VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT

IFRS

2022

Key Figures

VOLKSWAGEN FINANCIAL SERVICES AG

€ million (as of Dec. 31)	2022	2021
Total assets	133,341	124,590
Loans to and receivables from customers attributable to		
Retail financing	23,907	22,903
Dealer financing	5,536	3,868
Leasing business	41,235	40,901
Lease assets	34,927	32,066
Equity	17,625	14,433
Operating profit	3,207	2,987
Profit before tax	3,003	3,005

in percent (as of Dec. 31)	2022	2021
Cost/income ratio[1]	43	41
Equity ratio[2]	13.2	11.6
Return on equity[3]	18.7	22.1

Number (as of Dec. 31)	2022	2021
Employees	11,457	11,021
Germany	5,980	5,901
International	5,477	5,120

1 General and administrative expenses, adjusted for expenses passed on to other entities in the Volkswagen Group / interest income from lending transactions and marketable securities, net income from leasing transaction, interest expenses, net income from service contracts, net income from insurance business, provision for credit risks and net fee and commission income.
2 Equity / total assets
3 Profit before tax / average equity

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

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Fundamental Information about the Group

Volkswagen Financial Services AG and its companies are providers of a wide range of mobility services.

BUSINESS MODEL

The companies of the Volkswagen Financial Services AG Group together cover a wide range of mobility services, offering products such as the VW FS | Auto Abo car subscription and other services as well as conventional financing and leasing options. 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 Services 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.

MOBILITY2030 STRATEGY

Volkswagen Financial Services AG's new MOBILITY2030 strategy, which replaces the existing ROUTE2025 strategy, was formally adopted in fiscal year 2022.

The changes in the nature of commerce and the way people live, especially as a result of digitalization, have changed purchasing behavior and patterns of demand among many customers. This development has consequences for car sales as well , with flexible access to vehicles and mobility solutions in the broader sense becoming more important. Customers are increasingly interested in the idea of being able to use a vehicle without having to own it. The NEW AUTO strategy set out the Volkswagen Group's roadmap for transforming itself into a software-driven mobility company and defined the development and expansion of mobility solutions as a vital core element. Volkswagen Financial Services AG has a central role to play in this connection and is implementing the Group strategy in its own MOBILITY2030 strategy.

The core mission of Volkswagen Financial Services AG is to develop and to provide a comprehensive mobility platform, which gives customers rapid, digital and flexible access to mobility – from conventional financing and leasing options to the Auto Abo car subscription product. This entails moving on from the business model of a straightforward automotive financial services provider to that of a mobility service provider. Vehicle on demand (VoD) options are a particular priority, especially for Europe and North America. MOBILITY2030 also has a strong focus on vehicle lifetime concepts to maximize vehicle value and the associated value added throughout the vehicle life cycle.

The successful implementation of MOBILITY2030 will require Volkswagen Financial Services to adopt an approach that allows the expanded business model of a mobility service provider to be operated in the best way possible under the regulatory conditions in Europe. Fundamental matters to be considered in relation to such a future approach concern the effective management of the business and efficient business operations, whilst also making simultaneous use of opportunities to enhance funding. This may result in a need for corresponding actions in the short to medium term.

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

	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

Satisfied customers are one of the central objectives of Volkswagen Financial Services AG's activities. With this in mind, Volkswagen Financial Services AG has conducted surveys to determine the level of both external and internal customer satisfaction in its markets over the last few years. As our business model becomes more digitalized, so the volume of direct interaction that we have with our end customers continues to grow. We use the opportunity to obtain customer feedback in the form of a star rating (Trusted Shops) and to respond accordingly. This approach is being steadily rolled out across all markets.

External Employer Ranking

Volkswagen Financial Services AG undergoes an external benchmarking process, generally every two years, to obtain an external employer ranking.

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, 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

Effective March 21, 2022, Volkswagen Finance Overseas B.V., Amsterdam, Netherlands, a wholly owned subsidiary of Volkswagen Financial Services AG, and ICARE S.A. Boulogne-Billancourt, France, a wholly owned subsidiary of BNP Paribas Cardif S.A., Paris, France, established Staymo S.A.S., Boulogne-Billancourt, France. Volkswagen Finance Overseas B.V. holds 51% and ICARE S.A. 49% of the shares in the joint venture, which provides services in relation to maintenance.

Effective April 8, 2022, Volkswagen Financial Services AG, Braunschweig, sold 74.9% of the shares in Volkswagen Payments S.A., Luxembourg, a wholly owned subsidiary of Volkswagen Financial Services AG, to J.P. Morgan International Finance Limited, Delaware, USA, and the company was renamed J.P. Morgan Mobility Payments Solutions S.A. with effect from October 12, 2022.

Effective April 30, 2022, Simple Way Locações e Serviços S.A., Curitiba, Brazil, an indirect wholly owned subsidiary of Volkswagen Financial Services AG, acquired in total 60% of the shares in LM Transportes Interestaduais Serviços e Comeréio S.A., Salvador, Brazil through share purchase, capital increases, merger, and contribution in kind in several intermediate steps. This equity investment enables Volkswagen Financial Services AG to continue expanding its fleet business worldwide.

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 2022, which will be available in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2022/Nonfinancial_Report_2022_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2022/Nonfinancial_Report_2022_e.pdf from April 30, 2023.

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 2022. Global demand for vehicles was on a level with the previous year. Volkswagen Financial Services AG's operating result was noticeably higher than the level of the previous year.

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

In 2022, the operating result was noticeably up on the prior year (+7.4%). Global new business contracted because of the shortage of semiconductors and bottlenecks in global supply chains, but with new vehicles in short supply, marketing performance in respect of used vehicles improved drastically as compared with the prior year (+121.0%).

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

The share of financed and leased vehicles in the Group's worldwide deliveries (penetration) stood at 25.6 (26.7)% at the end of 2022.

Funding costs were drastically higher than the prior-year level, although the volume of business had increased (+74.6%).

Margins were slightly below the level of the previous year (–4.1%).

The credit risk situation arising from Volkswagen Financial Services AG's overall portfolio was significantly affected by the ongoing semiconductor shortage in 2022. There was a slight rise in the exposure from financing and leasing business, including lease assets, and credit risks did increase, but at a slower rate. The provision for credit risks (including the additional valuation allowances recognized on a country-specific basis) rose very strongly relative to the volume of loans and receivables at the end of the reporting year.

The residual value portfolio remained on a level with the prior-year in fiscal year 2022, but the guaranteed residual values increased noticeably once again. Residual value risk declined drastically, particularly due to the strong demand for used vehicles generated by the ongoing restricted availability of new vehicles (–37.4%). This made it possible to reduce the provision for residual value risk equally drastically. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

The liquidity risk for the Volkswagen Financial Services AG Group was essentially on a level with the previous year fiscal year 2022. The existing sources of funding were adequate to enable the growth achieved in the fiscal year. A wide range of funding instruments were used in a number of different currency areas, regions and countries.

The funding structure remained 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.

More of the activities associated with the Operational Excellence (OPEX) intercompany efficiency program were put into practice and established as a key element of the corporate culture. The actions yet to be implemented were transferred to the individual divisions for tracking and implementation as part of this process. The financial aspects of the actions concerned were finalized in the planning round. The overarching OPEX project concluded at Volkswagen Financial Services AG on July 1, 2022.

Progress at all companies was reported to the Board of Management using established management indicators.

The Board of Management of Volkswagen Financial Services AG considers the course of business to have been positive in 2022 despite the consequences of the semiconductor bottlenecks.

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

	Actual 2021	Forecast for 2022		Actual 2022
Nonfinancial performance indicators				
Penetration (percent)	26.7	> 26,7	noticeably up on previous year	25.6
Current contracts (thousands)	15,775	> 15.775	noticeably up on previous year	16,085
New contracts (thousands)	5,778	> 5.778	significantly up on year	5,732
Financial performance indicators				
Volume of business (€ million)	99,738	> 99.738	noticeably up on previous year	105,605
Operating result (€ million)	2,987	< 2.987	Substantially lower than in the previous year	3,207
Return on Equity in (percent)	22.1	< 22,1	Very significantly below the previous year's level	18.7
Cost/income ratio (percent)	41	> 41	Substantially up on previous year	43

DEVELOPMENTS IN THE GLOBAL ECONOMY

In the reporting period, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on the energy and commodity markets. Parts supply shortages also intensified in this context. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, restricted gas deliveries to Europe. The resulting increase in energy prices and intensified supply shortages had a sustained impact on inflation in Europe particularly.

During 2022, the restrictive measures put in place to protect the population from the SARS-CoV-2 virus were lifted to a large extent in many countries. The progress made in administering vaccines to the public had a positive effect, while the emergence of the new Omicron variant and its subvariants led to a renewed sharp rise in infections on a national scale, mostly causing milder symptoms but increased rates of sick leave. In China particularly, local outbreaks of infection in the course of 2022 led to tight restrictions under the zero-Covid strategy being pursued there, resulting in economic constraints and disruption to international supply chains. The departure from this strategy led to a rapid increase in infection rates in China at the end of the year.

Following the slump in global economic output in 2020 and the incipient recovery due to baseline and catch-up effects in 2021, the global economy recorded positive overall growth of +3.0 (+6.0)% in 2022. Both the advanced economies and the emerging markets continued to recover on average, albeit with diminishing momentum and slower growth overall than in the prior year.

At national level, developments depended on the one hand on the scale of the negative impact of the Covid-19 pandemic and the intensity with which measures were taken to contain it, and on the other the extent to which national economies were affected by the consequences of the Russia-Ukraine conflict. In response to the further rise of inflation rates around the world, many countries shifted to a more restrictive monetary policy, which led central banks to increase their key interest rates and reduce bond purchases during the reporting period. The gloomier economic outlook resulted in large losses on major stock markets. On average, prices for energy and other commodities rose significantly in some cases year-on-year and shortages of certain intermediates and commodities remained high. Global trade in goods increased in 2022.

Europe/Other Markets

The economy in Western Europe recorded positive overall growth of +3.5 (+5.6)% in 2022. The reasons for this included increased economic resilience in the face of high infection rates in many countries, and the associated easing of the measures taken to contain the pandemic. However, significantly rising inflation rates, among other things, resulted in a slowdown in economic momentum. This trend was seen in almost all countries in Northern and Southern Europe.

At +0.6 (+6.4)%, the economies in Central and Eastern Europe recorded low real growth in absolute gross domestic product (GDP) overall in the reporting period. While economic output in Central Europe saw positive, albeit somewhat less dynamic growth of +4.4 (+7.8)%, GDP in the Eastern Europe region fell significantly compared with the prior year as a consequence of the Russia-Ukraine conflict, with a negative growth rate of –4.1 (+4.8)%. The sanctions imposed against Russia had a substantial impact in this region from March 2022 onwards, causing Russian economic output to contract from the second quarter. Russia saw a negative average growth rate for the year of –3.1 (+4.7)%. Inflation rates rose, in some cases sharply, across the entire Central and Eastern Europe region.

In Türkiye, economic output for the year 2022 as a whole rose by +5.0 (+11.6)% amid very high inflation and a fall in the value of the local currency. South Africa saw slight GDP growth of +2.2 (+4.9)% in the reporting period, amid persistent structural deficits and political challenges.

Germany

Germany’s economic output recorded a positive growth rate of +1.9 (+2.6)% in the 2022 reporting year, with declining momentum. The situation on the labor market improved compared with the previous year, with the unemployment rate and notices of *Kurzarbeit* (short-time working) for economic reasons falling on average. At the same time, monthly inflation rates reached the highest level in the history of the Federal Republic of Germany, while at the same time historic lows were registered in consumer confidence.

North America

US economic output grew by +2.0 (+5.9)% in the reporting period. Given rising inflation and the tight labor market, the US Federal Reserve consistently maintained its restrictive monetary policy and raised its key interest rate seven times over the course of the reporting year. Unemployment declined further in 2022 from the high level seen in the prior year. GDP rose by +3.5 (+5.0)% in neighboring Canada and by +3.0 (+4.9)% in Mexico.

South America

Brazil's economy posted GDP growth of +2.9 (+5.3)% in 2022. Argentina registered a positive economic performance with year-on-year growth of +4.6 (+10.4)% amid very high inflation and continued depreciation of the local currency.

Asia-Pacific

At the beginning of the Covid-19 pandemic, China was exposed to the negative effects at an earlier stage than other economies and, due to the strict zero-Covid strategy pursued there, benefited from a relatively low number of new infections as the pandemic progressed. This strategy resulted in temporary local lockdowns in the reporting period in connection with the spread of the Omicron variant. The departure from this strategy led to a rapid increase in infection rates in China at the end of the year. The Chinese economy grew by only +2.8 (+8.4)% overall. India registered strong growth of +7.0 (+8.3)%. Japan recorded positive growth of +1.2 (+2.2)% year-on-year.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Demand for automotive financial services was at a high level in the first quarters of 2022 due, among other things, to persistently low key interest rates in the main currency areas. In combination with the Covid-19 pandemic and continuing limits on vehicle availability, the rise in interest rates that began in the second half of the year put pressure on demand for financial services in almost all regions.

The European passenger car market was still affected by parts supply shortages in the reporting period; vehicle deliveries were down on the prior-year period. By contrast, the share of financial services products in the new vehicle business grew positively and exceeded the 2021 figure. The main drivers of this trend were positive changes in the sales mix that benefited the private customer business, which lends itself particularly to financing, and an increased share of leasing contracts in the fleet business. The positive trend in the financing of used vehicles continued in 2022; in particular, the sale of after-sales products such as servicing, maintenance and spare parts agreements increased. Financial services activities in Russia were negatively affected by the Russia-Ukraine conflict and the impact of the international sanctions.

In Germany, the continuing challenges presented by the faltering parts supply in vehicle production impacted on vehicle sales and the financial services business. The decrease in deliveries of new vehicles led to fewer new leasing and financing contracts being concluded in the reporting period than a year earlier. New vehicle penetration was down slightly on 2021. Overall, the level of new contracts for used vehicles continued to be similar to that of the previous year. The number of new after-sales contracts was up in the second half of the year and ended the reporting period only slightly down on 2021 levels. With few exceptions, the number of new contracts in the insurance business fell short of the figures achieved a year earlier.

In South Africa, demand for financing and insurance products for new and used cars remained subdued in 2022. Coordinated campaigns to promote such products were scaled back due to limited vehicle availability. To counter rising inflation, the South African Reserve Bank has begun to raise interest rates.

In the North America region, supply bottlenecks meant that vehicle deliveries in 2022 were down on the previous year. The US and Canadian markets also saw declining demand for leasing and financing contracts because of interest rate hikes. In the Mexican market, the percentage of new leasing and financing contracts remained on a level with the previous year and new contracts for after-sales products were up year-on-year.

In the South America region, there was excess demand for vehicles in a volatile environment, exacerbated in Argentina by restrictions on imports. The rise in interest rates kept the number of cash purchases at a high level. In Brazil, there was an increase in the number of new financing contracts.

In the Chinese market, passenger car sales were impacted by parts supply shortages and local restrictions due to the pandemic. Both the proportion of credit-financed vehicle purchases and growth in new contracts declined. The comparative prior-year figures were not achieved in the reporting period. Meanwhile, the used car sales failed to meet the expectation in 2022 due to the impact of pandemic.

In fiscal year 2022, the financial services business in the market for heavy commercial vehicles was slightly up on the comparative prior-year level, also affecting financing and leasing contracts in Europe and Brazil.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

In fiscal year 2022, the volume of the passenger car market worldwide remained on a level with the prior year at 69.6 million vehicles. Gains and losses in individual markets were very uneven, since shortages and disruption in global supply chains, the effects of the Russia-Ukraine conflict and the further consequences of the Covid-19 pandemic varied around the world in terms of the strength of their impact. Shortages of semiconductors and other intermediates, which already occurred in the second half of 2021, and the resulting supply bottlenecks, could also not be fully resolved in 2022.

Slight or noticeable growth was recorded in the overall markets of the Asia-Pacific and Middle East regions respectively, while South America and Africa were on a level with the previous year. Sales fell in the remaining regions: while market volume was slightly down in Western Europe and noticeably down in North America, Central and Eastern Europe recorded a very strong decline.

In the reporting period, the global volume of new registrations for light commercial vehicles was slightly (–3.0%) lower than in the previous year.

Sector-Specific Environment

Along with fiscal policy measures, factors substantially affecting the sector-specific environment were shortages and disruption in global supply chains, the Covid-19 pandemic and the impacts of the Russia-Ukraine conflict. This contributed considerably to the mixed trends in unit sales in the markets in 2022. As a result of the Russia-Ukraine conflict, sanctions were imposed that restricted the production and sale of vehicles, particularly in Russia. The fiscal policy 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 4.3 % to 10.2 million vehicles. While the first half of the reporting year fell significantly short of the comparison period, the number of new registrations in the subsequent months were up again on the – in some cases substantially weaker – prior-year figures. The performance of the large individual passenger car markets was negative in fiscal year 2022: France (–7.7%), the United Kingdom (–2.0%), Italy (–9.8%) and Spain (–7.1%) did not achieve their respective prior-year levels.

The volume of new registrations for light commercial vehicles in Western Europe was sharply lower than in the previous year, falling by –20.7%.

After the slight recovery in the prior year, the volume of the passenger car market in the Central and Eastern Europe region fell very sharply in the 2022 fiscal year and was down by 37.2% at 1.8 million vehicles. The number of sales was also on an overall downtrend in the individual markets. The Russian passenger car market in particular saw substantial losses and more than halved in the period under review (–60.9%). In Central Europe, the decline in new registrations was smaller at –6.0 % in Poland and –7.1 % in the Czech Republic.

The market volume of light commercial vehicles in Central and Eastern Europe was sharply below the prior-year level (–28.6%). In Russia, the number of vehicles sold in the reporting period fell by 45.2% compared with the previous year.

The volume of the passenger car market in Türkiye in the reporting period was slightly up on the weak prior-year level. In South Africa, the growth trend in passenger car sales that began in 2021 continued strongly with a rise of 20.4 %.

The volume of new registrations of light commercial vehicles in Türkiye in the reporting period was on a level (+0.5%) with 2021, while South Africa recorded slight growth (+3.6%).

Germany

At 2.7 million, the total number of new passenger car registrations in Germany in the 2022 fiscal year was similar to the weak prior-year level (+1.1%). Shortages and disruption in global supply chains continued to restrict vehicle availability. With delays in semiconductor deliveries persisting, and the associated measures such as cutbacks in production and production shutdowns therefore continuing too, domestic production and exports remained at a low level in the reporting period: passenger car production increased by 10.8% to 3.4 million vehicles and passenger car exports grew by 10.1% to 2.6 million units.

The number of sales of light commercial vehicles in Germany in the reporting period was sharply down on the 2021 figure (–21.1%).

North America

At 16.4 million vehicles, sales of passenger cars and light commercial vehicles (up to 6.35 tonnes) in the North America region in fiscal year 2022 were noticeably lower compared with the prior-year (–7.3%). At 13.9 million units, the market volume in the USA declined by more than the average for this region (–8.0%). The Canadian automotive market registered a noticeable fall in sales figures to 1.5 million units (–9.7%) in the re-porting period, while new registrations of passenger cars and light commercial vehicles in Mexico saw a noticeable rise of 7.0% compared with the prior year to 1.1 million vehicles.

South America

In the South America region, the volume of new passenger car and light commercial vehicle registrations in the re-porting period was on a level with the prior year at 3.6 million units (+1.8%). This continued the positive growth trend that began in the previous year, albeit at a slower pace. In Brazil, the number of new registrations was also on the same level as the previous year at 2.0 million units (–0.8%). Total exports of vehicles manufactured in Brazil increased by 28.9% to 450 thousand passenger cars and light commercial vehicles. In the Argentinian market, demand for passenger cars and light commercial vehicles in the 2022 reporting period rose noticeably by 7.0% to 380 thousand units.

Asia-Pacific

In the Asia-Pacific region, the volume of the passenger car market in fiscal year 2022 was slightly higher than the previous year's figure at 33.8 million units (+3.6%). The absolute rise in demand for passenger cars in the region was again primarily attributable to the positive trend in the Chinese passenger car market. Here, the recovery seen in 2021 continued but was affected by the semiconductor shortage and local lockdowns in connection with the spread of the Omicron variant of the SARS-CoV-2 virus. Overall, the volume of demand in China totaled 21.0 million units (+1.6%), putting it on a level with the previous year. In India, passenger car sales again rose strongly by 23.2% compared with the prior year to 3.6 million units. New registrations in the Japanese passenger car market in the reporting period were noticeably down on the already weak prior-year level at 3.5 million units (–6.9%).

The volume of demand for light commercial vehicles in the Asia-Pacific region in 2022 was slightly above the previous year's level (+2.1%). Registration volumes in China, the region's dominant market and the largest market worldwide, were slightly lower, falling 3.1% short of the prior-year figure. The number of new vehicle registrations in India was strongly up on the prior-year level; in Japan this figure was slightly lower than in the previous year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes experienced noticeable growth in fiscal year 2022 versus the comparison period (+5.5%). Global truck markets declined sharply. This was due to upheaval on the Chinese market, which slumped dramatically on the back of purchases brought forward to 2021 prior to the introduction of the new emission level and due to the zero-Covid strategy pursued there.

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was noticeably up on the prior-year level, increasing by 5.1% to a total of 337 thousand vehicles. Growth could be observed in many truck markets in the region, albeit to differing degrees. The substantial market recovery seen in 2021 slowed during the reporting period to a noticeable level of growth. New registrations in Germany, the largest market in this region, were on a level with the previous year (–1.7%). The United Kingdom recorded a noticeable increase of 9.8%, while demand in France was on a level with the previous year (–0.3%). The Russian market declined sharply as a result of the Russia-Ukraine conflict. Türkiye, by contrast, recorded a strong rise in new registrations of 24.7%. In the South African market, demand rose significantly (+12.3%). In the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier) – new registrations were significantly higher (+13.6%) than the previous year's figure. In Brazil, the largest market in the South America region, demand for trucks in the reporting period was slightly lower year-on-year (–2.5%).

Demand in the bus markets relevant for the Volkswagen Group was on a level with the previous year (+0.3%). Demand for buses in the EU27+3 markets in the reporting period was slightly down overall on the level of the previous year (–3.8%), with the picture varying from country to country. The school bus segment in the USA and Canada recorded a noticeable decline (–6.9%) compared with the prior year. In Brazil, by contrast, demand for buses increased and was strongly up on the previous year's level (+23.4%).

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP

	DELIVERIES OF VEHICLES		
	2022	2021	Change in percent
Deliveries of passenger cars worldwide[1]	**7,957,288**	**8,610,702**	**–7.6**
Volkswagen Passenger Cars	4,563,340	4,896,874	–6.8
ŠKODA	731,262	878,202	–16.7
SEAT	385,592	470,531	–18.1
Volkswagen Commercial Vehicles	328,572	359,541	–8.6
Audi	1,614,231	1,680,512	–3.9
Lamborghini	9,233	8,405	+9.9
Bentley	15,174	14,659	+3.5
Porsche	309,884	301,915	+2.6
Bugatti[2]	–	63	X
Deliveries of commercial vehicles worldwide[3]	**305,488**	**271,190**	**+12.6**
Scania	85,232	90,366	–5.7
MAN	84,377	93,578	–9.8
Navistar	81,888	29,876	X
Volkswagen Truck & Bus[4]	53,991	57,370	–5.9

1 The delivery figures of the previous year have been updated or restated following statistical updates. Including Chinese joint ventures.
2 Until October 31, 2021.
3 The delivery figures for the prior year have been restated following statistical updates. Including Navistar since July 1, 2021.
4 The delivery figures for Volkswagen Truck & Bus were reported under MAN until the first quarter of 2022.

FINANCIAL PERFORMANCE

The course of business was positive for the companies of Volkswagen Financial Services AG in fiscal year 2022 despite the consequences of the semiconductor shortage.

The operating result improved to €3,207 (2,987) million, noticeably exceeding the corresponding prior-year figure.

Profit before tax came to €3,003 (3,005) million, which was on a level with the prior year.

Return on equity amounted to 18.7 (22.1)%.

Interest income from lending transactions and marketable securities was €2,471 million (+17.9%), which represented a significant year-on-year increase.

Net income from leasing transactions amounted to €4,406 (3,136) million and was therefore drastically 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 €1,335 (604) million. The impairment losses on lease assets of €90 (236) million included in net income from leasing transactions were attributable to current market fluctuations and expectations.

Interest expenses were drastically increased on the prior-year level at €2,167 million (+74.6%) as a result of higher interest rates and funding spreads.

Net income from service contracts amounted to €233 (205) million and was significantly above the prior-year figure.

Net income from insurance business amounting to €142 (155) million was noticeably below the previous year's level.

The provision for credit risks of €703 (122) million was drastically higher year-on-year. Additional valuation allowances were required on a country-specific basis in the provision for credit risks for the VW FS AG Group because, in some instances, the standard models and processes implemented, including the credit risk parameters used, did not fully capture the risks from global economic uncertainties and critical situations. These valuation allowances were increased by €348 million year-on-year to €868 million.

Net fee and commission income amounted to €178 (188) million, slightly lower than the prior-year level.

The net gain/loss on financial instruments measured at fair value and on derecognition of financial assets measured at fair value through other comprehensive income amounted to €810 (278) million. The very strong year-on-year increase is a result of rising interest rates, which impacted positively on derivatives held for economic interest rate hedging.

General and administrative expenses were noticeably up on the previous year at €2,476 (2,299) million. This figure also includes costs associated with services for other entities in the Volkswagen Group. Accordingly, costs of €518 (501) million were recharged to other entities in the Volkswagen Group and reported under net other operating income/expenses. At 43 (41)%, the cost/income ratio was slightly worse than in the previous year.

Net other operating income/expenses was drastically below the prior-year level at €346 (635) million (–45.5%). An amount of €94 (61) 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 significantly year-on-year to €89 (78) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounted to a net loss of €259 (50) million and included impairment losses of €74 million for non-consolidated subsidiaries and €145 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 €1,819 (2,227) million.

Under Volkswagen Financial Services AG’s current control and profit-and-loss transfer agreement, a loss of €1,697 million reported by Volkswagen Financial Services AG in its single-entity financial statements prepared in accordance with the HGB was absorbed by the sole shareholder Volkswagen AG.

The German companies continued to account for the highest business volumes with 30.4% 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 drastically up on the prior year.

Market conditions for vehicle insurance were influenced by a continuing recovery after two consecutive exceptional years. Activities focused on further stabilizing the business. Volkswagen Autoversicherung AG holds a portfolio of 525 thousand vehicle insurance policies, which represents no material change from the prior year. In 2022, Volkswagen Versicherung AG was operating primary and reinsurance business in 16 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.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €121.8 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 91% of the Group’s total assets.

The volume of retail financing lending rose by €1.0 billion to €23.9 billion (+4.4%).

The number of new retail financing contracts came to 982 thousand, which was below the prior-year level (1,081 thousand). The number of current contracts stood at 2,544 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 – increased to €5.5 billion (+43.1%).

Receivables from leasing transactions were on a level with the previous year at €41.2 billion (+0.8%). Lease assets recorded growth of €2.8 billion to €34.9 billion (+8.9%).

A total of 1,303 thousand new leases were entered into in the reporting period. There were 3,786 thousand lease vehicles in the contract portfolio as of December 31, 2022. As in the previous year (1,734 thousand), the largest contribution again came from Volkswagen Leasing GmbH, which had a contract portfolio of 1,834 thousand lease vehicles.

Total assets of the Volkswagen Financial Services AG Group rose to €133.3 billion year-on-year (+7.0%). This growth resulted primarily from the increase in loans to and receivables from customers and in lease assets and hence reflects business expansion over the fiscal year ended.
There were 9,755 thousand service and insurance contracts at the end of the year. The new business volume of 3,448 thousand contracts was up on the prior-year figure (3,342 thousand).

Deposit Business and Borrowings

In terms of capital structure, the significant liability items included liabilities to banks in the amount of €17.2 billion (+24.3%), liabilities to customers amounting to €24.2 billion (+24.0%) and notes, commercial paper issued in the amount of €63.1 billion (–7.7%). Further details on the funding and hedging strategy can be found in the sections Liquidity Analysis and Funding and in the risk report within the disclosures on interest-rate risk and liquidity risk.

Subordinated Capital

The subordinated capital decreased by 2.1% year-on-year to €2.9 billion.

Equity

The subscribed capital of Volkswagen Financial Services AG remained unchanged at €441 million in fiscal year 2022. Equity in accordance with the IFRSs was €17.6 (14.4) billion. This resulted in an equity ratio (equity divided by total assets) of 13.2% based on total assets of €133.3 billion.

Changes in Off-Balance-Sheet Liabilities

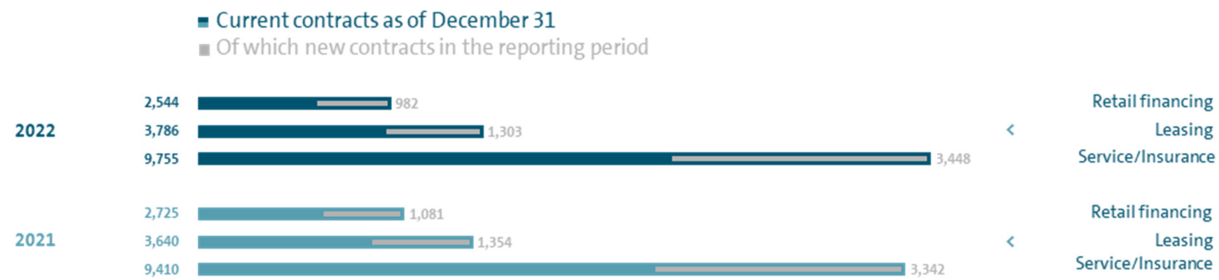
Off-balance-sheet liabilities decreased by a total of €87 million year-on-year to €897 million as of December 31, 2022.

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2022

in thousands	Germany	United Kingdom	Sweden	China	Brazil	Mexico	Other companies[1]	VW FS AG Group
Current contracts	**4,894**	**2,223**	**630**	**1,203**	**700**	**511**	**5,925**	**16,085**
Retail financing	3	8	84	1,202	365	151	730	2,544
of which: consolidated	3	8	84	1,202	365	151	431	2,244
Leasing business	1,746	931	132	2	53	45	877	3,786
of which: consolidated	1,744	931	132	–	–	45	567	3,420
Service/insurance	3,145	1,284	414	–	281	315	4,318	9,755
of which: consolidated	3,145	1,284	226	–	190	315	2,627	7,786
New contracts	**1,577**	**1,076**	**195**	**502**	**293**	**209**	**1,881**	**5,732**
Retail financing	2	6	32	502	139	53	247	982
of which: consolidated	2	6	32	502	139	53	146	881
Leasing business	597	352	38	0	34	19	264	1,303
of which: consolidated	596	352	38	–	13	19	170	1,187
Service/insurance	977	717	125	–	120	137	1,371	3,448
of which: consolidated	977	709	74	–	95	137	816	2,808
€ million								
Loans to and receivables from customers attributable to								
Retail financing	–	210	973	10,457	4,659	1,174	6,434	23,907
Dealer financing	12	0	187	953	770	379	3,235	5,536
Leasing business	19,129	16,105	1,093	1	7	505	4,395	41,235
Lease assets	23,851	3,158	1,735	2	0	79	6,102	34,927
Investment[2]	9,257	1,241	705	2	–	14	2,564	13,783
Operating result	1,527	973	140	316	91	159	1	3,207
Percent								
Penetration[3]	51.3	47.3	53.1	13.5	38.6	47.9	21.0	25.6
of which: consolidated	51.2	47.3	53.1	13.5	34.0	47.9	13.9	23.6

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

NEW AND EXISTING CONTRACTS AS OF DECEMBER 31
As of December 31, 2022



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; 71.6% of this limit was utilized as of December 31, 2022.

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.

REFINANCING

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 at optimum terms at all times.

Implementation

Volkswagen Financial Services AG and its subsidiaries issued 29 bonds in different currencies during the year under review. In addition to euro bonds, bonds denominated in pound sterling, Swedish krona, Czech koruna, Hong Kong dollars and Japanese yen were issued under Volkswagen Financial Services AG’s debt issuance program. Bonds based on local documentation requirements were also issued in Australia, Poland, Brazil, Mexico and Turkey.

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 and Japan.

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

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

The following tables show the transaction details:

CAPITAL MARKET 2022

Issuer	Month	Volume and currency	Maturity
Volkswagen Financial Services N.V., Amsterdam	January	EUR 500 million	2 years
Volkswagen Financial Services N.V., Amsterdam	January	GBP 500 million	6 years
Volkswagen Financial Services N.V., Amsterdam	January	CZK 600 million	2,5 years
Volkswagen Financial Services N.V., Amsterdam	January	SEK 1 billion	2 years
Volkswagen Financial Services AG, Braunschweig	January	EUR 1 billion EUR	3 years
Volkswagen Financial Services AG, Braunschweig	January	EUR 1 billion	6 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	March	PLN 400 million	2 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	March	PLN 200 million	2 years
Volkswagen Financial Services N.V., Amsterdam	April	GBP 350 million	5 years
Volkswagen Financial Services N.V., Amsterdam	April	HKD 303 million	3 years
Volkswagen Financial Services Australia Pty Limited, Chullora	April	AUD 250 million	3 years
Volkswagen Leasing S.A. de C.V., Puebla	May	MXN 2 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	June	JPY 20 billion	3 years
Banco Volkswagen S.A., São Paulo	June	BRL 376,05 million	2 years
Banco Volkswagen S.A., São Paulo	June	BRL 376,1 million	3 years
Banco Volkswagen S.A., São Paulo	June	BRL 247,85 million	4 years
LM Transportes Interestaduais Serviços e Comércio S.A., São Paulo	September	BRL 225 million	3 years
LM Transportes Interestaduais Serviços e Comércio S.A., São Paulo	September	BRL 775 million	5 years
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	October	PLN 220 million	1 year
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	October	PLN 189 million	3 years
Volkswagen Leasing S.A. de C.V., Puebla	November	MXN 1,053 billion	3 years
Volkswagen Financial Services N.V., Amsterdam	November	EUR 300 million	2 years
Volkswagen Financial Services N.V., Amsterdam	December	GBP 300 million	4 years
Volkswagen Doğuş Finansman A.Ş., Istanbul	December	TRY 500 million	2 years

ABSS 2022

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan eleven	February	Japan	JPY 58,8 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 35	March	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 36	June	Germany	EUR 750 million
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China fourteen	October	China	CNY 8.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 37	November	Germany	EUR 1.0 billion

Ratings

Volkswagen Financial Services AG is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Volkswagen Group. The S&P rating agency affirmed its A-2 (short term) and BBB+ (long term) ratings for Volkswagen AG in October 2022 and for Volkswagen Financial Services AG in November 2022. The outlook for Volkswagen AG and Volkswagen Financial Services AG remains "stable". The Moody's rating agency affirmed its P-2 (short term) and A3 (long term) ratings for Volkswagen Financial Services AG in June 2022 and for Volkswagen AG in December 2022. The outlook remains "stable". This confirmation of the ratings and outlooks reflects the stability of the Group through current crises including the semiconductor shortage and the Russia-Ukraine conflict.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2022

Volkswagen Financial Services AG reported a result from ordinary activities after tax amounting to a loss of €1,697 million for fiscal year 2022.

Sales revenue amounted to €759 (679) million, with cost of sales coming to €750 (684) 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 €26 (98) million, with other operating expenses amounting to €83 (422) million. Other operating income included income from the reversal of provisions amounting to €19 million. Other operating expenses included issue and rating costs of €5 million.

Net investment income declined by €2,044 million to give a net expense of €473 (1,571) million. This is due to a combination of higher expenses from the transfer and absorption of losses amounting to €1,083 (224) million and lower income from equity investments amounting to €107 (1,431) million. The expenses from the transfer and absorption of losses stem largely from the transfer and absorption of the loss of €1,077 (213) million made by Volkswagen Leasing GmbH. Income under profit-and-loss transfer agreements increased to €503 (365) million after VTI GmbH managed to improve its earnings by €181 million to €353 (172) million.

The loss after tax of €1,696 million will be absorbed by Volkswagen AG pursuant to the existing control and profit-and-loss transfer agreement.

Long-term financial assets dropped 24.6% to €7,942 million, largely as the result of a €2,720 million reduction in other loans, but loans to affiliated companies rose by €373 million and loans to other investees or investors rose by €151 million. Reported shares in affiliated companies decreased by €345 million, equity investments by €50 million. Write-downs of €574 million and reversals of write-downs amounting to €19 million were recognized in respect of shares in affiliated companies and equity investments.

Receivables from affiliated companies rose by €2,882 million (23.9%). This increase was primarily attributable to loans and time deposits. Loans to and receivables from other investees or investors increased by €676 million (12.2%) and were also mainly attributable to loans and time deposits.

The increase in provisions of €210 million (30.5%) arose mainly from higher provisions for pensions.

Bonds rose year-on-year by €900 million to €11,150 million, an increase of 8.8%.

Liabilities to banks in connection with borrower's note loans decreased by €77 million or 4.4% to €1,670 million. Liabilities to affiliated companies declined by €19 million, which represents a slight decrease of 0.2%.

The equity ratio was 11.5 (13.3)%. Total assets at the end of the reporting period amounted to €29,230 million.

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,498 (5,409) employees as of December 31, 2022. 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 2022, 739 (966) employees were leased to Volkswagen Leasing GmbH. In addition, 211 (187) employees were leased to Vehicle Trading International (VTI) GmbH, 169 (172) to Volkswagen Insurance Brokers GmbH, 93 (86) to Volkswagen Versicherung AG, 9 (9) to Volkswagen Autoversicherung AG, 2 (2) to Volkswagen Bank GmbH, 1 (0) to Fleet Company GmbH and 2,535 (2,643) to Volkswagen Financial Services Digital Solutions GmbH.

Volkswagen Financial Services AG employed 131 (131) vocational trainees as of December 31, 2022.

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 as well as in the report on opportunities and risks of this annual report.

INCOME STATEMENT OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, FOR FISCAL YEAR 2022

€ million	2022	2021
Sales	759	679
Cost of sales	–750	–684
Gross profit on sales	**9**	**–5**
General and administrative expenses	–274	–215
Other operating income	26	98
Other operating expenses	–83	–422
Net income from long-term equity investments	–473	1,571
of which income under profit and loss transfer agreements	503	365
of which expenses from absorption of losses	–1,083	–224
Financial result	**–713**	**–180**
of which income from affiliated companies	166	112
of which expenses from affiliated companies	–112	–35
Income tax expense	–188	–76
Profit after tax	**–1,697**	**771**
Profits transferred under a profit-and-loss transfer agreement	–	771
Losses absorbed under a profit-and-loss transfer agreement	1,697	–
Net income	–	–
Profit brought forward	2	2
Amount withdrawn from capital reserves	–	400
Net retained profits	**2**	**402**

BALANCE SHEET OF VOLKSWAGEN FINANCIAL SERVICES AG, BRAUNSCHWEIG, AS OF DECEMBER 31, 2022

€ million	31.12.2022	31.12.2021
Assets		
A. Fixed assets		
I. Financial assets	7,942	10,532
	7,942	**10,532**
B. Current assets		
I. Receivables and other assets	21,262	17,693
II. Cash-in-hand and bank balances	1	–
	21,263	**17,693**
C. Prepaid expenses	**25**	**29**
Total assets	**29,230**	**28,254**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441	441
II. Capital reserves	2,816	2,816
III. Retained earnings	100	100
IV. Net retained profits	2	402
	3,359	**3,759**
B. Provisions	**898**	**688**
C. Liabilities	**24,972**	**23,805**
D. Deferred income	**1**	**2**
Total equity and liabilities	**29,230**	**28,254**

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 with challenging market conditions prevailing, deliveries to Volkswagen Group customers will amount to around 9.5 million vehicles in 2023 provided that the supply problems affecting intermediate products and commodities and the delays affecting logistics operations improve. Volkswagen Financial Services AG supports sales of vehicles by supplying financial services products.

Global economic growth will depend to a large extent on how inflation develops in various currency areas. The level of inflation is closely linked to energy and raw material prices, which have risen as a result of geopolitical tensions, primarily the Russia-Ukraine conflict. A further dynamic increase in interest rates in the various currency areas is quite possible given the inflation situation. This, in turn, could impact negatively on both consumption and the investment climate.

Shortages and delays in global supply chains could also have a negative effect on global economic growth.

However, the macroeconomic environment could also result into opportunities for Volkswagen Financial Services AG if inflation and interest rates do not rise as much as currently anticipated and the shortages can be resolved.

Strategic Opportunities and Risks

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

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to make all key products also available online around the world and to expand the Company's role as the Volkswagen Group's central mobility platform provider, thereby enabling it to enhance efficiency. By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales to complement its dealership business. Changing customer needs are thus 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. Particularly in those countries in which we take a conservative approach to risk due to the uncertain economic situation, the realized losses may be lower than the expected losses if the economy stabilizes and borrowers' credit ratings improve as a result.

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 AND 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 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 principal elements of the systems 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, Risk Management, Controlling and Compliance & Integrity units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly.
> Group-wide rules and accounting requirements have been put in place to ensure a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. 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 audited and approved financial statements at Group level, 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 Group Risk Management.
- 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, 2022 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 COSO Enterprise Risk Management Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management (COSO-ERM). 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 by Risk Management. Risk is managed using an internal control system based on a three-lines 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 risk categories continuously monitors and manages risks, which are pooled and reported to the Board of Management by Risk Management. The individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit.

The Chief Financial Officer is responsible within Volkswagen Financial Services AG for both overall risk monitoring and risk monitoring for the significant borrower units. In this role, he 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 (Risk Management division) 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 Risk Management unit is to provide frameworks for the organization of the RMS. 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.

Risk Management, which is a neutral and independent unit, reports directly to the Chief Financial Officer and thus to the full 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 MOBILITY2030 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 focus of the strategy, which is adopted and communicated by the Board of Management and applies throughout the Group, is based on risk appetite and the steering approach for each risk category and risk process. The risk appetite and steering approach is defined on a regular basis for all categories of risk that have been deemed material by the Board of Management. Risk appetite and steering approach 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. The attainment of goals is reviewed on a regular basis and any variances are analyzed to establish the causes.

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, the substantial risk categories are covered by the risk-taking potential. 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.

SUBSTANTIAL RISK CATEGORIES AND RISK REPORTING

A risk survey has identified the following risk categories as material to Volkswagen Financial Services AG: credit risk, residual value risk, shareholder risk, liquidity risk, interest rate risk, risks of insurance companies, operational risk, strategic risk, reputational risk, and compliance and integrity risk. The product transparency process, business continuity management, the procurement process and project risks also receive particular attention as processes involving material risk. The risk categories and the processes involving material risk provide the basis for the earnings risk, which is transparently covered in the planning and management process. Country risk is essentially covered by shareholder risk. Cross-border finance and intercompany loans are of only minor significance for Volkswagen Financial Services AG. Volkswagen Financial Services AG also attaches particular importance to the treatment of sustainability risks that could, were they to materialize, have negative consequences for its financial performance, financial position and reputation. Environmental, social and governance risks will in future be considered in every risk category.

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
Residual value risk	Strategic risk
Shareholder risk	Reputational risk
Liquidity risk	Compliance and integrity risks
Interest rate risk	
Risks of insurance companies	

FINANCIAL RISKS

Credit Risk

Credit risk describes the risk of losses due to defaults in customer transactions, specifically by the borrower or lessee. Loans to and receivables from Volkswagen Group companies are also included in the analysis. Default occurs when the borrower or lessee is unable or unwilling to make the payments due. This includes late or partial payment of interest and principal on the part of the contracting party.

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 Risk Management.

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.

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 guidelines outlines the requirements for developing and maintaining the rating models. Another set of guidelines specifies 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 if 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 simplified estimation procedures 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.
Risk Managements 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. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company. 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, 2022	Dec. 31, 2021
Amount utilized (€ million)	116,861	111,018
Default rate in %	1.4	1.6
Impairment ratio in %	1.7	1.8

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

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

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.

Referring to the bearer of residual value risk, a distinction is made between direct and indirect residual value risks. Direct residual value risk refers to residual value risk borne directly by Volkswagen 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, 2022	Dec. 31, 2021
Number of contracts	2,570,602	2,521,813
Guaranteed residual values (€ million)	39,306	36,858
Risk exposure in %	1.7	2.9

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

As part of the management of residual value risk, Volkswagen Financial Services AG has firstly specified rules for managing residual value. The processes for this include the calculation of the risk exposures of forward-looking residual value forecasts. Secondly, it has established uniform requirements for the Group, which reflect the accounting standards governing the recognition of provisions for risks. On the basis of this mandatory outer framework, the divisions/markets monitor and control their business policy activities, planning and decisions 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.

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.

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. Risk Management communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2022, 71.6% of the limit was utilized.

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, 2022, 66.9% 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 the 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.

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
- Liquidity risk
- Miscellaneous non-quantifiable risks

The risks of insurance companies in the Volkswagen Financial Services AG Group and the documented overarching operational risk therefore represent the entire risk profile of the insurance companies.

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).

Risk Management 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 €249.6 (82.7) million in the year under review. This increase is the result of a provision for leasing transactions from operations.

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.

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 AG, 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.

SUMMARY

While operational risk increased very significantly in fiscal year 2022, there was a slight recovery in general credit risk and interest rate risk. Residual value risk dropped back substantially too and overall risk was consequently noticeably lower than in the prior year despite the very pronounced economic and political uncertainty.

Human Resources Report

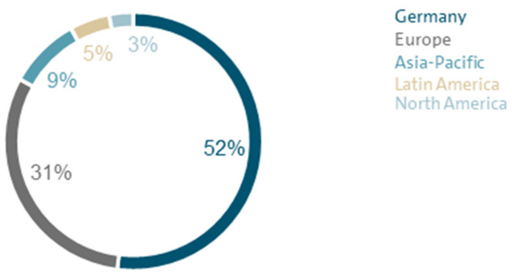
Mission HR: business driven – people focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 11,457 (11,021) employees as of December 31, 2022. Of these, 5,980 (5,901), or 52%, were employed in Germany and 5,477 (5,120), or 48%, at international sites. Owing to economic considerations, 231 (226) 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, 2022



HUMAN RESOURCES STRATEGY

The Human Resources unit adopted a new HR strategy aligned with the principle “business driven – people focused” in March of the reporting year. Human resources operations were significantly affected over the course of the year ended by a wide range of factors including the ongoing advance of digitalization, sustained competition for the best people in the labor market and changing expectations of companies among the younger generation, not least in relation to sustainability and the desire for greater autonomy. The Covid-19 pandemic only added impetus to these trends. The HR strategy aims to master these challenges by focusing on the core HR topics of talent acquisition, personnel development, future working culture and modes of working, HR planning and analysis, and HR digitalization. The 17 specific initiatives set out in the strategy are to be pursued in combination with the overarching priorities of diversity, integrity, compliance and international mindset. Human Resources considers itself an equal partner of the business divisions in this context and regards the new HR strategy as part of its contribution to implementing the higher-level MOBILITY2030 strategy.

Steps have been taken to help ensure the HR strategy is implemented effectively at the international level. These include the involvement of various international subsidiaries in conceptual design phases, for example in the reporting year in connection with the development of an international recruiting strategy with an employer value proposition and a corresponding employer branding strategy. The strategic objectives are being implemented worldwide through the international rollout of different

(Group) standards, such as standardized development and career paths and digital HR systems. Local responsibility for the implementation of the strategic measures rests with the HR managers in the international subsidiaries, who are supported by the international HR Business Partners at the head office in Braunschweig. Notable positive developments and actions are presented and discussed at an annual HR conference, for example, so that best practices can also be shared and utilized across the different local entities.

The new MOBILITY2030 corporate strategy focuses the organization's activities even more tightly on customers. This entails placing even greater emphasis on customer requirements in HR as well and working proactively and constructively with the departments. The HR Business Partners are available as strategic partners for the Company and to support the business divisions and projects with all HR matters. The importance of factors such as interdisciplinary teams, agility and cross-functional cooperation in the HR sphere has increased to the extent that they have now become vital elements of modern HR work.

The Covid-19 pandemic had a huge impact on the world of work once again in the reporting year, forcing the associated requirements for new and different forms of collaboration and management onto the HR agenda. 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. Seminars and mandatory training sessions continued to be offered both online and in person and many events were delivered using hybrid formats or as blended learning. For employees working at the Company's sites, 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 continues to pursue a New Work initiative intended to facilitate the necessary changes to the world of work in areas such as tools, technology, space concepts, culture, management, rules and change support. Besides 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 location in Germany. On request, employees can carry out some of their work on an alternating basis at a location other than the company workplace. Generally, employees use the standard hardware provided by the Company but can be supplied with additional equipment, if required. These company agreements provide a solid foundation and help to both safeguard and enhance the appeal of the Company as an employer.

The HR Transformation program established in 2018 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. Mindful of the ever-increasing importance of knowledge and experience in the field of digitalization, the HR unit has been offering 20 sponsored online courses of study and other online training related to the areas of data management, digitalization and cyber security every year since 2020. 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 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 and provides assistance to the employees concerned in the form of training geared to their individual needs. To date, more than 250 employees have found new roles in this way. The Internal Labor Market has become an attractive option. The international sites have similar approaches in place.

One of the initiatives within the HR strategy covers the design and implementation of a strategic HR planning system that responds to changes in requirements for employees and enables the Company to complete detailed analyses based on job profiles, skills and qualifications – looking at both present and future needs – to predict newly emerging roles and skills requirements in addition to the usual quantitative HR planning activities.

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 and in their day-to-day management work. 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 to access personal coaching. Skills development content is based, among other things, on the latest leadership trends and is offered according to need.

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 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 has enabled managers to address the current challenges and opportunities in the areas of new technologies, customers and environmental/social issues.

The targeted activities that Volkswagen Financial Services AG provides in the area of leadership ensure high quality standards of management conduct and know-how, as well as a shared understanding of the leadership culture for more than 395 employees who have line management responsibilities.

Volkswagen Financial Services AG aims to be regarded as an employer of renown and regularly participates in external employer competitions to assess its status in this regard. 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. The Company plans to participate in the competition for Best Employer once again in 2023 having already completed the corresponding employee survey in 2022.

IMPLEMENTATION OF THE CORPORATE STRATEGY

Building on the ROUTE2025 strategy, the new MOBILITY2030 corporate strategy reinforces the objective of leveraging a mobility platform to establish Volkswagen Financial Services AG as a provider of a wide range of mobility services and thereby enable it to play a central role in the Volkswagen Group as the “Key to Mobility”. MOBILITY2030 sets out to realize this vision by focusing on the strategic dimensions of customer loyalty, vehicles, performance, data and technology, and sustainability. The launch of the MOBILITY2030 corporate strategy marks the first time the implementation of the strategic objectives (via the dimensions indicated) will be tracked using the Objectives and Key Results (OKR) method.

The HR unit intends to do its utmost, through a range of different strategic initiatives, to help the Company implement MOBILITY2030 and thereby contribute, with its own targeted actions, to the establishment of an effective high-performance organization.

The future success of Volkswagen Financial Services AG will be founded on the global team comprising every single employee. The critical role of people working together is underpinned by the “Our team, our values” dimension, which captures the importance of employees for all the strategic dimensions. The values referred to – courage, trust and customer focus – are intended to guide employees in their everyday activities and help motivate them to do their best.

The “Performance” strategic dimension includes elements relating to employees and managers alongside its focus on profitability, and processes and systems. It addresses the need for employees to act entrepreneurially and to help the Company maximize its performance by maximizing their own performance. Volkswagen Financial Services AG enables employees to develop their skills continuously so that they have the flexibility to thrive in constantly evolving work settings. Line managers have a particular responsibility in this regard to enable and encourage the employees under them to contribute their ideas and expertise in a modern, diverse and flexible working environment.

The Together4Integrity (T4I) Group-wide integrity and compliance program entered its fourth year of implementation at Volkswagen Financial Services AG in 2022. A total of 113 companies are implementing a wide variety of measures in areas including compliance, integrity, culture and HR compliance in relation to processes, structures and conduct. The program focused in 2022 on reviewing the rollout and the effectiveness of the measures. Individual companies have to complete a self-assessment to verify that the approximately 100 measures have been permanently introduced.

The T4I initiatives to be implemented at the HR unit are concerned with enshrining the issues of integrity and compliance in key HR processes (recruitment, professional development, remuneration, disciplinary processes and employee retention), giving these issues greater focus. There was a particular focus in 2022 on rolling out the initiatives at the international companies of Volkswagen Financial Services AG.

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2022, 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 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 Bachelor of Arts in Business Administration focusing on leasing is offered in collaboration with the Ostfalia University of Applied Sciences in Wolfenbüttel. 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, Hannover. Eager for its vocational training to match future needs and take proper account of the significance of digitalization, the Company once again recruited vocational trainees predominantly for specialist professional IT qualifications in application development and dual vocational training students mainly for business informatics specialist qualifications in 2022. A degree study program in computer science is also offered at the Braunschweig University of Technology. The offering has also been expanded to include the vocational field of media design.
As of December 31, 2022, 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 41 vocational trainees were offered permanent positions in the reporting period.

Skilled, committed employees are the cornerstone 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. The selection procedure focuses on candidates and whether they are suitable for Volkswagen Financial Services AG and the position in question.

Volkswagen Financial Services AG is also pursuing a rigorous approach to recruiting and retaining young talent. The “IT Girl” campaign was set up for this purpose in 2022 and is designed to address female school students interested in making a contribution to help shape the future with a career 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. 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 three units in the business partner model (either Development, 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. Volkswagen Financial Services AG offers a wide range of development opportunities for its employees. Specialist development pathways into management positions, such as through project work or the agile environment, are becoming increasingly important alongside the traditional hierarchical pathways. Expert pathways like the Technical Application Manager (TAM) role in IT provide another option.

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 over a number of months have been offered with places allocated to interested employees. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee. 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.

Volkswagen Financial Services AG’s complete range of training options is made available via a new, AI-assisted learning platform. The platform supports the entire training process for employees, from the search for a learning opportunity suitable for the employee’s skills – including recommendations generated automatically by the algorithm – to registration, participation and, subsequently, the digital provision of materials, such as photographic material, handouts and participation certificates. Employees also have independent access from anywhere at any time to a digital training program containing over 20,000 items of training content. The new learning platform is being piloted by Volkswagen Financial Services AG in a number of European markets and is due to be implemented at European sites over the course of 2023/2024. The aim is to create synergies in training, enable joint learning in communities and facilitate knowledge sharing with learning plans to support the digital transformation efficiently and effectively at all sites.

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2022, women accounted for 46.9% of the workforce of Volkswagen Financial Services AG in Germany and 50.2% internationally. Women are still not represented to this level in management positions however. The Company has set itself the objective of increasing the proportion of women in management positions over the long term. The German targets first defined in 2010 for the proportion of women in management, on the Board of Management and on the Supervisory Board were revised in 2022, adopted by the Board of Management and extended to create the first set of target figures for Volkswagen Financial Services. The target figures are to be achieved by 2025.

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

in percent	Target 2025	Actual 2022
Second management level	27.3	23.2
First management level	19.7	16.1

The target figures for Germany were defined for the first and second tiers of management with a target horizon of 2025. The rate of change in the proportion of women in management is monitored regularly both in Germany and worldwide in relation to the target adopted by Volkswagen Financial Services. The worldwide target for women in management is set at 26.0%. Women occupied 23.4% of management positions at Volkswagen Financial Services in the 2022 reporting year.

The Supervisory Board has set the following targets for the proportion of women to be achieved by the end of 2026: 25.0% for the Supervisory Board and 20.0% for the Board of Management. At the end of the reporting year, the proportion of women on the Supervisory Board was 55.0%; the equivalent figure for the Board of Management was 20.0%.

The Board of Management maintains the necessary transparency by means of regularly planned progress reports. A particular effort is made to ensure female candidates are considered as part of succession planning to help establish compliance with the relevant targets.

The targets, along with valuable tools and best practices for their attainment, are also discussed within HR manager circles worldwide. In the reporting year, for example, Volkswagen Financial Services Spain initiated a “women in leadership action plan” to boost the progress of high-potential female staff and to attract and retain female talent for the Company.

The new “Let’s talk” series of events initiated in Germany in 2021 to gather specific ideas from the workforce to support the advancement of women was continued in 2022. 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 is an international organization and workforce diversity is therefore an important factor for the success of its 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. The program launched in Germany in 2019 and has been running at the international sites as well since 2021.

The various actions the Company takes in connection with its participation in the annual Diversity Day organized by German diversity non-profit Charta der Vielfalt also help to raise the profile of diversity matters, as does the new Shared Culture digital event format launched in 2022 to facilitate discussion between employees from different cultures and the sharing of intercultural experiences.

The international subsidiaries too have initiated a variety of local diversity initiatives and measures. Volkswagen Financial Services (UK) Ltd., for example, publishes an annual Diversity Report providing transparency regarding the diversity of the Company's employees and in 2021 created and rolled out a bias awareness checklist for use in recruiting to help eliminate unconscious prejudice from the recruitment process.

WORK-LIFE BALANCE

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 in Braunschweig. 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.

In 2022, Volkswagen Financial Services AG began collaborating in Germany with voiio, a company that provides a platform for offers to help optimize work-life balance. The voiio platform enables employees to access services including virtual childcare, extra tuition for school-aged children, health and wellness courses and coaching for various life situations.

Report on Expected Developments

The global economy is expected to grow in 2023, albeit at a slower pace. Global demand for passenger cars will probably vary from region to region and increase noticeably 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 grow overall in 2023 albeit at a slower pace. The persistently high inflation in many regions and the resulting restrictive monetary policy measures taken by central banks are expected to increasingly dampen consumer spending. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geo-political tensions and conflicts, with risks continuing to arise from the Russia-Ukraine conflict. It cannot be ruled out that risks may also arise if new variants of the SARS-CoV-2 virus occur, particularly regional outbreaks and the associated measures. We assume that both the advanced economies and the emerging markets will show positive momentum on average, even with below-average growth in gross domestic product (GDP).

We also expect the global economy to recover in 2024 and continue a path of stable growth until 2027.

Europe/Other Markets

In Western Europe, we expect a comparatively low rate of economic growth in 2023. The relatively high overall level of inflation, which is projected to taper off as the year goes on, poses a major challenge for consumers and companies alike.

Likewise, we anticipate comparatively low growth rates in Central Europe in 2023 with continuous price increases; however, economic output in Eastern Europe is not expected to recover following the slump in the reporting period as a result of the Russia-Ukraine conflict.

For Türkiye we expect positive, albeit slower growth than in the reporting period given high inflation and a weak local currency. The South African economy will probably be characterized by political uncertainty and social tensions again in 2023 resulting from high unemployment, among other factors. Here we anticipate only slight growth.

Germany

We expect GDP in Germany to grow only slightly in 2023 and inflation to remain high averaged over the year. The labor market situation is likely to see some deterioration in 2023.

North America

We anticipate only slight economic growth in the USA in 2023, accompanied by a worsening labor market situation. The US Federal Reserve is expected to essentially end the spate of key interest rate hikes that it began in the reporting period. Further inflationary trends will play a decisive role in possible adjustments to the key interest rate, as will developments in the labor market and in the general economic situation. Economic growth in Canada is also likely to be at a relatively low level, while economic output in Mexico is expected to expand at a somewhat faster pace.

South America

In all probability, the Brazilian economy will record a slightly positive rate of growth in 2023. Economic output in Argentina is likewise expected to see no more than a slight improvement amid continued extremely high inflation and depreciation of the local currency.

Asia-Pacific

The Chinese economy is likely to grow at a relatively high level in 2023 after a comparatively moderate expansion rate in the reporting period. We likewise expect a relatively high rate of positive GDP growth for the Indian economy in 2023. A slight rise in economic output is anticipated in Japan.

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

We anticipate that automotive financial services will prove highly important to global vehicle sales in 2023. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict. Furthermore, the increased interest rates will put pressure on the demand for financial services. We expect demand to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will probably see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, we expect that demand will increase for new forms of mobility, such as rental and car subscription (*Auto-Abo*) services, and for integrated mobility services, for example parking, refueling and charging, and that the shift initiated in the European financial services business with individual customers from financing to lease con-tracts will continue. Especially in the Chinese market, we anticipate an increase in the importance of direct business between manufacturers and customers. The seamless integration of financial services into the online vehicle offering will take on increasing importance in efforts to promote this type of business. We estimate that this trend will also persist in the years 2024 to 2027.

In the mid-sized and heavy commercial vehicles category, we anticipate 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 the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2023. This trend is also expected to persist in the period 2024 to 2027.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

The trend in the automotive industry closely follows global economic developments. We assume that competition in the international automotive markets will intensify further. Uncertainty may arise from continued shortages of intermediates and commodities. These may be further exacerbated by the consequences of the Russia-Ukraine conflict and, in particular, lead to rising prices and declining availability of energy.

We predict that trends in the markets for passenger cars in the individual regions will be mixed in 2023. Overall, the global volume of new car sales is expected to be noticeably higher than in the previous year. We are forecasting growing demand for passenger cars worldwide in the period from 2024 to 2027.

Trends in the markets for light commercial vehicles in the individual regions will also be mixed; on the whole, we expect a noticeable increase in the sales volume for 2023. For the years 2024 to 2027, we expect demand for light commercial vehicles to increase globally.

Europe/Other Markets

For 2023, we anticipate that the volume of new passenger car registrations in Western Europe will be significantly above that recorded in the reporting period. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. We also predict significant growth in 2023 for the major individual markets of France, the United Kingdom, Italy and Spain.

For light commercial vehicles, we expect the volume of new registrations in Western Europe in 2023 to be strongly up on the previous year's level. Limited vehicle availability as a result of the shortages of intermediates and commodities may continue to weigh on the volume of new registrations. We predict a strong increase in France, the United Kingdom and Spain, and noticeable growth in Italy.

Sales of passenger cars in 2023 are expected to significantly exceed the prior-year figures in markets in Central and Eastern Europe – subject to the further development of the Russia-Ukraine conflict. In the region's principal markets, a significant to sharp rise in the number of new registrations is expected.

Registrations of light commercial vehicles in 2023 are expected to fall noticeably short of the prior-year figures in markets in Central and Eastern Europe – subject to the further development of the Russia-Ukraine conflict.

The volume of new registrations for passenger cars in Türkiye in 2023 is projected to be significantly above the previous year's level. In South Africa, the market volume in 2023 is likely to be up slightly year-on-year.

The volume of new registrations for light commercial vehicles in 2023 is expected to be noticeably higher in Türkiye and significantly higher in South Africa compared with the respective prior-year figure.

Germany

In the German passenger car market, we expect the volume of new registrations in 2023 to noticeably exceed the prior-year figure.

We anticipate that the number of registrations of light commercial vehicles will be very strongly 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 overall and in the USA in 2023 is likely to be noticeably higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. New registrations of all-electric vehicles are also estimated to increase at a higher-than-average rate. In Canada, too, a noticeable increase is expected in the number of new registrations compared to the previous year. For Mexico, we expect a slight 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 significant increase overall in new registrations in the South American markets in 2023 compared with the previous year. Strong growth is expected in the market volume in Brazil compared with 2022. We anticipate that the volume of new registrations in Argentina will be significantly higher year-on-year.

Asia-Pacific
The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2023. We estimate that the market volume in China will be slightly higher than the comparative figure for 2022. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. The continuing parts supply shortages, possible measures to halt the spread of the SARS-CoV-2 virus and intensification of geopolitical tensions could act as a drag on 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 slightly better than in the previous year. Japan should see noticeable growth in market volume in 2023.

The volume of new registrations for light commercial vehicles in the Asia-Pacific region in 2023 will probably be slightly higher than the previous year's figure. We are likewise expecting demand in the Chinese market to be slightly higher than the prior-year level. For India, we are forecasting that the volume in 2023 will be on a level with the reporting period. In the Japanese market, we estimate that volumes will be noticeably lower year-on-year.

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES
For 2023, we expect a noticeable upwards trend 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 continuing supply bottlenecks. We anticipate that Türkiye will see a significant drop in demand. In South Africa, we expect demand to be on a level with the previous year. The truck market in North America is divided into weight classes 1 to 8. We expect a noticeable 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 slightly lower than in the previous year.

On average, we anticipate a slight decrease in the relevant truck markets for the years 2024 to 2027.
A significant increase in overall demand, with regional variations, is expected for 2023 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 recover and that we will receive orders in

the context of government-funded programs. We expect very strong growth in North America. In Brazil, new registrations are expected to decline significantly after the strong prior-year growth.

Overall, we expect a slight increase in the demand for buses in the relevant markets for the period from 2024 to 2027.

INTEREST RATE TRENDS

Europe saw a continuation of the period of low interest rates in the beginning of fiscal year 2022. However, in the US and numerous other economies, expansionary monetary policy came to an end, giving way to interest rate hikes.

The course of fiscal year 2022 was characterized by sometimes very strong interest rate hikes by almost all of the world's central banks.

Interest rate trends are generally factored into pricing.

We expect the interest rate hikes to come to an end or at least weaken significantly in the course of 2023.

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 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 offers customers, through its 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 AG is also responsible for the Auto Abo offerings of other Group brands, such as Volkswagen, Audi 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 access to over 350,000 public charging points and another 20,000 fueling stations in Europe through the Charge&Fuel Card. 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. An important role in the marketing of the Volkswagen Group's e-vehicles plays in particular attractive leasing offers, supplemented by maintenance and wear-and-tear packages.

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

The business performance of Volkswagen Financial Services AG will essentially depend on the unit sales of the Volkswagen Group once again in 2023.

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, which is exactly what the Auto Abo car subscription product offers. 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. Establishing more closely integrated working practices, especially in the European markets, will be a significant element of this effort.

Forecast for Credit and Residual Value Risk

The risk situation will remain challenging given the very pronounced economic risks and global political tensions anticipated for 2023. The specific risk situation of Volkswagen Financial Services AG’s portfolios will depend very much on how inflation and purchasing power develop in the various markets. 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 2023. In this case too, the main drivers will be the growth programs implemented by the Company, further expansion in the fleet business and the ongoing shift from finance to leasing.

Forecast for Liquidity Risk

The risk situation is considered to be stable. The established sources of funding remain available despite the prevailing global political uncertainties (including the Russia-Ukraine conflict and the energy price crisis). Funding diversification continues to be extended and existing sources of funding are being expanded.

OUTLOOK FOR 2023

Volkswagen Financial Services AG's Board of Management expects global economic growth in 2023 to be lower than the previous year's level. Risks will arise first and foremost from the progress of inflation and interest rates and from shortages in global supply chains. In addition, growth prospects will be affected by geopolitical tensions and conflicts, most notably the Russia-Ukraine conflict.

The overall picture taking account of the underlying conditions described and the trends evident in the market is as follows: 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's forecast for 2023 is that current contracts will be noticeably higher and business volume significantly higher than their respective levels in fiscal year 2022.

New contracts are expected to be drastically above the prior-year level. It is assumed that the penetration rate will be slightly higher than the level in the previous year.

Due to the shortage of semiconductors fiscal year 2022 was effected by the positive development of the vehicle disposal result coming from the marketing of used vehicles. In 2023, vehicle disposal result will probably be drastically below the prior-year figure. Based on the effects described above, operating profit for fiscal year 2023 is projected to be down drastically as compared with the prior-year figure.

The forecast earnings performance and stable capital adequacy will probably result in a return on equity in 2023 that is drastically below the prior-year's level. It is likely that there will be a very strong year-on-year rise in the cost/income ratio in 2023.

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

	Actual 2022	Forecast for 2023	
Nonfinancial performance indicators			
Penetration (percent)	25.6	> 25.6	Slightly up on previous year
Current contracts (thousands)	16,085	> 16,085	Noticeably up on previous year
New contracts (thousands)	5,732	> 5,732	Much stronger up on previous year
Financial performance indicators			
Volume of business (€ million)	105,605	> 105,605	significantly up on previous year
Operating result (€ million)	3,207	< 3,207	Much stronger lower than in the previous year
Return on equity (percent)	18.7	< 18.7	Much stronger below the previous year's level
Cost/income ratio (percent)	43	> 43	Much stronger up on previous year

Braunschweig, February 14, 2023

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 Group. 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 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 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.

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Income Statement

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021	Change in percent
Interest income from lending transactions and marketable securities	6, 9, 60	2,471	2,095	17.9
Income from leasing transactions		21,031	19,316	8.9
Depreciation, impairment losses and other expenses from leasing transactions		–16,626	–16,180	2.8
Net income from leasing transactions	6, 9, 14 - 16, 21, 70	4,406	3,136	40.5
Interest expense	6, 9, 22, 60	–2,167	–1,241	74.6
Income from service contracts		2,414	2,107	14.6
Expenses from service contracts		–2,181	–1,902	14.7
Net income from service contracts	6, 23	233	205	13.7
Income from insurance transactions		307	345	–11.0
Expenses from insurance transactions		–165	–190	–13.2
Net income from insurance business	18, 24	142	155	–8.4
Provision for credit risks	9, 25, 60	–703	–122	X
Fee and commission income		562	631	–10.9
Fee and commission expenses		–384	–443	–13.3
Net fee and commission income	6, 26	178	188	–5.3
Net gain or loss on hedges	9, 27	–33	–11	X
Net gain/loss on financial instruments measured at fair value	9, 28, 60	810	278	X
Net gain/loss on derecognition of financial assets measured at amortized cost	29	–	–31	–100.0
General and administrative expenses	6, 12 - 15, 17, 19, 30	–2,476	–2,299	7.7
Other operating income		1,003	1,499	–33.1
Other operating expenses		–658	–864	–23.8
Net other operating income/expenses	6, 31	346	635	–45.5
Operating result		**3,207**	**2,987**	**7.4**
Share of profits and losses of equity-accounted joint ventures		89	78	14.1
Net gain/loss on miscellaneous financial assets	11, 32	–259	–50	X
Other financial gains or losses	33	–34	–10	X
Profit before tax		**3,003**	**3,005**	**–0.1**
Income tax expense	7, 34	–1,183	–778	52.1
Profit after tax		**1,819**	**2,227**	**–18.3**
Profit after tax attributable to noncontrolling interests		0	0	0.0
Profit after tax attributable to Volkswagen AG		1,819	2,227	–18.3

Statement of Comprehensive Income

of the Volkswagen Financial Services AG Group

€ million	Note	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Profit after tax		**1,819**	**2,227**
Pension plan remeasurements recognized in other comprehensive income	17, 52	–	–
Pension plan remeasurements recognized in other comprehensive income, before tax		275	101
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	7, 34	–87	–25
Pension plan remeasurements recognized in other comprehensive income, net of tax		188	76
Fair value valuation of equity instruments that will not be reclassified to profit or loss, net of tax	9	–	–
Share of other comprehensive income of equity--accounted investments that will not be reclassified to profit or loss, net of tax		1	0
Items that will not be reclassified to profit or loss		**189**	**76**
Exchange differences on translating foreign operations	5		
Gains/losses on currency translation recognized in other comprehensive income		–125	473
Transferred to profit or loss		–	–
Exchange differences on translating foreign operations, before tax		–125	473
Deferred taxes relating to exchange differences on translating foreign operations	7, 34	–	–
Exchange differences on translating foreign operations, net of tax		–125	473
Hedging transactions	9		
Fair value changes recognized in other comprehensive income (OCI I)		28	–34
Transferred to profit or loss (OCI I)		–55	62
Cash flow hedges (OCI I), before tax		–26	28
Deferred taxes relating to cash flow hedges (OCI I)	7, 34	8	–10
Cash flow hedges (OCI I), net of tax		–18	18
Fair value changes recognized in other comprehensive income (OCI II)		–	0
Transferred to profit or loss (OCI II)		–	0
Cash flow hedges (OCI II), before tax		–	0
Deferred taxes relating to cash flow hedges (OCI II)	7, 34	–	0
Cash flow hedges (OCI II), net of tax		–	0
Fair value valuation of debt instruments that may be reclassified to profit or loss	9		
Fair value changes recognized in other comprehensive income		–22	–4
Transferred to profit or loss		0	–
Fair value valuation of debt instruments that may be reclassified to profit or loss, before tax		–22	–4
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	7, 34	7	1
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		–15	–3
Share of other comprehensive income of equity-accounted investments that may be reclassified to profit or loss, net of tax		19	29
Items that may be reclassified to profit or loss		**–140**	**518**
Other comprehensive income, before tax		121	627
Deferred taxes relating to other comprehensive income		–72	–34
Other comprehensive income, net of tax		**49**	**594**
Total comprehensive income		**1,869**	**2,821**
Total comprehensive income attributable to noncontrolling interests		0	0
Total comprehensive income attributable to Volkswagen AG		1,869	2,821

Balance Sheet

of the Volkswagen Financial Services AG Group

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Change in percent
Assets				
Cash reserve	8, 36, 60 - 64, 66 - 67	2	33	–93.9
Loans to and receivables from banks	9, 60 - 67	3,406	5,066	–32.8
Loans to and receivables from customers attributable to				
Retail financing		23,907	22,903	4.4
Dealer financing		5,536	3,868	43.1
Leasing business		41,235	40,901	0.8
Other loans and receivables		16,215	12,625	28.4
Total loans to and receivables from customers	9, 15, 38, 60 - 65, 67	86,893	80,297	8.2
Change in fair value from portfolio fair value hedges	10, 39	–156	–	X
Derivative financial instruments	9, 40, 60 - 64, 67 - 68	1,488	586	X
Marketable securities	9, 60 - 65, 67	268	320	–16.3
Equity-accounted joint ventures	2, 41, 61	722	787	–8.3
Miscellaneous financial assets	9, 11, 60 - 64	626	674	–7.1
intangible assets	12, 14, 42	105	113	–7.1
property and equipment	13 - 15, 43	364	410	–11.2
Lease assets	14 - 15, 70	34,927	32,066	8.9
Investment property	14 - 16, 44, 70	71	76	–6.6
Deferred tax assets	7, 45	1,143	1,641	–30.3
Income tax assets	7, 60 - 64	278	147	89.1
Other assets	15, 46, 60 - 64	2,627	2,374	10.7
Assets held for sale (IFRS 5)	4	577	–	X
Total		**133,341**	**124,590**	**7.0**

€ million	Note	Dec. 31, 2022	Dec. 31, 2021	Change in percent
Equity and Liabilities				
Liabilities to banks	9, 48, 60 - 64, 66 - 67	17,242	13,873	24.3
Liabilities to customers	9, 48, 60 - 64, 66 - 67	24,228	19,539	24.0
Notes, commercial paper issued	9, 49 - 50, 60 - 64, 66 - 67	63,078	68,311	–7.7
Derivative financial instruments	9, 51, 60 - 64, 66 - 68	2,424	532	X
Provisions for pensions and other post-employment benefits	17, 52	291	530	–45.1
Underwriting provisions and other provisions	18 - 19, 53	1,006	785	28.2
Deferred tax liabilities	7, 54	903	708	27.5
Income tax liabilities	7, 60 - 64	767	603	27.2
Other liabilities	56, 60 - 64, 66	2,390	2,305	3.7
Subordinated capital	9, 50, 56, 60 - 64, 66 - 67	2,909	2,971	–2.1
Liabilities associated with assets held for sale (IFRS 5)	4	478	–	X
Equity	58	17,625	14,433	22.1
Subscribed capital		441	441	–
Capital reserves		2,816	2,816	–
Retained earnings		15,473	12,148	27.4
Other reserves		–1,108	–975	13.6
Equity attributable to noncontrolling interests		3	2	50.00
Total		**133,341**	**124,590**	**7.0**

Statement of Changes in Equity

of the Volkswagen Financial Services AG Group

€ million	Subscribed capital	Capital reserves	Retained earnings	OTHER RESERVES: Currency translation	OTHER RESERVES: Hedging transactions: Cash flow hedges (OCI I)	OTHER RESERVES: Hedging transactions: Deferred hedging costs (OCI II)	OTHER RESERVES: Equity and debt instruments	OTHER RESERVES: Equity-accounted investments	Non-controlling interests	Total equity
Balance as of Jan. 1, 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 transferred to/loss assumed by Volkswagen AG	–	–	–1,171	–	–	–	–	–	–	–1,171
Other changes	–	–400[1]	456	–27	–	–	–	–	–	29
Balance as of Dec. 31, 2021	**441**	**2,816**	**12,148**	**–908**	**9**	**–**	**2**	**–77**	**2**	**14,433**
Balance as of Jan. 1, 2022	**441**	**2,816**	**12,148**	**–908**	**9**	**–**	**2**	**–77**	**2**	**14,433**
Profit after tax	–	–	1,819	–	–	–	–	–	0	1,819
Other comprehensive income, net of tax	–	–	188	–125	–18	–	–15	19	0	49
Total comprehensive income	**–**	**–**	**2,008**	**–125**	**–18**	**–**	**–15**	**19**	**0**	**1,869**
Capital increases	–	–	–	–	–	–	–	–	–	–
Distribution	–	–	–400	–	–	–	–	–	–	–400
Profit transferred to/loss assumed by Volkswagen AG	–	–	1,697	–	–	–	–	–	–	–
Other changes	–	–	21	6	–	–	–	–	–	26
Balance as of Dec. 31, 2022	**441**	**2,816**	**15,473**	**–1,028[2]**	**–9**	**–**	**–14**	**–58**	**3**	**17,625**

1 This relates to an amount reclassified from capital reserves to retained earnings resulting from an authorized repayment of capital reserves to Volkswagen AG.
2 This item contains the accumulated foreign exchange differences from the disposal group held for sale presented in note 3.

Further information on equity is presented in note (58).

Cash Flow Statement

of the Volkswagen Financial Services AG Group

€ million	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Profit before tax	**3,003**	**3,005**
Depreciation, amortization, impairment losses and reversals of impairment losses	5,405	4,447
Change in provisions	–27	–114
Change in other noncash items	1,709	–122
Gain/Loss on disposal of financial assets and items of property and equipment	0	3
Net interest expense and dividend income	–2,308	–2,625
Other adjustments	0	1
Change in loans to and receivables from banks	1,631	–1,168
Change in loans to and receivables from customers	–5,836	1,247
Change in lease assets	–7,857	–9,868
Change in other assets related to operating activities	–71	857
Change in liabilities to banks	3,310	–1,539
Change in liabilities to customers	5,928	–1,648
Change in notes, commercial paper issued	–4,743	5,458
Change in other liabilities related to operating activities	58	613
Interest received	4,471	3,851
Dividends received	5	15
Interest paid	–2,167	–1,241
Income taxes paid	–521	–523
Cash flows from operating activities	**1,988**	**648**
Proceeds from disposal of investment property	–	–
Acquisition of investment property	–	0
Proceeds from disposal of subsidiaries and joint ventures	35	1
Acquisition of subsidiaries and joint ventures	–143	–275
Proceeds from disposal of other assets	16	8
Acquisition of other assets	–70	–58
Change in investments in marketable securities	27	–8
Cash flows from investing activities	**–136**	**–332**
Proceeds from changes in capital	–	0
Distribution to Volkswagen AG	–400	–400
Profit transferred to/loss assumed by Volkswagen AG	–771	673
Change in cash funds attributable to subordinated capital	–79	–576
Repayment of liabilities arising from leases	–18	–28
Cash flows from financing activities	**–1,269**	**–332**
Cash and cash equivalents at end of prior period	**33**	**47**
Cash flows from operating activities	1,988	648
Cash flows from investing activities	–136	–332
Cash flows from financing activities	–1,269	–332
Effect of exchange rate changes	–58	2
Cash and cash equivalents at end of period[1]	**560**	**33**

Disclosures on the cash flow statement are presented in note (65).

1 The cash reserve contains cash and cash equivalents attributable to the disposal group.

Notes to the Consolidated Financial Statements

of the Volkswagen Financial Services AG Group as of December 31, 2022

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 and mobility services both in Germany and abroad, the purpose of such 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 Company Register.

Basis of Presentation

VW FS AG has prepared its consolidated financial statements for the year ended December 31, 2022 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, 2022 for which mandatory application was required in fiscal year 2022 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. 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 14, 2023 and released them for forwarding to the Supervisory Board for approval and subsequent publication. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Effects of the Russia-Ukraine Conflict

In the reporting period, the Russia-Ukraine conflict led to a humanitarian crisis and global market upheaval. Prices rose substantially, particularly on the energy and commodity markets. The Russia-Ukraine conflict led to increased uncertainty in respect of developments in the global economy and prompted large sections of the community of Western states to impose sanctions on Russia, ranging from extensive trade embargoes to the partial exclusion of Russia from the global financial system. Russia itself, in its role as an energy exporter, restricted gas deliveries to Europe. The resulting increase in energy prices and intensified supply shortages had a sustained impact on inflation in Europe particularly. In response to the rise of inflation rates around the world, many countries shifted to a more restrictive monetary policy, which led central banks to increase their key interest rates and reduce bond purchases during the reporting period.

Significantly higher interest rates led to a sharp increase in funding costs in the reporting period. Other areas impacted by this marked change in the market environment included measurements of derivatives arranged for interest rate hedging, the cost of capital used for impairment tests and actuarial gains/losses in connection with pension provisions.

The financial services activities of the VW FS AG Group in Russia were negatively affected by the Russia-Ukraine conflict and the impact of the international sanctions. Volkswagen's decision to suspend vehicle production in Russia until further notice affected new financial services business in the country in particular. Increased economic uncertainty in relation to the financial services activities of the VW FS AG Group in Russia resulted in the recognition of additional valuation allowances for credit risks. The Russia-Ukraine conflict led to generally elevated levels of estimation uncertainty.

The subsidiaries of Volkswagen Financial Services AG in Russia were classified as a disposal group in accordance with the provisions of IFRS 5 (see note 3 "Disposal group held for sale").

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 2022.

A number of new regulations entered into force on January 1, 2022 as part of the improvements to International Financial Reporting Standards 2020 (Annual Improvements Project 2020). These include clarifications to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (IFRS Annual Improvements 2018–2020). IFRS 1 regulates the initial use of the IFRSs and IAS 41 regulates accounting in the agricultural sector, so these changes to the standards have no effect on the VW FS AG Group. The change in IFRS 9 makes clear the fees that companies are to include when assessing whether the terms of a new or modified financial liability differ significantly from the terms of the original financial liability. An example regarding leasehold improvements was deleted from the Illustrative Examples for IFRS 16.

There have also been amendments made to IAS 16 that had to be applied from January 1, 2022. Proceeds obtained from the sale of products resulting from the production test phase of property and equipment are accordingly to be recorded in future as income rather than deducted from the acquisition cost of assets. The costs and the revenues for the production test phase of property and equipment are therefore now to be recorded separately in expenses and income.

IAS 37 has also been amended with effect from January 1, 2022. They clarify that the assessment of whether a contract is onerous should include not only the incremental cost arising from the contract but also other direct costs of fulfilling the contract (e.g. an allocation of the depreciation charge for an item of property and equipment used in fulfilling the contract) in determining the costs of fulfilling the contract.

Finally, in amendments to IFRS 3, a reference to the Conceptual Framework was updated and clarifications added to ensure that the accounting practice pursuant to IFRS 3 can essentially remain unchanged.

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 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 16	Sale and Leaseback transactions	September 22, 2022	January 1, 2024	No	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, 2024	No	No material impact
IAS 1	Disclosure of accounting policies	February 12, 2021	January 1, 2023	Yes	Adjustment of the corresponding disclosures in the notes. Essentially no reproduction of the legal requirements.
IAS 1	Non-current Liabilities with covenants	October 31, 2022	January 1, 2024	No	No material impact
IAS 8	Definition of accounting estimates	February 12, 2021	January 1, 2023	Yes	No material impact
IAS 12	Deferred taxes on leases and decommissioning and restoration liabilities	May 7, 2021	January 1, 2023	Yes	No material impact

1 Requirement for initial application from the VW FS AG perspective
2 The EU endorsement contains an exemption that allows entities to elect, in certain cases, not to apply a valuation guidance exempt.

EXPECTED IMPACT OF IFRS 17 INSURANCE CONTRACTS

IFRS 17 applies to primary and reinsurance contracts in the VW FS AG Group. Measurement is effected at the level of portfolios, which have to be further broken down into specific measurement groups by profitability and contracts concluded per quarter. They are generally measured on the basis of expected future discounted cash flows and a risk component plus a contractual service margin. For the groups of insurance contracts categorized as profitable at the time of initial recognition, the expected profit is recognized in this service margin and realized over the cover period in accordance with service provision. The future accounting for insurance contracts in accordance with IFRS 17 will only be based on the "general measurement model". In future, it will be mandatory to discount claims reserves. A risk adjustment for nonfinancial risk must also be applied. The professional and technical implementation of IFRS 17 is being completed by the VW FS AG Group as part of a project. The retrospective application of IFRS 17 requires that values also be determined for comparison periods.

Taking into account deferred taxes, the effect of the change is expected to be in the –30 to –80 million euros range, which sum is to be recognized directly in equity under retained earnings. The increase in technical provisions resulting from the application of IFRS 17 is largely attributable to the risk adjustment and extraordinary items associated with claims reserves to establish the granularity required by IFRS 17, risk adjustments, expected settlement losses to be recognized directly on identification that stem from insurance obligations already entered into and different treatment for accounting purposes of premium payments not yet received for premium provisions.

The application of IFRS 17 also results in more extensive disclosures in the notes in general.

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, 2022.

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 figures shown are rounded, so minor discrepancies may arise from addition of these amounts.

Assets and liabilities are presented in descending 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.

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:

	2022	2021
VW FS AG and consolidated subsidiaries		
Germany	8	8
International	50	50
Subsidiaries recognized at cost		
Germany	6	8
International	42	46
Associates, equity-accounted joint ventures		
Germany	3	3
International	6	6
Associates, joint ventures and equity investments recognized at cost		
Germany	5	5
International	10	8
Total	**130**	**134**

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 subsidiaries Volkswagen Mobility Services S.p.A., Bolzano, and Volkswagen Financial Services Taiwan Ltd., Taipei, which had previously not been consolidated for reasons of materiality, were consolidated.

In Poland, consolidated subsidiary Euro-Leasing Sp. z o.o., Kolbaskowo, was merged with MAN Financial Services Poland Sp. z o.o., Nadarzyn, which is also a consolidated subsidiary.

Volkswagen Financial Services AG sold 100 % of the shares in subsidiary Voya GmbH, Hamburg, which was not consolidated for reasons of materiality, and thus also Voya GmbH’s subsidiary Voya Travel Technologies S.R.L., Bucharest, to CARIAD SE, Wolfsburg, an entity of the Volkswagen Group.

The contract of sale signed in the last fiscal year with J.P. Morgan International Finance Limited, Delaware, USA, concerning the sale of shares in subsidiary Volkswagen Payments S.A., Strassen, which was not consolidated, was implemented. This reduced the stake of Volkswagen Financial Services AG in Volkswagen Payments S.A. to 25.1 %. For reasons of materiality, the remaining shares in the now-associated company are not accounted for using the equity method.

Volkswagen Finance Overseas B.V., Amsterdam, a subsidiary of Volkswagen Financial Services AG, founded joint venture Staymo S.A.S., Boulogne-Billancourt, in France together with the BNP Paribas group. For reasons of materiality, the 51% interest in the company is not accounted for using the equity method.

Fleetzil Locações e Serviços Ltda., Curitiba, Brazil, a subsidiary of Simple Way Locações e Serviços Ltda., Curitiba, Brazil, acquired approximately 55 % of the shares in LM Transportes Interestaduais Serviços e Comércio SA, Salvador, Brazil, and its two subsidiaries at the beginning of the year. Fleetzil Locações e Serviços Ltda. was then merged with LM Transportes Interestaduais Serviços e Comércio SA. Following the merger, Simple Way Locações e Serviços Ltda., an unconsolidated subsidiary of Volkswagen Finance Overseas B.V., holds 60 % of the shares in LM Transportes Interestaduais Serviços e Comércio SA. New subsidiary LM Transportes Interestaduais Serviços e Comércio SA is not yet consolidated in the reporting period because it is of minor significance.

Unconsolidated subsidiary Volkswagen Financial Ltd., Milton Keynes, conducted no business and was therefore dissolved. Also dissolved was the unconsolidated subsidiary Volkswagen FS France S.A.S., Roissy-en-France.

Chinese subsidiary Volkswagen Leasing (Nanjing) Co., Ltd., Nanjing, which was not consolidated, was wound up in the reporting year in line with a new strategic plan.

The additions and disposals of special purpose entities in 2022 were as follows:

Additions:
- Driver China Fourteen Auto Loan Securitization Trust, Beijing

Disposals:
- Driver Brasil four Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco
- Driver China Nine Auto Loan Securitization Trust, Beijing

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.

Some subsidiaries hold assets in the form of cash or securities, usability of which within the Group is limited on account of contractual or regulatory provisions. These assets are reported in the “Loans to and receivables from banks” and “Securities” balance sheet items and as “Restricted cash” in the “Other assets” balance sheet item.

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:

€ million	VOLKSWAGEN PON FINANCIAL SERVICES B. V . (NETHERLANDS) 2022	2021	VOLKSWAGEN D'IETEREN FINANCE S.A. (BELGIUM) 2022	2021	VOLKSWAGEN MØLLER BILFINANS A/S (NORWAY) 2022	2021
Shareholding (percent)	60%	60%	50%	50%	51%	51%
Loans to and receivables from banks	5	5	126	67	12	13
Loans to and receivables from customers	1,175	1,034	1,925	1,772	1,889	2,020
Lease assets	2,467	2,278	773	671	–	–
Other assets	198	210	100	79	18	11
Total	**3,846**	**3,527**	**2,925**	**2,589**	**1,919**	**2,044**
of which: noncurrent assets	3,382	3,105	1,808	1,683	1,602	1,737
of which: current assets	464	422	1,116	905	317	307
of which: cash	5	5	126	67	12	13
Liabilities to banks	–	–	2,033	2,248	1,408	1,541
Liabilities to customers	2,593	2,385	168	132	28	37
Notes, commercial paper issued	826	761	503	–	–	–
Other liabilities	194	173	11	12	100	90
Equity	233	207	209	197	383	377
Total	**3,846**	**3,527**	**2,925**	**2,589**	**1,919**	**2,044**
of which: noncurrent liabilities	2,189	2,140	1,331	1,079	616	819
of which: noncurrent financial liabilities	2,160	2,120	1,326	1,070	519	719
of which: current liabilities	1,424	1,180	1,384	1,313	920	848
of which: current financial liabilities	1,218	1,000	1,211	1,178	889	822
Revenue	1,232	1,065	540	621	120	102
of which: interest income	137	120	44	40	117	102
Expenses	–1,109	–981	–512	–597	–86	–63
of which: interest expense	–36	–27	–14	–10	–39	–21
of which: depreciation and amortization	–491	–440	–139	–126	–13	–12
Profit/loss from continuing operations, before tax	**123**	**84**	**28**	**24**	**34**	**40**
Income tax expense or income	–30	–23	–8	–6	–9	–17
Profit/loss from continuing operations, net of tax	**93**	**61**	**20**	**18**	**25**	**23**
Profit/loss from discontinued operations, net of tax	–	–	–	–	–	–
Other comprehensive income, net of tax	–	–	1	1	–	–
Total comprehensive income	**93**	**61**	**21**	**19**	**25**	**23**
Dividends received	40	12	5	–	–	–

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)
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
Dividends	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**
2022			
Equity of the joint venture as of Jan. 1, 2022	207	197	377
Profit/loss	93	20	25
Other comprehensive income	–	1	–
Change in share capital	–	–	–
Exchange differences on translating foreign operations	–	–	–19
Dividends	67	9	–
Equity of the joint venture as of Dec. 31, 2022	**233**	**209**	**383**
Share of equity	140	105	195
Goodwill/other	41	0	0
Carrying amount of the share of equity as of Dec. 31, 2022	**180**	**105**	**195**

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

€ million	2022	2021
Carrying amount of the share of equity as of Dec. 31	**242**	**331**
Profit/loss from continuing operations, net of tax	11	24
Profit/loss from discontinued operations, net of tax	–	–
Other comprehensive income, net of tax	–16	–3
Total comprehensive income	**–5**	**21**

The disclosures on joint ventures that are immaterial when considered individually include the joint venture VDF Servis ve Ticaret A.S., Türkiye. Türkiye met the IAS 29 criteria for classification as a hyper-inflationary economy in the 2022 reporting year, as a consequence of which the joint venture determined its equity in accordance with the IFRSs at December 31, 2022 in line with the provisions of IAS 29.

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

Cash attributable to joint ventures amounting to €172 million (previous year: €185 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 €82 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. Disposal Group Held for Sale (IFRS 5)

In accordance with the provisions of IFRS 5, consolidated subsidiaries OOO Volkswagen Bank RUS, Moscow/Russia, OOO Volkswagen Group Finanz, Moscow/Russia and OOO Volkswagen Financial Services RUS, Moscow/Russia were classified at December 31, 2022 as a disposal group held for sale. Following corresponding resolutions by the responsible bodies, work to implement a disposal plan has already begun and is expected to be completed in the first half of 2023. The disposal group as a whole is subject to the measurement provisions of IFRS 5 because it contains assets that fall within the scope of IFRS 5. The disposal group as a whole is measured at the lower of the carrying amount and fair value less costs to sell. No impairment losses resulting from the IFRS 5 measurement provisions have been recognized for the disposal group as the values on the balance sheet were established in an environment of elevated macroeconomic uncertainty anyway and additional impairment losses from the implementation of the disposal plan are not considered to be likely. Figures for the disposal group are reported on the balance sheet in the separate balance sheet items “Assets held for sale (IFRS 5)” and “Liabilities associated with assets held for sale (IFRS 5)”.

The main groups of assets classified as held for sale and liabilities of the disposal group are presented below:

€ million	Dec. 31, 2022
Financial assets	562
Miscellaneous financial assets	15
Assets held for sale (IFRS 5)	**577**
Financial liabilities	465
Miscellaneous liabilities	13
Liabilities associated with assets held for sale (IFRS 5)	**478**

Accumulated losses from foreign exchange differences (RUB to EUR) in the amount of € 138 million are recognized in other comprehensive income in relation to the disposal group. The disposal group is not presented as a separate IFRS 8 operating segment. The disposal group is instead included in segment reporting under “Other segments”.

4. 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 identifiable net assets. Please refer to note (14) 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.

5. 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 expenses recognized directly in equity, 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.

		BALANCESHEET , MIDDLE SPOT RATE ON DEC. 31		INCOME STATEMENT , AVERAGE RATE	
	€1 =	2022	2021	2022	2021
Australia	AUD	1.57060	1.56120	1.51749	1.57478
Brazil	BRL	5.64440	6.30680	5.44441	6.38119
Denmark	DKK	7.43685	7.43670	7.43967	7.43706
United Kingdom	GBP	0.88680	0.84000	0.85256	0.86000
India	INR	88.16400	84.16900	82.73456	87.46457
Japan	JPY	140.66500	130.32000	138.02361	129.86045
Mexico	MXN	20.88790	23.14175	21.21209	23.99548
Poland	PLN	4.68600	4.59425	4.68566	4.56535
Republic of Korea	KRW	1,338.29500	1,344.96500	1,358.19726	1,353.93832
Russia	RUB	76.28680	84.97785	73.27417	87.22880
Sweden	SEK	11.07865	10.25475	10.62776	10.14603
Taiwan	TWD	32.70475	–	32.47688	–
Czech Republic	CZK	24.14500	24.85900	24.55830	25.65394
People’s Republic of China	CNY	7.36605	7.18700	7.08135	7.63330

6. Revenue and Expense Recognition

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 the 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.

A trade receivable is recognized for the period between revenue recognition and receipt of payment. Any financing component included in the transaction is not recognized because the period between the transfer of the goods and the payment of consideration is generally less than a year. 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.

7. 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.

8. Cash Reserve

The cash reserve is carried at the nominal amount.

9. 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 CATEGORY (DEBT INSTRUMENTS)

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 cashflows (“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 CATEGORY (EQUITY INSTRUMENTS)

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 (15) Leases.

MARKETABLE SECURITIES

The “Marketable securities” balance sheet item largely comprises 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.

DERIVATIVES 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 (40) and (51).

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.

The consolidated financial statements were restated retrospectively in the prior year to correct an error, reversing the application of portfolio fair value hedge accounting because not all of the requirements for the application of portfolio fair value hedge accounting were satisfied. However, the Group's hedge accounting strategy does still provide for the continued application of portfolio fair value hedge accounting on as comprehensive a basis as possible. The changes necessary to ensure all the requirements for application are satisfied were accordingly made in the reporting period so that it would be possible to apply portfolio fair value hedge accounting for finance lease receivables again in the reporting period for the three-month hedging period beginning July 1, 2022 and for the three-month hedging period beginning October 1, 2022.

Portfolio fair value hedge accounting reports transactions to hedge the risk of changes in the interest rates of hedged items (receivables from finance leases) on a portfolio basis. The hedged interest rate risk for the hedged items is based on the 3-month EURIBOR/SONIA. The VW FS AG Group exercises the option afforded in the provisions of IAS 39 regarding hedge accounting in its portfolio fair value hedge accounting treatment. As part of the accounting treatment of hedges in portfolio fair value hedge accounting, the hedged fair value changes for hedged items are recognized in a separate asset item in the balance sheet ("Change in fair value from portfolio fair value 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 or IAS 39 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 to which 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.

Additional valuation allowances (post-model adjustments) are recognized on a country-specific basis in the provision for credit risks where the standard models and processes implemented do not fully cover the uncertainties in the global economy and management judges it appropriate to include other aspects in making assessments about the future. All available sufficiently reliable information and the macroeconomic factors relevant to the assessment are factored in to establish the additional valuation allowances due to global economic uncertainties.

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 notes (25) and (65).

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 48), notes and commercial paper issued (note 49), and subordinated capital liabilities (note 56) 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.

10. Change in Fair Value from Portfolio Fair Value Hedges

This assets-side line item on the balance sheet recognizes changes in the hedged fair value in relation to the hedged interest rate risk for the hedged items covered by portfolio fair value hedge accounting. The effects arising from the amortization of changes in fair value recognized for hedged items (changes in hedged fair value) in portfolio fair value hedges are reported in the interest income from hedged financial assets.

11. 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 (9) Financial Instruments.

12. 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 14).

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 (42). 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.).

13. 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 14).

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 (15) Leases within the subsection covering the Group as lessee.

14. Impairment of Nonfinancial 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.

15. 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 (21) 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 hedging of finance leases, and depreciation and impairment losses in respect of lease assets. Interest income from finance leases includes the effects arising from the amortization of changes in fair value recognized for hedged items (changes in hedged fair value) resulting from finance lease receivables in portfolio fair value hedge accounting.

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 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 from derivatives is reported within the income from leasing transactions in order to present hedged interest income from finance leases, including the net interest income or expense from derivatives held for 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 (9) 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 (70) 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 of 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.

16. 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.

17. 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 2022, they amounted to a total of €50 million (previous year: €49 million) in the VW FS AG Group. Contributions to the compulsory state pension system in Germany amounted to €39 million (previous year: €38 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 (52).

18. 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.

19. 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 (72).

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 3.16% (previous year: –0.04%) has been used for the eurozone. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

20. 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.

The assumption at the macroeconomic level is that global economic output will grow overall in 2023 but at a reduced pace. The persistently high inflation in many regions and the restrictive monetary policy measures taken by central banks to rein this in are expected to increasingly dampen consumer spending. In addition, growth prospects will be impacted by ongoing geopolitical tensions and conflicts, with risks arising especially from the Russia-Ukraine conflict. It is assumed that both the advanced economies and the emerging markets will show positive momentum on average, albeit with below-average growth in gross domestic product (GDP). The general expectation is that the global economy will recover in 2024 and continue on a path of stable growth through 2027.

These assumptions suggest that automotive financial services will prove highly important to global vehicle sales in 2023. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict. Demand is expected to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will probably see a continuation of the trend towards enabling mobility at the lowest possible total cost. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, it is expected that demand will increase for new forms of mobility, such as rental and car subscription (*Auto-Abo*) services, and for integrated mobility services, for example parking, refueling and charging, and that the shift initiated in the European financial services business with individual customers from financing to lease contracts will continue.

Trends in the markets for passenger cars in 2023 are expected to vary from region to region. Overall, the global volume of new car sales is expected to be noticeably higher than in the previous year. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict. Growing demand for passenger cars is forecast worldwide in the period from 2024 to 2027. New registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes are expected to increase noticeably as compared with the prior year in 2023 in the markets of relevance for the Volkswagen Group, with some regions seeing faster growth than others.

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 “Effects of the Russia-Ukraine Conflict” section for further information on estimation uncertainty arising from the effects of the Russia-Ukraine conflict.

There is currently no sign of additional estimation uncertainty arising from ESG/sustainability considerations that would materially affect existing estimates, for example of the recoverable amount of leased assets, in the consolidated financial statements. Possible future effects of ESG/sustainability factors on existing estimates are considered continuously.

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. When possible, these estimates take into account the latest market data as well as rating classes and scoring information derived from empirical values and combined with forward-looking parameters. Estimates and assumptions by management of future events are required in particular for the determination of country-specific additional valuation allowances due to global economic uncertainties. 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 using recognized valuation techniques and 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 empirical data. 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 whenever 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 making predictions with regard to court decisions 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 NONFINANCIAL 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

21. Net Income from Leasing Transactions

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

€ million	2022	2021
Leasing income from operating leases	6,540	5,796
Interest income from finance leases	1,928	1,830
Gains from the disposal of used ex-lease vehicles	11,857	11,195
Net interest income/expense from finance lease hedging derivatives	73	–73
Miscellaneous income from leasing transactions	634	569
Income from leasing transactions	**21,031**	**19,316**
Lease assets depreciation and impairment losses	–4,941	–4,663
Expenses from the disposal of used ex-lease vehicles	–10,522	–10,591
Miscellaneous expenses from leasing transactions	–1,163	–927
Depreciation, impairment losses and other expenses from leasing transactions	**–16,626**	**–16,180**
Total	**4,406**	**3,136**

22. Interest Expense

Interest expenses include funding expenses for lending and leasing business. Interest income and expenses on derivatives not designated as hedging instruments for hedging financial liabilities amount to €17 million (previous year: €–19 million). Interest expenses were drastically increased on the prior-year level overall at €2,167 million (previous year: €1,241 million) as a result of higher interest rates and funding spreads.

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 (70) Leases.

23. Net Income from Service Contracts

Of the total income recognized for service contracts, an amount of €1,822 million (previous year: €1,556 million) related to service contracts requiring the recognition of income at a specific time, and €593 million (previous year: €552 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 €811 million had been included in the contractual liabilities for service contracts as of January 1, 2022. Of the income recognized in the prior year, income of €603 million had been included in the contractual liabilities for service contracts as of January 1, 2021.

24. Net Income from Insurance Business

The following table shows the net income from insurance business:

€ million	2022	2021
Insurance premiums earned	307	345
Insurance claims expenses	–113	–128
Reinsurance commissions and with-profits expenses	–50	–60
Other underwriting expenses	–2	–1
Total	**142**	**155**

25. 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	2022	2021
Additions to provision for credit risks	–1,190	–773
Reversals of provision for credit risks	621	712
Direct write-offs	–217	–161
Income from loans and receivables previously written off	84	98
Net gain or loss from significant modifications	0	1
Total	**–703**	**–122**

Additional valuation allowances were required on a country-specific basis in the provision for credit risks for the VW FS AG Group because in some instances, the standard models and processes implemented, including the credit risk parameters used, did not fully capture the risks from global economic uncertainties and critical situations. Expenses of €348 million (previous year: income of €61 million) were recognized in the reporting period, mainly due to further additional valuation allowances.

26. 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	2022	2021
Fee and commission income	562	631
of which commissions from insurance broking	413	396
Fee and commission expenses	–384	–443
of which sales commission from financing business	–43	–198
Total	**178**	**188**

27. 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	2022	2021
Fair value hedges		
Gains/losses from micro fair value hedges		
Gains/losses on hedging instruments	–1,998	–441
Gains/losses on hedged items	1,987	430
Gains/losses from micro fair value hedges	–12	–11
of which ineffectiveness of mircro fair value hedges	–12	–11
Gains/losses from portfolio fair value hedges		
Gains/losses on hedging instruments	196	–
Gains/losses on hedged items	–214	–
Gains/losses from portfolio fair value hedges	–18	–
of which ineffectiveness of portfolio fair value hedges	–18	–
Cashflow hedges		
Gains/losses from the reclassification of reserves for cash flow hedges	64	–62
Gains/losses from translation of foreign currency loans/receivables and liabilities in cash flow hedges	–64	62
Gains/losses from the ineffective portion of hedging instruments in cash flow hedges	–4	0
Total	**–33**	**–11**

28. Net Gain or Loss on Financial Instruments Measured at Fair Value

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 of IFRS 9 for hedge accounting at the micro level or of IAS 39 for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

The details of the gains and losses are as follows:

€ million	2022	2021
Gains/losses on derivatives not designated as hedging instruments	827	271
Gains/losses on marketable securities measured at fair value through profit/loss	–4	5
Gains/losses on loans/receivables measured at fair value through profit/loss	–12	3
Gains/losses on the derecognition of marketable securities measured at fair value through OCI	0	–
Total	**810**	**278**

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

The net loss in the prior year resulted from the sale 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 had been added to the income statement and note (29) to the notes to the consolidated financial statements in the previous year. In the year under review, there were no disposals that led to a net gain or loss from the derecognition of financial assets measured at amortized cost.

30. General and Administrative Expenses

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

€ million	2022	2021
Personnel expenses	–1,133	–1,029
Non-staff operating expenses	–1,196	–1,147
Advertising, public relations and sales promotion expenses	–75	–65
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–84	–69
Other taxes	–18	–16
Income from the reversal of provisions and accrued liabilities	30	28
Total	**–2,476**	**–2,299**

Personnel expenses comprise wages and salaries of €903 million (previous year: €830 million) as well as social security, post-employment and other employee benefit costs of €230 million (previous year: €200 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 (70) 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	2022	2021
Financial statement audit services	3	2
Other attestation services	0	0
Tax consulting services	–	0
Other services	1	0
Total	**4**	**3**

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.

31. Net Other Operating Income/Cxpense

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

€ million	2022	2021
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	98	95
Income from cost allocations to other entities in the Volkswagen Group	518	501
Income from the reversal of provisions and accrued liabilities	70	115
Income from claims for damages	33	35
Income from the disposal of vehicles under loan agreements and finance leases	184	544
Income from non-significant modifications	9	8
Miscellaneous operating income	92	201
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–284	–134
Litigation and legal risk expenses	–94	–61
Expenses from the disposal of vehicles under loan agreements and finance leases	–167	–524
Expenses from non-significant modifications	–6	–8
Miscellaneous operating expenses	–107	–136
Total	**346**	**635**

32. 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.

33. 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.

34. 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	2022	2021
Current tax income/expense, Germany	–188	–77
Current tax income/expense, foreign	–351	–453
Current income tax expense	**–540**	**–530**
of which income (+)/expense (–) related to prior periods	13	–3
Deferred tax income (+)/expense (–), Germany	–470	–257
Deferred tax income (+)/expense (–), foreign	–174	9
Deferred tax income (+)/expense (–)	**–644**	**–249**
Income tax expense	**–1,183**	**–778**

The reported tax expense in 2022 of €1,183 million (previous year: €778 million) is €282 million higher (previous year: €123 million lower) than the expected tax expense of €901 million (previous year: €902 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	2022	2021
Profit before tax	**3,003**	3,005
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	**–901**	**–902**
+ Effects from different foreign tax rates	131	137
+ Effects from tax-exempt income	51	61
+ Effects from non-deductible operating expenses	–74	–66
+ Effects from loss carryforwards	–12	0
+ Effects from permanent differences	–68	–46
+ Effects from tax credits	10	36
+ Taxes attributable to prior periods	–288	–26
+ Effects from changes in tax rates	–17	29
+ Effects from non-deductible withholding taxes	0	–1
+ Other variances	–13	–1
= Current income tax expense	**–1,183**	**–778**
Effective tax rate in %	39.4	25.9

The statutory corporation tax rate in Germany for the 2022 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 30.0% (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:

€ million	UNUSED TAX LOSS CARRYFORWARDS		OF WHICH UNUSABLE TAX LOSS CARRYFORWARDS	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Usable indefinitely	165	164	155	155
Usable within the next 5 years	52	91	15	14
Usable within 5 – 10 years	4	–	1	–
Usable within more than 10 years	2	1	–	–
Total	**223**	**256**	**171**	**169**
thereon deferred tax assets recognized	11	18	–	–

The tax credits granted by various countries led to the recognition of a tax benefit in an amount of €14 million (previous year: €36 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 €14 million (previous year: €8 million). In the reporting year, the reversal of impairment losses on deferred tax assets gave rise to deferred tax income of €1 million (previous year: €28 million). No deferred tax assets were recognized in respect of deductible temporary differences of €62 million (previous year: €114 million).

The Group has recognized deferred tax assets of €23 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 €39 million (previous year: €42 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 €23 million (previous year: €95 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.

35. 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	2022	2021
Income from fees and commissions	23	27
Expenses from fees and commissions	0	0
Total	**23**	**27**

Income of €39 million (previous year: €37 million) that had been included in the contractual liabilities as of January 1 of the reporting period was recognized in the reporting year.

Balance Sheet Disclosures

36. Cash Reserve

The cash reserve includes credit balances of €2 million (previous year: €33 million) held with foreign central banks.

37. Loans to and Receivables from Banks

Loans to and receivables from banks include credit balances and time deposits with banks and receivables from banks attributable to loans of €722 million (previous year: €1,779 million).

38. 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 (65).

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 €574 million (previous year: €483 million).

As of the reporting date, receivables from operating leases amounted to €332 million (previous year: €266 million).

At the end of the fiscal year, additional valuation allowances for credit risks on a country-specific basis of €868 million (previous year: €520 million) were recognized in the “Loans to and receivables from customers” item because in some instances, the standard models and processes implemented did not fully capture the risks from global economic uncertainties and critical situations.

39. Change in Fair Value from Portfolio Fair Value Hedges

This assets-side line item on the balance sheet recognizes changes in the hedged fair value in relation to the hedged interest rate risk for the hedged items covered by portfolio fair value hedge accounting.

€ million	Dec. 31, 2022	Dec. 31, 2021
Value adjustment on portfolio fair value hedges	–156	–

40. Derivative Financial Instruments

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Transactions to hedge against		
currency risk on assets using fair value hedges	18	0
currency risk on liabilities using fair value hedges	–5	2
interest-rate risk using fair value hedges	855	336
of which hedges against interest-rate risk using portfolio fair value hedges	822	–
interest-rate risk using cash flow hedges	59	28
currency risk on future cash flows using cash flow hedges	30	11
Hedging transactions	**957**	**378**
Assets arising from derivatives not designated as hedges	531	208
Total	**1,488**	**586**

41. Equity-Accounted Joint Ventures and Miscellaneous Financial Assets

€ million	Equity-accounted investments	Miscellaneous financial assets	Total
Gross carrying amount as of Jan. 1, 2022	**926**	**778**	**1,704**
Foreign exchange differences	–	–3	–3
Changes in basis of consolidation	–	–24	–24
Additions	–	143	143
Reclassifications	–	–	–
Disposals	–	40	40
Changes/remeasurements recognized in profit or loss	89	–	89
Dividends	–45	–	–45
Other changes recognized in other comprehensive income	19	–	19
Balance as of Dec. 31, 2022	**989**	**855**	**1,844**
Impairment losses as of Jan. 1, 2022	**139**	**104**	**243**
Foreign exchange differences	–	–1	**–1**
Changes in basis of consolidation	–	–	**–**
Additions	145	131	**276**
Reclassifications	–	–	**–**
Disposals	–	6	**6**
Reversal of impairment losses	17	–	**17**
Balance as of Dec. 31, 2022	**267**	**228**	**496**
Net carrying amount as of Dec. 31, 2022	**722**	**626**	**1,348**
Net carrying amount as of Jan. 1, 2022	**787**	**674**	**1,460**

€ 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**

In the reporting year, impairment losses were recognized in an amount of €74 million (previous year: €10 million) for unconsolidated 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 (12) to determine impairment losses on goodwill.

42. Intangible Assets

€ million	Internally generated software	Brand name, customer base	Goodwill	Other intangible assets	Total
Cost as of Jan. 1, 2022	**64**	**24**	**16**	**218**	**321**
Foreign exchange differences	0	0	0	0	–1
Changes in basis of consolidation	–	–	–	3	3
Additions	27	–	–	24	51
Reclassifications	–	–	–	–	–
Zur Veräußerung gehaltene Vermögenswerte (IFRS 5)	–	–	–	–27	–27
Disposals	0	–	11	9	20
Balance as of Dec. 31, 2022	**91**	**23**	**5**	**209**	**328**
Amortization and impairment losses as of Jan. 1, 2022	**31**	**7**	**–**	**170**	**208**
Foreign exchange differences	1	0	0	–1	0
Changes in basis of consolidation	–	–	–	3	3
Additions to cumulative amortization	2	–	–	18	21
Additions to cumulative impairment losses	–	15	11	–	26
Reclassifications	–	–	–	–	–
Zur Veräußerung gehaltene Vermögenswerte (IFRS 5)	–	–	–	–22	–22
Disposals	–	–	11	2	12
Reversal of impairment losses	–	–	–	–	–
Balance as of Dec. 31, 2022	**35**	**22**	**–**	**166**	**223**
Net carrying amount as of Dec. 31, 2022	**56**	**1**	**5**	**43**	**105**
Net carrying amount as of Jan. 1, 2022	**32**	**17**	**16**	**48**	**113**

€ 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**

The goodwill of €5 million (previous year: €16 million) and brand name of €1 million (previous year: €17 million) in 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 impairment tests for the reported goodwill and brand names are based on the value in use.

The value in use determined on the basis of the impairment test for the cash-generating unit – the Polish company Volkswagen Financial Services Polska Sp. z o.o – of €399 million was down as compared with the prior year due to the higher cost of capital and an increased country risk premium and fell short of the corresponding carrying amount, including brand name and goodwill recognized, of the cash-generating unit. The goodwill of €11 million and the brand name of €6 million recognized for the cash-generating unit in the prior year were accordingly written off in full in the reporting year.

A brand name of €10 million recognized in Germany in the prior year in the reportable Germany segment was also written off in full in the reporting year due to operations ceasing and the brand name therefore having no future economic benefit.

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

The discount rates used in the impairment tests were 11.1% (previous year: 9.3%) for Poland and 11.2% (previous year: 8.5%) for Germany.

43. Property and Equipment

€ million	Land and buildings	Operating and office equipment	Total
Cost as of Jan. 1, 2022	**540**	**144**	**684**
Foreign exchange differences	–4	1	–3
Changes in basis of consolidation	4	3	6
Additions	16	14	30
Reclassifications	–1	1	0
Assets held for sale (IFRS 5)	–5	–9	–14
Disposals	37	15	52
Balance as of Dec. 31, 2022	**513**	**139**	**651**
Depreciation and impairment losses as of Jan. 1, 2022	**179**	**95**	**274**
Foreign exchange differences	–2	0	–2
Changes in basis of consolidation	1	2	3
Additions to cumulative depreciation	31	17	47
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–4	–6	–10
Disposals	13	13	26
Reversal of impairment losses	0	–	0
Balance as of Dec. 31, 2022	**193**	**95**	**288**
Net carrying amount as of Dec. 31, 2022	**320**	**44**	**363**
Net carrying amount as of Jan. 1, 2022	**361**	**49**	**410**

€ million	Land and buildings	Operating and office equipment	Total
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**

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

Assets under construction with a carrying amount of €7 million (previous year: €6 million) are included in land and buildings.

44. Investment Property

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

€ million	Investment property
Cost as of Jan. 1, 2022	**107**
Foreign exchange differences	0
Changes in basis of consolidation	–
Additions	–
Reclassifications	–
Disposals	–
Balance as of Dec. 31, 2022	**107**
Depreciation and impairment losses as of Jan. 1, 2022	**31**
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	–
Balance as of Dec. 31, 2022	**36**
Net carrying amount as of Dec. 31, 2022	**71**
Net carrying amount as of Jan. 1, 2022	**76**

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

€ million	Investment property
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**

The fair value of investment property amounts to €89 million (previous year: €91 million). The fair value is determined using an income approach based on internal calculations (Level 3 of the fair value hierarchy). The main input for the calculation is the cost of capital. Operating expenses of €8 million (previous year: €8 million) were incurred in the reporting period for the maintenance of investment property.

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

45. Deferred Tax Assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Deferred tax assets	7,797	7,897
of which noncurrent	5,153	5,039
Recognized benefit from unused tax loss carryforwards, net of valuation allowances	11	18
of which noncurrent	11	18
Offset (with deferred tax liabilities)	–6,665	–6,273
Total	**1,143**	**1,641**

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Loans, receivables and other assets	949	841
Held for sale (IFRS 5)	61	–
Marketable securities and cash	10	4
Intangible assets/property and equipment	361	339
Lease assets	5,443	5,614
Liabilities and provisions	1,051	1,107
Valuation allowances for deferred assets on temporary differences	–15	–8
Total	**7,797**	**7,897**

46. Other Assets

The details of other assets are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Vehicles returned for disposal	588	327
Restricted cash	688	865
Prepaid expenses and accrued income	296	272
Other tax assets	349	290
Reinsurers’ share of underwriting provisions	42	37
Miscellaneous	664	583
Total	**2,627**	**2,374**

Contract origination costs of €81 million (previous year: €76 million) had been capitalized as of December 31, 2022. In 2022, amortization charges on capitalized costs to obtain contracts amounted to €55 million (previous year: €44 million). No impairment losses were recognized in 2021 and 2022 in respect of the capitalized contract origination costs.

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Reinsurers' share of provisions for claims outstanding	42	37
Reinsurers' share of provisions for unearned premiums	–	0
Reinsurers' share of other underwriting provisions	–	–
Total	**42**	**37**

47. Noncurrent Assets

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent
Cash reserve	2	–	33	–
Loans to and receivables from banks	3,406	178	5,066	198
Loans to and receivables from customers	86,893	44,850	80,297	44,088
Value adjustment on portfolio fair value hedges	–156	–68	–	–
Derivative financial instruments	1,488	1,138	586	497
Marketable securities	845	–	320	–
Equity-accounted joint ventures	722	722	787	787
Miscellaneous financial assets	626	626	674	674
Intangible assets	105	105	113	113
Property and equipment	364	364	410	410
Lease assets	34,927	32,788	32,066	29,701
Investment property	71	71	76	76
Current tax assets	278	50	147	4
Other assets	2,627	573	2,374	463
Total	**132,198**	**81,398**	**122,949**	**77,009**

48. 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 following table shows the changes in the contractual liabilities from service contracts and other contracts that are included in the liabilities to customers:

€ million	2022	2021
Contractual liabilities at Jan. 1	**1,400**	**1,196**
Additions and disposals	272	192
Changes in consolidated Group	3	–
Foreign exchange differences	–12	12
Contractual liabilities at Dec. 31	**1,663**	**1,400**

It is expected that income will be realized under contractual liabilities in the amount of €958 million (previous year: €850 million) in the next fiscal year and in the amount of €705 million (previous year: €550 million) in the subsequent fiscal years.

49. Notes, Commercial Paper Issued

This item comprises bonds and commercial papers.

€ million	Dec. 31, 2022	Dec. 31, 2021
Bonds issued	55,991	62,588
Commercial paper issued	7,087	5,723
Total	**63,078**	**68,311**

50. 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, 2022	Dec. 31, 2021
Bonds issued	26,348	27,803
Subordinated liabilities	0	68
Total	**26,348**	**27,871**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €19,181 million (previous year: €21,652 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of loans/receivables from retail financing and leasing business is €24,371 million (previous year: €25,465 million). As of December 31, 2022, the fair value of the liabilities amounted to €19,259 million (previous year: €21,676 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €23,578 million as of December 31, 2022 (previous year: €26,046 million).

Collateral totaling €34,857 million (previous year: €33,012 million) has been pledged in connection with ABS transactions, of which €24,784 million (previous year: €25,993 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.

51. Derivative Financial Instruments

This balance sheet item comprises the negative fair values from hedges and from derivatives not designated as hedging instruments. In the following table, the negative fair values of hedging cross-currency interest rate swaps are broken down into currency and interest rate components provided that there is an appropriate underlying hedging strategy.

€ million	Dec. 31 2022	Dec. 31 2021
Transactions to hedge against		
currency risk on assets using fair value hedges	9	24
currency risk on liabilities using fair value hedges	2	1
interest-rate risk using fair value hedges	1,939	152
of which hedges against interest-rate risk using portfolio fair value hedges	0	–
interest-rate risk using cash flow hedges	53	28
currency risk on future cash flows using cash flow hedges	2	27
Hedging transactions	**2,005**	**233**
Liabilities arising from derivatives not designated as hedges	418	298
Total	**2,424**	**532**

52. Provisions for Pensions and Other Post-Employment Benefits

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

€ million	Dec. 31 2022	Dec. 31 2021
Present value of funded obligations	301	465
Fair value of plan assets	262	281
Funded status (net)	**39**	**185**
Present value of unfunded obligations	250	344
Amount not recognized as an asset because of the ceiling in IAS 19	0	0
Net liability recognized in the balance sheet	**290**	**529**
of which provisions for pensions	291	530
of which other assets	1	0

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, 2022	GERMANY Dec. 31, 2021	INTERNATIONAL Dec. 31, 2022	INTERNATIONAL Dec. 31, 2021
Discount rate	3.70	1.20	4.49	2.07
Pay trend	3.26	3.28	2.97	4.03
Pension trend	2.20	1.70	2.90	3.10
Staff turnover rate	1.10	1.10	4.15	2.49

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	2022	2021
Net liability recognized in the balance sheet as of January 1	**529**	**595**
Current service cost	66	57
Net interest expense	6	4
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–342	–88
Actuarial gains (–)/losses (+) arising from experience adjustments	19	–3
Income/expenses from plan assets not included in interest income	–49	11
Change in amount not recognized as an asset because of the ceiling in IAS 19	0	0
Employer contributions to plan assets	31	23
Employee contributions to plan assets	–	–
Pension payments from company assets	6	5
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–1	0
Changes in basis of consolidation	0	0
Other changes	1	2
Foreign exchange differences from foreign plans	0	0
Net liability recognized in the balance sheet as of December 31	**289**	**529**

7The 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	2022	2021
Present value of obligations as of January 1	**809**	**841**
Current service cost	66	57
Interest cost (unwinding of discount on obligations)	10	6
Actuarial gains (–)/losses (+) arising from changes in demographic assumptions	0	0
Actuarial gains (–)/losses (+) arising from changes in financial assumptions	–342	–88
Actuarial gains (–)/losses (+) arising from experience adjustments	19	–3
Employee contributions to plan assets	–	–
Pension payments from company assets	6	5
Pension payments from plan assets	3	3
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–1	0
Changes in basis of consolidation	0	0
Other changes	1	2
Foreign exchange differences from foreign plans	–2	3
Present value of obligations as of December 31	**551**	**809**

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

		DEC. 31, 2022		DEC. 31, 2021	
Present value of defined benefit obligation if		€ million	Change in percent	€ million	Change in percent
Discount rate	is 0.5 percentage points higher	503	–8.64	723	–10.70
	is 0.5 percentage points lower	605	9.88	910	12.47
Pension trend	is 0.5 percentage points higher	571	3.78	844	4.24
	is 0.5 percentage points lower	532	–3.46	778	–3.92
Pay trend	is 0.5 percentage points higher	554	0.54	815	0.71
	is 0.5 percentage points lower	548	–0.51	803	–0.73
Longevity	increases by one year	564	2.39	835	3.17

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

The average duration of the defined benefit obligation weighted by the present value of the defined benefit obligation (Macaulay duration) is 20 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	2022	2021
Active members with pension entitlements	379	614
Members with vested entitlements who have left the Company	38	53
Retirees	134	142
Total	**551**	**809**

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	2022	2021
Payments due within the next fiscal year	10	7
Payments due between two and five years	51	46
Payments due in more than five years	490	756
Total	**551**	**809**

Changes in plan assets are shown in the following table:

€ million	2022	2021
Fair value of plan assets as of January 1	**281**	**246**
Interest income on plan assets determined using the discount rate	4	2
Income/expenses from plan assets not included in interest income	–49	11
Employer contributions to plan assets	31	23
Employee contributions to plan assets	–	–
Pension payments from plan assets	3	3
Gains (+) or losses (–) arising from plan settlements	–	–
Changes in basis of consolidation	0	0
Other changes	–1	–1
Foreign exchange differences from foreign plans	–1	3
Fair value of plan assets as of December 31	**262**	**281**

The investment of the plan assets to cover future pension obligations resulted in a net loss of €45 million (previous year: net result of €13 million).
Employer contributions to plan assets are expected to amount to €22 million (previous year: €20 million) in the next fiscal year.

Plan assets are invested in the following asset classes:

€ million	DEC. 31, 2022 Quoted prices in active markets	No quoted prices in active markets	Total	DEC. 31, 2021 Quoted prices in active markets	No quoted prices in active markets	Total
Cash and cash equivalents	10	–	**10**	10	–	10
Equity instruments	–	–	**–**	–	–	–
Debt instruments	12	–	**12**	17	–	17
Direct investments in real estate	–	0	**0**	–	–	–
Derivatives	2	1	**3**	3	–1	2
Equity funds	91	–	**91**	98	–	98
Bond funds	122	–	**122**	133	0	133
Real estate funds	4	–	**4**	2	–	2
Other funds	17	0	**17**	14	0	14
Asset-backed securities	–	–	**–**	–	–	–
Structured debt	–	–	**–**	–	–	–
Other	–	2	**2**	–	2	2

Of the total plan assets, 52% (previous year: 45%) are invested in German assets, 12% (previous year: 19%) in other European assets and 36% (previous year: 36%) 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	2022	2021
Current service cost	66	57
Net interest on the net defined benefit liability	6	4
Past service cost (including plan curtailments)	–	–
Gains (–) or losses (+) arising from plan settlements	–	0
Net income (–) and expenses (+) recognized in profit or loss	**72**	**61**

53. Underwriting Provisions and Other Provisions

€ million	Dec. 31, 2022	Dec. 31, 2021
Underwriting provisions	383	384
Other provisions	624	401
Total	**1,006**	**785**

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, 2022	**94**	**286**	**4**	**384**
Changes to basis of consolidation	–	–	–	–
Utilization	36	145	3	184
Additions	39	141	2	182
Balance as of Dec. 31, 2022	**97**	**282**	**4**	**383**

€ 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**

Maturity profile of underwriting provisions:

€ million	DEC. 31, 2022 Remaining maturity of more than one year	Total	DEC. 31, 2021 Remaining maturity of more than one year	Total
Provision for claims outstanding	55	97	54	94
Provision for unearned premiums	161	282	159	286
Other underwriting provisions	–	4	–	4
Total	**217**	**383**	**214**	**384**

Underwriting provisions for direct insurance business:

€ million	2022 Remaining maturity of more than one year	2022 Total	2021 Remaining maturity of more than one year	2021 Total
Balance as of Jan. 1	**40**	**116**	**32**	**117**
Utilization	23	79	16	75
Additions	14	74	24	73
Transfers	–	–	–	–
Balance as of Dec. 31	**31**	**111**	**40**	**116**

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	2022 Vehicle insurance	Credit protection insurance	Other	Total
Balance as of Jan. 1	**56**	**171**	**42**	**269**
Utilization	8	83	14	105
Additions	14	67	27	108
Balance as of Dec. 31	**62**	**155**	**55**	**272**

€ million	2021 Vehicle insurance	Credit protection insurance	Other	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**

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

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

€ million	Employee expenses	Litigation and legal risks	Miscellaneous provisions	Total
Balance as of Jan. 1, 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
Balance as of Jan. 1, 2022	**138**	**174**	**90**	**401**
Foreign exchange differences	0	14	0	14
Changes in basis of consolidation	–	–	–	–
Utilization	59	14	38	110
Additions/new provisions	100	108	190	399
Unwinding of discount/effect of change in discount rate	–14	7	–	–8
Liabilities associated with assets held for sale (IFRS 5)	–1	–	–2	–3
Reversals	9	44	16	69
Balance as of Dec. 31, 2022	**154**	**245**	**224**	**624**
of which current	83	78	186	347
of which noncurrent	71	168	38	277

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: 56% in the next year, 40% in the years 2024 to 2027 and 5% thereafter.

54. Deferred Tax Liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Deferred tax liabilities	7,568	6,981
of which noncurrent	5,130	3,971
Offset (with deferred tax assets)	–6,665	–6,273
Total	**903**	**708**

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

€ million	Dec. 31, 2022	Dec. 31, 2021
Loans, receivables and other assets	5,540	5,915
Marketable securities and cash	1	3
Intangible assets/property and equipment	41	48
Lease assets	476	528
Liabilities and provisions	1,511	486
Total	**7,568**	**6,981**

55. Other Liabilities

The details of other liabilities are as follows:

€ million	Dec. 31, 2022	Dec. 31, 2021
Prepaid expenses and accrued income	1,753	1,701
Other tax liabilities	262	203
Social security and payroll liabilities	214	203
Miscellaneous	162	198
Total	**2,390**	**2,305**

56. Subordinated Capital

The subordinated capital of €2,909 million (previous year: €2,971 million) was issued and raised by Banco Volkswagen S.A. and VW FS AG, respectively.

57. Noncurrent liabilities

€ million	Dec. 31, 2022	of which noncurrent	Dec. 31, 2021	of which noncurrent
Liabilities to banks	17,242	6,764	13,873	6,227
Liabilities to customers	24,228	10,708	19,539	7,385
Notes, commercial paper issued	63,078	43,795	68,311	48,220
Derivative financial instruments	2,424	2,267	532	333
Current tax liabilities	767	530	603	352
Other liabilities	2,390	1,086	2,305	1,075
Subordinated capital	2,909	2,871	2,971	2,961
Total	**113,038**	**68,021**	**108,135**	**66,554**

58. Equity

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

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

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

On the basis of the control and profit-and-loss transfer agreement with the sole shareholder, Volkswagen AG, the loss of €1,697 million (previous year: profit transfer of €1,171 million) generated by VW FS AG has been reported as an increase of equity. In the reporting year, an amount of €400 million that had been reclassified from capital reserves to retained earnings in the prior year was distributed to Volkswagen AG.

59. Capital Management

In this context, capital is generally defined as equity in accordance with the IFRSs. 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. The parent company did not implement any corporate action in the year under review. In the previous year, an amount of €400 million had been reclassified from capital reserves to retained earnings. This related to an authorized repayment of capital reserves to Volkswagen AG.

As of December 31, 2022, the equity ratio was 13.2% (previous year: 11.6%).

Financial Instrument Disclosures

60. 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 measurement category, as specified in IFRS 9, are shown in the following table:

€ million	Dec. 31, 2022	Dec. 31, 2021
Financial assets measured at fair value through profit or loss	756	572
Financial assets measured at fair value through other comprehensive income (debt instruments)	245	271
Financial assets measured at fair value through other comprehensive income (equity instruments)	0	0
Financial assets measured at amortized cost	50,300	45,146
Financial liabilities measured at fair value through profit or loss	418	298
Financial liabilities measured at amortized cost	106,566	103,344

Receivables from leasing transactions amounting to €41,235 million (previous year: €40,901 million) and the associated changes in fair value from portfolio fair value hedges for receivables from finance leases amounting to €–156 million are not allocated to any category.

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

€ million	2022	2021
Financial instruments measured at fair value through profit or loss	777	229
Financial assets measured at amortized cost	2,063	1,848
Financial assets measured at fair value through other comprehensive income (debt instruments)	2	2
Financial liabilities measured at amortized cost	–2,310	–1,380

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 €2,519 million (previous year: €2,136 million).

The interest expenses in an amount of €2,150 million (previous year: €1,260 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 the 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 the 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. The derecognition of financial assets in connection with the disposal of a portfolio held by Volkswagen Finance Private Ltd., Mumbai had a significant negative impact in the prior year. For reasons of materiality, the loss had been reported as a separate income statement item in the previous year under net gain/loss on derecognition of financial assets measured at amortized cost and explained in the associated disclosures in note (29).

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 the credit risks line item in the income statement).

61. 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. The assets and liabilities not constituting financial instruments that are contained in the balance sheet items are included in the "Not allocated to any class of financial instruments" column so that the reconciliation is complete. These assets and liabilities not constituting financial instruments were included in the "Not allocated to any measurement category" class in the prior year.

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", "Not allocated to any measurement category" and "Not allocated to any class of financial instruments" classes. The "Not allocated to any measurement category" class consists of the receivables from customers attributable to the leasing business. In a change from the prior year, receivables from insurance contracts are recognized in the "Not allocated to any class of financial instruments" column.

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 now, as described above, shown in "Not allocated to any class of financial instruments" rather than in the "Not allocated to any measurement category" class as they were in the prior year. 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 receivables from and liabilities to Volkswagen Group companies are classified as financial instruments in the class "Measured at amortized cost". "Current tax assets" and "Current tax liabilities" mainly relate to the tax authorities and do not constitute financial instruments. Their classification was changed from "Not allocated to any measurement category" in the prior year to "Not allocated to any class of financial instruments" in the reporting year.

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. The "Not allocated to any class of financial instruments" column consists largely of advance payments received from service contracts that were shown in the "Not allocated to any measurement category" class in the prior year.

The changes to presentation (including for the prior-year figures) explained above have been made to provide greater clarity in respect of the aforementioned classes of financial instruments and their individual constitution.

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

			CLASS OF FINANCIAL INSTRUMENTS									
	BALANCE SHEET ITEM		MEASURED AT AMORTIZED COST[1]		MEASURED AT FAIR VALUE		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY		NOT ALLOCATED TO ANY CLASS OF FINANCIAL INSTRUMNETS	
Mio. €	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Assets												
Cash reserve	2	33	2	33	–	–	–	–	–	–	–	–
Loans to and receivables from banks	3,406	5,066	3,406	5,066	–	–	–	–	–	–	–	–
Loans to and receivables from customers	86,893	80,297	45,442	39,066	202	316	–	–	41,235	40,901	14	15
Value adjustment on portfolio fair value hedges	–156	–	–	–	–	–	–	–	–156	–	–	–
Derivative financial instruments	1,488	586	–	–	531	208	957	378	–	–	–	–
Marketable securities	268	320	–	–	268	320	–	–	–	–	–	–
Miscellaneous financial assets	626	674	–	–	0	0	–	–	–	–	626	674
Current tax assets	278	147	64	1	–	–	–	–	–	–	214	147
Other assets	2,627	2,374	825	981	–	–	–	–	–	–	1,802	1,393
Assets held for sale (IFRS 5)	577	–	562	–	–	–	–	–	0	–	15	–
Total	**96,009**	**89,498**	**50,300**	**45,146**	**1,002**	**844**	**957**	**378**	**41,079**	**40,901**	**2,672**	**2,229**
Equity and liabilities												
Liabilities to banks	17,242	13,873	17,242	13,873	–	–	–	–	–	–	–	–
Liabilities to customers	24,228	19,539	22,148	17,641	–	–	–	–	152	178	1,928	1,720
Notes, commercial paper issued	63,078	68,311	63,078	68,311	–	–	–	–	–	–	–	–
Derivative financial instruments	2,424	532	–	–	418	298	2,005	233	–	–	–	–
Current tax liabilities	767	603	502	298	–	–	–	–	–	–	265	306
Other liabilities	2,390	2,305	225	252	–	–	–	–	–	–	2,166	2,053
Subordinated capital	2,909	2,971	2,909	2,971	–	–	–	–	–	–	–	–
Liabilities associated with assets held for sale (IFRS 5)	478	–	–	–	–	–	–	–	1	–	13	–
Total	**113,516**	**108,135**	**106,567**	**103,346**	**418**	**298**	**2,005**	**233**	**153**	**178**	**4,372**	**4,078**

1 Loans to and receivables from customers, liabilities to customers and notes, commercial paper issued contain underlying transactions of fair value hedges.

The "Credit commitments and financial guarantees" class contains obligations under off-balance-sheet irrevocable credit commitments and financial guarantees amounting to €1,507 million (previous year: €1,323 million).

62. 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.

€ million	FAIR VALUE		CARRYING AMOUNT		DIFFERENCE	
	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	202	316	202	316	–	–
Derivative financial instruments	531	208	531	208	–	–
Marketable securities	268	320	268	320	–	–
Miscellaneous financial assets	0	0	0	0	–	–
Measured at amortized cost						
Cash reserve	2	33	2	33	–	–
Loans to and receivables from banks	3,401	5,067	3,406	5,066	–5	1
Loans to and receivables from customers	45,516	38,830	45,442	39,066	75	–236
Income tax assets	64	1	64	1	–	–
Other assets	825	981	825	981	–	–
Assets held for sale (IFRS 5)	562	–	562	–	–	–
Derivative financial instruments designated as hedges	957	378	957	378	–	–
Not allocated to any measurement category						
Loans to and receivables from customers	40,280	41,964	41,235	40,901	–954	1,063
Change in fair value from portfolio fair value hedges	–	–	–156	–	156	–
Assets held for sale (IFRS 5)	0	–	0	–	–	–
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	418	298	418	298	–	–
Measured at amortized cost						
Liabilities to banks	17,203	13,845	17,242	13,873	–39	–27
Liabilities to customers	21,944	17,683	22,148	17,641	–204	42
Notes, commercial paper issued	63,172	68,423	63,078	68,311	94	112
Income tax liabilities	502	298	502	298	–	–
Other liabilities	225	252	225	252	0	0
Subordinated capital	1,917	2,669	2,909	2,971	–992	–302
Liabilities associated with assets held for sale (IFRS 5)	463	–	463	–	–	–
Derivative financial instruments designated as hedges	2,005	233	2,005	233	–	–

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: €0 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 (65) 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	2.732	4.080	0.009	13.750	11.830	3.144	7.349	3.527	2.411	7.277	7.646	11.722	4.020	2.499
Interest rate for one year	3.027	4.460	0.103	13.450	11.634	3.331	7.348	3.900	2.463	7.302	7.661	12.390	4.004	3.225
Interest rate for five years	3.186	4.082	0.600	12.617	9.150	3.273	5.195	4.248	3.060	6.175	7.280	12.660	3.590	3.343
Interest rate for ten years	3.151	3.752	0.908	–	9.000	3.125	4.765	4.545	4.070	6.155	7.460	11.860	3.490	3.284

63. 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 62). 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. Inputs for determining the fair value of derivatives in connection with the risk of early termination are forecasts and estimates of used vehicle residual values for the models concerned as well as yield curves.

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

€ million	LEVEL 1 Dec. 31, 2022	Dec. 31, 2021	LEVEL 2 Dec. 31, 2022	Dec. 31, 2021	LEVEL 3 Dec. 31, 2022	Dec. 31, 2021
Assets						
Measured at fair value						
Loans to and receivables from banks	–	–	–	–	–	–
Loans to and receivables from customers	–	–	–	–	202	316
Derivative financial instruments	–	–	531	208	–	–
Marketable securities	196	231	73	89	–	–
Miscellaneous financial assets	–	–	–	–	0	0
Measured at amortized cost						
Cash reserve	2	33	–	–	–	–
Loans to and receivables from banks	924	1,205	2,477	3,863	–	–
Loans to and receivables from customers	–	–	1,753	921	43,763	37,908
Current tax assets	–	–	64	1	–	–
Other assets	–	–	825	980	0	0
Derivative financial instruments designated as hedges	–	–	957	378	–	–
Total	**1,122**	**1,469**	**6,679**	**6,440**	**43,966**	**38,224**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	334	167	84	132
Measured at amortized cost						
Liabilities to banks	–	–	17,203	13,845	–	–
Liabilities to customers	–	–	21,944	17,683	–	–
Notes, commercial paper issued	41,883	46,515	21,289	21,908	–	–
Current tax liabilities	–	–	502	298	–	–
Other liabilities	–	–	211	244	14	9
Subordinated capital	–	–	1,917	2,669	–	–
Derivative financial instruments designated as hedges	–	–	2,005	233	–	–
Total	**41,883**	**46,515**	**65,405**	**57,046**	**98**	**141**

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	2022	2021
Balance as of Jan. 1	**316**	**311**
Foreign exchange differences	3	6
Changes in basis of consolidation	–	–
Portfolio changes	–104	–4
Measured at fair value through profit or loss	–12	3
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**202**	**316**

The amounts recognized in profit or loss for loans to and receivables from customers resulting in a net loss of €12 million (previous year: net gain of €3 million) have been reported in the income statement under the item “Net gain or loss on financial instruments measured at fair value”. Of the remeasurements recognized in profit or loss, a net loss of €12 million (previous year: net gain of €3 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, 2022 had been 100 basis points higher, profit after tax would have been €7 million (previous year: €3 million) lower. If risk-adjusted interest rates as of December 31, 2022 had been 100 basis points lower, profit after tax would have been €4 million (previous year: €3 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	2022	2021
Balance as of Jan. 1	**132**	**188**
Foreign exchange differences	–6	12
Changes in basis of consolidation	–	–
Portfolio changes	–	–
Measured at fair value through profit or loss	–41	–68
Measured at fair value through other comprehensive income	–	–
Balance as of Dec. 31	**84**	**132**

The amounts recognized in profit or loss resulting in a net loss of €41 million (previous year: net loss of €68 million) have been reported in the income statement under the item “Net gain or loss on financial instruments measured at fair value”. Of the remeasurements recognized in profit or loss, a net loss of €41 million (previous year: net loss of €68 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 in connection with the risk of early termination had been 10% higher as of the reporting date, profit after tax would have been €40 million (previous year: €67 million) higher. If the used vehicle prices of the vehicles included in the derivatives in connection with the risk of early termination had been 10% lower as of the reporting date, profit after tax would have been €74 million (previous year: €119 million) lower.

64. 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, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Assets												
Cash reserve	2	33	–	–	2	33	–	–	–	–	2	33
Loans to and receivables from banks	3,406	5,066	–	–	3,406	5,066	–	–	–	–	3,406	5,066
Loans to and receivables from customers	86,886	80,290	–7	–8	86,879	80,282	–	–	–81	–102	86,797	80,180
Value adjustment on portfolio fair value hedges	–156	–	–	–	–156	–	–	–	–	–	–156	–
Derivative financial instruments	1,488	586	–	–	1,488	586	–873	–255	–	–	615	331
Marketable securities	268	320	–	–	268	320	–	–	–	–	268	320
Miscellaneous financial assets	0	0	–	–	0	0	–	–	–	–	0	0
Income tax assets	64	1	–	–	64	1	–	–	–	–	64	1
Other assets	825	981	–	–	825	981	–	–	–	–	825	981
Assets held for sale (IFRS 5)	562	–	–	–	562	–	–	–	–	–	562	–
Total	**93,344**	**87,277**	**–7**	**–8**	**93,337**	**87,269**	**–873**	**–255**	**–81**	**–102**	**92,383**	**86,912**
Equity and liabilities												
Liabilities to banks	17,242	13,873	–	–	17,242	13,873	–	–	–52	–53	17,189	13,820
Liabilities to customers	22,307	17,827	–7	–8	22,300	17,819	–	–	–	–	22,300	17,819
Notes, commercial paper issued	63,078	68,311	–	–	63,078	68,311	–	–	–634	–810	62,444	67,501
Derivative financial instruments	2,424	532	–	–	2,424	532	–873	–255	–	–	1,551	276
Income tax liabilities	502	298	–	–	502	298	–	–	–	–	502	298
Other liabilities	225	252	–	–	225	252	–	–	–	–	225	252
Subordinated capital	2,909	2,971	–	–	2,909	2,971	–	–	–	–	2,909	2,971
Liabilities associated with assets held for sale (IFRS 5)	465	–	–	–	465	–	–	–	–	–	465	–
Total	**109,151**	**104,064**	**–7**	**–8**	**109,144**	**104,056**	**–873**	**–255**	**–686**	**–863**	**107,585**	**102,938**

65. 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 €341 million (previous year: €407 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 €154 million (previous year: €196 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 €220 million (previous year: €145 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 concentrations” and “Credit risk” sections of 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 (9) 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 of Jan. 1, 2022	**556**	**278**	**417**	**25**	**13**	**1,289**
Exchange differences on translating foreign operations	9	8	31	0	1	50
Changes in basis of consolidation	4	–	–	0	–	4
Newly extended/purchased financial assets (additions)	180	–	–	21	9	211
Other changes within a stage	–9	58	83	0	6	139
Transfers to						
Stage 1	6	–42	–23	–	–	–59
Stage 2	–22	103	–36	–	–	45
Stage 3	–19	–14	142	–	–	109
Financial instruments derecognized during the period (derecognitions)	–106	–39	–69	–8	–3	–226
Utilizations	–	–	–212	–1	–3	–216
Model or risk parameter changes	28	8	0	–	–	36
Balance of Dec. 31, 2022	**626**	**361**	**333**	**38**	**25**	**1,382**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance 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 of Dec. 31, 2021	**556**	**278**	**417**	**25**	**13**	**1,289**

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
Balance of Jan. 1, 2022	**41,312**	**2,785**	**562**	**1,742**	**34**	**46,435**
Exchange differences on translating foreign operations	–213	130	43	23	2	–15
Changes in basis of consolidation	333	–	–	57	–	390
Changes	3,217	162	–271	1,740	22	4,871
Modifications	1	0	0	0	–1	0
Transfers to						
Stage 1	695	–682	–13	–	–	0
Stage 2	–1,022	1,067	–45	–	–	0
Stage 3	–148	–86	234	–	–	0
Balance of Dec. 31, 2022	**44,177**	**3,375**	**510**	**3,563**	**57**	**51,682**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance 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	–	–	0
Stage 2	–1,062	1,073	–12	–	–	0
Stage 3	–191	–74	265	–	–	0
Balance of Dec. 31, 2021	**41,312**	**2,785**	**562**	**1,742**	**34**	**46,435**

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 2022, the gross carrying amount of assets measured at fair value through other comprehensive income fell by €26 million (previous year: rose by €4 million) to €245 million (previous year: €272 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, 2022	**1**	**0**	**–**	**–**	**1**
Exchange differences on translating foreign operations	0	0	0	–	0
Changes in basis of consolidation	–	–	–	–	–
Newly extended/purchased financial assets (additions)	0	–	–	–	0
Other changes within a stage	0	0	–	–	0
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	0	0	–	0
Financial instruments derecognized during the period (derecognitions)	0	–	–	–	0
Utilizations	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–
Balance as of Dec. 31, 2022	**1**	**0**	**0**	**–**	**1**

€ 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**

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

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance of Jan. 1, 2022	**1,319**	**4**	**–**	**–**	**1,323**
Foreign exchange differences	–29	0	0	–	–29
Changes in consolidated group	–	–	–	–	–
Changes	214	–	–	–	214
Modifications	–	–	–	–	–
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–3	3	–	–
Balance of Dec. 31, 2022	**1,503**	**2**	**2**	**–**	**1,508**

€ million	Stage 1	Stage 2	Stage 3	Stage 4	Total
Balance of Jan. 1, 2021	**1,301**	**3**	**–**	**–**	**1,304**
Foreign exchange differences	–11	0	–	–	–11
Changes in consolidated group	–60	–	–	–	–60
Changes	89	1	–	–	91
Modifications	–	–	–	–	–
Transfers to					
Stage 1	–	–	–	–	–
Stage 2	–	–	–	–	–
Stage 3	–	–	–	–	–
Balance of Dec. 31, 2021	**1,319**	**4**	**–**	**–**	**1,323**

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”:

	SIMPLIFIED APPROACH	
€ million	2022	2021
Balance as of Jan. 1	**943**	**1,120**
Exchange differences on translating foreign operations	–4	16
Changes in basis of consolidation	0	–
Newly extended/purchased financial assets (additions)	255	320
Other changes	272	–7
Financial instruments derecognized during the period (derecognitions)	–241	–422
Utilizations	–41	–74
Model or risk parameter changes	0	–11
Balance as of Dec. 31	**1,184**	**943**

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

€ million	SIMPLIFIED APPROACH 2022	2021
Balance as of Jan. 1	**41,843**	**41,923**
Exchange differences on translating foreign operations	–942	1,091
Changes in basis of consolidation	3	–
Newly extended/purchased financial assets (additions)	1,355	–1,168
Other changes	3	–2
Balance as of Dec. 31	**42,263**	**41,843**

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 adjustments agreed retrospectively that did not stem from customer credit quality (market-induced adjustments).

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 €126 million (previous year: €196 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net gain of €3 million (previous year: net expense of €2 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 €9 million (previous year: €28 million). As a consequence, the measurement of the provision for credit risks for these financial assets was switched from the lifetime expected credit loss to a twelve-month expected credit loss.

MAXIMUM CREDIT RISK

The following table shows the maximum credit risk, broken down by class, to which the VW FS AG Group was exposed as of the reporting date and to which the impairment model was applied.

€ million	Dec. 31, 2022	Dec. 31, 2021
Financial assets measured at fair value	245	271
Financial assets measured at amortized cost	50,300	45,146
Financial guarantees and credit commitments	1,507	1,322
Not allocated to any measurement category	41,079	40,901
Total	**93,131**	**87,641**

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, 2022	Dec. 31, 2021
Vehicles	76	44
Real estate	–	–
Other movable assets	–	–
Total	**76**	**44**

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 2022

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	43,755	2,381	–	44,069	4
Default risk rating class 2	667	995	–	1,149	10
Default risk rating class 3	–	–	510	607	44
Total	**44,422**	**3,375**	**510**	**45,826**	**57**

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
Total1	**41,584**	**2,785**	**562**	**43,585**	**34**

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

FISCAL YEAR 2022

€ million	Stage 1	Stage 2	Stage 3	Stage 4
Default risk rating class 1	1,503	2	–	–
Default risk rating class 2	0	0	–	–
Default risk rating class 3	–	–	2	–
Total	**1,503**	**2**	**2**	**–**

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**	**–**	**–**

66. 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, Korea) 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 and Funding and in the risk report within the disclosures on interest-rate risk and liquidity risk.

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, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Cash reserve	2	33	2	33	–	–	–	–	–	–	–	–
Loans to and receivables from banks	3,406	5,066	2,551	4,571	656	284	20	14	53	73	125	125
Total	**3,408**	**5,100**	**2,554**	**4,604**	**656**	**284**	**20**	**14**	**53**	**73**	**125**	**125**

The following table shows the maturity profile of undiscounted cash outflows from financial liabilities:

			REMAINING CONTR ACTUAL MATURITIES							
	Cash outflows		up to 3 months		3 months to 1 year		1 to 5 yers		more than 5 years	
€ million	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2021
Liabilities to banks	18,514	14,529	4,009	2,784	7,118	5,237	7,386	6,508	1	0
Liabilities to customers	23,441	17,953	5,337	5,167	7,319	6,047	9,031	6,483	1,754	255
Notes, commercial paper issued	67,547	70,210	6,285	6,367	13,986	14,283	42,181	44,319	5,095	5,241
Derivative financial instruments	9,183	6,568	3,438	2,517	1,641	1,745	3,401	2,049	702	256
Other liabilities	225	252	203	235	17	13	4	3	0	0
Subordinated capital	3,025	3,111	10	6	51	16	207	179	2,758	2,911
Irrevocable credit commitments	458	570	395	529	63	41	–	–	–	–
Total	**122,393**	**113,193**	**19,678**	**17,605**	**30,195**	**27,381**	**62,210**	**59,542**	**10,310**	**8,664**

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 €876 million (previous year: €753 million) are always assumed to be payable on demand.

67. Market Risk

For qualitative information, please refer to the disclosures on interest-rate risk in the management report risk 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, 2022	Dec. 31, 2021
Interest rate risk	476	153
Currency translation risk	58	156
Total market risk	**469**	**141**

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

68. 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. Interest rate risk is hedged using fair value hedges and cash flow hedges at micro level and fair value hedges at portfolio level (portfolio fair value hedges). Fixed-income assets and liabilities included in micro 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) on an individual or portfolio basis. 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.

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 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. The volume represented by the hedging instruments is generally the same as the volume represented by the designated hedged items. Hedge ineffectiveness in micro-hedge accounting largely results from differences between the mark-to-market (fair value) measurement of hedged items and that of hedging instruments. Individual yield curves are used when determining forward interest rates and prices and also when discounting future cash flows for hedged items and hedging instruments in order to obtain a measurement in line with the market. Other factors (e.g. in relation to counterparty risk) are only of minor significance as regards hedge ineffectiveness.

In portfolio hedge accounting, derivatives for interest rate hedging are designated in a quarterly cycle. Effectiveness is checked by maturity band as part of this process. The designation proportions for the derivatives are determined on the basis of the volumes of the hedged item portfolios in the maturity bands. Derivatives are only considered for a hedging period in portfolio hedge accounting if a high prospective and retrospective effectiveness level is determined using regression tests. Ineffectiveness in portfolio hedge accounting is usually the result of changes in the fair values of hedging instruments and the hedged fair values of hedged items that do not fully offset each other.

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	2022	2021
Interest rate risk hedging	–24	1
Currency risk hedging	–6	–11
Combined interest rate and currency risk hedging:	–1	0

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	2022	2021
Hedging interest rate risk		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	4	15
Recognized in profit or loss	0	0
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	–1	–
Hedging currency risk		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	–3	–1
Recognized in profit or loss	–4	0
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	2	5
Combined interest rate and currency risk hedging		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	20	–40
Recognized in profit or loss	0	0
Reclassification from the cash flow hedge reserve to profit or loss		
Due to early discontinuation of the hedging relationships	–	–
Due to realization of the hedged item	–40	39

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 2022

€ million	RESIDUAL MATURITY Up to 1 year	1 – 5 years	More than 5 years	TOTAL NOTIONAL AMOUNT Dec. 31, 2022
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	7,221	36,139	5,009	48,368
Currency risk hedging				
Currency forwards/cross-currency swaps DKK	687	81	–	768
Currency forwards/cross-currency swaps PLN	71	221	–	292
Currency forwards/cross-currency swaps GBP	410	–	–	410
Currency forwards/cross-currency swaps other currencies	525	85	–	610
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps NOK	689	424	–	1,113
Cross-currency interest rate swaps, other foreign currencies	30	386	–	416
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	9,363	25,147	16,197	50,707
Currency risk hedging				
Currency forwards/cross-currency swaps	1,440	3	–	1,443
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	468	813	–	1,281

FISCAL YEAR 2021

€ million	RESIDUAL MATURITY Up to 1 year	1 – 5 years	More than 5 years	TOTAL NOTIONAL AMOUNT 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

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 10.2360, GBP 0.8658, PLN 4.6550 and DKK 7.4389. 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 1.26%, DKK 1.30%, EUR –0.14% and BRL 11.73%. 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 10.2071, 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 previous year were as follows for the following currencies: NOK 0.19%, AUD 1.61%, JPY 0.42%, MXN 8.84% and BRL 10.14%.

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 2022

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	46,660	853	1,941	–1,459
Currency risk hedging				
Currency forwards/cross-currency swaps	1,564	14	9	15
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	174	1	0	0

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

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 2022

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	1,708	66	29	11
Currency risk hedging				
Currency forwards/cross-currency swaps	517	5	9	–5
Combined interest rate and currency risk hedging				
Cross-currency interest rate swaps	1,355	18	17	3

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

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 2022

€ 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 including Change in Fair Value from Portfolio Fair Value Hedges	14,764	–156	–156	–
Liabilities to banks	–	–	–	–
Liabilities to customers	637	–12	–18	–
Notes, commercial paper issued	22,503	–2,051	–2,250	–
Subordinated capital	–	–	–	–
Currency risk hedging				
Loans to and receivables from banks	–	–	–	–
Loans to and receivables from customers	795	–5	–1	–
Liabilities to banks	–	–	–	–
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	38	0	0	–
Notes, commercial paper issued	181	39	39	–
Subordinated capital	–	–	–	–

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	–	–	–	–

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

FISCAL YEAR 2022

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	Terminated cash flow hedges
Interest rate risk hedging			
Designated components	11	13	–
Deferred taxes	–	–5	–
Total interest rate risk	11	8	–
Currency risk hedging			
Designated components	–2	4	–
Non-designated components	–	–	–
Deferred taxes	–	–1	–
Total hedging currency risk	–2	3	–
Combined interest rate and currency risk hedging:			
Designated components	3	–29	–
Deferred taxes	–	9	–
Total combined interest rate and currency risk	3	–21	–

FISCAL YEAR 2021

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	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	–

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	Interest rate/ currency risk	Total
Balance at Jan. 1, 2022	**6**	**4**	**–1**	**9**
Gains or losses from effective hedging relationships	4	–3	20	20
Reclassifications due to realization of the hedged item	–1	2	–40	–38
Balance at Dec. 31, 2022	**8**	**3**	**–21**	**–9**

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Total
Balance at Jan. 1, 2021	**–10**	**0**	**0**	**–10**
Gains or losses from effective hedging relationships	15	–1	–40	–25
Reclassifications due to realization of the hedged item	–	5	39	44
Balance at Dec. 31, 2021	**6**	**4**	**–1**	**9**

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	2022	2021
Balance at Jan. 1	**–**	**0**
Gains and losses from non-designated forward elements and CCBS		
Hedged item is recognized at a point in time	–	0
Reclassification due to changes in whether the hedged item is expected to occur		
Hedged item is recognized at a point in time	–	0
Reclassifications due to realization of the hedged item		
Hedged item is recognized at a point in time	–	–
Balance at Dec. 31	**–**	**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 an expense of €7 million (previous year: income of €9 million) and the deferred taxes on reclassifications resulting from the recovery of the hedged item came to an income of €16 million (previous year: expense of €19 million).

Segment Reporting

69. Breakdown by Geographical Market

The delineation between segments follows that used for internal management and reporting purposes in the VW FS AG Group. The operating result is reported as the primary key performance indicator to the chief operating decision-makers. The information made available to management for management purposes is based on the same accounting policies as those used for external financial reporting.

Internal management applies a market-based geographical breakdown. Foreign branches of German subsidiaries are allocated to the markets in which they are based. The geographical markets of Germany, the United Kingdom, Sweden, China, Brazil and Mexico are the segments that are 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 is composed of companies in Germany, Austria and Denmark. 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, 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 2022:

	JAN. 1 – DEC. 31, 2022									
€ million	Germany	United Kingdom	Sweden	China	Brazil	Mexico[1]	Other segments	Segments total	Reconciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties	29	11	42	927	744	210	481	2,443	27	2,471
Income from leasing transactions with third parties	12,156	2,528	3,139	0	1	231	2,976	21,031	1	21,031
of which impairment losses in accordance with IAS 36	70	25	6	0	–	11	77	190	–	190
Intersegment income from leasing transactions	0	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–10,213	–1,150	–2,926	–1	0	–119	–2,220	–16,629	3	–16,626
of which impairment losses in accordance with IAS 36	–37	0	0	–	–	–4	–48	–90	–	–90
Net income from leasing transactions	1,943	1,378	213	0	1	111	757	4,403	3	4,406
Interest expense	–357	–403	–43	–329	–527	–88	–375	–2,122	–46	–2,167
Income from service contracts with third parties	1,410	211	–	–	7	1	787	2,415	–1	2,414
of which over-time income	153	–	–	–	–	–	440	592	0	593
of which at a point in time income	1,257	211	–	–	7	1	348	1,823	–1	1,822
Intersegment income from service contracts	–	–	–	–	–	–	–	–	–	–
Income from insurance business with third parties	–	–	–	–	–	–	–	–	307	307
Intersegment income from insurance business	–	–	–	–	–	–	–	–	–	–
Fee and commission income from third parties	128	2	5	–	52	46	271	504	58	562
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–14	–4	–1	–10	–3	–1	–35	–68	–16	–84
Operating result	**1,526**	**973**	**139**	**319**	**117**	**159**	**520**	**3,754**	**–547**	**3,207**

BREAKDOWN BY GEOGRAPHICAL MARKET 2021:

	JAN. 1 – DEC. 31, 2021									
€ million	Germany	United Kingdom	Sweden	China	Brazil	Mexico[1]	Other segments	Segments total	Recon- ciliation	Group
Interest income from lending transactions and marketable securities in respect of third parties[1]	16	6	33	972	397	195	442	2,060	34	2,095
Income from leasing transactions with third parties	10,882	2,529	3,178	0	1	200	2,532	19,323	–6	19,316
of which impairment losses in accordance with IAS 36	107	31	0	–	–	2	34	175	–	175
Intersegment income from leasing transactions	0	–	–	–	–	–	1	1	–1	–
Depreciation, impairment losses and other expenses from leasing transactions	–9,538	–1,415	–3,048	0	0	–113	–2,064	–16,180	–1	–16,180
of which impairment losses in accordance with IAS 36	–151	–7	–11	0	–	–	–67	–236	–	–236
Net income from leasing transactions	1,344	1,114	130	0	1	87	468	3,144	–8	3,136
Interest expense	–235	–226	–19	–344	–179	–66	–209	–1,279	38	–1,241
Income from service contracts with third parties	1,238	187	–	0	3	0	681	2,109	–2	2,107
of which over-time income	161	–	–	0	–	–	390	551	0	552
of which at a point in time income	1,077	187	–	–	3	0	291	1,558	–2	1,556
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	151	5	3	–	50	43	336	589	42	631
Intersegment fee and commission income	–	–	–	–	–	–	–	–	–	–
Other amortization, depreciation and impairment losses	–11	–4	–1	–9	–2	–1	–28	–57	–12	–69
Operating result	**888**	**934**	**82**	**241**	**121**	**139**	**489**	**2,895**	**92**	**2,987**

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

The breakdown of “Income from service contracts with third parties” into “of which over-time income” and “of which at a point in time income” in note 23 “Net income from service contracts” has been carried over to and continued in the tables above.

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	Germany	United Kingdom	Sweden	China	Brazil	Mexico
	JAN. 1 – DEC. 31, 2021					
Noncurrent Assets	22,378	3,215	1,504	82	301	49
Additions to lease assets classified as noncurrent assets.	9,257	1,241	705	2	–	14

€ million	Germany	United Kingdom	Sweden	China	Brazil	Mexico
	JAN. 1 – DEC. 31, 2021					
Noncurrent Assets	19,982	3,180	1,670	79	196	35
Additions to lease assets classified as noncurrent assets.	10,154	1,296	455	0	–	4

Investment recognized under other assets was of minor significance.

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

€ million	2022	2021
Segment revenue	**26,393**	**24,081**
Other companies	515	432
Consolidation	–430	–364
Group revenue	**26,478**	**24,149**
Segment profit or loss (operating result)	**3,754**	**2,895**
Other companies	–221	39
Contribution to operating profit by included companies	–41	–11
Consolidation	–286	64
Operating result	**3,207**	**2,987**
Share of profits and losses of equity-accounted joint ventures	89	78
Net gain or loss on miscellaneous financial assets	–259	–50
Other financial gains or losses	–34	–10
Profit before tax	**3,003**	**3,005**

Other Disclosures

70. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €1,928 million (previous year: €1,830 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, 2022	Dec. 31, 2021
Non-discounted lease payments	45,184	44,270
Non-guaranteed residual value	90	135
Unearned interest income	–3,404	–2,896
Loss allowance on lease receivables	–967	–876
Other	–	–
Net investment	**40,903**	**40,634**

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	2023	2024	2025	2026	2027	From 2028	Total
Finance lease payments	15,951	11,859	10,266	6,459	436	213	45,184

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

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

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	2022	2021
Lease income	6,543	5,798
Income from variable lease payments	–	–
Total	**6,543**	**5,798**

The impairment losses recognized as a result of the impairment test on lease assets amounted to €90 million (previous year: €236 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 €190 million (previous year: €175 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, 2022	**40,571**
Foreign exchange differences	–380
Changes in basis of consolidation	92
Additions	18,366
Reclassifications	–
Disposals	13,780
Balance as of Dec. 31, 2022	**44,869**
Depreciation and impairment losses as of Jan. 1, 2022	**8,505**
Foreign exchange differences	–74
Changes in basis of consolidation	36
Additions to cumulative depreciation	4,846
Additions to cumulative impairment losses	90
Reclassifications	–
Disposals	3,271
Reversal of impairment losses	190
Balance as of Dec. 31, 2022	**9,942**
Net carrying amount as of Dec. 31, 2022	**34,927**
Net carrying amount as of Jan. 1, 2022	**32,066**

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	4,126	2,644	1,363	587	146	6	8,871

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

€ million	Movable lease assets
Cost as of Jan. 1, 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 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	2022	2023	2024	2025	2026	From 2027	Total
Lease payments	3,888	2,442	1,239	481	71	7	8,128

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 €224 million (previous year: €206 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 €7 million (previous year: €5 million). Expenses for short-term leases were €6 million (previous year: €9 million). There were no variable lease expenses in the reporting year or in the previous 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, 2022	**224**	**4**	**228**
Foreign exchange differences	–3	0	–3
Changes in basis of consolidation	4	–	4
Additions	11	0	11
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–5	–	–5
Disposals	21	0	22
Balance as of Dec. 31, 2022	**208**	**4**	**212**
Depreciation and impairment losses as of Jan. 1, 2022	**62**	**3**	65
Foreign exchange differences	–1	0	–1
Changes in basis of consolidation	1	–	1
Additions to cumulative depreciation	22	1	23
Additions to cumulative impairment losses	–	–	–
Reclassifications	–	–	–
Assets held for sale (IFRS 5)	–4	–	–4
Disposals	5	0	6
Reversal of impairment losses	–	–	–
Balance as of Dec. 31, 2022	**75**	**3**	**78**
Net carrying amount as of Dec. 31, 2022	**133**	**1**	**134**
Net carrying amount as of Jan. 1, 2022	**162**	**1**	**163**

€ 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**

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 lease liabilities, the VW FS AG Group makes a best estimate as to whether an extension option will be exercised or a termination option will 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:

	REMAINING CONTRACTUAL MATURITIES			
€ million	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2022	22	103	64	189
Lease liabilities as of Dec. 31, 2021	28	120	73	221

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €65 million (previous year: €72 million) in the reporting year. In the case of assets leased as part of buyback transactions, the total cash outflows were reported in an amount equal 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	2022	2021
Future cash outflows to which the lessee is potentially exposed		
Residual value guarantees	0	0
Extension options	30	26
Termination options	–	–
Obligations under leases not yet commenced (contractual obligations)	22	0
Total	**52**	**26**

71. Cash Flow Statement

The 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.

			NONCASH TRANSACTIONS			
€ million	Balance as of Jan. 1, 2022	Cash changes	Exchange rate changes	Changes in basis of consolidation	Measurement changes	Balance as of Dec. 31,2022
Subordinated capital	2,971	–79	17	–	–	2,909

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

72. Off-Balance-Sheet Liabilities

CONTINGENT LIABILITIES

The contingent liabilities of €373 million (previous year: €312 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 2023	DUE 2024–2027	DUE From 2028	TOTAL Dec. 31, 2022
Purchase commitments in respect of				
Property and equipment	5	–	–	5
Intangible assets	1	–	–	1
Investment property	1	–	–	1
Obligations from				
Irrevocable credit commitments to customers	458	–	–	458
Long-term leasing and rental contracts	6	4	0	10
Miscellaneous financial obligations	48	1	–	49

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

€ million	DUE 2022	DUE 2023–2026	DUE From 2027	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
Long-term leasing and rental contracts	7	2	0	8
Miscellaneous financial obligations	78	0	–	78

73. Average Number of Employees During the Reporting Period

	2022	2021
Salaried employees	10,993	10,820
Vocational trainees	180	160
Sum	11,173	10,980
Employees with the Volkswagen Pon Financial Services B.V., Amersfoort, Volkswagen D'Ieteren Finance S.A., Brussels, Volkswagen Møller Bilfinans A/S, Oslo, joint ventures	787	760
Total	**11,960**	**11,740**

74. Benefits Based on Performance Shares (Share-Based Payment)

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 allocated benefits on the basis of performance shares for the first time at the beginning of 2020. The function of the performance share plan for top management and other beneficiaries is largely identical to the performance share plan that was granted to the members of the Board of Management. The performance period for beneficiaries below Board of Management level is also 3 years. 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. 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, 2022	Dec. 31, 2021
Total expense for the period (Jan. 1 – Dec. 31)	4	3
Total carrying amount of the obligation	6	3
Intrinsic value of the liabilities	0	2
Fair value at grant date	3	3
Number of performance shares granted	52,797	48,535
of which: number granted in the reporting period	18,663	18,977

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 €28 million (previous year: €25 million). As of December 31, 2022, the total carrying amount of the obligation, which equated to the intrinsic value of the liabilities, amounted to €35 million (previous year: €36 million). A total expense of €37 million (previous year: €37 million) was recognized in the reporting period for this commitment.

75. 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 9, 2023, the State of Lower Saxony and Hannoversche Beteiligungsgesellschaft mbH, Hanover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2022. 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 2022

€ million	Supervisory Board	Board of Management	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities	Non consolidated subsidiaries	Joint ventures	Associates
Loans and Receivables	–	–	4,925	0	7,174	236	7,254	0
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–	–	–
Obligations	–	–	6,435	–	20,019	545	113	0
Interest income	–	–	13	–	110	5	87	–
Interest expense	–	–	–90	–	–303	–18	–	–
Goods and services provided	–	–	885	0	3,739	29	445	1
Goods and services received	–	–	10,746	–	7,703	50	500	0

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	Associates
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

The “Other related parties in the group of consolidated entities” column includes, in addition to sister entities, joint ventures and associates that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to VW FS AG. The relationships with the Supervisory Board and the Board of Management comprise relationships with the relevant groups of people at VW FS AG and the Group parent company Volkswagen AG. As in the prior year, relationships with pension plans and the State of Lower Saxony were of lesser significance in the reporting year.

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 €143 million (previous year: €270 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 conducts 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 €138 million (previous year: €142 million) were granted to related parties as part of dealer financing.

BOARD OF MANAGEMENT REMUNERATION IN ACCORDANCE WITH IAS 24

The following table shows the remuneration of the members of the Board of Management in accordance with IAS 24.17.

€ million	2022	2021
Short-term benefits	6	5
Benefits based on performance shares	–	1
Termination benefits	–	–
Post-employment benefits	–3	–3
Total benefits	**3**	**3**

The post-employment benefits relate to additions to pension provisions for current members of the Board of Management.

BOARD OF MANAGEMENT REMUNERATION

In the reporting year, the total remuneration of the Board of Management in accordance with section 314(1) no. 6 of the HGB amounted to €6 million (previous year: €5 million); 12,285 performance shares were granted in the reporting period (previous year: 10,824), 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 €0.1 million as of December 31, 2022 (previous year: €0.4 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 €1 million (previous year: €0.8 million). The provisions recognized for this group of people to cover current pensions and pension entitlements amounted to €21 million (previous year: €20 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. Various members of the Supervisory Board are also members of the supervisory boards of other Volkswagen AG subsidiaries. The amounts received for these functions are 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 Volkswagen Financial Services 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 corresponds to the remuneration for equivalent employees with career development typical for the organization. Appropriate remuneration for the representative of the senior executives on the Supervisory Board corresponds to the remuneration for a corresponding function or role within the company.

76. 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 Volkswagen Financial Services AG
China region, South America region (as of July 1, 2022)

LARS HENNER SANTELMANN (UNTIL JANUARY 31, 2022)
Chairman of the Board of Management
Corporate Management of Volkswagen Financial Services AG
China region

ANTHONY BANDMANN
Sales and Marketing
Europe (inclusive Germany) region, International and
Mexiko (as of July 1, 2022) regions

DR. ALEXANDRA BAUM-CEISIG
Human Resources and Organization
International region (until June 30, 2022)

DR. MARIO DABERKOW
Information Technology and Processes
South America region (until June 30, 2022)
Operations (as of July 1, 2022)

FRANK FIEDLER
Finance, Purchase and Risk Management (as of July 1, 2022)

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

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

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

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

GARNET ALPS (SINCE SEPTEMBER 01,2022)
Principal Representative of IG Metall
Braunschweig

DR. CHRISTIAN DAHLHEIM (UNTIL JANUARY 31, 2022)
Head of Group Sales of Volkswagen AG
(until 31.01.2022)

DIRK HILGENBERG (SINCE FEBRUARY 10,2022)
Chairman of the Board
of Management of CARIAD SE

MICHAEL GROSCHE (UNTIL APRIL 30,2022)
Head of Remarketing
of Volkswagen Financial Services AG

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

LIESBETH RIGTER (SINCE NOVEMBER 15, 2022)
Strategic Business and Leadership Consultant
at Soul International Cooparative U.A.

ALEXANDER SEITZ (UNTIL NOVEMBER 10, 2022)
Member of the Volkswagen Brand Board
of Management, Controlling and Accounting

HOLGER SIEDENTOPF (SINCE MAY 17, 2022)
Head of Data & Analytics, Group Data Officer
of Volkswagen Financial Services AG

EVA STASSEK (UNTIL AUGUST 31, 2022)
Principal Representative of IG Metall
Braunschweig

HILDEGARD WORTMANN
Member of the Board of Management
of AUDI AG Sales and Marketing

The composition of the committees of the Supervisory Board of Volkswagen Financial Services AG was as follows as of the reporting date, December 31, 2022:

MEMBERS OF THE AUDIT COMITTEE
Dr. Hans Peter Schützinger (Chairman)
Alexander Seitz (Deputy Chairman)
Andreas Krauß
Petra Reinheimer

MEMBERS OF THE CREDIT COMITTEE
Dr. Arno Antlitz (Chairman)
Liesbeth Rigter
Holger Siedentopf

77. Letter of Comfort of 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., Salvador, Brazil; Volkswagen Finance (China) Co., Ltd., Beijing, China; Volkswagen Doğuş Finansman A.Ş., Istanbul, Turkey; VDF Filo Kiralama A.Ş., Istanbul, Turkey; VDF Faktoring A.Ş., Istanbul, Turkey.

78. Events After the Balance Sheet Date

Endorsing the similar decision made by the Board of Management of Volkswagen Financial Services AG in July 2022, the Board of Management of Volkswagen AG resolved in February 2023 to sell the new financing business of MAN Financial Services to TRATON Financial Services AB, against payment of a sale price, in selected markets (essentially those with no joint venture investments). The differences in the timing of the transfer of the new financing business in the various markets were factored in when setting the sale price. The conclusion of the transaction is conditional on approvals from relevant bodies that have yet to be obtained.

There were no other significant events in the period between December 31, 2022 and February 14, 2023.

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, 2022.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of company	Currency	Dec. 31, 2022	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	35,814	12,531	1)	2022
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR	–	100.00	–	100.00	2,763	–	1)	2022
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR	–	100.00	–	100.00	26	–	1)	2022
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,829	–	1)	2022
Volkswagen Leasing GmbH, Braunschweig	EUR	–	100.00	–	100.00	269,912	–	1)	2022
Volkswagen Versicherung AG, Braunschweig	EUR	–	100.00	–	100.00	97,055	–	1)	2022
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR	–	100.00	–	100.00	54,369	–	1)	2022
2. International									
Autofinance S.A., Luxembourg	SEK	11.0787	–	–	–	350	–	11)	2021
Banco Volkswagen S.A., São Paulo	BRL	5.6444	–	100.00	100.00	2,824,219	322,566		2021
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., São Paulo	BRL	5.6444	–	100.00	100.00	371,132	70,998		2021
Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	5.6444	–	–	–	1,136,966	13,964	3) 11)	2021
Driver China Eleven Auto Loan Securitization Trust, Beijing	CNY	7.3661	–	–	–	7,451,677	323,440	11)	2021
Driver China Fourteen Auto Loan Securitization Trust, Beijing	CNY	7.3661	–	–	–	–	–	3) 4) 11)	2022
Driver China Ten Auto Loan Securitization Trust, Beijing	CNY	7.3661	–	–	–	2,339,646	181,431	11)	2021
Driver China Thirteen Auto Loan Securitization Trust, Beijing	CNY	7.3661	–	–	–	7,955,905	19,999	3) 11)	2021
Driver China Twelve Auto Loan Securitization Trust, Beijing	CNY	7.3661	–	–	–	4,631,723	53,764	3) 11)	2021
Driver UK Master S.A., Luxembourg	GBP	0.8868	–	–	–	29	–	2) 11)	2021
Driver UK Multi-Compartment S.A., Luxembourg	GBP	0.8868	–	–	–	29	–	2) 11)	2021
Euro-Leasing A/S, Padborg	DKK	7.4369	–	100.00	100.00	15,440	6,063		2021
MAN Financial Services España S.L., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	26,715	2,981		2021
MAN Financial Services GesmbH, Eugendorf	EUR	–	–	100.00	100.00	32,645	3,372		2021
MAN Financial Services Poland Sp. z o.o., Nadarzyn	PLN	4.6860	–	100.00	100.00	107,412	24,872	9) 10)	2021

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
MAN Location & Services S.A.S., Evry	EUR	–	100.00	–	100.00	5,924	1,683		2021
OOO Volkswagen Bank RUS, Moscow	RUB	76.2868	99.00	–	99.00	18,284,055	999,741	9)	2021
OOO Volkswagen Financial Services RUS, Moscow	RUB	76.2868	99.99	0.01	100.00	7,880,926	778,305		2021
OOO Volkswagen Group Finanz, Moscow	RUB	76.2868	99.99	0.01	100.00	4,705,335	613,867		2021
ŠkoFIN s.r.o., Prague	CZK	24.1450	–	100.00	100.00	5,796,000	925,000		2021
Trucknology S.A., Luxembourg	EUR	–	–	–	–	31	30	11)	2021
VCL Master Residual Value S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2021
VCL Master S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2021
VCL Multi-Compartment S.A., Luxembourg	EUR	–	–	–	–	31	–	11)	2021
Volkswagen Bank S.A., Institución de Banca Múltiple, Puebla	MXN	20.8879	100.00	–	100.00	2,448,000	219,000		2021
Volkswagen Corretora de Seguros Ltda., São Paulo	BRL	5.6444	–	100.00	100.00	71,746	35,129		2021
Volkswagen Finance (China) Co., Ltd., Beijing	CNY	7.3661	100.00	–	100.00	15,145,594	980,626		2021
Volkswagen Finance Belgium S.A., Bruxelles	EUR	–	–	100.00	100.00	9,666	4,206		2021
Volkswagen Finance Overseas B.V., Amsterdam	EUR	–	100.00	–	100.00	3,110,247	1,329,490		2021
Volkswagen Finance Pvt. Ltd., Mumbai	INR	88.1640	91.00	9.00	100.00	9,153,646	–4,236,252	2)	2022
Volkswagen Financial Leasing (Tianjin) Co., Ltd., Tianjin	CNY	7.3661	–	100.00	100.00	964,574	21,035		2021
Volkswagen Financial Services (UK) Ltd., Milton Keynes	GBP	0.8868	–	100.00	100.00	2,107,835	642,543		2021
Volkswagen Financial Services Australia Pty. Ltd., Chullora	AUD	1.5706	100.00	–	100.00	367,462	88,530	7)	2021
Volkswagen Financial Services France S.A., Villers-Cotterêts	EUR	–	–	100.00	100.00	196,695	73		2021
Volkswagen Financial Services Ireland Ltd., Dublin	EUR	–	–	100.00	100.00	–77,872	15,531		2021
Volkswagen Financial Services Japan Ltd., Tokyo	JPY	140.6650	–	100.00	100.00	21,916,970	2,720,258		2021
Volkswagen Financial Services Korea Co., Ltd., Seoul	KRW	1338.2950	100.00	–	100.00	343,092,000	21,977,000		2021
Volkswagen Financial Services N.V., Amsterdam	EUR	–	–	100.00	100.00	1,126,134	9,729		2021
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.6860	–	100.00	100.00	1,909,253	318,363	9)	2021
Volkswagen Financial Services S.p.A., Milan	EUR	–	100.00	–	100.00	124,498	25,876		2021
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	32.7048	–	100.00	100.00	1,312,282	137,548		2021
Volkswagen Finans Sverige AB, Södertälje	SEK	11.0787	–	100.00	100.00	934,260	360,530		2021
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR	–	–	100.00	100.00	36,564	9,618		2021
Volkswagen Leasing S.A. de C.V., Puebla	MXN	20.8879	100.00	–	100.00	12,765,736	2,407,450		2021
Volkswagen Mobility Services S.p.A., Bolzano	EUR	–	–	100.00	100.00	11,916	–4,502		2021
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	7.3661	100.00	–	100.00	1,252,853	–55,030		2021
Volkswagen Participações Ltda., São Paulo	BRL	5.6444	–	100.00	100.00	3,223,997	379,291		2021
Volkswagen Renting, S.A., Alcobendas (Madrid)	EUR	–	–	100.00	100.00	56,932	41,261		2021
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR	–	–	100.00	100.00	624	857		2021
Volkswagen Serviços Ltda., São Paulo	BRL	5.6444	–	100.00	100.00	45,730	7,805		2021
B. Unconsolidated companies									
1. Germany									
carmobility GmbH, Braunschweig	EUR	–	100.00	–	100.00	250	–	1)	2022
LOGPAY Financial Services GmbH, Eschborn	EUR	–	100.00	–	100.00	12,674	–	1)	2022

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/ LOSS IN THOUSANDS local currency	Footnote	Year
LogPay Mobility Services GmbH, Eschborn	EUR	–	–	100.00	100.00	20	–	1)	2021
LOGPAY Transport Services GmbH, Eschborn	EUR	–	–	100.00	100.00	3,312	–	1) 10)	2021
PayByPhone Deutschland GmbH, Erlangen	EUR	–	–	100.00	100.00	1,330	–8,016		2021
Rent-X GmbH, Braunschweig	EUR	–	100.00	–	100.00	57,025	–	1)	2022
		–	–	–	–	–	–		
2. International		–	–	–	–	–	–		
Adaptis Solutions Ltd., Hatfield	GBP	0.8868	–	100.00	100.00	172	–102		2021
Connect Cashless Parking Ltd., Hatfield	GBP	0.8868	–	100.00	100.00	–339	–220	2)	2021
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o., Mladá Boleslav	CZK	24.1450	–	100.00	100.00	39,141	33,641		2021
Kuwy Technology Service Pvt. Ltd., Chennai	INR	88.1640	–	67.73	67.73	–158,600	–293,600	2)	2022
LM Comércio de Veículos Seminovos Ltda., Salvador	BRL	5.6444	–	100.00	100.00	–	–	3) 4) 8)	2022
LM Transportes Interestaduais Serviços e Comércio S.A., Salvador	BRL	5.6444	–	60.00	60.00	–	–	5) 7) 10)	2022
LM Transportes Serviços e Comércio Ltda, Salvador	BRL	5.6444	–	100.00	100.00	–	–	8)	2022
LOGPAY Charge & Fuel Slovakia s.r.o., Bratislava	EUR	–	–	100.00	100.00	–	–13		2021
LOGPAY Consorzio, Bolzano	EUR	–	–	68.70	68.70	7	7		2021
LogPay Fuel Czechia s.r.o., Prague	CZK	24.1450	–	100.00	100.00	–802	–718		2021
LOGPAY Fuel Italia S.r.l., Bolzano	EUR	–	–	100.00	100.00	158	16		2021
LogPay Fuel Spain S.L., Barcelona	EUR	–	–	100.00	100.00	632	13		2021
PayByPhone Italia S.R.L., Verona	EUR	–	–	100.00	100.00	326	–890		2021
PayByPhone Ltd., Hatfield	GBP	0.8868	–	100.00	100.00	3,605	172		2021
PayByPhone S.A.S., Boulogne-Billancourt	EUR	–	–	100.00	100.00	–2,726	–160		2021
PayByPhone Suisse AG, Düdingen	CHF	0.9852	–	100.00	100.00	–437	–851		2021
PayByPhone Technologies Inc., Vancouver, BC	CAD	1.4440	–	100.00	100.00	66,459	–40,898		2021
PayByPhone US Inc., Wilmington, DE	USD	1.0677	–	100.00	100.00	–	–	6)	2021
Simple Way Locações e Serviços S.A., Curitiba	BRL	5.6444	–	100.00	100.00	1,101,110	38,124		2021
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR	–	–	70.00	70.00	1,712	476		2021
VAREC Ltd., Tokyo	JPY	140.6650	–	100.00	100.00	807,208	102,726		2021
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	5.6444	–	100.00	100.00	42,802	–4,139		2021
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	188.7587	–	96.00	96.00	443,522	19,883		2021
Volkswagen Financial Services Hellas A.E., Athens	EUR	–	100.00	–	100.00	2,156	79		2021
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	188.7587	99.99	0.01	100.00	2,483,021	–11,050		2021
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	0.9852	–	100.00	100.00	10,557	1,631		2021
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	20.8879	–	100.00	100.00	–49,181	–5,910		2021
Volkswagen Insurance Company DAC, Dublin	EUR	–	100.00	–	100.00	44,701	6,582		2021
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8868	–	100.00	100.00	2,228	489		2021
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1338.2950	–	100.00	100.00	3,420,229	1,367,003		2021
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	32.7048	–	100.00	100.00	35,085	28,835		2021
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	7.3661	–	100.00	100.00	–15,995	–19,262		2021
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	7.3661	–	100.00	100.00	–3,431	–1,285		2021
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	7.3661	–	100.00	100.00	–36,990	–27,613		2021
Volkswagen Leasing (Suzhou) Co., Ltd., Suzhou	CNY	7.3661	–	100.00	100.00	–1,914	–468		2021

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Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	7.3661	–	100.00	100.00	–380	–739		2021
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.3661	–	100.00	100.00	13,008	5,457		2021
Volkswagen Reinsurance Company DAC, Dublin	EUR	–	100.00	–	100.00	7,638	977		2021
Volkswagen Service Sverige AB, Södertälje	SEK	11.0787	–	100.00	100.00	40,970	–		2021
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	20.8879	–	100.00	100.00	26,040	4,399		2021
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.6860	–	100.00	100.00	59,456	20,555		2021
VTXRM - Software Factory Lda., Porto Salvo	EUR	–	–	90.00	90.00	1,859	534		2021
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR	–	36.69	–	36.69	373,218	–9,025		2021
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR	–	51.00	–	51.00	172,799	29,450		2021
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR	–	49.00	–	49.00	116,446	13,355		2021
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0795	50.00	–	50.00	203,624	43,225	9)	2021
VDF Servis ve Ticaret A.S., Istanbul	TRY	19.9852	51.00	–	51.00	937,880	334,309	7)	2021
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR	–	–	50.00	50.00	139,618	5,398		2021
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0795	51.00	–	51.00	–1,367,448	–339,778		2021
Volkswagen Møller Bilfinans A/S, Oslo	NOK	10.5047	–	51.00	51.00	3,765,372	229,189	9)	2021
Volkswagen Pon Financial Services B.V., Amersfoort	EUR	–	–	60.00	60.00	211,141	62,483	7) 10)	2021
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR	–	73.65	–	73.65	8,603	–8,560		2021
		–	–	–	–	–	–		
2. International		–	–	–	–	–	–		
Collect Car B.V., Rotterdam	EUR	–	–	60.00	60.00	5,664	–1,801		2021
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0795	51.00	–	51.00	23,782	21,147		2021
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	915.6600	50.00	–	50.00	8,518,025	1,457,073		2021
Shuttel B.V., Leusden	EUR	–	49.00	–	49.00	2,517	–545		2021
Staymo S.A.S., Boulogne-Billancourt	EUR	–	–	51.00	51.00	–	–	3) 4)	2022
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	188.7587	–	49.00	49.00	4,108,620	–14,929		2021
Volkswagen Losch Financial Services S.A., Howald	EUR	–	60.00	–	60.00	5,318	1,442		2021
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4369	–	51.00	51.00	476,248	–55,455		2021

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
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	14,682	1,170		2021
PosernConnect GmbH, Sittensen	EUR	–	–	49.00	49.00	751	246		2021
Verimi GmbH, Berlin	EUR	–	44.96	–	44.96	9,640	–16,018		2021
2. International									
J.P. Morgan Mobility Payments Solutions S.A., Strassen	EUR	–	25.10	–	25.10	11,469	–8,323		2021
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR	–	–	15.00	15.00	5,137	4,659		2021
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR	–	8.70	–	8.70	1,026	61		2021
2. International									

1) Profit-and-loss transfer agreement
2) Different fiscal year
3) Short fiscal year
4) Newly established company/spin-off
5) Newly acquired company
6) Started trading in 2022
7) Consolidated financial statements
8) Figures are included in the consolidated financial statement of the parent company
9) Figures in accordance with IFRSs
10) Matter within the meaning of section 1 of the UmwG
11) Structured company in accordance with IFRS 10 and IFRS 12

Braunschweig, February 14, 2023

Volkswagen Financial Services AG
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 14, 2023

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Independent auditor's report

To Volkswagen Financial Services Aktiengesellschaft, Braunschweig

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

OPINIONS

We have audited the consolidated financial statements of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the fiscal year from 1 January 2022 to 31 December 2022, and the consolidated balance sheet as at 31 December 2022, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2022 to 31 December 2022, and notes to the consolidated financial statements, including a summary of significant accounting policies. 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 2022 to 31 December 2022. 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) or the "Separate nonfinancial group report" section of the group management report.

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 2022 and of its financial performance for the fiscal year from 1 January 2022 to 31 December 2022, 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 "Corporate governance declaration" in accordance with Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB (disclosures on the quota for women on executive boards) included in the Human Resources Report of the group management report or the "Separate nonfinancial group report" section of the group management report.

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 2022 to 31 December 2022. 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 matter:

Determination of the expected residual values of assets leased under operating leases during impairment testing

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

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

As a result of the effects of the persistent shortages of intermediates and commodities on vehicle supply, which were additionally amplified by the effects of the Russia-Ukraine conflict, as well as the effects of inflation on vehicle demand, the estimation uncertainty in relation to the determination of the expected residual values remained heightened in the fiscal year. In this light, the determination of the expected residual values of assets leased under operating leases during impairment testing was a key audit matter.

AUDITOR'S RESPONSE

During our audit, we analyzed the process implemented by the Company for determining and monitoring the residual values to identify any risks of material misstatement and obtained an understanding of the process steps and controls. On this basis, we tested the operating effectiveness of the implemented controls over the determination and monitoring of the expected residual values. To assess the forecasting models used to determine the residual values, we assessed the validation plans on the basis of the respective model designs to determine whether the validation procedures described in the plans allow an assessment of the models' forecast quality. We investigated whether the validation procedures 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 assets leased under operating leases during impairment testing.

Reference to related disclosures

The Company's disclosures on the accounting policies applied for lease assets are contained in note "15. Leases" and note "70. Leases" and the disclosures on the determination of the residual values of lease assets in note "20. Estimates and assumptions by management" of the notes to the consolidated financial statements.

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" in accordance with Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB (disclosures on the quota for women on executive boards) included in the Human Resources Report of the combined management report as well as the "Separate nonfinancial group report" section of the group management report and the "Responsibility Statement" section to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the consolidated financial statements, not the group management report disclosures whose content is audited and not our auditor's report thereon. In addition, the other information comprises the Report of the Supervisory Board, which we expect to be provided with after issuing our auditor's report.

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 (i.e., fraudulent financial reporting and misappropriation of assets) 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 the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

> Obtain an understanding of internal control relevant to the audit of the 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-2022-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the 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 2022 to 31 December 2022 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) (06.2022)). 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 auditor by the Annual General Meeting on 1 March 2022 and were engaged by the Supervisory Board on 4 October 2022. We have been the auditor of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, without interruption since fiscal year 2020.

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

- Review of the reporting packages of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, and of Volkswagen Leasing GmbH, Braunschweig, for the reporting dates 31 March, 30 June and 30 September 2022 in accordance with the instructions of the group auditor
- Audit of section 1 "Calculation of own funds" of the "Reporting form for the calculation of own funds requirements in accordance with Sec. 15 ZAG ["Zahlungsdiensteaufsichtsgesetz": German Payment Services Oversight Act]" for Volkswagen Leasing GmbH, Braunschweig (annex to Sec. 12 (1) of the ZIEV ["ZAG-Instituts-Eigenmittelverordnung": German Ordinance Governing the Capital Adequacy and Required Security in the Event of Institutions Being Held Liable Under the ZAG]) as of the reporting date 31 December 2021
- Agreed-upon procedures for VW Leasing GmbH, Braunschweig, relating to the investor reports of VCL Master S.A., VCL Master Residual Value S.A., VCL Multi-Compartment S.A. and Trucknology S.A. as of 31 December 2021.
- Issue of comfort letters in accordance with IDW AuS 910 in connection with the updating of the debt issuance programs of Volkswagen Financial Services Aktiengesellschaft, Braunschweig
- Reasonable assurance engagement relating to the system designed to ensure compliance with the requirements under Sec. 32 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, for the period from 1 January 2021 to 31 December 2021
- Project-based review of implementation measures in the Change Management project and the IT Regulatory Review project
- Reasonable assurance engagement relating to the description of internal controls at the service organization of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, regarding the suitability of the criteria applied and the derived control objectives and the design and operating effectiveness of the controls to achieve the control objectives stated in the description in accordance with IDW AsS 951 (Revised) Type 2.

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 *Unternehmensregister* [German Company Register] – 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 Matthias Koch.

Eschborn/Frankfurt am Main, 17 February 2023
Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Koch	Hölscher
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 90%. Decisions were made on six matters by means of a written resolution circulated to each of the members for approval; the Chair of the Supervisory Board also made eight urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

The Supervisory Board of Volkswagen Financial Services AG established an Audit Committee on January 1, 2022. The Audit Committee held two regular meetings in the reporting year.

In this regard, the Audit Committee held detailed discussions in the reporting period, addressing the annual financial statements, the supervision of the internal control, risk management and internal audit systems as well as the monitoring of the financial reporting and auditing process.

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 25, 2022, 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 2021 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2022.

The Board of Management also reported to the Supervisory Board on the impacts of current developments in Ukraine and Russia on the business of Volkswagen Financial Services AG. Under a further agenda item, the Supervisory Board received information on the main topics for 2022 in the various regions and the implementation of the funding strategy.

At the meetings on July 15, 2022 and November 28, 2022, the Board of Management presented the Supervisory Board with comprehensive reports about the economic and financial position of the Company and the Volkswagen Financial Services subgroup.

At the meeting of the Supervisory Board held on July 15, 2022, the Board of Management reported in detail on the Company's latest position. Particular attention was paid to Volkswagen Financial Services AG's new strategy, "MOBILITY 2030", and the mobility services to be offered in this connection through the establishment of a new central mobility platform. At this meeting, the Board of Management also informed the Supervisory Board about the objectives in respect of sustainability and diversity.

At the meetings on February 25, 2022 and November 28, 2022, the Audit Committee reported to the Supervisory Board on the content of its committee meetings. At the meeting on November 28, 2022, the Audit Committee informed the Supervisory Board about the Chief Compliance Officer’s report and the actions taken at the international subsidiaries in this connection in the area of compliance and integrity and also about the implementation status of the Together4Integrity program at Volkswagen Financial Services AG. The Audit Committee also presented the report of the Head of Internal Audit and the key areas of activity in the reporting year for the Supervisory Board. Various reasons for audits, such as submissions via the Whistleblower System, were also discussed in this context. In addition, the Board of Management provided an IT status report during this meeting. 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, 2022, 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, 2022 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 24, 2023, 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 loss reported by Volkswagen Financial Services AG in accordance with the HGB for fiscal year 2022 was absorbed by Volkswagen AG.

The Supervisory Board would like to take this opportunity to express its gratitude and appreciation for the work of the members of the Board of Management, the Works Council, the managerial staff and all employees of Volkswagen Financial Services AG and its affiliated companies. The high level of commitment from all of you has helped to sustain the ongoing growth of Volkswagen Financial Services AG.

Braunschweig, February 24, 2023

Dr. Arno Antlitz
Chair of the Supervisory Board

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