VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

ANNUAL REPORT
HGB

2021

Fundamental Information about the Group

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

BUSINESS MODEL

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

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

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

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

INTERNAL MANAGEMENT

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

KEY PERFORMANCE INDICATORS USED BY VOLKSWAGEN FINANCIAL SERVICES AG

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

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are also measured.

Customer Satisfaction

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

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

External Employer Ranking

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

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

The Company's aim is to position itself as an attractive employer and determine appropriate measures that will enable it to become a top-20 employer by 2025, not just in Europe, but globally. During 2021, Volkswagen Financial Services AG successfully participated in various national and international benchmarkings for best employers. In the "Great Place to Work" employer awards, the Company was once again among the leaders in Europe, achieving its target of a top-20 ranking.

SIGNIFICANT CHANGES IN EQUITY INVESTMENTS

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

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

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

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

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

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

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

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

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2021 as it recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was up on the previous year. Volkswagen Financial Services AG's operating result was substantially higher than the level of the previous year.

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

At the end of 2019, initial cases of a potentially fatal respiratory disease became known in China. This disease is attributable to a novel virus belonging to the coronavirus family. Infections also appeared outside China from mid-January 2020. The number of people infected rose very rapidly in the course of 2020, albeit with differences in timing and regional spread. Around the world, measures were taken and adapted at national level and with varying levels of intensity based on the situation. However, these ultimately failed to bring the spread of the SARS-CoV-2 virus under control. In addition, aid packages to support the economy were agreed by the European Commission and by numerous governments in Europe and other regions, and economic stimulus measures were introduced to counter the pandemic's impact. Throughout the whole of 2020, the global spread of the SARS-CoV-2 virus brought enormous disruption to all areas of everyday life and the economy.

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

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

SPECIAL MANAGEMENT MEASURES IN RESPONSE TO THE COVID-19 PANDEMIC

Due to the Covid-19 pandemic, new business, the credit risk situation, realized residual values and payment deferrals were regularly reported on in fiscal year 2021. Particular attention was paid to the risk and liquidity situation in the dealer organization. This reporting provided a detailed, timely overview of the risk situation in respect of the impact on the financial performance of the Volkswagen Financial Services AG Group, enabling the situation to be managed.

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

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

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

The share of financed and leased vehicles in the Group's worldwide deliveries (penetration) stood at 26.7 (27.6) % at the end of 2021.

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

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

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

The residual value portfolio again expanded significantly in fiscal year 2021. Residual value risk declined substantially, particularly due to the strong demand for used vehicles generated by the restricted availability of new vehicles. Changes in residual value risk continue to be closely monitored on an ongoing basis, leading to corresponding measures where required.

At the level of the Volkswagen Financial Services AG Group overall, liquidity risk remained stable. In 2021, risk premiums returned to pre-pandemic levels and in some cases fell even lower.

The funding structure remained well diversified in terms of the instruments used. The Group's main sources of funding, comprising capital markets, ABSs, funding through banks and deposits in individual markets, continued to be available at Group level and could still be used as required.

The purpose of the global, cross-company Operational Excellence (OPEX) efficiency program is to generate further cost savings by 2025. The main components are initiatives to enhance productivity (among other things by streamlining processes), optimization of distribution costs and the harmonization of IT systems through the global introduction of standardized systems. For several years, the program has been helping the Company to achieve the objectives in the ROUTE2025 corporate strategy, but it was also one of the drivers behind the earnings performance in 2021.

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

EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

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

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

1 Prior-year figures restated.

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

Europe/Other Markets

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

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

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

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

Germany

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

North America

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

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

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

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

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

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

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

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

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

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

In the reporting period, the global volume of new registrations for light commercial vehicles was slightly (1.5%) higher than in the previous year.

Sector-Specific Environment

The sector-specific environment was influenced significantly by fiscal policy measures, which contributed considerably to the mixed trends in sales volumes in the markets in 2021. These measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties.

In addition, non-tariff trade barriers to protect the respective domestic automotive industries made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

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

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

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

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

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

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

Germany

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

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

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

North America

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

South America

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

Asia-Pacific

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

In the markets that are relevant for the Volkswagen Group, global demand for mid-sized and heavy trucks with a gross weight of more than six tonnes experienced significant growth versus the comparison period in fiscal year 2021 (+19.5%). In comparison with the previous year, which had been adversely affected by the Covid-19 pandemic, a recovery of the truck markets could be observed worldwide.

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

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

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP[1]

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

1 The delivery figures of the previous year have been updated or restated following statistical updates and changes to the reporting structure. Including Chinese joint ventures.
2 Until October 31, 2021.

FINANCIAL PERFORMANCE

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

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

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

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

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

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

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

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

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

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

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

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

Net other operating income/expenses substantially exceeded the prior-year level at €635 (513[3]) million (+23.8%). An amount of €61 (52) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses. The share of profits and losses of equity-accounted joint ventures increased substantially year-on-year to €78 (64) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounted to a net loss of €50 (168) million and included impairment losses of €10 million for non-consolidated subsidiaries and €52 million for equity-accounted joint ventures. On the basis of these figures, together with the other income and expense components, the Volkswagen Financial Services AG Group generated a profit from continuing operations, net of tax, of €2,227 (796[3]) million.

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

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

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

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

In 2021, Volkswagen Versicherung AG was operating primary and reinsurance business in 15 international markets, complementing the core business in Germany.

Volkswagen-Versicherungsdienst GmbH, which operates as the sales partner in the German market for both Volkswagen Autoversicherung AG and Volkswagen Versicherung AG, played a part in the successful performance of these companies. Overall, the activities of Volkswagen-Versicherungsdienst GmbH made a steady contribution to the earnings of Volkswagen Financial Services AG.

3 Prior-year figures restated.

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €112.4 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 90% of the Group's total assets.

The volume of retail financing lending rose by €1.9 billion to €22.9 billion (+9.0%).

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

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – declined to €3.9 billion (–9.5%).

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

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

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

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

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

Deposit Business and Borrowings

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

Subordinated Capital

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

Equity

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

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

Changes in Off-Balance-Sheet Liabilities

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

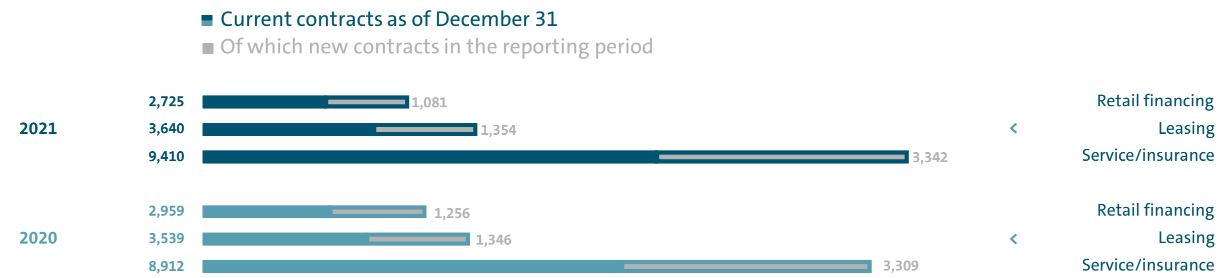
KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2021

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

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

DEVELOPMENT OF NEW CONTRACTS AND CURRENT CONTRACTS AS OF DECEMBER 31

in thousands



Liquidity Analysis

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

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

The internal control system (ICS) at Volkswagen Financial Services AG is used to measure liquidity risk individually for significant companies. The liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent 12 months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 68.7% of this limit was utilized as of December 31, 2021.

Various subsidiaries of Volkswagen Financial Services AG must fulfill different regulatory liquidity requirements at local level. For example, Volkswagen Leasing GmbH has to satisfy the “Mindestanforderungen an das Risikomanagement” (MaRisk – German Minimum Requirements for Risk Management). Compliance with these requirements is determined and continuously monitored by the liquidity risk management department. Additionally, the cash flows for the coming 12 months are projected and compared against the potential funding available in each maturity bucket.

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

FUNDING

Strategic Principles

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

Implementation

Volkswagen Financial Services AG and its subsidiaries issued a number of bonds in different currencies during the year under review. In addition to euro bonds, bonds denominated in pound sterling, Swedish krona and Norwegian krone were issued under Volkswagen Financial Services AG’s debt issuance program. Bonds based on local documentation requirements were also issued in Australia, Poland, Brazil and Korea.

In addition, asset-backed securities (ABSs) were placed. Volkswagen Financial Services AG was active in global markets with various ABS transactions; along with the issuance of bonds in euros, securities were also issued in China, Australia, Japan and Brazil.

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

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

The following tables show the transaction details:

CAPITAL MARKET 2021

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

ABSS 2021

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Financial Services Japan Ltd., Tokyo	Driver Japan ten	February	Japan	JPY 64.2 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 32	March	Germany	EUR 1.0 billion
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China twelve	May	China	CNY 6.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 33	June	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 34	November	Germany	EUR 750 million
Volkswagen Finance (China) Co., Ltd., Beijing	Driver China thirteen	November	China	CNY 8.0 billion
Volkswagen Financial Services Australia Pty Limited., Chullora	Driver Australia seven	November	Australia	AUD 600 million
Banco Volkswagen S.A., São Paulo	Driver Brasil five	November	Brazil	BRL 1.1 billion

Ratings

Volkswagen Financial Services AG is a wholly owned subsidiary of Volkswagen AG and, as such, its credit ratings with both Moody's Investors Service (Moody's) and Standard & Poor's Global Ratings (S&P) are closely associated with those of the Volkswagen Group. In April 2021, the S&P rating agency affirmed its combined ratings for Volkswagen AG and Volkswagen Financial Services AG at A–2 (short term) and BBB+ (long term). Based on higher-than-expected free cash flow in the automotive business, the outlook for Volkswagen AG and Volkswagen Financial Services AG was revised to stable from negative. In March 2021, Moody's revised the outlook for Volkswagen AG to stable from negative and affirmed the short-term and long-term ratings at P–2 and A3 respectively because of the continuing recovery in global vehicle sales and a resulting anticipated improvement in credit metrics. At the same time, Volkswagen Financial Services AG's short-term and long-term ratings were also affirmed at P–2 and A3 respectively. The outlook was revised to stable from negative.

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2021

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

Sales revenue amounted to €679 (603) million, with cost of sales coming to €684 (596) million. These items include the income from cost allocations to Group companies and the expenses related to personnel and administrative costs.

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

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

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

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

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

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

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

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

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

NUMBER OF EMPLOYEES

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

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

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

Volkswagen Financial Services AG operates almost exclusively as a holding company and is integrated into the internal management concept of the Volkswagen Financial Services Group. It is thus subject to the same key performance indicators and the same opportunities and risks as the Volkswagen Financial Services Group. The legal requirements governing the management of Volkswagen Financial Services AG as a legal entity are observed using key performance indicators such as net assets, net income and liquidity. This internal management concept and these opportunities and risks are described in the section on the fundamental information about the Volkswagen Financial Services Group (pages 4 and 5) as well as in the report on opportunities and risks (pages 21 – 29) of this annual report.

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

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

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

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

Report on Opportunities and Risks

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

OPPORTUNITIES AND RISKS

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

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

Macroeconomic Opportunities and Risks

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

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

Growth in the global economy depends on how the Covid-19 pandemic evolves. Constant changes in the course of the pandemic mean that diminished rates of global economic growth or a period of below-average growth rates cannot be ruled out. In this regard, particular attention needs to be paid to the economic consequences of any action implemented to contain the pandemic. Delays and bottlenecks in global supply chains could also have an adverse impact on worldwide growth.

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

Strategic Opportunities

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

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

Opportunities from Credit Risk

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

Opportunities from Residual Value Risk

When vehicles are remarketed, Volkswagen Financial Services AG may be presented with the opportunity to achieve a price that is higher than the calculated residual value if prices actually achieved from remarketing rise more than anticipated because of an increase in demand for used vehicles or other factors causing supply bottlenecks for new vehicles.

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

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

> The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury Controlling, ICS Steering, Compliance & Integrity (ICS Steering) and Controlling units, each with clearly separate functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly.
> Group-wide rules and accounting requirements have been put in place to ensure a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. The rules and requirements define which companies are included in the consolidation along with the mandatory use of a standardized, comprehensive set of forms for mapping and processing intragroup transactions.
> Analyses and any adjustments to single-entity financial statements prepared by the consolidated entities are complemented by the reports submitted at Group level by the auditor, taking into account specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view. The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.
> These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are supplemented with specific Group-level functions at the parent company Volkswagen AG, for example the Group Tax department.
> The Internal Audit department is a key component of the monitoring and control system. It carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Board of Management of Volkswagen Financial Services AG.

In summary, the existing internal monitoring and control system of the Volkswagen Financial Services AG Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Financial Services AG Group as of the reporting date December 31, 2021 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Financial Services AG after the reporting date.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

At Volkswagen Financial Services AG, risk is defined as the danger of loss or damage that could occur if an expected future development turns out to be less favorable than planned. Volkswagen Financial Services AG, including its subsidiaries and equity investments, is exposed to a large number of risks typical for the financial services sector as part of its primary operating activities. It accepts these risks in a responsible manner so that it can exploit any resulting market opportunities.

The organizational structure of the Volkswagen Group's RMS/ICS is based on the internationally recognized Enterprise Risk Management Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The structure of the RMS/ICS in accordance with the COSO ERM Integrated Framework also ensures that potential areas of risk in the Volkswagen Financial Services AG Group are comprehensively covered. Risk is managed using an internal control system based on a three-lines-of-defense model. This structure functions as a monitoring and control system for risk. The system comprises a framework of risk principles, organizational structures and processes for assessing and monitoring risks. The individual elements are tightly focused on the activities of the individual divisions. This structure makes it possible to identify at an early stage any trends that could represent a risk to the business as a going concern so that appropriate corrective action can then be initiated.

Appropriate procedures are in place to ensure that risk management is adequate. The relevant risk owner for individual types of risk continuously monitors and manages risks, which are pooled by the ICS Steering unit and reported to the Board of Management. The individual elements in the system are regularly verified on a risk-oriented basis by Internal Audit.

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

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

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

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

BUSINESS STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management. As part of this overall responsibility, the Board of Management has introduced a strategy process and drawn up a business strategy. The ROUTE2025 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

The main risk management goals and measures for each category of risk provide direction for the business policy and risk appetite. The attainment of goals is reviewed annually and any variances are analyzed to establish the causes.

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

RISK-BEARING CAPACITY

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

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

PRODUCT TRANSPARENCY AND NEW MARKETS PROCESS

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

RISK CONCENTRATIONS

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

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

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

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

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

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

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

MATERIAL RISK CATEGORIES AND RISK REPORTING

A risk survey has identified the following risk categories as material to Volkswagen Financial Services AG: credit risk, country risk, shareholder risk, interest rate risk, residual value risk, liquidity risk, risks of insurance companies, operational risk, reputational risk, compliance and integrity risk, and strategic risk. All these risk categories lead to earnings risk, which is not analyzed separately here but made transparent in the planning and management process.

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

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

OVERVIEW OF RISK CATEGORIES

FINANCIAL RISKS	NONFINANCIAL RISKS
Credit risk	Operational risk
Country risk	Reputational risk
Shareholder risk	Compliance and integrity risks
Interest rate risk	Strategic risk
Residual value risk	
Liquidity risk	
Risks of insurance companies	

FINANCIAL RISKS

Credit Risk

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

The aim of systematic credit risk monitoring by the international subsidiaries is to identify potential borrower or lessee insolvencies at an early stage, initiate any corrective action to prevent a potential default in good time and anticipate possible losses by recognizing appropriate write-downs or provisions. Significant borrowers or borrower units are also monitored by ICS Steering.

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

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

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

A set of procedural instructions outlines the requirements for developing and maintaining the local rating systems. Similarly, guidelines known as Golden Rules specify the parameters for developing, using and validating the scoring systems in the retail business.

Rating Systems for Corporate Customers

Volkswagen Financial Services AG uses rating systems to assess the credit worthiness of corporate customers. This evaluation takes into account both quantitative factors (mainly data from annual financial statements) and qualitative factors (such as the prospects for future business growth, quality of management, market and industry environment, and the customer's payment record). When the credit assessment has been completed, the customer is assigned to a rating class, which is linked to a probability of default. A centrally maintained, workflow-based rating application is used for the most part to support this analysis of credit worthiness. The rating determined for the customer serves as an important basis for decisions on whether to grant or renew a loan and for decisions on provisions. The models in use are largely centrally validated and monitored on a regular basis, and are adjusted and refined as required.

Scoring Systems in the Retail Business

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

Collateral

The general rule is that credit transactions are secured by collateral to an extent that is commensurate with the risk. In addition, overarching rules specify the requirements that must be satisfied by collateral, the evaluation procedures and the evaluation bases. Local collateral guidelines with specific values take these rules into account. The values in the collateral policies are based on historical data and experience accumulated by experts over many years. As the operating activities of Volkswagen Financial Services AG are focused on retail financing, dealer financing and the leasing of vehicles, the vehicles themselves are hugely important as collateral assets. For this reason, trends in the market values of vehicles are locally monitored and analyzed; the collateral values based on this data are adjusted, where required.

Provisions

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

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

ICS Steering sets fundamental parameters in the form of golden rules and guidelines for the management of credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. To this end, exposures are transferred to a suitable form of supervision or support depending on risk content (normal, intensified or problem loan). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company in accordance with the support strategy for the international subsidiaries. Regular reporting and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk[1]	Dec. 31, 2021	Dec. 31, 2020
Amount utilized (€ million)	111,018	103,263
Default rate in %	1.6	1.8
Impairment ratio in %	1.8	2.0

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

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

Country Risk

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

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

Shareholder Risk

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

In principle, Volkswagen Financial Services AG only makes such equity investments to help it achieve its corporate objectives. The investments must therefore support its own operating activities and are intended to be held on a long-term basis.

If shareholder risk were to materialize in the form of a loss of fair value or even the complete loss of an equity investment, this would have a direct impact on relevant financial data. The net assets and financial performance of Volkswagen Financial Services AG would be adversely affected by write-downs recognized in profit or loss.

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

Interest Rate Risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. Volkswagen Financial Services AG is exposed to interest rate risk in its banking book. Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance. Interest rate risk is managed on the basis of limits using interest rate derivatives as part of the risk strategy defined by the Board of Management of Volkswagen Financial Services AG. Monitoring is performed by Treasury on the basis of a service agreement with Volkswagen Bank GmbH. A report on interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each quarter. As of December 31, 2021, 90.0% of the limit was utilized.

Residual Value Risk

Residual value risk arises from the fact that the actual market value for a lease asset at the time of remarketing could be lower than the residual value calculated at the inception of the lease. On the other hand, there is an opportunity in that the remarketing could generate proceeds greater than the calculated residual value.

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

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

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

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

CHANGES IN DIRECT RESIDUAL VALUE RISK

Direct residual value risk[1]	Dec. 31, 2021	Dec. 31, 2020
Number of contracts	2,521,813	2,430,832
Guaranteed residual values (€ million)	36,858	32,713
Risk exposure in %	2.9	4.1

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

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

Liquidity Risk

Liquidity risk is the risk of a negative variance between actual and expected cash inflows and outflows. Liquidity risk is defined as the risk of not being able to meet payment obligations in full or when due, or – in the event of a liquidity crisis – the risk of only being able to raise funding at higher market rates or only being able to sell assets at a discount to market prices. If liquidity risk were to materialize, higher costs and lower selling prices for assets could lead to a negative impact on financial performance. The consequence of liquidity risk in the worst-case scenario is insolvency caused by illiquidity. Liquidity risk management ensures that this situation does not arise. The analysis and management of liquidity risk at the entities belonging to Volkswagen Financial Services AG are outsourced to the Treasury unit of Volkswagen Bank GmbH.

The primary objective of liquidity management is to safeguard the ability of the Company to meet its payment obligations at all times. This can be guaranteed through the use of drawdowns under credit facilities available with third-party banks and with Volkswagen AG. To measure liquidity risk, Volkswagen Financial Services AG has set up a system of limits throughout the Group. This system restricts funding-related cash outflows over a time horizon of 12 months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) meets at least every four weeks to monitor the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. ICS Steering communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2021, 68.7% of the limit was utilized.

Risks of Insurance Companies

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

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

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

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

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

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

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

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

NONFINANCIAL RISKS

Operational Risk

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

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

The annual risk self-assessment is used to determine a forward-looking monetary assessment of potential risks. A standardized risk questionnaire is provided for this purpose. The local experts use these questionnaires to determine and record the potential level of risk and the probability that a risk could materialize. The central loss database is used to ensure that information about monetary operational losses is collected internally on an ongoing basis and the relevant data is stored. A standardized loss form is made available to the local experts to aid this process. The experts use this form to determine and record the relevant data, including the amount and cause of the loss.

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

The ICS Steering unit checks the plausibility of the information provided by the companies/divisions in the risk self-assessments, reviews the reported loss events and then initiates any necessary corrective action, reviews the operational risk system to ensure it is fully functioning and instigates appropriate modifications as required. This includes the integration of all relevant operational risk units.

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

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

Reputational Risk

Reputational risk refers to the risk that an event or several successive events could cause reputational damage (in the eyes of the general public), which in turn could limit current and future business opportunities or activities (potential earnings), thereby leading to an indirect adverse financial impact (customer base, sales, funding costs) and direct financial losses such as penalties or litigation costs. The responsibilities of the Corporate Communications unit include avoiding negative reports in the press or similar announcements that could inflict damage on the reputation of the Company. If this is unsuccessful, the unit is then responsible for assessing the situation and initiating appropriate communications aimed at specific target groups to limit the reputational damage as far as possible. The strategic objective is therefore to prevent or reduce any negative variance between actual reputation and the level of reputation the Company expects. A loss of reputation or damage to the Company's image could have a direct impact on financial performance.

Compliance and Integrity Risks

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

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

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

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

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

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

Strategic Risk

Strategic risk (also referred to as the risk from general business activities) is the risk of a direct or indirect loss arising from strategic decisions that are flawed or based on false assumptions. Strategic risk also includes all risks that result from the integration/reorganization of technical systems, personnel or corporate culture (integration/reorganization risk). These risks may be caused by fundamental decisions about the structure of the business made by the management in relation to the positioning of the Company in the market.

The objective of Volkswagen Financial Services AG is to manage its acceptance of strategic risk enabling it to systematically leverage earnings potential. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern.

SUMMARY

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

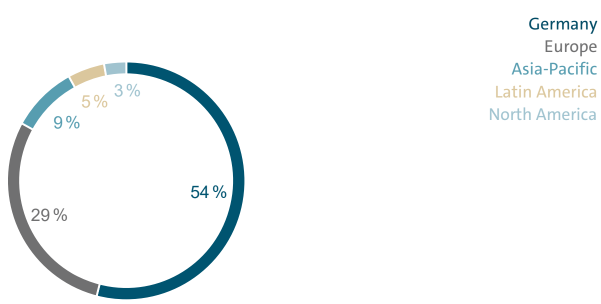
Human Resources Report

Realignment of HR: Business Driven – People Focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 11,021 (10,880) employees as of December 31, 2021. Of these, 5,901 (5,789), or 54%, were employed in Germany and 5,120 (5,091), or 46%, at international sites. Owing to economic considerations, 226 (270) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION
as of December 31, 2021



HUMAN RESOURCES STRATEGY

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

Responsibility for implementing the employee strategy at an international level lies with the international subsidiaries themselves, with support coming from the international HR unit at the head office in Braunschweig. The local entities hold regular individual and overarching meetings with the head office in Braunschweig to report on their progress and share detailed related information. For example, notable positive trends and activities are presented and discussed at an annual HR conference so that best practices can also be shared between the different local entities.

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

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

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

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

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

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

The HR Transformation program sets the framework in which all employees – regardless of the extent to which they are affected – can make an individual contribution to the success of the transformation. In addition to placing employees in new jobs, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the qualifications required. The importance of knowledge and experience in the field of digitalization is growing. Since 2020, HR has each year offered 20 sponsored online degree programs and other online training courses related to the areas of data, digitalization and cyber security.

The Transformation Office established in connection with the project supports the change process in respect of the internal labor market. Its centralized management at the Braunschweig site ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure a transparent procedure throughout the entire site. The employees concerned receive assistance in the form of training geared to their individual needs. The Transformation Office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related to the internal labor market. To date, more than 220 employees have found new roles in this way. The Internal Labor Market has become an attractive option and managers now proactively seek applications via the transformation process. The international sites have similar approaches in place. The Strategic HR Planning subproject is a response to the changes in requirements for employees. It enables the Company to carry out quantitative HR planning and detailed analysis based on job profiles and on skills and qualifications. It takes account of both present and future needs, and therefore also newly emerging tasks and skills requirements.

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

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

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

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

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

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

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of Top20 employers in the "Great Place to Work" employer ranking by 2025, not just in Europe but worldwide. In 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2021" and "Best Employer in Germany 2021" competitions. In a comparison within Europe, the Company was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. There are plans to enter the Best Employer competition again in 2023.

The results of external and internal customer satisfaction surveys are used as indicators of target achievement. The internal customer feedback system, which analyses internal collaboration, is used in 11 countries.

IMPLEMENTATION OF THE CORPORATE STRATEGY

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

Together4Integrity (T4I), an integrity and compliance program for the entire Group launched in the second half of 2018, was continued in 2021 as well. The program was rolled out at international level mainly in the affiliated companies and further smaller entities, primarily in Switzerland, Taiwan and Denmark. The program focuses on the strategic issues of compliance, culture and integrity in relation to processes, structures, attitudes and conduct. It contributes to the refinement and improvement of the corporate culture at Volkswagen Financial Services AG by organizing and tracking integrity and compliance initiatives throughout the Group. Following the successful completion of the U.S. Compliance Monitorship in September 2020, the program will be continued in 2022 and thereafter in accordance with the Group's master plan.

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

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2021, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional e-commerce qualifications. The dual approach combines vocational training with study for a university degree. The Bachelor of Arts in Business Administration specializing in digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V. and was initiated in a partnership with Volkswagen Financial Services AG. The combination of vocational training and studies for a Bachelor of Science in Business Informatics and Bachelor of Science in IT Security is offered in collaboration with Leibniz University of Applied Sciences. In 2021, vocational trainees were once again recruited predominantly to train for specialist professional IT qualifications in application development, and dual vocational training students mainly to become business informatics specialists, in an effort to design vocational training on a forward-looking basis and incorporate the topic of digitalization. A degree study program in computer science is also offered at the Braunschweig University of Technology. The offering has been expanded to include the vocational field of media design.

As of December 31, 2021, a total of 131 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. In Germany, a total of 43 vocational trainees were offered permanent positions in the reporting period.

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

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

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

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

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

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

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

All information on training offered by the FS Academy (course catalogue, specialist forums, lectures/presentations and e-learning sessions) is available centrally via FS Academy Online, the Academy's own digital learning platform. The learning platform supports the entire training process for employees, including the search for a suitable learning opportunity, registration, participation and, subsequently, the digital provision of materials, such as photographic material, handouts and participation certificates. In addition, employees can use FS Academy Online to participate in different types of digital learning formats such as e-learning. The bulk of the skills development offering has also been transferred to a digital format so that employees are able to learn wherever they happen to be and, in some cases, at any time they choose. Further expansion of these development opportunities and the independent learning approach is planned for the future. To this end, Volkswagen Financial Services AG launched a pilot project in 2021 in which 500 test users in Europe could try out a new AI-supported learning platform. Based on the user's existing skills and expertise, the online platform offers customized skills development coupled with the opportunity to network with colleagues as well as share and continually expand knowledge.

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

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

As of December 31, 2021 47.3 %, of the workforce of Volkswagen Financial Services AG in Germany, but this is not yet reflected in the percentage of women in management positions. Volkswagen Financial Services AG is striving to meet the targets it set itself in 2010 and revised in 2016 in line with the Gesetz zur gleichberechtigten Teilhabe von Frauen und Männern in Führungspositionen (FührposGleichberG – German Act on the Equal Representation of Women and Men in Management Positions) with regard to the proportion of women in management, on the Board of Management and on the Supervisory Board. The Company has set itself the objective of increasing the proportion of women in management positions over the long term. In succession planning, female candidates are systematically considered with the aim of complying with the relevant targets.

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

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

	Target 2023	Target 2021	Actual 2021
Second management level	27.8	26.7	23.1
First management level	16.8	15.0	14.5

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

The Supervisory Board has set the following targets for the proportion of women to be achieved by the end of 2021: 25.0 % for the Supervisory Board and 16.7 % for the Board of Management. At the end of 2021, the proportion of women on the Supervisory Board was 41.7 %; the equivalent figure for the Board of Management was 20.0 %.

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

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

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

DIVERSITY

In addition to the advancement of women, the concept of diversity has been an integral component of the corporate culture at Volkswagen Financial Services AG since 2002. Volkswagen Financial Services AG sent a clear signal with its corporate initiative, the Diversity Charter, which was signed in 2007. Under this initiative, the Company has pledged to respect and value diversity, and to promote employees according to their skills and ability. In 2018, Volkswagen Financial Services AG adopted a Diversity Policy to reinforce this approach and enshrined the policy in its organizational manual. The Diversity Policy ensures that diversity is recognized as the norm rather than an exception. In the Best Employer in Germany 2021 award, which is a Great Place to Work competition for the whole of Germany, Volkswagen Financial Services AG received a special equal opportunities and diversity award for its strategically embedded HR management system. Diversity becomes a strength through the conscious appreciation of the workforce. Volkswagen Financial Services AG operates at an international level and thus workforce diversity is a substantial factor in the successful performance of the business.

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

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

Report on Expected Developments

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

Our planning is based on the assumption that global economic output will continue to grow in 2022, albeit at a somewhat lower level overall, on the heels of the recovery observed in the past fiscal year – provided that the Covid-19 pandemic does not flare up again and that shortages of intermediates and commodities become less intense. We continue to believe that risks will arise from protectionist tendencies, turbulence in the financial markets and structural deficits in individual countries. In addition, growth prospects will be negatively impacted by ongoing geopolitical tensions and conflicts. We anticipate that both the advanced economies and the emerging markets will experience positive momentum.

Furthermore, we anticipate that the global economy will also continue to grow in the period from 2023 to 2026.

Europe/Other Markets

In Western Europe, we expect comparatively robust economic growth, exceeding the 2019 pre-crisis level. The widespread impact of the Covid-19 pandemic and the uncertain consequences of the United Kingdom's withdrawal from the EU will fundamentally pose major challenges.

We likewise anticipate relatively robust growth rates in Central Europe in 2022. Economic output in Eastern Europe is also expected to continue growing, though at a somewhat slower pace, similar to the Russian economy.

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

Germany

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

North America

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2022, particularly because of the ongoing challenges resulting from the Covid-19 pandemic and the persistent supply chain difficulties arising from the semiconductor chip shortage. We expect demand to rise in emerging markets where market penetration has so far been low. Regions that already benefit from developed automotive financial services markets will presumably see a continuation of the trend toward customers requiring mobility at the lowest possible total cost. Integrated end-to-end solutions, comprising mobility-related service modules such as insurance and innovative packages of services, will probably become increasingly important in this regard. It is also likely that demand for new forms of mobility, such as rental services or car subscription models, and for other mobility services, such as parking, refueling and charging, will increase and that the shift from financing to lease contracts that has already begun in the European leasing business will continue. The importance of direct business between manufacturer and customer is predicted to grow, especially in China. The seamless integration of financial services into online vehicle sales is becoming increasingly important to promote this business. We anticipate that this trend will continue in the period from 2023 to 2026.

In the mid-sized and heavy commercial vehicles category, we expect rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In mature markets, we are projecting increased demand in 2022 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2023 to 2026.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe/Other Markets

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

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

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

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

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

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

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

Germany

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

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

North America

The sales volume in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America as a whole and in the USA in 2022 is likely to be slightly higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. In Canada, the number of new registrations is projected to be moderately higher than the previous year's level. For Mexico we also expect a moderate increase in new registrations compared with the reporting period.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate a distinct increase overall in new registrations in the South American markets in 2022 compared with the previous year. The market volume in Brazil is also expected to grow distinctly compared with 2021. We anticipate that the volume of new registrations in Argentina will also be distinctly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be slightly up on the prior-year level in 2022. We estimate that the market volume in China will also be slightly higher than the comparative figure for 2021. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. As long as there is no resolution in sight, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence. We anticipate that the Indian market will perform at the previous year's level. Japan should see distinct growth in market volume in 2022.

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

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

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

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

INTEREST RATE TRENDS

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

MOBILITY CONCEPTS

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

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

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

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

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

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

The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. In addition, Volkswagen Financial Services AG already offers a supporting portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of payment solutions for digital business models in the Volkswagen Group, the further expansion of cashless and mobile payment for parking in North America and Europe as well as the further development of the electric vehicle charging and fuel card services in Europe. Together with the charging network of the Group brand Elli, Volkswagen Financial Services AG provides through the Charge&Fuel Card access to over 250,000 public charging points and another 18,000 fueling stations in Europe. In addition, the Europe-wide processing of toll transactions was integrated into the services for business customers. Further activities will focus on driving forward the expansion of the fleet business.

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

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

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

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

SUMMARY OF EXPECTED DEVELOPMENTS

Volkswagen Financial Services AG expects its business growth in fiscal year 2022 to be linked to the growth in unit sales of Volkswagen Group vehicles.

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

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

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

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

Forecast for Credit and Residual Value Risk

As far as credit risk is concerned, it is anticipated that the risk situation will remain challenging in 2022 because of the ongoing Covid-19 pandemic. The effects very much depend on the further development of the pandemic and on the macroeconomic impact in individual regions. Nevertheless, the volume of loans and receivables is projected to grow.

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

In the residual value portfolio, the volume of contracts is projected to continue to grow in fiscal year 2022. In this case too, the main drivers will be the growth programs implemented by the Company and further expansion in the fleet business.

Forecast for Liquidity Risk

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

OUTLOOK FOR 2022

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

Growth in individual countries and regions is heavily dependent on the local course of the pandemic. When the above factors and the market trends are considered, the following overall picture emerges: earnings expectations assume greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future, potential effects of geopolitical upheaval and continued uncertainty about macroeconomic conditions in the real economy.

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

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

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

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

Braunschweig, February 24, 2022
Volkswagen Financial Services AG

The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

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

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2021

€ thousand	Dec. 31, 2021	Dec. 31, 2020
Assets		
A. Fixed assets		
Financial assets	10,531,917	10,311,148
	10,531,917	10,311,148
B. Current assets		
I. Receivables and other assets	17,693,176	17,425,281
II. Cash-in-hand and bank balances	159	543
	17,693,335	17,425,824
C. Prepaid expenses	28,522	18,850
Total assets	**28,253,774**	**27,755,822**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	2,816,213	3,216,213
III. Retained earnings	99,469	99,469
IV. Net retained profits	401,705	1,705
	3,758,667	3,758,667
B. Provisions	688,167	598,902
C. Liabilities	23,804,923	23,398,095
D. Deferred income	2,018	159
Total equity and liabilities	**28,253,774**	**27,755,822**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the period January 1 to December 31, 2021

€ thousand	2021	2020
Sales	678,594	602,907
Cost of sales	683,722	596,213
Gross profit on sales	**–5,128**	**6,694**
General and administrative expenses	215,024	195,119
Other operating income	98,361	17,327
Other operating expenses	422,207	24,142
Net income from long-term equity investments	1,571,289	–78,373
of which income under profit and loss transfer agreements	365,152	169,125
of which expenses from absorption of losses	–224,377	–248,143
Financial result	–179,680	–198,355
of which income from affiliated companies	112,468	98,390
of which expenses from affiliated companies	34,533	107,744
Taxes on income (charged by parent €75,730 thousand; previous year: €200,975 thousand)	76,572	201,043
Result after tax	**771,039**	**–673,010**
Other taxes	0	0
Profits transferred under a profit and loss transfer agreement	771,039	–
Losses absorbed under a profit and loss transfer agreement	0	673,010
Net income	**–**	**–**
Profit brought forward	1,705	1,705
Withdrawal from capital reserves	400,000	0
Net retained profits	**401,705**	**1,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2021

1. General Information

The Company is classified as a large corporation as defined by section 267(3) sentences 1 and 2 of the Handelsgesetzbuch (HGB – German Commercial Code). The annual financial statements have therefore been prepared in accordance with the financial reporting framework specified for large corporations by the HGB.

The registered office of Volkswagen Financial Services AG is Braunschweig. The Company is registered in the commercial register at the Local Court of Braunschweig (commercial register number HRB 3790).

Volkswagen Financial Services AG provides personnel to the German Group companies under staff leasing arrangements in return for an agreed remuneration.

Any cross-functional departments are located within Volkswagen Financial Services AG. The associated administrative expenses are charged to Group companies via an internal cost allocation system. To a minor extent, Volkswagen Financial Services AG also provides IT services for Group companies. The costs of these services are also allocated according to usage.

The costs that are allocated in connection with staff leasing and the provision of IT services, together with the administrative expenses for the cross-functional departments, are recognized under cost of sales. The income derived from the allocation of staff leasing costs is reported under sales revenue.

Individual line items have been aggregated in the balance sheet and income statement to improve the clarity of presentation. These items are presented separately in the notes.

The income statement has been prepared using the cost of sales format – the standard method used in the Volkswagen Group – to facilitate better international comparability.

2. Accounting Policies

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

Shares in affiliated companies and other equity investments are measured at the lower of cost and fair value. Fair value is primarily determined using the discounted cash flow method on the basis of existing corporate plans or, if they are not available, on the basis of observable market prices. Under the discounted cash flow method, fair value is determined on the basis of management's current planning, which is based on expectations regarding future economic trends. The planning period generally covers five years. The discount rate used for the expected cash flows is the "WACC" (weighted average cost of capital).

Loans to affiliated companies and loans to other long-term investees and investors are measured at cost.

Write-downs are recognized if the loans measured in accordance with these principles are identified as impaired on the reporting date, i.e. their fair values are found to be lower than their carrying amounts, and this impairment is expected to be permanent.

Receivables and other assets are reported at their nominal amounts. Cash-in-hand and bank balances are recognized at their nominal values.

Prepaid expenses contain payments incurred before the reporting date if they represent expenses relating to a specified period after that date.

The Company has various pension commitments, which differ in terms of their structure. Some of these pension commitments are not externally funded, while others are funded through Volkswagen Pension Trust e. V.

The commitments funded through Volkswagen Pension Trust e. V. and MAN Pension Trust e. V. are measured at the fair value of the securities in the fund in accordance with section 253(1) sentence 3 of the HGB because the

amount of the pension scheme obligations is determined exclusively by this value. The fair value of the securities is offset against the funded provisions in accordance with section 246(2) of the HGB.
Any other pension obligations are also linked to securities funds. The securities measured at fair value are offset as plan assets against the corresponding provisions.

The pension provision that is not externally funded is recognized at present value. The Heubeck 2018 G mortality tables (latest version) are used as the basis for the calculations.

The pension obligations are determined annually by an independent actuary using the projected unit credit method.

Pension obligations are discounted using the discount rate based on the past ten years determined in accordance with section 253(2) of the HGB.

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €28,952 thousand for the pension provision not funded externally, €52,099 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €226 thousand for the commitments funded through MAN Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main measurement assumptions and actuarial parameters applied in the calculation of the pension provisions were as follows:

Discount rate:	1.87%
Expected rate of salary increases:	3.30%
Expected rate of pension increases:	1.70%
Employee turnover rate:	1.10%

The share-based payment recorded in provisions relates to performance shares granted on the basis of preferred shares of Volkswagen AG. The obligations from share-based payments are accounted for as a cash-settled plan. These types of remuneration plans are measured at fair value during the plan term. Fair value is determined using recognized valuation techniques. The remuneration expense is part of the personnel expenses recorded under general and administrative expenses and is allocated over the vesting period.

Adequate provisions in the amount required to settle the estimated obligation are recognized to cover contingent liabilities and existing risks. Other long-term provisions were discounted using a discount rate determined on the basis of the average market interest rates of the past seven years published by Deutsche Bundesbank.

Liabilities are recognized at the settlement amount.

Foreign currency assets and liabilities are translated at the middle spot rate on the reporting date in accordance with section 256a sentence 1 of the HGB and in compliance with the historical cost convention and the principle of imparity (under which unrealized losses are recognized but unrealized gains are not). For items with a residual maturity of one year or less, the net gains or losses from translation are recognized in full in the income statement in accordance with section 256a sentence 2 of the HGB. The hedge rate is used in the case of hedges.

Derivative financial instruments are used exclusively for hedging purposes. Derivative financial instruments (interest rate swaps) are measured in accordance with general HGB measurement requirements and hedge accounting is applied to the extent permissible.

3. Balance Sheet Disclosures

The breakdown of the fixed assets aggregated in the balance sheet and the changes in these assets in the reporting period are shown in the statement of changes in fixed assets. The list of the Company's shareholdings is enclosed as an appendix.

In the loans to affiliated companies and other long-term equity investments amounting to €2,104,449 thousand there are no subordinated loans.
The other loans amounting to €2,903,171 thousand are subordinated.

On the basis of an existing profit and loss transfer agreement, deferred taxes are recognized by Volkswagen AG, Wolfsburg, the controlling entity in the tax group.

The breakdown of receivables and other assets is as follows:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Receivables from affiliated companies (of which from the shareholder €1,706 thousand; previous year: €676,598 thousand) (of which due in more than 1 year €5,070,518 thousand; previous year: €5,567,706)	12,063,234	11,886,533
2. Receivables from other long-term investees and investors (of which due in more than 1 year €2,600,209 thousand; previous year: €2,075,265 thousand)	5,557,040	5,465,017
3. Other assets (of which due in more than 1 year €– thousand; previous year €– thousand)	72,902	73,731
	17,693,176	**17,425,281**

The receivables from affiliated companies include loan receivables and interest of €7,676,226 thousand, receivables under existing profit and loss transfer agreements of €357,453 thousand, tax allocations of €76,442 thousand, receivables from cash deposits of €129,500 thousand, receivables from current account deposits of €1,397,555 thousand and receivables from fixed-term deposits and interest of €2,388,828 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €4,415,041 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €1,141,069 thousand.

Other assets largely relate to receivables from interest-swap contracts in an amount of €66,914 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €8,340 thousand relating to the subsequent year. Prepaid expenses also include a difference of €20,182 thousand determined in accordance with section 250(3) of the HGB.

In the year under review, the parent company made a withdrawal of €400,000 thousand from capital reserves pursuant to section 272(2) no. 4 of the HGB. Capital reserves now stand at €2,816,213 thousand.

The revenue reserves remain unchanged, consisting of legal reserves of €44,128 thousand and other revenue reserves of €55,341 thousand. Net retained profits include profit brought forward of €1,705 thousand (previous year: €1,705 thousand).

The provisions comprise the following items:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Provisions for pensions and similar obligations	408,734	339,087
including the offsetting of the unit-linked pension obligation:		
Provisions for pensions, funded	349,239	277,005
Fund assets as plan assets (cost €222,733 thousand)	–234,066	–199,983
2. Other provisions	279,433	259,814
including the offsetting of the employee time asset bond:		
Provision for time asset bond	127,596	113,194
Fund assets as plan assets (cost €130,995 thousand)	–127,596	–113,194
	688,167	**598,902**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €28,952 thousand for the pension provision not funded externally, €52,099 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €226 thousand for the commitments funded through MAN

Pension Trust e. V. There is no restriction on distribution due to the profit and loss transfer agreement with Volkswagen AG.

The main items recognized within other provisions are provisions for personnel expenses amounting to €245,503 thousand (previous year: €179,527 thousand) and provisions for outstanding invoices of €16,404 thousand (previous year: €7,309 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Bonds (of which due within 1 year €1,100,000 thousand; previous year: €2,450,000 thousand) (of which due in more than 1 year €9,150,000 thousand; previous year: €7,250,000 thousand) (of which due in more than 5 year €3,200,000 thousand; previous year: €2,200,000 thousand)	10,250,000	9,700,000
2. Liabilities to banks (of which due within 1 year €156,895 thousand; previous year: €129,406 thousand) (of which due in more than 1 year €1,590,000 thousand; previous year: €1,743,854 thousand) (of which due in more than 5 year €- thousand; previous year: €- thousand)	1,746,895	1,873,260
3. Trade payables (due within 1 year)	3,814	1,120
4. Liabilities to affiliated companies (of which to the shareholder €6,885,314 thousand; previous year: €7,601,369 thousand) (of which due within 1 year €3,874,687 thousand; previous year: €2,249,377 thousand) (of which due in more than 1 year €6,765,564 thousand; previous year: €7,932,564 thousand) (of which due in more than 5 years €3,380,564 thousand; previous year: €3,217,564 thousand)	10,640,251	10,181,941
5. Liabilities to other long-term investees and investors (due within 1 year)	270	198
6. Other liabilities (of which taxes €7,761 thousand; previous year: €7,763 thousand) (of which relating to social security and similar obligations €2,886 thousand; previous year: €2,839 thousand) (of which due within 1 year €1,088,692 thousand; previous year: €965,576 thousand) (of which due in more than 1 year €75,000 thousand; previous year: €676,000 thousand) (of which due in more than 5 year €- thousand; previous year: €- thousand)	1,163,692	1,641,576
	23,804,923	**23,398,095**

The bonds comprise listed bonds issued under Volkswagen Financial Services AG's debt issuance program.

The liabilities to the shareholder relate mainly to loans of €5,745,000 thousand.

Other liabilities include promissory note loan liabilities amounting to €676,851 thousand and commercial paper liabilities amounting to €378,249 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2021

€ thousand	GROSS CARRYING AMOUNTS				
	Balance brought forward Jan. 1, 2021	Additions	Disposals	Transfers	Balance as of Dec. 31, 2021
Financial assets					
Shares in affiliated companies	5,649,335	64,443	4,532	0	5,709,246
Loans to affiliated companies	1,580,598	99,000	15,000	0	1,664,598
Other long-term equity investments	270,121	25,392	6,654	0	288,858
Loans to other long-term investees and investors	204,851	235,000	0	0	439,851
Other loans	2,897,292	105,436	99,557	0	2,903,171
Total financial assets	**10,602,197**	**529,271**	**0**	**0**	**11,005,724**
Total fixed assets	**10,602,197**	**529,271**	**0**	**0**	**11,005,724**

	WRITE-DOWNS						NET CARRYING AMOUNTS	
	Balance brought forward Jan. 1, 2021	Additions	Disposals	Transfers	Write-ups	Balance as of Dec. 31, 2021	Balance as of Dec. 31, 2021	Balance as of Dec. 31, 2020
	232,150	193,589	4,532	0	36,400	384,807	5,324,439	5,417,185
	0	0	0	0	0	0	1,664,598	1,580,598
	58,900	30,100	0	0	0	89,000	199,858	211,221
	0	0	0	0	0	0	439,851	204,851
	0	0	0	0	0	0	2,903,171	2,897,292
	291,050	**223,689**	**4,532**	**0**	**36,400**	**473,807**	**10,531,917**	**10,311,147**
	291,050	**223,689**	**4,532**	**0**	**36,400**	**473,807**	**10,531,917**	**10,311,147**

Write-downs and reversals of write-downs of the carrying amounts of investments in affiliated companies and other long-term equity investments were recognized in the reporting period. The income and expenses are included in the financial result.

4. Income Statement Disclosures

Volkswagen Financial Services AG reports sales of €678,594 thousand (previous year: €602,907 thousand) in accordance with section 277(1) of the HGB. Of this amount,€667,149 thousand (previous year: €594,563 thousand) was generated in Germany and €11,445 thousand (previous year: €8,344 thousand) abroad.

An amount of €683,722 thousand is reported under cost of sales (previous year: €596,213 thousand).

Cost of materials within the meaning of section 275(2) no. 5 of the HGB was incurred for purchased services in an amount of €178,550 thousand (previous year: €142,301 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2021	2020
Salaries	543,026	480,468
Social security, post-employment and other employee benefit costs	127,205	107,987
of which for post-employment benefits	(48,634)	(36,697)
	670,231	**588,455**

Other operating income includes income from the reversal of provisions of €66,881 thousand (previous year: €13,317 thousand). In addition, currency translation accounts for other operating income of €131 thousand (previous year: €56 thousand) and other operating expenses of €290 thousand (previous year: €43 thousand).

Other operating expenses include expenses from a payment of €400 million to the parent Volkswagen AG made in March 2021. The payment represents a withdrawal from the capital of Volkswagen Financial Services AG following a resolution passed by the sole shareholder Volkswagen AG. Due to the strict reservation of capital under stock corporation law (section 57(1), (3) of the Aktiengesetz (AktG – German Stock Corporation Act)), the distribution of capital or the withdrawal of components of capital is only possible by recognizing an expense in order to meet the condition for suspending the provision in cases where a control and profit and loss transfer agreement is in place (section 57(1) sentence 3 of the AktG). Other operating expenses also include issue and rating costs of €6,575 thousand for bonds issued (previous year: €5,993 thousand).

The breakdown of net income from long-term equity investments is as follows:

€ thousand	2021	2020
Expenses from absorption of losses	224,377	248,143
Income under profit and loss transfer agreements (from affiliated companies)	365,152	169,125
Income from other long-term equity investments	1,430,514	646
(of which from affiliated companies)	(1,429,675)	(0)
(of which from investments in joint ventures)	(839)	(646)
	1,571,289	**–78,373**

The improvement in net income from long-term equity investments is mainly attributable to the €1,429,868 thousand rise in income from other long-term equity investments. Of this amount, €1,271,421 thousand is attributable to dividends of Volkswagen Finance Overseas B.V. driven especially by the significant improvement in the result of VTI GmbH in the amount of €171,926 thousand (previous year: €–99,731 thousand), income under profit and loss transfer agreements rose by €196,027 thousand.

The following table shows the breakdown of the financial result:

€ thousand	2021	2020
Income from other securities and long-term loans (of which from affiliated companies €34,407 thousand; previous year: €27,953 thousand)	124,258	101,726
Other interest and similar income (of which from affiliated companies €78,061 thousand; previous year: €70,436 thousand) (of which interest income from discounting €- thousand; previous year: €- thousand)	114,355	111,330
Interest and similar expenses (of which to affiliated companies €34,533 thousand; previous year: €107,744 thousand) (of which from unwinding discount on provisions €57,342 thousand; previous year: €47,778 thousand)	231,004	302,978
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	223,689	147,332
Write-ups of financial assets (from affiliated companies)	36,400	38,900
	–179,680	**–198,355**

Interest expenses for funded pension provisions amounting to €13,143 thousand (previous year: €10,187 thousand) were offset against income of the same amount arising from the measurement of the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €5,074 thousand (previous year: €6,579 thousand) was offset against income of the same amount from the measurement of the scheme fund assets.

Net income for the year includes prior-period income of €76,193 thousand (previous year: €14,690 thousand), which is largely attributable to the reversal of provisions and the allocation of personnel expenses. Prior-period income is recognized under other operating income.

Expense items of extraordinary size or importance pursuant to section 285 no. 31 of the HGB arose from the payment of €400 million to the parent Volkswagen AG in March 2021.

5. Other Disclosures

Volkswagen Financial Services AG has entered into derivative contracts to mitigate interest rate risk and currency risk. These derivatives are used solely for hedging purposes. The fair values are determined using market information as of the reporting date and with the help of suitable IT-based valuation techniques.

The breakdown of nominal values and market values is as follows:

€ thousand	NOMINAL VALUES Dec. 31, 2021	Dec. 31, 2020	MARKET VALUES Dec. 31, 2021		Dec. 31, 2020	
			positive	negative	positive	negative
Interest rate swaps	8,550,000	7,950,000	88,615	37,996	207,250	–
Cross-currency/currency swaps	1,337,857	1,302,829	3,830	34,958	27,608	28,102
Currency forward contracts	1,143,242	716,983	115	13,953	927	8,077

The following table shows the amount of hedged items as of December 31, 2021 for which hedge accounting has been applied, together with the level of risk mitigated by this hedge accounting:

€ thousand		Assets	Liabilities	Total	Amount of hedged risks
Interest rate risks	Micro hedge	–	8,550,000	8,550,000	155,973
Currency risks	Micro hedge	2,405,784	26,582	2,432,366	20,990
Currency risks	Macro hedge	48,733	48,733	97,466	5,888
Total		**2,454,517**	**8,625,315**	**11,079,832**	**182,851**

The Company has been applying hedge accounting in accordance with the Bilanzrechtsmodernisierungsgesetz (BilMoG – German Accounting Law Modernization Act) since January 1, 2010. The net hedge presentation method is used for hedge accounting.

The interest rate risk arising from issuing loans to Group companies is mitigated by micro hedges based on receiver swaps, whereby the changes in the value of the hedged item are offset by the changes in the value of the swap. Currency risk that arises from issuing foreign currency loans to FS companies outside the eurozone is generally hedged with currency forwards, cross-currency swaps, or cross-currency interest rate swaps in micro and macro hedges. Hedge accounting is generally applied over the entire duration of the hedge. The Company therefore always satisfies the hedge accounting criterion, which requires an intention to maintain hedge accounting until the final maturity date. The prospective effectiveness test is performed using the critical term match method. Retrospective effectiveness tests are based on the cumulative dollar offset method.

As of December 31, 2021, a provision for expected losses of €7,745 thousand (previous year €12,554 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €27,020,970 thousand and are attributable to guarantees to creditors of affiliated companies and investees in the amount of €26,736,408 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies, to a guarantee to the creditor of an affiliated company for future rental payments in the amount of €152,430 thousand and two letters of support to affiliated companies in the amount of €132,132 thousand. The probability of these guarantees being called upon is low because the companies involved form part of the Group. Contingent liabilities under guarantees to affiliated companies amount to €7,197 thousand. The cash deposits of €129,500 thousand reported under receivables have been pledged as collateral for local risk in France (€9,500 thousand) and in connection with dealer financing (€120,000 thousand) in Russia. A credit risk provision of €6,375 thousand has been recognized to cover the associated risks.

Other financial obligations (purchase order obligations) as specified in section 285 no. 3a of the HGB amount to €28,202 thousand.

The share capital of €441,280 thousand is divided into 441,280,000 no-par-value shares. All the shares are held by Volkswagen AG, Wolfsburg.

A control and profit and loss transfer agreement has been in place between Volkswagen AG and Volkswagen Financial Services AG since January 1, 1995.

Volkswagen Financial Services AG also has a profit and loss transfer agreement with Volkswagen Leasing GmbH as well as control and profit and loss transfer agreements with Volim Volkswagen Immobilien Vermietgesellschaft für VW/Audi-Händlerbetriebe mbH, Volkswagen Versicherung AG, Volkswagen-Versicherungsdienst GmbH, Volkswagen Insurance Brokers GmbH, Rent-X GmbH, carmobility GmbH, Vehicle Trading International (VTI) GmbH, LogPay Financial Services GmbH and EURO-Leasing GmbH.

The annual financial statements of Volkswagen Financial Services AG are published in the German Federal Gazette.

The fee paid to the auditor is disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG.

The fee paid to the auditor for audit services in 2021 was mostly attributable to the audit of the consolidated financial statements of Volkswagen Financial Services AG and of annual financial statements of German Group companies as well as to reviews of interim financial statements of German Group companies. Tax consulting services include in particular tax advisory services for delegated employees. The other services performed by the auditor in the reporting period mainly consisted of issues relating to process optimization and information technology.

The annual financial statements of the Company are included in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig, which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

The annual financial statements of Volkswagen Financial Services AG are also included in the consolidated financial statements of Volkswagen AG, Wolfsburg, which are published in the German Federal Gazette.

Volkswagen Financial Services AG had 5,238 employees, including 21 senior executives (previous year: 5,125, including 18 senior executives) and 125 vocational trainees (previous year: 128) on average in the reporting period. The 5,238 employees comprised 3,775 full-time and 1,463 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €5,230 thousand in 2021. 10,824 performance shares were granted in the reporting period. The fair value at the grant date was €1,552 thousand. Advances granted to members of the Board of Management under the performance share plan amounted to €363 thousand as of December 31, 2021 (previous year: €84 thousand). In the year under review, a total of €0 (previous year: €0) of the advances granted to members of the Board of Management was deducted from the payment under the performance share plan. The total payments made to former members of the Board of Management and their surviving dependents amounted to €819 thousand. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €18,608 thousand.

At the end of 2018, the Supervisory Board of Volkswagen Financial Services AG resolved to adjust the remuneration system of the Board of Management with effect from January 1, 2019. The remuneration system of the Board of Management comprises non-performance-related and performance-related components. The performance-related remuneration consists of an annual bonus with a one-year assessment period and a long-term incentive (LTI) in the form of a performance share plan with a forward-looking three-year term (share-based payment).

Since the end of 2018, the beneficiaries of the performance share plan have included other top management members in addition to the members of the Board of Management. At the end of 2019, the group of beneficiaries was extended to include all other members of management as well as selected beneficiaries below management level. Top management members were granted performance shares for the first time at the beginning of 2019. All other beneficiaries were granted benefits on the basis of performance shares for the first time at the beginning of 2020. The way the performance share plan granted to these beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019.

Each performance period of the performance share plan has a term of three years. For members of the Board of Management and top management, the annual target amount under the LTI is, at the time of granting, converted on the basis of the initial reference price of Volkswagen preferred shares into performance shares, which are allocated to the beneficiary as a pure calculation position. Based on the degree of target achievement for the annual earnings per Volkswagen preferred share, the number of performance shares is definitively determined on the basis of a three-year, forward-looking performance period. After the end of the performance period, a cash settlement is made. The payment amount corresponds to the number of determined performance shares, multiplied by the closing reference price at the end of the period plus a dividend equivalent. For all other beneficiaries, the payment amount is determined by multiplying the target amount by the degree of target achievement for the annual earnings per Volkswagen preferred share and the ratio of the closing reference price at the end of the period, plus a dividend equivalent, to the initial reference price. Target achievement is determined on the basis of a two-year performance period with a forward-looking horizon of one year. As a departure from this, target achievement in 2020 will initially be determined on the basis of a one-year forward-looking performance period, and in 2021 on the basis of a two-year performance period with a forward-looking horizon of one year. For all beneficiaries, the payment amount under the performance share plan is limited to 200% of the target amount; the payment amount is reduced by 20% if the average ratio of capex to sales revenue or the R&D ratio in the Automotive Division of the last three years is smaller than 5%.

The Company paid the members of the Supervisory Board a total allowance of €36 thousand.

6. Report on Post-Balance Sheet Date Events

The most recent events in the conflict between Russia and Ukraine could have negative effects on the carrying amounts of the equity investments in OOO Volkswagen Group Finanz, OOO Volkswagen Bank RUS and OOO Volkswagen Financial Services RUS. As of December 31, 2021 the carrying amounts of these equity investments were:

> OOO Volkswagen Group Finanz – €31.9 million
> OOO Volkswagen Bank RUS – €219.2 million
> OOO Volkswagen Financial Services – 43.0 Mio. €

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

7. Governing bodies of Volkswagen Financial Services AG

The composition of the Board of Management is as follows:

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

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

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

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

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

FRANK FIEDLER
Finance and Purchasing

The composition of the Supervisory Board of Volkswagen Financial Services AG is as follows:

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

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

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

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

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

MICHAEL GROSCHE
Head of Fleet and Remarketing
of Volkswagen Financial Services AG

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

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

SIMONE MAHLER
Chairwoman of the Joint Works Council
of Volkswagen Financial Services AG and Volkswagen Bank GmbH

PETRA REINHEIMER
Deputy Chairwoman of the Joint
Works Council of Volkswagen Financial Services AG and Volkswagen Bank GmbH

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

EVA STASSEK
Principal Representative of IG Metall Braunschweig

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

List of Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Financial Services Group in accordance with IFRS 12 as of December 31, 2021.

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	Local currency	Local currency	Footnote	Year
I. PARENT COMPANY									
VOLKSWAGEN FINANCIAL SERVICES AG, Braunschweig									
II. SUBSIDIARIES									
A. Consolidated companies									
1. Germany									
EURO-Leasing GmbH, Sittensen	EUR		100.00	–	100.00	23,284	–	1)	2021
Vehicle Trading International (VTI) GmbH, Braunschweig	EUR		100.00	–	100.00	2,763	–	1)	2021
Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH, Braunschweig	EUR		100.00	–	100.00	26	–	1)	2021
Volkswagen Insurance Brokers GmbH, Braunschweig	EUR		100.00	–	100.00	54,829	–	1)	2021
Volkswagen Leasing GmbH, Braunschweig	EUR		100.00	–	100.00	269,912	–	1)	2021
Volkswagen Versicherung AG, Braunschweig	EUR		100.00	–	100.00	97,055	–	1)	2021
Volkswagen-Versicherungsdienst GmbH, Braunschweig	EUR		100.00	–	100.00	54,369	–	1)	2021
2. International									
Autofinance S.A., Luxembourg	SEK	10.2548	–	–	–	350	–	9)	2020
Banco Volkswagen S.A., São Paulo	BRL	6.3068	–	100.00	100.00	2,878,337	356,733		2020
Consórcio Nacional Volkswagen - Administradora de Consórcio Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	712,134	84,033		2020
Driver Brasil five Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3068	–	–	–	–	–	3) 5) 9)	2021
Driver Brasil four Banco Volkswagen Fundo de Investimento em Direitos Creditórios Financiamento de Veículos, Osasco	BRL	6.3068	–	–	–	306,445	5,819	9)	2020
Driver China Eleven Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	–	–	9)	2020
Driver China Nine Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	5,411,857	209,814	9)	2020
Driver China Ten Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	5,919,155	66,706	3) 9)	2020
Driver China Thirteen Auto Loan Securitization Trust, Beijing	CNY	7.1870	–	–	–	–	–	3) 5) 9)	2021

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

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS Local currency	PROFIT/LOSS IN THOUSANDS Local currency	Footnote	Year
Volkswagen Financial Services N.V., Amsterdam	EUR		–	100.00	100.00	1,275,405	10,172		2020
Volkswagen Financial Services Polska Sp. z o.o., Warsaw	PLN	4.5943	–	100.00	100.00	1,590,889	101,882	7)	2020
Volkswagen Financial Services S.p.A., Milan	EUR		100.00	–	100.00	118,676	13,024		2020
Volkswagen Finans Sverige AB, Södertälje	SEK	10.2548	–	100.00	100.00	2,073,730	1,380		2020
Volkswagen Insurance Services, Correduria de Seguros, S.L., El Prat de Llobregat	EUR		–	100.00	100.00	26,946	9,498		2020
Volkswagen Leasing S.A. de C.V., Puebla	MXN	23.1418	100.00	–	100.00	11,973,375	1,223,622		2020
Volkswagen New Mobility Services Investment Co., Ltd., Beijing	CNY	7.1870	100.00	–	100.00	960,884	91,024		2020
Volkswagen Participações Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	3,764,248	403,132		2020
Volkswagen Renting, S.A., Alcobendas (Madrid)	EUR		–	100.00	100.00	90,956	–6,299		2020
Volkswagen Renting, Unipessoal, Lda., Amadora	EUR		–	100.00	100.00	–485	–3,511		2020
Volkswagen Serviços Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	47,925	3,859		2020
B. Unconsolidated companies									
1. Germany									
carmobility GmbH, Braunschweig	EUR		100.00	–	100.00	250	–	1)	2021
LogPay Financial Services GmbH, Eschborn	EUR		100.00	–	100.00	12,674	–	1)	2021
LogPay Mobility Services GmbH, Eschborn	EUR		–	100.00	100.00	20	–	1)	2020
LogPay Transport Services GmbH, Eschborn	EUR		–	100.00	100.00	3,312	–	1)	2020
Rent-X GmbH, Braunschweig	EUR		100.00	–	100.00	40,324	–	1)	2021
sunhill technologies GmbH, Erlangen	EUR		–	100.00	100.00	3,846	–13,931		2020
Volkswagen Payment Systems GmbH, Munich	EUR		–	100.00	100.00	5,070	–691		2020
Voya GmbH, Hamburg	EUR		100.00	–	100.00	–	–		2020
2. International									
Adaptis Solutions Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	274	–234		2020
Connect Cashless Parking Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	–119	–191	2)	2020
Fleetzil Locações e Serviços Ltda., Curitiba	BRL	6.3068	–	100.00	100.00	71,888	25,673		2020
INIS International Insurance Service s.r.o., ve zkratce INIS s.r.o., Mladá Boleslav	CZK	24.8590	–	100.00	100.00	43,133	37,633		2020
Kuwy Technology Service Pvt. Ltd., Chennai	INR	84.1690	–	67.73	67.73	134,965	–239,062	2)	2021
LogPay Charge & Fuel Slovakia s.r.o., Bratislava	EUR		–	100.00	100.00	–	–	3) 4)	2020
LogPay Fuel Czechia s.r.o., Prague	CZK	24.8590	–	100.00	100.00	–84	–370		2020

		EXCHANGE RATE (1 EURO =)	VW FS AG'S INTEREST IN CAPITAL IN %			EQUITY IN THOUSANDS	PROFIT/LOSS IN THOUSANDS		
Name and registered office of the company	Currency	Dec. 31, 2020	Direct	Indirect	Total	Local currency	Local currency	Footnote	Year
LogPay Fuel Italia S.r.l., Bolzano	EUR		–	100.00	100.00	142	27		2020
LogPay Fuel Spain S.L., Barcelona	EUR		–	100.00	100.00	619	40		2020
PayByPhone Italia S.R.L., Verona	EUR		–	100.00	100.00	266	–793		2020
PayByPhone Ltd., Hatfield	GBP	0.8400	–	100.00	100.00	3,433	–743		2020
PayByPhone S.A.S., Boulogne-Billancourt	EUR		–	100.00	100.00	–2,566	–2,900		2020
PayByPhone Suisse AG, Düdingen	CHF	1.0332	–	100.00	100.00	–342	–442		2020
PayByPhone Technologies Inc., Vancouver / BC	CAD	1.4417	–	100.00	100.00	58,528	–93,389		2020
PayByPhone US Inc., Wilmington / DE	USD	1.1320	–	100.00	100.00	0	–	4)	2020
Simple Way Locações e Serviços S.A., Curitiba	BRL	6.3068	–	100.00	100.00	18,896	–2,678		2020
Softbridge - Projectos Tecnológicos S.A., Porto Salvo	EUR		–	70.00	70.00	2,136	336		2020
VAREC Ltd., Tokyo	JPY	130.3200	–	100.00	100.00	704,481	92,566		2020
Volkswagen Administradora de Negócios Ltda., São Paulo	BRL	6.3068	–	100.00	100.00	46,941	–164		2020
Volkswagen Brokers Argentina S.A., Buenos Aires	ARS	116.2451	–	96.00	96.00	320,175	79,807		2020
Volkswagen Financial Ltd., Milton Keynes	GBP	0.8400	–	100.00	100.00	0	–	4)	2020
Volkswagen Financial Services Hellas A.E., Athens	EUR		100.00	–	100.00	2,074	–223		2020
Volkswagen Financial Services Holding Argentina S.R.L., Buenos Aires	ARS	116.2451	99.99	0.01	100.00	1,652,341	70,643		2020
Volkswagen Financial Services Schweiz AG, Wallisellen	CHF	1.0332	–	100.00	100.00	8,926	1,489		2020
Volkswagen Financial Services Taiwan Ltd., Taipei	TWD	31.3270	–	100.00	100.00	1,174,734	115,554		2020
Volkswagen FS France S.A.S., Roissy-en-France	EUR		–	100.00	100.00	96	–2		2020
Volkswagen Insurance Brokers, Agente de Seguros y de Fianzas, S.A. de C.V., Puebla	MXN	23.1418	–	100.00	100.00	–43,272	3,593		2020
Volkswagen Insurance Company DAC, Dublin	EUR		100.00	–	100.00	38,119	333		2020
Volkswagen Insurance Service (Great Britain) Ltd., Milton Keynes	GBP	0.8400	–	100.00	100.00	1,738	342		2020
Volkswagen Insurance Services Korea Co., Ltd., Seoul	KRW	1,344.9650	–	100.00	100.00	2,053,226	1,003,023		2020
Volkswagen International Insurance Agency Co., Ltd., Taipei	TWD	31.3270	–	100.00	100.00	28,140	21,890		2020
Volkswagen Leasing (Beijing) Co., Ltd., Beijing	CNY	7.1870	–	100.00	100.00	3,459	–4,921		2020
Volkswagen Leasing (Guangzhou) Co., Ltd., Guangzhou	CNY	7.1870	–	100.00	100.00	–2,228	–763		2020
Volkswagen Leasing (Nanjing) Co., Ltd., Nanjing	CNY	7.1870	–	100.00	100.00	–5,480	–1,393		2020
Volkswagen Leasing (Shanghai) Co., Ltd., Shanghai	CNY	7.1870	–	100.00	100.00	–8,616	–16,488		2020
Volkswagen Leasing (Suzhou) Co.,	CNY	7.1870	–	100.00	100.00	–1,462	–1,199		2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS Local currency	PROFIT/LOSS IN THOUSANDS Local currency	Footnote	Year
Ltd., Suzhou									
Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	7.1870	–	100.00	100.00	360	–593		2020
Volkswagen Mobility Services S.p.A., Bolzano	EUR		–	100.00	100.00	6,918	–3,082	3)	2020
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.1870	–	100.00	100.00	7,811	–7,659		2020
Volkswagen Payments S.A., Strassen	EUR		100.00	–	100.00	11,622	–8,448		2020
Volkswagen Reinsurance Company DAC, Dublin	EUR		100.00	–	100.00	6,661	–236		2020
Volkswagen Service Sverige AB, Södertälje	SEK	10.2548	–	100.00	100.00	40,970	–		2020
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	23.1418	–	100.00	100.00	20,655	5,774		2020
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.5943	–	100.00	100.00	86,901	25,681		2020
Voya Travel Technologies S.R.L., Bucharest	RON	4.9488	–	100.00	100.00	228	36		2020
VTXRM - Software Factory Lda., Porto Salvo	EUR		–	90.00	90.00	2,326	377		2020
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR		36.71	–	36.71	282,672	–5,357		2020
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR		51.00	–	51.00	143,349	26,095		2020
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR		49.00	–	49.00	103,091	25,943		2020
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0532	50.00	–	50.00	158,438	3,875	7)	2020
VDF Servis ve Ticaret A.S., Istanbul	TRY	15.1347	51.00	–	51.00	362,181	83,730	6)	2020
Volkswagen D'Ieteren Finance S.A., Brussels	EUR		–	50.00	50.00	143,220	2,982		2020
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0532	51.00	–	51.00	–1,027,670	–746,438		2020
Volkswagen Møller Bilfinans A/S, Oslo	NOK	9.9894	–	51.00	51.00	3,536,184	289,672	7)	2020
Volkswagen Pon Financial Services B.V., Amersfoort	EUR		–	60.00	60.00	168,521	12,716	6) 8)	2020
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR		66.35	–	66.35	9,496	–6,513		2020
2. International									
Collect Car B.V., Rotterdam	EUR		–	60.00	60.00	7,465	–592		2020
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0532	51.00	–	51.00	30,635	25,580		2020

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2020	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS Local currency	PROFIT/LOSS IN THOUSANDS Local currency	Footnote	Year
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	964.4600	50.00	–	50.00	3,500,951	1,200,761		2020
Shuttel B.V., Leusden	EUR		49.00	–	49.00	3,062	23		2020
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	116.2451	–	49.00	49.00	2,731,884	3,231		2020
Volkswagen Losch Financial Services S.A., Howald	EUR		60.00	–	60.00	3,877	722		2020
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4367	–	51.00	51.00	181,703	–43,391		2020
IV. ASSOCIATES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR		26.00	–	26.00	3,512	1,617		2020
Verimi GmbH, Berlin	EUR		29.99	–	29.99	15,307	–19,253		2020
2. International									
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR		–	15.00	15.00	4,204	3,726		2020
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR		8.70	–	8.70	965	–32		2020
PosernConnect GmbH, Sittensen	EUR		–	49.00	49.00	905	351		2020

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

Braunschweig, February 24, 2022

The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Responsibility Statement

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

Braunschweig, February 24, 2022

The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Independent auditor´s Report

Translation of the German independent auditor’s report concerning the audit of the annual financial statements and management report prepared in German

To VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig

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

OPINIONS

We have audited the annual financial statements of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which comprise the balance sheet as at 31 December 2021, and the income statement for the fiscal year from 1 January to 31 December 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, which is combined with the group management report, for the fiscal year from 1 January to 31 December 2021. In accordance with the German legal requirements, we have not audited the content of the corporate governance declaration pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB [“Handelsgesetzbuch”: German Commercial Code] included in the Human Resources Report section of the management report (disclosures on the quota for women on executive boards).

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

> the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the fiscal year from 1 January to 31 December 2021 in compliance with German legally required accounting principles, and
> the accompanying management report as a whole provides an appropriate view of the Company’s position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance declaration referred to above (disclosures on the quota for women on executive boards).

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 annual financial statements and of the management report.

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the fiscal year from 1 January to 31 December 2021. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

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

Valuation of shares in affiliated companies and equity investments

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

The valuation of shares in affiliated companies and equity investments and the assessment of impairment as likely to be permanent based on this valuation is a significant area in which the executive directors of Volkswagen Financial Services AG exercise judgment. The forecasts of future cash flows underlying the valuation based on calculations of capitalized earnings values are subject to significant uncertainty and the use of judgment. They consider assumptions on future market developments and the development of macroeconomic factors as well as the growth rates and risk-adjusted capitalization rates used. As it is not yet possible to make a conclusive assessment of the direct and indirect impact of the global Covid-19 pandemic, these uncertainties are increased in the fiscal year. Minimal changes in the parameters underlying the valuation can lead to significant variation in values.
In light of the uncertainties regarding the parameters used for the valuation and the judgment applied, the valuation of shares in affiliated companies and equity investments as well as the assessment of impairment as likely to be permanent based on this valuation was a key audit matter.

Auditor’s response

As part of our audit, we analyzed the process implemented by the executive directors of Volkswagen Financial Services AG and the recognition and measurement policies for determining the net realizable value of shares in affiliated companies and equity investments as well as their assessment of impairment as likely to be permanent based on this valuation to identify any risks of material misstatement and obtained an understanding of the process steps. In this connection, we assessed whether the process is suitable for providing objective evidence of a lower net realizable value or prolonged impairment.
We obtained an understanding of the capitalization of earnings models used for significant shares in affiliated companies and equity investments and reperformed the calculations with the help of internal valuation specialists, and investigated whether the calculation of the capitalized earnings values was consistent with the relevant accounting standards IDW S1 and IDW AcP HFA 10. We evaluated the significant assumptions regarding growth rates and business performance in the budgets and forecasts by analyzing the underlying forecasts on the basis of past performance and general and industry-specific market expectations. We assessed the derivation of the risk-adjusted capitalization rate with the assistance of our internal valuation specialists by scrutinizing, on the basis of a peer group we defined ourselves, in particular the peer group used for determining the industry-specific beta factors, obtaining an understanding of how the beta factors were determined and comparing the inflation differentials and country risk premiums used with external market data.

Our audit procedures did not lead to any reservations relating to the valuation of shares in affiliated companies and equity investments.

Reference to related disclosures

The Company's disclosures on the valuation of the shares in affiliated companies and equity investments are contained in section 2 "Accounting Policies," section 3 "Balance Sheet Disclosures" and section 4 "Income Statement Disclosures" of the notes to the financial statements.

Other information

The executive directors are responsible for the other information. The other information comprises the corporate governance declaration (disclosures on the quota for women on executive boards). The other information also comprises the Responsibility Statement to be included in the annual report, of which we obtained a version prior to issuing this auditor's report.

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

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

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

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

Responsibilities of the executive directors and the Supervisory Board for the annual financial statements and the management report

The executive directors are responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

Auditor's responsibilities for the audit of the annual financial statements and of the management report

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

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

> Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
> Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
> Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
> Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles.
> Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
> Perform audit procedures on the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file Volkswagen Financial Services_AG_JA+ LB_ESEF-2021-12-31 (SHA-256 checksum: e17de60dedc730075feb498f5b55e7a6f91f459592f867e7fe30fc991b9a1078) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

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

Basis for the opinion

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

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

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

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

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

Auditor's responsibilities for the assurance work on the ESEF documents

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

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

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

We were elected as auditor by the Annual General Meeting on 10 June 2021. We were engaged by the Supervisory Board on 18 July 2021. We have been the auditor of VOLKSWAGEN FINANCIAL SERVICES AKTIENGESELLSCHAFT, Braunschweig, without interruption since fiscal year 2020.
We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

Other matter – Use of the auditor's report

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, 28 February 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Werthmann	Prof. Dr. Schellhorn
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

PUBLISHED BY
Volkswagen Financial Services AG
Gifhorner Straße 57
38112 Braunschweig
Telephone +49 (0) 531 212-0
info@vwfs.com
www.vwfs.com
www.facebook.com/vwfsde

INVESTOR RELATIONS
ir@vwfs.com

Produced in-house with firesys

This annual report is also available in German at www.vwfs.com/gbvwfsag21.