VOLKSWAGEN LEASING

GMBH

ANNUAL REPORT

2021

Volkswagen Leasing GmbH

At a Glance[1]

€ million	2021	2020	2019	2018	2017
Investments in lease assets	19,690	20,629	20,710	16,038	16,040
Lease assets	38,700	36,033	31,960	27,739	26,049
Total assets	47,647	43,127	39,106	37,486	32,218
Lease income	21,438	20,679	19,790	17,501	15,848
in thousand vehicles					
New contracts	646	702	769	618	615
Current contracts	1,814	1,721	1,674	1,487	1,386

1 In 2020, the figures of MAN Financial Services GmbH, which was merged with Volkswagen Leasing GmbH as of January 1, 2020, were included for the first time. The prior-year figures include the figures of the Warsaw branch, which was spun off in the current fiscal year with retroactive effect as of January 1, 2020.

Fundamental Company Information

Continuous growth confirms Volkswagen Leasing GmbH’s business model.

BUSINESS MODEL

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

ORGANIZATION OF VOLKSWAGEN LEASING GMBH

Volkswagen Leasing GmbH focuses on the operating activities for the leasing business with retail and business customers as well as on the fleet management/services business. The organization of Volkswagen Leasing GmbH is consistently based on the needs of its different customer groups, namely retail and fleet customers.

The responsibilities of the Management Board of Volkswagen Leasing GmbH are subdivided into four areas (Board departments). Mr. Jens Legenbauer is responsible for Corporate Management and is also the Chairman of the Management Board. Corporate Management brings together the areas of marketing, sales management, product and brand management, and sales strategy. The internal sales and field sales departments of Volkswagen Leasing GmbH as well as fleet services management and administration are combined in the Front Office department. This Board department is also the responsibility of Mr. Jens Legenbauer. Following the integration of the organizational units from MAN Financial Services GmbH, the Front Office MAN FS Board department was established under the responsibility of Mr. Frank Czarnetzki. The activities assigned to the Back Office Board department of Mr. Hendrik Eggers consist of risk management, back office and controlling.

BRANCHES

> Audi Leasing, Braunschweig
> SEAT Leasing, Braunschweig
> ŠKODA Leasing, Braunschweig
> AutoEuropa Leasing, Braunschweig
> Ducati Leasing, Braunschweig
> MAN Financial Services, Munich

INTERNATIONAL BRANCHES

> Volkswagen Leasing GmbH, Milan, Italy
> Volkswagen Leasing GmbH, Verona, Italy
> Volkswagen Leasing GmbH, Bolzano, Italy

INTERNAL MANAGEMENT

Volkswagen Leasing GmbH is included in Volkswagen Financial Services AG's consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). The companies in the Group – and therefore also Volkswagen Leasing GmbH – are thus managed internally on the basis of the IFRS figures. The operating result[1] is the main internal key performance indicator. The differences between the operating result and the profit before tax in accordance with the Handelsgesetzbuch (HGB – German Commercial Code) are caused by shifts in the period of recognition, which largely arise from the differences in the accounting treatment of leases (operating leases and finance leases) under the HGB and IFRSs, and by differences in the accounting treatment of ABS transactions.

Reconciliation in € million	
Result from ordinary business activities in accordance with the HGB (legal entity)	–180.5
Of which positive result from ordinary business activities in accordance with the HGB (Italy branch)	–19.9
Variances in operating profit due to classification/measurement differences for leases between HGB and IFRSs	908.7
Variances under HGB compared with IFRSs due to ABS funding	–36.3
Other factors	–0.4
Operating result in accordance with IFRSs (Germany)	671.6

The most important non-financial performance indicators are penetration[2], current contracts[3] and new contracts[4]. Return on equity (RoE) and the cost/income ratio (CIR) are used as further key performance indicators, but at the level of the Volkswagen Financial Services AG Group, of which the Company is a part.

1 The operating result includes net income from leasing transactions after provision for credit risks, net fee and commission income, general and administrative expenses, and other operating income and expenses. The interest expenses, general and administrative expenses and net other operating income/expenses that are not components of the operating result comprise, for example, interest income and expenses from tax audits or interest costs from unwinding the discount on other provisions.
2 Ratio of new contracts for new Group vehicles to deliveries of Group vehicles in the German market, and in Italy for the branches.
3 Contracts recognized as of the reporting date.
4 Contracts recognized for the first time in the reporting period.

Report on Economic Position

The global economy recorded positive growth in fiscal year 2021 as it recovered from the disruption caused by the Covid-19 pandemic. Global demand for vehicles was significantly higher than in the previous year. Despite limited vehicle availability due to the semiconductor shortage, Volkswagen Leasing GmbH was able to increase the number of existing contracts and continue to expand lease assets.

OVERALL ASSESSMENT OF BUSINESS PERFORMANCE

The Management Board of Volkswagen Leasing GmbH considers the business to have performed well in 2021 despite the challenges presented by the Covid-19 crisis and semiconductor bottlenecks.

In 2021, Volkswagen Leasing GmbH maintained its focus on the digitalization of its core business and on further expansion of its mobility services. The objective of all the digitalization activities still is to transform Volkswagen Financial Services, and therefore also Volkswagen Leasing GmbH, into a digital captive with omnichannel sales capability covering all customer needs. To this end, dealer sales workstations are being constantly upgraded, key products are being made available for sale online and the expansion of new customer contact points and platforms (such as www.heycar.de) is being driven forward. At the same time, existing contract management systems are being fundamentally rebuilt and manual processes increasingly automated and digitalized. In addition, the Company further accelerated its collaboration with dealers and the digitalization in dealerships.

The ERNST web application, which is currently being rolled out, will allow dealers in future to add dealer-specific financing and lease terms and conditions for the entire vehicle inventory; it is an important step in the expansion of the omnichannel sales platform.

In order to take the digitalization of the sales process forward in a systematic manner, an online authentication and signature solution will now be integrated. Volkswagen Leasing GmbH is currently piloting a professional signature solution for the digital leasing and financing process in dealerships. The benefit for dealers and customers is a time-efficient, secure and fully digital purchase process without the need for paper copies.

Digitalization in retail goes hand in hand with the modernization of dealer sales workstations. In addition to the initiatives already mentioned, the Sales and Retail Assistant (SandRA) was introduced for the ŠKODA brand. SandRA provides a networked sales process across systems to which peripheral systems, e.g. for vehicle inventories, terms and conditions for fleet customers, or material planning at the dealership, are connected.

Significant progress has also been made in the digitalization of interaction with fleet customers. The digital fleet management offering has been expanded by adding the FleetCARSdriver app. The app provides drivers of company vehicles with all the important dates and information relevant to the use of their vehicles. What is more, fleet managers can use the app to communicate directly with their drivers. These functions are enabled by direct integration with the FleetCARS fleet management system so that only one system is required to handle all fleet administration tasks.

The Covid-19 pandemic has again underlined the increasing importance of digitalization and given further impetus to the efforts in this regard. However, dealerships remain the most important distribution channel of the sales organization: close, trusting cooperation is maintained with them and Volkswagen Financial Services AG's commission models represent their most stable source of income.

Although the challenges of the pandemic and the semiconductor shortage led to a slight decrease in the number of new contracts compared with the previous year, the lease portfolio increased significantly. Contract renewals and permission given to exceed the actual contract term more than offset the decline in new contracts, leading to growth of 7% in the lease portfolio. In general, there are indications that the trend toward leasing observed in the market in recent years will continue. To strengthen the financing business, the residual value model, which has long been a familiar feature of leasing, has also been available for financing arrangements of the VW Passenger Cars and Audi brands since July 1, 2021.

With regard to the maintenance and full wear-and-tear product, the previous year's high take-up was repeated despite the general conditions previously outlined. The volume of existing contracts also went up in this context. There was also strong demand for other service and insurance products, given that they allow customers to calculate total operating costs.

The number of new lease and financing contracts for electric vehicles roughly tripled in the past year. Penetration in this area also rose significantly and now for the first time exceeds total penetration (which also increased).

With a view to pooling fueling and other services in the Volkswagen Group, Volkswagen Leasing GmbH has since 2020 been operating the fuel card business in cooperation with the VWFS subsidiary LogPay Transport Services GmbH (LogPay). The aim is to work together to continue to expand the range of new and existing innovative mobility offerings involving cashless fueling and other services.

To this end, LogPay offers a number of products, including the Charge&Fuel card and app, which can be used throughout Europe to pay for charging and fuel for electric and plug-in hybrid vehicles from Volkswagen Group brands or mixed fleets. Customers with electric and plug-in hybrid vehicles can currently charge their vehicles at around 280,000 charging points and buy fuel at more than 20,000 filling stations accepting LogPay in Europe as well as obtain other vehicle-related services such as the use of car-wash facilities. The inclusion of all fueling and charging transactions in Volkswagen Leasing's FleetCARS fleet management tool allows seamless reporting tailored specifically to the needs of fleet customers. In 2021, LogPay also introduced the cashless payment by app function at the fuel pump, which issues all fueling or charging receipts digitally in a more environmentally conscious way. App-based payment is already possible at more than 2,000 fueling stations in Germany, and further expansion is in planning. In 2021, LogPay also added home charging to its product range; this allows both company and private charging transactions to be settled via the customer's own charging point.

The Fleet.Electrified information hub (fleet-electrified.vwfs.de) is a digital hub that Volkswagen Leasing GmbH provides for electric mobility in fleet applications. The online presence is primarily intended to provide initial guidance on products and services, for example: initial advisory services and analysis of the potential of a company's facilities for e-mobility solutions or integrated charging solutions such as the Charge&Fuel card. In addition to these advisory services, Fleet.Electrified showcases the "Blaue Flotte" (Blue Fleet) of Volkswagen Leasing GmbH, an initiative in collaboration with NABU (Naturschutzbund Deutschland) e. V. (Nature and Biodiversity Conservation Union) that is unique in Germany. The Blaue Flotte only includes all the Group's battery electric vehicles (BEVs) leased to fleet customers throughout Germany by Volkswagen Leasing GmbH since January 1, 2020. For the Group vehicles leased as part of the Blaue Flotte, we invest in wetlands protection projects that have a positive impact on the climate.

Back in 2019, Volkswagen Financial Services AG made an equity investment in FleetCompany GmbH in order to expand its range of services in international fleet and mobility management. FleetCompany GmbH has fleet management operations in more than 27 countries under the brand name FleetLogistics. Volkswagen Financial Services holds 66% of the shares in FleetCompany GmbH; the other 34% of the Company's shares are held by the Munich-based TÜV SÜD Auto Service GmbH, a wholly owned subsidiary of TÜV SÜD AG. Together, the partners are aiming to create an international non-captive platform, bringing together mobility services such as travel and fleet management. The platform gives each individual customer the ability to combine all transactions relevant to their personal fleet management and business travel within one application and manage them there. This will be based on a tailored mobility strategy developed jointly with the customer, and the matching mobility solutions will be provided. Depending on what is required, these include all solutions, from company car to mobility budget.

On September 1, 2020, MAN Financial Services GmbH was merged with Volkswagen Leasing GmbH with retroactive effect from January 1, 2020; it now operates as a branch of Volkswagen Leasing GmbH. The operating processes continued to be optimized in fiscal year 2021 and were fully integrated into the business processes of Volkswagen Leasing GmbH. New business at MAN Financial Services increased significantly in 2021. In addition to stronger demand for leases of new vehicles, a new record was also reached for used vehicles, with penetration at almost 50%. The total number of contracts was at a new high in 2021, and the risk situation also improved; this made 2021 a very positive year. It was also the first full fiscal year in which the submission and processing of applications was completely digital, reducing time and cost input and completing another milestone in the digitalization process.

EURO-Leasing GmbH, a wholly owned subsidiary of Volkswagen Financial Services AG since 2014 and therefore a sister company of Volkswagen Leasing GmbH, became the brand vehicle hire company in the Volkswagen Group at the end of 2019 as a result of its merger with Euromobil Autovermietung GmbH. The company offers mobility that is precisely matched with the needs of retail or business customers in both the passenger car and truck segments, with vehicles ranging from small cars to 40-tonne trucks. Despite the continuing coronavirus pandemic, 2021 was a very successful year for EURO-Leasing. A year sooner than planned, the company was able to stop the negative trend of previous years and generate a slightly positive result for the year. Strong growth was recorded especially in the passenger cars business. In addition to good sales figures, the company successfully launched several new digital lease offerings on the market for sister companies in the Group. VW FS | Auto Abo was joined by Volkswagen Auto Abo, CUPRA Auto Abo and the new leasing platform for Audi, all of which are now available on demand online. EURO-Leasing also made good headway in the area of trucks. Alongside the sale of a large number of used trailers at very good terms and conditions, the MAN Rental brand was rolled out across the board. Since the middle of the year, customers have also been able to lease trucks from EURO-Leasing via MAN Rental at MAN sales offices all over Germany – in addition to financing, hire purchasing and leasing.

Volkswagen Leasing GmbH's sister company, Mobility Trader GmbH (heycar Deutschland), has continued to grow in 2021, despite difficult market conditions. The Renault Group, RCI Bank and Services as well as Allianz SE were won as new investors for the heycar Group: proof of the confidence in the strategy and the online platform's growth trajectory to date. As a result of strong interaction with the Volkswagen Group, heycar continued to be established as a distribution channel. This means that vehicles from VTI, a subsidiary of Volkswagen Financial Services AG, can now be purchased on www.heycar.de in a fully online process. This is available for both cash purchases and financing or lease transactions. Likewise, vehicles in the dealer inventory can be leased online. Digitalization of the dealership network continues to be driven systematically in cooperation with Volkswagen Financial Services AG. The promotional business was also implemented in close association with the brands, Volkswagen FS and dealerships as an innovative tool to push sales on the online platform, a move welcomed by dealerships in particular.

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

The move of Volkswagen Financial Services Digital Solutions GmbH, which provides IT services to Volkswagen Leasing GmbH, to the new computer center in Rautheim already led to a significant improvement in the operational reliability of the IT applications provided, e.g. the dealer sales workstation systems, in the fourth quarter of 2021. Moreover, the relocation of the computer center is generating further savings potential, thus ensuring that the system landscape is modernized, e.g. by standardizing the infrastructure and running the system platforms on a common basis.

Additionally, the systemic exchange and transfer of the retail customer leasing business in the VIP direct business to the new contract management system was started in November 2021.

Integrity is one issue that affects all employees equally. Every employee has a responsibility not to look away and to address matters that do not seem morally acceptable. In this context, integrity means employees choosing the right course of action based on their own personal conviction and conducting themselves in accordance with the Group Essentials, FS Values, laws and principles of ethics in compliance with the rules, even if there is economic or social pressure to do otherwise. In this regard, the Together4Integrity (T4I) program defines measures throughout the Group in which all brands and companies in the Volkswagen Group are involved. At the end of 2018, Volkswagen Financial Services launched the national and international rollout of the T4I program, which since then, in 2019 and 2020, has been extended to cover the entire Volkswagen Financial Services Group and which will continue to be implemented in 2021. Volkswagen Leasing GmbH and its Italian branch were included in this program rollout. In Germany, this has already been followed up by numerous initiatives and events, including at Volkswagen Leasing GmbH. In particular, managers were made aware of specific guidance relating to integrity and then proceeded to assimilate the program into their teams. Overall, the T4I program is making an important contribution to the risk culture at Volkswagen Leasing GmbH. With tools such as the Whistleblower System, T4I guarantees each employee the necessary protection to allow them, in their areas of responsibility, to identify and report misconduct or irregularities anonymously, so that they can be processed in the best possible way and prevented in future.

There were no changes in equity investments in the fiscal year under review.

Please refer to the notes for details of significant events that occurred after the end of the fiscal year.

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

In the German market, a significantly lower operating result in accordance with IFRSs had been anticipated for fiscal year 2021 compared with the prior year. Despite the Covid-19 crisis, the IFRS operating result generated by Volkswagen Leasing GmbH in the German market amounted to €671.6 million, which was substantially above the corresponding prior-year figure of €251.9 million.

Due to the continuing Covid-19 pandemic and in particular the challenges relating to semiconductors, deliveries of Group vehicles did not reach the prior-year figure. As a result, new leases were also down on the prior-year level. On the other hand, the volume of leases in the portfolio expanded significantly. Likewise, new vehicle penetration of Volkswagen Leasing GmbH in the German market increased significantly to 62.1% compared to the forecast (51.5%) and to the prior-year figure (55.7%).

In Italy, new contracts increased moderately compared with the forecast. This upturn also had an impact on the volume of existing contracts, which saw a very significant expansion compared with the projection. Due to an improvement in risk costs, driven for instance by improved earnings from lease returns and lower counterparty default risks, combined with an expanded portfolio, the IFRS operating result amounted to €49.3 million, representing a substantial increase on the forecast of €17.6 million and the prior-year figure of €11.9 million. Despite a contraction in unit sales (deliveries to customers), the penetration rate rose slightly to 12.7% compared with the projected figure (10.9%) and the prior-year amount (12.1%) because of the moderate growth in new leasing business.

GLOBAL ECONOMIC DEVELOPMENT

GLOBAL SPREAD OF CORONAVIRUS (SARS-COV-2)

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

The mostly dynamic increase in the rate of infection continued in many places throughout the first quarter of 2021. This was accompanied by ongoing disruption – such as contact and mobility restrictions or limitations on business activities – in many parts of the world. With the increased availability of testing capacities and vaccines, some countries have permitted the extensive reopening of everyday life and the economy. In China in particular, the measures taken resulted in a removal of restrictions.

In most of the world, infection rates initially declined in the second quarter of 2021, leading to further easing of the measures taken to contain the pandemic. From the middle of the year, however, some countries recorded a renewed increase in infection rates, which was mainly due to new variants of the SARS-CoV-2 virus. Some restrictions returned in response to the situation.

Most regions of the world saw a declining rate of new infections in the third quarter of 2021. Against this backdrop, many countries largely lifted their restrictions on everyday life and the economy, depending on the progress of their vaccination campaigns. Temporary increases in case numbers – primarily associated with increased travel – only rarely resulted in the measures being tightened again.

Mainly due to new variants of the SARS-CoV-2 virus, numerous countries around the world again recorded some very dynamic increases in infection rates in the fourth quarter, which, depending particularly on the country's vaccination progress, resulted in renewed restrictions.

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

Europe

The economy in Western Europe recorded significantly positive overall growth of 5.4 (–6.5)% in 2021.

This trend was seen in all countries in Northern and Southern Europe. The reasons for this included the increased resilience to high infection rates experienced by the economies in many countries. At the same time, the economic recovery was hit by temporary national restrictions to contain the pandemic and the imbalances between supply and demand that partially resulted from them.

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Automotive financial services enjoyed a high level of demand in 2021. This was attributable to a number of factors, notably the persistently low key interest rates in the main currency areas. Nevertheless, the Covid-19 pandemic combined with the restricted availability of vehicles because of the semiconductor shortage continued to exert downward pressure on demand for financial services in virtually every region. Overall, there continued to be a trend toward leasing and away from financing. Moreover, mobility services that focus on the use rather than the ownership of a car – such as car subscription models – saw a rise in demand in the private and business customer segments. Service products, such as inspection and maintenance agreements, also benefited from a modest uptick in demand due to the resulting predictability of total operating costs.

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

During 2021, the financial services business in Germany increasingly had to cope with the challenges presented by the shortage of semiconductors in addition to the impact of the Covid-19 pandemic. New vehicle deliveries declined, which consequently also led to a fall in vehicles available on the used vehicle market. Despite this, there was a year-on-year rise in the number of leases for new vehicles, both for private and for fleet customers. In contrast, the number of new financing contracts for new and used vehicles and direct business were down on the previous year. New vehicle penetration exceeded the very good prior-year figure. Apart from a few exceptions, take-up of services and insurance products was down.

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

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

Sector-Specific Environment

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

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

Europe

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

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

Germany

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

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

In the 27 EU states excluding Malta, but including the United Kingdom, Norway and Switzerland (EU27+3), the number of new truck registrations was significantly up on the prior-year figure, with growth of 17.1% to a total of 320 thousand vehicles. Growth could be observed in almost all truck markets in the region, albeit to differing degrees. The market recovery already evident since the second half of 2020 continued in the reporting year. Registrations in Germany, the largest market in this region, increased distinctly year-on-year (+6.2%).

There was moderate growth in demand overall (+3.0%) in the bus markets that are relevant for the Volkswagen Group compared with the previous year. Demand for buses in the EU27+3 markets in the reporting year was overall in line with the weak level of the previous year (+0.1%), to differing extents in the individual countries.

RESULTS OF OPERATIONS

In the reporting period, leasing income rose by €0.8 billion to €21.4 billion. The increase in income arose mainly from current lease installments (€7.5 billion), which were up by €0.7 billion compared with the previous year, and from the other leasing business (€0.8 billion), which went up by €0.1 billion. The larger portfolio of leases will increase revenue in the coming years.

Compared with the previous year, leasing expense remained consistent at €11.2 billion. This item mainly consists of the residual carrying amounts of remarketed vehicles and the expenses from service leasing. Expenditure on maintenance and service contracts declined by €0.1 billion year-on-year.

General and administrative expenses increased by €44 million to €622 million (previous year: €578 million), mainly as a consequence of higher IT costs and allocated administrative expenses.

Depreciation and write-downs of lease assets amounted to €8.7 billion (previous year: €7.9 billion). This figure includes write-downs of €0.2 billion (previous year: €0.3 billion). The decline in write-downs is attributable to lower residual value risks.

Growth in the business volume led to higher funding costs. The spreads were almost on a level with the previous year. Consequently, the net interest expense amounted to €528 million, which equated to a deterioration of €46 million compared with the prior-year net expense figure of €482 million.

Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business rose by €120 million year-on-year and as of December 31, 2021 amounted to €596 million (previous year: €476 million).

Income from the reversal of write-downs and of valuation allowances on receivables and from the reversal of provisions in the leasing business increased to €295 million (previous year: €257 million).

Other operating income amounted to €430 million, which was up by €130 million compared with the prior-year figure of €300 million.

Other operating expenses amounted to €32 million, slightly up on the prior-year level (€28 million).

The differences between the HGB and IFRS financial reporting frameworks produce significant differences in the results of Volkswagen Leasing GmbH under each framework, especially when business is expanding. The sharp rise in new business at Volkswagen Leasing GmbH therefore led to higher one-time expenses under the HGB, whereas under the IFRSs these expenses are distributed over the term of the leasing agreement. Moreover, financial reporting in accordance with the HGB sees a higher funding expense figure recorded in connection with ABS transactions than under the IFRSs, which provide for these programs to be consolidated.

The result from ordinary business activities in accordance with the HGB amounted to a loss of €180.5 million, substantially greater than the loss of €95.5 million in the previous year. The change was mainly driven by the recognition of provisions for anticipated losses for negative fair values of derivatives.

The IFRS operating result in the German market amounted to €671.6 million, a substantial improvement on the corresponding prior-year operating result of €251.9 million. This year-on-year increase arose from a number of positive factors in addition to the continued business growth in 2021, in particular the good marketing results for lease returns and reversals of provisions.

Due to an improvement in risk costs, driven for example by a rise in marketing results for lease returns as well as lower counterparty default risks, combined with an expanded portfolio, the IFRS operating result of the branch in Italy amounted to €46.9 million, substantially up on the prior-year figure of €11.9 million.

NET ASSETS AND FINANCIAL POSITION

Total assets rose by €4.5 billion to €47.6 billion. Lease assets, which represent the core business of Volkswagen Leasing GmbH, amounted to a total of €38.7 billion and therefore accounted for approximately 81.2% of total assets.

Acquisitions of lease assets declined moderately compared with the previous year and amounted to €19.7 billion (previous year: €20.6 billion). The gross carrying amount of lease assets increased from €48.8 billion to €53.8 billion. The net carrying amount as of the reporting date was €38.7 billion (previous year: €36.0 billion), equating to a rise of €2.7 billion or 7.4%.

Volkswagen Leasing GmbH continued to expand its business activities in Germany in the reporting period.

As of the reporting date, the portfolio of vehicles had increased to approximately 1,814,000 units compared with approximately 1,721,000 as of the prior-year reporting date. Of this figure, the Italian branches accounted for approximately 88,000 vehicles (previous year: 72,000 vehicles). The increase in the portfolio was due to the net effect from the addition of approximately 646,000 new units and the disposal of around 553,000 vehicles.

The performance of the business is illustrated by the growth in the volume of leases – a key performance indicator for the leasing sector – over a number of years.

GROWTH IN THE VOLUME OF VEHICLE LEASES (THOUSANDS)

2021		2020		2019		2018		2017	
Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance	Additions	Balance
646	1,814	702	1,721	769	1,674	618	1,487	615	1,386

In terms of capital structure, the main liability items are the liabilities to customers of €20.1 billion (previous year: €19.7 billion) and the notes and commercial paper issued amounting to €16.2 billion (previous year: €13.4 billion).

EQUITY

Volkswagen Leasing GmbH's subscribed capital remained unchanged at €76 million in fiscal year 2021.

The equity of Volkswagen Leasing GmbH amounted to €269.9 million as of the reporting date. Based on the total assets of €47.6 billion, the equity ratio was 0.6% (previous year: 0.6%).

LIQUIDITY ANALYSIS

Volkswagen Leasing GmbH is funded primarily through capital market and ABS programs. Unexpected fluctuations are compensated by Volkswagen Financial Services AG.

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 requirement under the Mindestanforderungen an das Risikomanagement (MaRisk – German Minimum Requirements for Risk Management) for Volkswagen Leasing GmbH to provide a highly liquid cash buffer and appropriate liquidity reserves to cover any liquidity requirements over seven-day and 30-day time horizons was also satisfied at all times, including under various stress scenarios. Compliance with these requirements is determined and continuously monitored by the liquidity risk management department. In this process, the cash flows for the coming 12 months are projected and compared against the potential funding available in each maturity band. A further strict requirement imposed under banking regulations is that any liquidity requirements identified in institution-specific stress scenarios must be covered by providing an adequate liquid cash buffer over seven-day and 30-day time horizons. From a regulatory perspective, there was no immediate need to take action for Volkswagen Leasing GmbH in the reporting year.

FUNDING

Strategic Principles

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

Implementation

In January and May 2021, Volkswagen Leasing GmbH issued a total of six bonds with a total value of €5.5 billion via its status as an issuer under Volkswagen Financial Services AG's debt issuance program.

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

The following tables show the transaction details:

CAPITAL MARKET

Issuer	Month	Volume and currency	Maturity
Volkswagen Leasing GmbH, Braunschweig	January	EUR 1.0 billion	2.5 years
Volkswagen Leasing GmbH, Braunschweig	January	EUR 750 million	5 years
Volkswagen Leasing GmbH, Braunschweig	January	EUR 750 million	8 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 1.25 billion	3.2 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 1.0 billion	5.2 years
Volkswagen Leasing GmbH, Braunschweig	May	EUR 750 million	8.2 years

ABS

Originator	Transaction name	Month	Country	Volume and currency
Volkswagen Leasing GmbH, Braunschweig	VCL 32	March	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 33	June	Germany	EUR 1.0 billion
Volkswagen Leasing GmbH, Braunschweig	VCL 34	November	Germany	EUR 750 million

This package of measures ensured that there was adequate liquidity at all times.

Report on Opportunities and Risks

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

RISKS AND OPPORTUNITIES

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

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

MACROECONOMIC OPPORTUNITIES

The worldwide spread of SARS-CoV-2 is having a substantial adverse impact throughout society and across all areas of economic life. In particular, it is not possible at present to make a reliable assessment of the consequences for further growth in individual national economies or the global economy as a whole. Providing that the Covid-19 pandemic is successfully contained, the Management Board of Volkswagen Leasing GmbH predicts that deliveries to customers of the Volkswagen Group in Germany in 2022 will exceed those of the previous year, although market conditions will remain challenging.

Volkswagen Leasing GmbH supports this positive trend by providing financial services products designed to promote sales. The macroeconomic environment could also give rise to opportunities for Volkswagen Leasing GmbH if actual trends turn out to be better than forecast.

STRATEGIC OPPORTUNITIES

Volkswagen Leasing GmbH believes that the main source of opportunities lies in developing innovative products tailored to customers' changing mobility requirements. 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 markets where these products have not previously been offered.

The digitalization of its business represents a significant opportunity for Volkswagen Leasing GmbH. By expanding digital sales channels, Volkswagen Leasing GmbH is addressing the changing needs of its customers and strengthening its competitive position. Volkswagen Leasing GmbH believes that an additional source of opportunities lies in developing innovative products tailored to customers' changing mobility requirements.

OPPORTUNITIES FROM CREDIT RISK

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

OPPORTUNITIES FROM RESIDUAL VALUE RISK

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

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

Leasing GmbH, as far as it is relevant to the accounting system, is the sum of all principles, procedures and activities aimed at ensuring the effectiveness, efficiency and propriety of the financial reporting as well as compliance with the relevant legal requirements. The Internal Risk Management System (IRMS) is concerned, in the case of the accounting system, with the risk of misstatement in the (Group) bookkeeping system and in external financial reporting. The sections below describe the key elements of the ICS/IRMS as they relate to the financial reporting processes of Volkswagen Leasing GmbH.

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

In sum, the existing internal monitoring and control system of Volkswagen Leasing GmbH is intended to ensure that the financial position of Volkswagen Leasing GmbH as of the reporting date December 31, 2021 has been based on information that is reliable and has been properly recognized. No material changes were made to the internal monitoring and control system of Volkswagen Leasing GmbH after the reporting date.

ORGANIZATIONAL STRUCTURE OF RISK MANAGEMENT

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

Volkswagen Leasing GmbH, including its branch MAN FS in Munich and its branch in Italy, (hereinafter: Volkswagen Leasing GmbH) is exposed to a large number of risks typical of the financial services sector as part of its primary operating activities. The Company takes on these risks responsibly so that it can specifically exploit associated market opportunities.

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

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

Responsibility for risk management and the back office is assigned to a member of the Management Board of Volkswagen Leasing GmbH, while ensuring that functions are properly segregated. In this role, the Management Board member concerned submits regular reports to the other members and to the sole shareholder, Volkswagen Financial Services AG, on the overall risk position of Volkswagen Leasing GmbH.

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

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

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

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

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

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

RISK CULTURE, RISK STRATEGY AND RISK MANAGEMENT

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

As part of this overall responsibility, the Management Board of Volkswagen Leasing GmbH has introduced a MaRisk-compliant strategy process and implemented a business and risk strategy. The high-level ROUTE2025 strategy sets out the fundamental views of the Management Board of Volkswagen Leasing GmbH on key matters relating to business policy. It includes the objectives for each major business activity and the strategic areas for action to achieve the relevant objectives.

Building on ROUTE2025, the business strategy serves as the starting point for creating a consistent risk strategy. The implementation of the risk strategy is supported by the risk culture at Volkswagen Leasing GmbH, which is being steadily fostered by the Management Board and embedded in the consciousness of employees and managers with a lasting effect. All the measures to promote an appropriate compliance and integrity culture as part of the Together4Integrity program form a key component of the risk culture at Volkswagen Leasing GmbH. The risk culture therefore supports the effectiveness of the entire Risk Management System and thereby promotes control as part of the business and risk strategy.

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

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

RISK INVENTORY

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

In the risk inventory, the relevant categories of risk are examined in greater detail, quantified or, if they cannot be quantified, evaluated by experts, and then evaluated to determine whether they are material for Volkswagen Leasing GmbH.

The risk inventory carried out for 2021 came to the conclusion that the following quantifiable categories of risk should be classified as material: counterparty default risk, earnings risk, direct residual value risk, market risk, liquidity risk and operational risk; it also concluded that reputational risk and strategic risk, which are not quantifiable, should also be considered material. Indirect residual value risk was classified as immaterial because it accounted for a low proportion of the

overall risk. Other existing subcategories of risk are taken into account within the categories specified above.
The results from the risk inventory provide the basis for the level of detail in the design of the risk management process and for inclusion in the risk-bearing capacity.

RISK-BEARING CAPACITY, RISK LIMITS AND STRESS TESTING

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

Since January 1, 2020, risk-bearing capacity has been calculated in accordance with the principles set out in the guidance on risk-bearing capacity published in May 2018 by the German Federal Financial Supervisory Authority (BaFin). Volkswagen Leasing GmbH uses the economic perspective alone based on the exemptions available for financial services institutions. This relates to the internal process for ensuring capital adequacy using internal economic risk assessment models (measured on the basis of the internal risk-bearing capacity ratio). The aim is to ensure that the Company will continue to operate as a going concern indefinitely. The confidence level for determining risk-bearing capacity is 95%.

As from January 1, 2022, the confidence level has been raised to 99%. Moreover, in determining the aggregate risk cover, the net asset value of the contracted portfolio will in future be taken into account and earnings risk will be combined with strategic risk and reputational risk to make up business risk. Business risk is measured on the basis of an expert estimate.

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

The establishment of the risk limit system as a core component of capital allocation limits the risk at different levels, thereby safeguarding the economic risk-bearing capacity of Volkswagen Leasing GmbH. Risk-taking potential is determined from the available equity and earnings components subject to various deductions. In line with the risk appetite of Volkswagen Leasing GmbH, only a portion of this risk-taking potential is specified as a risk ceiling in the form of an overall risk limit. The overall risk limit is apportioned to counterparty default risk, residual value risk, market risk, liquidity risk (funding risk) and operational risk for the purposes of operational monitoring and control. In this process, the limit allocated to counterparty default risk, itself an overarching category of risk, is subdivided into individual limits for customer business credit risk, credit risk from intercompany loans and counterparty risk.

In a second step, the limits for the risk categories for customer business credit risk, residual value risk and operational risk are allocated to the German portfolio and the Italian branch.
The limit system provides the Management with a tool that enables it to meet its strategic and operational corporate management responsibilities in accordance with statutory requirements.

DISTRIBUTION OF RISKS BY TYPE OF RISK

as of December 31, 2021

1 Global amount for material non-quantifiable risks: reputational risk and strategic risk.

As of December 31, 2021, the economic overall risk of Volkswagen Leasing GmbH stood at €2,069 million; it is attributable to the respective risk categories in the following proportions:

CHANGES IN RISK CATEGORIES

	DEC. 31, 2021		DEC. 31, 2020	
	€ million	Percent	€ million	Percent
Risk category				
Credit risk	867	42	699	40
Issuer and counterparty risk	16	1	20	1
Residual value risk	947	45	817	47
Net earnings risk	0	0	0	0
Market risk	32	2	26	2
Liquidity risk (funding risk)	0	0	0	0
Operational risk	95	5	75	4
Other risks[1]	112	5	96	6
Total	**2,069**	**100**	**1,733**	**100**

1 Global amount for material non-quantifiable risks: reputational risk and strategic risk.

As of December 31, 2021, the risk-taking potential amounted to €4.8 billion and consisted of the balance sheet equity including the current net income, adjusted for hidden reserves and liabilities. 44% of the risk-taking potential was utilized by the risks described above. In the period January 1, 2021 to December 31, 2021 the maximum utilization of risk-taking potential in accordance with MaRisk was 50%.

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

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

RISK CONCENTRATIONS

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

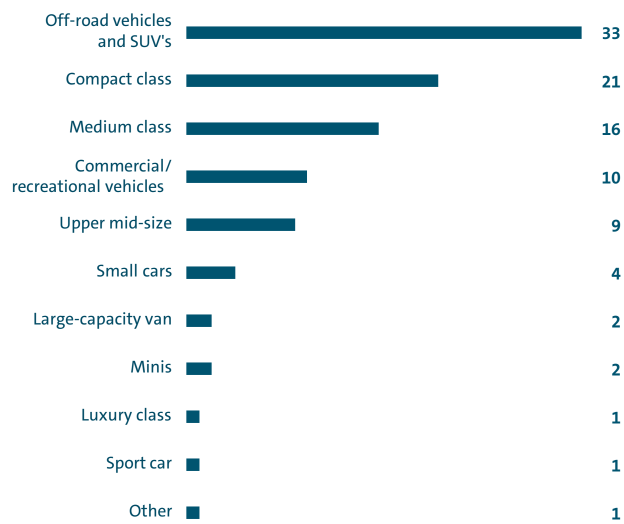
Concentrations of risk can arise from an uneven distribution of activity in which

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

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

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

COLLATERAL STRUCTURE AS OF DECEMBER 31, 2021
figures in %



As the vehicle is the predominant collateral asset by virtue of the business model of a captive provider, concentrations of collateral are consciously accepted. Risks can arise from concentrations of collateral if downward pricing trends in used vehicle markets or segments lead to lower proceeds from the recovery of assets and, as a consequence, there is a fall in the value of the collateral. Nevertheless, in terms of the vehicles used as collateral, Volkswagen Leasing GmbH enjoys a broad diversification across all vehicle segments (see collateral structure diagram) based on a large range of vehicles from the different brands in the Volkswagen Group.
This broad vehicle diversification also means that there is no residual value concentration at Volkswagen Leasing GmbH.

A concentration of income does arise from the nature of the business model because this model is predominantly based on vehicle leasing and associated services. The special constellation in which the Company serves to promote Volkswagen Group sales results in certain dependencies that directly affect income growth.

RISK REPORTING

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

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

NEW PRODUCT AND NEW MARKET PROCESS

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

OVERVIEW OF RISK CATEGORIES

FINANCIAL RISKS	NONFINANCIAL RISKS
Counterparty default risk	Operational risk
Residual value risk	Strategic risk
Market risk	Reputational risk
Liquidity risk	
Earnings risk	

FINANCIAL RISKS

Counterparty Default Risk

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

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

Credit Risk

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

Credit risk, which also includes counterparty default risk in connection with leases, accounts for the greatest proportion of risk exposures in the counterparty default risk category by some margin.

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

If a loan default materializes, this represents the loss of a business asset, which has a negative impact on net assets, financial position and results of operations, depending on the amount of the loss. If, for example, an economic downturn leads to a higher number of insolvencies or greater unwillingness of 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.

Risk Identification and Assessment

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

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

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

Rating Systems in Risk-Relevant Business

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

Scoring Systems in Non-Risk-Relevant Business

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

System Supervision and Review

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

Collateral

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

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

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

Risk Monitoring and Control

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

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

Trends

In 2021, the volume of receivables at Volkswagen Leasing GmbH continued to grow despite the ongoing Covid-19 pandemic. This growth was mainly attributable to the established sales promotion programs and continuous expansion of the fleet business. Alongside statutory assistance, internal support measures implemented by the Group mitigated effects from the Covid-19 pandemic. The risk costs for Volkswagen Leasing GmbH's credit risk were reduced significantly compared with the previous year, despite the pandemic. The reason was that, due to proactive measures, the provisions recognized in 2020 did not have to be used.

Counterparty Risk

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

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

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

Risk Identification and Assessment

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

Risk Monitoring and Control

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

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

Country Risk

Country risk refers to risks in international transactions that are not attributable to the counterparty itself but that arise because of the counterparty's domicile in a country outside Germany. For example, political or economic trends caused by a crisis or difficulties affecting the entire financial system in the country concerned may mean that cross-border services involving the movement of capital cannot be carried out because of transfer problems attributable to action implemented by the foreign government in question. At Volkswagen Leasing GmbH, country risk would need to be taken into account in the leasing business of the branch. Given the focus of business activities at Volkswagen Leasing GmbH, there is little chance that country risks (such as legal risk) will arise.

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.

A distinction is made between direct and indirect residual value risk in relation to the bearer of this risk. Direct residual value risk refers to residual value risk borne directly by Volkswagen Leasing GmbH (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 Leasing GmbH.

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

Risk Identification and Assessment

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

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

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

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

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

Risk Monitoring and Control

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

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

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

Based on the resulting potential residual value risk, various measures are initiated as part of a proactive risk management approach to limit the residual value risk. Residual value recommendations for new lease origination must take into account prevailing market circumstances and future influences. Various stress tests for direct residual value risks are also in place to create a comprehensive picture of the risk sensitivity of residual values.

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

Trends

Despite a decline in deliveries to customers by the Volkswagen Group, continuous year-on-year growth in contracts was evident in all Volkswagen Leasing GmbH's markets, reflecting the benefits from the growth strategies such as the expansion of the fleet business. Insufficient availability of new vehicles because of supply chain disruptions (e.g. semiconductor shortage) led to stronger demand for used vehicles and resulted in positive marketing results and positive residual value performance.

Market Risk

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

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

At the moment, market risk at Volkswagen Leasing GmbH arises solely from interest rate risk.

Interest Rate Risk

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

Changes in interest rates that cause interest rate risk to materialize could have a negative impact on results of operations.

Risk Identification and Assessment

Interest rate risk for Volkswagen Leasing GmbH is determined as part of the quarterly risk-bearing capacity process using the VaR method with a holding period of 365 calendar days and a confidence level of 99%. For monthly operational management and monitoring, a holding period of 60 calendar days and a confidence level of 99% are assumed under the VaR method. The model is based on a historical simulation and calculates potential profits and losses taking into account 1,460 historical market fluctuations (volatilities). The VaR calculated for operational management purposes estimates potential losses under historical market conditions, but stress tests are also carried out for forward-looking situations in which interest rate exposures are subject to exceptional changes in interest rates and worst-case scenarios. The results from the simulations are analyzed to assess whether any of the situations could represent a serious potential risk. This process also includes the monthly quantification and monitoring of the changes in present value resulting from the interest rate shock scenarios of +200 basis points and −200 basis points, as specified by the German Federal Financial Supervisory Authority (BaFin).

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

Risk Monitoring and Control

Under an outsourcing agreement, the Treasury unit of Volkswagen Bank GmbH is responsible for the management of this risk on the basis of decisions made by the ALM Committee. Interest rate risk is managed by implementing specific drawdowns of funds and by using interest rate derivatives at both micro and portfolio levels. The hedge accounting arrangements are not included in the HGB financial statements. Likewise on the basis of an outsourcing agreement, the Risk Management of Volkswagen Bank GmbH is responsible for monitoring and reporting on interest rate risk.

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

Market Risk Trend

Interest rate risk declined in June as a result of adjusting the methodology and subsequently followed a stable trend. The quantified risk remained within the specified limits at all times.

Liquidity Risk

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

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

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

Risk Identification and Assessment

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

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

Risk Monitoring and Control

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

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

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

Liquidity Risk Trends

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

Earnings Risk (Specific Profit or Loss Risk)

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

- Unexpectedly low fees and commissions (fee and commission risk)
- Unexpectedly high costs (cost risk); and
- Excessively high income targets for new and existing business volume (sales risk)

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

Risk Identification and Assessment
Volkswagen Leasing GmbH quantified earnings risk (gross earnings risk) up to and including December 31, 2021 using a parametric earnings at risk (EaR) model that takes into account the confidence level specified in the calculation of risk-bearing capacity and a one-year forecast period.

Risk Monitoring and Control
During the course of the year, changes in the actual values at market level for the earnings risk exposures are compared against the forecast values. This comparison is included in the standard reporting procedure carried out by Controlling.
As part of the risk-bearing capacity analysis, the gross earnings risk is subtracted from the planned earnings for the next 12 months. If this results in a negative difference, the difference is deducted from the risk-taking potential. The results are monitored by Risk Management.
Due to the introduction of net asset value analysis, earnings risk has been combined since January 1, 2022 with strategic risk and reputational risk to form business risk and subtracted from the risk-taking potential. Business risk is measured on the basis of an expert estimate.

NON-FINANCIAL RISKS

Operational Risk

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

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

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

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

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

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

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

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

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

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

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

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

Trends

Actual operational risk and losses rose sharply in fiscal year 2021 as a result of a few significant loss events.

Risk from Outsourcing Activities

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

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

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

Risk Identification and Assessment

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

Risk Monitoring and Control

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

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

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

Compliance and Conduct Risk

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Management Board has also entered into a voluntary undertaking regarding compliance and integrity to ensure that compliance and integrity issues are always discussed and taken into account in connection with all decisions made by the Management Board.

Strategic Risk

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

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

The objective of Volkswagen Leasing GmbH is the controlled acceptance of strategic risk enabling it to systematically leverage earnings potential in its core business. In the worst-case scenario, a materialization of strategic risk could jeopardize the continued existence of the Company as a going concern. Strategic risk is recognized quantitatively by applying a deduction to the aggregate risk cover in the calculation of risk-bearing capacity.

Due to the introduction of net asset value analysis, strategic risk has been combined since January 1, 2022 with earnings risk and reputational risk to form business risk and subtracted from the risk-taking potential. Business risk is measured on the basis of an expert estimate.

Reputational Risk

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

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.

Reputational risk is recognized quantitatively by applying a markdown in the calculation of risk-bearing capacity. This global approach is evaluated each year from a qualitative perspective.

Due to the introduction of net asset value analysis, reputational risk has been combined since January 1, 2022 with strategic risk and earnings risk to form business risk and subtracted from the risk-taking potential. Business risk is measured on the basis of an expert estimate.

Model Risk

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

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

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

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

SUMMARY

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

Countermeasures were initiated and risk management activities were stepped up in response to the Covid-19 pandemic, and this resulted in risks not materializing to the extent originally planned.

Insufficient availability of new vehicles because of supply chain disruptions (e.g. semiconductor shortage) had a positive effect on the used vehicle market and therefore on the marketing results.

As a result, the risk figures for residual value risk and credit risk improved year-on-year. The risk-bearing capacity was assured at all times in 2021. Volkswagen Leasing GmbH does not believe that there are any risks to the continuation of the business as a going concern.

Human Resources Report

Realignment of HR: Business Driven – People Focused.

Staffing Numbers

The operating activities of Volkswagen Leasing GmbH in Germany are carried out by employees of Volkswagen Financial Services AG. These employees are assigned to Volkswagen Leasing GmbH under staff leasing arrangements. As of December 31, 2021, Volkswagen Leasing GmbH had 966 staff members (previous year: 1,017) in Germany.

The branches in Milan and Verona (Italy) had 69 employees (previous year: 63) as of December 31, 2021.

EMPLOYEES

Volkswagen Financial Services AG sees it as its duty to offer employees a working environment that is fitting of a top employer. This includes, above all, attractive and varied job descriptions, ample opportunities for professional and personal development, as well as international career opportunities, while allowing for a good work-life balance. The Company also offers remuneration commensurate with the work performed, profit-sharing arrangements and a number of social benefits.

Volkswagen Financial Services AG expects its top employees to have a high level of expertise, deliver excellent performance, embrace change and flexible working arrangements, be willing to gain new qualifications (in particular with regard to future, and digital, customer requirements), be willing to increase productivity and to apply themselves to their profession with commitment and passion. The sustained success of the Company is only made possible through the excellent work of its employees, who use innovative methods and find agile ways to cooperate.

HUMAN RESOURCES STRATEGY

The Human Resources unit of Volkswagen Financial Services AG has overarching responsibility for human resources in all the German subsidiaries of Volkswagen Financial Services AG, and therefore also for Volkswagen Leasing GmbH.

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

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

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

To ensure the best possible structure and have the ability to meet the needs of customers in future, the HR unit has already started this year to develop a new HR strategy. This covers predominantly issues that support the transformation of the Company while enabling the HR unit to function to an even greater extent in a digital, data-driven system. The HR strategy is to be completed by 2022.

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

The Company assesses the extent to which it has achieved its objective of being a top employer by regularly taking part in external employer competitions. The aim is to continue to enhance working conditions and implement corresponding action in an effort to be included in the list of TOP20 employers in the “Great Place to Work” employer ranking by 2025, not just in Europe but worldwide. In 2021, Volkswagen Financial Services was ranked number one in the relevant category by company size in both the “Best Employer in Lower Saxony-Bremen 2021” and “Best Employer in Germany 2021” competitions. In a comparison within Europe, the Company was in 20th place in a ranking of the top 25 European employers. These results were based on the rankings in each country, for example 18th place in the UK and 30th place in Spain. There are plans to enter the Best Employer competition again in 2023. Customer satisfaction with the work of the employees is given top priority at Volkswagen Financial Services AG.

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

Staff Development

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

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

The importance of digitalization knowledge and experience is growing steadily – even within Volkswagen Financial Services AG. As a company, we have an interest in further developing our employees’ skills in growth areas to ensure that they have the capability to adapt to changing job requirements. HR and the digital program have collaborated to develop a joint offering targeted at all employees who wish to enhance their skills in the field of digitalization. Since 2020, digitalization study programs and courses lasting several months have been offered for the first time, with 56 places allocated to employees. This development opportunity is presented entirely online and can therefore be completed at any time or place at the convenience of the employee.

All information on training offered by the FS Academy (course catalogue, specialist forums, lectures/presentations and e-learning sessions) is available centrally via FS Academy Online, the Academy’s own digital learning platform.

Report on Expected Developments

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

With the main opportunities and risks arising from the operating activities having been set out 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 Volkswagen Leasing GmbH's planning process on an ongoing basis so that the Company can act on them as soon as possible.

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

DEVELOPMENTS IN THE GLOBAL ECONOMY

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

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

Europe

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

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

Germany

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

TRENDS IN THE MARKETS FOR FINANCIAL SERVICES

Volkswagen Financial Services AG believes that automotive financial services will play a significant role in global vehicle sales in 2022, particularly because of the ongoing challenges resulting from the Covid-19 pandemic and the persistent supply chain difficulties arising from the semiconductor chip shortage. We expect demand to rise in emerging markets where market penetration has so far been low. Regions with already established automotive financial services markets will 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, will become increasingly important for this. Additionally, we expect that demand will increase for new forms of mobility, such as rental services, and for integrated mobility services, for example parking, refueling and charging, and that the shift initiated in the European leasing business with individual customers from financing to lease contracts will continue. We estimate that this trend will continue in the years 2023 to 2026.

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 mature markets, we are projecting increased demand in 2022 for telematics services and services aimed at reducing total operating costs. This trend is also expected to continue in the period 2023 to 2026.

TRENDS IN THE MARKETS FOR PASSENGER CARS AND LIGHT COMMERCIAL VEHICLES

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

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

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

Europe

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

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

Germany

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

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

TRENDS IN THE MARKETS FOR COMMERCIAL VEHICLES

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

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

Noticeable market growth is expected for the 27 EU countries excluding Malta, but plus the United Kingdom, Norway and Switzerland (EU27+3) because it has so far not been possible to fully satisfy the high demand for trucks due to existing supply bottlenecks.

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

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

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

INTEREST RATE TRENDS

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

MOBILITY CONCEPTS

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

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

In collaboration with the automotive brands of the Volkswagen Group, Volkswagen Financial Services AG is aiming to secure 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 and truck hire to car sharing and car subscription, Volkswagen Leasing GmbH and other subsidiaries of Volkswagen Financial Services AG already cover a large proportion of the mobility needs of their customers.

Under the VW FS | Auto Abo brand, Volkswagen Financial Services AG offers its customers a flexible alternative to lease and loan financing across the Group's brands, making customers mobile in the vehicle of their choice without 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 acceptance barriers.

Volkswagen Financial Services is also responsible for the Auto-Abo offerings of other Group brands, such as Volkswagen and CUPRA, thus boosting the Volkswagen Group's electrification campaign.

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

As in the case of vehicles with conventional combustion engines, Volkswagen Leasing GmbH is a close partner with the Volkswagen Group brands in the marketing of electric vehicles. An attractive range of leasing services complemented by packages covering maintenance and wear-and-tear repairs plays a major role in the marketing of electric Volkswagen Group vehicles.

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" today and in the future.

BUSINESS DEVELOPMENT OF VOLKSWAGEN LEASING GMBH

In the coming fiscal year, Volkswagen Leasing GmbH predicts that, while Volkswagen Group unit sales will rise significantly, the penetration rate will fall significantly to levels seen in 2020. The number of new contracts is expected to rise again and the volume of existing contracts is to be expanded further.

Volkswagen Leasing GmbH plans to step up its collaboration with the Volkswagen Group brands in order to add more depth to joint sales activities and meet the wishes and needs of their customers in the best possible way. End customers are looking for individual mobility at a calculable cost. Existing product packages and mobility services are therefore being continuously upgraded with these customer needs in mind.

Overall, Volkswagen Leasing GmbH intends to maintain the measures it has introduced to leverage greater potential along the automotive value chain. Further expansion of business digitalization will play an important role in this process.

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

FORECAST OF MATERIAL RISKS

Credit Risk Forecast

In terms of credit risk, it is anticipated that the risk situation will be slightly higher in 2022 as a consequence of the ongoing Covid-19 pandemic (e.g. projected rise in insolvency proceedings in the second half of the year). The effects very much depend on the further development of the pandemic and on the macroeconomic impact thereof. Nevertheless, the volume of business 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.

Residual Value Risk Forecast

On account of the projected growth in business, we are anticipating an increase in overall risk. The residual value portfolio in 2022 could be additionally impacted by the e-mobility sales drive in connection with the German federal government's Climate Action Program 2030, as well as the ongoing Covid-19 pandemic and supply chain disruptions (e.g. semiconductor shortage).

Market Risk Forecast

Interest rates and volatility are expected to increase for 2022, resulting in higher market price risk in the current interest rate environment.

Liquidity Risk Forecast

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

Operational Risk Forecast

Any change in operational risk going forward will generally be shaped by the growth in the Company's business. Due to the anticipated expansion of the business volume, operational risk is expected to rise in 2022.

OUTLOOK FOR 2022

Volkswagen Leasing GmbH's Management Board expects global economic growth in 2022 to be lower than the previous year's level. Risks will arise first and foremost from the impact of the Covid-19 pandemic. In addition, growth prospects will be hurt by geopolitical tensions and conflicts. The emerging economies of Asia will probably record the highest rates of growth. We expect a more positive momentum in the major industrialized nations than in 2021. Growth in individual countries and regions is heavily dependent on the local course of the pandemic going forward.

When the above factors and the market trends are considered, the following overall picture emerges: earnings expectations assume a slight increase in funding costs, greater levels of cooperation with the individual Group brands, increased investment in digitalization for the future and continued uncertainty about macroeconomic conditions in the real economy as well as potential effects arising from geopolitical upheaval. In addition, risk costs have a significant impact. These costs depend on the development of the pandemic and the associated economic consequences.

Based on the effects described above and assuming that the margin in the coming year remains stable, the operating result for fiscal year 2022 is projected to be substantially below the prior-year level. Significant increases compared with prior-year figures are expected for both new and existing contracts. Given the forecast of a rise in vehicle deliveries, Volkswagen Leasing GmbH's penetration rates are expected to drop in the German market, back to levels seen in 2020.

For the coming fiscal year, the Italy branch predicts a significant recovery in unit sales (deliveries to customers) and a moderate rise in new leasing business and a slight decline in the penetration rate of 11.2%. There will be significant growth in the number of existing contracts and moderate expansion in the service and insurance business. Owing to the positive extraordinary items in 2021, a significant year-on-year decline in the operating result is projected for 2022.

Braunschweig, February 22, 2022

The Management Board

Jens Legenbauer | Hendrik Eggers | Frank Czarnetzki

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

Balance Sheet

of Volkswagen Leasing GmbH, Braunschweig, as of December 31, 2021

€ thousand		Dec. 31, 2021	Dec. 31, 2020
Assets			
1. Loans to and receivables from banks			
b) From other activities			
aa) Repayable on demand	1,092,617		150,012
		1,092,617	150,012
2. Loans to and receivables from customers			
a) From payment services	0		0
aa) From fees and commissions	148		337
b) From other activities	6,100,611		5,052,460
		6,100,759	5,052,797
3. Lease assets			
aa) From other activities		38,700,324	36,033,215
4. Intangible fixed assets			
a) Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	84,232		2,430
b) Prepayments	0		0
		84,232	2,430
5. Property and equipment			
a) Land and buildings			
ab) From other activities	32,771		34,458
b) Operating and office equipment			
ab) From other activities	767		1,267
		33,538	35,725
6. Other assets			
b) From other activities		817,404	1,161,632
7. Prepaid expenses and accrued income			
b) From other activities		818,143	690,076
8. Excess of plan assets over pension liability		0	800
Total assets		**47,647,017**	**43,126,687**

€ thousand		Dec. 31, 2021	Dec. 31, 2020
Equity and liabilities			
1. Liabilities to banks			
b) From other activities			
aa) Repayable on demand	53		141
bb) With agreed maturity or notice period	0		0
		53	141
2. Liabilities to customers			
b) From other activities		20,102,328	19,710,437
3. Notes, commercial paper issued			
a) Bonds issued	14,752,276		12,095,215
b) Commercial paper	1,449,788		1,257,992
		16,202,064	13,353,207
4. Other liabilities			
b) From other activities		1,086,879	632,975
5. Prepaid expenses and accrued income			
b) From other activities		8,963,940	8,279,564
6. Provisions			
a) Provisions for pensions and other post-employment benefits			
bb) From other activities	1,355		1,070
b) Provisions for taxes			
bb) From other activities	28,614		1,682
c) Other provisions			
bb) From other activities	984,989		869,957
		1,014,958	872,709
7. Special tax-allowable reserve		883	942
8. Fund for general banking risks		6,000	6,000
9. Equity			
a) Subscribed capital	76,004		76,004
b) Capital reserves	193,259		194,059
c) Net retained profits	649		649
		269,912	270,712
Total equity and liabilities		**47,647,017**	**43,126,687**
1. Contingent liabilities			
Liability arising from the provision of collateral for third-party liabilities		66,703	55,243
2. Other obligations			
Irrevocable leasing commitments		8,429,212	3,987,648

Income Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 through December 31, 2021

€ thousand				Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
1.	Lease income		21,437,751		20,679,464
2.	Leasing expenses		11,156,184		11,245,631
				10,281,567	9,433,833
3.	Interest income				
	b) From other activities				
	aa) Lending and money market transactions		46,816		44,844
4.	Interest expense				
	b) From other activities		575,120		526,412
	thereof: unwinding of discount on provisions		3,560		2,928
				–528,304	–481,568
5.	Fee and commission income				
	a) From payment services and the issuance of e-money		159		287
	b) From other activities		47,997		46,496
6.	Fee and commission expenses				
	b) From other activities		734,401		696,546
				–686,245	–649,763
7.	Other operating income				
	b) From other activities			430,418	300,167
8.	Income from the reversal of special tax-allowable reserve			59	59
9.	General and administrative expenses				
	a) From payment services and the issuance of e-money				
	bb) Other administrative expenses	226			2,625
	b) From other activities				
	aa) Personnel expenses				
	aaa) Wages and salaries	4,679			4,051
	bbb) Social security, post-employment and other employee benefit costs of which: for post-employment benefits €15 thousand	1,471			1,366
			6,376		8,042
	bb) Other administrative expenses		616,543		570,440
				622,919	578,482
10.	Depreciation, amortization and write-downs				
	a) Depreciation and write-downs of lease assets				
	ab) From other activities		8,655,690		7,868,173
	b) Amortization and write-downs of intangible fixed assets, and depreciation and write-downs of property and equipment				
	bb) From other activities		66,290		4,216
				8,721,980	7,872,389
11.	Other operating expenses				
	b) From other activities			31,527	28,069

€ thousand				Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
12.	Write-downs of and valuation allowances on receivables and additions to provisions in the leasing business				
	b) From other activities			596,315	476,137
13.	Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business				
	b) From other activities			294,716	256,892
14.	**Result from ordinary business activities**			**–180,530**	**–95,457**
	a) From payment services and the issuance of e-money			–67	–2,338
	b) From other activities			–180,463	–93,119
15.	Income tax expense			61,280	32,776
	a) From payment services and the issuance of e-money			23	–803
	b) From other activities			61,257	33,579
16.	Income from the absorption of losses			241,810	128,233
	a) From payment services and the issuance of e-money			–44	–1,535
	b) From other activities			241,854	129,768
17.	**Net income for the year**			**0**	**0**
18.	Retained profits brought forward			649	649
	a) From payment services and the issuance of e-money			0	0
	b) From other activities			0	0
19.	**Net retained profits**			**649**	**649**

Cash Flow Statement

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 through December 31, 2021

€ thousand	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
Net loss for the year (before profit transfer)	–241,810	–128,233
Depreciation and write-downs of fixed assets	8,721,980	8,120,501
Change in provisions	142,249	17,914
Gain on disposal of lease assets	–2,533,988	–1,670,842
Net interest income	528,304	481,568
Other adjustments	–65,478	–672,100
Change in loans to and receivables from banks	–942,605	–75,188
Change in loans to and receivables from customers	–934,386	248,668
Change in other assets related to operating activities	103,385	–130,045
Change in liabilities to banks	–88	–845,670
Change in liabilities to customers	505,467	4,662,275
Change in notes, commercial paper issued	2,848,857	–1,479,482
Change in other liabilities related to operating activities	1,137,422	1,621,368
Interest and dividends received	46,816	44,844
Interest paid	–575,120	–526,412
Income taxes refunded (previous year: income taxes paid)	65,478	62,237
I. Cash flows from operating activities	**8,806,483**	**9,731,403**
Proceeds from disposal of lease assets	10,901,850	10,728,877
Payments to acquire lease assets	–19,690,300	–20,629,354
Payments to acquire property and equipment/intangible fixed assets used by the Company itself	–146,266	–3,759
II. Cash flows from investing activities	**–8,934,716**	**–9,904,236**
Proceeds/losses from profit transfer and absorption of losses by Volkswagen Financial Services AG	128,233	172,833
III. Cash flows from financing activities	**128,233**	**172,833**
Net change in cash funds (total of I., II. and III.)	0	0
Cash funds at beginning of period	0	0
Cash funds at end of period	0	0

The cash funds equate to cash-in-hand in accordance with GAS 21.

Statement of Changes in Equity

of Volkswagen Leasing GmbH, Braunschweig, for the period January 1 through December 31, 2021

€ thousand	Subscribed capital	Capital reserves[1]	Net retained profits	Equity
Balance as of December 31, 2020	76,004	194,059	649	270,712
Change	–	–800	–	–800
Balance as of December 31, 2021	76,004	193,259	649	269,912

1 The change in capital reserves is attributable to the separation of pension obligations of the former MAN Financial Services.

Notes

to the Annual Financial Statements of Volkswagen Leasing GmbH, Braunschweig, for the period ended December 31, 2021

1. General Information

The annual financial statements of Volkswagen Leasing GmbH have been prepared in accordance with the provisions of the Handelsgesetzbuch (HGB – German Commercial Code) and the Verordnung über die Rechnungslegung der Kreditinstitute (RechKredV – German Bank Accounting Regulation) as well as the additional disclosures required under the Verordnung über die Rechnungslegung der Zahlungsinstitute und E-Geld-Institute (RechZahlV – German Regulation on the Accounting of Payment Institutions and E-Money Institutions).

Volkswagen Leasing GmbH provides IT and other internal services for companies in the Volkswagen Financial Services AG Group. An internal cost allocation system is used to charge these services to the German group companies according to the costs-by-cause principle. The income derived from the allocation of these costs is reported under other operating income/expenses.

2. Accounting Policies

With the exception itemized below, the accounting policies applied in the previous year were retained unchanged.

In the reporting year, the previous accounting practice for put options at Volkswagen Leasing GmbH was adapted in accordance with tax accounting law. As from the reporting year, the put option is accounted for separately as a non-amortizable intangible fixed asset.

Intangible fixed assets, property and equipment, and lease assets are carried at cost less depreciation and less impairment losses, if the impairment is expected to be permanent, taking existing collateral into account. In this process, the non-amortizable intangible fixed assets are measured at fair value. Since a hedge relationship exists between the residual value under the lease and the put option, the option to apply hedge accounting allowed by section 254 of the HGB has been applied.

The office buildings are depreciated on a straight-line basis (useful life of 50 years for old buildings and 25 years for new buildings). Operating and office equipment is depreciated on a straight-line basis over its typical useful life of three to seven years. Lease assets are depreciated on a straight-line basis over their typical useful life. The useful life of a passenger car is six years, of trucks and buses between five and nine years, and of other leased items, which mainly comprise movable lease assets at dealerships (workshop equipment), three to 13 years. Amortizable intangible fixed assets are amortized on a straight-line basis over three years. Non-amortizable intangible assets are written down for impairment expected to be permanent.

Receivables and other assets are recognized at their principal amounts. Appropriate valuation allowances are recognized to take into account any default risk. Lease purchase agreements that specify the transfer of ownership of the vehicle from Volkswagen Leasing GmbH (MAN Financial Services branch) to the customer on payment of the last installment are recognized under receivables from customers at the present value of receivables outstanding less any valuation allowances.

Prepaid expenses are expenses incurred before the reporting date but attributable to a period or periods after this date; the item is reversed and taken to the income statement on a straight-line basis over the relevant period of time.

Liabilities are recognized at the settlement amount.

Deferred income comprises income before the reporting date, representing income or other operating income from the leasing business that is attributable to future periods.

Pension provisions are recognized at present values at the branch in Italy. The pension obligations are determined annually by an independent actuary using the projected unit credit method.

Discernible risks and uncertain liabilities are accounted for by recognizing adequate provisions in the amount required to settle the liability determined in accordance with prudent business judgment. Provisions with a maturity of more than one year are discounted using the average market discount rate for the previous seven fiscal years. This discount rate is published monthly by Deutsche Bundesbank.

On the basis of an existing profit-and-loss transfer agreement, deferred taxes are generally recognized by Volkswagen AG, the controlling entity in the tax group. Deferred taxes are recognized for all temporary differences between the carrying amounts in accordance with the HGB and those in the tax base using the specific company tax rate of 29.99%. No deferred tax liabilities were recognized separately in fiscal year 2021, as the Company exercised the option to offset deferred tax assets and deferred tax liabilities. The Italy branch, which is taxed separately, mainly recognizes deferred tax assets relating to lease assets and to provisions and liabilities. Beyond this, the Company does not exercise the option to recognize deferred tax assets provided for in section 274 of the HGB.

Differences between the carrying amounts required by the HGB and those permitted in the tax base continue to be reported under the special tax-allowable reserve in exercise of the grandfather rights provided for in article 67(3) sentence 1 of the Einführungsgesetz zum Handelsgesetzbuch (EGHGB – Introductory Act to the German Commercial Code).

The fund for general banking risks was first established by MAN Financial Services GmbH in accordance with section 340g of the HGB in fiscal year 2012 and has been continued since then.

Equity is recognized at the nominal amount. Irrevocable lease commitments are reported at their present value. Interest rate derivatives entered into by Volkswagen Leasing GmbH are used as part of general economic hedges. The Company does not make use of the option to apply specific hedge accounting arrangements. The interest rate derivatives of Volkswagen Leasing GmbH were reviewed to assess whether there was any need to recognize a provision for expected losses. In addition to positive fair values, there were also negative fair values, and this led to the recognition of a provision for expected losses.

Leasing income is recognized insofar as the goods or services due have been provided and an entitlement to the due consideration has been created. Income from goods supplied, principally from the sale of used vehicles (sales revenue), is reported as soon as beneficial ownership has passed to the customer (transfer of possession, of the right to use and sell, of charges and of the risk of loss and accidental loss). The transfer of beneficial ownership is determined in accordance with the agreed terms of delivery and/or general terms and conditions. Income from services is recognized as soon as the service has been rendered. The amount of income reported corresponds to the agreed consideration minus the applicable sales tax and income deductions such as bonuses, discounts and rebates.

3. Balance Sheet Disclosures

The breakdown of receivables from banks is as follows:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Loans to and receivables from banks	1,092,617	150,012
(of which to affiliated companies €1,092,526 thousand; previous year: €149,070 thousand)		
Total	**1,092,617**	**150,012**

The breakdown of receivables from customers is as follows:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Trade receivables	1,348,633	1,305,204
2. Receivables from affiliated companies	4,743,187	3,737,978
(of which from the sole shareholder €2,143,131 thousand; previous year: €1,030,352 thousand)		
(of which trade receivables €100,056 thousand; previous year: €209,236 thousand)		
3. Other receivables	8,939	9,615
Total	**6,100,759**	**5,052,797**

The following table shows the maturity analysis for the receivables:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Loans to and receivables from banks	1,092,617	150,012
of which due in 0 – 3 months	1,092,617	150,012
2. Trade receivables	1,348,633	1,305,204
of which due in 0 – 3 months	286,341	305,483
of which due in 3 – 12 months	290,030	289,241
of which due in 12 – 60 months	772,262	710,480
3. Receivables from affiliated companies	4,743,187	3,737,978
of which due in 0 – 3 months	2,829,817	2,819,116
of which due in 3 – 12 months	715,284	6,051
of which due in 12 – 60 months	898,086	727,770
of which due in > 60 months	300,000	185,041
4. Other receivables	8,939	9,615
of which due in 0 – 3 months	8,939	9,615
Total	**7,193,376**	**5,202,809**

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. As from the reporting year, intangible fixed assets include separately recognized put options for the first time. Initial recognition of the put options led to additions of €96,271 thousand. Additions in the current fiscal year amounted to €49,902 thousand. Assets under construction amounting to €3 thousand (previous year: €0 thousand) are included in the land and buildings shown under fixed assets.

Other assets relate primarily to available-for-sale lease returns amounting to €245,339 thousand (previous year: €663,148 thousand), receivables from the processing of ABS transactions amounting to €207,763 thousand (previous year: €167,871 thousand), accrued swap interest of €110,878 thousand (previous year: €100,700 thousand) and value added tax receivables of the Italy branch in an amount of €118,658 thousand (previous year: €124,663 thousand).

Prepaid expenses include discounts on purchased bonds and ABS transactions amounting to €724,027 thousand (previous year: €636,370 thousand); these discounts are amortized over the relevant maturity. Prepaid vehicle taxes of €13,110 thousand (previous year: €13,759 thousand), insurance payments in connection with service leases in the amount of €29,055 thousand (previous year: €24,357 thousand) and other prepaid expenses are also recognized under this item.

The breakdown of liabilities is as follows:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Liabilities to banks	53	141
(of which to affiliated companies €0 thousand; previous year: €0 thousand)		
2. Liabilities to customers	20,102,328	19,710,437
(of which to affiliated companies €9,989,199 thousand; previous year: €10,011,878 thousand)		
(of which to the sole shareholder €5,173,360 thousand; previous year: €5,014,883 thousand)		
(of which trade receivables €298,703 thousand; previous year: €490,859 thousand)		
3. Notes, commercial paper issued	16,202,064	13,353,207
4. Other liabilities	1,086,879	632,975
Total	**37,391,324**	**33,696,760**

The following table shows the maturity analysis for the liabilities:

€ thousand	Dec. 31, 2021	Dec. 31, 2020
1. Liabilities to banks	53	141
of which due in 0 – 3 months	53	0
of which due in 3 – 12 months	0	141
of which due in 12 – 60 months	0	0
2. Liabilities to customers	20,102,328	19,710,437
of which due in 0 – 3 months	579,122	738,921
of which due in 3 – 12 months	5,606,648	5,149,445
of which due in 12 – 60 months	13,516,558	13,422,071
of which due in > 60 months	400,000	400,000
3. Notes, commercial paper issued	16,202,064	13,353,207
of which due in 0 – 3 months	1,261,024	1,779,012
of which due in 3 – 12 months	4,041,040	2,424,195
of which due in 12 – 60 months	9,400,000	8,500,000
of which due in > 60 months	1,500,000	650,000
4. Other liabilities	1,086,879	632,975
of which due in 0 – 3 months	190,111	125,341
of which due in 3 – 12 months	530,797	320,597
of which due in 12 – 60 months	365,971	187,037
Total	**37,391,324**	**33,696,760**

Volkswagen Leasing GmbH has not furnished any collateral in connection with the liabilities.

A total nominal amount of €5.3 billion (previous year: €4.2 billion) of the notes and commercial paper issued is due in the next fiscal year.

Other liabilities include liabilities for outstanding repair invoices under servicing and wear-and-tear agreements amounting to €797,207 thousand (previous year: €610,041 thousand) and swap interest liabilities amounting to €13,928 thousand (previous year: €11,798 thousand).

The provisions comprise pension provisions for the Italy branch amounting to €1,355 thousand (previous year: €1,070 thousand), tax provisions of €28,614 thousand (previous year: €1,682 thousand) and other provisions of €902,938 thousand (previous year: €869,957 thousand).

The other provisions include provisions for the risks arising in connection with existing leases. The provisions for residual value risks amount to €5,594 thousand (previous year: €10,448 thousand). Further notable recognized items include expenses from service leases and expenses for outstanding invoices in an amount of €182,303 thousand (previous year: €143,555 thousand). Provisions totaling €524,763 thousand (previous year: €545,484 thousand) have also been recognized for dealer bonuses and other bonus payments.

The provision recognized for risks arising from the terms and conditions of leases amounts to €49,600 thousand before discounting (previous year: €42,500 thousand). The discount amount is €188 thousand (previous year: €225 thousand).

The tax write-downs for the office building in accordance with section 3 of the Zonenrandförderungsgesetz (ZRFG – German Border Zone Development Act) are recognized in the special tax-allowable reserve. The reported net income is not materially increased by the reversal of the special tax-allowable reserve and the resulting change in the tax expense. This measurement for tax purposes will not have a significant impact on future net income either.

Subscribed capital did not change in the year under review. As a result of the separation of the pension obligations of MAN Financial Services, which was merged with Volkswagen Leasing GmbH in the previous year, capital reserves decreased by €800 thousand.

Changes in fixed assets:

€ THOUSAND	GROSS CARRYING AMOUNTS					
	Brought forward January 1, 2021	Accounting for put options	Additions	Disposals	Reclassifications	Balance as of December 31, 2021
I. Intangible assets						
Purchased concessions, industrial and similar rights and assets, and licenses in such rights and assets	39,992	198,044	49,902	0	0	287,938
Prepayments	0	0	0	0	0	0
	39,992	198,044	49,902	0	0	287,938
II. Property and equipment						
Land and buildings	53,435	0	69	907	0	52,597
Operating and office equipment	1,996	0	21	520	0	1,497
Assets under construction	0	0	3	0	0	3
	55,431	0	93	1,427	0	54,097
III. Lease assets						
Vehicles, technical equipment and machinery	48,728,279	0	19,525,247	14,752,226	142,076	53,643,376
Prepayments	120,447	0	165,054	151	–142,076	143,274
	48,848,726	0	19,690,301	14,752,377	0	53,786,650
Total fixed assets	**48,944,149**	**198,044**	**19,740,296**	**14,753,804**	**0**	**54,128,685**

DEPRECIATION, AMORTIZATION AND WRITE-DOWNS					NET CARRYING AMOUNTS	
Brought forward January 1, 2021	Accounting for put options	Additions	Disposals	Balance as of December 31, 2021	Balance as of December 31, 2021	Balance as of December 31, 2020
37,561	101,773	64,372	0	203,706	84,232	2,431
0	0	0	0	0	0	0
37,561	101,773	64,372	0	203,706	84,232	2,431
18,975	0	1,729	875	19,829	32,768	34,460
730	0	191	191	730	767	1,266
0	0	0	0	0	3	0
19,705	0	1,920	1,066	20,559	33,538	35,726
12,815,513	0	8,655,690	6,384,877	15,086,326	38,557,050	35,912,766
0	0	0	0	0	143,274	120,447
12,815,513	0	8,655,690	6,384,877	15,086,326	38,700,324	36,033,213
12,872,779	101,773	8,721,982	6,385,943	15,310,591	38,818,094	36,071,370

4. Income Statement Disclosures

Leasing income amounts to €21,437,751 thousand. The leasing expense amounts to €11,156,184 thousand and includes the expenses necessary to generate the income. These expenses largely comprise the net carrying amounts of lease assets for which the leases have expired, and expenses from the services business. Net leasing income is €10,281,567 thousand.

The breakdown of net interest income/expenses is as follows:

€ thousand	Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
1. Interest income from lending and money market transactions (of which from affiliated companies €11,816 thousand; previous year: €9,680 thousand)	46,816	44,844
2. Interest expense (of which to affiliated companies €86,376 thousand; previous year: €63,325 thousand)	575,120	526,412
Total	**–528,304**	**–481,568**

Commission income is on a level with the previous year.

Fee and commission expenses rose slightly to €734,401 thousand (previous year: €696,546 thousand). In this context, it has to be taken into account that fee and commission expenses were reduced by €49,902 thousand, corresponding to the capitalized amount of put options under contracts dating from 2021.

Net other operating income is €430,418 thousand, of which €388,469 thousand is attributable to the leasing business and €41,949 thousand to the allocation of overheads to other entities. Other operating income includes income from administration and brokerage services provided for third parties amounting to €152,386 thousand (previous year: €140,713 thousand), income from the initial recognition of put options as intangible fixed assets amounting to €96,271 thousand and other income of €71,987 thousand (previous year: €68,343 thousand). Income related to prior periods is also included in the amount of €82,185 thousand (previous year: €10,644 thousand).

Income from the reversal of special tax-allowable reserve amounts to €59 thousand.

The personnel expenses for employees at the branches in Milan and Verona total €6,150 thousand, of which €4,679 thousand relates to wages and salaries and €1,471 thousand to social security costs.

Other administrative expenses amount to €616,769 thousand. These relate, in particular, to internal charges from other group companies in connection with workplace costs, staff leasing and IT services, and to charges for services provided by third parties.

Depreciation and write-downs on lease assets are reported separately, the recognized amount for this item being €8,655,690 thousand. This figure includes write-downs to fair value amounting to €165,173 thousand (previous year: €322,247 thousand). Lease assets have been written down by an additional amount of €0 thousand (previous year: €43,292 thousand) to account for risks arising from the early remarketing of vehicles following the default of a lessee (latent credit risk). Amortization and write-downs of intangible fixed assets and depreciation and write-downs of property and equipment amounted to €66,290 thousand (previous year: €4,216 thousand), of which €63,105 thousand was attributable to write-downs of put options.

Other operating expenses amounted to €31,527 thousand in the reporting period. This figure includes issuance and rating expenses of €14,267 thousand (previous year: €2,460 thousand) and expenses related to prior periods of €3,660 thousand (previous year: €1,483 thousand).

Expenses for write-downs of, and valuation allowances on, receivables and additions to provisions in the leasing business amounting to €596,315 thousand are offset by corresponding income of €294,716 thousand.

The above figures resulted in a loss before tax for the reporting period of €180.5 million (previous year: loss before tax of €95.5 million).

Income tax expense includes tax allocations amounting to €28,973 thousand (previous year: €19,017 thousand).

Under the existing profit-and-loss transfer agreement, the loss after tax of €241,810 thousand is absorbed by Volkswagen Financial Services AG.
Breakdown of income by region

€ thousand

				Jan. 1 – Dec. 31, 2021	Jan. 1 – Dec. 31, 2020
		Germany	Italy	Total	Total
1.	Lease income				
	Lease payments	7,251,030	367,916	7,618,946	6,877,592
	Maintenance and service income	887,454	253,972	1,141,426	1,483,412
	Used vehicle sales	10,540,050	277,004	10,817,054	10,728,878
	Miscellaneous	1,829,753	30,572	1,860,325	1,589,582
		20,508,287	929,464	21,437,751	20,679,464
3.	Interest income from lending and money market transactions	46,757	59	46,816	44,844
5.	Fee and commission income	48,156	0	48,156	46,783
7.	Other operating income	427,201	3,217	430,418	300,167
8.	Income from the reversal of special tax-allowable reserve	59	0	59	59
13.	Income from the reversal of write-downs of and valuation allowances on receivables and from the reversal of provisions in the leasing business	218,896	75,820	294,716	256,892
Total		**21,249,356**	**1,008,560**	**22,257,916**	**21,328,209**

5. Other Disclosures

Interest rate risk has been hedged by interest rate swaps with a total notional value of €38.0 billion. As of the reporting date, the positive fair values were €253.0 million and the negative fair values €82.1 million. The fair values are determined using the discounted cash flow method with the help of market information as of the reporting date and suitable IT-based valuation methods. In connection with these derivatives, accrued interest of €110.9 million is included in other assets and €13.9 million in other liabilities.

The put options limit the residual value risk of the vehicles for Volkswagen Leasing GmbH. They give Volkswagen Leasing GmbH the right at the end of the contract term to sell the vehicles to the intermediary dealers at an agreed option price. This option price is therefore the minimum value threshold for Volkswagen Leasing GmbH. In accordance with section 254 of the HGB, the resulting hedge relationship meant that, by applying the net hedge presentation method (*Einfrierungsmethode*), a write-down of the lease assets in the amount of €0.5 billion, equivalent to the hedged risk, was avoided.

The annual financial statements of the Company are included in the consolidated financial statements of Volkswagen AG, Wolfsburg (largest basis of consolidation), which are prepared in accordance with the International Financial Reporting Standards and published in the German Federal Gazette.

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

To fund the lease assets, Volkswagen Leasing GmbH has placed asset-backed securities transactions (ABS transactions) in the market. Three such transactions were carried out in fiscal year 2021. In 2021, Volkswagen Leasing GmbH generated cash inflows totaling €7,133.5 million from the sale of future lease receivables and residual values under these leases. Four further transactions are in place, dating back to prior years. Other than the one-time inflows from each of these transactions, there is no other material impact on the present or future liquidity and financial position of Volkswagen Leasing GmbH.

The land and buildings belonging to Volkswagen Leasing GmbH are largely used by the other companies in the FS subgroup based in Braunschweig.

The irrevocable leasing commitments relate to confirmed leases for which the vehicle had not yet been delivered on the reporting date and for which the credit limit to which the Company had committed itself had thus not yet been utilized. It is expected that the credit will be drawn down, as the commitments relate to leasing agreements that have been entered into. Other financial obligations relate to purchase commitments in an amount that is not material for assessing the company's financial position.

These contingent liabilities and obligations arise from ABS transactions VCL 29, VCL 30, VCL 31, VCL 32, VCL 33, VCL 34 and VCL Master RV C2. A market risk reserve serving as collateral for certain risks was paid to investors in connection with these transactions. It is expected that this collateral will not be called upon, as it is assumed that the risk will not materialize.

In the year under review, Volkswagen Leasing GmbH executed 162,813 payment transactions with a volume of €4.1 million.

Volkswagen Leasing GmbH does not enter into transactions with related parties that are not on an arm's length basis.

The fees paid to the auditor are disclosed in the notes to the consolidated financial statements of Volkswagen AG, Wolfsburg, and in the consolidated financial statements of Volkswagen Financial Services AG, Braunschweig. In 2021, the fees attributable to Volkswagen Leasing GmbH for audit-related services concerned the audit of the annual financial statements and reviews of interim financial statements prepared during the year.

The other services performed by the auditor in the reporting period focused mainly on other assurance services.

Volkswagen Leasing GmbH does not use its own personnel for its operating activities in Germany. The employees are provided by Volkswagen Financial Services AG in return for a consideration. In addition, the Company had an annual average of 68 salaried employees, including one senior executive, at its branches in Milan and Verona (previous year: 65, including one senior executive).

The managing directors do not receive any remuneration from the Company. The expenses borne by the Company for the Management Board amounted to €1,193 thousand.

The Management Board is represented on the following supervisory bodies whose establishment is required by law:

Jens Legenbauer: Supervisory Board of VW Autoversicherung AG, Supervisory Board of EURO-Leasing GmbH, Supervisory Board of VW Versicherung AG

Hendrik Eggers: Supervisory Board of EURO-Leasing GmbH

The Management Board of Volkswagen Leasing GmbH proposes that the net retained profits of € 648,680.82 be carried forward to the new fiscal year.

6. Report on Post-Balance Sheet Date Events

The most recent events in the conflict between Russia and Ukraine could have a negative effect on the future development of the Company, even though it does not conduct direct business activities in these countries. The specific effects of the Russia–Ukraine conflict cannot be conclusively assessed at this time.

7. Company Information

Company: Volkswagen Leasing Gesellschaft mit beschränkter Haftung
Registered office: Braunschweig
Registry court: Amtsgericht Braunschweig, Commercial Register B
Commercial register number: HRB 1858

8. Governing Bodies of Volkswagen Leasing GmbH

Members of the Management Board as of December 31, 2021

JENS LEGENBAUER
Chairman of the Management Board
Corporate Management of Volkswagen Leasing GmbH
Front Office, Volkswagen Leasing GmbH

HENDRIK EGGERS
Back Office, Volkswagen Leasing GmbH

FRANK CZARNETZKI
Front Office, MAN FS

Audit Committee of Volkswagen Leasing GmbH

The members of the Audit Committee of Volkswagen Leasing GmbH are as follows:

WERNER FLÜGGE
Chairman
Auditor, tax consultant, Managing Shareholder of Gehrke Econ GmbH WPG

HELMUT STREIFF
Deputy Chairman
Managing Director of Streiff Holding GmbH & Co. KG

FRANK FIEDLER
Member of the Board of Management of Volkswagen Financial Services AG
Finance and Purchasing division

Braunschweig, February 22, 2022

Volkswagen Leasing GmbH
The Management Board

Jens Legenbauer

Hendrik Eggers

Frank Czarnetzki

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 Leasing GmbH, and the management report includes a fair review of the development and performance of the business and the position of Volkswagen Leasing GmbH, together with a description of the material opportunities and risks associated with the expected development of Volkswagen Leasing GmbH.

Braunschweig, February 22, 2022

Volkswagen Leasing GmbH
The Management Board

Jens Legenbauer

Hendrik Eggers

Frank Czarnetzki

Independent auditor's report

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

To Volkswagen Leasing GmbH, 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 Leasing GmbH, Braunschweig, which comprise the balance sheet as at 31 December 2021, and the income statement, cash flow statement, statement of changes in equity for the fiscal year from 1 January 2021 to 31 December 2021, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the management report of Volkswagen Leasing GmbH, Braunschweig, for the fiscal year from 1 January 2021 to 31 December 2021.

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 institutions and give a true and fair view of the assets, liabilities and financial position of the Company as at 31 December 2021 and of its financial performance for the fiscal year from 1 January 2021 to 31 December 2021 in compliance with German legally required accounting principles, and

> the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB ["Handelsgesetzbuch": German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the opinions

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

Key audit matters in the audit of the annual financial statements

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

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

Determination of the expected residual values of lease assets during impairment testing

Reasons why the matter was determined to be a key audit matter
The lease assets balance sheet item comprises vehicles under current leases. For these vehicles there is a risk that an impairment loss will need to be charged on the lease assets, which is primarily dependent on the residual value expected at the end of the lease.

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

In light of the judgment exercised in determining the residual values, the existing estimation uncertainty in impairment testing and the significance of the amount, the determination of expected residual values was a key audit matter. As it is not possible to make a conclusive assessment of the impact of the ongoing global Covid-19 pandemic, also with regard to the semiconductor supply shortages, the estimation uncertainty in relation to the determination of the expected residual values remains significantly increased in fiscal year 2021.

Auditor's response

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

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

Reference to related disclosures

The Company's disclosures on the recognition and measurement policies applied for lease assets are contained in section 2 "Accounting Policies" and in section 3 "Balance Sheet Disclosures" and section 4 "Income Statement Disclosures" of the notes to the financial statements. The impact of the Covid-19 pandemic on the residual values is presented in the "Report on Opportunities and Risks" section of the management report.

Other information

The Audit Committee is responsible for the Report of the Audit Committee. In all other respects, the executive directors are responsible for the other information. The other information comprises the following parts of the annual report, of which we obtained a version prior to issuing this auditor's report, such as the Report of the Audit Committee, the "Volkswagen Leasing GmbH at a glance" information and the Responsibility Statement, but not the annual financial statements, not the management report disclosures whose content is audited and not our auditor's report thereon.

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

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

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

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

Responsibilities of the executive directors and the Audit Committee 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 institutions, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German legally required accounting principles. In addition, the executive directors are responsible for such internal control as they, in accordance with German legally required accounting principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the executive directors are responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

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

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

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

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

Opinion

We have performed assurance work in accordance with Sec. 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the annual financial statements and the management report (hereinafter the "ESEF documents") contained in the file Volkswagen Leasing_GmbH_JA+LB_ESEF-2021-12-31.zip (SHA-256 checksum: b29b27db0454581d78aeb4cb0a27f87fe703472dda27786b2e68fb365 a211fc1) and prepared for publication purposes complies in all material respects with the requirements of Sec. 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

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

Basis for the opinion

We conducted our assurance work on the rendering of the annual financial statements and the management report contained in the file identified above in accordance with Sec. 317 (3a) HGB and the IDW Assurance Standard: Assurance on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Sec. 317 (3a) HGB (IDW AsS 410) (11.2021). Our responsibility in accordance therewith is further described in the "Auditor's responsibilities for the assurance work on the ESEF documents" section. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in the Audit Firm (IDW QS 1).

Responsibilities of the executive directors and the Audit Committee for the ESEF documents

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

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

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

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

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

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

We were elected as auditor by the Annual General Meeting on 18 February 2021. We were engaged by the Management Board on 12 July 2021. We have been the auditor of Volkswagen Leasing GmbH without interruption since fiscal year 2020.

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

Other matter – Use of the auditor's report

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

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

Hanover, 25 February 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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

Report of the Audit Committee

of Volkswagen Leasing GmbH

Volkswagen Leasing GmbH is a publicly traded corporation within the meaning of section 264d of the HGB. In accordance with the provisions of section 324 of the HGB, the Company has established an Audit Committee, which concerns itself in particular with the tasks described in section 107(3) sentence 2 of the Aktiengesetz (AktG – German Stock Corporation Act). The Audit Committee has three members. There were no changes to the committee membership compared with the prior year. The members of the Audit Committee are listed in the disclosures on governing bodies. The Audit Committee held two regular meetings in the reporting period. There were no extraordinary meetings. During the reporting period, there were no urgent transactions that would have required a decision by circulation of written resolution for approval.

At the meeting held on February 17, 2021, the Audit Committee reviewed the annual financial statements and the management report of Volkswagen Leasing GmbH for the fiscal year 2020. As part of this review, the Audit Committee discussed with the auditor the reports on the audit of the annual financial statements and the management report of Volkswagen Leasing GmbH, as well as material transactions and issues related to financial reporting. The Audit Committee reported on its review to the sole shareholder.

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

At its meeting held on November 11, 2021, the Audit Committee mainly discussed audit planning, key areas of emphasis for the audit and the obligations of the auditor to provide certain information. In addition, the Audit Committee was given information on the new legal requirements resulting from the Finanzmarktintegritätsstärkungsgesetz (FISG – German Financial Market Integrity Strengthening Act). In addition, the Committee discussed the Company's risk management system, focusing particularly on the treatment of residual value risk. At the same meeting, the Company's Compliance Officer reported on the risk and security measures in the Company. In this context, changes to the Whistleblower System and progress in the Volkswagen Group-wide Together4Integrity program were presented. The Head of Internal Audit also reported on the department's auditing program and the emphasis of their audits in the reporting year. Key audit activities and findings were discussed in detail.

Braunschweig, February 23, 2022

Werner Flügge Chairman	Helmut Streiff Deputy Chairman
Frank Fiedler Member	

NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements on the future business development of Volkswagen Leasing GmbH. These statements are based on factors such as assumptions relating to the development of the global economy and of the financial and automotive markets. Volkswagen Leasing GmbH has made these on the basis of the information available to it and which it considers to be realistic at the time of going to press. The estimates given entail a degree of risk, and the actual developments may differ from those forecast.

Should actual developments be contrary to expectations and assumptions, or should unforeseen events occur that have an impact on the business of Volkswagen Leasing GmbH, this will have a corresponding effect on the business development of the Company.

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TYPESETTING

Produced in-house with firesys

This annual report is also available in German at https://www.vwfs.com/gbvwleasing21.