VOLKSWAGEN FINANCIAL SERVICES

AKTIENGESELLSCHAFT

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Fundamental Information about the Group

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

BUSINESS MODEL

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

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

ORGANIZATION OF THE VOLKSWAGEN FINANCIAL SERVICES AG GROUP

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

MOBILITY2030 STRATEGY

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

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

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

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

INTERNAL MANAGEMENT

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

KEY PERFORMANCE INDICATORS

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

OTHER NONFINANCIAL PERFORMANCE INDICATORS

Customer satisfaction and external employer ranking are also measured.

Customer Satisfaction

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

External Employer Ranking

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

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

SIGNIFICANT CHANGES IN EQUITY INVESTMENTS

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

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

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

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

SEPARATE NONFINANCIAL REPORT FOR THE GROUP

Pursuant to section 289b(2) of the HGB and section 315b(2) of the HGB, Volkswagen Financial Services AG has decided to make use of the option not to submit a nonfinancial report or a nonfinancial report for the Group. Please refer to the separate combined nonfinancial report of Volkswagen AG for fiscal year 2022, which will be available in German at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2022/Nonfinancial_Report_2022_d.pdf and in English at https://www.volkswagenag.com/presence/nachhaltigkeit/documents/sustainability-report/2022/Nonfinancial_Report_2022_e.pdf from April 30, 2023.

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

Report on Economic Position

The global economy recorded positive growth in fiscal year 2022. Global demand for vehicles was on a level with the previous year. Volkswagen Financial Services AG's operating result was noticeably higher than the level of the previous year.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

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

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

Europe/Other Markets

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

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

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

Germany

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

North America

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

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

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

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

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

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

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

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Sector-Specific Environment

Along with fiscal policy measures, factors substantially affecting the sector-specific environment were shortages and disruption in global supply chains, the Covid-19 pandemic and the impacts of the Russia-Ukraine conflict. This contributed considerably to the mixed trends in unit sales in the markets in 2022. As a result of the Russia-Ukraine conflict, sanctions were imposed that restricted the production and sale of vehicles, particularly in Russia. The fiscal policy measures included tax cuts or increases, incentive programs and sales incentives, as well as import duties. In addition, non-tariff trade barriers to protect the respective domestic automotive industries made the movement of vehicles, parts and components more difficult.

Europe/Other Markets

In Western Europe, the number of new passenger car registrations in the reporting period was slightly down on the previous year's weak level, declining by 4.3 % to 10.2 million vehicles. While the first half of the reporting year fell significantly short of the comparison period, the number of new registrations in the subsequent months were up again on the – in some cases substantially weaker – prior-year figures. The performance of the large individual passenger car markets was negative in fiscal year 2022: France (–7.7%), the United Kingdom (–2.0%), Italy (–9.8%) and Spain (–7.1%) did not achieve their respective prior-year levels.

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

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

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

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

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

Germany

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

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

North America

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

South America

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

Asia-Pacific

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

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

GLOBAL DELIVERIES TO CUSTOMERS OF THE VOLKSWAGEN GROUP

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

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

FINANCIAL PERFORMANCE

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

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

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

Return on equity amounted to 18.7 (22.1)%.

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

Net income from leasing transactions amounted to €4,406 (3,136) million and was therefore drastically higher than in the previous year. A considerable portion of this increase was accounted for by the net gain from the disposal of used ex-lease vehicles amounting to €1,335 (604) million. The impairment losses on lease assets of €90 (236) million included in net income from leasing transactions were attributable to current market fluctuations and expectations.

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

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

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

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

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

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

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

Net other operating income/expenses was drastically below the prior-year level at €346 (635) million (–45.5%). An amount of €94 (61) million was added to the provisions for legal risks and recognized through profit or loss in net other operating income/expenses. The share of profits and losses of equity-accounted joint ventures increased significantly year-on-year to €89 (78) million.

In the reporting year, the net gain/loss on miscellaneous financial assets amounted to a net loss of €259 (50) million and included impairment losses of €74 million for non-consolidated subsidiaries and €145 million for equity-accounted joint ventures. On the basis of these figures, together with the other income and expense components, the Volkswagen Financial Services AG Group generated a profit from continuing operations, net of tax, of €1,819 (2,227) million.

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

The German companies continued to account for the highest business volumes with 30.4% of all contracts.

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

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

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

NET ASSETS AND FINANCIAL POSITION

Lending Business

At €121.8 billion in total, loans to and receivables from customers and lease assets – which make up the core business of the Volkswagen Financial Services AG Group – accounted for approximately 91% of the Group's total assets.

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

The number of new retail financing contracts came to 982 thousand, which was below the prior-year level (1,081 thousand). The number of current contracts stood at 2,544 thousand at the end of the year.

The lending volume in dealer financing – which comprises loans to and receivables from Group dealers in connection with financing for inventory vehicles, as well as working capital and investment loans – increased to €5.5 billion (+43.1%).

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

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

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

Deposit Business and Borrowings

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

Subordinated Capital

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

Equity

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

Changes in Off-Balance-Sheet Liabilities

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

KEY FIGURES BY SEGMENT AS OF DECEMBER 31, 2022

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

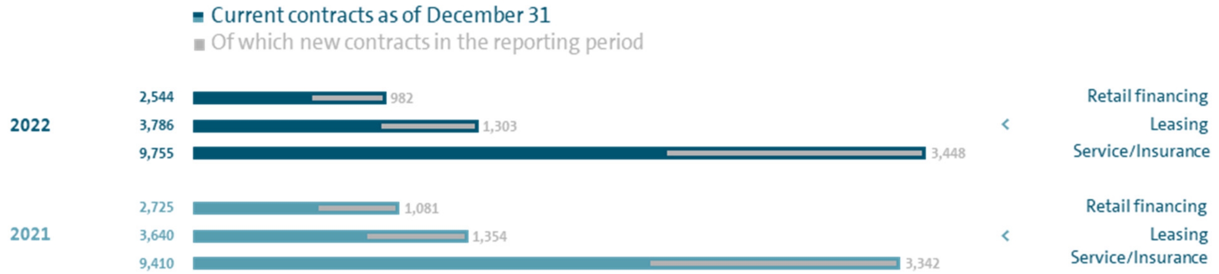
1 The Other Companies segment covers the following markets: Australia, Belgium, the Czech Republic, France, India, Ireland, Italy, Japan, Korea, Luxembourg, Poland, Portugal, Russia and Spain. Relating to the number of contracts and penetration, it also covers the following markets: Argentina, the Netherlands, Norway, Switzerland, South Africa, Taiwan and Turkey. It also includes the Volkswagen Financial Services AG holding company, the holding and financing companies in Belgium and the Netherlands, the EURO-Leasing companies in Denmark and Germany, Volkswagen Insurance Brokers GmbH, Volkswagen Versicherung AG, Volim Volkswagen Immobilien Vermietgesellschaft für VW-/Audi-Händlerbetriebe mbH and consolidation effects.

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

3 Ratio of new contracts for new Group vehicles under retail financing and leasing business to deliveries of Group vehicles

NEW AND EXISTING CONTRACTS AS OF DECEMBER 31

As of December 31, 2022



Liquidity Analysis

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

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

The internal control system (ICS) at Volkswagen Financial Services AG is used to measure liquidity risk individually for significant companies. The liquidity risk is managed using a maturity structure for Treasury liabilities. This approach includes a limit system covering the subsequent 12 months. The limits are reviewed each month in a process that acts as an early warning indicator. Reports are submitted centrally on a quarterly basis. A Group limit for Volkswagen Financial Services AG is also determined and managed appropriately; 71.6% of this limit was utilized as of December 31, 2022.

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

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

REFINANCING

Strategic Principles

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

Implementation

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

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

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

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

The following tables show the transaction details:

CAPITAL MARKET 2022

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

ABSS 2022

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

Ratings

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

Volkswagen Financial Services AG

(Condensed, in accordance with the HGB)

BUSINESS PERFORMANCE 2022

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

Sales revenue amounted to €759 (679) million, with cost of sales coming to €750 (684) million. These items include the income from cost allocations to Group companies and the expenses related to personnel and administrative costs.

Other operating income came to €26 (98) million, with other operating expenses amounting to €83 (422) million. Other operating income included income from the reversal of provisions amounting to €19 million. Other operating expenses included issue and rating costs of €5 million.

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

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

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

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

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

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

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

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

NUMBER OF EMPLOYEES

Volkswagen Financial Services AG had a total of 5,498 (5,409) employees as of December 31, 2022. Employee turnover was below 1.0% and thus significantly below the industry average. The employees of

Volkswagen Financial Services AG also work for the subsidiaries because of the structure of the German legal entities in the Volkswagen Financial Services AG Group. At the close of 2022, 739 (966) employees were leased to Volkswagen Leasing GmbH. In addition, 211 (187) employees were leased to Vehicle Trading International (VTI) GmbH, 169 (172) to Volkswagen Insurance Brokers GmbH, 93 (86) to Volkswagen Versicherung AG, 9 (9) to Volkswagen Autoversicherung AG, 2 (2) to Volkswagen Bank GmbH, 1 (0) to Fleet Company GmbH and 2,535 (2,643) to Volkswagen Financial Services Digital Solutions GmbH.

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

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

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

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

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

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

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

Report on Opportunities and Risks

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

OPPORTUNITIES AND RISKS

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

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

Macroeconomic Opportunities and Risks

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

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

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

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

Strategic Opportunities and Risks

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

Volkswagen Financial Services AG expects to be presented with opportunities arising from the digitalization of its business. The aim is to make all key products also available online around the world and to expand the Company's role as the Volkswagen Group's central mobility platform provider, thereby enabling it to enhance efficiency. By expanding digital sales channels, Volkswagen Financial Services AG is promoting direct sales to complement its dealership business. Changing customer needs are thus addressed and the competitive position of Volkswagen Financial Services AG reinforced.

Opportunities from Credit Risk

Opportunities may arise in connection with credit risk if the losses actually incurred on lending transactions or in the lease business turn out to be lower than the prior calculations of expected loss and the associated provisions recognized on the basis thereof. Particularly in those countries in which we take a conservative approach to risk due to the uncertain economic situation, the realized losses may be lower than the expected losses if the economy stabilizes and borrowers' credit ratings improve as a result.

Opportunities from Residual Value Risk

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

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

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

- The Board of Management of Volkswagen Financial Services AG is the governing body with responsibility for the executive management of the business. In this role, the Board has set up Accounting, Treasury Controlling, Risk Management, Controlling and Compliance & Integrity units, each with clearly separated functions and clearly assigned areas of responsibility and authority, to ensure that accounting and financial reporting processes are carried out properly.
- Group-wide rules and accounting requirements have been put in place to ensure a standardized, proper and continuous financial reporting process for all domestic and foreign entities included in the consolidated financial statements in accordance with the International Financial Reporting Standards. The rules and requirements define which companies are included in the consolidation along with the mandatory use of a standardized, comprehensive set of forms for mapping and processing intragroup transactions.
- Analyses and any adjustments to single-entity financial statements prepared by the consolidated entities are complemented by the audited and approved financial statements at Group level, taking into account specific control activities aimed at ensuring that the consolidated financial reporting provides a true and fair view. The clear definition of areas of responsibility accompanied by various monitoring and review mechanisms ensures that all transactions are accurately recognized in the accounts, processed and evaluated, and then properly reported.

- These monitoring and review mechanisms are designed with both integrated and independent process components. For example, automated IT processing controls account for a significant proportion of the integrated process activities alongside manual process controls, such as double-checking by a second person. These controls are supplemented with specific Group-level functions at the parent company Volkswagen AG, for example Group Risk Management.
- The Internal Audit department is a key component of the monitoring and control system. It carries out regular audits of accounting-related processes in Germany and abroad as part of its risk-oriented auditing activities and reports on these audits directly to the Board of Management of Volkswagen Financial Services AG.

In summary, the existing internal monitoring and control system of the Volkswagen Financial Services AG Group is intended to ensure that the financial position of the individual entities and of the Volkswagen Financial Services AG Group as of the reporting date December 31, 2022 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Financial Services AG after the reporting date.

ORGANIZATIONAL STRUCTURE OF THE RISK MANAGEMENT SYSTEM

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

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

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

The Chief Financial Officer is responsible within Volkswagen Financial Services AG for both overall risk monitoring and risk monitoring for the significant borrower units. In this role, he submits regular reports to the Supervisory Board and Board of Management on the overall risk position of Volkswagen Financial Services AG.

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

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

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

BUSINESS STRATEGY AND RISK MANAGEMENT

Fundamental decisions relating to strategy and the instruments of risk management are the responsibility of the Board of Management. As part of this overall responsibility, the Board of Management has introduced a strategy process and drawn up a business strategy.

The MOBILITY2030 business strategy sets out the fundamental views of the Board of Management of Volkswagen Financial Services AG on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

The main risk management goals and measures for each category of risk provide direction for the business policy and risk appetite.

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

RISK-BEARING CAPACITY

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

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

PRODUCT TRANSPARENCY AND NEW MARKETS PROCESS

Before launching new financial services products or commencing activities in new markets, Volkswagen Financial Services AG carries out processes – with the involvement of departments such as

Controlling and Reporting – to ensure that the Company is aware of the requirements and effects relating to the new product or market concerned and that an informed decision can then be made on this basis at an appropriate level of organizational authority.

RISK CONCENTRATIONS

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

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

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

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

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

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

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

SUBSTANTIAL RISK CATEGORIES AND RISK REPORTING

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

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

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

OVERVIEW OF RISK CATEGORIES

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

FINANCIAL RISKS

Credit Risk

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

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

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

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

A set of guidelines outlines the requirements for developing and maintaining the rating models. Another set of guidelines specifies the parameters for developing, using and validating the scoring systems in the retail business.

Rating systems for corporate customers

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

Scoring systems in the retail business

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

Collateral

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

Provisions

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

Risk Managements sets fundamental parameters in the form of golden rules and guidelines for the management of credit risk. These constraints form the mandatory outer framework of the central risk management system, within which the divisions/markets can operate in terms of their business policy activities, planning, decisions, etc. in compliance with their assigned authority. Appropriate processes are used to monitor all lending in relation to financial circumstances, collateral and compliance with limits, contractual obligations and internal and external conditions. As such, commitments are managed according to the degree of risk involved (standard, intensified and problem loan management). Credit risk is also managed using reporting limits determined by Volkswagen Financial Services AG and specified separately for each individual company. Regular reporting and the yearly planning process are used to monitor credit risk at portfolio level.

CHANGES IN CREDIT RISK

Credit risk[1]	Dec. 31, 2022	Dec. 31, 2021
Amount utilized (€ million)	116,861	111,018
Default rate in %	1.4	1.6
Impairment ratio in %	1.7	1.8

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

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

Residual Value Risk

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

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

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

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

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

CHANGES IN DIRECT RESIDUAL VALUE RISK

Direct residual value risk[1]	Dec. 31, 2022	Dec. 31, 2021
Number of contracts	2,570,602	2,521,813
Guaranteed residual values (€ million)	39,306	36,858
Risk exposure in %	1.7	2.9

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

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

Shareholder Risk

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

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

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

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

Liquidity Risk

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

The primary objective of liquidity management is to safeguard the ability of the Company to meet its payment obligations at all times. This can be guaranteed through the use of drawdowns under credit facilities available with third-party banks and with Volkswagen AG. To measure liquidity risk, Volkswagen Financial Services AG has set up a system of limits throughout the Group. This system restricts funding-related cash outflows over a time horizon of 12 months. A broad diversification of funding maturities is therefore necessary to ensure compliance with the limits. To manage liquidity, the Operational Liquidity Committee (OLC) meets at least every four weeks to monitor the current liquidity situation and the range of liquidity coverage. It decides on funding measures and prepares any necessary decisions for the decision-makers. Risk Management communicates the main risk management information and relevant early warning indicators relating to liquidity risk. As of December 31, 2022, 71.6% of the limit was utilized.

Interest Rate Risk

Interest rate risk refers to potential losses that could arise as a result of changes in market interest rates. It occurs because of interest rate mismatches between asset and liability items in a portfolio or on the balance sheet. Volkswagen Financial Services AG is exposed to interest rate risk in its banking book. Changes in interest rates that cause interest rate risk to materialize can have a negative impact on financial performance. Interest rate risk is managed on the basis of limits using interest rate derivatives as part of the risk strategy defined by the Board of Management of Volkswagen Financial Services AG. Monitoring is performed by Treasury on the basis of a service agreement with Volkswagen Bank GmbH. A report on interest rate risk at Volkswagen Financial Services AG is submitted to the Board of Management each quarter. As of December 31, 2022, 66.9% of the limit was utilized.

Risks of Insurance Companies

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

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

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

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

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

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

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

NONFINANCIAL RISKS

Operational Risk

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

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

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

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

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

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

Actual losses from operational risk amounted to €249.6 (82.7) million in the year under review. This increase is the result of a provision for leasing transactions from operations.

Strategic Risk

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

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

Reputational Risk

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

Compliance and Integrity Risks

At Volkswagen Financial Services AG, compliance risk refers to risks that could arise from non-compliance with statutory rules and regulations or internal requirements.
Separately, integrity risk encompasses all risks that arise from a failure of employees to conduct themselves in an ethically acceptable manner or act in accordance with the Group's principles or the values of Volkswagen Financial Services AG, thereby presenting an obstacle to the long-term success of the business. Such risk can also result from inadequate conduct by the Company toward the customer, unreasonable treatment of the customer or provision of advice where products that are not suitable for the customer are used.
To counter these risks, the Compliance and Integrity function is committed to ensuring compliance with laws, other legal requirements, internal rules and self-proclaimed values, and to creating and fostering an appropriate compliance and integrity culture.

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

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

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

SUMMARY

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

Human Resources Report

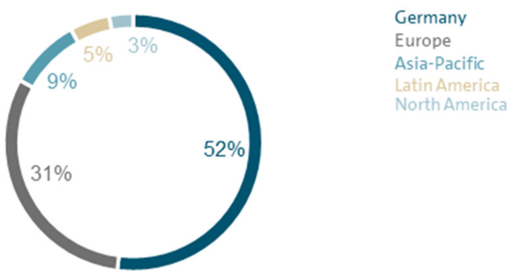
Mission HR: business driven – people focused.

EMPLOYEES

The Volkswagen Financial Services AG Group had a total workforce of 11,457 (11,021) employees as of December 31, 2022. Of these, 5,980 (5,901), or 52%, were employed in Germany and 5,477 (5,120), or 48%, at international sites. Owing to economic considerations, 231 (226) employees of Volkswagen Servicios, S.A. de C.V., Puebla, Mexico, which is an unconsolidated company, are included in the overall workforce figures.

EMPLOYEES BY REGION

AS OF DECEMBER 31, 2022



HUMAN RESOURCES STRATEGY

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

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

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

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

The Covid-19 pandemic had a huge impact on the world of work once again in the reporting year, forcing the associated requirements for new and different forms of collaboration and management onto the HR agenda. While, due to the pandemic, most employees were still working from home in the first half of the year, over half of them were back in the office in the second half of the year. Seminars and mandatory training sessions continued to be offered both online and in person and many events were delivered using hybrid formats or as blended learning. For employees working at the Company's sites, the best possible protection continues to be provided by implementing hygiene protocols.

Ways of working, together with the desires, expectations and needs of both employees and employers, are changing in response to the many-faceted, rapid transformation of the world of work in general. This transformation is both structural and cultural, and to ensure it is handled successfully, Volkswagen Financial Services AG continues to pursue a New Work initiative intended to facilitate the necessary changes to the world of work in areas such as tools, technology, space concepts, culture, management, rules and change support. Besides the FS Way and Internal Labor Market company agreements, one of the core components is the FlexWork company agreement, which was upgraded in 2021 to cover flexible working from any location in Germany. On request, employees can carry out some of their work on an alternating basis at a location other than the company workplace. Generally, employees use the standard hardware provided by the Company but can be supplied with additional equipment, if required. These company agreements provide a solid foundation and help to both safeguard and enhance the appeal of the Company as an employer.

The HR Transformation program established in 2018 sets the framework in which all employees – regardless of the extent to which they are affected – can make an individual contribution to the success of the transformation. In addition to placing employees in new jobs, the program also establishes the basic conditions, addresses key questions, sets out processes and specifies the qualifications required. Mindful of the ever-increasing importance of knowledge and experience in the field of digitalization, the HR unit has been offering 20 sponsored online courses of study and other online training related to the areas of data management, digitalization and cyber security every year since 2020. The Transformation Office established in connection with the project supports the change process in respect of the internal labor market. Its centralized management at the Braunschweig site ensures that vacant positions are taken up primarily by internal job applicants whose previous roles have been discontinued. This aims to ensure a transparent procedure throughout the entire site. The Transformation Office holds information events in the various departments and maintains continuous contact with employees and managers. It is a source of detailed advice and support in connection with all issues related to the internal labor market and provides assistance to the employees concerned in the form of training geared to their individual needs. To date, more than 250 employees have found new roles in this way. The Internal Labor Market has become an attractive option. The international sites have similar approaches in place.

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

Leadership is a significant topic at Volkswagen Financial Services AG and is more important than ever in periods of transformation. The focus of managerial professional development is therefore on providing the best possible level of support for both young and experienced managers along the way and in their day-to-day management work. In addition to the mandatory and modular program "Erfolgreich durchstarten" (hit the ground running) for new and newly appointed managers, there are advanced training offers for enhancing the management know-how of experienced managers, as well as the option to access personal coaching. Skills development content is based, among other things, on the latest leadership trends and is offered according to need.

The Blickwechsel (Change of Perspective) event format, which was relaunched in the fall of 2021, enables managers to obtain information on current issues and strengthen their networking with other managers. The events feature charismatic, insightful speakers from various industries presenting their ideas on leadership, mobility and future trends. The Company also enables its managers to participate in Volkswagen Group skills development programs, including the Transform Leadership 2030 program. The program has enabled managers to address the current challenges and opportunities in the areas of new technologies, customers and environmental/social issues.

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

Volkswagen Financial Services AG aims to be regarded as an employer of renown and regularly participates in external employer competitions to assess its status in this regard. In 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the "Best Employer in Lower Saxony-Bremen 2021" and "Best Employer in Germany 2021" competitions. In a comparison within Europe, the Company was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. The Company plans to participate in the competition for Best Employer once again in 2023 having already completed the corresponding employee survey in 2022.

IMPLEMENTATION OF THE CORPORATE STRATEGY

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

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

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

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

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

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

HUMAN RESOURCES PLANNING AND DEVELOPMENT

Again in 2022, 44 new vocational trainees/dual vocational training students started their professional careers at Volkswagen Financial Services AG in Braunschweig, focusing on specialist professional IT qualifications in application development and professional e-commerce qualifications. The Bachelor of Arts in Business Administration specializing in digital marketing & sales and financial services management is offered in collaboration with WelfenAkademie e. V. and was initiated in a partnership with Volkswagen Financial Services AG. The Bachelor of Arts in Business Administration focusing on leasing is offered in collaboration with the Ostfalia University of Applied Sciences in Wolfenbüttel. The combination of vocational training and studies for a Bachelor of Science in Business Informatics and Bachelor of Science in IT Security is offered in collaboration with Leibniz University of Applied Sciences, Hannover. Eager for its vocational training to match future needs and take proper account of the significance of digitalization, the Company once again recruited vocational trainees predominantly for specialist professional IT qualifications in application development and dual vocational training students mainly for business informatics specialist qualifications in 2022. A degree study program in computer science is also offered at the Braunschweig University of Technology. The offering has also been expanded to include the vocational field of media design.

As of December 31, 2022, a total of 131 vocational trainees and dual vocational training students were employed in Germany across all levels and professions. In Germany, a total of 41 vocational trainees were offered permanent positions in the reporting period.

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

Candidates are supported by a pleasant, quick, efficient and transparent application process, referred to as the Candidate Journey. The selection procedure focuses on candidates and whether they are suitable for Volkswagen Financial Services AG and the position in question.

Volkswagen Financial Services AG is also pursuing a rigorous approach to recruiting and retaining young talent. The "IT Girl" campaign was set up for this purpose in 2022 and is designed to address female school students interested in making a contribution to help shape the future with a career in IT. This campaign mainly involves current vocational trainees who can extol the virtues of starting a career at the Company based on their own experiences. The employment of law students, interns and temporary student employees lays further foundations that will enable the Company to safeguard its future. Each year, the Company also invites applications from university graduates for the eight places available on the 12-month Digital Talent trainee program, which takes place both in Germany and abroad and focuses on the digitalization of the Company's products. All HR professional development and qualification matters have been assigned to one of three units in the business partner model (either Development, Culture and Change or Skills and Qualifications Management). The objective is to ensure that all activities are centered around the business of Volkswagen Financial Services AG with a strategic focus on professional development and qualification as a primary component of the HR core business. Volkswagen Financial Services AG offers a wide range of development opportunities for its employees. Specialist development pathways into management positions, such as through project work or the agile environment, are becoming increasingly important alongside the traditional hierarchical pathways. Expert pathways like the Technical Application Manager (TAM) role in IT provide another option.

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

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

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

CORPORATE GOVERNANCE DECLARATION

Increase in the Proportion of Women

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

PROPORTION OF WOMEN – TARGET AND ACTUAL VALUES FOR GERMANY

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

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

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

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

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

The new “Let’s talk” series of events initiated in Germany in 2021 to gather specific ideas from the workforce to support the advancement of women was continued in 2022. These ideas are being used to develop any necessary new activities that could increase the proportion of women in management positions.

DIVERSITY

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

The Diversity wins@Volkswagen program, which is binding for all managers throughout the Group, makes a further contribution to fostering the concept of diversity. The aim of the program is to raise awareness of diversity and equal opportunities, to ensure that the added value of diversity is recognized and learned, and to develop an understanding of the obstacles that need to be overcome on the path to diversity in the Company. Workshops are held as part of the program to raise the awareness about the issue of diversity and equal opportunities among all managers. The program launched in Germany in 2019 and has been running at the international sites as well since 2021.

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

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

WORK-LIFE BALANCE

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

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

Report on Expected Developments

The global economy is expected to grow in 2023, albeit at a slower pace. Global demand for passenger cars will probably vary from region to region and increase noticeably year-on-year. With our broad product range and services, we believe we are well prepared for the future challenges in the mobility business.

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

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe/Other Markets

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

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

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

Germany

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

North America

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

South America

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

Asia-Pacific

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

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

In the mid-sized and heavy commercial vehicles category, we anticipate rising demand for financial services products in emerging markets. In these countries in particular, financing solutions support vehicle sales and are thus an essential component of the sales process. In the developed markets, we expect to see increased demand for telematics services and services aimed at reducing total cost of ownership in 2023. This trend is also expected to persist in the period 2024 to 2027.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe/Other Markets

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

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

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

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

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

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

Germany

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

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

North America

The sales volume in the markets for passenger cars and light commercial vehicles (up to 6.35 tonnes) in North America overall and in the USA in 2023 is likely to be noticeably higher than the previous year's level. Demand will probably remain highest for models in the SUV and pickup segments. New registrations of all-electric vehicles are also estimated to increase at a higher-than-average rate. In Canada, too, a noticeable increase is expected in the number of new registrations compared to the previous year. For Mexico, we expect a slight increase in new registrations compared with the reporting period.

South America

Owing to their dependence on demand for raw materials worldwide, the South American markets for passenger cars and light commercial vehicles are heavily influenced by developments in the global economy. We anticipate a significant increase overall in new registrations in the South American markets in 2023 compared with the previous year. Strong growth is expected in the market volume in Brazil compared with 2022. We anticipate that the volume of new registrations in Argentina will be significantly higher year-on-year.

Asia-Pacific

The passenger car markets in the Asia-Pacific region are expected to be noticeably up on the prior-year level in 2023. We estimate that the market volume in China will be slightly higher than the comparative figure for 2022. Attractively priced entry-level models in the SUV segment in particular should still see strong demand. The continuing parts supply shortages, possible measures to halt the spread of the SARS-CoV-2 virus and intensification of geopolitical tensions could act as a drag on demand. As long as there is no resolution in sight, the trade dispute between China and the United States is likely to continue to weigh on business and consumer confidence. We anticipate that the Indian market will perform slightly better than in the previous year. Japan should see noticeable growth in market volume in 2023.

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

For 2023, we expect a noticeable upwards trend in new registrations for mid-sized and heavy trucks with a gross weight of more than six tonnes compared with the previous year, with variations from region to region, in the markets that are relevant for the Volkswagen Group.

Noticeable market growth is expected for the 27 EU countries excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3) because it has so far not been possible to fully satisfy the high demand for trucks due to continuing supply bottlenecks. We anticipate that Türkiye will see a significant drop in demand. In South Africa, we expect demand to be on a level with the previous year. The truck market in North America is divided into weight classes 1 to 8. We expect a noticeable increase in new registrations in the segments relevant for Volkswagen – Class 6 to 8 (8.85 tonnes or heavier). We estimate that demand in Brazil will be slightly lower than in the previous year.

On average, we anticipate a slight decrease in the relevant truck markets for the years 2024 to 2027.

A significant increase in overall demand, with regional variations, is expected for 2023 in the bus markets relevant for the Volkswagen Group. We anticipate slight year-on-year market growth in the EU27+3 countries. Here, we are assuming that the coach segment will recover and that we will receive orders in the context of government-funded programs. We expect very strong growth in North America. In Brazil, new registrations are expected to decline significantly after the strong prior-year growth.

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

INTEREST RATE TRENDS

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

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

Interest rate trends are generally factored into pricing.

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

MOBILITY CONCEPTS

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

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

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

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

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

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

The company has taken a huge step towards becoming a mobility service provider with the expansion of vehicle-related mobility services. In addition, Volkswagen Financial Services AG already offers a supporting portfolio of services fulfilling the customers' desire for convenience and flexibility. Efforts focus on the global expansion of payment solutions for digital business models in the Volkswagen Group, the further expansion of cashless and mobile payment for parking in North America and Europe as well as the further development of the electric vehicle charging and fuel card services in Europe. Together with the charging network of the Group brand Elli, Volkswagen Financial Services AG provides access to over 350,000 public charging points and another 20,000 fueling stations in Europe through the Charge&Fuel Card. In addition, the Europe-wide processing of toll transactions was integrated into the services for business customers. Further activities will focus on driving forward the expansion of the fleet business.

Volkswagen Financial Services AG partners with the Volkswagen Group brands in the marketing for vehicles with internal combustion engines as well as for electric vehicles. An important role in the marketing of the Volkswagen Group's e-vehicles plays in particular attractive leasing offers, supplemented by maintenance and wear-and-tear packages.

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

NEW MARKETS/INTERNATIONALIZATION/NEW SEGMENTS

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

SUMMARY OF EXPECTED DEVELOPMENTS

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

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

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

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

Volkswagen Financial Services AG’s position in the global competitive environment will continue to be strengthened not only through market-related activities, but also through strategic investment in structural initiatives, process optimization and productivity improvements. Establishing more closely integrated working practices, especially in the European markets, will be a significant element of this effort.

Forecast for Credit and Residual Value Risk

The risk situation will remain challenging given the very pronounced economic risks and global political tensions anticipated for 2023. The specific risk situation of Volkswagen Financial Services AG’s portfolios will depend very much on how inflation and purchasing power develop in the various markets. Nevertheless, the volume of loans and receivables is projected to grow.

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

In the residual value portfolio, the volume of contracts is projected to continue to grow in fiscal year 2023. In this case too, the main drivers will be the growth programs implemented by the Company, further expansion in the fleet business and the ongoing shift from finance to leasing.

Forecast for Liquidity Risk

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

OUTLOOK FOR 2023

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

The overall picture taking account of the underlying conditions described and the trends evident in the market is as follows: expectations assume greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future, potential effects of geopolitical upheaval and continued uncertainty about macroeconomic conditions in the real economy.

The Company's forecast for 2023 is that current contracts will be noticeably higher and business volume significantly higher than their respective levels in fiscal year 2022.

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

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

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

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

	Actual 2022	Forecast for 2023	
Nonfinancial performance indicators			
Penetration (percent)	25.6	> 25,6	Slightly up on previous year
Current contracts (thousands)	16,085	> 16.085	Noticeably up on previous year
New contracts (thousands)	5,732	> 5.732	Much stronger up on previous year
Financial performance indicators			
Volume of business (€ million)	105,605	> 105.605	Significantly up on previous year
Operating result (€ million)	3,207	< 3.207	Much stronger lower than in the previous year
Return on equity (percent)	18.7	< 18,7	Much stronger below the previous year's level
Cost/income ratio (percent)	43	> 43	Much stronger up on previous year

Braunschweig, February 14, 2023

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

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

Balance Sheet

of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2022

€ million	Dec. 31, 2022	Dec. 31, 2021
Assets		
A. Fixed Assets		
I. Financial Assets	7,941,603	10,531,917
	7,941,603	10,531,917
B. Current Assets	–	–
I. Receivables and other assets	21,262,727	17,693,176
II. Cash-in-hand and bank balances	706	159
	21,263,433	17,693,335
C. Prepaid expenses	24,827	28,522
Total Assets	**29,229,863**	**28,253,774**
Equity and liabilities		
A. Equity		
I. Subscribed capital	441,280	441,280
II. Capital reserves	2,816,213	2,816,213
III. Retained earnings	99,469	99,469
IV. Net retained profits	1,704	401,705
	3,358,666	3,758,667
B. Provisions	898,197	688,167
C. Liabilities	24,972,276	23,804,923
D. Net retained profits	724	2,018
Total equity and liabilities	**29,229,863**	**28,253,774**

Income Statement

of Volkswagen Financial Services AG, Braunschweig, for the period January 1 to December 31, 2022

€ thousand	Jan. 1 – Dec. 31, 2022	Jan. 1 – Dec. 31, 2021
Sales	**758,925**	678,594
Cost of sales	**750,380**	683,722
Gross profit on sales	**8,545**	**–5,128**
General and administrative expenses	**273,741**	215,024
Other operating income	**26,435**	98,361
Other operating expenses	**83,073**	422,207
Net income from long-term equity investments	**–473,421**	1,571,289
of which income under profit and loss transfer agreements	**502,695**	365,152
of which expenses from absorption of losses	**–1,082,873**	–224,377
Financial result	**–713,220**	–179,680
of which income from affiliated companies	**165,770**	112,468
of which expenses from affiliated companies	**111,979**	34,533
Taxes on income (charged by parent € 187,995 thousand; previous year: € 75,730 thousand)	**188,114**	76,572
Result after tax	**–1,696,589**	**771,039**
Other taxes	**–**	–
Profits transferred under a profit and loss transfer agreement	**–**	771,039
Losses absorbed under a profit and loss transfer agreement	**1,696,589**	–
Net income	**–**	**–**
Profit brought forward	**1,704**	1,705
Withdrawal from capital reserves	**–**	**400,000**
Net retained profits	**1,704**	**401,705**

Notes

to the Annual Financial Statements of Volkswagen Financial Services AG, Braunschweig, as of December 31, 2022

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 €20,482 thousand for the pension provision not funded externally, €40,456 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €154 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:	1.78%
Expected rate of salary increases:	3.28%
Expected rate of pension increases:	2.20%
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 €2,628,647 thousand there are no subordinated loans.

The other loans amounting to €183,293 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, 2022	Dec. 31, 2021
Receivables from affiliated companies	**14,945,015**	**12,063,234**
of which from the shareholder	1,763,660	1,706
of which due in more than 1 year	3,275,508	5,070,518
Receivables from other long-term investees and investors	**6,233,005**	**5,557,040**
of which due in more than 1 year	2,237,274	2,600,209
Other assets	**84,707**	**72,902**
of which due in more than 1 year	–	–
Total	**21,262,727**	**17,693,176**

The receivables from affiliated companies include loan receivables and interest of €7,223,085 thousand, receivables from fixed-term deposits and interest of €5,189,444 thousand, receivables under existing profit and loss transfer agreements of €2,066,301 thousand, receivables from tax allocations of €195,441 thousand, receivables from cash deposits of €129,500 thousand, and receivables from current account deposits of €49,807 thousand.

The receivables from other long-term investees and investors include loans and interest receivables of €4,550,791 thousand as well as fixed-term and overnight deposits and interest receivables amounting to €1,680,823 thousand.

Other assets largely relate to receivables from interest rate and cross currency swap contracts in an amount of €78,921 thousand.

Prepaid expenses include prepayments of guarantee insurance and currency forward swap premiums of €5,402 thousand relating to the subsequent year. Prepaid expenses also include a difference of €19,425 thousand determined in accordance with section 250(3) of the HGB.

Capital reserves were unchanged from the previous year 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 €1,704 thousand (previous year: €1,704 thousand).

The provisions comprise the following items:

€ thousand	Dec. 31, 2022	Dec. 31, 2021
Provisions for pensions and similar obligations	529,503	408,734
including the offsetting of the unit-linked pension obligation:	–	–
Provisions for pensions, funded	428,869	349,239
Fund assets as plan assets (cost €256,726 thousand)	-228,556	-234,066
Other provisions	368.694	279,433
including the offsetting of the employee time asset bond:	–	–
Provision for time asset bond	124,851	127,596
Fund assets as plan assets (cost €151,421 thousand)	–124,851	–127,596
Total	**898.197**	**688,167**

In the year under review, the difference determined in accordance with section 253(6) of the HGB amounted to €20,482 thousand for the pension provision not funded externally, €40,456 thousand for the commitments funded through Volkswagen Pension Trust e. V. and €154 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 €272,820 thousand (previous year: €245,503 thousand) and provisions for outstanding invoices of €23,621 thousand (previous year: €16,404 thousand).

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2022	Dec. 31, 2021
Bonds	**11,150,000**	**10,250,000**
of which due within 1 year	2,750,000	1,100,000
of which due in more than 1 year	8,400,000	9,150,000
of which due in more than 5 year	2,550,000	3,200,000
Liabilities to banks	**1,669,890**	**1,746,895**
of which due within 1 year	429,890	156,895
of which due in more than 1 year	1,240,000	1,590,000
of which due in more than 5 year	–	–
Trade payables (due within 1 year)	**8,009**	**3,814**
Liabilities to affiliated companies	**10,621,244**	**10,640,251**
of which to the shareholder	4,889,082	6,885,314
of which due within 1 year	4,095,135	3,874,687
of which due in more than 1 year	6,526,109	6,765,564
of which due in more than 5 year	3,290,715	3,380,564
Liabilities to other long-term investees and investors (due within 1 year)	**544**	**270**
Other liabilities	**1,522,589**	**1,163,692**
of which taxes	7,990	7,761
of which relating to social security and similar obligations	2,926	2,886
of which due within 1 year	1,447,589	1,088,692
of which due in more than 1 year	75,000	75,000
of which due in more than 5 year	–	–
Total	**24,972,276**	**23,804,922**

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 €4,245,000 thousand.

Other liabilities include commercial paper liabilities amounting to €1,289,286 thousand and promissory note loan liabilities amounting to €75,843 thousand.

Statement of changes in fixed assets of Volkswagen Financial Services AG, Braunschweig, for 2022

€ thousand	Shares in affiliated companies	Loans to affiliated companies	Other long-term equity investments	Loans to other long-term investees and investors	Other loans	Total Financial Assets	Total fixed assets
Gross carrying amount							
Balance brought forward as of Jan. 1, 2022	**5,709,246**	**1,664,598**	**288,858**	**439,851**	**2,903,171**	**11,005,724**	**11,005,724**
Additions	173,695	591,011	19,439	165,000	95,717	1,044,862	**1,044,862**
Disposals	395,329	217,705	–	14,108	2,815,595	3,442,737	**3,442,737**
Transfers	–20,831	–	20,831	–	–	–	**–**
Balance as of Dec. 31, 2022	**5,466,781**	**2,037,904**	**329,128**	**590,743**	**183,293**	**8,607,849**	**8,607,849**
Write-Downs							
Balance brought forward as of Jan. 1, 2022	**384,807**	**–**	**89,000**	**–**	**–**	**473,807**	**473,807**
Additions	464,586	–	109,379	–	–	573,965	**573,965**
Disposals	362,125	–	–	–	–	362,125	**362,125**
Transfers	–	–	–	–	–	–	**–**
Write-ups	–	–	19,400	–	–	19,400	**19,400**
Balance as of Dec. 31, 2022	**487,268**	**–**	**178,979**	**–**	**–**	**666,247**	**666,247**
Net carrying amount as of Dec. 31, 2022	**4,979,513**	**2,037,904**	**150,149**	**590,743**	**183,293**	**7,941,603**	**7,941,603**
Net carrying amount as of Jan. 01, 2022	**5,324,439**	**1,664,598**	**199,858**	**439,851**	**2,903,171**	**10,531,917**	**10,531,917**

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 €758,925 thousand (previous year: €678,594 thousand) in accordance with section 277(1) of the HGB. Of this amount,€701,185 thousand (previous year: €667,149 thousand) was generated in Germany and €57,740 thousand (previous year: €11,445 thousand) abroad.

An amount of €750,380 thousand is reported under cost of sales (previous year: €683,722 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 €245,615 thousand (previous year: €178,550 thousand).

The breakdown of personnel expenses is as follows:

€ thousand	2022	2021
Salaries	553,776	543,026
Social security, post-employment and other employee benefit costs	190,198	127,205
of which for post-employment benefits	107,568	48,634
Total	**743,974**	**670,231**

Other operating income includes income from the reversal of provisions of €19,140 thousand (previous year: €66,881 thousand). In addition, currency translation accounts for other operating income of €50 thousand (previous year: €131 thousand) and other operating expenses of €3,666 thousand (previous year: €290 thousand).

Other operating expenses also include issue and rating costs of €5,039 thousand for bonds issued (previous year: €6,575 thousand).

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

€ thousand	2022	2021
Expenses from absorption of losses	1,082,873	224,377
Income under profit and loss transfer agreements (from affiliated companies)	502,695	365,152
Income from other long-term equity investments	106,757	1,430,514
of which from affiliated companies	106,125	1,429,675
of which from investments in joint ventures	632	839
Total	–473,421	1,571,289

The expenses from the transfer and absorption of losses stem largely from the transfer and absorption of the loss of €1,077 million (previous year: €213 million) made by Volkswagen Leasing GmbH. Income under profit and loss transfer agreements increased to €503 million (previous year: €365 million) after VTI GmbH managed to improve its earnings by €181 million to €353 million (previous year: €172 million).

The following table shows the breakdown of the financial result:

€ thousand	2022	2021
Income from other securities and long-term loans	57,097	124,258
of which from affiliated companies	46,738	34,407
Other interest and similar income	178,296	114,355
of which from affiliated companies	119,032	78,061
of which interest income from discounting	–	–
Interest and similar expenses	394,048	231,004
of which to affiliated companies	111,979	34,533
of which from unwinding discount on provisions	62,255	57,342
Write-downs of financial assets (write-downs for permanent impairment at affiliated companies)	573,965	223,689
Write-ups of financial assets (from affiliated companies)	19,400	36,400
Total	**–713,220**	**–179,680**

Interest expenses for funded pension provisions amounting to €4,974 thousand (previous year: €13,143 thousand) were offset against income of the same amount arising from the associated plan assets. The interest expense from unwinding discount on the provision for time asset bonds in the amount of €24,981 thousand (previous year: €5,074 thousand) was offset against income of the same amount from the scheme fund assets.

Net income for the year includes prior-period income of €22,838 thousand (previous year: €76,193 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.

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		MARKET VALUES			
	31.12.2022	31.12.2021	31.12.2022		31.12.2021	
			positive	negative	positive	negative
Interest rate swaps	9,550,000	8,550,000	606	849,032	88,615	37,996
Cross-currency/currency swaps	1,561,733	1,337,857	18,143	21,660	3,830	34,958
Currency forward contracts	1,185,132	1,143,242	2,262	9,437	115	13,953

The following table shows the amount of hedged items as of December 31, 2022 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	–	9,550,000	9,550,000	855,047
Currency risks	Micro hedge	2,746,865	–	2,746,865	23,792
Currency risks	Macro hedge	–	–	–	–
Total		**2,746,865**	**9,550,000**	**12,296,865**	**878,839**

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, 2022, a provision for expected losses of €15,554 thousand (previous year €7,745 thousand) had been recognized in connection with interest rate and currency risks.

The contingent liabilities under guarantees amount to €79,056,482 thousand and are largely attributable to guarantees to creditors of affiliated companies and investees in the amount of €78,781,692 thousand relating to short- and medium-term bonds (money and capital market) issued by these companies. The other contingent liabilities are attributable to a guarantee to a creditor of an affiliated company for future rental payments in the amount of €158,644 thousand and two letters of support and one comfort letter in favor of affiliated companies in the amount of €116,147 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 lines of credit of affiliated companies in Russia (€120,000 thousand). A credit risk provision of €55,908 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 €39,131 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. On the basis of termination agreements, the control and profit and loss transfer agreement with Rent-X GmbH and the profit and loss transfer agreement with EURO-Leasing GmbH were terminated as of the end of December 31, 2022.

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 2022 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. 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 5,299 employees, including 21 senior executives (previous year: 5,238, including 21 senior executives) and 126 vocational trainees (previous year: 125) on average in the reporting period. The 5,299 employees comprised 3,797 full-time and 1,502 part-time employees.

The remuneration of the Board of Management of Volkswagen Financial Services AG amounted to €6,271 thousand in 2022. 12,285 performance shares were granted in the reporting period. The fair value at the grant date was €1,787 thousand. Advances granted to members of the Board of Management under the performance share plan amounted to €68 thousand as of December 31, 2022 (previous year: €363 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 €1.0 million. The provisions recognized for this group of individuals to cover current pensions and pension entitlements amount to €27,076 thousand.

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 of top management and other beneficiaries works is essentially the same as the performance share plan used for members of the Board of Management. The performance period for beneficiaries below the Board of Management is likewise 3 years. At the introduction of the performance share plan, top management members were guaranteed a minimum bonus amount for the first three years on the basis of remuneration in 2018, whereas all other beneficiaries were given a guarantee for the first three years on the basis of remuneration in 2019.

Each performance period of the performance share plan has a term of three years. For 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 three-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 during the performance period 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

In February 2023, the Board of Management of Volkswagen AG, following a previous decision by the Board of Management of Volkswagen Financial Services AG in July 2022, approved the sale of the new financing business of MAN Financial Services in selected markets (mainly those without joint venture investments) to TRATON Financial Services AB against the payment of a selling price. In determining the selling price, the different dates of transferring the new financing business in the respective markets were taken into account. The completion of the transaction is subject to outstanding governing body approvals.

7. Governing Bodies of Volkswagen Financial Services AG

The members of the Board of Management are as follows:

DR. CHRISTIAN DAHLHEIM (AS OF FEBRUARY 1, 2022)
Chairman of the Board of Management
Corporate Management of Volkswagen Financial Services AG
China region, South America region (as of July 1, 2022)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Shareholdings

Shareholdings of Volkswagen Financial Services AG and the Volkswagen Financial Services Group in accordance with sections 285 and 313 of the HGB and presentation of the companies included in the consolidated financial statements of the Volkswagen Financial Services Group in accordance with IFRS 12 as of December 31, 2022.

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

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

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

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
Volkswagen Leasing (Wuxi) Co., Ltd., Wuxi	CNY	7.3661	–	100.00	100.00	–380	–739		2021
Volkswagen New Mobility Services Consulting (Beijing) Co., Ltd., Beijing	CNY	7.3661	–	100.00	100.00	13,008	5,457		2021
Volkswagen Reinsurance Company DAC, Dublin	EUR	–	100.00	–	100.00	7,638	977		2021
Volkswagen Service Sverige AB, Södertälje	SEK	11.0787	–	100.00	100.00	40,970	–		2021
Volkswagen Servicios, S.A. de C.V., Puebla	MXN	20.8879	–	100.00	100.00	26,040	4,399		2021
Volkswagen Serwis Ubezpieczeniowy Sp. z o.o., Warsaw	PLN	4.6860	–	100.00	100.00	59,456	20,555		2021
VTXRM - Software Factory Lda., Porto Salvo	EUR	–	–	90.00	90.00	1,859	534		2021
III. JOINT VENTURES									
A. Equity-accounted companies									
1. Germany									
Mobility Trader Holding GmbH, Berlin	EUR	–	36.69	–	36.69	373,218	–9,025		2021
Volkswagen Autoversicherung Holding GmbH, Braunschweig	EUR	–	51.00	–	51.00	172,799	29,450		2021
Volkswagen Financial Services Digital Solutions GmbH, Braunschweig	EUR	–	49.00	–	49.00	116,446	13,355		2021
2. International									
MAN Financial Services (SA) (RF) (Pty) Ltd., Johannesburg	ZAR	18.0795	50.00	–	50.00	203,624	43,225	9)	2021
VDF Servis ve Ticaret A.S., Istanbul	TRY	19.9852	51.00	–	51.00	937,880	334,309	7)	2021
Volkswagen D'Ieteren Finance S.A., Bruxelles	EUR	–	–	50.00	50.00	139,618	5,398		2021
Volkswagen Financial Services South Africa (Pty) Ltd., Sandton	ZAR	18.0795	51.00	–	51.00	–1,367,448	–339,778		2021
Volkswagen Møller Bilfinans A/S, Oslo	NOK	10.5047	–	51.00	51.00	3,765,372	229,189	9)	2021
Volkswagen Pon Financial Services B.V., Amersfoort	EUR	–	–	60.00	60.00	211,141	62,483	7) 10)	2021
B. Companies accounted for at cost									
1. Germany									
FleetCompany GmbH, Oberhaching	EUR	–	73.65	–	73.65	8,603	–8,560		2021
		–	–	–	–	–	–		
2. International		–	–	–	–	–	–		
Collect Car B.V., Rotterdam	EUR	–	–	60.00	60.00	5,664	–1,801		2021
Lenkrad Invest (Pty) Ltd., Sandton	ZAR	18.0795	51.00	–	51.00	23,782	21,147		2021
Porsche Volkswagen Servicios Financieros Chile S.p.A., Santiago de Chile	CLP	915.6600	50.00	–	50.00	8,518,025	1,457,073		2021
Shuttel B.V., Leusden	EUR	–	49.00	–	49.00	2,517	–545		2021
Staymo S.A.S., Boulogne-Billancourt	EUR	–	–	51.00	51.00	–	–	3) 4)	2022
Volkswagen Financial Services Compañia Financiera S.A., Buenos Aires	ARS	188.7587	–	49.00	49.00	4,108,620	–14,929		2021
Volkswagen Losch Financial Services S.A., Howald	EUR	–	60.00	–	60.00	5,318	1,442		2021
Volkswagen Semler Finans Danmark A/S, Bröndby	DKK	7.4369	–	51.00	51.00	476,248	–55,455		2021

Name and registered office of the company	Currency	EXCHANGE RATE (1 EURO =) Dec. 31, 2022	VW FS AG'S INTEREST IN CAPITAL IN % Direct	Indirect	Total	EQUITY IN THOUSANDS local currency	PROFIT/LOSS IN THOUSANDS local currency	Footnote	Year
IV. ASSOCIATED COMPANIES									
A. Equity-accounted associates									
1. Germany									
2. International									
B. Associates accounted for at cost									
1. Germany									
Digital Mobility Leasing GmbH, Kassel	EUR	–	26.00	–	26.00	14,682	1,170		2021
PosernConnect GmbH, Sittensen	EUR	–	–	49.00	49.00	751	246		2021
Verimi GmbH, Berlin	EUR	–	44.96	–	44.96	9,640	–16,018		2021
2. International									
J.P. Morgan Mobility Payments Solutions S.A., Strassen	EUR	–	25.10	–	25.10	11,469	–8,323		2021
Volkswagen-Versicherungsdienst GmbH, Vienna	EUR	–	–	15.00	15.00	5,137	4,659		2021
V. EQUITY INVESTMENTS									
1. Germany									
Allianz für die Region GmbH, Braunschweig	EUR	–	8.70	–	8.70	1,026	61		2021
2. International									

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

Braunschweig, February 14, 2023

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the 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 14, 2023

Volkswagen Financial Services AG
The Board of Management

Dr. Christian Dahlheim

Anthony Bandmann

Dr. Alexandra Baum-Ceisig

Dr. Mario Daberkow

Frank Fiedler

Independent auditor's report

To Volkswagen Financial Services Aktiengesellschaft, Braunschweig

REPORT ON THE AUDIT OF THE 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 2022, and the income statement for the fiscal year from 1 January to 31 December 2022, 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 2022. In accordance with the German legal requirements, we have not audited the content of the "Corporate governance declaration" pursuant to Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB ["Handelsgesetzbuch": German Commercial Code] included in the Human Resources Report section of the combined management report (disclosures on the quota for women on executive boards) or the "Separate nonfinancial group report" section of the management report.

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 2022 and of its financial performance for the fiscal year from 1 January to 31 December 2022 in compliance with German legally required accounting principles, and

> the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined 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 "Corporate governance declaration" in accordance with Sec. 289f (4) in conjunction with Sec. 289f (2) No. 4 HGB (disclosures on the quota for women on executive boards) included in the Human Resources Report of the combined management report or the "Separate nonfinancial group report" section of the management report.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

BASIS FOR THE OPINIONS

We conducted our audit of the annual financial statements and of the combined 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 2022 to 31 December 2022. 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 net realizable values of shares in affiliated companies and equity investments are determined using recognized valuation methods, in particular the capitalization of earnings method. The valuation methods applied are subject to judgment with regard to the valuation parameters used and expectations of future business development. 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. The exercise of judgment for the carrying amounts and the assessment of whether permanent impairment exists can have a considerable effect on the amounts stated in the annual financial statements. As a result of the effects of the persistent shortages of intermediates and commodities on vehicle supply, which were additionally amplified by the effects of the Russia-Ukraine conflict, as well as the effects of inflation on vehicle demand, these uncertainties were heightened in the fiscal year.

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

To assess the recoverability of the carrying amounts of the shares in affiliated companies and equity investments, we assessed the design of the internal process to determine whether the methods defined therein are consistent with the professional pronouncements of the Institut der Wirtschaftsprüfer (IDW) on the valuation of companies and equity investments (IDW AcP HFA 10 in conjunction with IDW S1).

Based on the calculations performed by the Company using the capitalization of earnings method and alternative valuation methods, we obtained an understanding of the application of the valuation method and the determination of the significant planning assumptions and valuation parameters and reperformed the calculations for a risk-based sample of affiliated companies and equity investments. Where the capitalization of earnings method was used, our focus was on assessing the significant planning assumptions. We compared the budget with the previous fiscal year's budget and with the actual results achieved and analyzed deviations. We also assessed the consistency of the significant assumptions made in the budget. Furthermore, we examined the extent to which the assumptions on the economic development are within a range of externally available forecasts. We examined the valuation parameters used for the estimate of the net realizable values, such as estimated growth rates, cost of capital rates and tax rates, in comparison to externally available parameters.

To audit the valuation of shares in affiliated companies and equity investments, we consulted internal specialists who have particular expertise in the area of business valuation.

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

Our opinions on the 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 combined 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 (i.e., fraudulent financial reporting and misappropriation of assets) 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 combined 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 combined 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 combined 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 combined 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 combined 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 the combined 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 combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
> Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined 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 combined 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 combined 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 combined 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-2022-12-31.zip] and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the 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 combined 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 combined management report for the fiscal year from 1 January 2022 to 31 December 2022 contained in the "Report on the audit of the annual financial statements and of the combined 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 (06.2022)). 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 combined 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 combined management report.

FURTHER INFORMATION PURSUANT TO ART. 10 OF THE EU AUDIT REGULATION

We were elected as auditor by the Annual General Meeting on 1 March 2022 and were engaged by the Supervisory Board on 4 October 2022. We have been the auditor of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, without interruption since fiscal year 2020.

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

> Review of the reporting packages for the reporting dates 31 March, 30 June and 30 September 2022 in accordance with the instructions of the group auditor
> Issue of comfort letters in accordance with IDW AuS 910 in connection with the updating of the debt issuance programs of Volkswagen Financial Services Aktiengesellschaft, Braunschweig
> Reasonable assurance engagement relating to the system designed to ensure compliance with the requirements under Sec. 32 (1) WpHG ["Wertpapierhandelsgesetz": German Securities Trading Act] of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, for the period from 1 January 2021 to 31 December 2021
> Project-based review of implementation measures in the Change Management and IT Regulatory Review projects
> Reasonable assurance engagement relating to the description of internal controls at the service organization of Volkswagen Financial Services Aktiengesellschaft, Braunschweig, regarding the suitability of the criteria applied and the derived control objectives and the design and operating effectiveness of the controls to achieve the control objectives stated in the description in accordance with IDW AsS 951 (Revised) Type 2.

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

OTHER MATTER – USE OF THE AUDITOR'S REPORT

Our auditor's report must always be read together with the audited 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 *Unternehmensregister* [German Company Register] – 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 Matthias Koch.

Eschborn/Frankfurt am Main, 17 February 2023

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Koch
Wirtschaftsprüfer
[German Public Auditor]

Hölscher
Wirtschaftsprüfer
[German Public Auditor]

Report of the Supervisory Board

of Volkswagen Financial Services AG

In the year under review, the Supervisory Board gave regular and thorough consideration to the position and development of Volkswagen Financial Services AG and the Volkswagen Financial Services AG Group.

During the reporting period, the Board of Management informed the Supervisory Board promptly and comprehensively at all times, in writing or verbally, regarding material aspects of the Company's planning and position, including the risk situation and the risk management system, and also regarding business development and any deviations from planning and targets. Based on these reports of the Board of Management, the Supervisory Board constantly monitored the management of the Company's and the Group's business and was thus able to carry out without limitation the functions assigned to it by law and under the articles of association. All decisions of fundamental importance for the Company and other transactions requiring the approval of the Supervisory Board under the rules of procedure were reviewed and discussed with the Board of Management before the relevant resolution was adopted.

The Supervisory Board generally comprises twelve members. Changes in the reporting period are disclosed in the information on governing bodies.

The Supervisory Board held three regular meetings and one extraordinary meeting in the reporting year. The average attendance rate was 90%. Decisions were made on six matters by means of a written resolution circulated to each of the members for approval; the Chair of the Supervisory Board also made eight urgent decisions using the written procedure.

COMMITTEE ACTIVITIES

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

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

MATTERS DISCUSSED BY THE SUPERVISORY BOARD

At its meeting on February 25, 2022, following reports submitted by the auditor, the Supervisory Board examined in detail and then approved both the consolidated financial statements of the Volkswagen Financial Services AG Group prepared by the Board of Management as well as the annual financial statements and management report of Volkswagen Financial Services AG for 2021 prepared by the Board of Management. The Supervisory Board also issued a recommendation regarding the appointment of the auditor for 2022.

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

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

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

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

AUDIT OF THE ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft was appointed to audit both the consolidated financial statements of the Volkswagen Financial Services AG Group in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG in accordance with the HGB for the year ended December 31, 2022, including the bookkeeping system and management reports.

The consolidated financial statements of the Volkswagen Financial Services AG Group completed in accordance with the IFRSs and the annual financial statements of Volkswagen Financial Services AG completed in accordance with HGB for the year ended December 31, 2022 were submitted to the Supervisory Board together with the management reports. The auditor, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, audited these financial statements, including the bookkeeping system and the management reports, and issued an unqualified auditor's opinion in each case.

The Supervisory Board agrees with the findings of these audits. The Supervisory Board had no reservations after its review of the consolidated financial statements and the annual financial statements, including the management reports. The auditors were present when this agenda item was addressed at the Supervisory Board meeting and they reported on the main findings of their audit.

At its meeting on February 24, 2023, the Supervisory Board approved both the consolidated financial statements prepared by the Board of Management as well as the annual financial statements of Volkswagen Financial Services AG. The consolidated financial statements and annual financial statements have thus been adopted.

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

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

Braunschweig, February 24, 2023

Dr. Arno Antlitz
Chair of the Supervisory Board

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