,374	463	3,169	485
Total	**122,949**	**77,009**	**116,083**	**69,278**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and corrected reporting of investment property.

44. 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.

The liabilities to customers also included contractual liabilities from service contracts and other contracts amounting to €1,400 million, in connection with which income of €850 million was expected to be recognized in the next fiscal year, followed by income of €550 million in subsequent years.

45. Notes, Commercial Paper Issued

This item comprises bonds and commercial paper.

€ million	Dec. 31, 2021	Dec. 31, 2020
Bonds issued	62,588	56,475
Commercial paper issued	5,723	5,513
Total	**68,311**	**61,988**

Customer and dealer financing loans and receivables amounting to €33 million were pledged in the previous year as collateral for issued bonds not related to ABS transactions.

46. 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, 2021	Dec. 31, 2020
Bonds issued	27,803	25,633
Subordinated liabilities	68	644
Total	**27,871**	**26,277**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €21,652 million (previous year: €21,173 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €25,465 million (previous year: €24,136 million). As of December 31, 2021, the fair value of the liabilities amounted to €21,676 million (previous year: €21,267 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €26,046 million as of December 31, 2021 (previous year: €24,852 million).

Collateral totaling €33,012 million (previous year: €30,229 million) has been pledged in connection with ABS transactions, of which €25,993 million (previous year: €24,584 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.

47. Derivative Financial Instruments

This item comprises the negative fair values from hedges and from derivatives not designated as a hedging instrument. In the presentation within the table, the negative fair values of hedging derivatives are broken down into currency and interest rate components provided that there is an appropriate underlying hedging strategy. This approach has been applied for cross-currency interest rate swaps.

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Transactions to hedge against		
currency risk on assets using fair value hedges	24	20
currency risk on liabilities using fair value hedges	1	5
interest-rate risk using fair value hedges	152	7
interest-rate risk using cash flow hedges	28	15
currency risk on future cash flows using cash flow hedges	27	21
Hedging transactions	**233**	**68**
Liabilities arising from derivatives not designated as hedges	298	395
Total	**532**	**464**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

48. Provisions for Pensions and Other Post-Employment Benefits

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

€ million	Dec. 31, 2021	Dec. 31, 2020
Present value of funded obligations	465	478
Fair value of plan assets	281	246
Funded status (net)	**185**	**232**
Present value of unfunded obligations	344	362
Amount not recognized as an asset because of the ceiling in IAS 19	0	–
Net liability recognized in the balance sheet	**529**	**595**
of which provisions for pensions	530	596
of which other assets	0	1

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:

Percent	GERMANY Dec. 31, 2021	Dec. 31, 2020	INTERNATIONAL Dec. 31, 2021	Dec. 31, 2020
Discount rate	1.20	0.70	2.07	1.43
Pay trend	3.28	3.36	4.03	4.91
Pension trend	1.70	1.50	3.10	2.70
Staff turnover rate	1.10	1.10	2.49	6.65

These assumptions are averages that were weighted using the present value of the defined benefit obligation.

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.

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	2021	2020
Net liability recognized in the balance sheet as of January 1	**595**	**503**
Current service cost	57	49
Net interest expense	4	5
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–88	74
Actuarial gains (–)/losses (+) arising from experience adjustments	–3	–1
Income/expenses from plan assets not included in interest income	11	11
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	–
Employer contributions to plan assets	23	20
Employee contributions to plan assets	–	–
Pension payments from company assets	5	4
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	0	–
Changes in basis of consolidation	0	–
Other changes	2	0
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**529**	**595**

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	2021	2020
Present value of obligations as of January 1	**841**	**720**
Current service cost	57	49
Interest cost (unwinding of discount on obligations)	6	8
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–88	74
Actuarial gains (–)/losses (+) arising from experience adjustments	–3	–1
Employee contributions to plan assets	–	–
Pension payments from company assets	5	4
Pension payments from plan assets	3	2
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	0	–
Changes in basis of consolidation	0	–
Other changes	2	0
Foreign exchange differences from foreign plans	3	–3
Present value of obligations as of December 31	**809**	**841**

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

		DEC. 31, 2021		DEC. 31, 2020	
Present value of defined benefit obligation if		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	723	–10.70	747	–11.20
	is 0.5 percentage points lower	910	12.47	952	13.21
Pension trend	is 0.5 percentage points higher	844	4.24	874	3.96
	is 0.5 percentage points lower	778	–3.92	810	–3.61
Pay trend	is 0.5 percentage points higher	815	0.71	848	0.86
	is 0.5 percentage points lower	803	–0.73	834	–0.79
Longevity	increases by one year	835	3.17	869	3.35

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	2021	2020
Active members with pension entitlements	614	657
Members with vested entitlements who have left the Company	53	55
Retirees	142	129
Total	**809**	**841**

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	2021	2020
Payments due within the next fiscal year	7	7
Payments due between two and five years	46	41
Payments due in more than five years	756	793
Total	**809**	**841**

Changes in plan assets are shown in the following table:

€ million	2021	2020
Fair value of plan assets as of January 1	**246**	**217**
Interest income on plan assets determined using the discount rate	2	3
Income/expenses from plan assets not included in interest income	11	11
Employer contributions to plan assets	23	20
Employee contributions to plan assets	–	–
Pension payments from plan assets	3	2
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	0	–
Other changes	–1	0
Foreign exchange differences from foreign plans	3	–3
Fair value of plan assets as of December 31	**281**	**246**

The investment of the plan assets to cover future pension obligations resulted in a net result of €13 million (previous year: net result of €14 million).

Employer contributions to plan assets are expected to amount to €20 million (previous year: €20 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2021			DEC. 31, 2020		
	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	10	–	10	11	–	11
Equity instruments	–	–	–	3	–	3
Debt instruments	17	–	17	18	–	18
Direct investments in real estate	–	–	–	–	–	–
Derivatives	3	–1	2	0	0	0
Equity funds	98	–	98	73	–	73
Bond funds	133	0	133	136	–	136
Real estate funds	2	–	2	0	–	0
Other funds	14	0	14	1	0	1
Asset-backed securities	–	–	–	–	–	–
Structured debt	–	–	–	–	–	–
Other	–	2	2	–	2	2

Of the total plan assets, 45% (previous year: 53%) are invested in German assets, 19% (previous year: 16%) in other European assets and 36% (previous year: 31%) 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	2021	2020
Current service cost	57	49
Net interest on the net defined benefit liability	4	5
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	0	–
Net income (–) and expenses (+) recognized in profit or loss	**61**	**54**

49. Underwriting Provisions and Other Provisions

€ million	Dec. 31, 2021	Dec. 31, 2020
Underwriting provisions	384	405
Other Provisions	401	422
Total	**785**	**827**

The following table shows the changes in underwriting provisions:

€ million	UNDERWRITING PROVISIONS Provision for claims outstanding	Provision for unearned premiums	Other underwriting provisions	Total
Balance as of Jan. 1, 2021	**94**	**306**	**5**	**405**
Changes to basis of consolidation	–	–	–	–
Utilization	32	157	3	192
Additions	33	136	3	171
Balance as of Dec. 31, 2021	**94**	**286**	**4**	**384**

€ million	UNDERWRITING PROVISIONS 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, 2021 Remaining maturity of more than one year	Dec. 31, 2021 Total	Dec. 31, 2020 Remaining maturity of more than one year	Dec. 31, 2020 Total
Provision for claims outstanding	54	94	56	94
Provision for unearned premiums	159	286	166	306
Other underwriting provisions	–	4	–	5
Total	**214**	**384**	**222**	**405**

Underwriting provisions for direct insurance business:

€ million	2021 Remaining maturity of more than one year	2021 Total	2020 Remaining maturity of more than one year	2020 Total
Balance as of Jan. 1	**32**	**117**	**38**	**120**
Utilization	16	75	24	84
Additions	24	73	18	81
Transfers	0	0	0	0
Balance as of Dec. 31	**40**	**116**	**32**	**117**

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	2021 Vehicle insurance	2021 Credit protection insurance	2021 Other	2021 Total
Balance as of Jan. 1	**56**	**193**	**39**	**288**
Utilization	8	91	19	118
Additions	8	69	22	99
Balance as of Dec. 31	**56**	**171**	**42**	**269**

€ 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:

	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
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
Balance as of Jan. 1, 2021	**125**	**174**	**123**	**422**
Foreign exchange differences	2	3	1	5
Changes in basis of consolidation	0	–	0	0
Utilization	50	17	36	103
Additions/new provisions	71	57	62	190
Unwinding of discount/effect of change in discount rate	–	9	–	9
Reversals	11	51	61	123
Balance as of Dec. 31, 2021	**138**	**174**	**90**	**401**
of which current	66	23	65	154
of which noncurrent	72	151	24	247

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: 38% in the next year, 52% in the years 2023 to 2026 and 10% thereafter.

50. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Deferred tax liabilities	6,981	7,405
of which noncurrent	3,971	4,289
Offset (with deferred tax assets)	–6,273	–6,833
Total	**708**	**572**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

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

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Loans, receivables and other assets	5,915	6,340
Marketable securities and cash	3	18
Intangible assets/property and equipment	48	56
Lease assets	528	643
Liabilities and provisions	486	347
Total	**6,981**	**7,405**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

51. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Prepaid expenses and accrued income	1,701	1,211
Other tax liabilities	203	189
Social security and payroll liabilities	203	148
Miscellaneous	198	130
Total	**2,305**	**1,678**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

52. Subordinated Capital

The subordinated capital of €2,971 million (previous year: €3,526 million) was issued or raised by Volkswagen Finans Sverige AB, Banco Volkswagen S.A. and VW FS AG.

53. Noncurrent Liabilities

€ million	Dec. 31, 2021	of which noncurrent	Dec. 31, 2020 restated[1]	of which noncurrent restated[1]
Liabilities to banks	13,873	6,227	14,674	5,454
Liabilities to customers	19,539	7,385	20,208	10,036
Notes, commercial paper issued	68,311	48,220	61,988	42,850
Derivative financial instruments	532	333	464	315
Income tax liabilities	603	352	548	295
Other liabilities	2,305	1,075	1,678	751
Subordinated capital	2,971	2,961	3,526	3,239
Total	**108,135**	**66,554**	**103,084**	**62,941**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

54. 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. Within equity, an amount of €400 million was reclassified from capital reserves to retained earnings. This related to an authorized repayment of capital reserves to Volkswagen 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).

The correction of errors in the previous year resulted in a total downward adjustment of €7 million in retained earnings as of December 31, 2020.

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the profit of €1,171 million (previous year: loss of €673 million) generated by VW FS AG has been reported as a reduction of equity.

55. 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 the IFRSs. In the reporting year, an amount of €400 million was reclassified from capital reserves to retained earnings. This related to an authorized repayment of capital reserves to Volkswagen AG. The parent company did not implement any corporate action in the previous year.

As of December 31, 2021, the equity ratio was 11.6% (previous year: 10.8%).

Financial Instrument Disclosures

56. 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, 2021	Dec. 31, 2020 restated[1]
Financial assets measured at fair value through profit or loss	572	451
Financial assets measured at fair value through other comprehensive income (debt instruments)	271	268
Financial assets measured at fair value through other comprehensive income (equity instruments)	0	6
Financial assets measured at amortized cost	45,146	43,144
Financial liabilities measured at fair value through profit or loss	298	395
Financial liabilities measured at amortized cost	103,344	99,114

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

Receivables from leasing business of €40,901 million (previous year restated: €40,803 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	2021	2020 restated[1]
Financial instruments measured at fair value through profit or loss	229	–98
Financial assets measured at amortized cost	1,848	1,646
Financial assets measured at fair value through other comprehensive income (debt instruments)	2	2
Financial liabilities measured at amortized cost	–1,380	–1,407

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

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 included in interest income from lending transactions and marketable securities is calculated using the effective interest method and amounted to €2,136 million (previous year: €1,999 million).

The interest expenses in an amount of €1,260 million (previous year: €1,295 million) related 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 for the most part generate or incur any 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. A notable non-recurring item arose in the reporting year from the derecognition of financial assets in connection with the disposal of a portfolio held by Volkswagen Finance Private Ltd., Mumbai, which resulted in a material loss. For reasons of materiality, the loss has been reported as a separate income statement item under net gain/loss on derecognition of financial assets measured at amortized cost and explained in the associated disclosures in note (27).

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).

57. 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)

The table below shows a reconciliation between the balance sheet items in which financial instruments are reported and the classes of financial instruments listed above. This includes financial instruments that are assigned to the IFRS 9 measurement categories and financial instruments that are not assigned to any IFRS 9 measurement category at all (such as finance lease receivables) and are therefore reported under the “Not allocated to any measurement category” class.

Loans to and receivables from customers in the “Total loans to and receivables from customers” balance sheet item are reconciled to the “Measured at fair value”, “Measured at amortized cost” and “Not allocated to any measurement category” classes. The “Not allocated to any measurement category” class mainly consists of the receivables from customers attributable to the leasing business and, to a minor extent, receivables from insurance contracts.

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. For the purposes of reconciling the balance sheet item, they are shown in the “Not allocated to any measurement category” class. 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”.

The “Current tax assets” and “Current tax liabilities” balance sheet line items contain assets and liabilities arising from taxes under civil law due to or from entities in the Volkswagen Group. These assets and liabilities are classified as financial instruments in the class “Measured at amortized cost”.

Liabilities to customers are reported in the “Measured at amortized cost” class, but the amount of lease liabilities (as a lessee) within the overall figure is shown in the “Not allocated to any measurement category” class.

If the balance sheet items contain assets and liabilities that do not constitute financial instruments, the amounts concerned are included in the “Not allocated to any measurement category” class so that the reconciliation is complete.

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

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST[2]		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	Dec. 31, 2021	Dec. 31, 2020 restated[1 3]	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated[1 3]
Assets										
Cash reserve	33	47	–	–	33	47	–	–	–	–
Loans to and receivables from banks	5,066	3,830	–	–	5,066	3,830	–	–	–	–
Loans to and receivables from customers	80,297	79,471	316	305	39,066	38,346	–	–	40,916	40,820
Derivative financial instruments	586	837	208	102	–	–	378	735	–	–
Marketable securities	320	312	320	312	–	–	–	–	–	–
Miscellaneous financial assets	674	460	0	6	–	–	–	–	674	454
Income tax assets	147	103	–	–	1	2	–	–	147	101
Other assets	2,374	3,169	–	–	981	920	–	–	1,393	2,249
Total	**90,284**	**88,972**	**844**	**725**	**45,146**	**43,144**	**378**	**735**	**43,916**	**44,368**
Equity and liabilities										
Liabilities to banks	13,873	14,674	–	–	13,873	14,674	–	–	–	–
Liabilities to customers	19,539	20,208	–	–	17,641	18,494	–	–	1,898	1,714
Notes, commercial paper issued	68,311	61,988	–	–	68,311	61,988	–	–	–	–
Derivative financial instruments	532	464	298	395	–	–	233	68	–	–
Income tax liabilities	603	548	–	–	298	266	–	–	306	282
Other liabilities	2,305	1,678	–	–	252	169	–	–	2,053	1,508
Subordinated capital	2,971	3,526	–	–	2,971	3,526	–	–	–	–
Total	**108,135**	**103,084**	**298**	**395**	**103,346**	**99,116**	**233**	**68**	**4,257**	**3,505**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.
2 Loans to and receivables from customers and liabilities to customers contain underlying transactions of fair value hedges.
3 No financial instruments were reported in the “Equity-accounted joint ventures” balance sheet line item, either in the reporting year or in the previous year. The balance sheet item is therefore no longer included in the reconciliation of balance sheet items to classes of financial instrument.

The “Credit commitments and financial guarantees” class contains obligations under off-balance-sheet irrevocable credit commitments and financial guarantees amounting to €1,323 million (previous year: €1,313 million).

58. 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, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated[1]
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	316	305	316	305	–	–
Derivative financial instruments	208	102	208	102	–	–
Marketable securities	320	312	320	312	–	–
Miscellaneous financial assets	0	6	0	6	–	–
Measured at amortized cost						
Cash reserve	33	47	33	47	–	–
Loans to and receivables from banks	5,067	3,832	5,066	3,830	1	2
Loans to and receivables from customers	38,830	38,556	39,066	38,346	–236	210
Income tax assets	1	2	1	2	–	–
Other assets	981	920	981	920	–	–
Derivative financial instruments designated as hedges	378	735	378	735	–	–
Not allocated to any measurement category						
Loans to and receivables from customers	41,964	41,976	40,901	40,803	1,063	1,173
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	298	395	298	395	–	–
Measured at amortized cost						
Liabilities to banks	13,845	14,668	13,873	14,674	–27	–6
Liabilities to customers	17,683	18,537	17,641	18,494	42	43
Notes, commercial paper issued	68,423	62,089	68,311	61,988	112	101
Income tax liabilities	298	266	298	266	–	–
Other liabilities	252	169	252	169	0	0
Subordinated capital	2,669	3,284	2,971	3,526	–302	–242
Derivative financial instruments designated as hedges	233	68	233	68	–	–

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions, corrections to reverse the application of portfolio fair value hedge accounting and under the header “Fair Values of Financial Assets and Liabilities”.

The fair value of irrevocable credit commitments is affected by changes in the credit quality of the borrower and in the market conditions for the relevant credit product between the commitment date and the measurement date. Because of the short period between commitment and drawdown and the variable interest rate tied to the market interest rate, market conditions only have a very minor impact. The fair value of irrevocable credit commitments was therefore largely influenced by the change in the credit quality of the borrower, which was determined as part of the process for calculating expected credit losses from irrevocable credit commitments and reported as a liability in the amount of €0 million (previous year: €1 million) under other liabilities. The fair value of financial guarantees also largely reflects the amount of expected credit losses and was reported as a liability in the amount of €1 million (previous year: €1 million) under other liabilities. Both expected credit losses are disclosed as a consolidated figure in note (61) Default Risk in the “Credit commitments and financial guarantees” class.

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	–0.576	0.494	–0.038	11.225	6.596	–0.022	3.786	0.123	2.483	3.326	5.140	9.848	1.408	–0.416
Interest rate for one year	–0.510	0.758	–0.038	11.775	7.283	0.045	3.902	0.385	2.493	3.770	5.265	10.220	1.590	–0.371
Interest rate for five years	0.016	1.051	–0.013	10.611	7.410	0.710	3.845	1.655	3.060	3.757	5.800	8.930	1.838	0.260
Interest rate for ten years	0.303	0.954	0.078		7.574	0.968	3.255	1.980	4.070	3.570	6.310	8.770	1.855	0.524

59. 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 58). 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 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:

€ million	LEVEL 1		LEVEL 2		LEVEL 3	
	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020 restated
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	316	305
Derivative financial instruments	–	–	208	102	–	–
Marketable securities	231	226	89	86	–	–
Miscellaneous financial assets	–	–	–	–	0	6
Measured at amortized cost						
Cash reserve	33	47	–	–	–	–
Loans to and receivables from banks	1,205	1,139	3,863	2,693	–	–
Loans to and receivables from customers	–	–	921	1,172	37,908	37,384
Income tax assets	–	–	1	2	–	–
Other assets	–	–	980	918	0	–
Derivative financial instruments designated as hedges	–	–	378	735	–	–
Total	**1,469**	**1,412**	**6,440**	**5,708**	**38,224**	**37,695**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	167	207	132	188
Measured at amortized cost						
Liabilities to banks	–	–	13,845	14,668	–	–
Liabilities to customers	–	–	17,683	18,537	–	–
Notes, commercial paper issued	46,515	42,576	21,908	19,513	–	–
Income tax liabilities	–	–	298	266	–	–
Other liabilities	–	–	244	161	9	8
Subordinated capital	–	–	2,669	3,284	–	–
Derivative financial instruments designated as hedges	–	–	233	68	–	–
Total	**46,515**	**42,576**	**57,046**	**56,704**	**141**	**196**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

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

€ million	2021	2020
Balance as of Jan. 1	**311**	**346**
Foreign exchange differences	6	3
Changes in basis of consolidation	–	9
Portfolio changes	–4	–51
Measured at fair value through profit or loss	3	1
Measured at fair value through other comprehensive income	–	3
Balance as of Dec. 31	**316**	**311**

The amounts recognized in profit or loss for loans to and receivables from customers resulting in a net gain of €3 million (previous year: net gain of €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 €3 million (previous year: €1 million) was attributable to loans to and receivables from customers as of the reporting date.

The risk variables relevant to the fair value of 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, 2021 had been 100 basis points higher, profit after tax would have been €3 million (previous year: €2 million) lower. If risk-adjusted interest rates as of December 31, 2021 had been 100 basis points lower, profit after tax would have been €3 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	2021	2020
Balance as of Jan. 1	**188**	**168**
Foreign exchange differences	12	–9
Changes in basis of consolidation	–	–
Portfolio changes	–	–
Measured at fair value through profit or loss	–68	29
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**132**	**188**

The remeasurements recognized in profit and loss amounting to €–68 million (previous year: €29 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 €–68 million (previous year: €29 million) was attributable to derivatives held as of the reporting date.

Early termination rights 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 had been 10% higher as of the reporting date, profit after tax would have been €67 million (previous year: €86 million) higher. If the used vehicle prices of the vehicles included in the derivatives had been 10% lower as of the reporting date, profit after tax would have been €119 million (previous year: €123 million) lower.

60. 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: Financial Instruments		AMOUNTS NOT OFFSET IN THE BALANCE SHEET: Collateral received/pledged		Net amount	
	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020 restated[1]	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Assets												
Cash reserve	33	47	–	–	33	47	–	–	–	–	33	47
Loans to and receivables from banks	5,066	3,830	–	–	5,066	3,830	–	–	–	–	5,066	3,830
Loans to and receivables from customers	80,290	79,464	–8	–10	80,282	79,454	–	–	–102	–98	80,180	79,356
Derivative financial instruments	586	837	–	–	586	837	–255	–142	–	–	331	695
Marketable securities	320	312	–	–	320	312	–	–	–	–	320	312
Miscellaneous financial assets	0	6	–	–	0	6	–	–	–	–	0	6
Income tax assets	1	2	–	–	1	2	–	–	–	–	1	2
Other assets	981	920	–	–	981	920	–	–	–	–	981	920
Total	**87,277**	**85,417**	**–8**	**–10**	**87,269**	**85,407**	**–255**	**–142**	**–102**	**–98**	**86,912**	**85,167**
Equity and liabilities												
Liabilities to banks	13,873	14,674	–	–	13,873	14,674	–	–	–53	–47	13,820	14,627
Liabilities to customers	17,827	18,694	–8	–10	17,819	18,684	–	–	–	–	17,819	18,684
Notes, commercial paper issued	68,311	61,988	–	–	68,311	61,988	–	–	–810	–731	67,501	61,257
Derivative financial instruments	532	464	–	–	532	464	–255	–142	–	–	276	322
Income tax liabilities	298	266	–	–	298	266	–	–	–	–	298	266
Other liabilities	252	169	–	–	252	169	–	–	–	–	252	169
Subordinated capital	2,971	3,526	–	–	2,971	3,526	–	–	–	–	2,971	3,526
Total	**104,064**	**99,779**	**–8**	**–10**	**104,056**	**99,769**	**–255**	**–142**	**–863**	**–778**	**102,938**	**98,850**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

61. 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 €407 million (previous year: €501 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 €196 million (previous year: €187 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 €145 million (previous year: €140 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, 2021	**510**	**332**	**317**	**32**	**10**	**1,202**
Exchange differences on translating foreign operations	15	4	17	0	0	36
Changes in basis of consolidation	0	–	–	1	–	1
Newly extended/purchased financial assets (additions)	193	–	–	6	0	199
Other changes within a stage	18	–46	73	–1	4	48
Transfers to						
Stage 1	5	–30	–2	–	–	–28
Stage 2	–26	87	–9	–	–	52
Stage 3	–49	–23	209	–	–	137
Financial instruments derecognized during the period (derecognitions)	–92	–46	–65	–13	0	–217
Utilizations	–	–	–101	0	–1	–102
Model or risk parameter changes	–17	–1	–23	0	–	–41
Balance as of Dec. 31, 2021	**556**	**278**	**417**	**25**	**13**	**1,289**

€ 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**

The following tables show a reconciliation of the gross carrying amounts of financial assets measured at amortized cost:

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Carrying amount as of Jan. 1, 2021	**39,456**	**2,230**	**408**	**2,225**	**27**	**44,346**
Exchange differences on translating foreign operations	1,442	44	21	41	0	1,548
Changes in basis of consolidation	–54	–	–	149	–	95
Changes	1,286	–59	–117	–672	6	443
Modifications	2	1	0	–	0	3
Transfers to						
Stage 1	434	–430	–4	–	–	–
Stage 2	–1,062	1,073	–12	–	–	–
Stage 3	–191	–74	265	–	–	–
Carrying amount as of December 31, 2021	**41,312**	**2,785**	**562**	**1,742**	**34**	**46,435**

€ million	Stage 1[1 2]	Stage 2[2]	Stage 3[2]	Simplified approach	Stage 4[1]	Total
Carrying amount as of January 1, 2020	**37,474**	**2,761**	**429**	**2,900**	**64**	**43,629**
Exchange differences on translating foreign operations	–1,711	–323	–68	–98	–8	–2,208
Changes in basis of consolidation	890	29	7	31	–	957
Changes	3,213	–430	–179	–608	–29	1,967
Modifications	2	0	0	–	0	2
Transfers to						
Stage 1	480	–477	–4	–	–	–
Stage 2	–759	776	–17	–	–	–
Stage 3	–134	–105	239	–	–	–
Carrying amount as of Dec. 31, 2020	**39,456**	**2,230**	**408**	**2,225**	**27**	**44,346**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section under the header “Default Risk Rating Classes in the Default Risk Disclosures”.
2 Prior-year figures adjusted as described in the disclosures set out in the Changes to Prior-Year Figures section under the header “Stage Transfers within the Reconciliation of Gross Carrying Amounts of Financial Assets Measured at Amortized Cost”.

The “Changes” line relates to changes in gross carrying amounts that are not allocated to the other lines in the reconciliation of the gross carrying amounts from the beginning to the end of the reporting period concerned. These changes include the addition and derecognition of financial assets during the reporting period.

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: €0 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.

In 2021, the gross carrying amount of assets measured at fair value through other comprehensive income rose by €4 million (previous year: €10 million) to €272 million (previous year: €268 million). As in the previous year, these assets were allocated to Stage 1 in the reporting year.

The following tables show a reconciliation of the provision for credit risks relating to credit commitments and financial guarantees:

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance as of Jan. 1, 2021	**1**	**0**	**–**	**–**	**1**
Exchange differences on translating foreign operations	0	0	–	–	0
Changes in basis of consolidation	0	–	–	–	0
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	0	–	–	0
Transfers to					
Stage 1	0	0	–	–	0
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, 2021	**1**	**0**	**–**	**–**	**1**

€ 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 tables present a reconciliation of default risk exposures arising from credit commitments and financial guarantees:

€ million	Stage 1	Stage 2	Stage 3	Assets held for sale	Total
Balance as of Jan. 1, 2021	**1,301**	**3**	**–**	**–**	**1,304**
Exchange differences on translating foreign operations	–11	0	–	–	–11
Changes in basis of consolidation	–60	–	–	–	–60
Changes	89	1	–	–	91
Modifications	–	–	–	–	–
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Balance as of Dec. 31, 2021	**1,319**	**4**	**–**	**–**	**1,323**

€ million	Stage 1	Stage 2	Stage 3	Assets held for sale	Total
Balance as of Jan. 1, 2020	**1,326**	**3**	**–**	**–**	**1,329**
Exchange differences on translating foreign operations	–26	0	–	–	–26
Changes in basis of consolidation	–	–	–	–	–
Changes	1	–	–	–	1
Modifications	–	–	–	–	–
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Balance as of Dec. 31, 2020	**1,301**	**3**	**–**	**–**	**1,304**

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 2021	2020 restated[1]
Balance as of Jan. 1 before corrections	**1,120**	**924**
Adjustments due to corrected treatment of buyback transactions	–	37
Balance as of Jan. 1 after corrections	**1,120**	**961**
Exchange differences on translating foreign operations	16	–24
Changes in basis of consolidation	–	7
Newly extended/purchased financial assets (additions)	320	243
Other changes	–7	211
Financial instruments derecognized during the period (derecognitions)	–422	–259
Utilizations	–74	–61
Model or risk parameter changes	–11	42
Balance as of Dec. 31	**943**	**1,120**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

The following tables show a reconciliation of the gross carrying amounts of lease receivables in the class “Not allocated to any measurement category”:

€ million	SIMPLIFIED APPROACH 2021	2020 restated[1]
Carrying amount as of Jan. 1 before corrections	**41,923**	**40,876**
Adjustments due to the corrected accounting treatment of buyback transactions and corrections from the reversal of the application of portfolio fair value hedge accounting	–	916
Carrying amount as of Jan. 1 after corrections	**41,923**	**41,792**
Exchange differences on translating foreign operations	1,091	–1,089
Changes in basis of consolidation	–	1,038
Changes	–1,168	185
Modifications	–2	–4
Carrying amount as of Dec. 31	**41,843**	**41,923**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

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 by either changes in credit ratings or, especially in the previous year, 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 €196 million (previous year: €558 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net expense of €–2 million (previous year: €–7 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 €28 million (previous year: €80 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, 2021	Dec. 31, 2020 restated[1]
Financial assets measured at fair value	271	268
Financial assets measured at amortized cost	45,146	43,144
Financial guarantees and credit commitments	1,322	1,303
Not allocated to any measurement category	40,901	40,803
Total	**87,641**	**85,517**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

The assets disclosed as belonging to the class "Financial assets measured at fair value" are allocated to the measurement category "Financial assets measured at fair value through other comprehensive income (debt instruments)".

The VW FS AG Group intends to recover the following collateral accepted in the reporting period for financial assets:

€ million	Dec. 31, 2021	Dec. 31, 2020
Vehicles	44	70
Real estate	–	–
Other movable assets	–	–
Total	**44**	**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 by default risk rating class:

FISCAL YEAR 2021

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	40,964	2,057	–	41,775	5
Default risk rating class 2	620	728	–	1,227	7
Default risk rating class 3	–	–	562	583	22
Total	**41,584**	**2,785**	**562**	**43,585**	**34**

FISCAL YEAR 2020

€ million	Stage 1[1]	Stage 2[1]	Stage 3	Simplified approach[1 2]	Stage 4[1]
Default risk rating class 1	38,921	1,318	–	41,925	7
Default risk rating class 2	802	912	–	1,430	10
Default risk rating class 3	–	–	408	793	10
Total	**39,723**	**2,230**	**408**	**44,148**	**27**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section under the header "Default Risk Rating Classes in the Default Risk Disclosures".
2 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

The following tables show the default risk exposures for credit commitments and financial guarantees by default risk rating class:

FISCAL YEAR 2021

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,319	4	–	–
Default risk rating class 2	0	0	–	–
Default risk rating class 3	–	–	–	–
Total	**1,319**	**4**	**–**	**–**

FISCAL YEAR 2020

€ 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**	**–**	**–**

62. Liquidity Risk

Liquidity risk is defined primarily as the risk of not being able to meet payment obligations in full or when due. The companies of the VW FS AG Group are funded primarily through capital market and ABS (asset-backed securities) programs. In addition, a rolling liquidity planning system and a liquidity reserve in the form of cash and confirmed lines of credit that can be accessed at any time at short notice 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 16) and Funding (pages 16 – 17) and in the risk report within the disclosures on interest-rate risk (page 26) and liquidity risk (page 27).

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, 2021**	Dec. 31, 2020	**Dec. 31, 2021**	Dec. 31, 2020	**Dec. 31, 2021**	Dec. 31, 2020	**Dec. 31, 2021**	Dec. 31, 2020	**Dec. 31, 2021**	Dec. 31, 2020	**Dec. 31, 2021**	Dec. 31, 2020
Cash reserve	33	47	33	47	–	–	–	–	–	–	–	–
Loans to and receivables from banks	5,066	3,830	4,571	3,246	284	365	14	19	73	68	125	132
Total	**5,100**	**3,877**	**4,604**	**3,293**	**284**	**365**	**14**	**19**	**73**	**68**	**125**	**132**

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, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2020
Liabilities to banks	14,529	15,102	2,784	2,928	5,237	6,559	6,508	5,615	0	0
Liabilities to customers	17,953	18,848	5,167	3,939	6,047	5,516	6,483	9,122	255	271
Notes, commercial paper issued	70,210	63,345	6,367	5,945	14,283	13,615	44,319	40,792	5,241	2,993
Derivative financial instruments	6,568	6,432	2,517	2,757	1,745	1,069	2,049	2,592	256	14
Other liabilities	252	169	235	120	13	46	3	3	0	1
Subordinated capital	3,111	3,697	6	50	16	263	179	478	2,911	2,906
Irrevocable credit commitments	570	494	529	494	41	–	–	–	–	–
Total	**113,193**	**108,087**	**17,605**	**16,233**	**27,381**	**27,067**	**59,542**	**58,601**	**8,664**	**6,185**

The derivatives include both cash outflows relating to derivatives with negative fair values and cash outflows relating to derivatives with positive fair values in connection with which gross settlement has been agreed.

Financial guarantees with a maximum possible drawdown of €753 million (previous year: €819 million) are always assumed to be payable on demand.

63. 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 60 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 four years.

This approach has produced the following values:

€ million	Dec. 31, 2021	Dec. 31, 2020
Interest rate risk	153	92
Currency translation risk	156	136
Total market risk	**141**	**132**

As a result of correlation effects, the total market risk is not identical to the sum of the individual risks.

64. 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 fair values of the financial derivatives. They were determined on the basis of standardized techniques using generally applicable market risk variables, such as yield curves and exchange rates.

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. Fair value hedges and cash flow hedges are used at micro level to hedge interest rate risk. Fixed-income assets and liabilities included in fair value hedges are recognized with the addition of a hedge adjustment based on the hedged fair value of the hedged item 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). 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.

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 connection with micro fair value hedges involving interest rate swaps, the IBOR reform exposed 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. This uncertainty related mainly to the GBP LIBOR interest rate benchmark. In 2021, the GBP LIBOR interest rate benchmark used in the hedging transactions in existence in the VW FS AG Group at the reporting date was switched in all cases to the SONIA interest rate benchmark and any new transactions entered into were also based on SONIA. No switch in the interest rate benchmark was necessary for GBP LIBOR-based derivatives that had a maturity date in the first quarter of 2022 and no interest rate adjustment date after the reporting date. Overall, as of December 31, 2021, there were therefore no hedging relationships that were exposed to uncertainty from the IBOR reform.

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	2021	2020 restated[1]
Interest rate risk hedging	1	0
Currency risk hedging	–11	–4
Combined interest rate and currency risk hedging	0	0

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

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	2021	2020
Interest rate risk hedging		
Gain or loss from changes in fair value of hedged items within hedge accounting		
Recognized in other comprehensive income	15	–5
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	–1	2
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	5	–2
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	–40	37
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	39	–38

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 in the income statement under the net 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 2021

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 to 5 years	more than 5 years	Dec. 31, 2021
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	5,013	18,072	5,465	28,550
Currency risk hedging				
Currency forwards/cross-currency swaps GBP	363	–	–	363
Currency forwards/cross-currency swaps CZK	411	82	–	494
Currency forwards/cross-currency swaps DKK	269	94	–	363
Currency forwards/cross-currency swaps other currencies	635	45	–	680
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	559	539	–	1,097
Cross-currency interest rate swaps, other foreign currencies	17	74	–	91
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	13,750	35,408	20,615	69,773
Currency risk hedging				
Currency forwards/cross-currency swaps	696	6	–	702
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,166	1,046	–	2,212

FISCAL YEAR 2020

€ million	RESIDUAL MATURITY[1] Up to 1 year	1–5 years	more than 5 years	TOTAL NOTIONAL AMOUNT Dec. 31, 2020 restated[1]
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	4,279	16,904	2,850	24,033
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	16,124	32,422	17,870	66,416
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

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

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 10.2071, GBP 0.851, CZK 25.6892 and DKK 6.6944. 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 0.19%, AUD 1.61%, JPY 0.42%, MXN 8.84% and BRL 10.14%. 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 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 previous year were as follows for the following currencies: NOK 0.46%, AUD 1.93%, JPY 0.42%, MXN 8.47% and BRL 3.18%.

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 2021

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	26,477	336	152	24
Currency risk hedging				
Currency forwards/cross-currency swaps	1,565	0	25	–25
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	51	2	–	2

FISCAL YEAR 2020

€ million	Notional amount[1]	Derivative financial instruments – assets[1]	Derivative financial instruments – liabilities[1]	Fair value change to determine ineffectiveness[1]
Interest rate risk hedging				
Interest rate swaps	22,523	685	7	523
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

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

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 2021

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	2,072	28	25	10
Currency risk hedging				
Currency forwards/cross-currency swaps	336	8	1	8
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,138	3	29	–25

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 2021

€ 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	–	–	–	–
Liabilities to banks	–	–	–	–
Liabilities to customers	656	6	–7	–
Notes, commercial paper issued	27,837	286	–447	–
Subordinated capital	–	–	–	–
Currency risk hedging:				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	531	7	7	–
Liabilities to banks	27	–1	–1	–
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	54	1	1	–
Notes, commercial paper issued	–	–	–	–
Subordinated capital	–	–	–	–

FISCAL YEAR 2020

€ million	Carrying amount[1]	Cumulative hedge adjustments[1]	Hedge adjustments current period/fiscal year[1]	Cumulative hedge adjustments from terminated hedges[1]
Interest rate risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	–	–	–	–
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	–	–	–	–

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to corrections to reverse the application of portfolio fair value hedge accounting.

The following tables present the hedged items hedged in cash flow hedges:

FISCAL YEAR 2021

€ 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	8	10	–
Deferred taxes	–	–4	–
Total interest rate risk	8	6	–
Currency risk hedging			
Designated components	0	5	–
Non-designated components	–	–	–
Deferred taxes	–	–2	–
Total hedging currency risk	0	4	–
Combined interest rate and currency risk hedging			
Designated components	–25	–1	–
Deferred taxes	–	0	–
Total combined interest rate and currency risk	–25	–1	–

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, 2021	**–10**	**0**	**0**	**–10**
Gains or losses from effective hedges	15	–1	–40	–25
Reclassifications resulting from the recovery of the hedged item	–	5	39	44
Balance as of Dec. 31, 2021	**6**	**4**	**–1**	**9**

€ 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	2021	2020
Balance as of Jan. 1	**0**	**0**
Gains and losses from undesignated forward elements and CCBS		
Hedged item is recognized at a point in time	0	0
Reclassification resulting from the recovery 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 above tables, the effects on equity from the cash flow hedge reserve (OCI I) and hedging costs reserve are reduced by deferred taxes. In the cash flow hedge reserve (OCI I), the deferred taxes on gains or losses from effective hedges amounted to income of €9 million (previous year: expense of €14 million) and the deferred taxes on reclassifications resulting from the recovery of the hedged item came to an expense of €19 million (previous year: income of €17 million).

Segment Reporting

65. Breakdown by Geographical Market

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. As the primary key performance indicator, the operating result is reported 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 subject to reporting requirements under IFRS 8. Subsidiaries in the VW FS AG Group are aggregated within these segments. In line with internal reporting practice, the German market comprises 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, the EURO Leasing company in Denmark, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Volkswagen Insurance Brokers GmbH 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 2021:

€ million	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Recon-ciliation	Group
	JAN. 1 – DEC. 31, 2021									
Interest income from lending transactions and marketable securities with third parties	16	6	33	972	397	195	442	2,060	34	2,095
Income from leasing transactions with third parties	10,860	2,529	3,178	0	1	200	2,532	19,301	15	19,316
of which reversal impairment losses in accordance with IAS 36	107	31	0	–	–	2	34	175	0	175
Intersegment income from leasing transactions	0	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–9,521	–1,415	–3,048	0	0	–113	–2,064	–16,162	–19	–16,180
of which impairment losses in accordance with IAS 36	–151	–7	–11	0	–	–	–67	–236	0	–236
Net income from leasing transactions	1,340	1,114	130	0	1	87	468	3,140	–4	3,136
Interest expense	–235	–226	–19	–344	–179	–66	–209	–1,278	37	–1,241
Income from service contracts with third parties	1,235	187	–	0	3	0	681	2,106	1	2,107
Intersegment income from service contracts	0	–	–	–	–	–	–	0	0	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	345	345
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	151	5	3	–	50	43	336	588	42	631
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–11	–4	–1	–9	–2	–1	–28	–56	–12	–69
Operating result	**887**	**934**	**82**	**241**	**121**	**139**	**489**	**2,894**	**93**	2,987

BREAKDOWN BY GEOGRAPHICAL MARKET 2020:

€ million	JAN. 1 – DEC. 31, 2020 RESTATED[1]									
	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other segments	Segments total	Recon-ciliation	Group
Interest income from lending transactions and marketable securities with third parties	12	7	30	838	400	223	456	1,964	31	1,995
Income from leasing transactions with third parties	9,086	2,319	3,104	1	7	252	2,016	16,785	153	16,938
of which reversal impairment losses in accordance with IAS 36	22	0	2	–	0	3	19	45	0	45
Intersegment income from leasing transactions	–	–	–	–	–	–	2	2	–2	–
Depreciation, impairment losses and other expenses from leasing transactions	–8,513	–1,396	–2,995	–1	–4	–163	–1,714	–14,785	–125	–14,911
of which impairment losses in accordance with IAS 36	–361	–9	–3	0	0	0	–100	–473	–6	–478
Net income from leasing transactions	573	923	110	0	3	89	304	2,001	26	2,027
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	–23	–74
Operating result	**232**	**310**	**64**	**158**	**108**	**107**	**275**	**1,254**	**–44**	**1,210**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

The reported impairment losses and reversals of impairment losses in accordance with IAS 36 related to lease assets.

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, 2021 Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	19,952	3,180	1,670	79	196	35
Additions to lease assets classified as noncurrent assets	10,144	1,296	455	0	–	4

€ million	JAN. 1 – DEC. 31, 2020 RESTATED[1] Germany	United Kingdom	Sweden	China	Brazil	Mexico
Noncurrent Assets	15,108	2,849	1,503	73	193	33
Additions to lease assets classified as noncurrent assets	8,346	1,258	545	–	–	1

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

Investments recognized under other assets were of minor significance.

The following table shows the reconciliation to consolidated revenue, consolidated operating result and consolidated profit before tax.

€ million	2021	2020 restated[1]
Segment revenue	**24,056**	**21,341**
Other companies	459	629
Consolidation	–366	–376
Group revenue	**24,149**	**21,593**
Segment profit or loss (operating result)	**2,894**	**1,254**
Other companies	40	–47
Contribution to operating profit by included companies	47	–15
Consolidation	6	18
Operating result	**2,987**	**1,210**
Share of profits and losses of equity-accounted joint ventures	78	64
Net gain/loss on miscellaneous financial assets	–50	–168
Other financial gains or losses	–10	–81
Profit before tax	**3,005**	**1,024**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

Other Disclosures

66. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €1,830 million (previous year restated: €1,852 million) 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, 2021	Dec. 31, 2020 restated[1]
Non-discounted lease payments	44,270	44,149
Non-guaranteed residual value	135	190
Unearned interest income	–2,896	–2,794
Loss allowance on lease receivables	–876	–1,050
Other	–	–
Net investment	**40,634**	**40,495**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the following: corrected accounting treatment of buyback transactions and corrections to reverse the application of portfolio fair value hedge accounting.

In the VW FS AG Group, net investment equates to the net receivables from finance leases.

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	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	15,709	12,711	9,874	5,274	410	292	44,270

In the previous year, the following payments were anticipated over the subsequent years from expected, outstanding, non-discounted lease payments under finance leases.

€ million	2021	2022	2023	2024	2025	From 2026	Total
Lease payments[1]	15,285	12,794	10,493	4,931	378	268	44,149

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

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	2021	2020 restated[1]
Lease income	5,798	4,868
Income from variable lease payments	–	–
Total	**5,798**	**4,868**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

The impairment losses recognized as a result of the impairment test on lease assets amounted to €236 million (previous year restated: €478 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 €175 million (previous year restated: €45 million) and is included in income from leasing transactions.

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, 2021	**33,365**
Foreign exchange differences	213
Changes in basis of consolidation	–
Additions	19,108
Reclassifications	0
Disposals	12,115
Balance as of Dec. 31, 2021	**40,571**
Depreciation and impairment losses as of Jan. 1, 2021	**6,855**
Foreign exchange differences	41
Changes in basis of consolidation	–
Additions to cumulative depreciation	4,422
Additions to cumulative impairment losses	236
Reclassifications	0
Disposals	2,874
Reversal of impairment losses	175
Balance as of Dec. 31, 2021	**8,505**
Net carrying amount as of Dec. 31, 2021	**32,066**
Net carrying amount as of Jan. 1, 2021	**26,510**

In the reporting year, the outstanding, undiscounted lease payments from operating leases expected for subsequent years were as follows:

€ million	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	3,888	2,442	1,239	481	71	7	8,128

The following table shows the changes in the prior year for assets leased out under operating leases:

€ million	Movable lease assets[1]
Cost as of Jan. 1, 2020 before corrections	**29,425**
Adjustments due to corrected treatment of buyback transactions	**–1,708**
Cost as of Jan. 1, 2020 after corrections	**27,717**
Foreign exchange differences	–233
Changes in basis of consolidation	16
Additions	17,879
Reclassifications	–
Disposals	12,014
Balance as of Dec. 31, 2020	**33,365**
Depreciation and impairment losses as of Jan. 1, 2020 before corrections	**6,649**
Adjustments due to corrected treatment of buyback transactions	**–864**
Depreciation and impairment losses as of Jan. 1, 2020 after corrections	**5,785**
Foreign exchange differences	–57
Changes in basis of consolidation	3
Additions to cumulative depreciation	3,628
Additions to cumulative impairment losses	478
Reclassifications	–
Disposals	2,938
Reversal of impairment losses	45
Balance as of Dec. 31, 2020	**6,855**
Net carrying amount as of Dec. 31, 2020	**26,510**
Net carrying amount as of Jan. 1, 2020	**21,932**

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

In the case of subleases that are classified as operating leases, right-of-use assets recognized in connection with buyback transactions are reported, from the perspective of the VW FS AG Group as lessor, under lease assets in the balance sheet and in the reconciliation showing the changes in movable lease assets.

In the previous 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[1]	3,420	2,189	1,118	509	61	3	7,300

1 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section relating to the corrected accounting treatment of buyback transactions.

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. The accounting treatment of buyback transactions as leases also means that the VW FS AG Group is the lessee in the primary leases with the vehicle sellers, who are entities in the Volkswagen Group.

In the reporting year, interest expenses of €5 million (previous year: €5 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.

In the reporting year, subleases mainly in connection with buyback transactions gave rise to income of €206 million (previous year restated: €185 million); this income was derived from both finance leases and operating leases.

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 €5 million (previous year: €7 million). Expenses for short-term leases were €9 million (previous year: €7 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	Land and buildings	Operating and office equipment	Total
Gross carrying amount (or cost) as of Jan. 1, 2021	**216**	**7**	**223**
Foreign exchange differences	5	0	5
Changes in basis of consolidation	–1	0	–1
Additions	20	1	20
Reclassifications	0	0	–1
Disposals	15	4	19
Balance as of Dec. 31, 2021	**224**	**4**	**228**
Depreciation and impairment losses as of Jan. 1, 2021	**43**	**4**	**47**
Foreign exchange differences	2	0	2
Changes in basis of consolidation	–1	0	–1
Additions to cumulative depreciation	25	2	27
Additions to cumulative impairment losses	–	–	–
Reclassifications	0	0	0
Disposals	6	3	9
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2021	**62**	**3**	**65**
Net carrying amount as of Dec. 31, 2021	**162**	**1**	**163**
Net carrying amount as of Jan. 1, 2021	**173**	**3**	**176**

€ million	Land and buildings	Operating 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**
Net carrying amount as of Jan. 1, 2020	**172**	**3**	**175**

Depending on the classification of the subleases, the right-of-use assets recognized from primary leases as part of buyback transactions are reported either as finance leases and therefore as receivables from finance leases or as operating leases and therefore as lease assets. Disclosures on buyback transactions are thus not included in the above disclosures on right-of-use assets recognized by the Group as a lessee.

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 undiscounted contractual maturities of lease liabilities:

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2021	28	120	73	221
Lease liabilities as of Dec. 31, 2020	30	127	79	236

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €72 million (previous year restated: €79 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	2021	2020
Future cash outflows to which the lessee is potentially exposed		
Variable lease payments	–	–
Residual value guarantees	0	0
Extension options	26	26
Termination options	–	–
Obligations under leases not yet commenced (contractual obligations)	0	5
Total	26	**31**

67. 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 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.

€ million	Balance as of Jan. 1, 2021	Cash changes	NONCASH TRANSACTIONS Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31, 2021
Subordinated capital	3,526	–576	22	–	–	2,971

€ million	Balance as of Jan. 1, 2020	Cash changes	NONCASH TRANSACTIONS 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

68. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €312 million (previous year: €296 million) largely related to legal disputes concerning income tax and other tax matters in which the criteria for the recognition of a provision in accordance with IAS 12 and 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.

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2022	DUE 2023–2026	DUE 2027 or later	TOTAL Dec. 31, 2021
Purchase commitments in respect of				
Property and equipment	16	–	–	16
Intangible assets	0	–	–	0
Investment property	0	–	–	0
Obligations from				
Irrevocable credit commitments to customers	570	–	–	570
Leasing and rental contracts	7	2	0	8
Miscellaneous financial obligations	78	0	–	78

In the case of irrevocable credit commitments, the Company expects the customers to draw down the facilities concerned.

€ million	DUE 2021	DUE 2022–2025	DUE 2026 or later	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
Leasing and rental contracts	9	1	0	11
Miscellaneous financial obligations	55	0	–	55

69. Average Number of Employees During the Reporting Period

	2021	2020
Salaried employees	10,820	10,654
Vocational trainees	160	149
Total	**10,980**	**10,803**

70. 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, 2021	Dec. 31, 2020
Total expense for the period (Jan. 1 – Dec. 31)	3	4
Total carrying amount of the obligation	3	4
Intrinsic value of the liabilities	2	4
Fair value at grant date	3	3
Number of performance shares granted	48,535	34,705
of which: number granted in the reporting period	18,977	17,490

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 €25 million (previous year: €26 million). As of December 31, 2021, the total carrying amount of the obligation, which equated to the intrinsic value of the liabilities, amounted to €36 million (previous year: €35 million). A total expense of €37 million (previous year: €35 million) was recognized in the reporting period for this commitment.

71. 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 the Volkswagen AG Supervisory Board 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, 2022, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2021. 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). The sole shareholder, Volkswagen AG, and VW FS AG have entered into 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 2021

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non-consolidated subsidiaries	Joint ventures	Associated companies
Loans and receivables	–	–	2,768	1	7,553	241	6,860	–
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	7,282	–	13,733	159	102	0
Interest income	–	–	2	–	70	4	90	–
Interest expense	–	–	–32	–	–162	–6	–	–
Goods and services provided	–	–	817	0	3,472	50	476	1
Goods and services received	–	–	9,018	–	7,095	35	552	1

FISCAL YEAR 2020

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities[1]	Non-consolidated subsidiaries	Joint ventures[1]	Associated companies
Loans and receivables	–	–	3,642	–	6,429	293	6,568	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	–	69	7	59	–
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 Prior-year figures restated as described in the disclosures set out in the Changes to Prior-Year Figures section under the header “Related Party Disclosures”.

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.

VW FS AG did not receive any capital contributions from Volkswagen AG in either the reporting year or the previous year. However, VW FS AG and its subsidiaries provided capital contributions of €270 million (previous year: €75 million) to related parties.

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 €142 million (previous year: €179 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

€ million	2021	2020
Short-term benefits	5	3
Benefits based on performance shares	1	2
Termination benefits	–	–
Post-employment benefits	–3	1

In the reporting year, the total remuneration of the Board of Management in accordance with the HGB amounted to €5 million (previous year: €5 million); 10,824 performance shares were granted in the reporting period (previous year: 9,195), the fair value of which was €2 million (previous year: €2 million) on the grant date.

Advances granted to the members of the Board of Management under the performance share plan amounted to €0.4 million as of December 31, 2021 (previous year: €0.1 million). None of the advances paid to the members of the Board of Management were offset against payments under the performance share plan, either in the reporting year or in the previous year.

The total payments made to former members of the Board of Management and their surviving dependants amounted to €0.8 million (previous year: €0.8 million); the provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €20 million (previous year: €13 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.

72. Governing Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2022)
Chairman of the Board of Management
Corporate Management of VW FS AG
China region

LARS HENNER SANTELMANN (UNTIL JANUARY 31, 2022)
Chairman of the Board of Management
Corporate Management of VW FS AG
China region
Germany and Europe regions (until September 30, 2021)
Sales and Marketing (until September 30, 2021)

ANTHONY BANDMANN (AS OF OCTOBER 1, 2021)
Sales and Marketing (as of October 1, 2021)
Germany, Europe and Mexico regions (as of October 1, 2021)

DR. ALEXANDRA BAUM-CEISIG
Human Resources and Organization
International region

DR. MARIO DABERKOW
Information Technology and Processes
South America region
Mexico region (until September 30, 2021)

FRANK FIEDLER
Finance and Purchasing

The members of the Supervisory Board of VW FS AG are as follows:

FRANK WITTER (UNTIL MARCH 31, 2021)
Chairman
Member of the Board of Management
of Volkswagen AG
Finance and IT

DR. ARNO ANTLITZ
Chairman
Member of the Board of Management
of Volkswagen AG
Finance and IT

DANIELA CAVALLO
Deputy Chairwoman
Chairwoman of the General
and Group Works Councils of Volkswagen AG

DR. HANS PETER SCHÜTZINGER
Deputy Chairman
Chief Executive Officer of
Porsche Holding GmbH, Salzburg

DR. CHRISTIAN DAHLHEIM (UNTIL JANUARY 31, 2022)
Head of Group Sales of Volkswagen AG

MICHAEL GROSCHE
Head of Remarketing
of Volkswagen Financial Services AG

MATTHIAS GRÜNDLER (UNTIL SEPTEMBER 30, 2021)
Chairman of the Executive Board of TRATON SE

ANDREAS KRAUß
Executive Director of the Joint Works Council
of Volkswagen Financial Services AG and
Volkswagen Bank GmbH

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

ALEXANDER SEITZ
Member of the Volkswagen
Brand Board of Management, Controlling and
Accounting

EVA STASSEK
1. Principal Representative of IG Metall Braunschweig

HILDEGARD WORTMANN (SINCE JUNE 10, 2021)
Member of the Board of Management of AUDI AG
Sales and Marketing

73. 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; LM Transportes Interestaduais Serviços e Comércio S.A., Bahia, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Finance Pvt. Ltd., Mumbai, India; Volkswagen Doğuş Finansman A.Ş., Istanbul, Turkey; VDF Filo Kiralama A.Ş., Istanbul, Turkey; VDF Faktoring A.Ş., Istanbul, Turkey.

74. Events After the Balance Sheet Date

The most recent events in the conflict between Russia and Ukraine could have a negative effects on new business and counterparty default risk in Russia. The Russian companies OOO Volkswagen Group Finanz, Moscow, OOO Volkswagen Bank RUS, Moscow, and OOO Volkswagen Financial Services RUS, Moscow, are funded mainly on the local capital and financial markets.

The specific effects of the Russia–Ukraine conflict cannot be conclusively assessed at this time. The potential effects are of minor significance.

There were no other significant events in the period between December 31, 2021 and February 24, 2022.

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, 2021.

		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, 2021	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)	2021
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR		100.00	–	100.00	2,763	–	1)	2021
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR		100.00	–	100.00	26	–	1)	2021
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR		100.00	–	100.00	54,829	–	1)	2021
Volkswagen Leasing GmbH, Braunschweig	EUR		100.00	–	100.00	269,912	–	1)	2021
Volkswagen Versicherung AG, Braunschweig	EUR		100.00	–	100.00	97,055	–	1)	2021
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR		100.00	–	100.00	54,369	–	1)	2021
2. International									
Autofinance S.A., Luxembourg	SEK	10.2548	–	–	–	350	–	9)	2020
Banco Volkswagen S.A., São Paulo	BRL	6.3068	–	100.00	100.00	2,878,337	356,733		2020
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	712,134	84,033		2020
Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3068	–	–	–	–	–	3) 5) 9)	2021
Driver Brasil four Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3068	–	–	–	306,445	5,819	9)	2020
Driver China Eleven Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	–	–	9)	2020
Driver China Nine Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	5,411,857	209,814	9)	2020
Driver China Ten Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	5,919,155	66,706	3) 9)	2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Driver China Thirteen Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	–	–	3) 5) 9)	2021
Driver China Twelve Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	–	–	3) 5) 9)	2021
Driver UK Master S.A., Luxembourg	GBP	0.8400	–	–	–	29	–	2) 9)	2020
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8400	–	–	–	29	–	2) 9)	2020
Euro-Leasing A/S, Padborg	DKK	7.4367	–	100.00	100.00	9,666	–9,468		2020
Euro-Leasing Sp. z o.o., Kolbaskowo	PLN	4.5943	–	100.00	100.00	–8,642	–8,275		2020
MAN Financial Services España S.L., Coslada	EUR		–	100.00	100.00	23,734	–1,775		2020
MAN Financial Services GesmbH, Eugendorf	EUR		–	100.00	100.00	29,226	2,605		2020
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.5943	100.00	–	100.00	82,540	21,793	7)	2020
MAN Location & Services S.A.S., Evry	EUR		100.00	–	100.00	5,386	–4,461		2020
OOO Volkswagen Bank RUS, Moscow	RUB	84.9779	99.00	–	99.00	17,284,314	1,034,143	7)	2020
OOO Volkswagen Financial Services RUS, Moscow	RUB	84.9779	99.99	0.01	100.00	7,102,621	990,332		2020
OOO Volkswagen Group Finanz, Moscow	RUB	84.9779	99.99	0.01	100.00	4,091,468	192,227		2020
ŠkoFIN s.r.o., Prague	CZK	24.8590	–	100.00	100.00	7,472,000	420,000		2020
Trucknology S.A., Luxembourg	EUR		–	–	–	1	–	9)	2020
VCL Master Residual Value S.A., Luxembourg	EUR		–	–	–	31	–	9)	2020
VCL Master S.A., Luxembourg	EUR		–	–	–	31	–	9)	2020
VCL Multi-Compartment S.A., Luxembourg	EUR		–	–	–	31	–	9)	2020
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	23.1418	100.00	–	100.00	2,228,000	192,000		2020
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	60,616	39,576		2020
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	7.1870	100.00	–	100.00	14,162,447	409,679		2020
Volkswagen Finance Belgium S.A., Bruxelles	EUR		–	100.00	100.00	5,460	4,028		2020
Volkswagen Finance Overseas B.V., Amsterdam	EUR		100.00	–	100.00	3,033,321	15,432		2020
Volkswagen Finance Pvt. Ltd., Mumbai	INR	84.1690	91.00	9.00	100.00	13,389,897	222,892	2)	2021
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	7.1870	–	100.00	100.00	592,141	11,011		2020
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8400	–	100.00	100.00	2,008,192	233,116		2020
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.5612	100.00	–	100.00	358,932	47,568	6)	2020
Volkswagen Financial Services France S.A., Villers-Cotterêts	EUR		–	100.00	100.00	196,622	327		2020
Volkswagen Financial Services Ireland Ltd., Dublin	EUR		–	100.00	100.00	–93,403	7,187		2020
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	130.3200	–	100.00	100.00	25,865,169	3,533,357		2020
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1,344.9650	100.00	–	100.00	342,385,000	15,639,000		2020
Volkswagen Financial Services N.V.,	EUR		–	100.00	100.00	1,275,405	10,172		2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Amsterdam									
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.5943	–	100.00	100.00	1,590,889	101,882	7)	2020
Volkswagen Financial Services S.p.A., Milan	EUR		100.00	–	100.00	118,676	13,024		2020
Volkswagen Finans Sverige AB, Södertälje	SEK	10.2548	–	100.00	100.00	2,073,730	1,380		2020
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR		–	100.00	100.00	26,946	9,498		2020
Volkswagen Leasing S.A. de C.V., Puebla	MXN	23.1418	100.00	–	100.00	11,973,375	1,223,622		2020
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	7.1870	100.00	–	100.00	960,884	91,024		2020
Volkswagen Participações Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	3,764,248	403,132		2020
Volkswagen Renting, S.A., Alcobendas (Madrid)	EUR		–	100.00	100.00	90,956	–6,299		2020
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR		–	100.00	100.00	–485	–3,511		2020
Volkswagen Serviços Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	47,925	3,859		2020
B. Unconsolidated companies									
1. Germany									
carmobility GmbH, Braunschweig	EUR		100.00	–	100.00	250	–	1)	2021
LogPay Financial Services GmbH, Eschborn	EUR		100.00	–	100.00	12,674	–	1)	2021
LogPay Mobility Services GmbH, Eschborn	EUR		–	100.00	100.00	20	–	1)	2020
LogPay Transport Services GmbH, Eschborn	EUR		–	100.00	100.00	3,312	–	1)	2020
Rent-X GmbH, Braunschweig	EUR		100.00	–	100.00	40,324	–	1)	2021
sunhill technologies GmbH, Erlangen	EUR		–	100.00	100.00	3,846	–13,931		2020
Volkswagen Payment Systems GmbH, Munich	EUR		–	100.00	100.00	5,070	–691		2020
Voya GmbH, Hamburg	EUR		100.00	–	100.00	–	–		2020
2. International									
Adaptis Solutions Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	274	–234		2020
Connect Cashless Parking Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	–119	–191	2)	2020
Fleetzil Locações e Serviços Ltda., Curitiba	BRL	6.3068	–	100.00	100.00	71,888	25,673		2020
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o., Mladá Boleslav	CZK	24.8590	–	100.00	100.00	43,133	37,633		2020
Kuwy Technology Service Pvt. Ltd., Chennai	INR	84.1690	–	67.73	67.73	134,965	–239,062	2)	2021
LogPay Charge & Fuel Slovakia s.r.o., Bratislava	EUR		–	100.00	100.00	–	–	3) 4)	2020
LogPay Fuel Czechia s.r.o., Prague	CZK	24.8590	–	100.00	100.00	–84	–370		2020
LogPay Fuel Italia S.r.l., Bolzano	EUR		–	100.00	100.00	142	27		2020
LogPay Fuel Spain S.L., Barcelona	EUR		–	100.00	100.00	619	40		2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
PayByPhone Italia S.R.L., Verona	EUR		–	100.00	100.00	266	–793		2020
PayByPhone Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	3,433	–743		2020
PayByPhone S.A.S., Boulogne-Billancourt	EUR		–	100.00	100.00	–2,566	–2,900		2020
PayByPhone Suisse AG, Düdingen	CHF	1.0332	–	100.00	100.00	–342	–442		2020
PayByPhone Technologies Inc., Vancouver / BC	CAD	1.4417	–	100.00	100.00	58,528	–93,389		2020
PayByPhone US Inc., Wilmington / DE	USD	1.1320	–	100.00	100.00	0	–	4)	2020
Simple Way Locações e Serviços S.A., Curitiba	BRL	6.3068	–	100.00	100.00	18,896	–2,678		2020
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR		–	70.00	70.00	2,136	336		2020
VAREC Ltd., Tokyo	JPY	130.3200	–	100.00	100.00	704,481	92,566		2020
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	46,941	–164		2020
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	116.2451	–	96.00	96.00	320,175	79,807		2020
Volkswagen Financial Ltd., Milton Keynes	GBP	0.8400	–	100.00	100.00	0	–	4)	2020
Volkswagen Financial Services Hellas A.E., Athens	EUR		100.00	–	100.00	2,074	–223		2020
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	116.2451	99.99	0.01	100.00	1,652,341	70,643		2020
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	1.0332	–	100.00	100.00	8,926	1,489		2020
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	31.3270	–	100.00	100.00	1,174,734	115,554		2020
Volkswagen FS France S.A.S., Roissy-en-France	EUR		–	100.00	100.00	96	–2		2020
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	23.1418	–	100.00	100.00	–43,272	3,593		2020
Volkswagen Insurance Company DAC, Dublin	EUR		100.00	–	100.00	38,119	333		2020
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8400	–	100.00	100.00	1,738	342		2020
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,344.9650	–	100.00	100.00	2,053,226	1,003,023		2020
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	31.3270	–	100.00	100.00	28,140	21,890		2020
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	7.1870	–	100.00	100.00	3,459	–4,921		2020
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	7.1870	–	100.00	100.00	–2,228	–763		2020
Volkswagen Leasing (Nanjing) Co., Ltd., Nanjing	CNY	7.1870	–	100.00	100.00	–5,480	–1,393		2020
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	7.1870	–	100.00	100.00	–8,616	–16,488		2020
Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou	CNY	7.1870	–	100.00	100.00	–1,462	–1,199		2020
Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	7.1870	–	100.00	100.00	360	–593		2020
Volkswagen Mobility Services S.p.A., Bolzano	EUR		–	100.00	100.00	6,918	–3,082	3)	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, 2021	Direct	Indirect	Total	local currency	local currency	Footnote	Year
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.1870	–	100.00	100.00	7,811	–7,659		2020
Volkswagen Payments S.A., Strassen	EUR		100.00	–	100.00	11,622	–8,448		2020
Volkswagen Reinsurance Company DAC, Dublin	EUR		100.00	–	100.00	6,661	–236		2020
Volkswagen Service Sverige AB, Södertälje	SEK	10.2548	–	100.00	100.00	40,970	–		2020
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	23.1418	–	100.00	100.00	20,655	5,774		2020
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.5943	–	100.00	100.00	86,901	25,681		2020
Voya Travel Technologies S.R.L., Bukarest	RON	4.9488	–	100.00	100.00	228	36		2020
VTXRM - Software Factory Lda., Porto Salvo	EUR		–	90.00	90.00	2,326	377		2020
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR		36.71	–	36.71	282,672	–5,357		2020
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR		51.00	–	51.00	143,349	26,095		2020
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		49.00	–	49.00	103,091	25,943		2020
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0532	50.00	–	50.00	158,438	3,875	7)	2020
VDF Servis ve Ticaret A.S., Istanbul	TRY	15.1347	51.00	–	51.00	362,181	83,730	6)	2020
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR		–	50.00	50.00	143,220	2,982		2020
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0532	51.00	–	51.00	–1,027,670	–746,438		2020
Volkswagen Møller Bilfinans A/S, Oslo	NOK	9.9894	–	51.00	51.00	3,536,184	289,672	7)	2020
Volkswagen Pon Financial Services B.V., Amersfoort	EUR		–	60.00	60.00	168,521	12,716	6) 8)	2020
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR		66.35	–	66.35	9,496	–6,513		2020
2. International									
Collect Car B.V., Rotterdam	EUR		–	60.00	60.00	7,465	–592		2020
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0532	51.00	–	51.00	30,635	25,580		2020
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	964.4600	50.00	–	50.00	3,500,951	1,200,761		2020
Shuttel B.V., Leusden	EUR		49.00	–	49.00	3,062	23		2020
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	116.2451	–	49.00	49.00	2,731,884	3,231		2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2021	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 Losch Financial Services S.A., Howald	EUR		60.00	–	60.00	3,877	722		2020
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4367	–	51.00	51.00	181,703	–43,391		2020
IV. ASSOCIATED COMPANIES									
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	3,512	1,617		2020
Verimi GmbH, Berlin	EUR		29.99	–	29.99	15,307	–19,253		2020
2. International									
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR		–	15.00	15.00	4,204	3,726		2020
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR		8.70	–	8.70	965	–32		2020
PosernConnect GmbH, Sittensen	EUR		–	49.00	49.00	905	351		2020

1) Profit-and-loss transfer agreement
2) Different fiscal year
3) Short fiscal year
4) Currently not trading
5) Newly established company
6) Consolidated financial statements
7) Figures in accordance with IFRSs
8) Matter within the meaning of section 1 of the UmwG
9) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 24, 2022

Volkswagen Financial Services Aktiengesellschaft
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

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 24, 2022

Volkswagen Financial Services Aktiengesellschaft
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Independent Auditor's Report

(Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and the 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 balance sheet as at 31 December 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the fiscal year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021. 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 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021, 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 2021 to 31 December 2021. 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

The lease assets balance sheet item comprises 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.

Internal and external marketing results as well as estimates of future market price development are used to review the expected residual value in a quarterly impairment test.

In light of the judgment exercised in determining the residual values, the existing estimation uncertainty in impairment testing and the significance of the amount, 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 ongoing global Covid-19 pandemic, also with regard to the semiconductor supply shortages, the estimation uncertainty in relation to the determination of the expected residual values remains significantly heightened in fiscal year 2021.

Auditor's response

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

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

Reference to related disclosures

The disclosures of the Volkswagen Financial Services AG Group on the recognition and measurement policies applied for lease assets are contained in note "66. 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 ongoing global Covid-19 pandemic on the expected 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 obtained a version prior to 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 significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, 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 on the electronic rendering of the consolidated financial statements and the group management report prepared for publication purposes in accordance with Sec. 317 (3a) HGB

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the group management report (hereinafter the "ESEF documents") contained in the file Volkswagen Financial Services_AG_KA+ KLB_ESEF-2021-12-31 (SHA-256 checksum: f499b1300843ec2b0187c400eb7c30fcfa71339e4cc4c2b98fe1e3560737a944) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the consolidated financial statements and the group management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the group management report contained in the file identified above and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinions on the accompanying consolidated financial statements and the accompanying group management report for the fiscal year from 1 January 2021 to 31 December 2021 contained in the "Report on the audit of the consolidated financial statements and of the group management report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

Basis for the opinion

We conducted our assurance work on the rendering of the consolidated financial statements and the group management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (10.2021). Our responsibility in accordance therewith is further described in the "Group auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Supervisory Board for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the 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 determined necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB for the electronic reporting format.

The Supervisory Board is responsible for overseeing the process for preparing 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 intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB. We exercise professional judgment and maintain professional skepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Sec. 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e., whether the file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, on the technical specification for this file.
- Evaluate whether the ESEF documents enable an XHTML rendering with content equivalent to the audited consolidated financial statements and to the audited group management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Arts. 4 and 6 of Commission Delegated Regulation (EU) 2019/815, in the version in force at the date of the financial statements, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the Annual General Meeting on 10 June 2021. We were engaged by the Supervisory Board on 18 July 2021. We have been the group auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since fiscal year 2020.

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

Other matter – Use of the auditor´s report

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Martin Werthmann.

Hanover, 28 February 2022

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 twelve matters by means of a written resolution circulated to each of the members for approval; the Chairman of the Supervisory Board also made ten 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. As a consequence of changes to the law following AktG amendments and with effect from January 1, 2022, the Supervisory Board has set up an Audit Committee which will now be responsible for these duties.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 19, 2021, 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 prepared by the Board of Management as well as the annual financial statements and management report of Volkswagen Financial Services AG for 2020 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2021.

In addition, the Board of Management informed the Supervisory Board about the planned structural changes in the European markets in which the organization will be focused on end customers and sales channels. Under a further agenda item, the Supervisory Board received information on the latest status of the Operational Excellence initiative launched in 2018, in particular in the areas of IT and processes.

At the meetings on June 28, 2021 and November 10, 2021, 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 June 28, 2021, 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 car subscriptions and used vehicle marketing. At this meeting, the Board of Management also informed the Supervisory Board about the current situation regarding the heycar used vehicle platform and the addition of further strategic investors. The Supervisory Board approved the market launch of Mobility Trader Holding GmbH in France.

At the meeting on November 10, 2021, 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 2022. The Chief Digital Officer informed the Supervisory Board of the latest implementation status of digitalization at Volkswagen Financial Services AG and of the product and customer groups that are 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 IFRSs and the annual financial statements of Volkswagen Financial Services AG in accordance with the HGB for the year ended December 31, 2021, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group completed in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG completed in accordance with HGB for the year ended December 31, 2021 were submitted to the Supervisory Board together with the management reports. 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 25, 2022, the Supervisory Board approved both the consolidated financial statements prepared by the Board of Management as well as the annual financial statements of Volkswagen Financial Services AG. The consolidated financial statements and annual financial statements have thus been adopted.

On the basis of the current control and profit-and-loss transfer agreement, the profit reported by Volkswagen Financial Services AG in accordance with the HGB for fiscal year 2021 was transferred to 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 25, 2022

Dr. Arno Antlitz
Chairman of the Supervisory Board

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