VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT

IFRS

2023

Key Figures

VOLKSWAGEN LEASING GMBH GROUP

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

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

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

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

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

COMBINED MANAGEMENT REPORT

Fundamental Information about the Group

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

BUSINESS MODEL

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

ORGANIZATION OF THE VOLKSWAGEN LEASING GMBH GROUP

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MOBILITY2030 STRATEGY

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

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

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

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

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

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

SIGNIFICANT CHANGES IN THE VOLKSWAGEN LEASING GMBH GROUP

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

INTERNAL MANAGEMENT

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

KEY PERFORMANCE INDICATORS

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

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

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

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

Report on Economic Position

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

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

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

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

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

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

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

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

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

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

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

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

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

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

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

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

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

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

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

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

Germany
At 2.8 million units, the total number of new passenger car registrations in Germany in fiscal year 2023 was noticeably higher than the weak prior-year level (+7.3%). Shortages and disruption in global supply chains eased, improving vehicle

availability and allowing the backlog of orders from the previous year to be cleared. The number of passenger cars produced rose by 18.3% to 4.1 million vehicles and exports of passenger cars grew by 17.5% to 3.1 million units.

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

FINANCIAL PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

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

NET ASSETS AND FINANCIAL POSITION

Lending business

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

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

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

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

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

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

Deposit business and borrowings

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

Equity

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

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2023

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

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

KEY FIGURES BY SEGMENT FOR FISCAL YEAR 2022

in thousands	Retail	Fleet	Segments total	Other	Group
Current contracts	**2,259**	**3,067**	**5,326**	**–**	**5,326**
Leasing business	915	982	1,897	–	1,897
Service	1,343	2,085	3,428	–	3,428
New contracts	**703**	**911**	**1,613**	**–**	**1,613**
Leasing business	302	336	637	–	637
Service	401	575	976	–	976
€ million					
Loans to and receivables from customers attributable to					
Dealer financing	–	12	12	–	12
Leasing business	9,134	9,798	18,932	–	18,932
Lease assets	12,430	13,334	25,764	–	25,764
Investment[1]	4,777	5,313	10,090	–	10,090
Operating profit	296	775	1.070	197	1,268

1 Corresponds to additions to lease assets classified as noncurrent assets

Liquidity analysis

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

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

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

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

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

FUNDING

Strategic principles

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

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

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

Implementation

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

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

The following tables show the transaction details:

CAPITAL MARKET

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

ABS

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

Volkswagen Leasing GmbH

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2023

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

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

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

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

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

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

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

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

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

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

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

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

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

NUMBER OF EMPLOYEES

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

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

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

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

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

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

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

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

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

Report on Opportunities and Risks

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

OPPORTUNITIES AND RISKS

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

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

Macroeconomic opportunities and risks

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

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

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

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

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

Strategic opportunities and risks

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

Opportunities from credit risk

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

Opportunities from residual value risk

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

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

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

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

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

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

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

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

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

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

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

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

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

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

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

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

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

RISK CULTURE, RISK STRATEGY AND RISK MANAGEMENT

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

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

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

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

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

ESG RISKS

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

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

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

RISK INVENTORY

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

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

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

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

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

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

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

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

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

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

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

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

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

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

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

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

RISK CONCENTRATIONS

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

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

> Just a few borrowers/contracts account for a large proportion of the loans (counterparty concentrations)

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

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

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

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

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

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

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

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

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

RISK REPORTING

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

MATERIAL RISK CATEGORIES AND RISK REPORTING

OVERVIEW OF RISK CATEGORIES

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

FINANCIAL RISKS

Counterparty default risk

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

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

Credit risk

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

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

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

Risk identification and assessment

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

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

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

Rating systems in risk-relevant business

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

Scoring systems in non-risk-relevant business

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

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

System supervision and review

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

Collateral

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

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

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

Risk monitoring and control

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

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

Trends

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

Counterparty risk

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

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

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

Risk identification and assessment

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

Risk monitoring and control

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

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

Issuer risk

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

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

Risk identification and assessment

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

Risk monitoring and control

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

Residual value risk

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

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

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

Risk identification and assessment

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

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

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

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

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

Risk monitoring and control

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

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

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

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

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

Trends

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

Market risk

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

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

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

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

Interest rate risk

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

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

Risk identification and assessment

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

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

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

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

Risk monitoring and control

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

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

Trends

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

Liquidity risk

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

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

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

Risk identification and assessment

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

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

Risk monitoring and control

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

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

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

Trends

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

NONFINANCIAL RISKS

Operational risk

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

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

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

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

Risk identification and assessment

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

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

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

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

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

Risk monitoring and control

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

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

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

Trends

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

Risk from outsourcing activities

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

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

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

Risk identification and assessment

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

Risk monitoring and control

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

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

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

Compliance and conduct risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on Expected Developments

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe

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

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

Germany

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

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

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

INTEREST RATE TRENDS

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

Interest rate trends are generally factored into pricing.

MOBILITY CONCEPTS

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

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

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

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

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

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

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

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

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

SUMMARY OF EXPECTED DEVELOPMENTS

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

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

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

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

Forecast for credit risk

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

Forecast for residual value risk

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

Forecast for liquidity risk

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

Forecast for operational risk

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

OUTLOOK FOR 2024

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

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

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

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

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

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

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

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

Braunschweig, February 13, 2024
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

This Annual Report contains forward-looking statements on the future business development of the Volkswagen Leasing GmbH 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 Leasing GmbH 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, the performance of the business will be affected accordingly. In addition, expected business performance may vary if the key performance indicators and risks and opportunities presented in this annual report turn out to be different from current expectations, or additional risks and opportunities or other factors emerge that affect the development of the business.

CONSOLIDATED FINANCIAL STATEMENTS

FURTHER INFORMATION

Income Statement

of the Volkswagen Leasing GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022	Change in percent
Interest income from cash and loans	4, 6, 44	170	28	X
Income from leasing transactions		14,632	11,748	24.6
Depreciation, impairment losses and other expenses from leasing transactions		–12,519	–10,071	24.3
Net income from leasing transactions	4, 6, 7, 9, 14, 54	2,113	1,677	26.0
Interest expense	4, 6, 15, 44	–1,578	–364	X
Income from service contracts		1,822	1,733	5.1
Expenses from service contracts		–1,676	–1,542	8.7
Net income from service contracts	4, 16	145	191	–24.0
Provision for credit risks	6, 19, 45	–55	–33	68.2
Fee and commission income		18	1	X
Fee and commission expenses		–128	–77	67.6
Net fee and commission result	4, 18	–110	–76	45.6
Net gain or loss on hedges	6, 19	–36	12	X
Net gain/loss on financial instruments measured at fair value	6, 20, 45	–287	421	X
General and administrative expenses	4, 8 - 10, 12, 21	–616	–624	–1.2
Other operating income		153	124	23.7
Other operating expenses		–61	–88	–31.0
Net other operating income/expenses	4, 22	93	36	X
Operating result		**–162**	**1,268**	**X**
Other financial gains or losses		–1	–1	3.7
Profit before tax		**–162**	**1,267**	**X**
Income tax expense	5, 23	46	–409	X
Profit after tax		**–117**	**859**	**X**
Profit after tax attributable to Volkswagen Financial Services AG		–117	859	X

Statement of Comprehensive Income

of the Volkswagen Leasing GmbH Group

€ million	Note	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Profit after tax		**–117**	**859**
Pension plan remeasurements recognized in other comprehensive income	11		
Pension plan remeasurements recognized in other comprehensive income, before tax		–0	0
Deferred taxes relating to pension plan remeasurements recognized in other comprehensive income	5, 23	0	–0
Pension plan remeasurements recognized in other comprehensive income, net of tax		–0	0
Items that will not be reclassified to profit or loss		**–0**	**0**
Hedging transactions	6		
Fair value changes recognized in other comprehensive income (OCI I)		0	–
Cash flow hedges (OCI I), before tax		0	–
Deferred taxes relating to cash flow hedges (OCI I)	5, 23	–0	–
Cash flow hedges (OCI I), net of tax		0	–
Fair value valuation of debt instruments that may be reclassified to profit or loss	6		
Fair value changes recognized in other comprehensive income		2	–
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		2	–
Deferred taxes relating to fair value valuation of debt instruments that may be reclassified to profit and loss	5, 23	–1	–
Fair value valuation of debt instruments that may be reclassified to profit or loss, net of tax		2	–
Items that may be reclassified to profit or loss		**2**	**–**
Other comprehensive income, before tax		3	0
Deferred taxes relating to other comprehensive income	5, 23	–1	–0
Other comprehensive income, net of tax		**2**	**0**
Total comprehensive income		**–115**	**859**
Total comprehensive income attributable to Volkswagen Financial Services AG		–115	859

Balance Sheet

of the Volkswagen Leasing GmbH Group

€ million	Note	Dec. 31, 2023	Dec. 31, 2022	Change in percent
Assets				
Loans to and receivables from banks	6, 24, 44 - 51	802	621	29.2
Loans to and receivables from customers attributable to				
Dealer financing		12	12	1.8
Leasing business		21,137	18,932	11.6
Other loans and receivables		5,997	6,788	–11.7
Total loans to and receivables from customers	6, 9, 25, 44 - 49, 51	27,146	25,732	5.5
Change in fair value from portfolio fair value hedges	7, 26	74	–123	X
Derivative financial instruments	6, 27, 36, 44 - 48, 51 - 52	482	863	–44.2
Marketable securities	6, 28	105	–	X
Property and equipment	8 - 9	4	4	–7.5
Lease assets	9, 54	27,708	25,764	7.5
Investment property	10, 29, 54	23	25	–4.7
Deferred tax assets	5, 30	113	64	75.9
Current tax assets	5, 44 - 48	93	101	–8.5
Other assets	9, 31, 44 - 48	1,973	1,197	64.8
Total		**58,525**	**54,249**	**7.9**

€ million	Note	Dec. 31, 2023	Dec. 31, 2022	Change in percent
Equity and Liabilities				
Liabilities to banks	6, 34, 45 - 49, 51 - 52	0	0	–19.6
Liabilities to customers	6, 34, 45 - 49, 51 - 52	17,730	18,962	–6.5
Notes, commercial paper issued	6, 35 - 36, 45 - 49, 51 - 52	27,629	25,121	10.0
Derivative financial instruments	6, 37, 45 - 49, 51 - 53	702	966	–27.3
Provisions for pensions and other post-employment benefits	13	1	1	18.6
Other provisions	14 - 15, 38	189	262	–28.1
Deferred tax liabilities	5, 39	751	729	3.0
Current tax liabilities	5, 45 - 49	34	44	–22.0
Other liabilities	40, 45 - 49, 51	1,407	1,475	–4.6
Subordinated capital	6, 36, 41, 45 - 49, 51	212	183	15.6
Equity	43	9,870	6,506	51.7
Subscribed capital		76	76	–
Capital reserves		3,361	361	X
Retained earnings		6,431	6,069	6.0
Other reserves		2	–	X
Total		**58,525**	**54,249**	**7.9**

Statement of Changes in Equity

of the Volkswagen Leasing GmbH Group

				Other Reserves		
€ million	Subscribed capital	Capital reserves	Retained earnings	Cash flow hedges (OCI I)	Debt instruments	Total equity
As of Jan. 1, 2022	**76**	**361**	**4,194**	**–**	**–**	**4,631**
Profit after tax	–	–	859	–	–	859
Other comprehensive income, net of tax	–	–	0	–	–	0
Total comprehensive income	**–**	**–**	**859**	**–**	**–**	**859**
Capital increases	–	–	–	–	–	–
Loss assumed by Volkswagen AG	–	–	1,016	–	–	1,016
As of Dec. 31, 2022	**76**	**361**	**6,069**	**–**	**–**	**6,506**
As of Jan. 1, 2023	**76**	**361**	**6,069**	**–**	**–**	**6,506**
Profit after tax	–	–	–117	–	–	–117
Other comprehensive income, net of tax	–	–	–0	0	2	2
Total comprehensive income	**–**	**–**	**–117**	**0**	**2**	**–115**
Capital increases	–	3,000	–	–	–	3,000
Profit transfer to Volkswagen Financial Services AG	–	–	479	–	–	479
As of Dec. 31, 2023	**76**	**3,361**	**6,431**	**0**	**2**	**9,870**

Cash Flow Statement

of the Volkswagen Leasing GmbH Group

€ million	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Profit before tax	**–162**	**1,267**
Depreciation, amortization, impairment losses and reversals of impairment losses	4,272	3,484
Change in provisions	–74	172
Change in other noncash items	117	301
Loss on disposal of financial assets and items of property and equipment	–0	5
Net interest expense and dividend income	125	–313
Change in loans to and receivables from banks	–182	474
Change in loans to and receivables from customers	–1,980	–283
Change in lease assets	–6,182	–5,987
Change in other assets related to operating activities	–977	–10
Change in liabilities to banks	–0	–0
Change in liabilities to customers	–1,229	6,947
Change in notes, commercial paper issued	2,508	–3,842
Change in other liabilities related to operating activities	–68	26
Interest received	1,454	677
Interest paid	–1,578	–364
Income taxes paid	17	–74
Cash flows from operating activities	**–3,941**	**2,478**
Proceeds from disposal of other assets	0	0
Acquisition of other assets	–0	–0
Change in investments in marketable securities	–102	–
Cash flows from investing activities	**–102**	**0**
Proceeds from changes in capital	3,000	–
Loss assumed by Volkswagen Financial Services AG	1,016	242
Change in cash funds attributable to subordinated capital[1]	29	–2,720
Repayment of liabilities arising from leases	–2	–1
Cash flows from financing activities	**4,043**	**–2,479**
Cash and cash equivalents at end of prior period	**–**	**–**
Cash flows from operating activities[1]	–3,941	2,478
Cash flows from investing activities	–102	0
Cash flows from financing activities[1]	4,043	–2,479
Cash and cash equivalents at end of period	**–**	**–**

[1]The change in the previous year results from the amortization of the subordinated loan previously issued by Volkswagen Financial Services AG to VCL Master Residual Value SA, which is now issued by Volkswagen Leasing GmbH since the first half of 2022 and therefore an intragroup transaction in Volkswagen Leasing GmbH Group which is thus eliminated in the consolidated financial statement. The compensation of the negative cash flow from financing activities is included in the cash flow from operating activities.

See note (55) for disclosures on the cash flow statement.

Notes to the Consolidated Financial Statements

of the Volkswagen Leasing GmbH Group as of December 31, 2023

General Information

Volkswagen Leasing GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung, GmbH*) under German law. Its registered office is located in Gifhorner Strasse, Braunschweig, Germany, and the company is registered in the Braunschweig commercial register (HRB 1858).

The object of the Company is to develop, sell and process financial services with a focus on the leasing business with retail and business customers as well as on the fleet management/services business in Germany and Italy.

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of the parent company Volkswagen Leasing GmbH. Volkswagen Financial Services AG and Volkswagen Leasing GmbH have entered into a control and profit-and-loss transfer agreement. The ultimate parent company of Volkswagen Leasing GmbH is Volkswagen AG, Wolfsburg.

The annual financial statements of the companies in the Volkswagen Leasing GmbH Group are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, and Volkswagen AG, Wolfsburg, which are published in the Company Register.

Principles of Group Accounting and Financial Reporting

Volkswagen Leasing GmbH has prepared its consolidated financial statements 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, 2023 for which mandatory application was required in fiscal year 2023 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 consolidated financial statements include the statement of changes in equity, the cash flow statement and 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 Management Board completed the preparation of the consolidated financial statements on February 13, 2024 and released them for forwarding to the Audit Committee for information, for subsequent adoption by the Annual General

Meeting and finally for publication. This date marked the end of the period in which adjusting events after the reporting period were recognized.

Effects of New and Revised IFRSs

Volkswagen Leasing GmbH has applied all financial reporting standards adopted by the EU and subject to mandatory application from fiscal year 2023.

Amendments to IAS 12 resulting from almost 140 countries having agreed on a global minimum level of taxation (Pillar 2) had to be applied from January 1, 2023. A temporary exemption under which deferred taxes need not be recognized if they result from the implementation of Pillar 2 by the countries concerned was incorporated into IAS 12. Further information can be found in the note on income taxes under accounting policies.

Amendments to IAS 12 pertaining to deferred taxes relating to lease arrangements and decommissioning and restoration liabilities also had to be applied from January 1, 2023. These require that deferred taxes be recognized, in certain circumstances, when such assets and liabilities are first recognized.

There have also been amendments made to IAS 1 that had to be applied from January 1, 2023. These are primarily intended to make the disclosure of accounting policies information more specific to the company concerned – and thus of greater use in decision-making – by adopting a tighter definition of the term “material”. The information provided in the Volkswagen Leasing GmbH Group’s disclosure of accounting policies has been revised in response. The changes made specifically include reducing generalized statements derived from the IFRSs to the minimum necessary.

Amendments to IAS 8 intended to make clear the difference between changes in accounting policies and changes in accounting estimates also had to be applied from January 1, 2023.

In addition, IFRS 17 Insurance Contracts has been applicable since January 1, 2023. This has not had any impact on the Volkswagen Leasing GmbH Group.

The amended provisions referred to above do not materially affect the Volkswagen Leasing GmbH Group’s financial position and financial performance.

New and Revised IFRSs Not Applied

Volkswagen Leasing GmbH has not applied in its 2023 consolidated financial statements the following financial reporting standards, which had 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
IAS 1	Classification of liabilities	January 23, 2020	January 1, 2024	No	No material impact
IAS 1	Non-current liabilities	October 31, 2022	January 1, 2024	Yes	No material impact
IFRS 7	Reverse-factoring agreements	May 25, 2023	January 1, 2024	Yes	No material impact

1 Requirement for initial application from the VW Leasing GmbH perspective

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, 2023.

Financial reporting in the Volkswagen Leasing GmbH Group complies with IFRS 10 and is carried out upon the basis of standard Group-wide accounting policies.

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

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

2. Basis of consolidation

In addition to Volkswagen Leasing GmbH, the consolidated financial statements cover all international subsidiaries taking the form of structured entities that are controlled by Volkswagen Leasing GmbH. This is the case if Volkswagen Leasing GmbH has power over the entity, is exposed to or has rights to positive or negative variable returns from its involvement with the entity, and has the ability to use its power to influence those returns. In the case of the structured entities consolidated in the Volkswagen Leasing GmbH Group, Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH 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.

COMPOSITION OF THE VOLKSWAGEN LEASING GMBH GROUP

The composition of the Volkswagen Leasing GmbH Group is as follows:

> Volkswagen Leasing GmbH, Braunschweig
> VCL Multi-Compartment S.A., Luxembourg
> VCL Master S.A., Luxembourg
> VCL Master Residual Value S.A., Luxembourg
> Trucknology S.A., Luxembourg

3. Consolidation methods

The assets and liabilities of the domestic and international entities included in the consolidated financial statements are reported in accordance with the accounting policies applicable as standard throughout the Volkswagen Leasing GmbH Group.

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

Intragroup transactions are conducted on an arm's-length basis. Any resulting intercompany profits or losses are eliminated.

4. 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 bank balances and loans; 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.

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 Volkswagen Leasing GmbH 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.

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.

5. 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.

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

This assessment is based on the latest available information about the results of operations of the business units of the Volkswagen Leasing GmbH Group. Based on the assessment made, the effective Pillar 2 tax rates are higher than 15% in all jurisdictions in which the Volkswagen Leasing GmbH Group operates. For this reason, the Volkswagen Leasing GmbH Group does not expect any potential risk of additional Pillar 2 taxes.

The exemption introduced with the amendments to IAS 12 in May 2023 means that deferred taxes in connection with income taxes arising from applicable or communicated tax rules to implement the Pillar 2 model rules are neither recognized nor disclosed in the Volkswagen Leasing GmbH Group.

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.

6. Financial instruments

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.

In the Volkswagen Leasing GmbH Group, financial assets are classified into the following categories in accordance with IFRS 9:

> 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 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 Volkswagen Leasing GmbH Group, the categories shown above are allocated to the classes "financial assets and financial liabilities measured at amortized cost" and "financial assets and financial liabilities measured at fair value".

The fair value option for financial assets and financial liabilities is not applied in the Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH Group and there is an intention to settle on a net basis in practice.

FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST

Financial assets held within a business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" business model) are allocated to the IFRS 9 measurement category of financial assets measured at amortized cost. 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 allocated to the measurement category of financial liabilities measured at amortized cost, unless they are derivatives.

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

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

The IFRS 9 measurement category of financial assets measured at fair value through other comprehensive income (debt instruments) is used for financial assets held under a business model aimed at both collecting contractual cash flows and selling financial assets ("hold 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. Certain changes in fair value, such as impairment losses or interest determined in accordance with the effective interest method, 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

The IFRS 9 measurement category of financial assets measured at fair value through profit or loss comprises 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. Moreover, derivatives are allocated to the IFRS 9 measurement categories of financial assets measured at fair value through profit or loss and financial liabilities measured at fair value through profit or loss.

In the case of these financial assets and liabilities, any changes in fair value are recognized in 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 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, 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 Volkswagen Leasing GmbH Group are described in note (9) 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.

The fixed-income securities are allocated to the measurement category of financial assets measured at fair value through other comprehensive income (debt instruments). 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 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.

DERIVATIVES AND HEDGE ACCOUNTING

Derivative financial instruments comprise derivatives designated as hedges to which hedge accounting is applied and derivatives to which hedge accounting is not applied. All derivatives are measured at fair value and are presented separately in notes (27) and (36).

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 Volkswagen Leasing GmbH Group, entities enter into derivative transactions solely for hedging purposes as part of the management of interest rate 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 Volkswagen Leasing GmbH 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. Gains or losses arising from the ineffectiveness of fair value hedges are also recognized in gain or loss on hedges.

Portfolio fair value hedge accounting reports transactions to hedge the risk of changes in the interest rates of hedged items (finance leases) on a portfolio basis. The hedged interest rate risk for the hedged items is based on 3-M-EURIBOR. The VW Leasing GmbH 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 ("Value adjustment on 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. 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 items 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.

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, finance lease receivables and receivables related to payments due under operating leases that fall within the scope of IFRS 16. The provision for credit risks is generally determined on the basis of parameters, taking 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) 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. 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 the case of financial assets already impaired on initial recognition (POCI) 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.

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.

In the Volkswagen Leasing GmbH 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. 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 industrial production), 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 macroeconomic factors.

The assessment whether the credit risk on assets subject to the general approach has increased significantly as of the reporting date is always made by comparing the credit risk expected for the reporting date on the date of initial recognition against the credit risk on the reporting date. Assets accounted for under the general approach relate in particular to receivables from VW Group companies where the expected loss is estimated on the basis of a loss rate approach. Internal and external rating information is used in the measurement of credit risk. Moreover, credit risk can always be assumed to have increased significantly if payments past due by more than 30 days have been identified.

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

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

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

Loans and receivables are reported in the balance sheet at the net carrying amount.

Disclosures relating to the provision for credit risks are presented separately in notes (19) and (50).

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 Volkswagen Leasing GmbH 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, 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 33), notes and commercial paper issued (note 34), and subordinated capital liabilities (note 40) 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.

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.

7. Value adjustment on 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 fair value adjustments recognized for hedged items (changes in hedged fair value) in portfolio fair value hedges are reported in the interest income from hedged financial assets.

8. Property and equipment

Property and equipment – land and buildings as well as operating and office equipment – is accounted for under the cost model. Depreciation is applied on a straight-line basis over the estimated useful life.

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

At every reporting date, property and equipment is tested to establish whether there are any indications of impairment arising from, for example, relevant events or changes in circumstances. In these cases, the carrying amount is compared to the recoverable amount. Impairment losses are recognized in accordance with IAS 36 where the recoverable amount of the asset concerned has fallen below the carrying amount.

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 Volkswagen Leasing GmbH Group is the lessee. The accounting policies for these right-of-use assets are set out in note (9) Leases within the subsection covering the Group as lessee.

9. Leases

GROUP AS LESSOR

The Volkswagen Leasing GmbH 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.

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 (14) 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 fair value adjustments 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 Volkswagen Leasing GmbH 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 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. Depreciation and impairment losses are reported under depreciation, impairment losses and other expenses from leasing transactions. Reversals of impairment losses that are recognized because the reasons for impairment losses recognized in prior years no longer apply 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 Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH 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 (6) Financial Instruments in the subsection addressing the provision for credit risks.

GROUP AS LESSEE

During the lease term, right-of-use assets for leases in which the VW Leasing GmbH Group is the lessee are 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 (54) 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 for leases 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 Volkswagen Leasing GmbH Group. The right-of-use assets are therefore reported under property and equipment as of the reporting date.

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 Volkswagen Leasing GmbH 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 of the VW Leasing GmbH Group may have extension or termination options, which are taken into account when determining the lease terms.

BUYBACK TRANSACTIONS

The Volkswagen Leasing GmbH 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.

10. Investment property

Land and buildings held to earn rentals are reported under the “Investment property” item in the balance sheet and measured under the cost model. The fair values additionally disclosed in the notes are determined 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.

11. 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 Volkswagen Leasing GmbH Group provides occupational pensions in the form of both defined contribution and defined benefit plans.

The pension scheme (defined-benefit plan) is based on a pension funded by provisions (without 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.

12. 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.

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 within one year are recognized at their settlement amount discounted to the reporting date using market discount rates. Discounting is based on market interest rates. An average discount rate of 2.87% (previous year: 3.16%) has been used in the reporting period. The settlement amount also includes expected cost increases.

Any rights of recourse are not offset against provisions.

13. 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 2024 but at a reduced 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. In addition, continuing geopolitical tensions and conflicts are weighing on growth prospects; risks are associated in particular with the Russia-Ukraine conflict and the confrontations in the Middle East. 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 2025 and continue on a path of stable growth through 2028.

These assumptions suggest that automotive financial services will prove highly important to global vehicle sales in 2024. The continuing shortages of intermediates and commodities may generate uncertainty, exacerbated by the fallout from the Russia-Ukraine conflict. Furthermore, the increased interest rates will put pressure on the demand for financial services. It is expected that demand for solutions providing access to mobility at the lowest possible total cost will continue to grow in regions with established automotive financial services markets and the shift initiated in the European financial services business with individual customers from financing to lease contracts will also continue. Integrated end-to-end solutions, which include mobility-related service modules such as insurance and innovative packages of services, are likely to become increasingly important for this. Additionally, demand is expected to increase for new forms of mobility, such as rental and car subscription (Auto-Abo) services, and for integrated mobility services including parking, refueling and charging. The importance of direct business between manufacturer and customer is expected to increase. 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 assume that this trend will also persist in the years 2025 to 2028.

Trends in the markets for passenger cars in 2024 are expected to vary from region to region, but will largely be positive. Overall, the global volume of new car sales is expected to be slightly higher than in the previous year. Uncertainty may arise from the shortage of intermediates and commodities. These could be further exacerbated by the impacts of the Russia-Ukraine conflict and fighting in the Middle East, the consequences of which could specifically include rising prices and a reduction in the availability of energy. Growing demand for passenger cars is forecast worldwide in the period from 2025 to 2028.

New registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes are expected to decrease noticeably as compared with the prior year in 2024 in the markets of relevance for the Volkswagen Group, with some regions seeing faster declines 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.

As part of the transformation to emissions-free mobility, the mix of drive systems in VW Leasing's portfolio will gradually change in future. The effects of this transformation on the residual values of the portfolio will be continuously monitored with appropriate procedures for the analysis and assessment of sustainability-related (ESG) factors, such as technological and regulatory changes or CO2 transition costs. The defined residual values of vehicles of different drive types are updated in line with the results of this monitoring at regular intervals for the purposes of both new business and residual value forecasting. In addition to the above-mentioned aspects, this will also be determined by important factors such as market structure and customer behavior. Up to now, there has been 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.

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. Further information on determining valuation allowances can be found in the disclosures on the provision for credit risks (note 6).

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 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.

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 Volkswagen Leasing GmbH Group operate in Germany and abroad 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 Volkswagen Leasing GmbH 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

14. Net income from leasing business

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

€ million	Jan. 1 – Dec. 31, 2023	Jan. 1 – Dec. 31, 2022
Leasing income from operating leases	5,168	4,574
Interest income from finance leases	906	633
Gains from the disposal of used ex-lease vehicles	7,702	6,179
Net interest income/expense from finance lease hedging derivatives	377	16
Miscellaneous income from leasing transactions	479	346
Income from leasing transactions	14,632	11,748
Lease assets depreciation and impairment losses	–4,259	–3,587
Expenses from the disposal of used ex-lease vehicles	–7,607	–5,557
Miscellaneous expenses from leasing transactions	–652	–927
Depreciation, impairment losses and other expenses from leasing transactions	–12,519	–10,071
Total	**2,113**	**1,677**

15. Interest expense

Interest expenses largely consist of funding expenses for the Group's leases. Interest expenses were drastically increased on the prior-year level overall as a result of higher interest rates and funding spreads.

Interest income and expenses on derivatives not designated as hedging instruments for hedging financial liabilities amount to €6 million (previous year: €22 million).

16. Net income from service contracts

Of the total income recognized for service contracts, an amount of €1,431 million (previous year: €1,380 million) related to service contracts requiring the recognition of income at a specific time, and €391 million (previous year: €354 million) related to service contracts requiring the recognition of income over a period of time.

17. 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" and "Other assets".

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

€ million	2023	2022
Additions to provision for credit risks	–249	–201
Reversals of provision for credit risks	211	190
Direct write-offs	–31	–39
Income from loans and receivables previously written off	14	18
Net gain or loss from significant modifications	0	–
Total	**–55**	**–33**

18. Net fee and commission result

Net fee and commission result largely comprises income and expenses from financing-business sales commissions and breaks down as follows:

€ million	2023	2022
Fee and commission income	18	1
Fee and commission expenses	–128	–77
Total	**–110**	**–76**

19. 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:

Mio. €	2023	2022
Fair value hedges		
Gains/losses from micro-fair value hedges		
Gains/losses on hedging instruments	366	–829
Gains/losses on hedged items	–361	842
Gains/losses from micro fair value hedges	5	13
of which ineffectiveness of micro fair value hedges	5	13
Gains/losses from portfolio-fair value hedges		
Gains/losses on hedging instruments	**–174**	141
Gains/losses on hedged items	**133**	–142
Gains/losses from portfolio fair value hedges	–41	–2
of which ineffectiveness of micro fair value hedges	–41	–2
Cashflow hedges		
Gains/losses from the reclassification of reserves for cash flow hedges	–	–
Gains/losses from translation of foreign currency loans/receivables and liabilities in cash flow hedges	–	–
Gains/losses from the ineffective portion of hedging instruments in cash flow hedges	–	–
Total	**–36**	**12**

20. Net gain/loss on financial instruments measured at fair value

This item includes the net loss on derivatives not designated as hedging instruments in the amount of €287 million (previous year: net gain of €421 million). Gains and losses arising from changes in the fair value of derivatives that do not satisfy the requirements of IFRS 9 for micro hedge accounting or those of IAS 39 for portfolio hedging are recognized under gains and losses on derivatives not designated as hedging instruments.

21. General and administrative expenses

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

€ million	2023	2022
Personnel expenses	–6	–5
Non-staff operating expenses	–601	–610
Advertising, public relations and sales promotion expenses	–7	–8
Depreciation of and impairment losses on property and equipment, amortization of and impairment losses on intangible assets	–1	–1
Other taxes	–0	–0
Income from the reversal of provisions and accrued liabilities	0	0
Total	**–616**	**–624**

Personnel expenses comprise wages and salaries of €5 million (previous year: €4 million) as well as social security, post-employment and other employee benefit costs of €2 million (previous year: €1 million).

Non-staff operating expenses largely consist of expenses for services allocated by companies of the Volkswagen Group in the amount of €599 million (previous year: €608 million).

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 EY GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, as shown in the following table.

€ million	2023	2022
Financial statement audit services	1	1
Other attestation services	0	0
Other services	–	0
Total	**1**	**1**

The fees paid to the auditor for audit services in the year under review were mostly attributable to the audit of the annual and consolidated financial statements of VW Leasing GmbH.

22. Net other operating income/expenses

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

€ million	2023	2022
Gains on the measurement of non-hedge foreign currency loans/receivables and liabilities	–	0
Income from cost allocations to other entities in the Volkswagen Group	33	30
Income from the reversal of provisions and accrued liabilities	39	28
Income from claims for damages	29	29
Income from non-significant modifications	4	2
Miscellaneous operating income	28	35
Losses on the measurement of non-hedge foreign currency loans/receivables and liabilities	–0	–0
Litigation and legal risk expenses	–1	–64
Expenses from non-significant modifications	–1	–1
Miscellaneous operating expenses	–41	–23
Total	**93**	**36**

23. Income tax expense

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

€ million	2023	2022
Current tax income/expense, Germany	–46	–61
Current tax income/expense, foreign	28	38
Current income tax expense	**–18**	**–23**
of which income (+)/expense (–) related to prior periods	–2	2
Deferred tax income (+)/expense (–), Germany	–25	441
Deferred tax income (+)/expense (–), foreign	–3	–9
Deferred tax income (+)/expense (–)	**–28**	**432**
Income tax expense	**–46**	**409**

The reported tax expense in 2023 of €–46 million (previous year: €409 million) is €3 million higher (previous year: €29 million lower) than the expected tax expense of €–49 million (previous year: €380 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	2023	2022
Profit before tax	–162	1,267
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	**49**	**–380**
+ Effects from different foreign tax rates	–3	–1
+ Effects from tax-exempt income	1	1
+ Effects from non-deductible operating expenses	–5	–16
+ Effects from permanent differences	–	–
+ Taxes attributable to prior periods	6	–18
+ Other variances	–2	5
= Current income tax expense	**46**	**–409**
Effective tax rate in %	28	32.2

The statutory corporation tax rate in Germany for the 2023 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 Group has recognized deferred tax assets of €0 million (previous year: €0 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.

Balance Sheet Disclosures

24. Loans to and receivables from banks

Loans to and receivables from banks include bank balances in the amount of €777 million (Dec. 31, 2022: €447 million).

25. 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 (49).

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 €368 million (Dec. 31, 2022: €330 million).

As of the reporting date, receivables from operating leases amounted to €245 million (Dec. 31, 2022: €227 million).

26. Value adjustment on 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 in the amount of €74 million (Dec. 31, 2022: €–123 million).

27. Derivative financial instruments

This balance sheet item comprises the positive fair values from hedges and from derivatives not designated as a hedging instruments.

€ million	Dec. 31, 2023	Dec. 31, 2022
Transactions to hedge against		
interest-rate risk using fair value hedges	189	515
of which hedges against interest-rate risk using portfolio fair value hedges	112	501
interest-rate risk using cash flow hedges	1	–
Hedging transactions	**190**	**515**
Assets arising from derivatives not designated as hedges	292	349
Total	**482**	**863**

28. Marketable securities

Marketable securities include fixed-income commercial paper and notes from public-sector issuers.

29. Investment property

€ million	2023	2022
Cost		
as of Jan. 1	**41**	**11**
Changes in basis of consolidation	0	0
Additions	0	0
Reclassifications	0	40
Disposals	0	10
Balance as of Dec. 31	**41**	**41**
Depreciation and impairment losses		
as of Jan. 1	16	**5**
Additions to cumulative depreciation	1	1
Additions to cumulative impairment losses	0	0
Reclassifications	0	15
Disposals	0	4
Balance as of Dec. 31	17	**16**
Net carrying amount as of Dec. 31	23	**25**
Net carrying amount as of Jan. 1	25	**6**

The fair value of investment property amounts to €23 million (Dec. 31, 2022: €25 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 €1 million (previous year: €1 million) were incurred in the reporting period for the maintenance of investment property.

Rental income from investment property of €1 million (previous year: €1 million) is included in the "Income from leasing transactions" line item in the income statement.

30. Deferred tax assets

The breakdown of the deferred tax assets is as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022
Deferred tax assets	6,632	5,760
of which noncurrent	4,325	3,690
Offset (with deferred tax liabilities)	–6,519	–5,696
Total	**113**	**64**

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Loans, receivables and other assets	98	78
Marketable securities and cash	0	0
Intangible assets/property and equipment	363	342
Lease assets	5,762	4,895
Liabilities and provisions	428	460
Valuation allowances for deferred assets on temporary differences	–18	–15
Total	**6,632**	**5,760**

31. Other assets

The details of other assets are as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022
Vehicles returned for disposal	803	392
Restricted cash	452	374
Prepaid expenses and accrued income	78	62
Other tax assets	239	126
Miscellaneous	402	244
Total	**1,973**	**1,197**

32. Noncurrent assets

€ million	Dec. 31, 2023	of which noncurrent	Dec. 31, 2022	of which noncurrent
Loans to and receivables from banks	802	–	621	–
Loans to and receivables from customers	27,146	14,137	25,732	11,949
Value adjustment on portfolio fair value hedges	74	42	–123	–46
Derivative financial instruments	482	285	863	680
Property and equipment	4	4	4	4
Lease assets	27,708	25,818	25,764	24,193
Investment property	23	23	25	25
Current tax assets	93	–	101	–
Other assets	1,973	241	1,197	140
Total	**58,307**	**40,552**	**54,185**	**36,945**

33. Liabilities to banks and customers

To cover its capital requirements, the Volkswagen Leasing GmbH Group uses, among other instruments, loans made available by the Volkswagen Group, which are included in liabilities to banks and customers.

The liabilities to customers also included contractual liabilities from service contracts and other contracts amounting to €1,309 million, in connection with which income of €725 million was expected to be recognized in the next fiscal year, followed by income of €584 million in subsequent years.

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	2023	2022
Contractual liabilities at Jan. 1	1,029	807
Additions and disposals	280	222
Contractual liabilities at Dec. 31	**1,309**	**1,029**

34. Notes, commercial paper issued

This item comprises bonds and commercial papers.

€ million	Dec. 31, 2023	Dec. 31, 2022
Bonds issued	26,731	23,683
Commercial paper issued	898	1,438
Total	**27,629**	**25,121**

35. ABS transactions

The Volkswagen Leasing GmbH Group uses ABS transactions for funding purposes. The ABS transactions exist in the structured companies headquartered in Luxembourg, which are listed under note (2) Basis of Consolidation as the composition of the Volkswagen Leasing GmbH Group.

ABSs are recognized in the following amounts and reported in the balance sheet as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022
Bonds issued	15,907	13,477
Subordinated liabilities	212	183
Total	**16,119**	**13,660**

Of the total amount of liabilities arising in connection with ABS transactions, an amount of €7,803 million (Dec. 31, 2022: €6,386 million) is accounted for by ABS transactions with financial assets. The corresponding carrying amount of the leasing business receivable amounts to €9,687 million (Dec. 31, 2022: €8,489 million). As of December 31, 2023, the fair value of the liabilities was €7.370 million (Dec. 31, 2022: €6.510 million). The fair value of the assigned loans/receivables, which continued to be recognized, amounted to €9,420 million as of December 31, 2023 (Dec. 31, 2022: €8,106 million).

Collateral totaling €22,151 million (Dec. 31, 2022: €18,868 million) has been pledged in connection with ABS transactions, of which €9,870 million (Dec. 31, 2022: €8,644 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 assigned loans and receivables and the associated liabilities results from the different terms and conditions and from the proportion of the ABSs held by the Volkswagen Leasing GmbH Group itself.

Most of the ABS transactions of the Volkswagen Leasing GmbH Group can be repaid early (with a clean-up call) when less than 10% of the original transaction volume remains outstanding.

36. Derivative financial instruments

This balance sheet item comprises the negative fair values from hedges and from derivatives not designated as hedging instruments.

€ million	Dec. 31 2023	Dec. 31 2022
Transactions to hedge against		
interest-rate risk using fair value hedges	520	729
of which hedges against interest-rate risk using portfolio fair value hedges	55	–
Hedging transactions	**520**	**729**
Liabilities arising from derivatives not designated as hedges	181	237
Total	**702**	**966**

37. Other provisions

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, 2022	**2**	**57**	**31**	**90**
Utilization	1	1	22	23
Additions/new provisions	1	63	155	219
Reversals	–	14	9	23
Balance as of Dec. 31, 2022	**2**	**106**	**155**	**262**
of which current	1	75	153	229
of which noncurrent	1	31	1	34
Balance as of Jan. 1, 2023	**2**	**106**	**155**	**262**
Utilization	1	12	86	99
Additions/new provisions	2	1	59	62
Reversals	–	29	7	37
Balance as of Dec. 31, 2023	**3**	**66**	**120**	**189**
of which current	2	9	110	121
of which noncurrent	1	57	10	68

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.

The timing of the cash outflows in connection with other provisions is expected to be as follows: 64% in the next year, 36% in the years 2025 to 2028 and 0% thereafter.

38. Deferred tax liabilities

The breakdown of the deferred tax liabilities is as follows:

€ million	Dec. 31, 2023	Dec. 31, 2022
Deferred tax liabilities	7,270	6,425
of which noncurrent	5,014	4,354
Offset (with deferred tax assets)	–6,519	–5,696
Total	**751**	**729**

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Loans, receivables and other assets	5,699	5,004
Cash	1	0
Intangible assets/property and equipment	1	1
Lease assets	447	414
Liabilities and provisions	1,122	1,005
Total	**7,270**	**6,425**

39. Other liabilities

The details of other liabilities are as follows:

€ million	Dec.31, 2023	Dec. 31, 2022
Prepaid expenses and accrued income	1,384	1,391
Other tax liabilities	4	11
Social security and payroll liabilities	0	0
Miscellaneous	19	73
Total	**1,407**	**1,475**

40. Subordinated capital

The subordinated capital of €212 million (Dec. 31, 2022: €183 million) was provided by the parent company VW FS AG.

41. Noncurrent liabilities

€ million	Dec. 31, 2023	of which noncurrent	Dec. 31, 2022	of which noncurrent
Liabilities to banks	0	–	0	–
Liabilities to customers	17,730	9,666	18,962	8,082
Notes, commercial paper issued	27,629	19,213	25,121	18,226
Derivative financial instruments	702	612	966	894
Current tax liabilities	34	–	44	–
Other liabilities	1,407	890	1,475	872
Subordinated capital	212	121	183	94
Total	**47,714**	**30,502**	**46,751**	**28,166**

42. Equity

Volkswagen Leasing GmbH's subscribed capital amounted to €76,004,000.00 and was fully paid up. The sole shareholder is Volkswagen Financial Services AG, Braunschweig. There are no preferential rights or restrictions in connection with the subscribed capital.

The capital contributions made by the sole shareholder, VW FS AG, are reported under the capital reserves of Volkswagen Leasing GmbH. VW FS AG paid a total of €3,000 million into capital reserves in the fiscal year under review.

The retained earnings comprise the profits from previous fiscal years that have not been distributed.

Under the current control and profit-and-loss transfer agreement of Volkswagen Financial Services AG as the sole shareholder, the loss of €479 million (previous year: €1,016 million) of Volkswagen Leasing GmbH was reported as an increase of equity.

43. Capital management

In this context, capital is generally defined as equity in accordance with the IFRS. The aims of capital management in the Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH has an impact on Volkswagen Leasing GmbH's equity in accordance with the IFRSs.

As of December 31, 2023, the equity ratio was 16.9% (Dec. 31, 2022: 12.0%).

Financial Instrument Disclosures

44. 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, 2023	Dec. 31, 2022
Financial assets measured at fair value through profit or loss	292	349[1]
Financial assets measured at fair value through other comprehensive income (debt instruments)	105	–
Financial assets measured at amortized cost	7,425	7,931[1]
Financial liabilities measured at fair value through profit or loss	181	237[1]
Financial liabilities measured at amortized cost	44,061	43,067[1]

1 Prior-year figures restated due to incorrect presentation

Receivables from leasing transactions amounting to €21,137 million (Dec. 31, 2022: €18,932 million) and the associated adjustments from portfolio fair value hedges for receivables from finance leases amounting to €74 million (Dec. 31, 2022: €–123 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 IFRS 9 measurement category are shown in the following table:

€ million	2023	2022
Financial instruments measured at fair value through profit or loss	–97	415[1]
Financial assets measured at amortized cost	171	2[1]
Financial assets measured at fair value through other comprehensive income (debt instruments)	0	–
Financial liabilities measured at amortized cost	–1,293	–389

1 Prior-year figures restated due to incorrect presentation

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 included in interest income from bank balances and loans is calculated using the effective interest method and amounted to €170 million (previous year: €28 million).

The interest expenses in an amount of €1,578 million (previous year: €363 million) related to financial instruments not measured at fair value through profit or loss.

Expenses that arise from the direct write-off of uncollectible financial assets previously measured at amortized cost are reported and explained as a component of the provision for credit risks line item in the income statement. Income recovered in respect of financial assets already written off is also reported and explained as a component of the provision for the credit risks line item in the income statement. After recognizing the income and expenses referred to above, the Volkswagen Leasing GmbH 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.

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).

45. Classes of financial instruments

Financial instruments are divided into the following classes in the Volkswagen Leasing GmbH Group:

> Measured at fair value
> Measured at amortized cost
> Derivative financial instruments designated as hedges
> Not allocated to any measurement category

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.

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

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

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, as a result of which their allocation has been changed and they are now included in "Not allocated to any class of financial instruments".

Liabilities to customers are reported in the "Measures at amortized cost" class. The "Not allocated to any class of financial instruments" column consists largely of advance payments from service contracts.

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

€ million	BALANCE SHEET ITEM		MEASURED AT FAIR VALUE		MEASURED AT AMORTIZED COST1		DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY		NOT ALLOCATED TO ANY MEASUREMENT CATEGORY	
	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Assets												
Loans to and receivables from banks	802	621	802	621	–	–	–	–	–	–	–	–
Loans to and receivables from customers	27,146	25,732	6,009	6,800	–	–	–	–	21,137	18,932	–	–
Value adjustment on portfolio fair value hedges	74	–123	–	–	–	–	–	–	74	–123	–	–
Derivative financial instruments	482	863	–	–	292	349	190	515	–	–	–	–
Marketable securities	105	–	–	–	105	–	–	–	–	–	–	–
Current tax assets	93	101	59	70	–	–	–	–	–	–	34	31
Other assets	1,973	1,197	555	440	–	–	–	–	–	–	1,418	758
Total	**30,676**	**28,392**	**7,425**	**7,931**	**397**	**349**	**190**	**515**	**21,212**	**18,809**	**1,452**	**789**
Equity and liabilities												
Liabilities to banks	0	0	0	0	–	–	–	–	–	–	–	–
Liabilities to customers	17,730	18,962	16,193	17,671	–	–	–	–	11	13	1,526	1,278
Notes, commercial paper issued	27,629	25,121	27,629	25,121	–	–	–	–	–	–	–	–
Derivative financial instruments	702	966	–	–	181	237	520	729	–	–	–	–
Current tax liabilities	34	44	5	8	–	–	–	–	–	–	29	36
Other liabilities	1,407	1,475	22	83	–	–	–	–	–	–	1,385	1,392
Subordinated capital	212	183	212	183	–	–	–	–	–	–	–	–
Total	**47,714**	**46,751**	**44,061**	**43,067**	**181**	**237**	**520**	**729**	**11**	**13**	**2,941**	**2,706**

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

46. 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 were available, Volkswagen Leasing GmbH 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.

€ million	FAIR VALUE Dec. 31, 2023	FAIR VALUE Dec. 31, 2022	CARRYING AMOUNT Dec. 31, 2023	CARRYING AMOUNT Dec. 31, 2022	DIFFERENCE Dec. 31, 2023	DIFFERENCE Dec. 31, 2022
Assets						
Measured at fair value						
Derivative financial instruments	292	349	292	349	–	–
Marketable securities	105	–	105	–	–	–
Measured at amortized cost		–				
Loans to and receivables from banks	802	621	802	621	–	–
Loans to and receivables from customers	6,057	6,855	6,009	6,800	48	55
Current tax assets	59	70	59	70	–	–
Other assets	555	440	555	440	–	–
Derivative financial instruments designated as hedges	190	515	190	515	–	–
Not allocated to any measurement category						
Loans to and receivables from customers	20,842	18,224	21,137	18,932	–295	–708
Value adjustment on portfolio fair value hedges	–	–	74	–123	–74	123
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	181	237	181	237	–	–
Measured at amortized cost						
Liabilities to banks	0	0	0	0	–	–
Liabilities to customers	16,418	17,662	16,193	17,671	225	–9
Notes, commercial paper issued	27,973	25,496	27,629	25,121	345	375
Current tax liabilities	5	8	5	8	–	–
Other liabilities	22	83	22	83	–0	–0
Subordinated capital	215	186	212	183	3	2
Derivative financial instruments designated as hedges	520	729	520	729	–	–

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

Percent	Dec. 31, 2023
Interest rate for six months	3.904
Interest rate for one year	3.572
Interest rate for five years	2.429
Interest rate for ten years	2.477

47. 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. This classification is carried out in the following table for financial instruments in the classes “Measured at amortized cost”, “Measured at fair value” and “Derivative financial instruments designated as hedges”. The assignment of the financial instruments 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 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 are largely allocated to Level 3 because these fair values are measured using inputs that are not observable in active markets (see note 46).

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

	LEVEL 1		LEVEL 2		LEVEL 3	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Assets						
Measured at fair value						
Derivative financial instruments	–	–	292	349	–	–
Marketable securities	105	–	–	–	–	–
Measured at amortized cost						
Loans to and receivables from banks	29	1	773	620	–	–
Loans to and receivables from customers	–	–	491	548	5,566	6,307
Current tax assets	–	–	59	70	–	–
Other assets	–	–	555	440	–	–
Derivative financial instruments designated as hedges	–	–	190	515	–	–
Total	**134**	**1**	**2,361**	**2,541**	**5,566**	**6,307**
Equity and liabilities						
Measured at fair value						
Derivative financial instruments	–	–	181	237	–	–
Measured at amortized cost						
Liabilities to banks	–	–	0	0	–	–
Liabilities to customers	–	–	16,418	17,662	–	–
Notes, commercial paper issued	25,701	22,630	2,273	2,866	–	–
Current tax liabilities	–	–	5	8	–	–
Other liabilities	–	–	22	83	–	–
Subordinated capital	–	–	215	186	–	–
Derivative financial instruments designated as hedges	–	–	520	729	–	–
Total	**25,701**	**22,630**	**19,635**	**21,771**	**–**	**–**

48. 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.

							AMOUNTS NOT OFFSET IN THE BALANCE SHEET					
	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		Financial Instruments		Collateral received/pledged		Net amount	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Assets					–	–	–	–				
Loans to and receivables from banks	802	621	–	–	802	621	–	–	–	–	802	621
Loans to and receivables from customers	27,146	25,732	–	–	27,146	25,732	–	–	–	–	27,146	25,732
Value adjustment on portfolio fair value hedges	74	–123	–	–	74	–123	–	–	–	–	74	–123
Derivative financial instruments	482	863	–	–	482	863	–404	–647	–	–	78	217
Marketable securities	105	–	–	–	105	–	–	–	–	–	105	–
Income tax assets	59	70	–	–	59	70	–	–	–	–	59	70
Other assets	555	440	–	–	555	440	–	–	–	–	555	440
Total	**29,224**	**27,603**	**–**	**–**	**29,224**	**27,603**	**–404**	**–647**	**–**	**–**	**28,820**	**26,957**
Equity and liabilities												
Liabilities to banks	0	0	–	–	0	0	–	–	–	–	0	0
Liabilities to customers	16,204	17,684	–	–	16,204	17,684	–	–	–	–	16,204	17,684
Notes, commercial paper issued	27,629	25,121	–	–	27,629	25,121	–	–	–452	–374	27,177	24,747
Derivative financial instruments	702	966	–	–	702	966	–404	–647	–	–	298	319
Income tax liabilities	5	8	–	–	5	8	–	–	–	–	5	8
Other liabilities	22	83	–	–	22	83	–	–	–	–	22	83
Subordinated capital	212	183	–	–	212	183	–	–	–	–	212	183
Total	**44,774**	**44,045**	**–**	**–**	**44,774**	**44,045**	**–404**	**–647**	**–452**	**–374**	**43,919**	**43,025**

49. 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.

The maximum default risk is reduced by collateral and other credit enhancements. The collateral held relates to receivables from customers in the classes “Measured at amortized cost” and “Not allocated to any measurement category”. The types of collateral held include vehicles and cash collateral.

In the case of financial assets with an objective indication of impairment as of the reporting date, the collateral reduced the risk by €171 million (Dec. 31, 2022: €130 million).

As a consequence of the wide distribution of business activities and the resulting diversification, there are no material concentrations of default risk in individual counterparties.

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 €39 million (Dec. 31, 2022: €29 million).

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 qualitative information, please refer to the disclosures on counterparty default risk in the management report risk report.

PROVISION FOR CREDIT RISKS

Please refer to the provision for credit risks section in note (6) 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, 2023	**12**	**2**	**–**	**14**	**–**	29
Newly extended/purchased financial assets (additions)	3	–	–	5	–	8
Other changes within a stage	–	0	–	–	–	0
Transfers to						
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–10	–	–	–3	–	–13
Utilizations	–	–	–	–	–	–
Model or risk parameter changes	–	–	–	–	–	–
Balance of Dec. 31, 2023	**5**	**2**	**–**	**17**	**–**	**24**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2022	**13**	**2**	**–**	**8**	**–**	**23**
Newly extended/purchased financial assets (additions)	6	–	–	8	–	14
Other changes within a stage	–	0	–	–	–	0
Transfers to						
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Financial instruments derecognized during the period (derecognitions)	–7	–0	–	–1	–	–8
Utilizations	–	–	–	–1	–	–1
Model or risk parameter changes	–	–	–	–	–	–
Balance of Dec. 31, 2022	**12**	**2**	**–**	**14**	**–**	**29**

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, 2023	**6,767**	**452**	**–**	**740**	**–**	**7,959**
Newly extended/purchased financial assets (additions)	–307	8	–	–211	–	**–510**
Other changes within a stage	0	–	–	–	–	**0**
Transfers to						
Stage 1	–	–	–	–	–	**–**
Stage 2	–	–	–	–	–	**–**
Stage 3	–	–	–	–	–	**–**
Balance of Dec. 31, 2023	**6,460**	**460**	**–**	**529**	**–**	**7,449**

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4	Total
Balance of Jan. 1, 2022	**7,802**	**28**	**–**	**270**	**–**	**8,099**
Other changes within a stage	–1,034	425	–	470	–	–140
Transfers to	–1	–	–	–	–	–1
Stage 1	–	–	–	–	–	–
Stage 2	–	–	–	–	–	–
Stage 3	–	–	–	–	–	–
Balance of Dec. 31, 2022[1]	**6,767**	**452**	**–**	**740**	**–**	**7,959**

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 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 in terms of the changes during the reporting year is not material and is therefore not presented in a separate table. In the previous year, the Volkswagen Leasing GmbH did not yet have any financial assets measured at fair value through other comprehensive income.

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	2023	2022
Balance as of Jan. 1	**332**	**352**
Newly extended/purchased financial assets (additions)	245	124
Other changes	–	27
Financial instruments derecognized during the period (derecognitions)	–155	–146
Utilizations	–10	–26
Model or risk parameter changes	–47	–
Balance as of Dec. 31	**365**	**332**

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

	SIMPLIFIED APPROACH	
€ million	2023	2022
Balance as of Jan. 1	**19,141**	**18,567**
Newly extended/purchased financial assets (additions)	2,433	572
Other changes	3	1
Balance as of Dec. 31	**21,577**	**19,141**

The "Changes" line relates to the addition and derecognition of lease receivables during the reporting period.

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 €5 million (Dec. 31, 2022: €20 million). In the reporting period, the contractual modifications of these financial assets gave rise to an overall net gain of €3 million (previous year: €1 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.

MAXIMUM CREDIT RISK

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Financial assets measured at fair value	105	–
Financial assets measured at amortized cost	7,425	7,931
Not allocated to any measurement category	21,212	18,809
Total	**28,742**	**26,740**

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

€ million	Dec. 31, 2023	Dec. 31, 2022
Vehicles	23	10
Total	**23**	**10**

The vehicles are remarketed to Volkswagen Group dealers through direct sales and auctions.

DEFAULT RISK RATING CLASSES

The Volkswagen Leasing GmbH Group uses internal risk management and control systems to evaluate the credit quality of the borrower before entering into any lease. In the retail business, this evaluation is carried out by using scoring systems, whereas rating systems are used for fleet customers. 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 2023

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	6,565	437	–	21,508	–
Default risk rating class 2	–	23	–	311	–
Default risk rating class 3	–	–	–	286	–
Total	**6,565**	**460**	**–**	**22,106**	**–**

FISCAL YEAR 2022

€ million	Stage 1	Stage 2	Stage 3	Simplified approach	Stage 4
Default risk rating class 1	6,767	433	–	19,502	–
Default risk rating class 2	–	19	–	136	–
Default risk rating class 3	–	–	–	243	–
Total	**6,767**	**452**	**–**	**19,881**	**–**

50. Liquidity risk

Liquidity risk is defined primarily as the risk of not being able to meet payment obligations in full or when due. The Volkswagen Leasing GmbH Group is funded primarily through capital market and ABS (asset-backed securities) programs, as well as credit and loans that were made available to the companies of the Volkswagen Group. In addition, a rolling liquidity planning system and a liquidity reserve in the form of bank balances, marketable securities and confirmed lines of credit that can be accessed at any time at short notice ensure that the Volkswagen Leasing GmbH Group remains solvent and has an adequate supply of liquidity.

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, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Loans to and receivables from banks	802	621	740	621	63	–0	–	–	–	–	–	–
Marketable securities	105	–	–	–	105	–	–	–	–	–	–	–
Total	**907**	**621**	**740**	**621**	**168**	**–0**	**–**	**–**	**–**	**–**	**–**	**–**

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 t0 1 year		1 to 5 yers		more than 5 years	
€ million	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022	Dec. 31, 2023	Dec. 31, 2022
Liabilities to banks	0	0	0	0	–	–	–	–	–	–
Liabilities to customers	17,276	18,616	2,227	2,559	5,315	7,761	9,154	6,905	579	1,390
Notes, commercial paper issued	29,854	26,800	2,995	2,526	6,355	4,768	17,684	17,983	2,820	1,523
Derivative financial instruments	858	811	101	72	259	245	466	444	32	50
Other liabilities	22	83	14	77	5	2	3	4	–	–
Subordinated capital	228	191	23	22	78	73	127	96	0	0
Total	**48,238**	**46,501**	**5,361**	**5,257**	**12,012**	**12,849**	**27,434**	**25,431**	**3,431**	**2,963**

The derivatives include cash outflows of derivative financial instruments with negative fair values.

51. Market risk

For qualitative information, please refer to the disclosures on interest rate risk in the management report risk report.

For quantitative risk measurement as part of monthly operational control, interest rate risk is measured by means of a value-at-risk (VaR) model. 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%. The model is based on a historical simulation and calculates potential profits and losses taking into account 1,460 historical market fluctuations (volatilities).

This approach has produced the following values:

€ million	Dec. 31, 2023	Dec. 31, 2022
Interest rate risk	260	150
Total market risk	**260**	**150**

52. Hedging policy disclosures

HEDGING POLICY AND FINANCIAL DERIVATIVES

Given its activities on the financial market, the Volkswagen Leasing GmbH Group is exposed to fluctuations in interest rates on money and capital markets. The general rules governing the Group-wide interest rate hedging policy are specified in internal Group guidelines. The partners used by the Group when entering into appropriate financial transactions are national banks with strong credit ratings whose credit quality is continuously monitored by leading rating agencies. The Group enters into suitable hedging transactions to limit 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) 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.

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 based on an overall interest rate risk limit set for the entire Group. 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. 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 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).

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.

In the Volkswagen Leasing GmbH Group, hedges to which micro-hedge accounting is applied are normally held to maturity. Hedge effectiveness in the Volkswagen Leasing GmbH 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 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	2023	2022
Interest rate risk hedging	–36	12

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	2023	2022
Hedging interest rate risk		
Gains or losses from changes in fair value of hedging instruments within hedge accounting		
Recognized in equity	0	–

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 2023

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2023
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	5,484	10,823	2,450	18,757
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	14,632	25,809	250	40,691

FISCAL YEAR 2022

	RESIDUAL MATURITY			TOTAL NOTIONAL AMOUNT
€ million	Up to 1 year	1 – 5 years	More than 5 years	Dec. 31, 2022
Notional amounts of hedging instruments in hedge accounting				
Interest rate risk hedging				
Interest rate swaps	3,938	17,902	1,500	23,340
Notional amounts of other derivatives				
Interest rate risk hedging				
Interest rate swaps	9,292	20,734	–	30,026

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.

DISCLOSURES ON HEDGING INSTRUMENTS USED IN HEDGE ACCOUNTING

The Volkswagen Leasing GmbH 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 2023

€ million	Notional amount	Derivative financial instruments – assets	Derivative financial instruments – liabilities	Fair value change to determine ineffectiveness
Interest rate risk hedging				
Interest rate swaps	17,940	189	520	–568

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	23,340	515	729	–612

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 2023

€ 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 customers	7,774	74	197	0
Liabilities to customers	–	–	–	–
Notes, commercial paper issued	9,710	–390	351	–

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 customers	6,758	–123	–123	–
Liabilities to customers	491	–9	–15	–
Notes, commercial paper issued	9,157	–743	–819	–

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

FISCAL YEAR 2023

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	RESERVE FOR Terminated cash flow hedges
Interest rate risk hedging			
Designated components	0	0	–
Deferred taxes	–	–0	–
Total interest rate risk	0	0	–

FISCAL YEAR 2022

€ million	Fair value change to determine ineffectiveness	RESERVE FOR Existing cash flow hedges	RESERVE FOR Terminated cash flow hedges
Interest rate risk hedging			
Designated components	–	–	–
Deferred taxes	–	–	–
Total interest rate risk	–	–	–

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, 2023	**–**	**–**	**–**	**–**
Gains or losses from effective hedging relationships	0	–	–	0
Reclassifications due to realization of the hedged item	–	–	–	–
Balance at Dec. 31, 2023	**0**	**–**	**–**	**0**

€ million	Interest rate risk	Currency risk	Interest rate/ currency risk	Total
Balance at Jan. 1, 2022	**–**	**–**	**–**	**–**
Gains or losses from effective hedging relationships	–	–	–	–
Reclassifications due to realization of the hedged item	–	–	–	–
Balance at Dec. 31, 2022	**–**	**–**	**–**	**–**

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 income of €0 million (previous year: expense of €0 million) and the deferred taxes on reclassifications resulting from the recovery of the hedged item came to an income of €0 million (previous year: expense of €0 million).

Segment Reporting

53. Breakdown by customer category

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

Internal management and reporting are based on customer groups that are separated into individual customers and fleet customers.

Individual customers include retail customers and individual business customers. Individual business customers are business operators who have not concluded a delivery agreement with the Volkswagen Group for the purchase of new vehicles. Retail customers are customers who have a right to withdraw from a contract.

Within the fleet customers group, a distinction is made between corporate fleet customers and special buyers. Corporate fleet customers are companies that purchase at least five Group vehicles per year via a delivery agreement and have at least 15 corresponding vehicles in their contract portfolio. Special buyers include, for example, churches, care services and people with a disability.

In accordance with IFRS 8, noncurrent assets are reported exclusive of financial instruments and deferred tax assets.

The “Reconciliation” column includes expenses and income not directly attributable to the individual customer and fleet customer segments.

FISCAL YEAR 2023

€ million	Retail	Fleet	Other	Reconciliation	Group
Interest income from cash and loans	–	4	4	166	170
Income from leasing transactions	7,211	6,919	14,130	502	14,632
Depreciation, impairment losses and other expenses from leasing transactions	–6,442	–6,074	–12,516	–3	–12,519
Net income from leasing transactions	768	845	1,614	500	2,113
Interest expense	–419	–572	–991	–587	–1,578
Income from service contracts	419	1,402	1,821	0	1,822
Expenses from service contracts	–379	–1,298	–1,676	–0	–1,676
Net income from service contracts	41	104	145	0	145
Provision for credit risks	–32	–28	–60	4	–55
Fee and commission income	16	2	18	0	18
Fee and commission expenses	–123	–6	–128	–	–128
Net fee and commission income	–106	–4	–110	0	–110
Net gain or loss on hedges	–	–	–	–36	–36
Net gain/loss on financial instruments measured at fair value	–	–	–	–287	–287
General and administrative expenses	–318	–315	–634	17	–616
Other operating income	38	47	85	68	153
Other operating expenses	–14	–20	–35	–26	–61
Net other operating income/expenses	23	27	50	42	93
Operating result	**–43**	**62**	**19**	**–181**	–162

FISCAL YEAR 2022

€ million	Retail	Fleet	Other	Reconciliation	Group
Interest income from cash and loans	–	2	2	26	28
Income from leasing transactions	4,944	6,767	11,711	37	11,748
Depreciation, impairment losses and other expenses from leasing transactions	–4,332	–5,634	–9,966	–105	–10,071
Net income from leasing transactions	613	1,132	1,745	–69	1,676
Interest expense	–141	–155	–296	–68	–364
Income from service contracts	567	1,166	1,733	1	1,733
Expenses from service contracts	–490	–1,052	–1,542	–0	–1,542
Net income from service contracts	77	114	191	0	191
Provision for credit risks	–17	25	8	–6	3
Fee and commission income	–	1	1	0	1
Fee and commission expenses	–65	–3	–68	–9	–77
Net fee and commission income	–65	–2	–67	–9	–76
Net gain or loss on hedges	–	–	–	12	12
Net gain/loss on financial instruments measured at fair value	–	–	–	–421	–421
General and administrative expenses	187	281	469	155	624
Other operating income	27	35	62	61	124
Other operating expenses	–11	–61	–73	–16	–88
Net other operating income/expenses	16	–26	–10	46	36
Operating result	296	775	1,070	197	1,268

Information on the main products (leasing and service contracts) 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 customer category is shown in the following tables:

€ million	JAN. 1 – DEC. 31, 2023	
	Retail	Fleet
Noncurrent Assets	11,727	14,159
Additions to lease assets classified as noncurrent assets	5,502	6,540

€ million	JAN. 1 – DEC. 31, 31.12.2022	
	Retail	Fleet
Noncurrent Assets	12,613	13,529
Additions to lease assets classified as noncurrent assets	4,777	5,313

Investment recognized under other assets was of minor significance.

Other Disclosures

54. Leases

LESSOR ACCOUNTING FOR FINANCE LEASES

In the reporting year, interest income from the net investment in the lease amounting to €–906 million (previous year: €–633 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, 2023	Dec. 31, 2022
Non-discounted lease payments2	22,267	19,641
Unearned interest income	–970	–750
Loss allowance on lease receivables2	–330	–309
Net investment	**20,967**	**18,582**

In the Volkswagen Leasing GmbH 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, undiscounted lease payments under finance leases.

€ million	2024	2025	2026	2027	2028	From 2029	Total
Finance lease payments	8,463	5,911	5,328	2,307	206	51	22,267

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

€ million	2023	2024	2025	2026	2027	From 2028	Total
Finance lease payments	8,331	5,035	4,281	1,727	218	50	19,641

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.

€ million	2023	2022
Lease income	5,169	4,575
Total	**5,169**	**4,575**

The impairment losses recognized as a result of the impairment test on lease assets amounted to €602 million (previous year: €67 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 €21 million (previous year: €90 million) and is included in income from leasing transactions.

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

€ million	Movable lease assets
Cost as of Jan. 1, 2023	**33,213**
Additions	14,110
Reclassifications	–
Disposals	11,341
Balance as of Dec. 31, 2023	**35,983**
Depreciation and impairment losses as of Jan. 1, 2023	**7,450**
Additions to cumulative depreciation	3,657
Additions to cumulative impairment losses	602
Reclassifications	–
Disposals	3,412
Reversal of impairment losses	21
Balance as of Dec. 31, 2023	**8,275**
Net carrying amount as of Dec. 31, 2023	**27,708**
Net carrying amount as of Jan. 1, 2023	**25,764**

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

€ million	2024	2025	2026	2027	2028	From 2029	Total
Lease payments	3,566	2,241	962	191	5	0	6,966

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, 2022	**29,446**
Changes in basis of consolidation	–
Additions	11,716
Reclassifications	–40
Disposals	7,909
Balance as of Dec. 31, 2022	**33,213**
Depreciation and impairment losses	
as of Jan. 1, 2022	**6,148**
Additions to cumulative depreciation	3,519
Additions to cumulative impairment losses	67
Reclassifications	–15
Disposals	2,180
Reversal of impairment losses	90
Balance as of Dec. 31, 2022	**7,450**
Net carrying amount as of Dec. 31, 2022	**25,764**
Net carrying amount as of Jan. 1, 2022	**23,298**

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 Volkswagen Leasing GmbH 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	2023	2024	2025	2026	2027	From 2028	Total
Lease payments	2,996	1,759	722	148	3	0	5,629

LESSEE ACCOUNTING

The Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH 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 €0 million (previous year: €0 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 €1 million (previous year: €1 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 €0 million (previous year: €0 million). Expenses for short-term leases were €0 million (previous year: €0 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 Volkswagen Leasing GmbH Group within property and equipment under the following items:

€ million	Land and buildings	Operating and office equip-ment	Total
Gross carrying amount (or cost) as of Jan. 1, 2023	4	**0**	5
Additions	0	–	0
Disposals	0	–	0
Balance as of Dec. 31, 2023	**5**	**0**	**5**
Depreciation and impairment losses as of Jan. 1, 2023	**2**	**0**	**2**
Additions to cumulative depreciation	0	0	0
Balance as of Dec. 31, 2023	**2**	**0**	**3**
Net carrying amount as of Dec. 31, 2023	**2**	**-**	**2**
Net carrying amount as of Jan. 1, 2023	**2**	**0**	**2**

€ million	Land and buildings	Operating and office equip-ment	Total
Gross carrying amount (or cost) as of Jan. 1, 2022	**6**	**0**	**6**
Changes in basis of consolidation	–	–	–
Additions	10	–	10
Balance as of Dec. 31, 2022	**4**	**0**	**5**
Depreciation and impairment losses as of Jan. 1, 2022	**1**	**0**	**2**
Changes in basis of consolidation	–	–	–
Additions to cumulative depreciation	0	0	1
Balance as of Dec. 31, 2022	**2**	**0**	**2**
Net carrying amount as of Dec. 31, 2022	**2**	**0**	**2**
Net carrying amount as of Jan. 1, 2022	**5**	**0**	**5**

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

When assessing the lease term underlying a lease liabilities, the Volkswagen Leasing GmbH Group makes a best estimate as to whether an extension option will be exercised or a termination option will not be exercised. In the event of a material change in the general parameters used for this estimate or a modification of the lease, this estimate is updated.

In the balance sheet, lease liabilities are reported under liabilities to customers. The following table shows a breakdown of the undiscounted contractual maturities of lease liabilities:

€ million	REMAINING CONTRACTUAL MATURITIES			
	Up to 1 year	1 – 5 years	more than 5 years	Total
Lease liabilities as of Dec. 31, 2023	2	7	2	12
Lease liabilities as of Dec. 31, 2022	2	9	2	14

Overall, leases in which the VW FS AG Group is a lessee gave rise to total cash outflows of €2 million (previous year: €2 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.

55. Cash flow statement

The Volkswagen Leasing GmbH 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 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 did not exist as of the reporting date.

The following tables show the breakdown of the changes in subordinated capital (as part of financing activities) into cash and noncash transactions for the reporting year and the prior year.

€ million	Balance as of Jan. 1, 2023	Cash changes	NONCASH TRANSACTIONS			Balance as of Dec. 31,2023
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	183	29	–	–	–	212

€ million	Balance as of Jan. 1, 2022	Cash changes	NONCASH TRANSACTIONS			Balance as of Dec. 31,2022
			Exchange rate changes	Changes in basis of consolidation	Measurement changes	
Subordinated capital	2,903	–2,720	–	–	–	183

56. Off-balance-sheet liabilities

OTHER FINANCIAL OBLIGATIONS

€ million	DUE 2024	DUE 2025 - 2028	DUE From 2029	TOTAL Dec. 31, 2023
Obligations from				
Long-term leasing and rental contracts	–	–	–	–
Miscellaneous financial obligations	63	74	–	137

€ million	DUE 2023	DUE 2024- 2027	DUE From 2028	TOTAL Dec. 31, 2022
Obligations from				
Long-term leasing and rental contracts	–	–	–	–
Miscellaneous financial obligations	19	–	–	19

57. Average number of employees during the reporting period

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are deployed at Volkswagen Leasing GmbH as part of staff leasing arrangements. In addition, the Company had an annual average of 64 (53) salaried employees at its branches in Milan and Verona.

58. Related party disclosures

Related parties as defined by IAS 24 are natural persons and entities that Volkswagen Leasing GmbH has control over or over which it has significant influence, or natural persons and entities that have control over or can exercise significant influence over Volkswagen Leasing GmbH, or who are under the influence of another related party of Volkswagen Leasing GmbH.

Volkswagen Financial Services AG, Braunschweig, is the sole shareholder of Volkswagen Leasing GmbH. Porsche Automobil Holding SE, Stuttgart, held the majority of the voting rights in Volkswagen AG, Wolfsburg, which is the sole shareholder of Volkswagen Financial Services AG, Braunschweig, 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, Hannover, held 20.00% of the voting rights in Volkswagen AG on December 31, 2024 and therefore indirectly had significant influence over the Volkswagen Leasing GmbH Group. As mentioned above, the General Meeting of Volkswagen AG on December 3, 2009 also resolved that the State of Lower Saxony may appoint two members of the Supervisory Board (right of appointment). The sole shareholder, Volkswagen Financial Services AG, and Volkswagen Leasing GmbH have entered into a control and profit-and-loss transfer agreement.

Volkswagen Financial Services AG and other related parties in Volkswagen AG's group of consolidated entities provide the Volkswagen Leasing GmbH 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 Volkswagen Leasing GmbH on an arm's-length basis. These transactions are presented in the "Goods and services received" column.

The "Goods and services provided" column primarily contains income from the marketing of ex-lease vehicles via companies of the Volkswagen Group.

The two tables below show the transactions with related parties.

FISCAL YEAR 2023

€ million	Audit Committee	Management Board	Volkswagen Financial Services AG	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities
Loans and receivables	–	–	1,329	3,360	0	3,190
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–
Obligations	–	–	5,482	2,279	–	8,566
Interest income	–	–	35	81	–	36
Interest expense	–	–	–215	–36	–	–319
Goods and services provided	–	–	11	1,017	0	7,761
Goods and services received	–	–	227	12,513	–	3,526

FISCAL YEAR 2022

€ million	Audit Committee	Management Board	Volkswagen Financial Services AG	Volkswagen AG	Porsche SE	Other related parties in the consolidated entities
Loans and receivables	–	–	2.272	3.151	0	2.907
Valuation allowances on impaired loans and receivables	–	–	–	–	–	–
of which additions in current year	–	–	–	–	–	–
Obligations	–	–	7.726	1.492	–	8.693
Interest income	–	–	11	8	–	4
Interest expense	–	–	–93	–20	–	–77
Goods and services provided	–	–	14	818	0	5.992
Goods and services received	–	–	236	10.181	–	3.391

The “Other related parties in the group of consolidated entities” column includes sister entities that are related parties in Volkswagen AG’s group of consolidated entities but do not directly belong to Volkswagen Leasing GmbH. The relationships with the Audit Committee and the Management Board comprise relationships with the relevant groups of people at Volkswagen Leasing GmbH and the Group parent company Volkswagen Financial Services AG.

Members of the Management Board of Volkswagen Leasing GmbH are also members of governing bodies of other entities in the Volkswagen Group with which Volkswagen Leasing GmbH sometimes conducts transactions in the normal course of business. All transactions with these related parties are conducted on an arm’s-length basis.

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

MANAGEMENT BOARD REMUNERATION IN ACCORDANCE WITH IAS 24

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

€ million	2023	2022
Short-term benefits	1	1
Termination benefits	–	–
Post-employment benefits	–	–

In the reporting year, the total remuneration of the Management Board in accordance with the HGB amounted to €1 million (previous year: €1 million).

AUDIT COMMITTEE REMUNERATION

In accordance with a resolution passed by the Annual General Meeting, the members of the Audit Committee are entitled to an annual allowance. This allowance is independent of the performance of the Company. As a result, a total amount of less than €0.01 million (previous year: €0.01 million) was paid out to the members of the Audit Committee in the reporting period.

59. Governing bodies of Volkswagen Leasing GmbH

The members of the Management Board are as follows:

ARMIN VILLINGER

Chief Executive Officer
Fleet Germany, Volkswagen Leasing GmbH
Front Office, MAN FS (as of February 1, 2023)

FRANK CZARNETZKI (UNTIL JANUARY 31, 2023)

Front Office, MAN FS

HENDRIK EGGERS

Back Office, Volkswagen Leasing GmbH

MANUELA VOIGT

Retail Sales & Digitalization, Volkswagen Leasing GmbH

The members of the Audit Committee are as follows:

WERNER FLÜGGE

Chair

HELMUT STREIFF

Deputy Chair

FRANK FIEDLER

Member

Companies included in the consolidated financial statements

Name and registered office of the company	Currency	VW LEASING GMBH'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
I. PARENT COMPANY								
VOLKSWAGEN LEASING GMBH; BRAUNSCHWEIG								
II. SUBSIDIARIES								
A. Consolidated companies								
1. International								
Trucknology S.A., Luxembourg	EUR	–	–	–	31	–	1)	2022
VCL Master Residual Value S.A., Luxembourg	EUR	–	–	–	31	–	1)	2022
VCL Master S.A., Luxembourg	EUR	–	–	–	31	–	1)	2022
VCL Multi-Compartment S.A., Luxembourg	EUR	–	–	–	31	–	1)	2022

1) Structured company in accordance with IFRS 10 and IFRS 12

60. Events after the reporting date

There were no significant events in the period between December 31, 2022 and February 13, 2024.

Braunschweig, February 13, 2024

Volkswagen Leasing GmbH
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the 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 13, 2024

Volkswagen Leasing GmbH
The Management Board

Armin Villinger

Hendrik Eggers

Manuela Voigt

Independent auditor's report

To Volkswagen Leasing GmbH, Braunschweig

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

OPINIONS

We have audited the consolidated financial statements of Volkswagen Leasing GmbH, 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 2023 to 31 December 2023, and the consolidated balance sheet as at 31 December 2023, consolidated statement of changes in equity and consolidated cash flow statement for the fiscal year from 1 January 2023 to 31 December 2023, 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 Leasing GmbH, Braunschweig, which is combined with the Company's management report, for the fiscal year from 1 January 2023 to 31 December 2023.

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 ["Handelsgesetzbuch": German Commercial Code] 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 2023 and of its financial performance for the fiscal year from 1 January 2023 to 31 December 2023, 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.

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 2023 to 31 December 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Determination of the expected residual values of 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 "11. Leases" and note "55. Leases" and the disclosures on the determination of the residual values of lease assets in note "15. Estimates and assumptions by management" of the notes to the consolidated financial statements.

Other information

The Audit Committee is responsible for the Report of the Audit Committee. In all other respects, the executive directors are responsible for the other information. The other information comprises the Responsibility Statement section to be included in the annual report, of which we obtained a copy prior to issuing this auditor's report, but not the 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 Audit Committee, 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 Audit Committee 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 Audit Committee 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 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, 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 Leasing_GmbH_KA+KLB_ESEF-2023-12-31.zip" and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format

("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the 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 2023 to 31 December 2023 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 Audit Committee for the ESEF documents

The executive directors of the Company are responsible for the preparation of the ESEF documents including the electronic rendering of the 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 Audit Committee 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 24 February 2023 and were engaged by the Management Board on 17 October 2023. We have been the auditor of Volkswagen Leasing GmbH without interruption since fiscal year 2020.

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

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

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT
Our auditor's report must always be read together with the audited 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, 19. February 2024

EY GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft

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

Report of the Audit Committee

of Volkswagen Leasing GmbH

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

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

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

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

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

Braunschweig, February 21, 2024

Werner Flügge Chair	Helmut Streiff Deputy Chair
Frank Fiedler Member	

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This annual report is also available in German at https://www.vwfs.com/gbvwfsag23.